



September 2022

“El Pulso” de la banca



Quarter 2, 2022: Industry benchmark and top performers





Foreword

Alvarez & Marsal (A&M) is delighted to publish the sixteenth edition of the Spanish Banking Pulse (“The Pulse”) Q2 ’22. In this edition, we share results from our research examining the 10 biggest Spanish banks (“top 10”) with regard to their activities within Spain and highlight key performance indicators of the Spanish banking industry. The Pulse aims to help banking executives and board members stay current on industry trends. As trending topics, we include: 1. status of moratoria and PGS; 2. wave of Cost Inflation; 3. [ESG as a business opportunity](#).

All the data used in this report has been obtained from publicly available sources. The methodology for all the calculations is homogeneous and discussed in the glossary.

We hope that you will find the Pulse useful and informative.

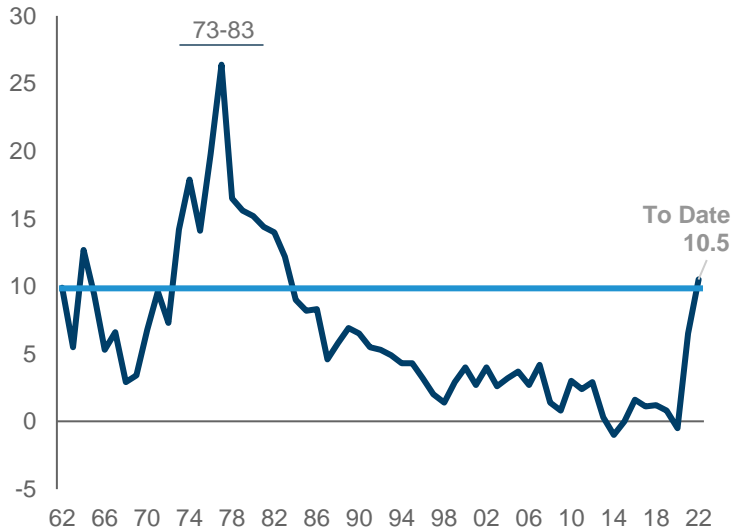


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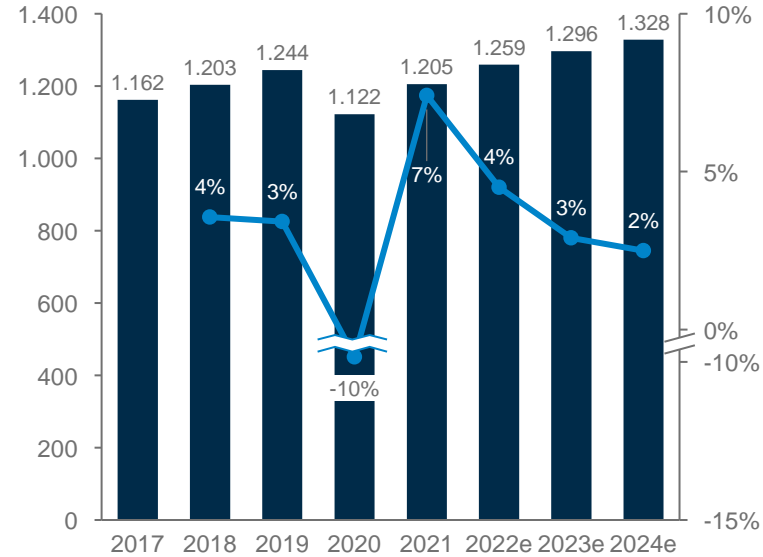
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Spanish Macroeconomic Overview

Inflation - Interannual Growth (%)



GDP (€ billions)



EURIBOR 12m (%)



- In Spain, inflation has been rising since the end of 2019 and has broken the 10% levels since June 2022.
- Last period of high inflation were 50 years ago during the decade of 1973-1983.
- According to the bank of Spain, **three factors**, which are not entirely independent of each other, can be identified behind the generalized increase in the rate of change of prices: **a slowdown in the prices of many goods and services, recovery in economic activity, and the increase in the price of electricity**

- Spanish GDP had been growing since COVID 19 pandemic
- Bank of Spain expects GDP to increase 4.5% in 2022, 2.9% in 2023 and 2.5% in 2024, this would lead to pre-pandemic levels by the end of the year 2022.
- GDP expectations are being reviewed downward during the last semester

- Inflation is prompting the ECB to increase interest rates with official rates of the deposit facility standing at 0.75% after the September review.
- Euribor 12 months is already trading at 2.3% signal of future rate increases ahead.

Pulse Scorecard: Quarterly evolution

Scoring range from 1 (Best) – 4 (Worst) ■ 1 ■ 3 ■ 2 ■ 4

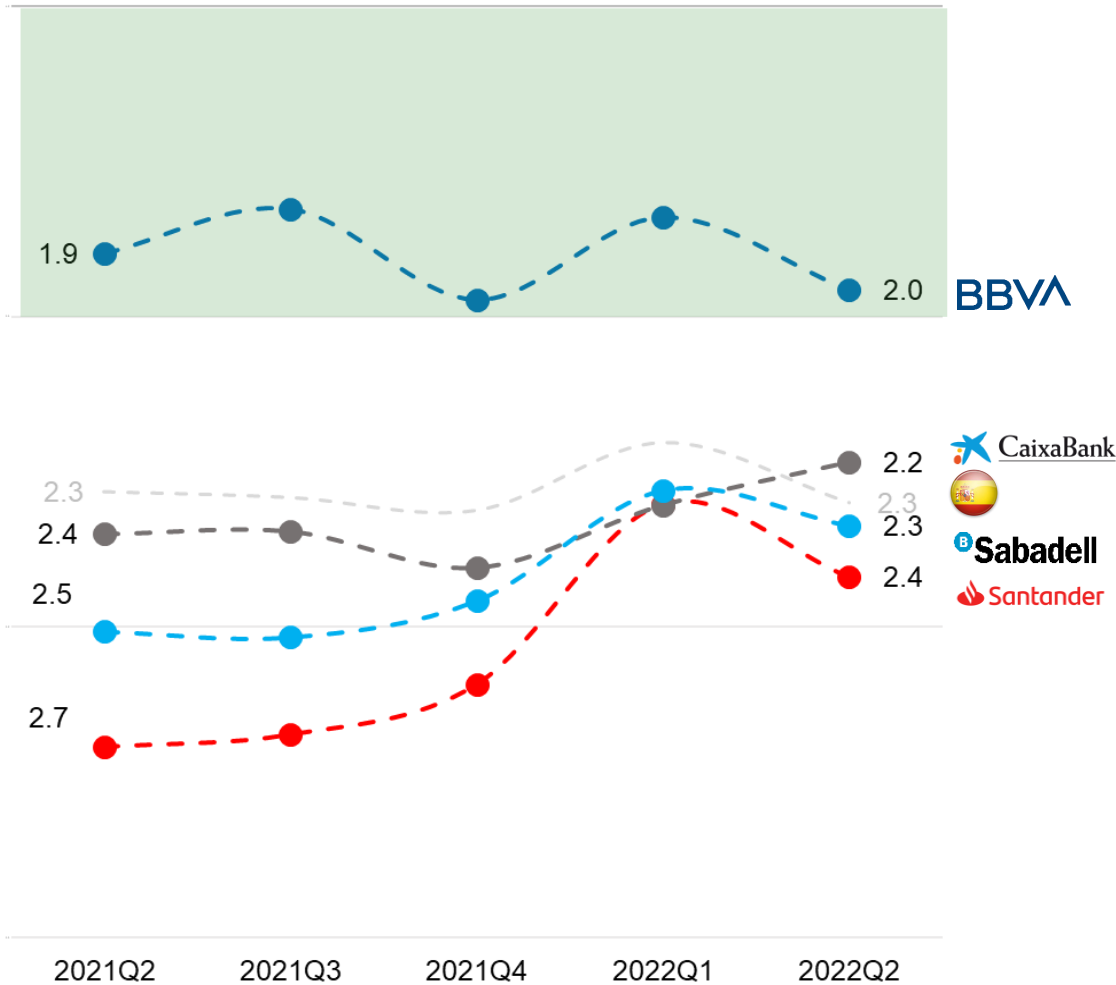
Variation compared to Q1'22:
 ↓↑ Var. > +-5% ↗ 0% < Var. < +5%
 ↘ 0% > Var. > -5%

| | Metric | Q1 '2022 | Vs | Q2 '2022 | Score 2022Q2 | Key Trends of Q2'22 |
|-------------------------------|--|----------|----|----------|--------------|---|
| Growth | Loans and Advances Growth (QoQ) | 0.5% | ↑ | 2.5% | 2.2 | 1 ✓ Loans and Advances and Deposits grew at a faster pace compared to previous quarter by 2.5% and 3.1% QoQ, respectively ✓ Loan to Deposit Ratio has decreased to 87.0% still on a healthy liquidity zone |
| | Deposits Growth (QoQ) | 0.2% | ↑ | 3.1% | | |
| Liquidity | Loan-to-Deposit Ratio | 87.6% | ↘ | 87.0% | 1.3 | |
| Income & Operating Efficiency | Yield on Credit (YTD) | 1.93% | ↗ | 1.94% | 2.5 | 2 ✓ Net Interest Margin remains steady at 0.93% with almost no changes in the yield on credit and the cost of funds QoQ 3 ✓ Operating Income Margin decreased 10 bps due to the reduction of 5% in the aggregated operating income 4 ✓ Cost-to-Income Ratio worsened by ~1.3% points QoQ to 50.9% in Q2'22, as Operating Income decline by 5% QoQ |
| | Cost of Funds (YTD) | 0.14% | ↗ | 0.15% | | |
| | Net Interest Margin (YTD) | 0.93% | ↗ | 0.93% | | |
| | Non-Interest Income / Operating Income (YTD) | 46.2% | ↓ | 43.5% | | |
| | Operating Income (YTD) / Assets | 1.7% | ↘ | 1.6% | | |
| | Operating Revenue Growth (YoY) | -3.6% | ↑ | 2.9% | | |
| | Cost-to-Income Ratio (T) (YTD) | 49.6% | ↗ | 50.9% | | |
| Risk | Business Volume per Branch (€ Mn) | 169 | ↑ | 179 | 1.9 | 5 ✓ NPL Ratio slightly decreased, driven by a reduction of 7% in the problem loans ✓ CoR also shows a slightly decrease to 0.36% |
| | NPL ratio | 3.73% | ↓ | 3.38% | | |
| | NPL Coverage Ratio | 61.3% | ↘ | 61.2% | | |
| Profitability | Cost of Risk (YTD) | 0.39% | ↓ | 0.36% | 2.8 | 6 ✓ ROE and other profitability ratios showed a decrease due to a reduction of around 10% in the aggregated industry net income |
| | RoE (YTD) | 8.47% | ↓ | 7.79% | | |
| | RoA (YTD) | 0.41% | ↓ | 0.39% | | |
| Capital | RoRWA (YTD) | 1.29% | ↓ | 1.22% | 2.8 | 7 ✓ CET1 Fully Loaded Ratio decreased 30 bps to 12.5%, mainly driven by dividend payments and share buyback programs |
| | CET1 Ratio FL | 12.8% | ↘ | 12.5% | | |
| | Leverage ratio (%) | 5.8% | ↓ | 5.3% | | |
| Total Score | | | | | 2.3 | |

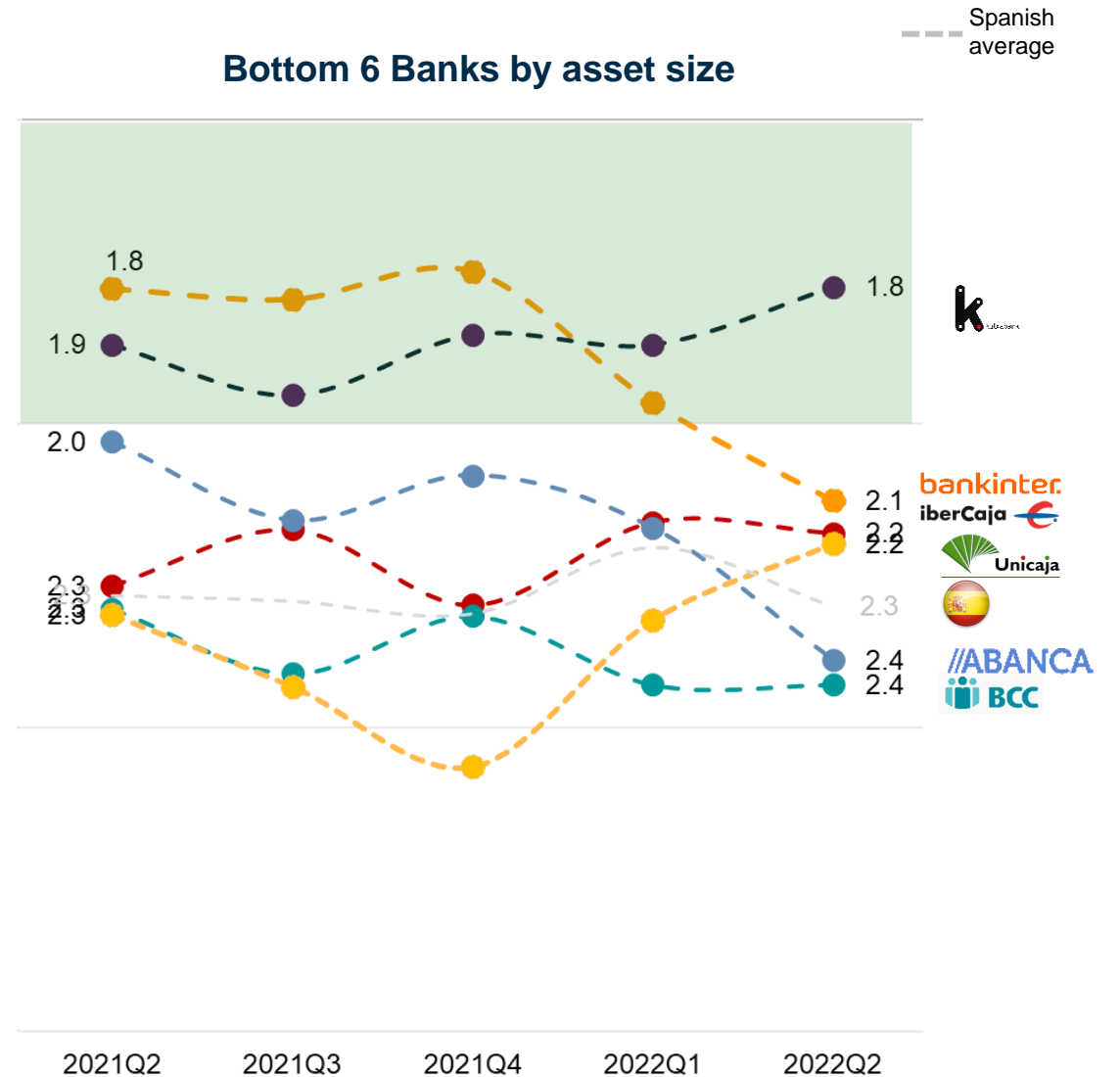
Note: QoQ and YTD stand for quarter over quarter and year to date respectively
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022

A&M Score 2Q 2022 and Trend

Top 4 Banks by asset size



Bottom 6 Banks by asset size



A&M Scorecard broken down per top 10 Spanish Banks

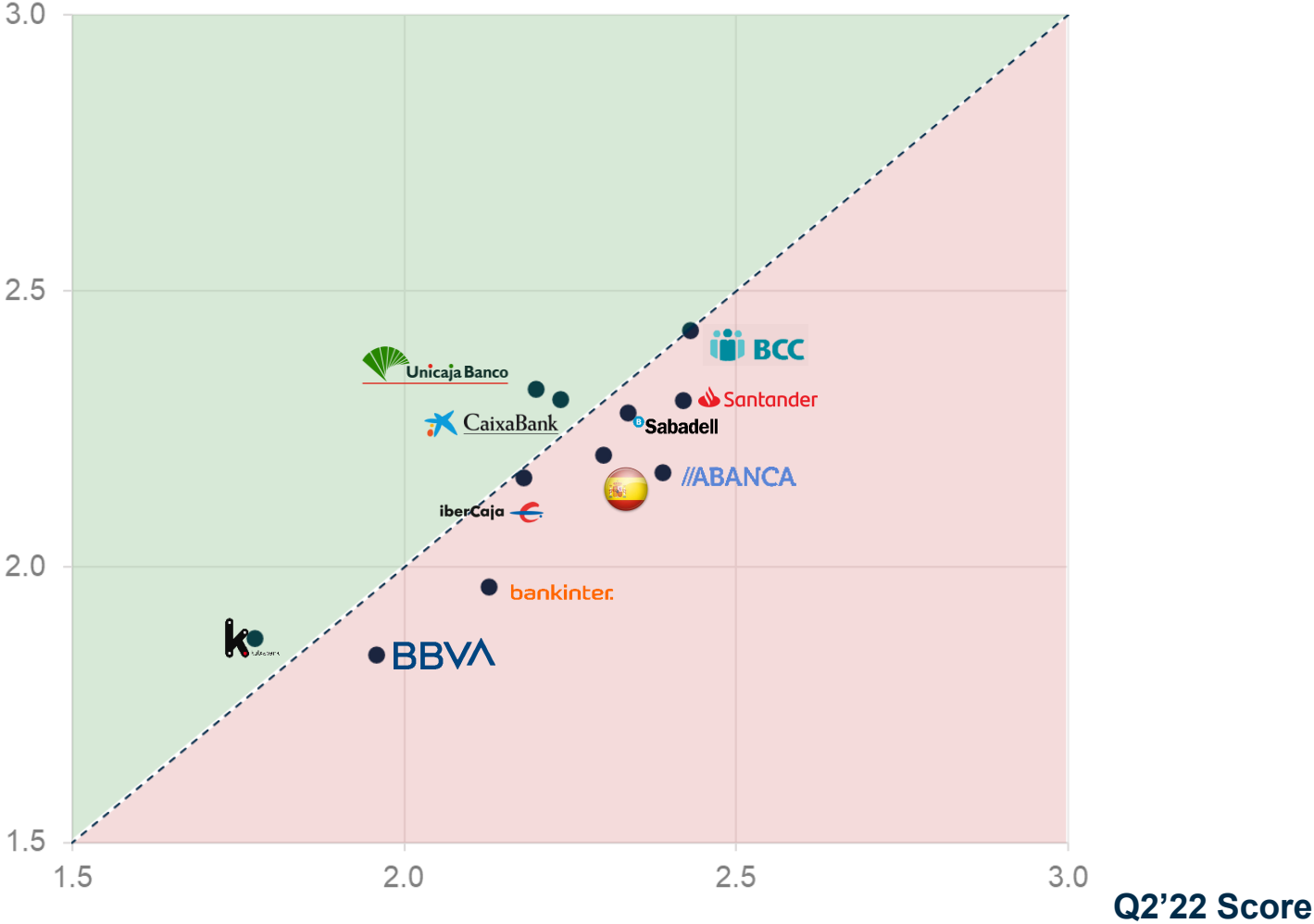
| 2022Q2 | | CaixaBank | BBVA | Santander | Sabadell | bankinter | ABANCA | Unicaja Banco | KBK | iberCaja | GRUPO COOPERATIVO CAJAMAR |
|-------------------------------|-----------------------------------|-----------|--------|-----------|----------|-----------|--------|---------------|--------|----------|---------------------------|
| Growth | Loans and Advances Growth (QoQ) | 2.8% | 2.3% | 2.3% | 3.2% | 3.3% | 2.4% | 0.8% | 1.9% | 2.4% | 2.4% |
| | Deposits Growth (QoQ) | 3.5% | 2.2% | 3.6% | 2.2% | 2.4% | 4.2% | 3.1% | 3.1% | 2.0% | 4.5% |
| | Score | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 | 2.0 | 2.5 | 2.3 | 2.5 | 2.0 |
| Liquidity | LCR | 311.7% | 170.0% | 161.2% | 257.1% | 233.3% | 241.0% | 333.0% | 185.6% | 423.1% | 215.6% |
| | Loan-to-Deposit Ratio (LDR) | 90.5% | 85.8% | 81.3% | 95.5% | 93.4% | 86.8% | 72.4% | 99.5% | 81.9% | 86.7% |
| | Score | 1.2 | 1.0 | 1.0 | 1.3 | 1.3 | 1.2 | 1.0 | 1.3 | 1.0 | 1.2 |
| Income & Operating Efficiency | Net Interest Margin (NIM) | 0.9% | 0.8% | 0.8% | 1.2% | 1.2% | 0.9% | 0.9% | 0.9% | 0.8% | 1.1% |
| | Operating Income / Assets | 1.6% | 1.5% | 1.6% | 1.9% | 1.8% | 1.3% | 1.4% | 1.9% | 1.6% | 2.0% |
| | Operating Revenue Growth (YoY) | 1.5% | 0.3% | 4.5% | 6.6% | 3.0% | -2.9% | 10.0% | 6.7% | 2.7% | -1.9% |
| | Traditional Cost-to-Income Ratio | 52.7% | 46.7% | 49.4% | 51.2% | 44.4% | 69.8% | 52.9% | 48.5% | 60.2% | 50.5% |
| | Business Volume per Branch (€ Mn) | 167 | 208 | 294 | 189 | 246 | 152 | 126 | 133 | 79 | 90 |
| | Score | 2.6 | 2.3 | 2.3 | 2.2 | 1.9 | 3.5 | 2.4 | 2.2 | 3.0 | 2.5 |
| Risk | NPL ratio | 3.3% | 4.0% | 3.8% | 3.9% | 2.4% | 2.1% | 3.4% | 1.4% | 1.9% | 3.1% |
| | Coverage Ratio | 65.0% | 61.5% | 49.4% | 59.4% | 60.3% | 82.9% | 65.4% | 95.4% | 81.6% | 74.5% |
| | Score | 1.8 | 1.9 | 2.2 | 2.0 | 1.7 | 1.4 | 1.8 | 1.2 | 1.2 | 1.7 |
| Profitability | Return on Equity (RoE) | 8.9% | 11.3% | 6.7% | 6.2% | 11.2% | 4.7% | 5.2% | 5.2% | 7.1% | 2.8% |
| | Return on Assets (RoA) | 0.4% | 0.5% | 0.3% | 0.4% | 0.5% | 0.3% | 0.3% | 0.5% | 0.4% | 0.2% |
| | Score | 2.5 | 2.0 | 3.2 | 3.0 | 2.0 | 3.5 | 3.5 | 3.2 | 2.8 | 3.8 |
| Capital | CET1 Ratio FL | 12.2% | 12.5% | 12.1% | 12.5% | 11.9% | 12.0% | 12.8% | 16.6% | 12.4% | 13.0% |
| | Leverage ratio | 4.6% | 6.2% | 4.7% | 5.3% | 4.1% | 5.7% | 11.5% | 11.5% | 4.8% | 5.1% |
| | Score | 3.1 | 2.4 | 2.9 | 2.8 | 3.4 | 2.7 | 2.0 | 1.0 | 2.9 | 2.8 |
| Total Score | | 2.2 | 2.0 | 2.4 | 2.3 | 2.1 | 2.4 | 2.2 | 1.8 | 2.2 | 2.4 |

KEY TAKEAWAYS

- KTK, BBVA and BKT are the top performers this quarter and SAN, ABA and BCC the worst
- UNI and KBK showed a significant improvement in their scores QoQ; while BBVA, SAN, BKT and ABA worsened their score. All the rest showed almost no changes

Scores changes from last quarter....

Q1'22 Score

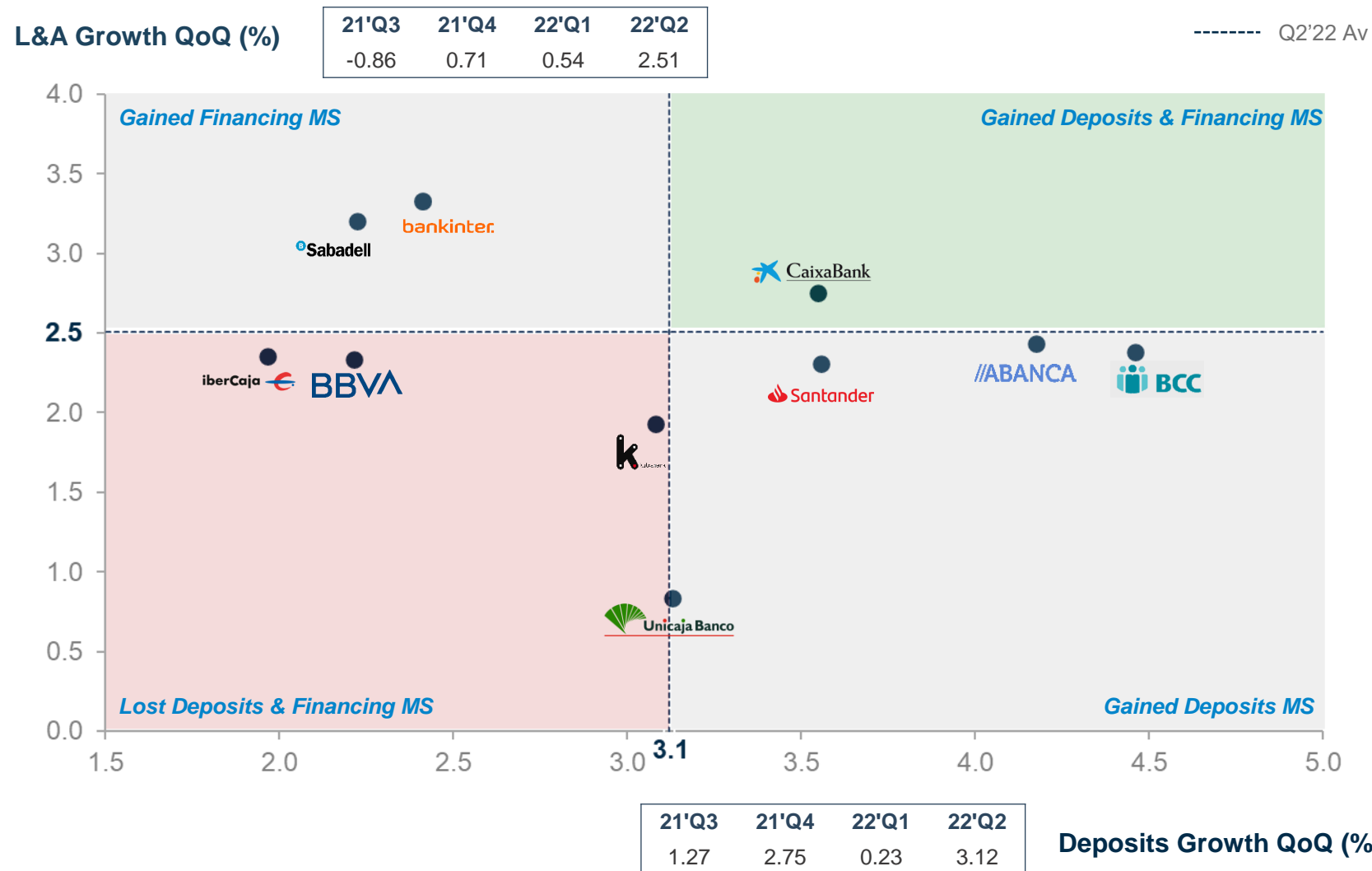


KEY TAKEAWAYS

- Only 3 banks improved their score compared to last quarter: UNI, KBK and CABK
- Only IBJ remain steady
- All the rest showed worsening from last quarter

Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022

Deposits increased faster than Loans and Advances in the first half of the year



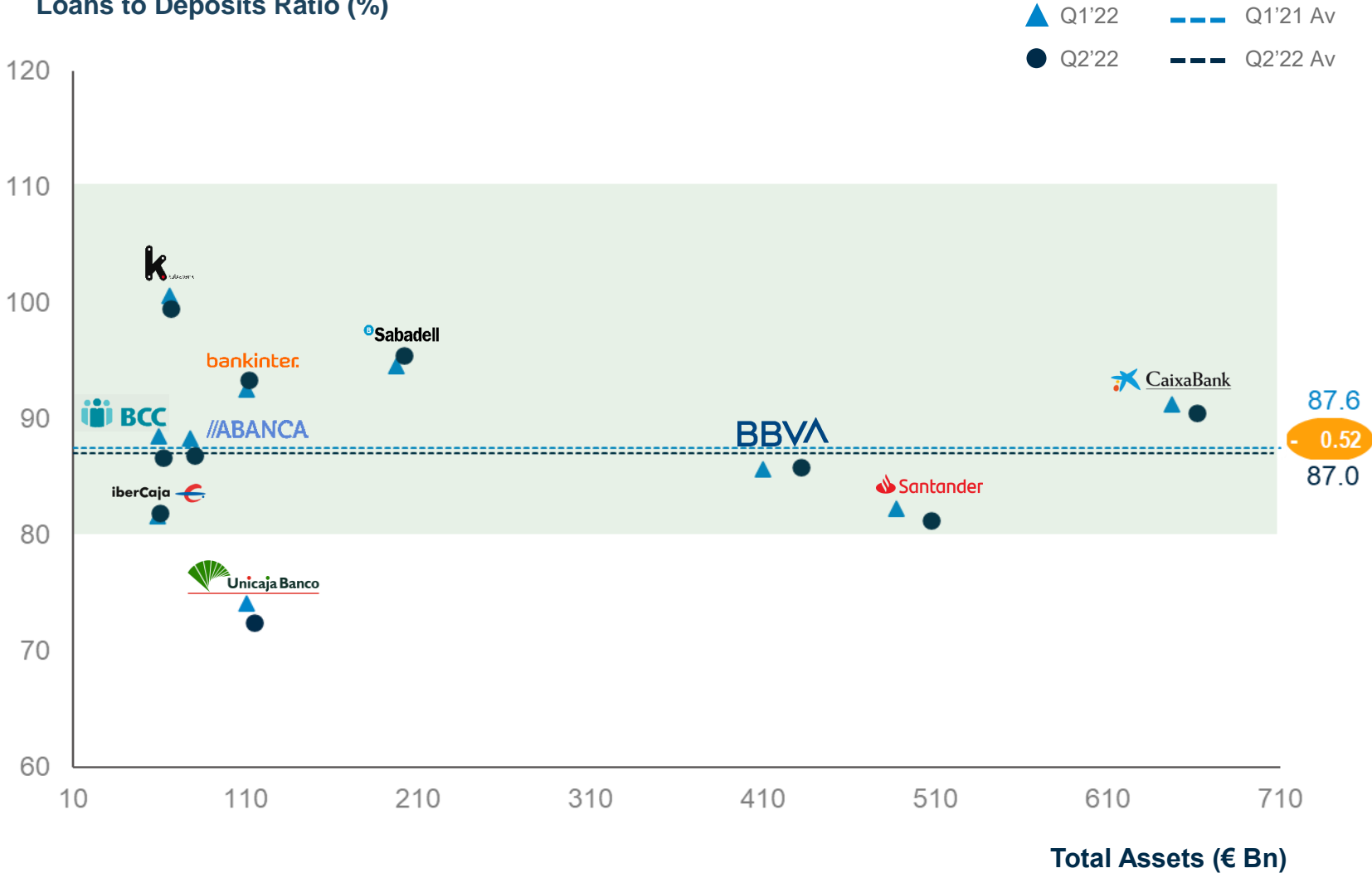
KEY TAKEAWAYS

- Overall L&A increased 2.5%
- Deposits increased 3.1%
- CABK showed above market improvement in Loans and Deposits
- IBJ, BBVA and KBK showed below market improvement in Loans and Deposits
- SAN, ABA, BCC and UNI showed above market improvement only in Deposits
- BKT and SAB showed above market improvement only in Loans

1

Loan to Deposit Ratio decreased marginally across the board

Loans to Deposits Ratio (%)



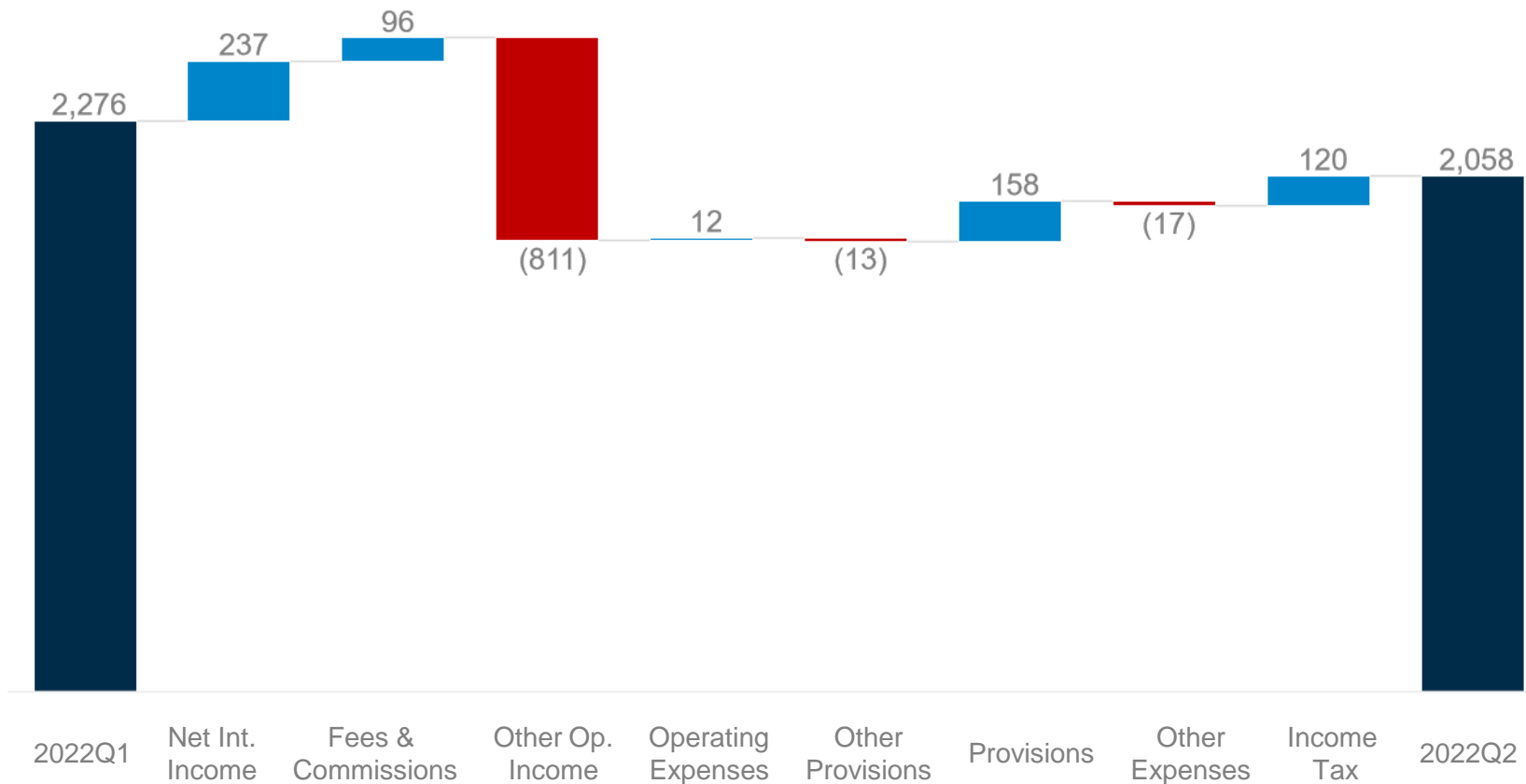
KEY TAKEAWAYS

- 3 banks (SAB, BKT and IBJ) increased their LDR, while the others decreased
- LDR of the industry is in a very healthy area at 87% reducing external funding needs
- BCC suffered the sharpest decrease in LDR, meanwhile SAB experienced the biggest increase
- 4 Banks are above average and 6 are below
- UNI is the only bank outside the healthy liquidity zone, with a LDR of 72.4%

Note: The green zone is an area of healthy liquidity between 80% and 110%
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022

2 Decrease in Other Operating Income, creating a downswing in the profitability of the sector

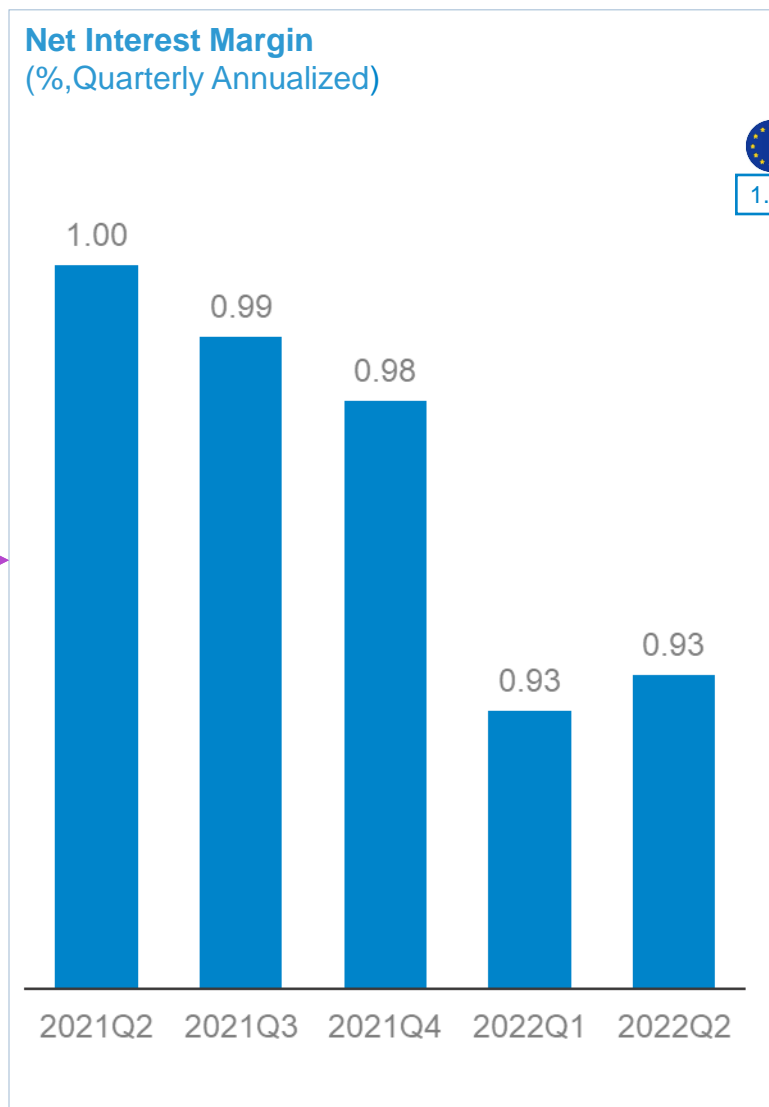
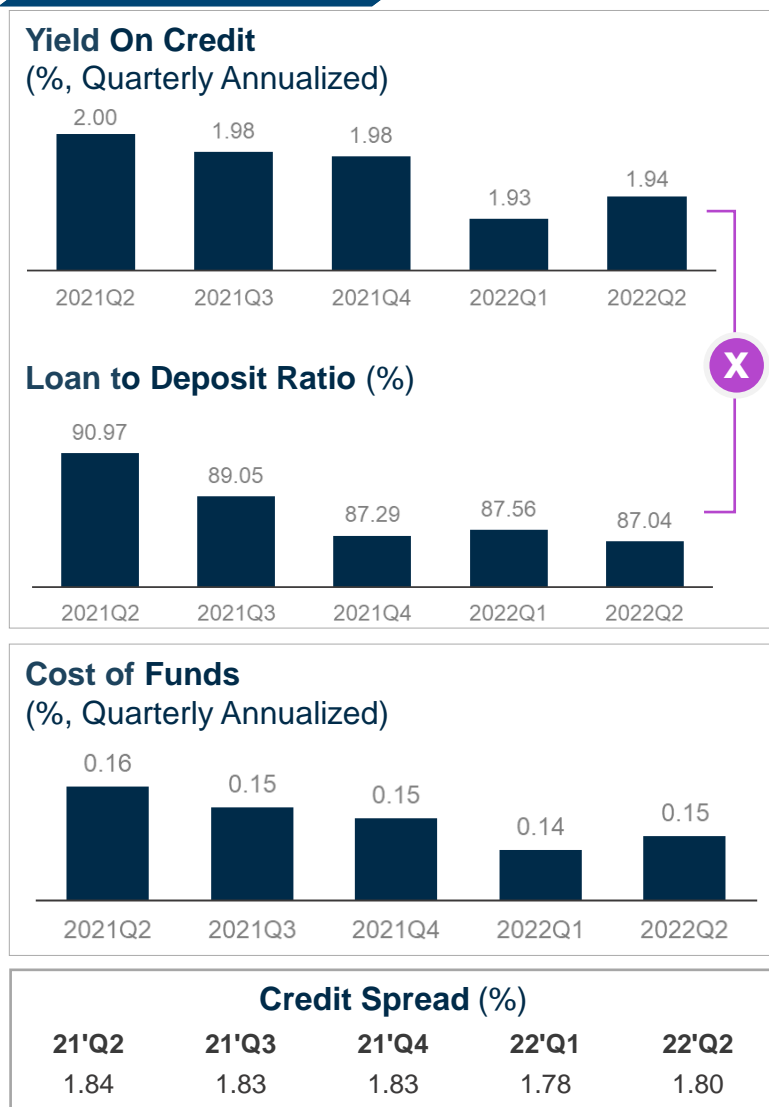
Net Income bridge – € Bn



KEY TAKEAWAYS

- Aggregate net income decreased 9.6% QoQ to 2,058 € Bn but, all Core Drivers of Net Income have improved:
 - **An increase in Revenue items:** Net Interest Income and Fees and Commissions grow QoQ
 - **A reduction of Costs Items:** Operating Expenses and cost of risk improved QoQ
 - The reduction of the Net Income was driven by the seasonality payments to the Deposit Guarantee Funds and the SRB Funds under Other Operating Income.

NIM shows a slight improvement due to rate hikes but is far from its historical levels



KEY TAKEAWAYS

- NIM increased 1 bp QoQ to 0.93% driven by a small change in Credit Spread
- Spanish Banks still below EU average of 1.25%
- Loan to Deposit Ratio continues a decreasing trend with a reduction of 52 bps QoQ at Q2'22
- Cost of Funds increased 1 bp QoQ, similarly, to Yield on Credit
- Credit Spread increased 2 bps QoQ
- Euribor reappreciation will start to be seen during the 2H of 2022 and 2023

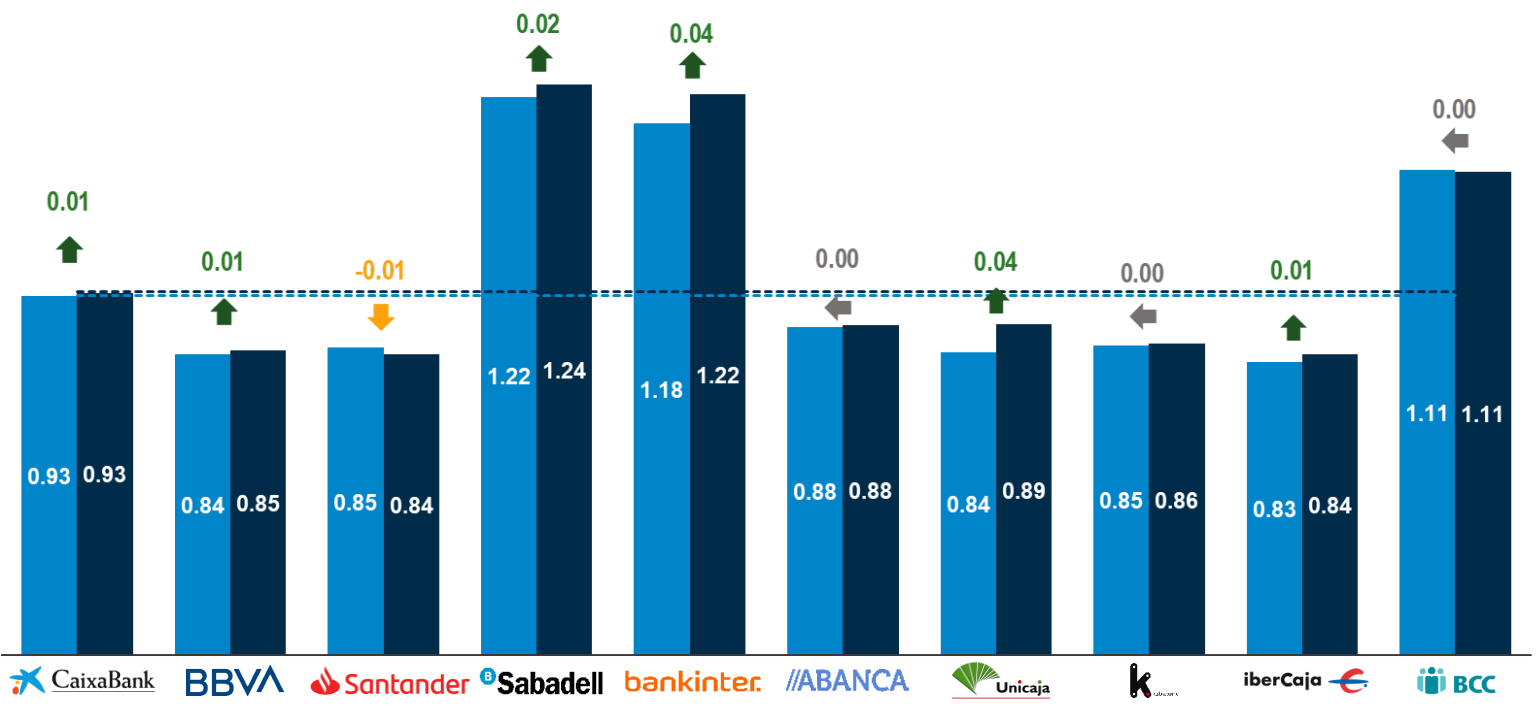
Note 1: Relation between elements above represents a functionality and not necessarily an exact mathematical formula
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

Six out of ten local major banks reported slight NIM improvements

● Improved ● Stable ● Worsened

Net Interest Margin (% Quarterly)

■ Q1'22 ■ Q2'22 - - - Q1'22 Av - - - Q2'22 Av



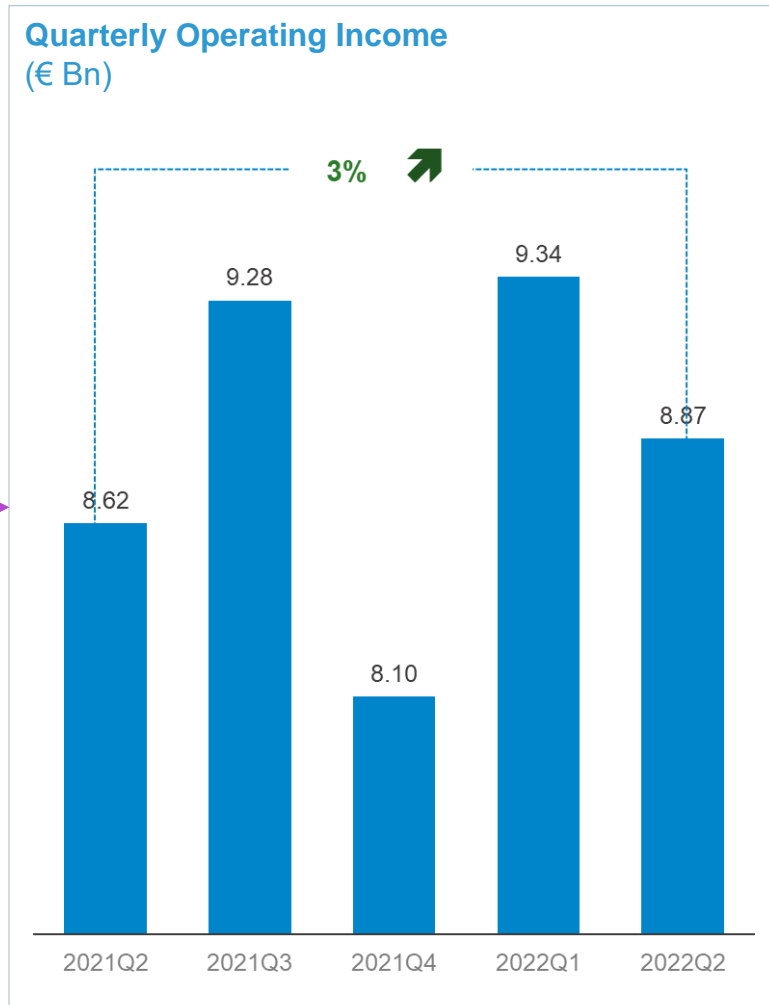
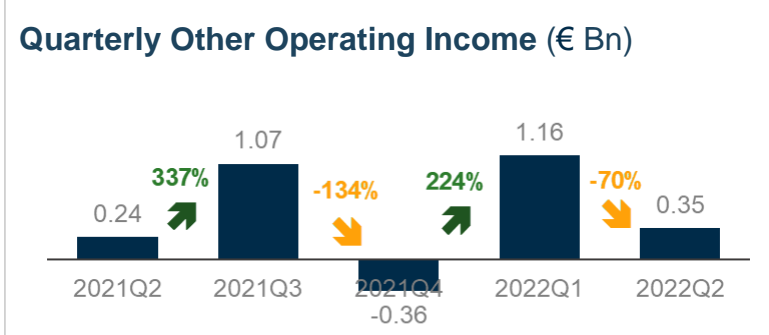
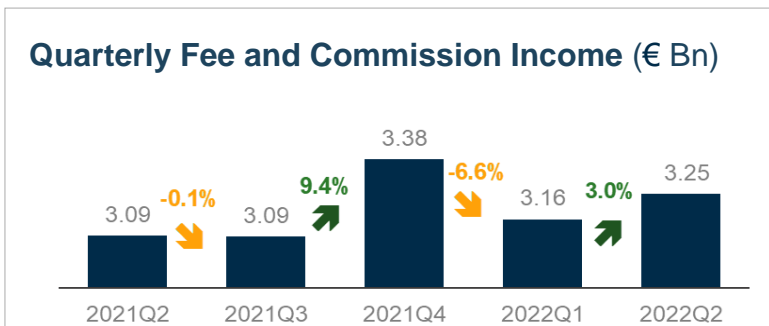
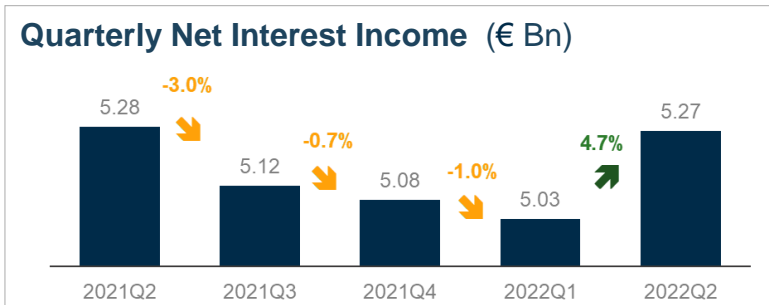
KEY TAKEAWAYS

- 6 out of the top 10 witnessed an increase in NIM
- SAN is the most affected with a drop of nearly 1 bps
- BCC, KBK and ABA remain stable
- SAB, BKT and BCC show the strongest NIMs
- SAN, IBJ and BBVA show the weakest NIMs

Note: Some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022

Operating Income witnessed a decrease primarily due to a strong reduction in Other Operating Income

● Improved ● Stable ● Worsened



KEY TAKEAWAYS

- NII presents an increase almost reaching Q2'21 levels
- Fee and Commission Income has increased QoQ, however it has not recovered its Q4'21 levels yet due to a drop presented in the first quarter of the year
- Decrease in Operating Income was driven by Other Operating Income that includes Trading Activities and seasonal payments to the Deposit and Resolution Funds
- YoY Operating Income has increased from 8.62 € Bn to 8.87 € Bn

Note 1: Relation between elements above represents a functionality and not necessarily an exact mathematical formula

Note 2: Figures represent the aggregation of the top 10 banks activities in Spain

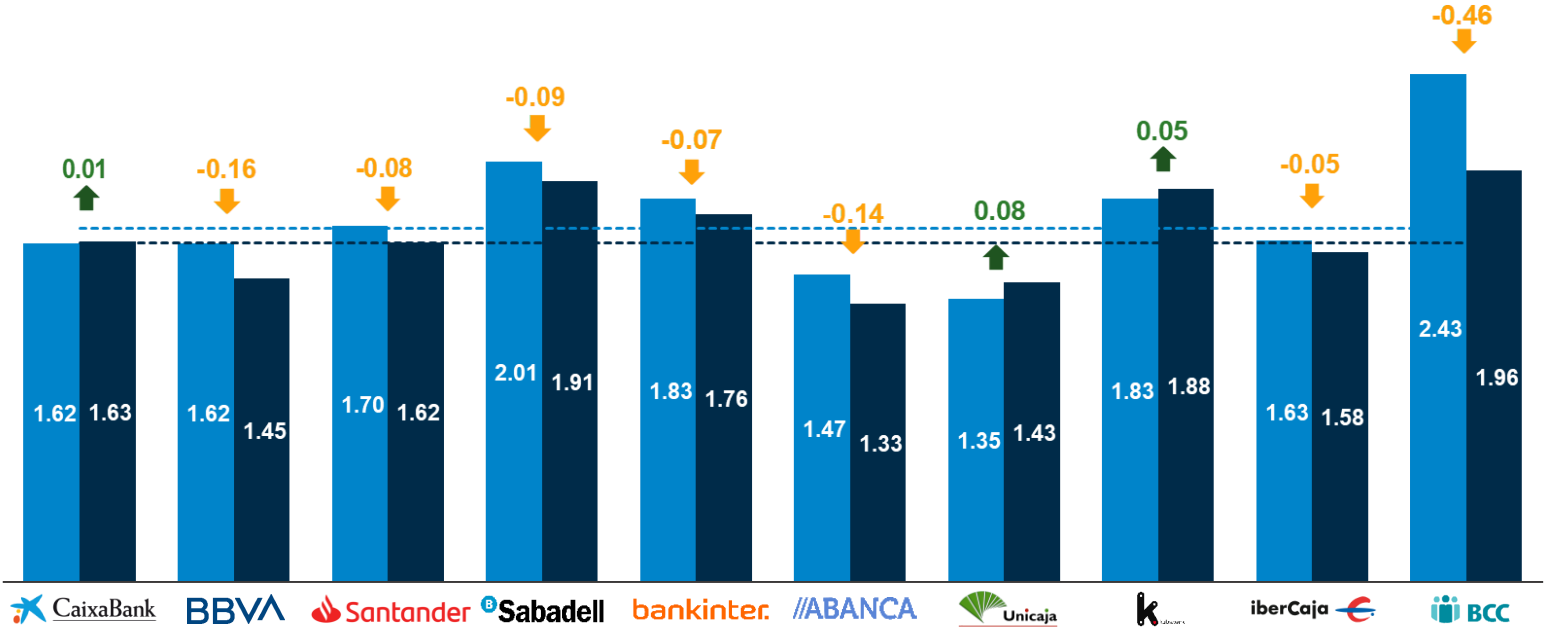
Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022

Operating Income over Assets decreased...

● Improved ● Stable ● Worsened

Operating Income / Assets (%)

■ Q1'22 ■ Q2'22 --- Q1'22 Av --- Q2'22 Av

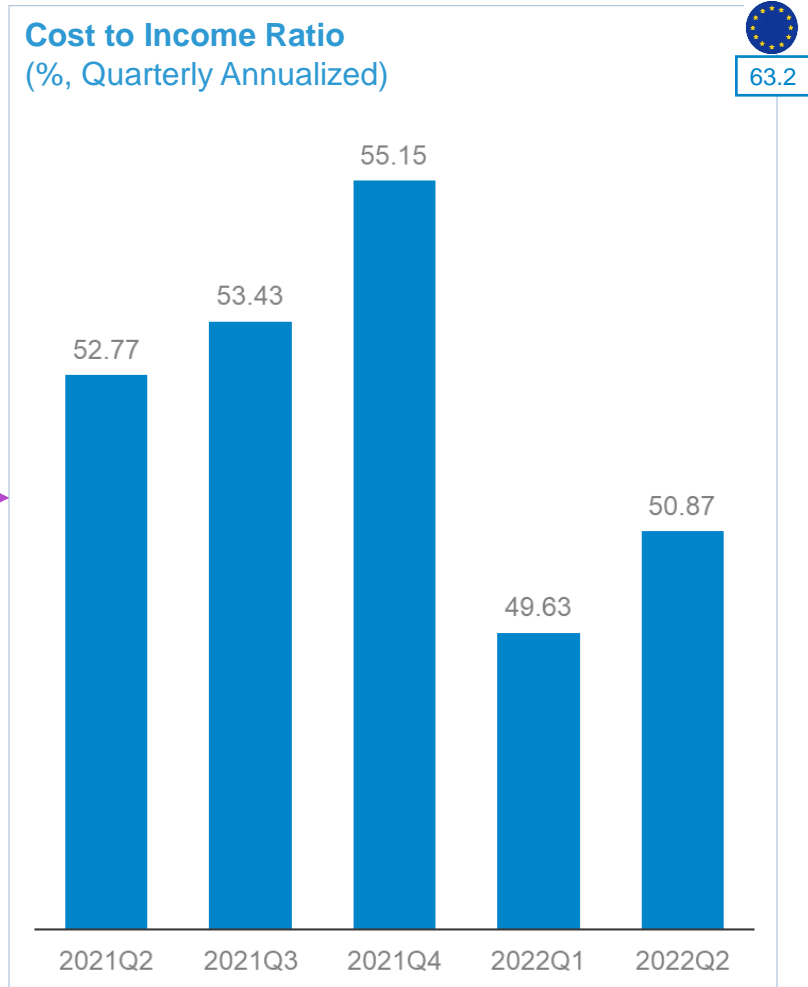
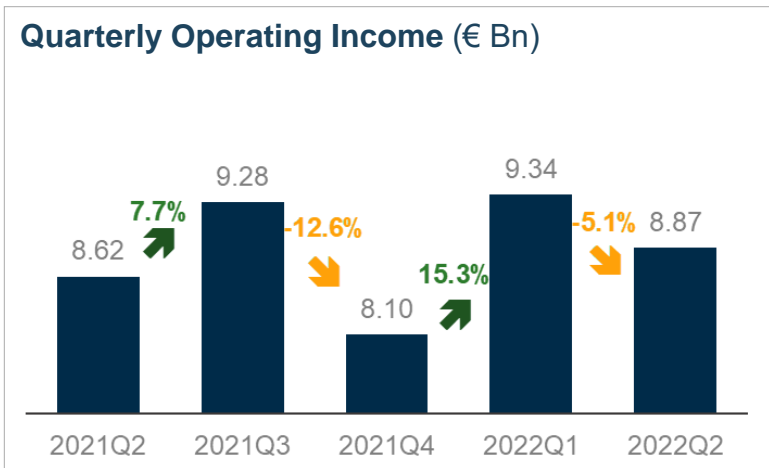
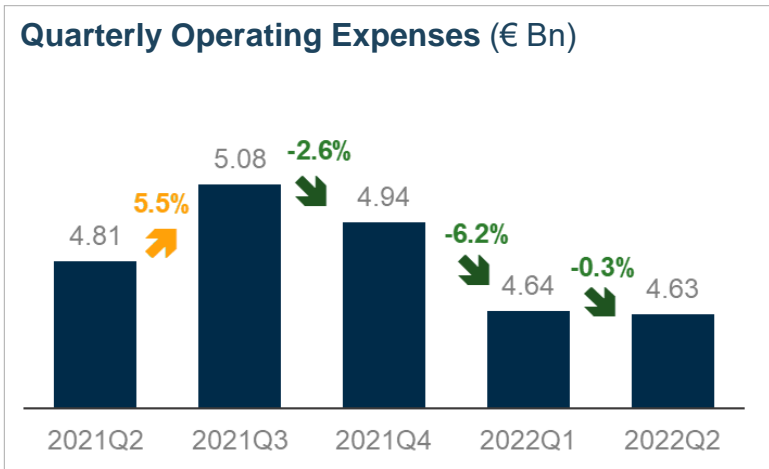


KEY TAKEAWAYS

- 7 banks showed a decrease in Operating Income over Assets and only 3 increase (driven by Other Operating Income)
- BBC, BBVA and ABA suffered the sharpest downswing
- UNI has the highest upturn

Operating efficiency was deteriorated by 124bps in comparison to previous quarter

● Improved ● Stable ● Worsened



KEY TAKEAWAYS

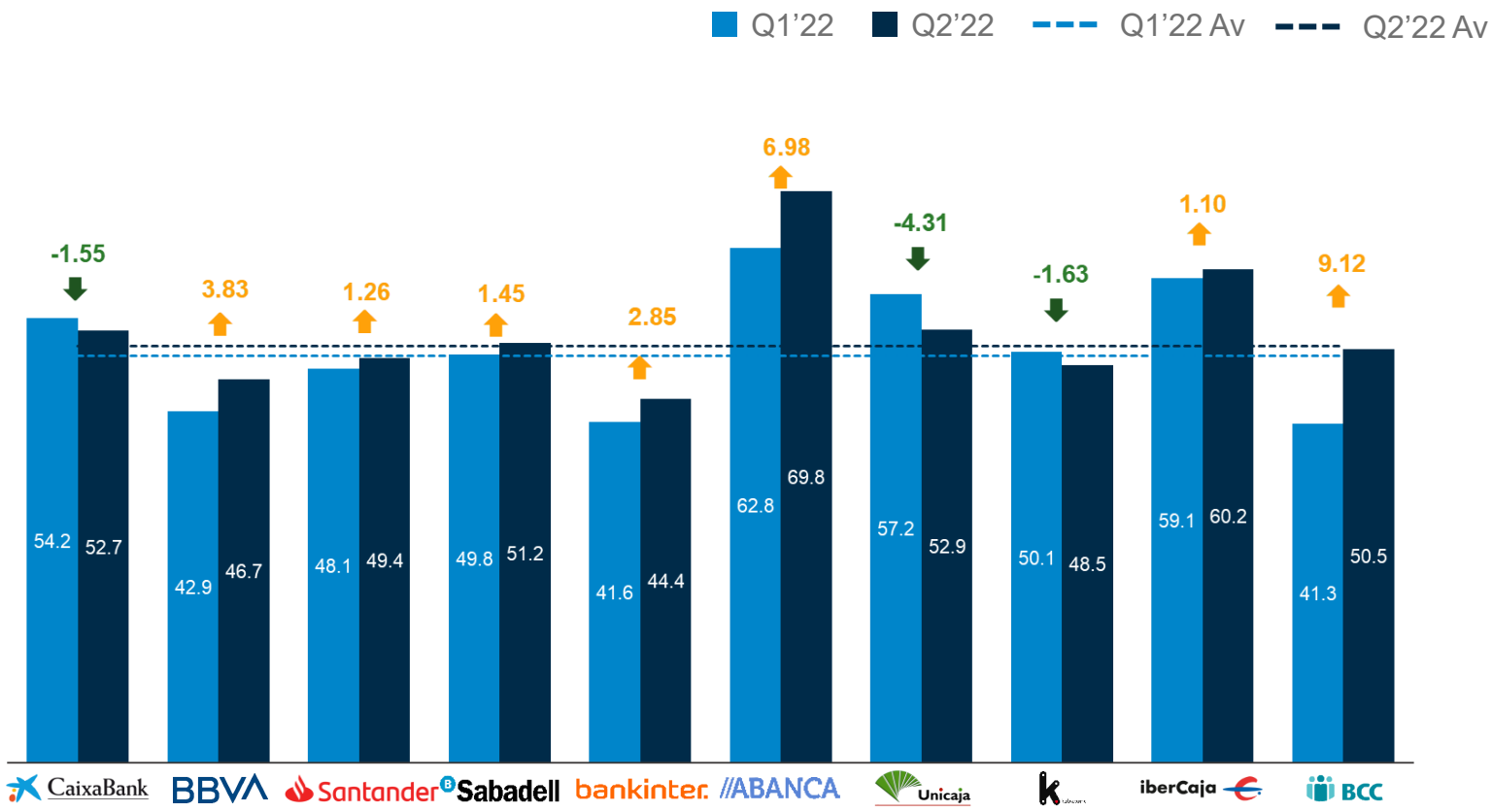
- C/I Ratio worsened by 124bps QoQ in Q2'22, after improving in the previous quarter
 - Worsened was driven by a decrease in Operating income of 5% QoQ
 - The deterioration of the Operating Income was smoothed by an improvement in Operating Expenses that decreased 0.3% QoQ
- YoY Cost to Income has improved from 52.8% to 50.9% both due to an increase in Operating Income and to a decrease in Operating Costs.
- Spanish Banks below the level of EU average of 63.2%

Note 1: Some numbers might not add up due to rounding
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

Three of the top ten banks report enhanced cost efficiencies

● Improved ● Stable ● Worsened

Cost to Income Ratio (% Quarterly)



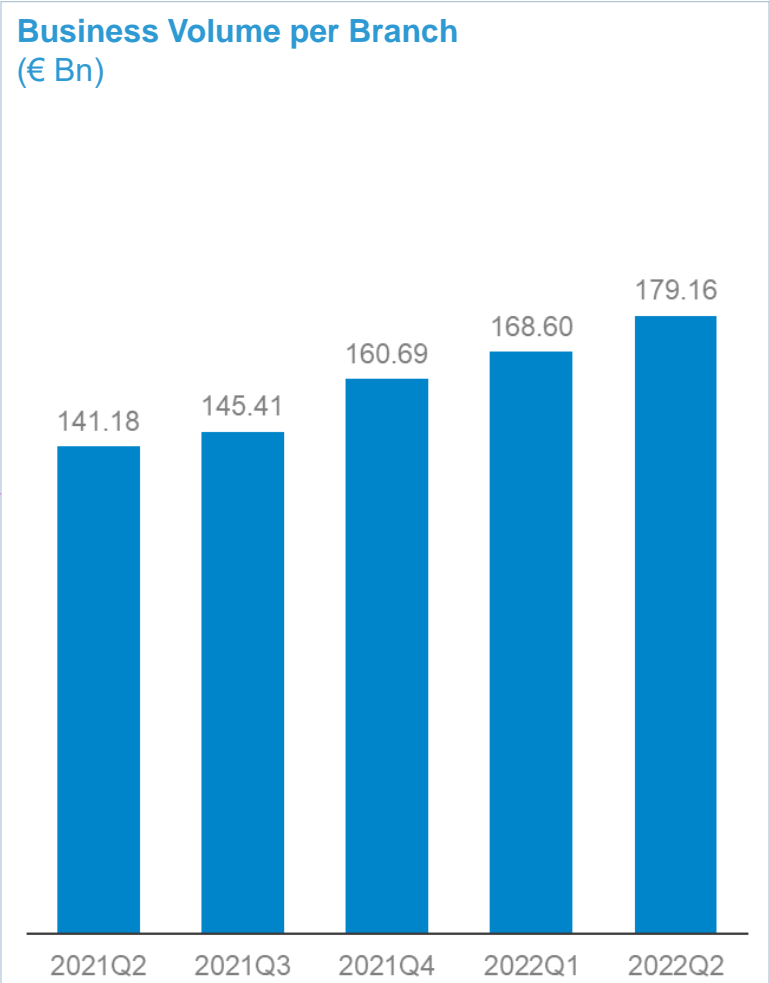
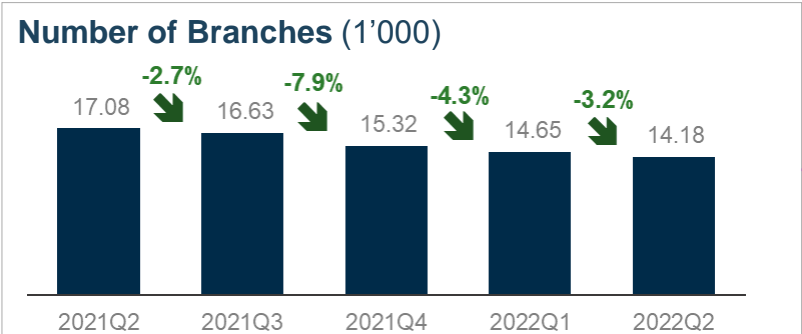
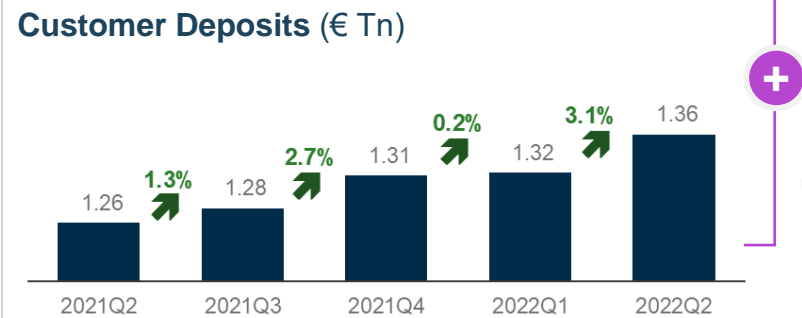
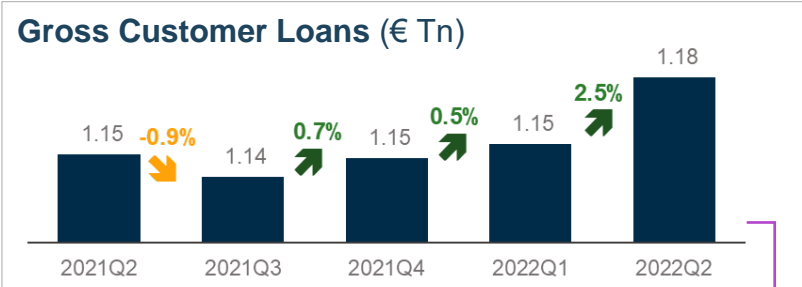
KEY TAKEAWAYS

- 7 out of 10 banks worsened their C/I Ratio QoQ
- UNI, KBK and CABK experienced the best improvement in the C/I Ratio
- ABA, IBJ and UNI lead the worst performers
- BCC, ABA and BBVA experienced the highest increase in the C/I ratio QoQ
- BKT is below the 45% target of efficiency level

Note: Some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022

Business Volume per Branch continues its upward trend

● Improved ● Stable ● Worsened



KEY TAKEAWAYS

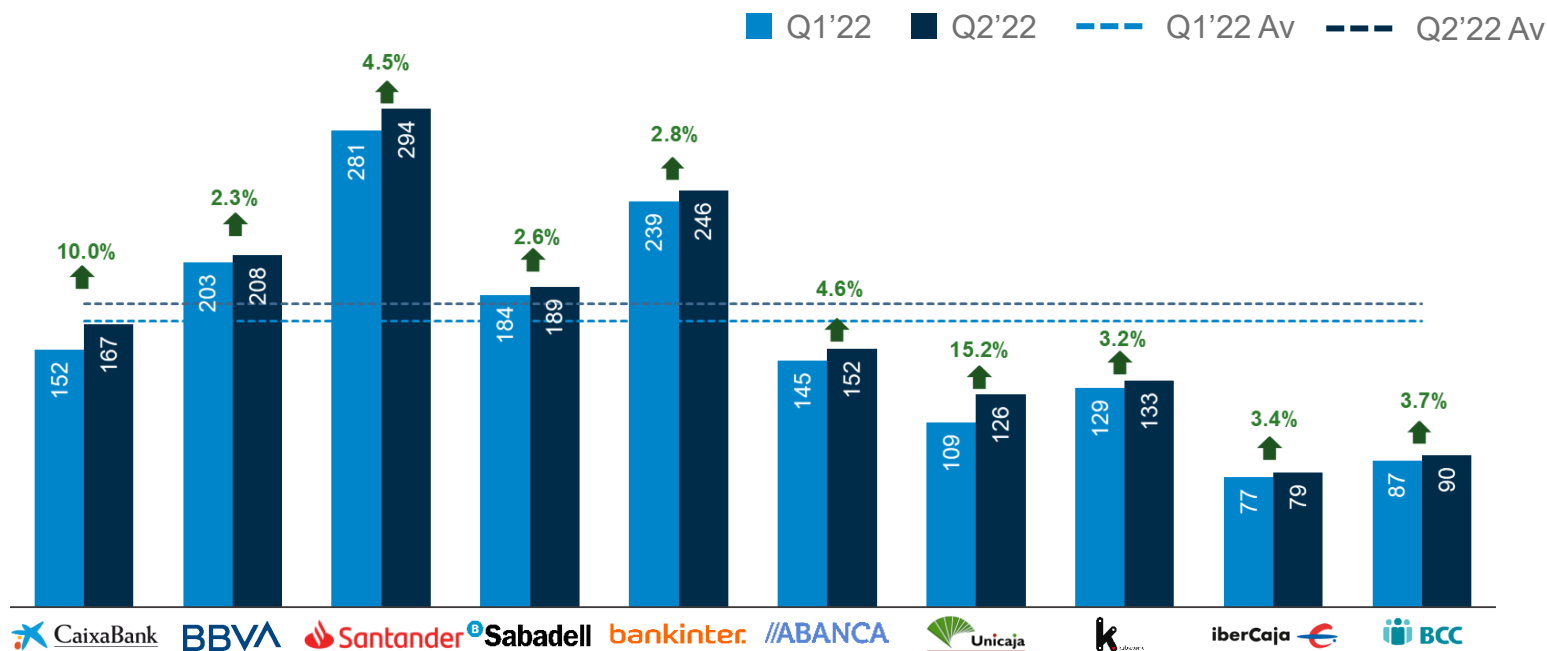
- Business Volume per Branch continue increasing pushed by a decrease in number of branches and increase in loans and deposits
- Branches were reduced to 14.2 thousand from 14.7 thousand during the last quarter
- Number of Branches continued to decline YoY fuelled by branch restructuring post Covid and mergers

Note 1: Some numbers might not add up due to rounding
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022

All banks increased Business Volume per Branch

● Improved ● Stable ● Worsened

Business Volume per Branch (€ Mn)



| | CABK | BBVA | SAN | SAB | BKT ⁽¹⁾ | ABA | UNI | KBK | IBJ | BCC |
|-----------|-------|-------|-------|-------|--------------------|-------|--------|-------|-------|-------|
| Branches: | 4,206 | 1,886 | 1,921 | 1,290 | 597 | 678 | 1,098 | 737 | 897 | 868 |
| Var QoQ: | -6.2% | 0.0% | -1.5% | 0.1% | 0.0% | -1.2% | -11.3% | -0.7% | -1.2% | -0.2% |

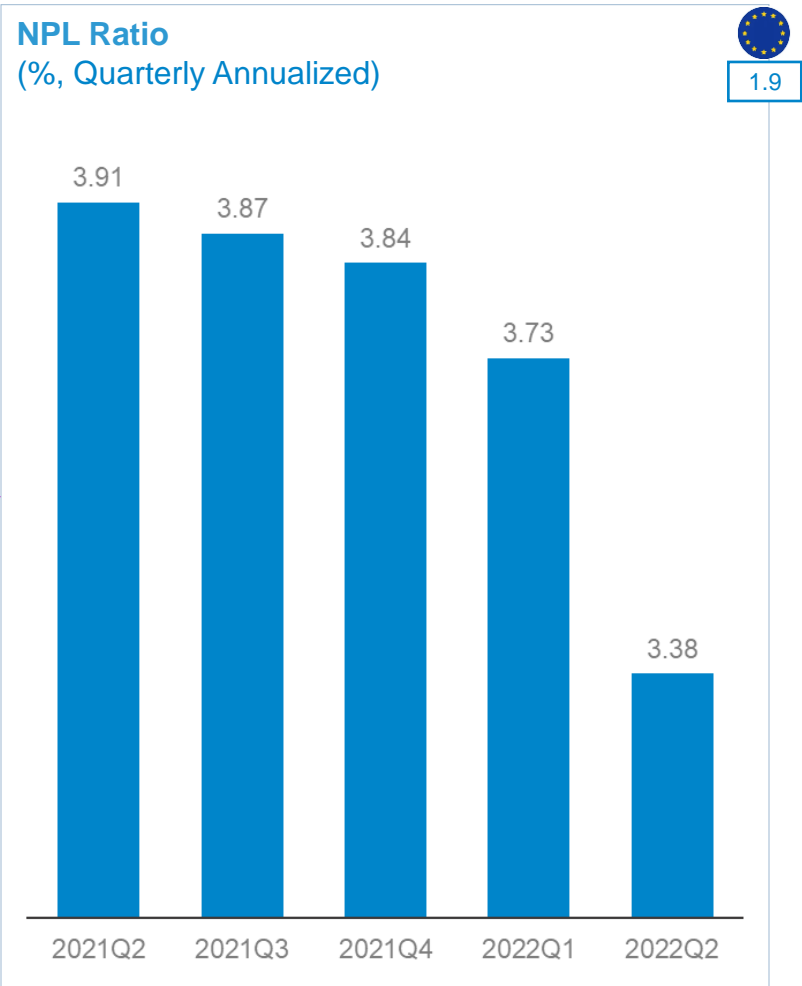
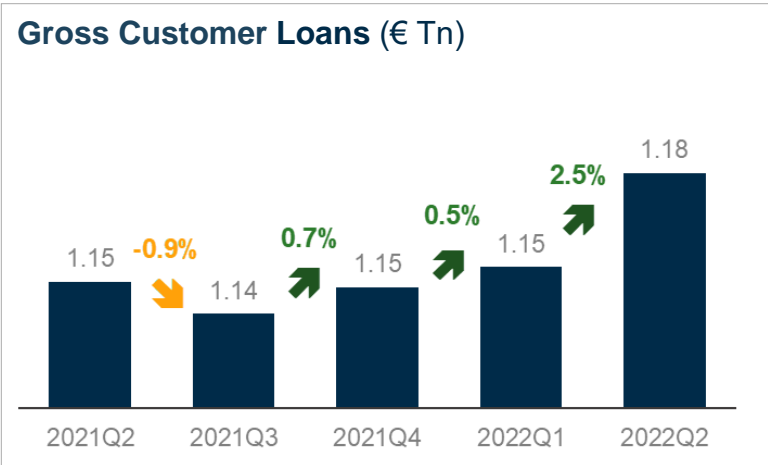
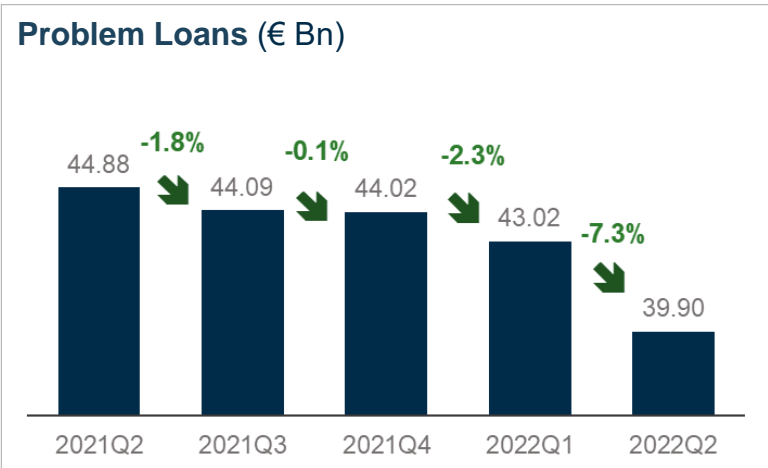
KEY TAKEAWAYS

- All banks increased their Business Volume per Branch
- SAN is the best performer in terms of Business Volume per Branch, while IBJ and BCC are the worst ones
- UNI and CABK carried out the deepest Branch reduction in relative terms and CABK is the largest in terms of number of Branches

Note 1: Bankinter branches includes other business units branches
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022.

NPL Ratio continued to decline

● Improved ● Stable ● Worsened



1.9

KEY TAKEAWAYS

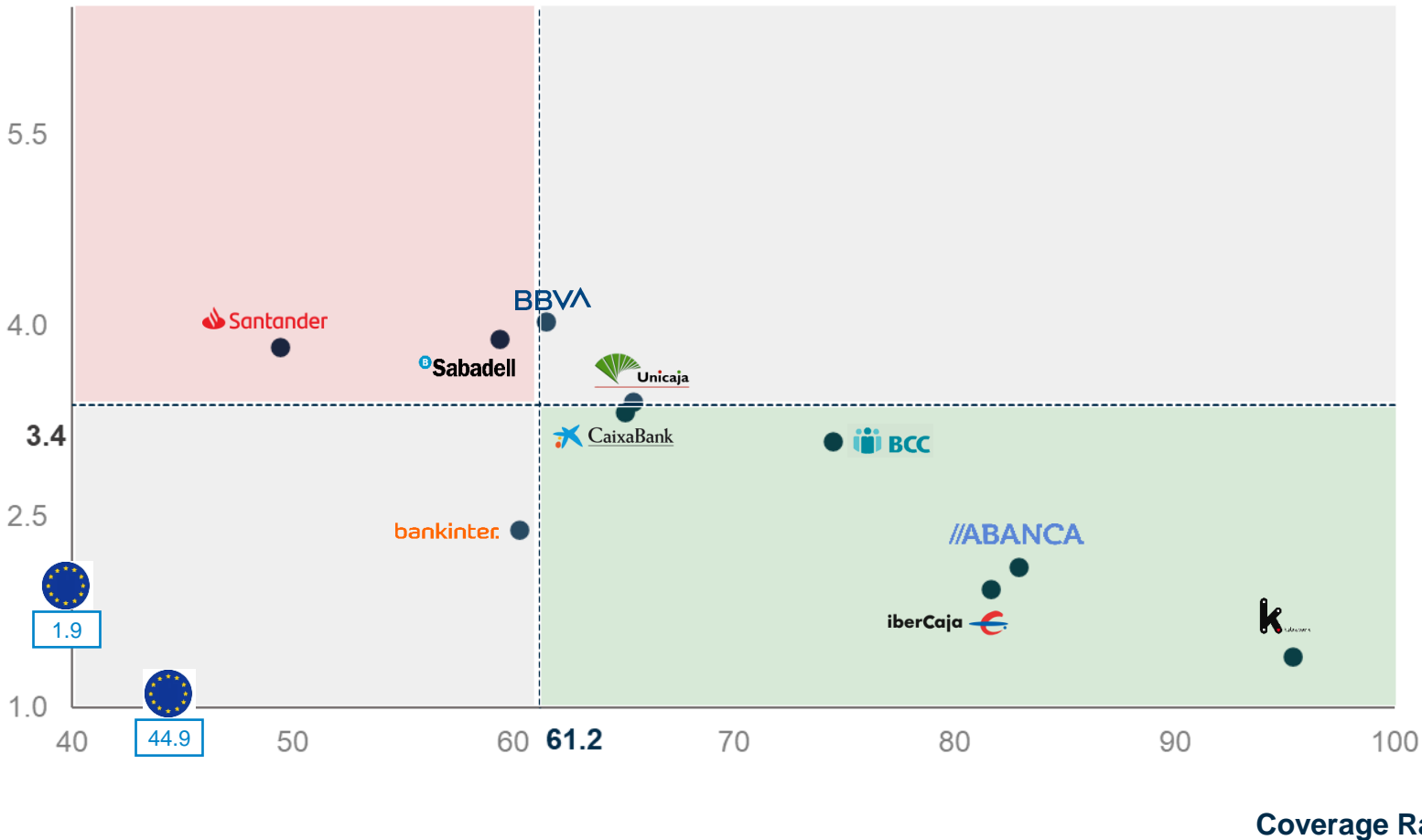
- NPL Ratio decreased to 3.38% in Q2'22, continuing the downward trend
- Decrease in NPL Ratio was driven by the decrease in total Problem Loans by around 3 € Bn driven by sales activity during 1H2022 in the biggest banks
- The increase of Gross Customer Loans has also contributed positively to the reduction of the NPL Ratio

Note 1: Scaling and some numbers might not add up due to rounding
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

NPL and Coverage Ratio remain conservative

NPL Ratio (%)

● Q2'22 - - - Q2'22 Av



KEY TAKEAWAYS

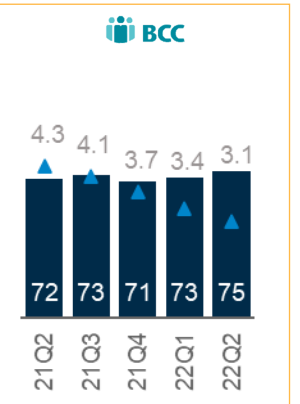
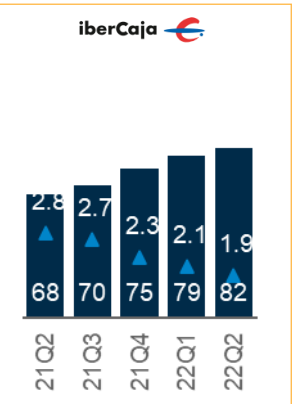
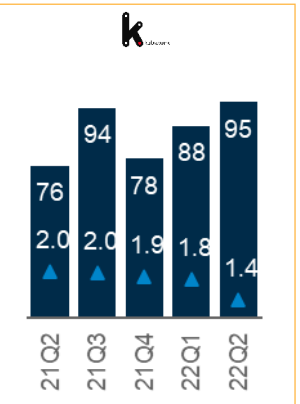
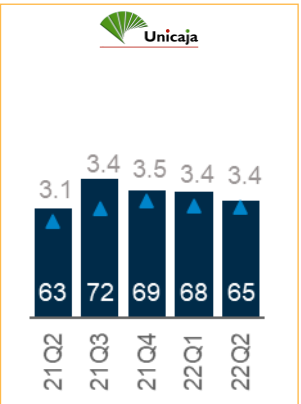
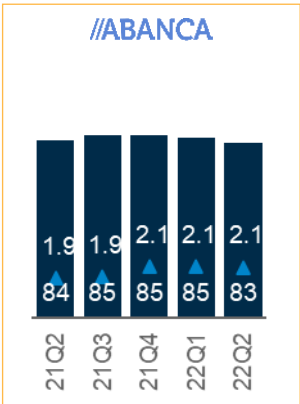
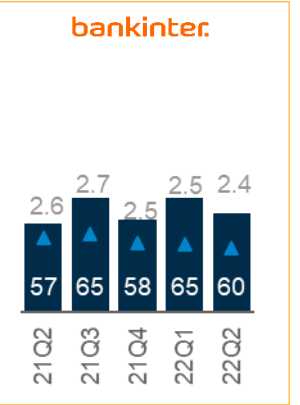
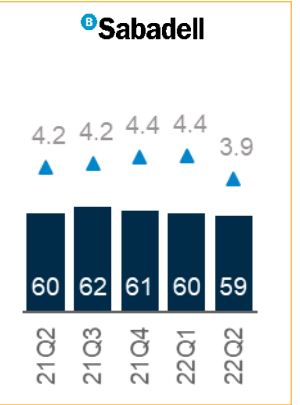
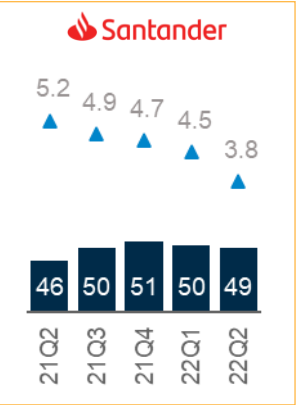
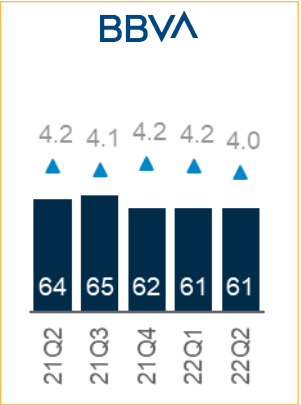
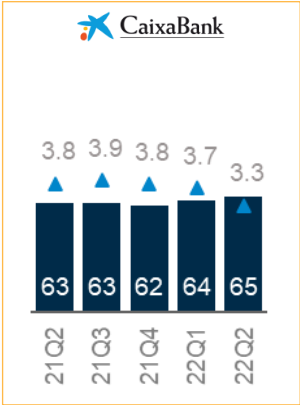
- Overall NPL Ratio is below 3.5% while coverage is above 60%
- ABA, CABK, KBK, BCC and IBJ outperformed the market in both NPL and Coverage Ratio
- BBVA has the highest NPL Ratio and SAN has the lowest Coverage Ratio
- Coverage level of 61.2% displays conservative approach of Spanish banks
- Spanish banks still above EU average levels of 1.9% in NPLs but above in Coverage level of 44.9%

Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

NPL / Net Loan Ratio improved for all banks

■ Coverage Ratio, % ◆ NPL / Net loans, %

Coverage Ratio and NPL / Net Loans Ratio (% , Quarterly)



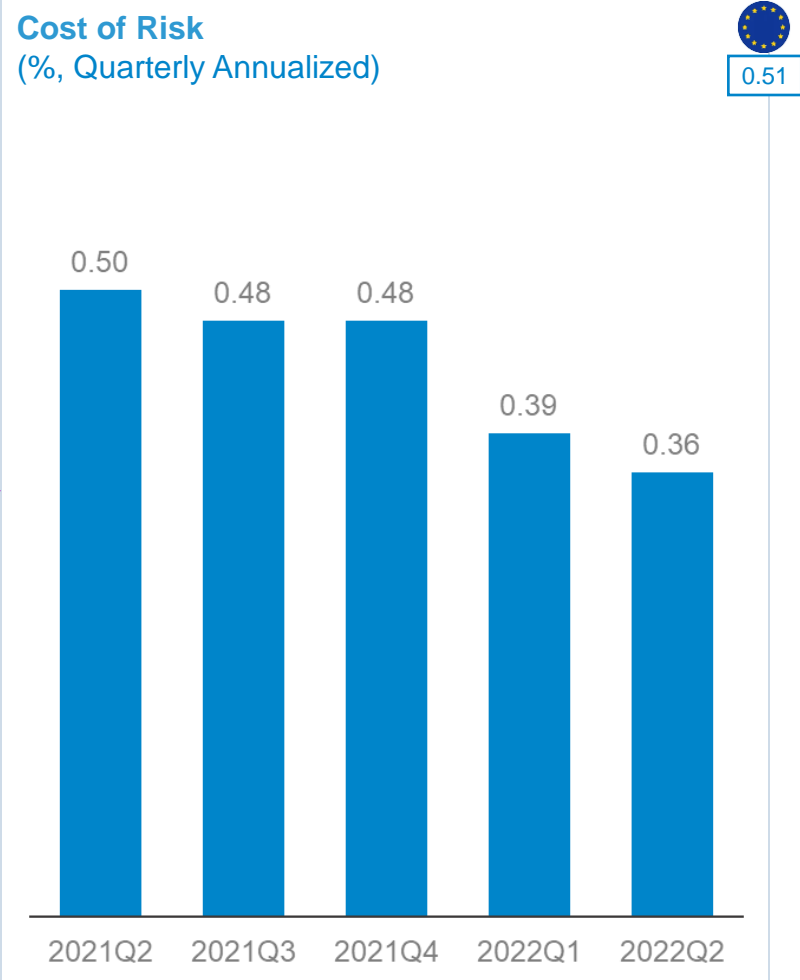
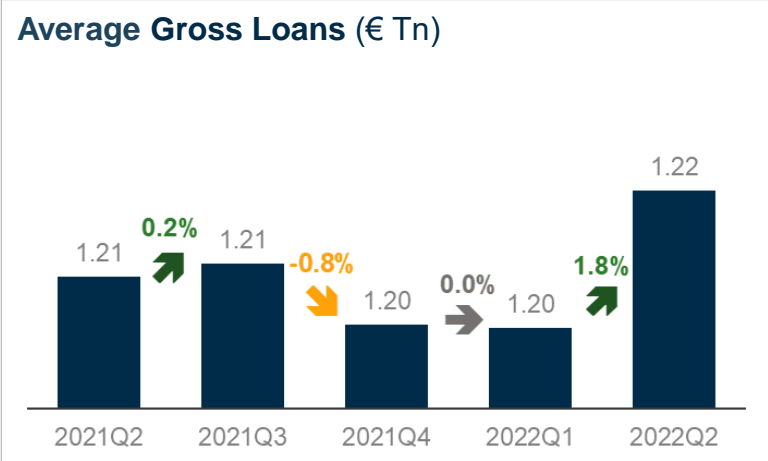
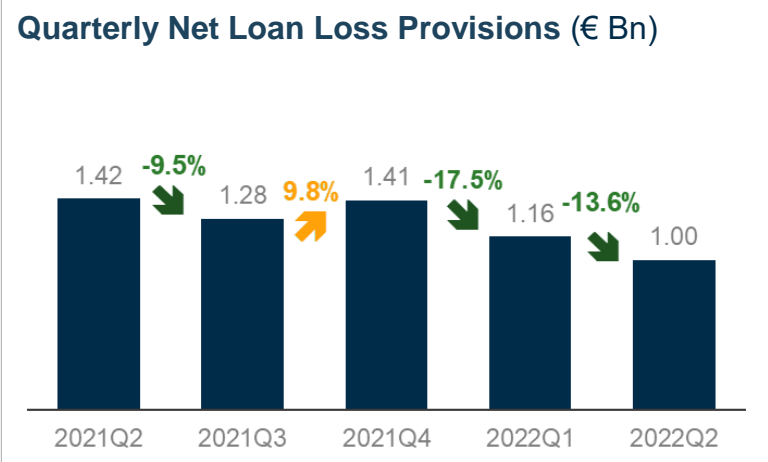
KEY TAKEAWAYS

- On aggregate, asset quality improved further as NPLs Ratio decreased to 3.4% in Q2'22 compared to 3.7% in Q1'22
- SAN was the bank with the highest decreased NPL Ratio (64bps) driven by an increase of 2.3% in total loans and decreased of 13.6% in Problem Loans with an active sales activity during 1H2022
- The Coverage Ratio remained steady in 61.2% in comparison to Q1'22
- KBK is the bank with the highest increase QoQ of the Coverage Ratio, going from 88.3% to 95.4% in Q2'22, this improvement was mainly driven by the decrease in NPLs

Note: Scaling and some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022

Cost of Risk continued to decline for the industry

● Improved ● Stable ● Worsened



KEY TAKEAWAYS

- Cost of Risk of 36bps at 2Q'22 end showed reduction of 3bps QoQ
- QoQ provisioning efforts show a gradual decline since the end of 2021
- Spanish Banks below the level of EU average of 0.51%

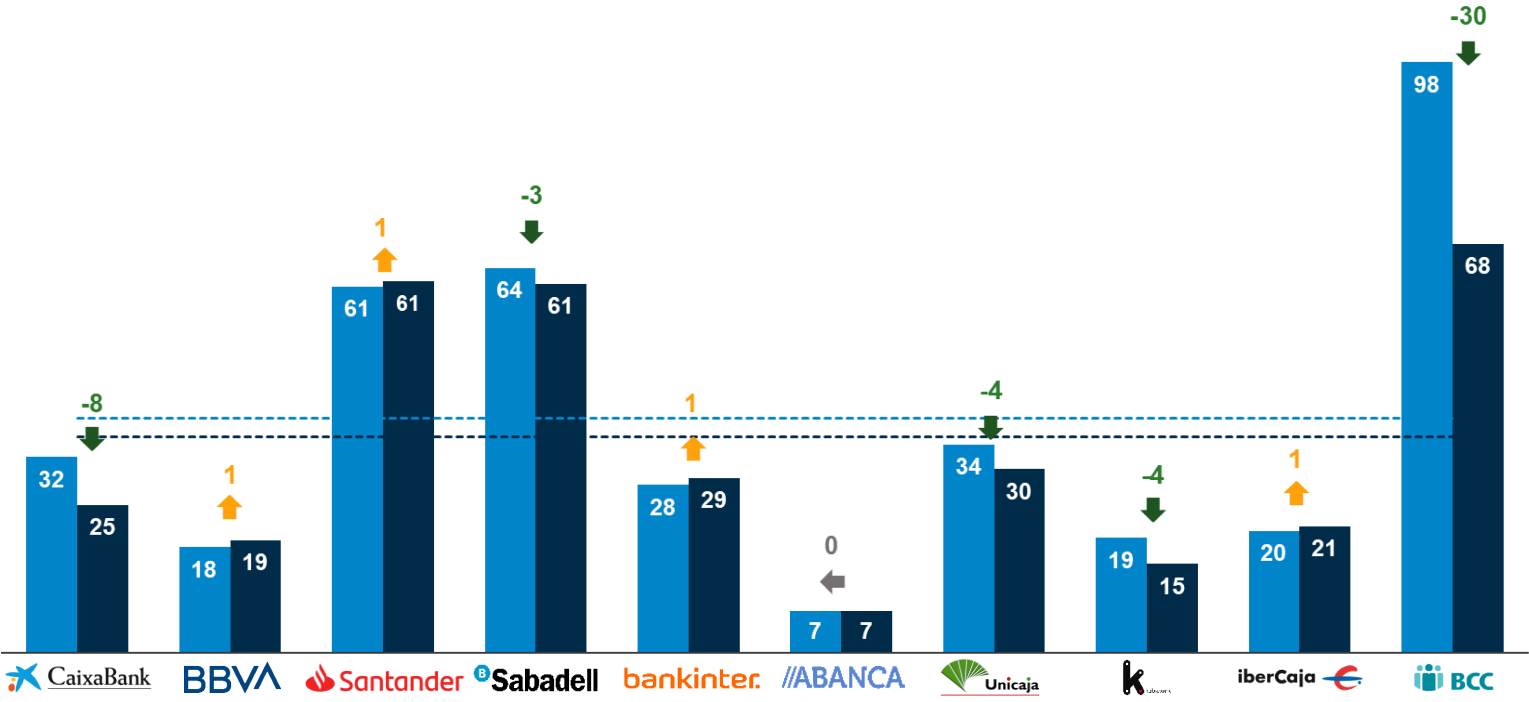
Note 1: Scaling and some numbers might not add up due to rounding
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

Five of the ten banks reported an improvement in Cost of Risk

● Improved ● Stable ● Worsened

Cost of Risk (bps) – Net of Reversals

■ Q1'22 ■ Q2'22 - - - Q1'22 Av - - - Q2'22 Av



KEY TAKEAWAYS

- BCC, SAN and SAB have the largest CoR at above 60 bps levels
- ABA and KBK have the lowest at below 15 bps level
- BCC showed the sharpest reduction of around 30 bps followed by CABK
- BBVA, SAN, BKT and IBJ worsened their CoR in 1 bps

Note 1: Scaling and some numbers might not add up due to rounding
 Note 2: Santander CoR due to Covid was assigned fully at consolidated level in Q1, but figure was reformulated in Q2
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022.

Profitability worsened QoQ...

● Improved ● Stable ● Worsened

6.6



KEY TAKEAWAYS

- ROE decreased due to a reduction in Efficiency and a deterioration in Non-Interest Income which could not be offset by the improvement in the CoR

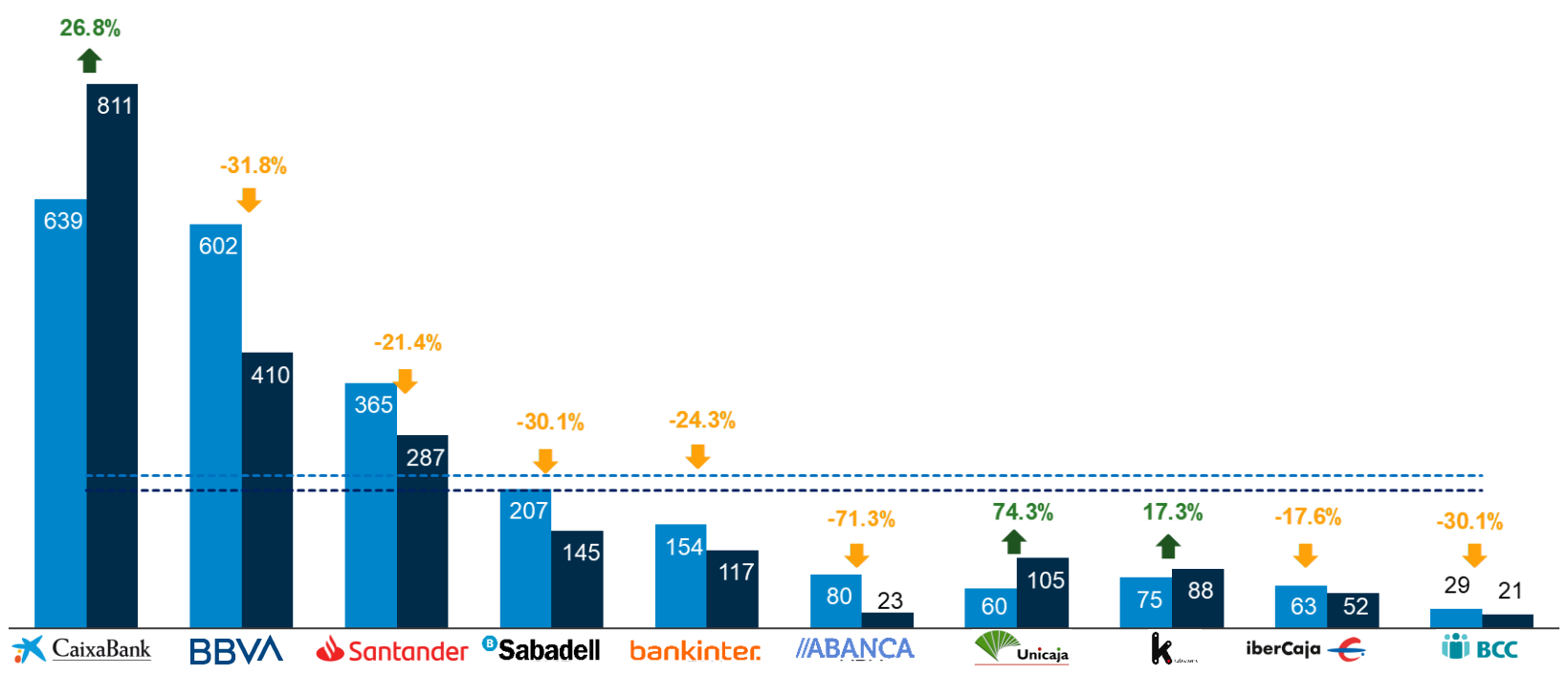
Note 1: Relation between elements above represents a functionality and not necessarily an exact mathematical formula
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

Net Income decreased QoQ causing a reduction in profitability indicators

● Improved ● Stable ● Worsened

Net Income (€ Mn, Last 3 Months)

■ Q1'22 ■ Q2'22 - - - Q1'22 Av - - - Q2'22 Av



KEY TAKEAWAYS

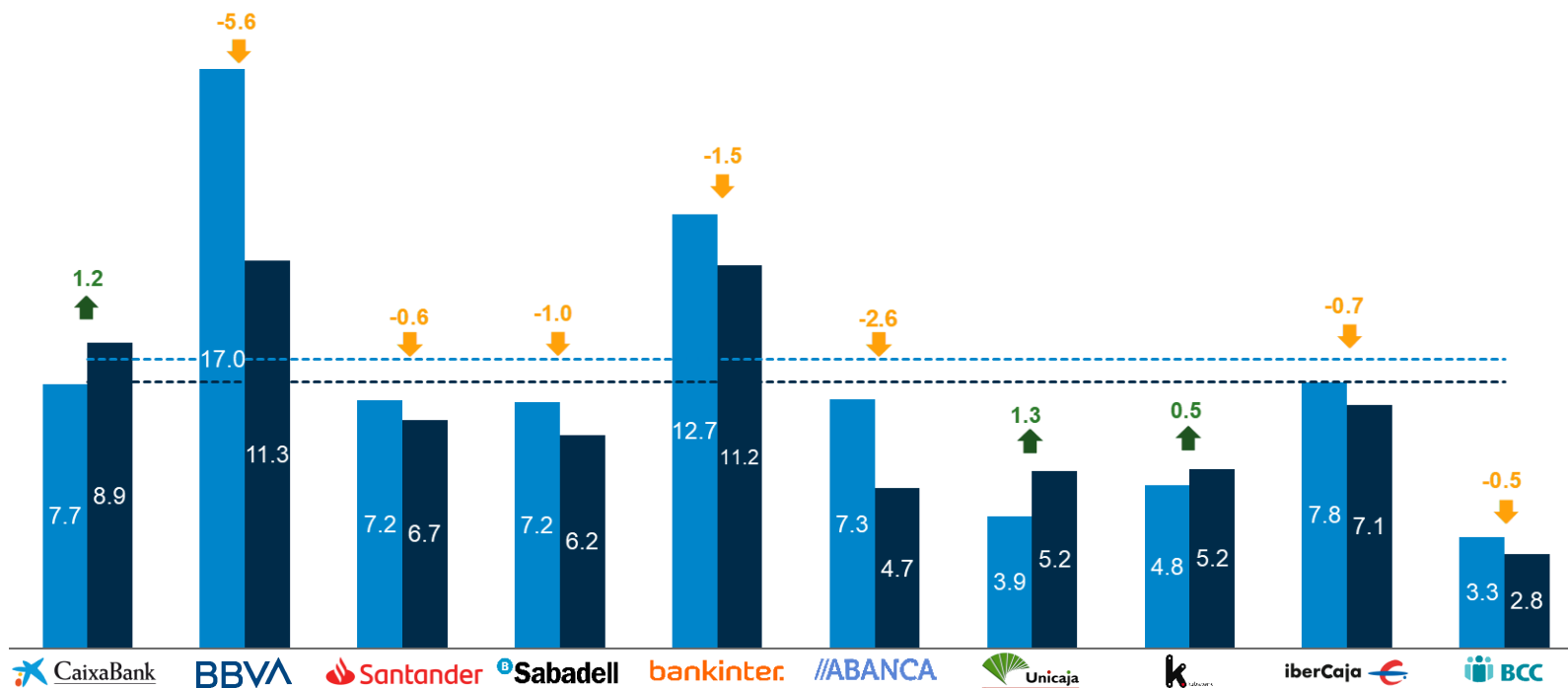
- 7 out of 10 banks have shown a decrease in Net Income
- Only UNI, CABK and KBK show an increase in Net income, with UNI experienced the greatest increase
- ABA and BBVA have experienced the worst decline compared to the last quarter

Seven out of ten banks worsened their profitability across the sector

● Improved ● Stable ● Worsened

Return of Equity (%)

■ Q1'22 ■ Q2'22 - - - Q1'22 Av - - - Q2'22 Av

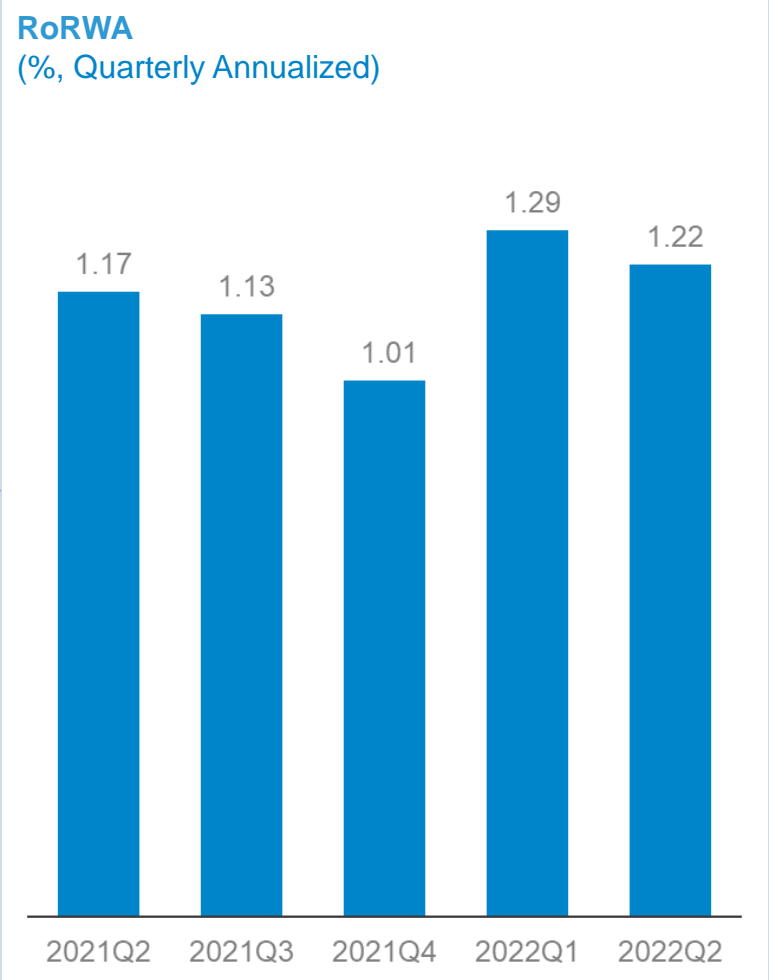
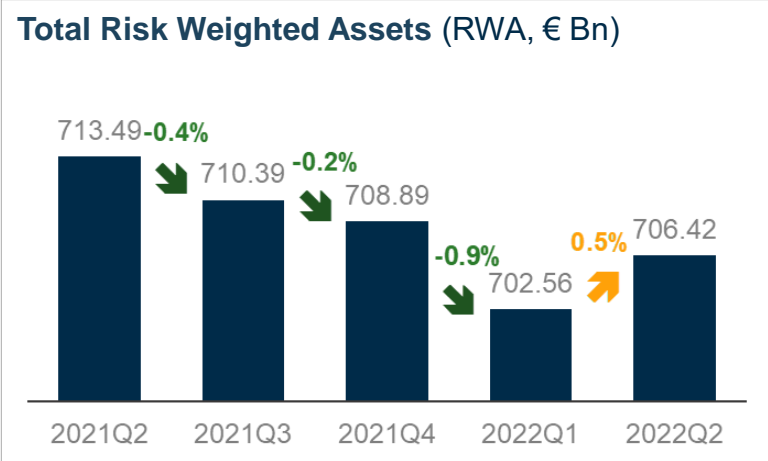
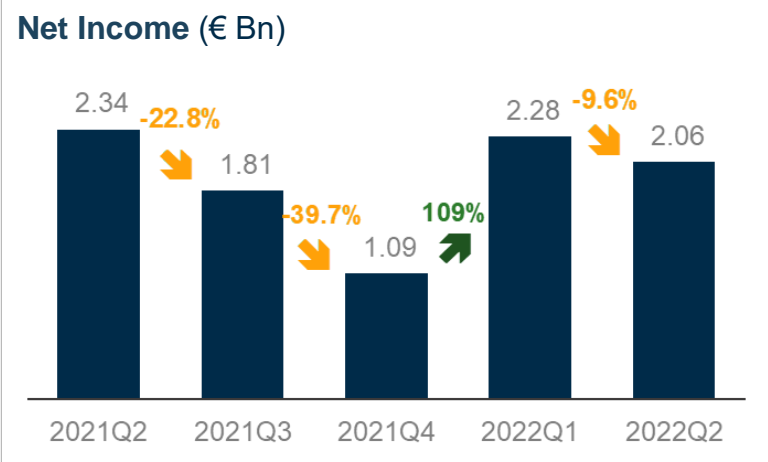


KEY TAKEAWAYS

- 7 out of 10 banks have shown a decrease in ROE
- Only UNI, CABK and KBK show an increase in ROE, with UNI experienced the greatest increase
- BBVA and ABA have experienced the worst ROE decline compared to the last quarter
- BCC is the bank with the lowest indicator in Q2'22
- ROE for EU Banks stands at 6.6% below ROE of Spanish Banks

RoRWA decreased QoQ...

● Improved ● Stable ● Worsened



KEY TAKEAWAYS

- Net Income for the Spanish banks in Q2'22 was 9.6% in comparison to last quarter
- RWA increased 0.5% QoQ, reaching 706.42 € Bn
- RoRWA decreased 7bps QoQ, going from 1.29% in Q1'22 to 1.22% in Q2'22

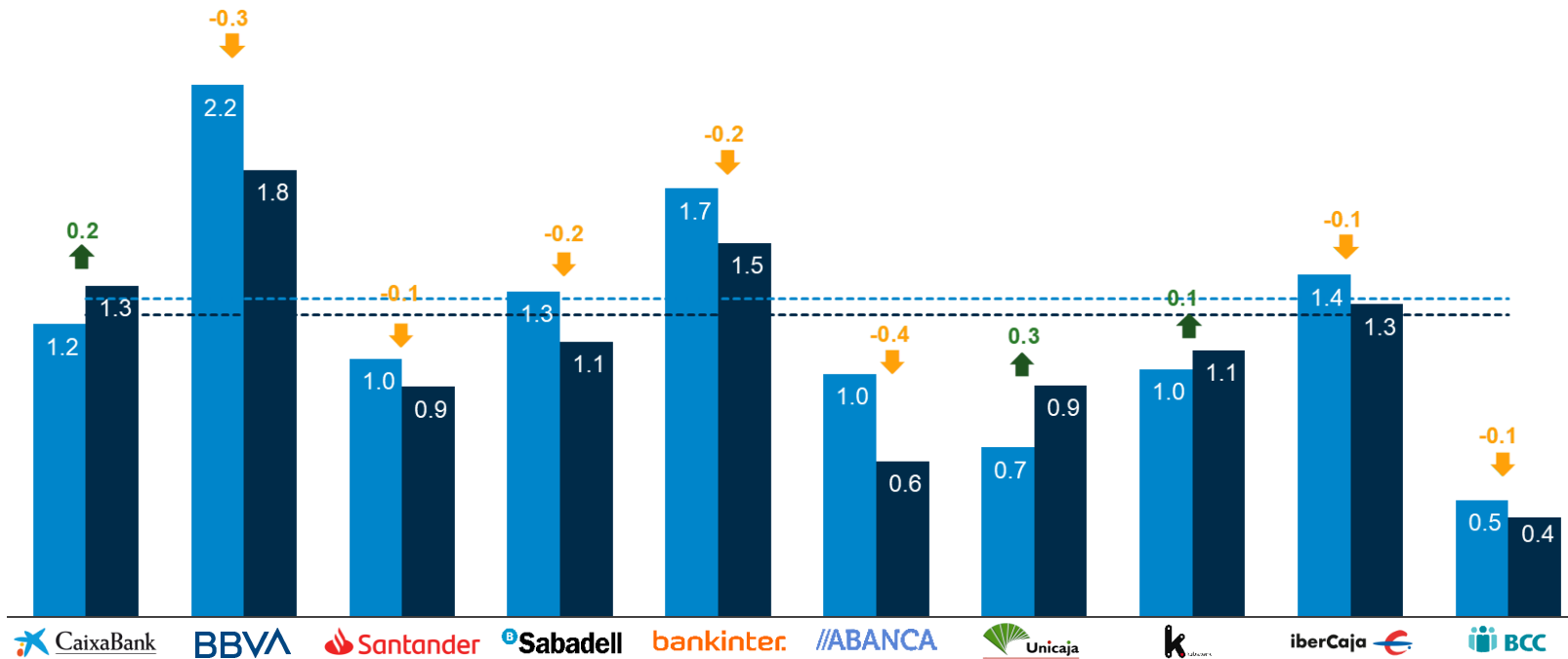
Note 1: Scaling and some numbers might not add up due to rounding
 Note 2: Figures represent the aggregation of the top 10 banks activities in Spain
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022.

Average market RoRWA at 1.2%

● Improved ● Stable ● Worsened

RoRWA (% , YTD)

■ Q1'22 ■ Q2'22 --- Q1'22 Av --- Q2'22 Av



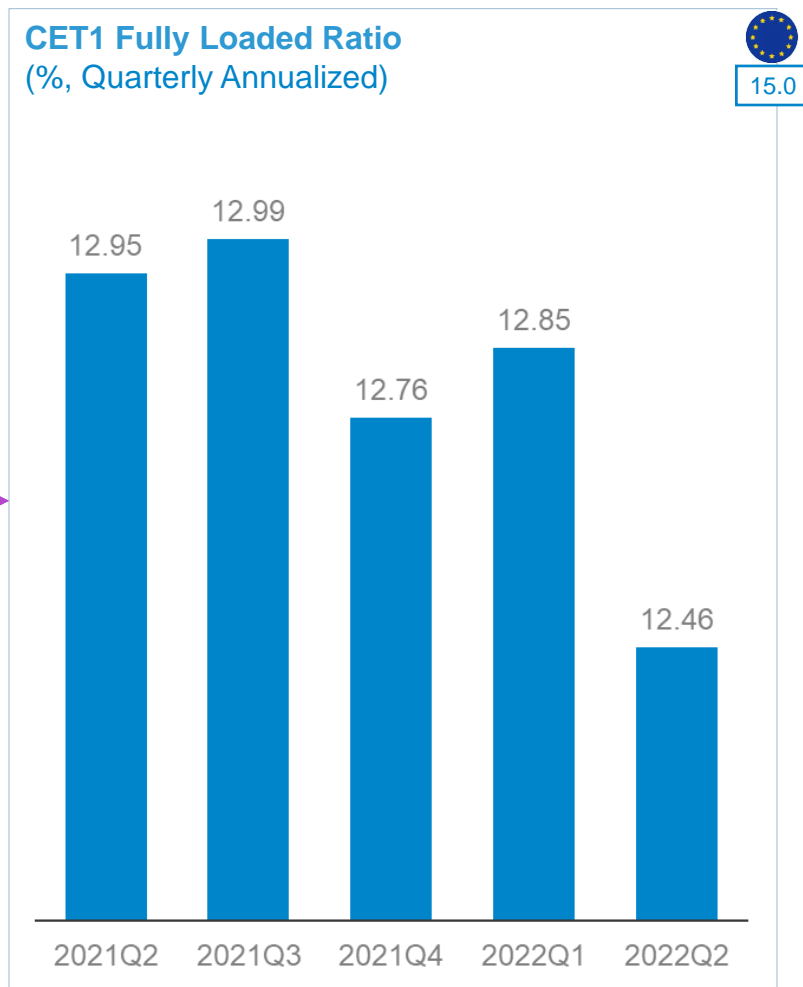
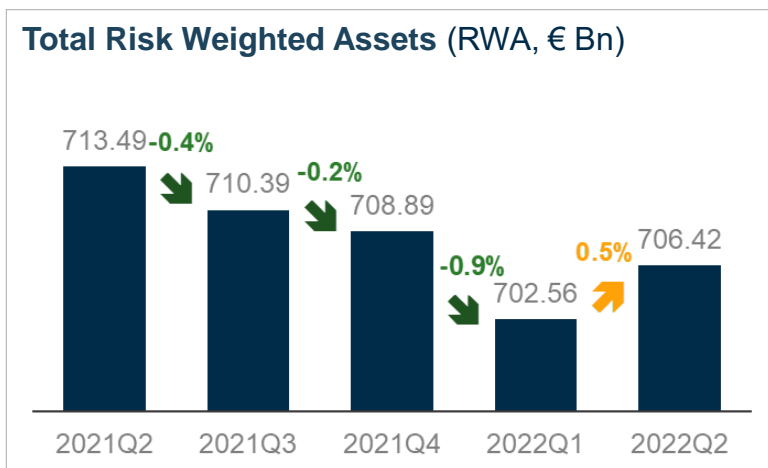
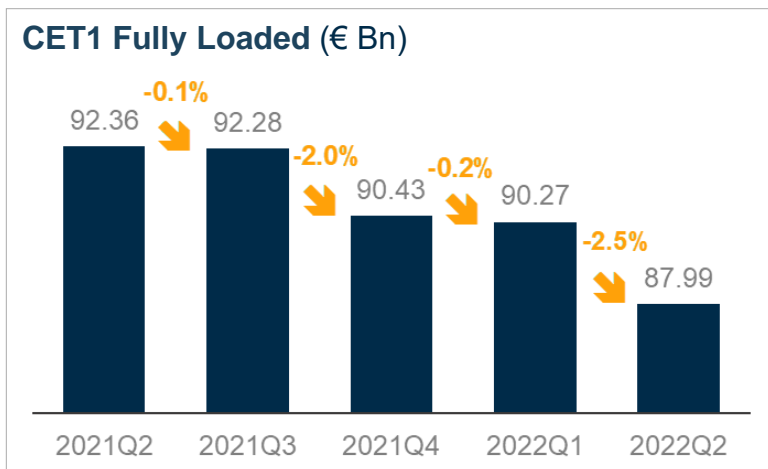
KEY TAKEAWAYS

- 7 out of 10 banks have shown a decrease in RoRWA QoQ
- BBVA, BKT, CABK and IBJ are above the market average
- ABA has experienced the highest worsened
- BCC is the bank with the lowest profitability ratio in Q2'22

Note: Scaling and some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022.

CET1 Fully Loaded decreased 2.5% QoQ

● Improved ● Stable ● Worsened



KEY TAKEAWAYS

- CET1 Fully Loaded Ratio decreased 39 bps to 12.46% QoQ
- Decrease in CET1 Fully Loaded Ratio was driven by a 2.5% QoQ decrease in CET1 Fully Loaded, being share buybacks and dividend payments the main reasons for the decrease
- CET1 levels are below European average of 15.0%

Note 1: Scaling and some numbers might not add up due to rounding

Note 2: Figures represent the aggregation of the top 10 banks activities in Spain

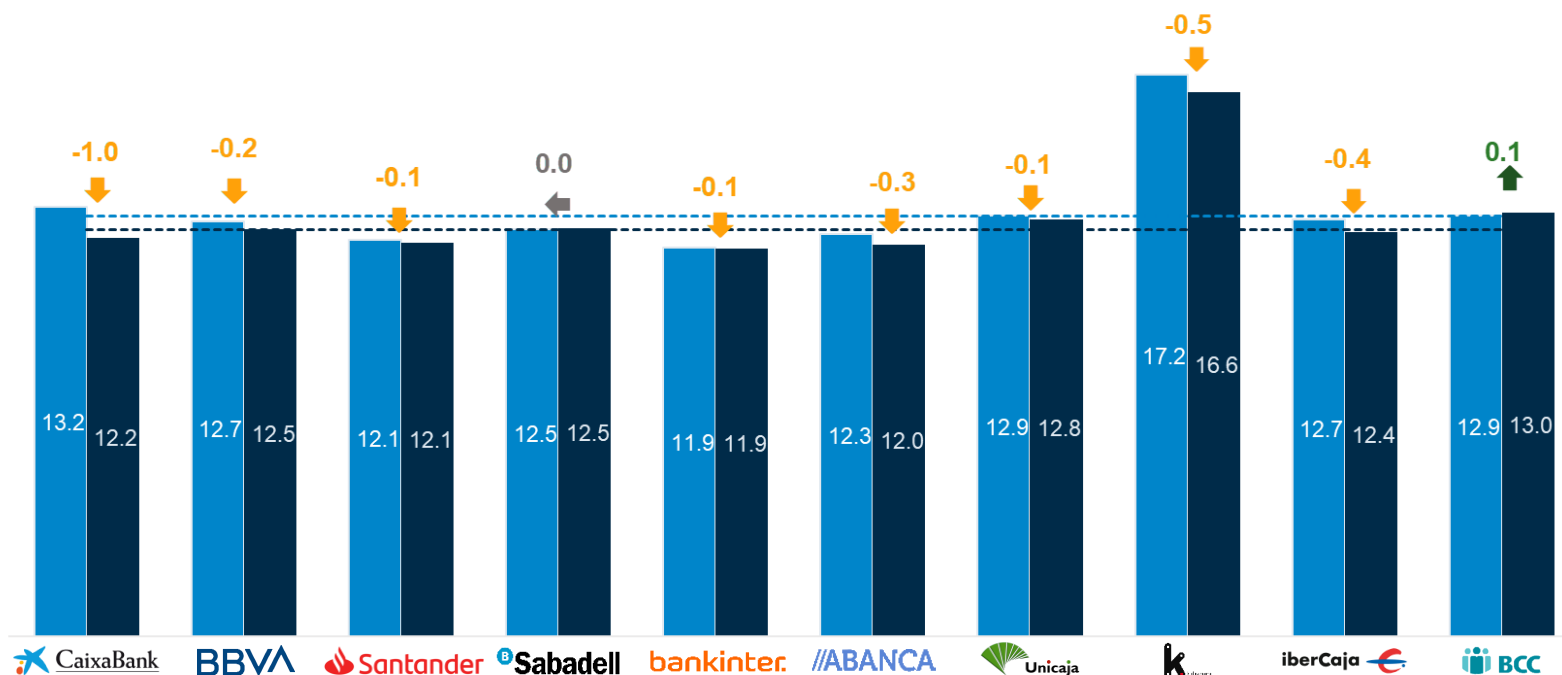
Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022, EBA risk dashboard March 2022

Solvency shows a slight decrease in its Ratio

● Improved ● Stable ● Worsened

Industry fully-loaded CET1 Ratio (% , QoQ)

■ Q1'22 ■ Q2'22 --- Q1'22 Av --- Q2'22 Av



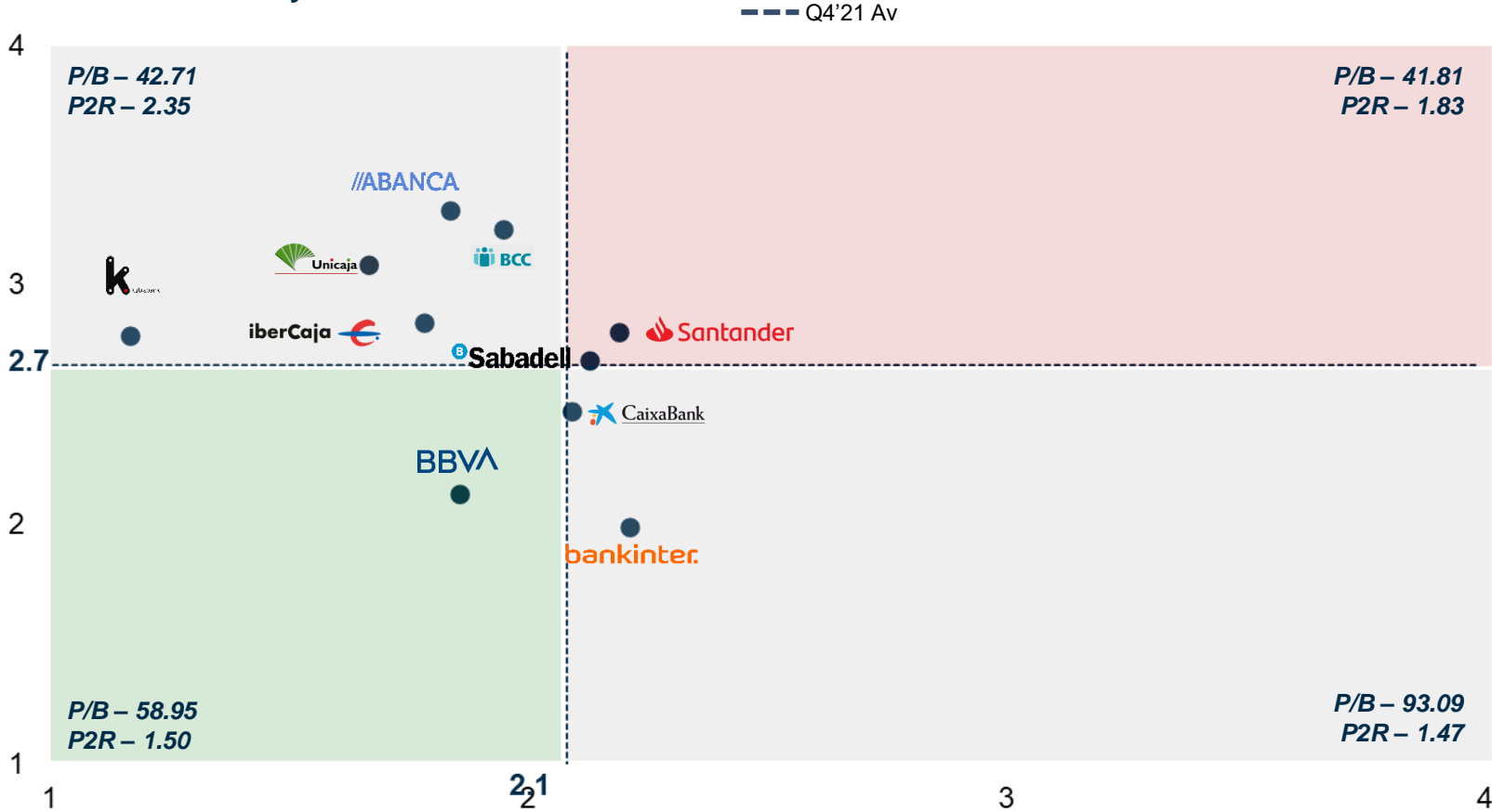
KEY TAKEAWAYS

- KBK shows the strongest CET1 Ratio, even though it had one of the largest drop in the group
- Only BCC has increased their CET1 Ratios during the last quarter
- The rest of the banks show declines, with CABK and KBK showing the largest drops among them
- Share buybacks are the main reason for the decrease in the CET 1 Ratio of CABK and BBVA. SAN also set its shareholder remuneration policy using share buybacks, but at a lower level

Note: Scaling and some numbers might not add up due to rounding
 Source: Financial statements, investor presentations, A&M analysis, SNL data on September 16th, 2022

Profitability and Balance Sheet Resilience

Business Profitability



KEY TAKEAWAYS

- Banks with a higher Business Profitability Scores (volume growth and P/L ratios) show lower supervisory P2R requirements and higher market P/B ratios
- BBVA outperformed in both Profitability and Resilience
- SAN and SAB are underperformers in both Profitability and Resilience
- CAXB and BKT have to improve its Resilience while the rest of the Banks have to improve their Profitability while keeping their strong resilience profile

Balance Sheet Resilience

Note 1: Business Profitability Scores and Balance Sheet Resilience Score as per page 4 scorecard scoring
 Note 2: P/B is price to book; P2R is Pillar 2 requirement from CNMV relevant facts
 Source: Financial statements, Investor presentations, A&M analysis, SNL data on September 16th, 2022

And the Q2'22 winners are...

For large banks...



1st



For small banks...



1st



Business Profitability



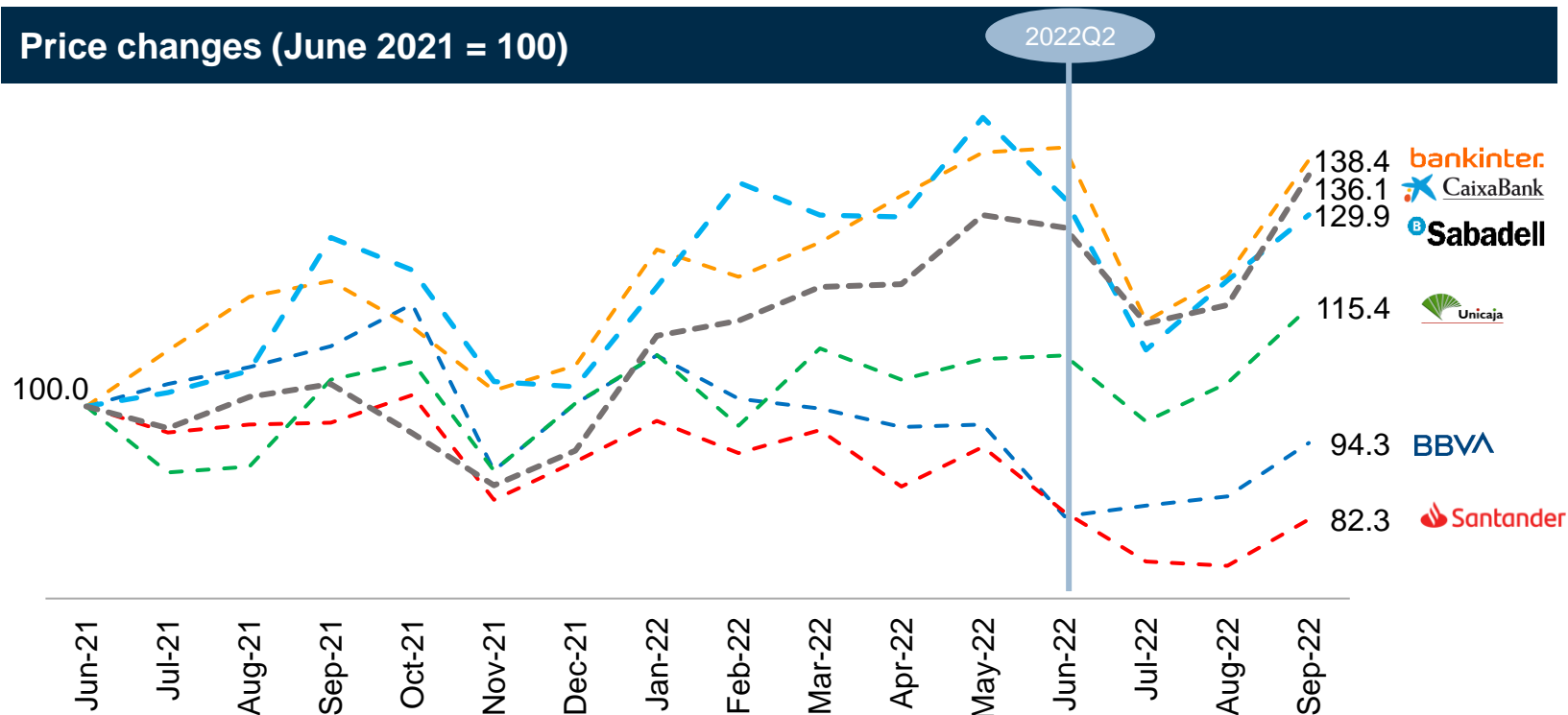
Balance Sheet Resilient



Note 1: by asset size.

Market Performance Q2 2022

Price changes (June 2021 = 100)



| Closing Price € | CABK | BBVA | SAN | SAB | BKT | UNI |
|-----------------|------|------|------|------|------|------|
| June 2021 | 2.59 | 5.23 | 3.22 | 0.57 | 4.24 | 0.87 |
| January 2022 | 2.88 | 5.64 | 3.15 | 0.68 | 5.28 | 0.93 |
| September 2022 | 3.53 | 4.93 | 2.65 | 0.75 | 5.87 | 1.00 |

KEY TAKEAWAYS

- The market performance of listed banks from June-2021 to date shows that in 2022 banks have recovered from a downward trend, with the winner being BKT, followed by CKB and SAB
- The worst performers were the largest banks, such as SAN and BBVA, which are lagging behind recovering their higher prices shown in early 2022

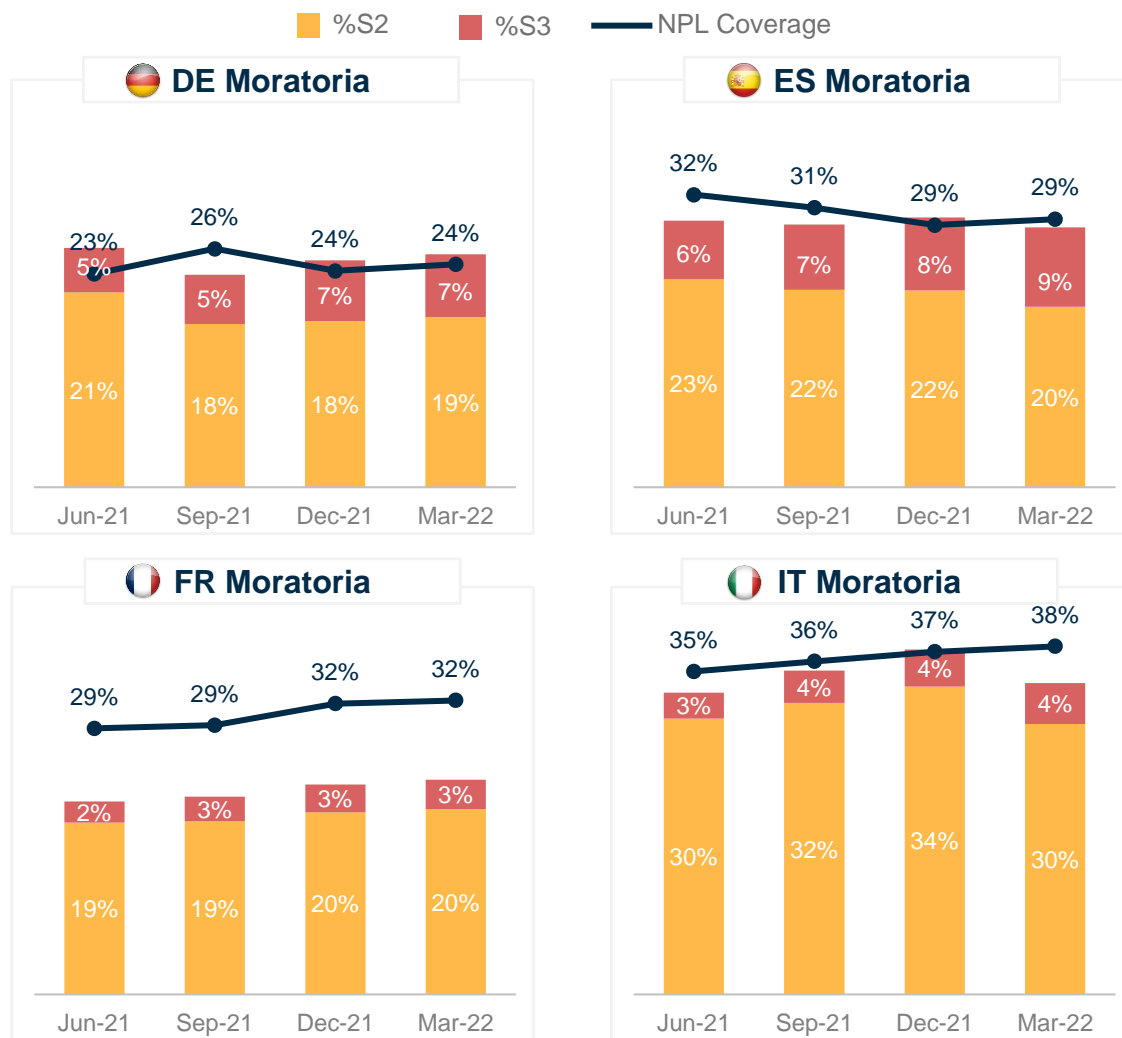


ANNEX – Trending Topics:

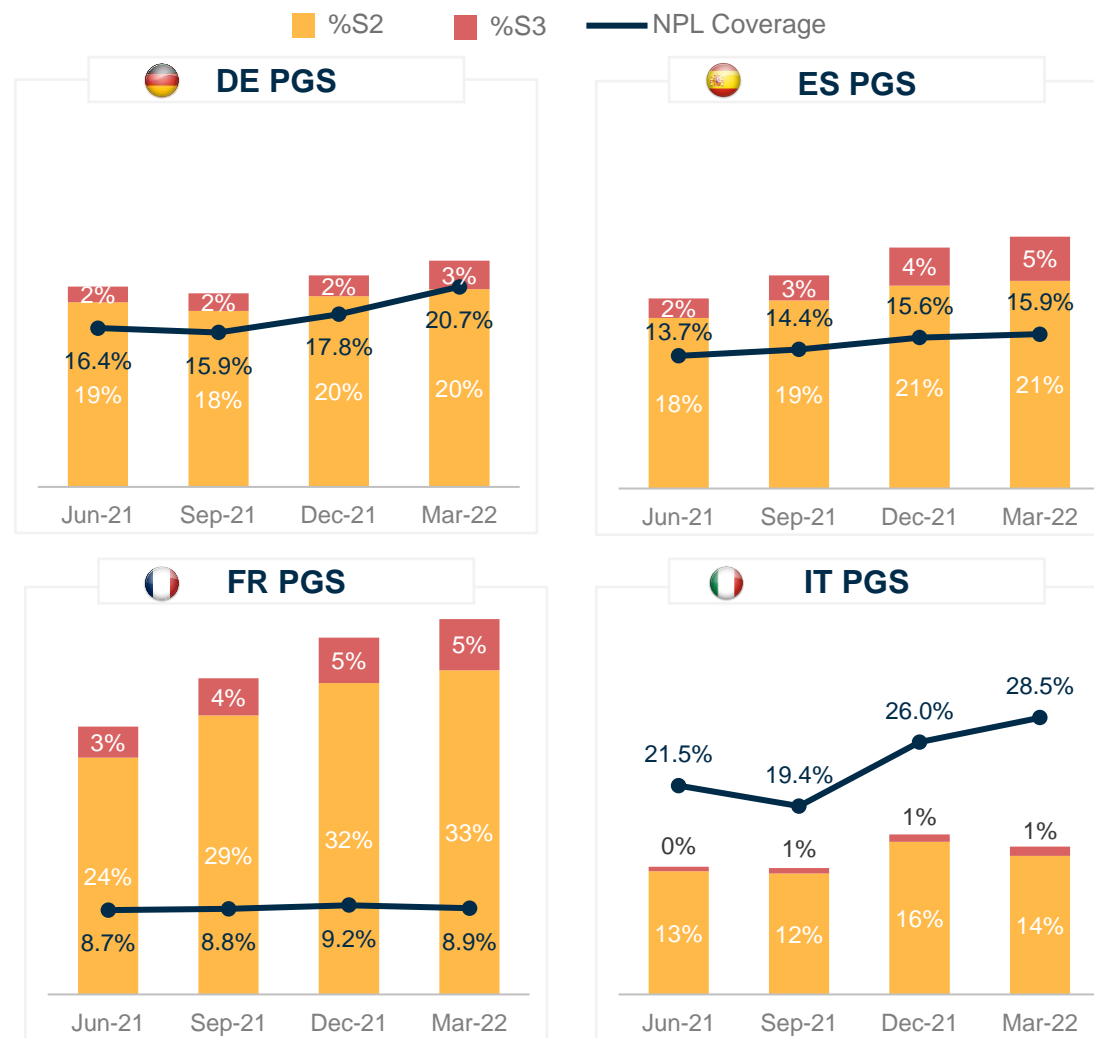
1. Moratoria and PGS
2. Costalypsis
3. ESG as a Business Opportunity

Moratoria & Public Guarantee Schemes

Moratoria (% per Stage)



Public Guarantee Schemes (% per Stage)



Spanish Banks will face 4 Cost Headwinds from 2023 and onwards



INFLATION

- YoY Inflation Rate in Spain has been constantly **rising since 2021 to levels above 10%** as of August 2022
- Drivers like the Ukrainian-Russian War, Supply Chain Disruptions and China are generating a very complex environment in Energy, Transportation and Food with **no visibility on return to normality**
- Banks will face **cost increases from contracts linked to Inflation** in their overheads and **wage pressure** from employees
- A&M estimates that the cost for the Spanish Banking Industry **could be €884 MM or 4.7% of the Cost Base**



RISK & BACK TO COMPLIANCE

- Rising Energy prices and Inflation on Consumer Goods and Services for certain Corporate Sectors and Household Segments will deteriorate debt repayment capacity over the coming year
- ECB measures of rising rates at an accelerated rate has set Euribor at 1.85% increasing Interest Costs of Corporate Loans and Mortgages
- ECB Back to Compliance requirements will mean higher cost of capital and margin pressure on margins
- **A&M has stressed CoR with its Energy-Inflation Tool and results indicate an impact of €2,985 MM raising the average CoR from 0.42% to 0.67%, plus an additional cost of capital cost of €331 MM**



GOVERNMENT LEVY

- In July 2022 the Spanish Government announced an extraordinary levy on Banks revenues with a total estimated impact of approx. €3 Bn over the coming two years
- Final details of the levy will cost banks 4.8% p.a. on their NIM + Fee Revenues of the coming next 2 years
- A special prohibition on direct pass-through to clients will mean that Banks will face an increased cost base during 2023-2024
- A&M estimates that the cost for the Spanish Banking Industry **could be €1,574 MM or 8.4% of the Cost Base for 2023**

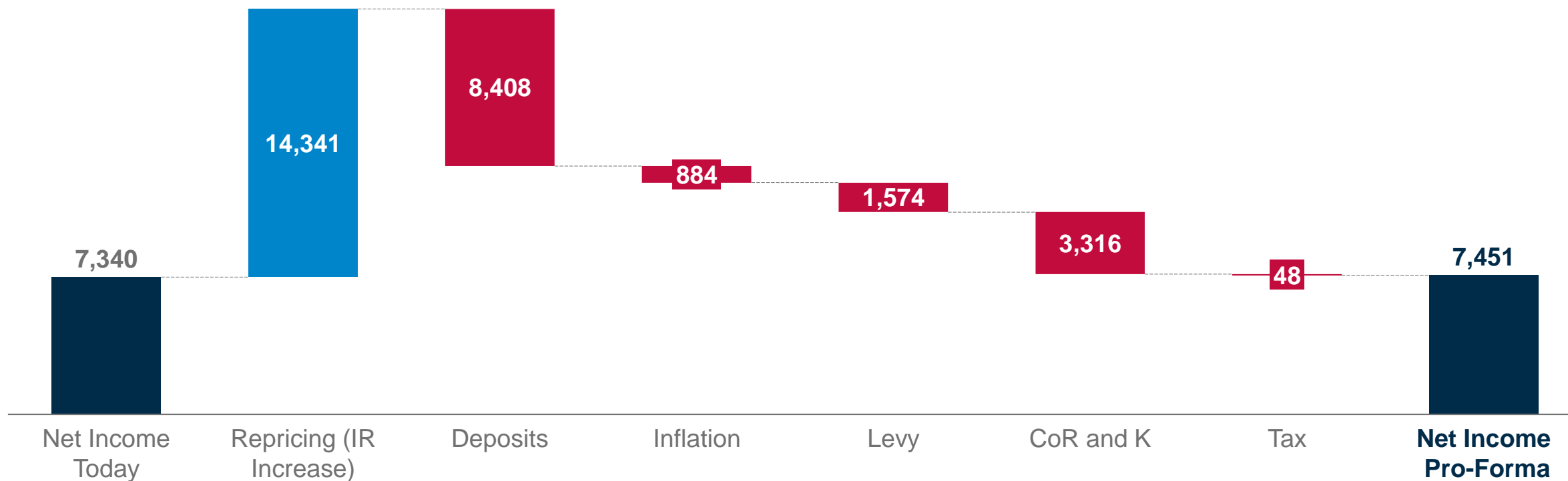


DEPOSIT COSTS

- Ultra-low interest rates have driven current accounts and deposits to zero for the last 2 years with customers having no return on their banking savings
- With inflation at double digit levels Euribor at 2% and Gov 1Y at 1.4% client pressure for deposit remuneration is starting to change the dynamics in savings pricing
- Deposit pricing strategies will erode partially the additional revenues to come from the depreciation of the Variable Rate Lending Book.
- A&M estimates **that up to 75% of the actual rate raise could be netted off by deposit pricing pressures** over the coming 2 years

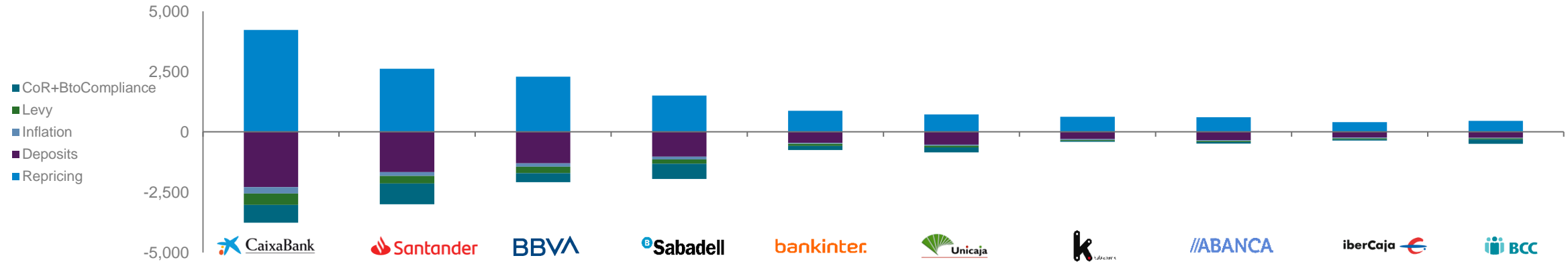
Sector Impact – Costs Delta could erode more than 90% of Repricing benefits from Interest Rates increase

Profit Waterfall (€ Bn) Spanish Banks

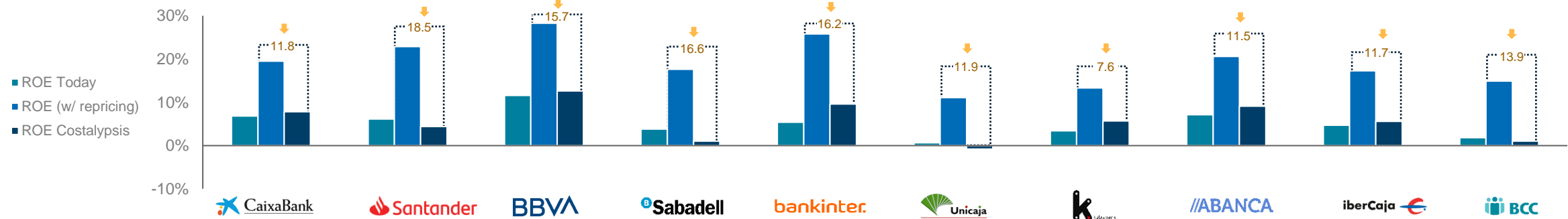


Banks' ROE increases from Repricing are at Risk and could stay at current levels

Impacts in Net Income (€ Bn)



ROE (%)



| | | | | | | | | | | |
|---------------------------|-------------|-------------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| ROE Today | 6.8% | 6.1% | 11.6% | 3.8% | 5.4% | 0.6% | 3.4% | 7.1% | 4.7% | 1.8% |
| ROE (w/ repricing) | 19.5% | 22.9% | 28.3% | 17.6% | 25.8% | 11.1% | 13.3% | 20.6% | 17.3% | 14.9% |
| ROE Costalypsis | 7.8% | 4.4% | 12.6% | 1.0% | 9.6% | -0.8% | 5.7% | 9.1% | 5.6% | 1.0% |
| ROE Delta | -11.8% | -18.5% | -15.7% | -16.6% | -16.2% | -11.9% | -7.6% | -11.5% | -11.7% | -13.9% |

Capitalizing on the ESG opportunity will require banks to combine multiple capabilities to connect supply of bank services with demand for corporate transition solutions

GREEN PACE

The winning formula, four attributes that will define the winners in sustainability

“ Revenue opportunities are migrating from product focused to client orientation strategies bundling bank solutions, insights and transition execution. Client win rate and margin protection are at stake. Digital and innovation are key drivers of differentiation.

[A&M Perspective](#)

GREEN P_{roducts}

Broad and sound sustainable financing + investment offering linked to decarbonisation KPIs and ambitious 2030 sustainable finance targets

Alignment to Net Zero

Credible net zero targets across lending portfolios with transparent emission reduction metrics using benchmarks and internal tooling

Client Orientation and Insights

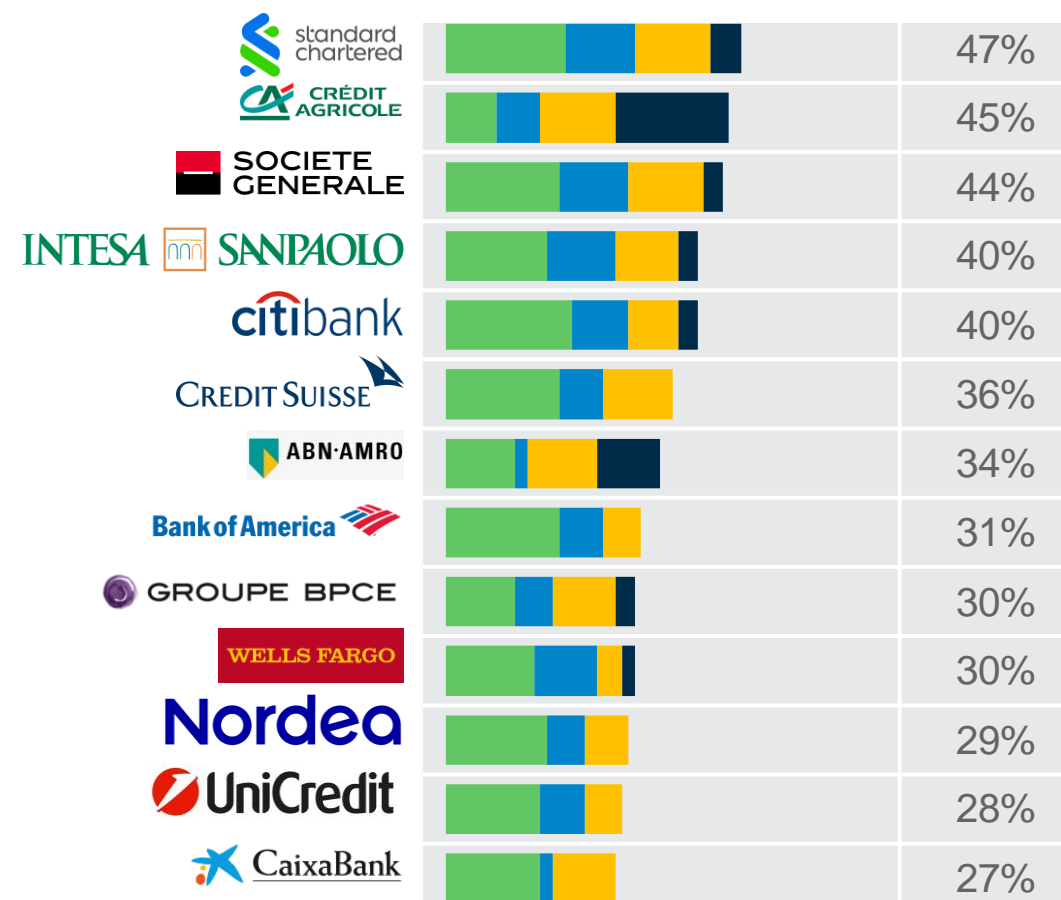
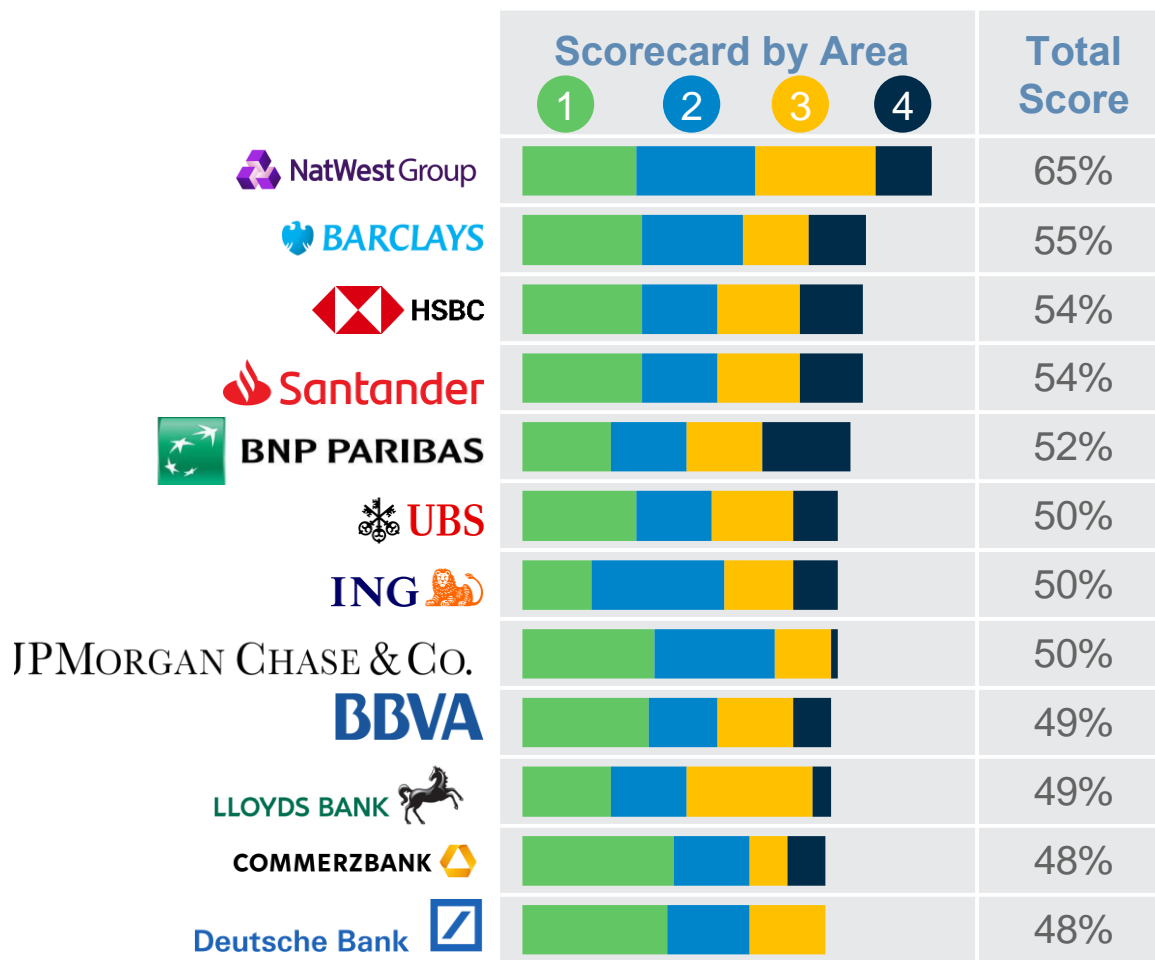
Transition advice and analytics linking client transition operational solutions with financial offer business case and customised insights

Execution of Transition Plans

Bank involvement in operational execution through climate tech investing, innovative joint ventures and digital platforms / marketplaces



Based on publicly available information, A&M has developed outside-in view scorecard of GREEN PACE attributes that allows to assess bank choices



GREEN Products



- Extensive green product offering across corporate, SME and retail clients including capital markets, lending and advisory solutions
- Disclosed green and sustainability financing product framework
- 2030 sustainable finance targets (total and by asset class) with progress reported
- Strong ambition in 2030 target levels (e.g., exceeding 50% of total assets)
- Track record in target delivery (2021 production exceeding target run rate)

Leading Banks

- 1 **COMMERZBANK** 
- 2 **Deutsche Bank** 
- 3 **JPMORGAN CHASE & CO.**
- 4 **BBVA**
- 5 **citibank**

€13 Trillion 2030

Bank Sustainable Finance Target

Top 25 European and US banks have committed €13 Trillion of sustainable finance as targets by 2030. 4 top US banks account for €5.5 Trillion while 17 European banks have targets for €7.3 Trillion. 2030 sustainable finance targets represent 37% of total bank assets

€295 Bn

ESG Revenue Opportunity Pool

ESG revenue pools for the next decade could amount up to €293 Bn for the global banking Industry. A&M estimates the following business line breakdown:

- Credit spread on green and sustainable lending products – €215 Bn
- Origination, structuring and execution fees of DCM green and sustainable bonds - €28 Bn
- Carbon markets trading solutions - €14 Bn
- Advisory services on climate investments -€23 Bn

Alignment to Net Zero



- Articulation of net zero targets for financed emissions across portfolios
- Strong target coverage based on number of portfolios and % of assets
- Net zero target disclosures include absolute / relative emissions data, assumptions, pathways, data scorecards and client transition strategies
- Portfolio alignment proprietary tools (e.g., BlueTrack, Terra, CarbonCompass)
- Net zero target set at more aggressive levels than peer average

Leading Banks

- 1 **ING**
- 2 **NatWest Group**
- 3 **JPMORGAN CHASE & Co.**
- 4 **BARCLAYS**
- 5 **Deutsche Bank**

| Overall Scorecard | Energy | | | Industry | | Real Estate | | Transportation | | |
|-------------------|--------|-------------|-------|----------|-------|-------------|-----|----------------|----------|----------|
| | Coal | Oil and Gas | Power | Cement | Steel | Residential | CRE | Auto | Aviation | Shipping |

| | Total Goal | % Coverage | Coal | Oil and Gas | Power | Cement | Steel | Residential | CRE | Auto | Aviation | Shipping |
|---------------------------------|--------------|------------|------|-------------|-------|----------|----------|-------------|------|----------|----------|----------|
| BARCLAYS | | | ✓ | ✓ | ✓ | ✓ | ✓ | 2023-24 | | 2023-24 | | |
| LLOYDS BANK | -50% by 2030 | | ✓ | ✓ | ✓ | | | | | ✓ | | |
| NatWest Group | | 53% | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| HSBC | | | ✓ | ✓ | ✓ | | | | | | | |
| standard chartered | | 48% | ✓ | ✓ | ✓ | | ✓ | | | | | |
| COMMERZBANK | | | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | |
| Deutsche Bank | | | ✓ | ✓ | ✓ | | ✓ | | | ✓ | | |
| CREDIT SUISSE | | | | ✓ | | | | | | | | |
| UBS | | 43% | ✓ | ✓ | ✓ | | | ✓ | ✓ | | | |
| BNP PARIBAS | | 7% | ✓ | ✓ | ✓ | | | | | ✓ | | |
| GRUPE BPCE | | | ✓ | ✓ | | | | | | | | |
| CRÉDIT AGRICOLE | | | ✓ | ✓ | | End 2022 | End 2022 | End 2022 | 2023 | End 2022 | ✓ | 2023 |
| SOCIÉTÉ GÉNÉRALE | | | ✓ | ✓ | ✓ | 2024 | 2023 | 2023 | 2023 | 2023 | 2024 | ✓ |
| BBVA | | | ✓ | | ✓ | End 2022 | ✓ | ✓ | | ✓ | | |
| CaixaBank | | | ✓ | | | | | | | | | |
| Santander | | | ✓ | ✓ | ✓ | | ✓ | | | | ✓ | |
| INTESA SANPAOLO | | 60% | ✓ | ✓ | ✓ | | | | | ✓ | | |
| UniCredit | | | ✓ | | | ✓ | ✓ | | | | | |
| ABN-AMRO | | | ✓ | | | | | | | | | |
| ING | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Nordea | -40% to -50% | | ✓ | | | | | | | | | ✓ |
| JPMORGAN CHASE & Co. | | | ✓ | ✓ | ✓ | | | | | ✓ | | |
| citi | | | ✓ | ✓ | ✓ | | | | | | | |
| BANK OF AMERICA | | | ✓ | | | | | | | | | |
| WELLS FARGO | | | ✓ | ✓ | ✓ | | | | | | | |

Client Orientation and Insights



- CO2 footprint tracking tools provided to multiple client segments
- Transition planning analytics provided to clients (transition playbooks, assessment, benchmarks, cost-benefit analysis of transition solutions)
- Dedicated ESG experts and ESG client advisors
- Extensive internal training
- Dedicated ESG research teams and regular ESG insights customised for clients

Leading Banks

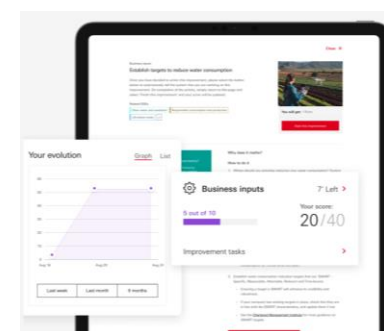
- 1 **LLOYDS BANK**
- 2 **NatWest Group**
- 3 **HSBC**
- 4 **UBS**
- 5 **Santander**

LLOYDS BANK

| | |
|-------------------------------|---|
| Commercial Real Estate | <ul style="list-style-type: none"> • Client access to green Building Tool to evaluate CO2 footprint reduction opportunities and identify/optimize retrofit plans and energy efficiency savings |
| Agriculture | <ul style="list-style-type: none"> • Support for clients to measure their carbon footprint, through the UK's three leading carbon calculator tool providers, access to agriculture transition research, tree and hedge planting and discounted lending |
| SMEs | <ul style="list-style-type: none"> • Practical five-step guide for SMEs to help them address the risks and embrace the opportunities of net zero including access to business playbooks |
| Homes | <ul style="list-style-type: none"> • Home Energy Saving Tool / Eco Home Hub to help retail customers understand what energy efficiency improvements they can make to their home including personalized action plan with estimates of EPC rating, energy costs and CO2 emissions |
| Electrical Vehicle | <ul style="list-style-type: none"> • Sustainability Curve Policy Tool, and supporting analysis, is used to support bespoke engagement with clients to help identify the most suitable vehicles to transition to low emission transport, based on their fleet and usage |
| Supply Chain | <ul style="list-style-type: none"> • Supporting innovation in supply chain solutions by joining Coriolis, a consortium of trade and ESG experts, to develop standard ESG scoring, and partnering with Resilinc to support clients in tracing the ESG risks of their supply chain |

HSBC

| | |
|---------------------------|--|
| Corporate and SMEs | <ul style="list-style-type: none"> • HSBC UK has launched a Sustainability Assessment Tool that provides actionable insights and resources to help businesses transition to net zero. HSBC's tool helps businesses design the sustainability plan, with recommendations specific to each industry. The tool assist clients to identify operational efficiencies and reduce costs as well as build knowledge and understand how you they can contribute to sustainable goals |
|---------------------------|--|



Execution of Client Transition



- Direct equity investments in climate tech and sustainable venture capital
- Innovative partnerships with industrial partners to accompany clients in execution
- Digital platforms / marketplaces to provide scalable client transition solutions (e.g., real estate transition hubs, carbon marketplaces, etc.)
- Initiatives to promote circular economy solutions
- Client transition planning progress monitoring and benchmarking

Leading Banks

- CRÉDIT AGRICOLE
- BNP PARIBAS
- HSBC
- Santander
- ABN-AMRO

Climate Tech Venture Capital

| | Capital Committed | Capital Deployed |
|---------------------|-------------------|------------------|
| 1. BNP PARIBAS | €450mn | - |
| 2. ABN-AMRO | €425mn | €175mn |
| 3. CRÉDIT AGRICOLE | €300mn | - |
| 4. HSBC | \$250mn | \$100mn |
| 5. BARCLAYS | £175mn | £54mn |

Joint Venture / Partnerships

| | |
|-------------|----------------|
| HSBC | Walmart |
| COMMERZBANK | KfW |
| Santander | eit InnoEnergy |
| | TESCO |
| | enel |
| | WAY CARBON |













Marketplaces and Digital Platforms

Circular Economy

GLOSSARY



Scope

| Bank | | Assets Q2'22 (€ Bn) | Comments |
|--|------|---------------------|--|
|  CaixaBank | CABK | 661 | With Bankia Pro-Forma |
|  BBVA | BBVA | 432 | Only Spanish Business |
|  Santander | SAN | 508 | Only Spanish Business, since December 2021 countries include CIB business and MREL costs, therefore a Pro-Forma was included |
|  Sabadell | SAB | 202 | Only Spanish Business |
|  bankinter. | BKT | 111 | - |
|  //ABANCA | ABA | 80 | - |
|  Unicaja Banco | UNI | 115 | Includes Liberbank Pro-Forma |
|  k kutxabank | KBK | 67 | - |
|  iberCaja  | IBJ | 60 | - |
|   BCC | BCC | 62 | - |

Glossary

| | Metric | Abbreviation | Definition |
|-------------------------------|--|--------------|--|
| Size | Loans and Advances Growth | | QoQ growth in EOP net loans and advances for the top 10 |
| | Deposits Growth | | QoQ growth in EOP customer deposits for the top 10 |
| Liquidity | Loan-to-Deposit Ratio | LDR | (Net EOP loans and advances / EOP customer deposits) for the top 10 |
| Income & Operating Efficiency | Operating Income Growth | | QoQ growth in aggregate quarterly operating income generated by the top 10 |
| | Operating Income / Assets | | (Annualized quarterly operating income / quarterly average assets) for the top 10 |
| | Non-Interest Income / Operating Income | | (Quarterly non-interest income / quarterly operating income) for the top 10 |
| | Net Interest Margin | NIM | (Aggregate annualized quarterly net interest income) / (quarterly average earning assets) for the top 10 Earnings assets are defined as total assets excluding goodwill, intangible assets, and property and equipment |
| | Yield on Credit | YoC | (Annualized quarterly gross interest income / quarterly average loans & advances) for the top 10 |
| | Cost of Funds | CoF | (Annualized quarterly interest expense + annualized quarterly capital notes & tier I sukuk interest) / (quarterly average interest bearing liabilities + quarterly average capital notes & tier I sukuk interest) for the top 10 |
| | Cost-to-Income Ratio | C/I | (Quarterly operating expenses / quarterly operating income) for the top 10 |
| Risk | Coverage Ratio | | (Loan loss reserves / non-performing loans) for the top 10 |
| | Cost of Risk | CoR | (Annualized quarterly provision expenses net of recoveries / quarterly average gross loans) for the top 10 |
| Profitability | Return on Equity | RoE | (Annualized quarterly net profit attributable to the equity holders of the banks – annualized quarterly capital notes & tier I sukuk interest) / (quarterly average equity excluding capital notes) for the top 10 |
| | Return on Assets | RoA | (Annualized quarterly net profit / quarterly average assets) for the top 10 |
| | Return on Risk-Weighted Assets | RoRWA | (Annualized quarterly net profit generated / quarterly average risk-weighted assets) for the top 10 |
| Capital | Capital Adequacy Ratio | CAR | (EOP tier I capital + tier II capital) / (EOP risk-weighted assets) for the top 10 |

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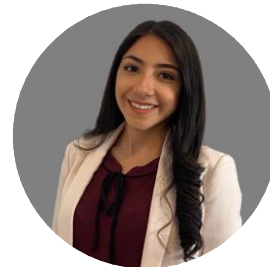


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