ANALYSIS OF THE SPANISH BANKING SECTOR

AUGUST 2022

Results H1 2022

Accuracy

glossary

The following terms and abbreviations have been used throughout this document:

%	Percentage
€	Euro
£	Pound
$	US Dollar
ALCO	Asset Liability Committee
b	Billions
bps	Basis points
c.	Circa
CDS	Credit Default Swap
CET 1	Common Equity Tier 1)
CIR	Cost-Income Ratio
CO2	Carbon Dioxide
CoR	Cost of Risk
CPI	Consumer Price Index
ECB	European Central Bank
EPA	Encuesta de Población Activa [Spanish Labour Force Survey]
ESG	Environmental, Social and Governance
Fed	Federal Reserve System
GDP	Gross Domestic Product
ICO	Instituto de Crédito Oficial [Spanish Official Credit Institute]
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística [Spanish National Statistical Institute]
m	Millions
n.a.	Not available
NPL	Non-Performing Loans
OECD	Organisation for Economic Cooperation and Development
pts	Percentage points
Q1	First Quarter
ROE	Return on Equity
ROTE	Return on Tangible Equity
US	United States

contents

01 Executive Summary

The Spanish banking sector continues to improve its results, and faces uncertainties regarding its resilience.

Macro scenario

Overcoming the shock of Covid – at least from an economic perspective – the Euro area predicted a scenario of accelerated and prolonged growth. Improvements in the supply chain, substantial household savings and a good tourism season supported this thesis. However, the **supply shock** in key raw materials due to the **Ukraine War** has pushed the CPI up to levels not foreseen last year (10.8% in Spain in July). The projected baseline scenario suggests CPI rates above 4% in the Euro area until the end of 2023, a negative impact on household consumption, and on GDP, which will see less growth than had been expected in the coming quarters.

The various central banks are offering a range of responses. While the Fed has **repeatedly raised rates** to levels close to 2%, the ECB waited until early July to make the first increase of 50bps, marking the end of the era of negative rates in the Euro area. The first consequence is more expensive banking products and reduced purchasing power for Spanish households, which will have an impact on consumption.

Finally, the **labour market** proved robust up to June. The EPA data (as at 30 June) show hiring across all sectors, consolidating payroll numbers above 20 million. However, the July unemployment data reveal a decline in hiring. We will have to wait for the next few months to confirm whether this is simply a slowdown or there is a negative trend in employment.

Positive banking sector results continue in second quarter

Business continues to grow steadily: increasing volumes across all lines of business, widening margins and higher commission revenues make for stronger first quarter data and underpin a year that, barring disaster in the following quarters, will be an improvement on 2021.

Source: IMF – World Economic Outlook (June 2022); OECD – Economic Outlook & Inflation Forecast (June 2022); INE – Press releases: Consumer Price Index (CPI) Leading Indicator (June 2022); Eurostat – CPI monthly data (annual rate of change) (June 2022); Accuracy Analysis

01 Executive Summary

In addition, **default rates continue to improve**, with the sector averaging slightly above 4%. This is coupled with a decrease in the volume of loans under special surveillance (~€145b in the consolidated accounts of the 6 banks analysed). Such an improvement places banks in a strong position in facing up to possible increases in defaults over the coming months.

Challenges for the banking sector

In the **short term**, banks must navigate the environment of macro uncertainty in anticipation of the typical problems of a slowing economy: **Lower volume** of credit portfolios, **higher default rate** or **lower fees** could impact their bottom line in the coming quarters.

Meanwhile, we must not overlook the **underlying trends** affecting the banking industry, which demand the mobilisation of a great many resources and the acquisition of new capacities: (i) the inclusion of **climate change risks** in their decision-making processes. The report published by the ECB with the findings for the last financial year shows progress, but also areas for improvement in attaining the desired standards. Greater collaboration with customers to obtain the necessary information, the inclusion of such risks in investment decision-making and better calibration of measurement models are key points to work on over the next two years. (ii) the challenge of **digitalisation.** Improving efficiency ratios even further means being able to provide all kinds of services via mobile applications.
(iii) the disruption of **integrated banking and Decentralised Finance**. Adapting and facing up to new players is the key to not losing market share.

Finally, banks must address these challenges from a competitive position undermined by the **new banking tax**, which will have an **impact of between €1.339b and €1.478b** on the bottom line of the 6 banks analysed in the coming years.

Our conclusion: Spanish banks once again strengthened their financial position during the quarter, allowing them to address short-term uncertainties and underlying trends from a position of relative strength. A very likely slowdown in the economy should not jeopardise highly positive results in 2022.

Source: IMF – World Economic Outlook (June 2022); OECD – Economic Outlook & Inflation Forecast (June 2022); INE – Press releases: Consumer Price Index (CPI) Leading Indicator (June 2022); Eurostat – CPI monthly data (annual rate of change) (June 2022); Accuracy Analysis

02 Macroeconomic outlook

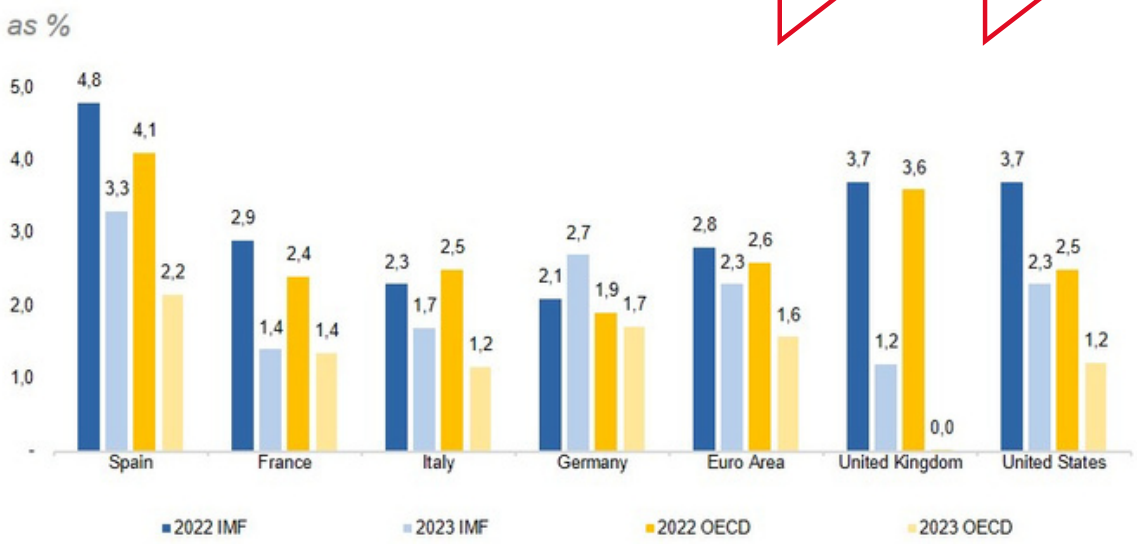
A sharper slowdown in European economies suggests an autumn of uncertainty...

Downward adjustments to GDP prospects by most international bodies continue, with forecasts of a global economic slowdown. Spain is affected by the sharp rise in CPI, although a strong tourism season and the increase in payroll numbers are keeping the spectre of recession at bay in 2022.

The war in Ukraine is the main concern for the European economy as it prepares for a winter of potential energy cuts if Russia turns off the gas tap. A scenario which would have a direct impact on industrial output and negative effect on GDP prospects for the second part of 2022 and the start of 2023.

Spain will have to adjust its consumption, although to a lesser extent given its limited dependence on Russian gas (7%-8% of total imports). Although no direct cuts are expected to affect industrial output, in such a scenario the economy would be affected by a rise in prices, impacting the competitiveness of the Spanish business sector, with an indirectly negative impact on GDP.

GDP forecast, 2022 and 2023



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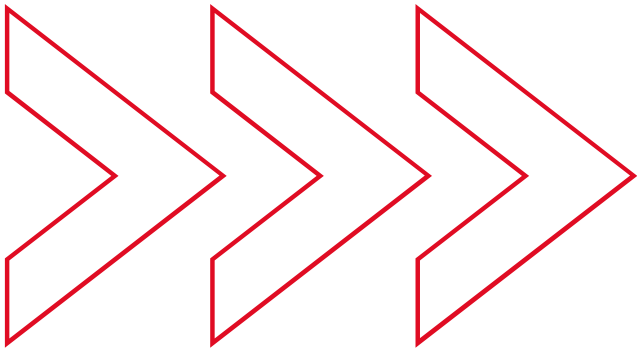
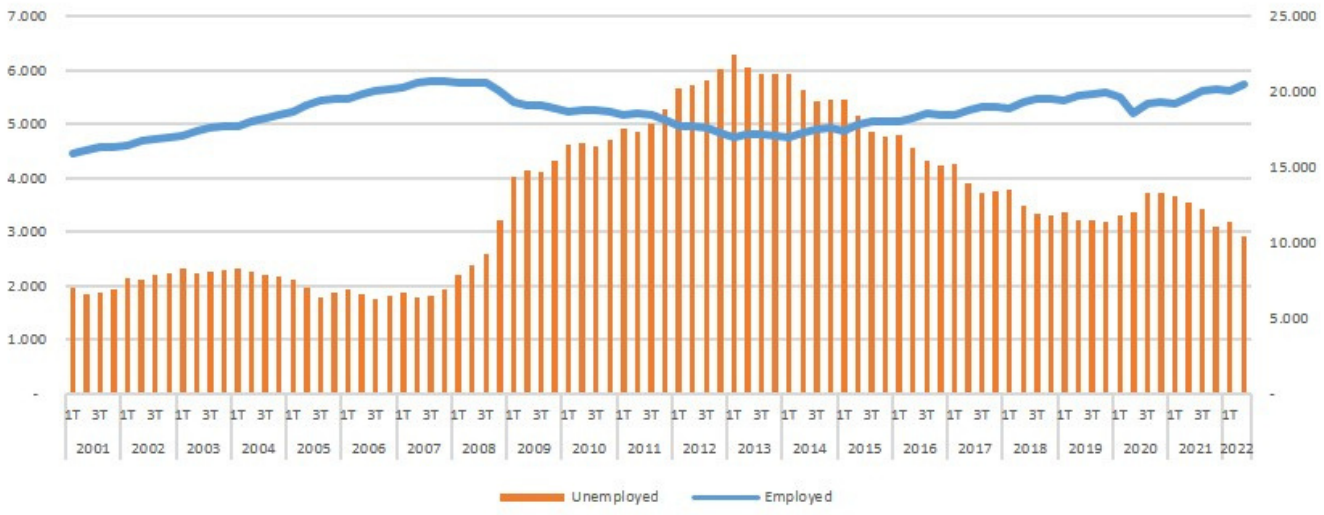
02 Macroeconomic outlook

Meanwhile, employment data in Spain at the close of June continue to reveal a positive trend, both in seasonal sectors such as hospitality, and in more cyclical sectors such as industry. While the July data show a slight increase in unemployment, the payroll number remains stable above 20 million. This positive development during the six-month period allows the banking industry to face the end of the year with moderate optimism regarding the evolution of its business. The aim of increasing volumes and containing the default rate during the second part of the year is feasible if we couple these employment figures to the savings built up by Spanish households



Evolution of Social Security Registrations and Unemployment in Spain



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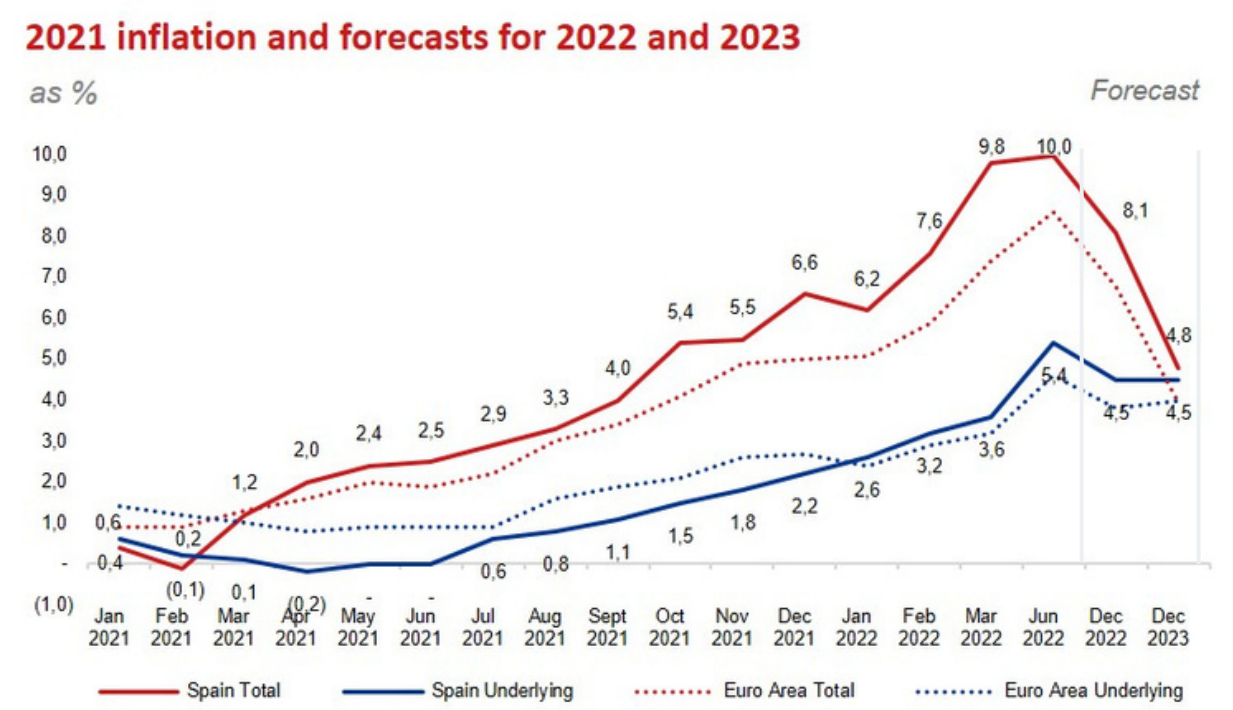
... with the CPI expected to plateau and Spain to maintain good annual GDP growth.



The main consequence of the war in Ukraine has been a **reduction in the supply** of numerous raw materials – oil, gas, cereal, fertilisers, aluminium, etc. This shock very quickly pushed up already rising prices, and impacted on the real economy of households via inflation: 8.9% in the Euro area, 10.8% in Spain (data for July).

Have we seen the CPI peak? Will the CPI fall back sharply or remain high for some time?

•Prices for **raw materials** began to slowly **decline** this second quarter, in June. In the case of copper, the fall on the financial markets is 38%.

•**Interest rate rises** will reduce the consumption capacity of businesses and households. A pertinent question would be: how effective is this rate rise in draining demand when faced with a supply shock?

•The main central banks have set different paces. The Fed raised rates repeatedly, to 2%-2.25% at the end of July, at full employment in the country. Meanwhile, the ECB waited until July for the first 50 bps hike, bringing interest rates out of negative territory. Too late? While inflation in Europe is imported, the dollar's appreciation increases inflationary pressure on the Euro area, forcing the ECB to act in line with its primary mandate.

Source: IMF – World Economic Outlook (June 2022); OECD – Economic Outlook & Inflation Forecast (June 2022); INE – Press releases: Consumer Price Index (CPI) Leading Indicator (June 2022); Eurostat – CPI monthly data (annual rate of change) (June 2022); Accuracy / ProRealTime analysis – Price of Gas and Oil futures.

This rate rise scenario is already being reflected in banks' bottom lines through increased margins, coupled with continued growth in their business. The unknown factor to be resolved over the next 12 months is the impact of this rate hike and the economic slowdown on bank business volumes and the default rate. Nonetheless, **Spanish banks** face these uncertainties from a **position of relative strength after years of improvements in the main indicators.**

Evolution of Gas Price – Jan 2018 Jun 2022

Evolution of Oil Price - Jan 2018 Jun 2022

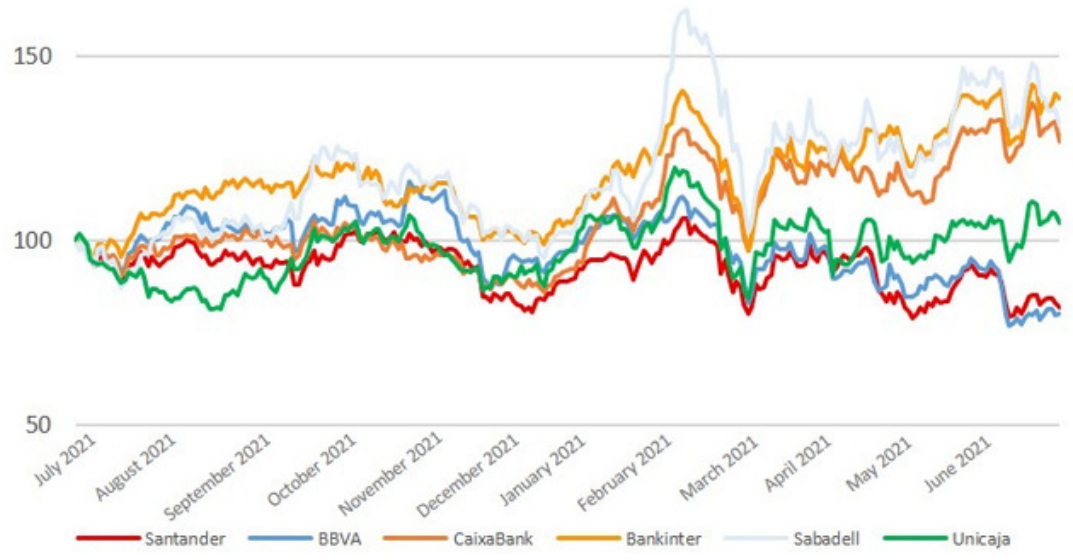
Source: IMF – World Economic Outlook (June 2022); OECD – Economic Outlook & Inflation Forecast (June 2022); INE – Press releases: Consumer Price Index (CPI) Leading Indicator (June 2022); Eurostat – CPI monthly data (annual rate of change) (June 2022); Accuracy / ProRealTime analysis – Price of Gas and Oil futures.

03 Results, First Half 2022

1.Consolidated Results

Evolution of price per share

Base 100 – 1 July 2021



Stock market capitalisation has seen similar volatility to the market itself, with a rising CDS.

Over the past year, Bankinter (38.4%), Sabadell (31.0%) and CaixaBank have seen notable growth (+26.9%).

Bankinter is resurgent, following the 10% decline in March 2022 due to the decoupling of LíneaDirecta from the share price, showing very positive annual growth.

Santander and BBVA face a double-digit decline, with both banks' share prices following a similar path.

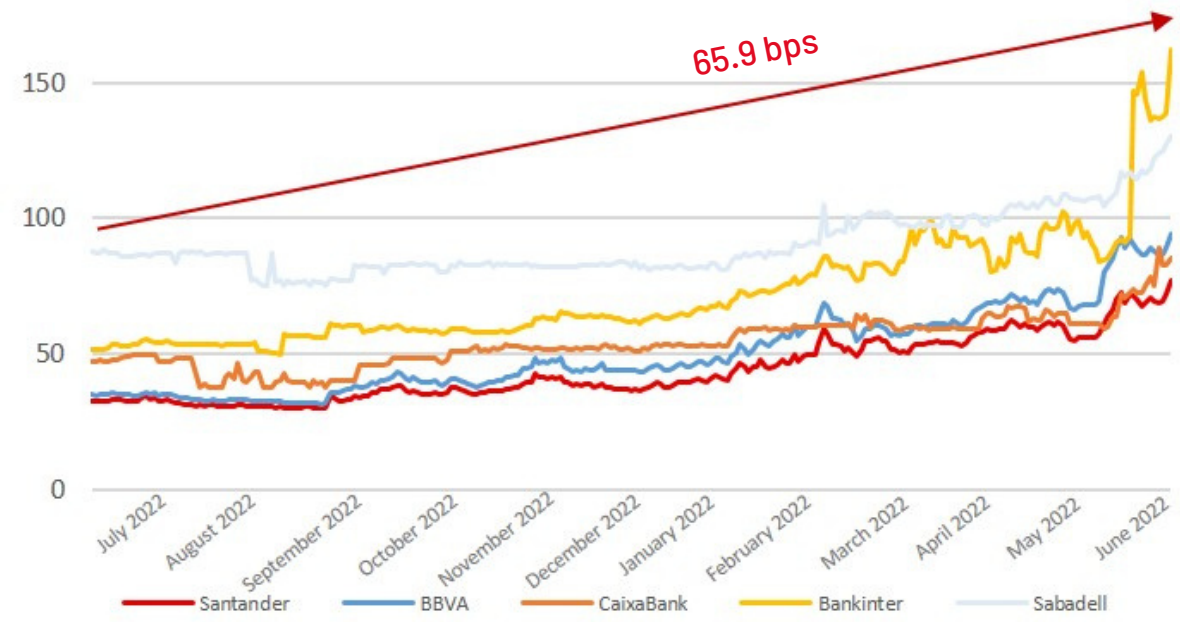
Neutral outlook for the coming months. There are forces pushing the price upwards (ECB rate hikes) and others pushing it down (new banking tax).

Source: S&P Capital IQ

03 Results, First Half 2022

1.Consolidated Results

Evolution of Credit Default Swap (CDS) price



Increase in CDS spread across all banks analysed over the last year (average 65.9bps).

The rise in risk premiums, the sharp increase in the Euribor and the increased cost of insuring debt against default in recent months has caused CDS to climb.

Other causes likewise linked to the higher spreads are (i) increased geopolitical uncertainty, and (ii) a weaker macroeconomic situation, mainly due to inflation that may slow economic growth and cause the default rate to rise.

By contrast, there has been no change in the credit rating of Spanish banks that could underpin a long-term trend.

Source: S&P Capital IQ

Overall positive progress in banking:

The increase in interest rates and bank asset prices is favouring the increase in the spreads of the Spanish banks analysed.

Fees remain a very important item explaining the positive evolution of gross margins.

Banks with high exposure abroad have seen greater increases in their margins as rates have risen faster in Brazil and the UK than in the Eurozone.

While **Santander** maintains a stable efficiency ratio, there are substantial improvements at **BBVA** and **CaixaBank**, whose costs have risen significantly less than their margins. **BBVA** has reduced the number of branches in Spain since 2016 by 43%.

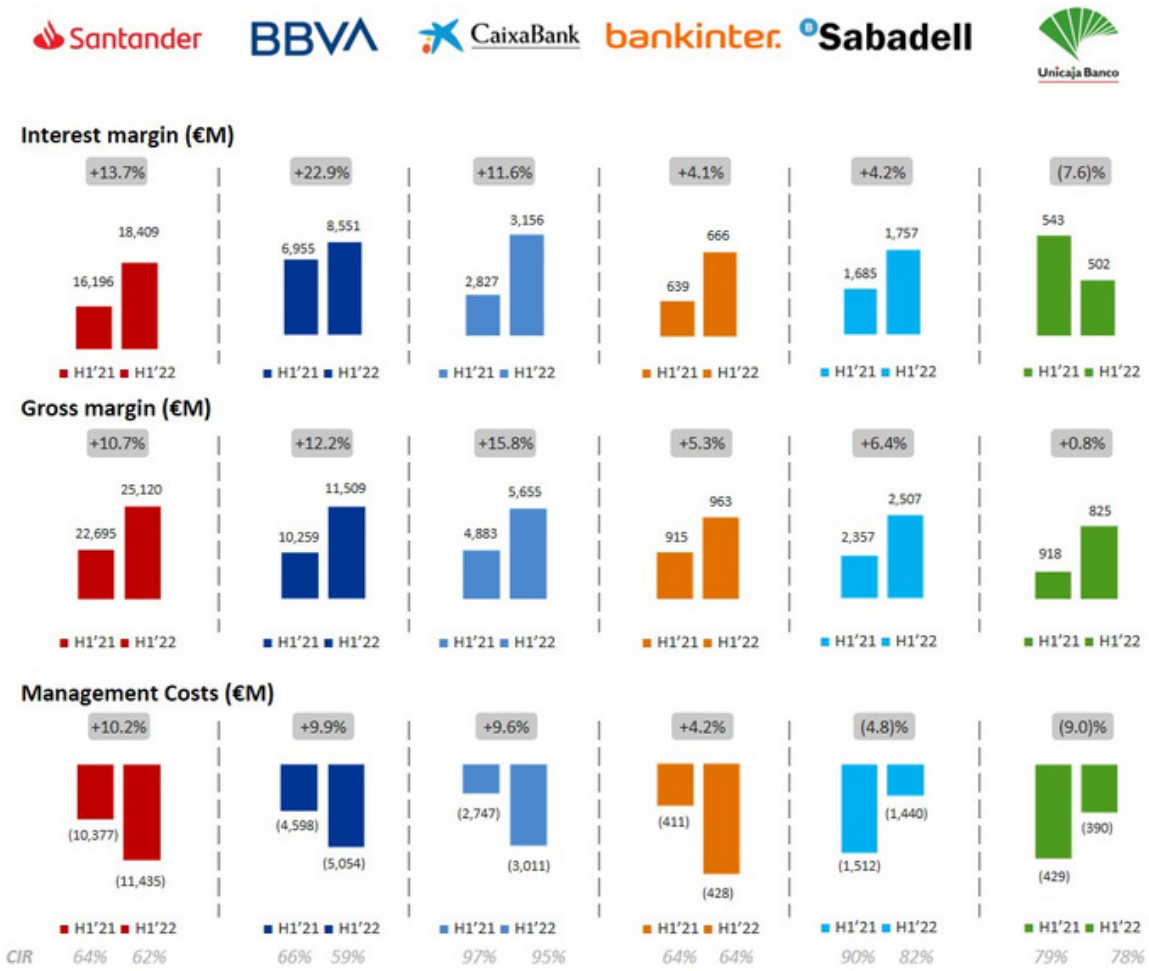
CaixaBank reveals interest margin growth of 11.6%. However, we see a negative shift of (1.8)% between the first and second quarters of 2022.

Bankinter reveals an improvement in its gross margin (5.3%), mainly due to the increase in interest margin (4.1%), representing 69% of its income.

Sabadell has seen an improvement in its interest margin (4.2%), supported by the ALCO portfolio (49%) and customer margins (46%), as well as higher fees in the means of payment business.

Unicaja registered a 7.6% decline in interest margin, partly explained by a significant decline in the promotion and corporate business.

Margin growth driven by ECB rate hikes and rising Euribor.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

Variable progression of banking sector results:

Santander experienced significant growth in the SCIB (Santander Corporate & Investment Banking) business globally (+28%), underpinning moderate growth in its profitability metrics.

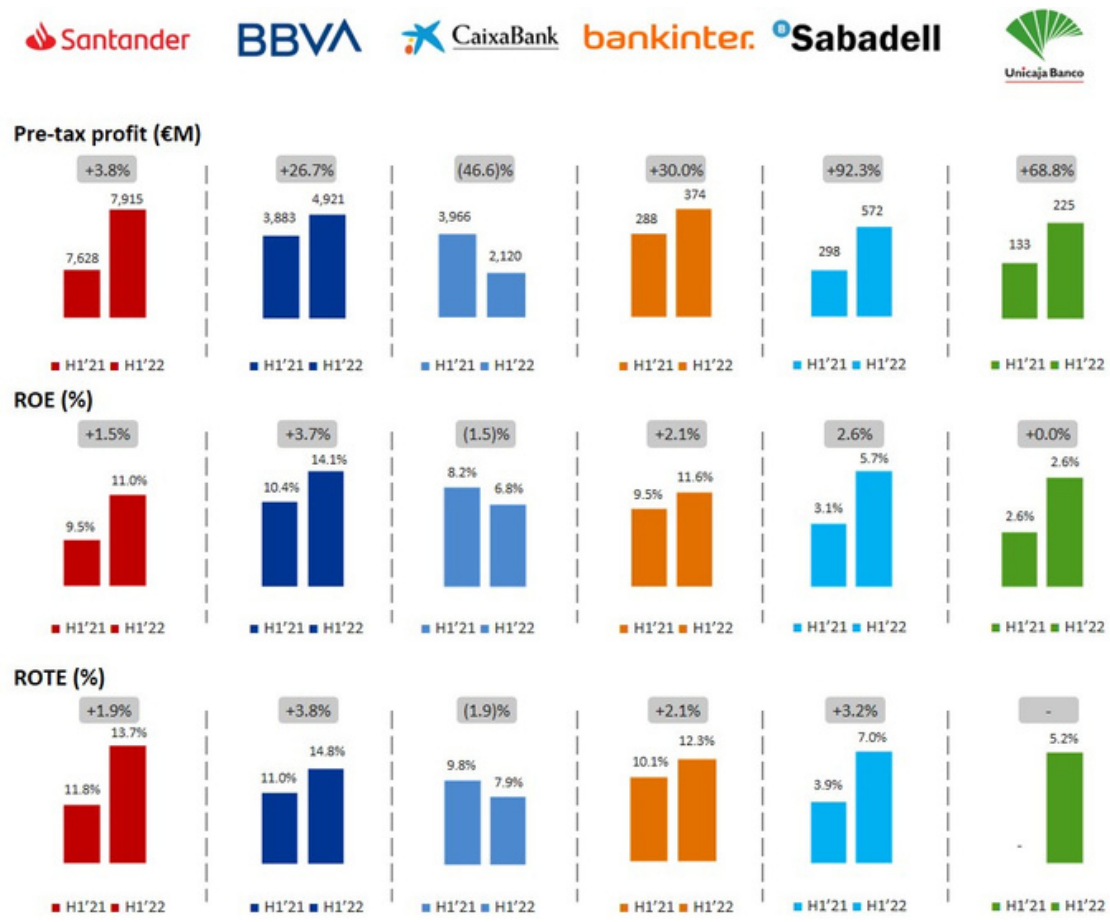
BBVA has seen a sizeable increase in its pre-tax profit (26.7%), due to recurring revenue from new customers:
5.3 million new customers, 55% of them via the digital channel.
Caixabank reveals a lower pre-tax result ((46.69)%), explained by the exceptional entry booked for asset write-offs of €4.3b in 2021. The life insurance business grew by 36.2% to 209m. It has also seen improved efficiency through synergies in personnel costs and reduced provisions.

Bankinter has experienced positive pre-tax profit growth (30.0%), explained by growing volumes in all its businesses and the attraction of considerable retail resources. The ROE has also returned to double digits following the sale of LíneaDirecta.

Sabadell has increased its pre-tax profit by 92.3%, supported by all items (interest margin, fees and reduced provisions). It has also strengthened its models for identifying priority customers to be granted loans in corporate banking. 76% this quarter.

Unicaja registered a significant increase in pre-tax results (68.8%), explained by an improvement in net fees and a reduction in branches of (28)%, and in staff of (15)%.

...underpins the positive progress in key profitability metrics at Spanish banks.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

Positive progress in solvency:

Spain's banks are constantly improving their solvency and already repeatedly exceed the 12% threshold.

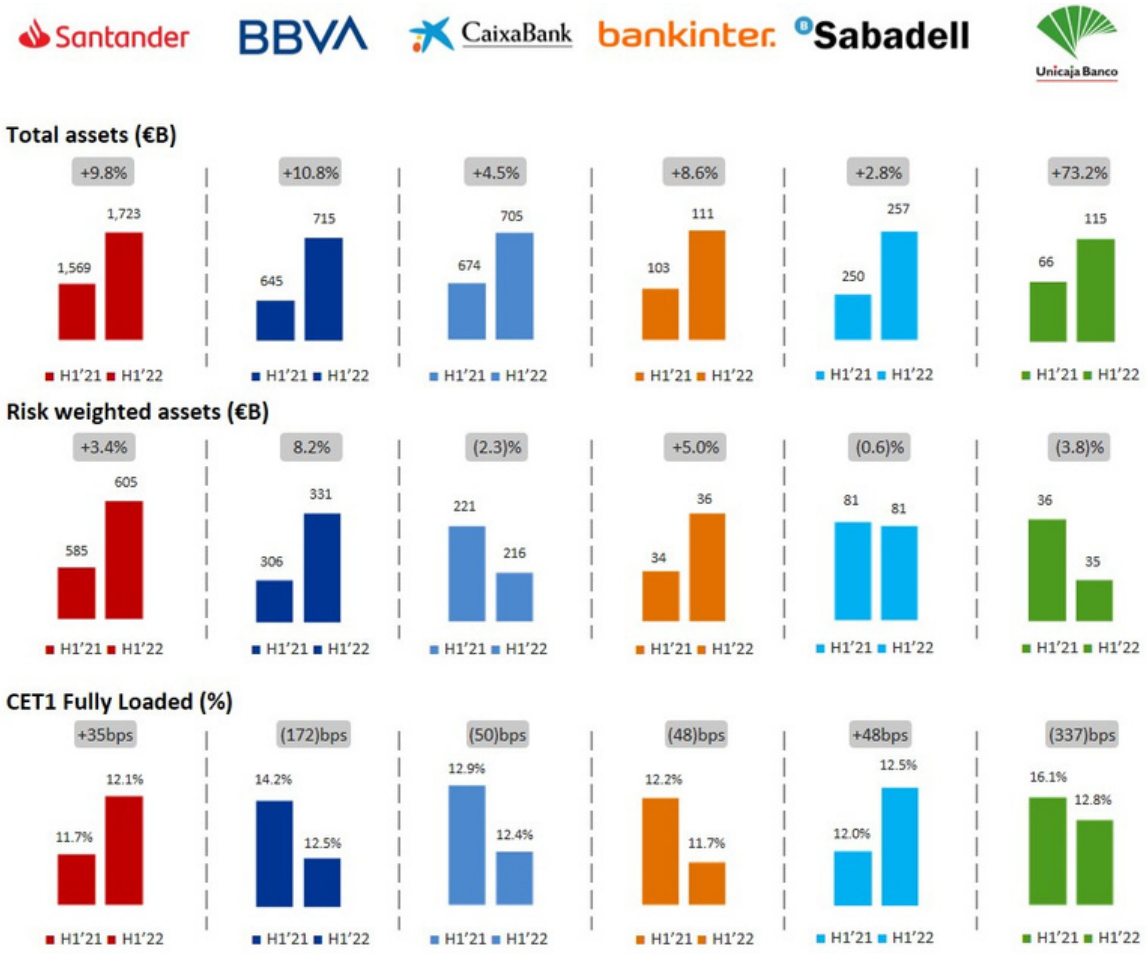
Santander has increased its business across all channels and its total assets have risen by €154m compared to the first half of 2021. Its volumes are also driven globally by an increase in mortgages.

BBVA reveals in its comparison an increase in its total assets (10.8%) both due to an increase in loans to customers and an increase in its cash.
Caixabank shows a moderate (4.5%) increase in volumes, focused on consumer and business credit. The decrease in CET1 ((50)bps) is due to the increase in risk-weighted assets and the accrual of dividends.

Bankinter. It reveals a slight decline in CET1((48)bps) due to the increase in risk-weighted assets and equity and fixed income valuation adjustments.
Sabadell's business remains stable. It reveals a volume of assets of €111m supported by the 12% increase in consumer credit and means of payment (>20%). Its CET1 is likewise stable (48bps). Organic generation counteracts fair value portfolio valuation adjustments.

Unicaja **reveals an increase in its total assets (73.2%) due to an increase in customer and cash loans.**

Increase in traditional banking business accompanied by improved solvency ratios.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

Drop in the default ratio and reduction in the cost of risk:

The "non-performing" (NPL) secondary market is enabling banks to divest their non-strategic assets effectively, reducing their credit risk and their need for capital.

The variation in the recognition of provisions differs among the different banks, and is not directly marked by business growth. The presence in different geographical regions and the policies of each bank steer the expansion or contraction of this item.

Santander has increased the recognition of insolvency provisions to €4.7b, reducing the default rate and risk cost. The sale of NPL portfolios has helped reduce the default rate.

BBVA has improved in all three metrics, reducing its provisions by (8.8)%.

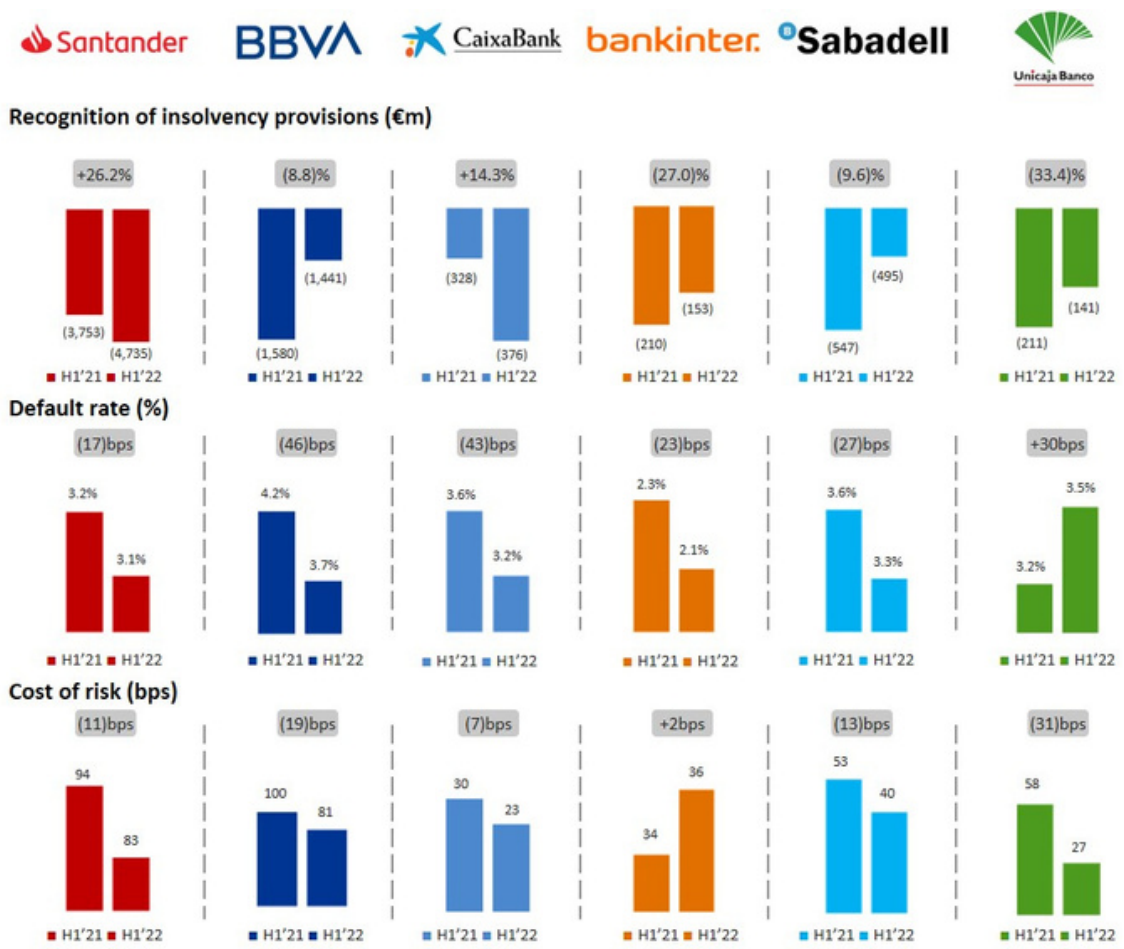
Caixabank has a default ratio of 3.2%, below the sector average (4.0%), having reduced the level in all business lines. The decrease in the default rate is supported by a continued decrease in cost of risk over recent quarters.

Bankinter has seen a general decrease in the default ratio, even in the corporate sector.

Sabadell reveals a slight increase in ICO loan defaults (6%) and a reduction in default due to the sale of portfolios.

Unicajamaintains a default rate of 3.5%, with corporate sector defaults at 5.8%.

General decrease in the default ratio and decrease in the cost of risk at the main Spanish banks.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

There is a slight reduction in the total loan balance under special surveillance at the aggregate level compared to last quarter. The situation of customers impacted by the pandemic has been clarified, allowing part of the portfolio to be reclassified to Stage 1.

Reduction in the total volume of loans at Stage 3, which has an increase of €496m. This reduction has occurred in many cases due to the sale of NPL portfolios by banks in the first half of the year, a market that has proved highly active especially in the consumer lending segment.

The NPL market is expected to remain active in the second part of the year, albeit with different asset classes. Following divestment of the consumer side, we expect to see more mortgage and SME portfolios (with and without collateral).

Although not reflected on the balance sheet of the big 6 banks, an upturn in defaults (7.1% in June 2022) and greater use of revolving cards for consumer spending among lower-income households is now becoming apparent. This could be a foretaste of an upturn in payment defaults in the final quarter of the year.

Slight decrease in loans to customers classified at Stage 2 and Stage 3.

In millions of Euros	Santander	BBVA	CaixaBank	bankinter.	Sabadell	Unicaja Banco	Total
Stage 2 (special surveillance risk)	66,138	32,341	29,477	2,693	13,614	3,554	147,817
Stage 3 (non-performing risk)	34,259	14,597	11,758	1,705	5,714	1,962	69,995
Total Phase 2 + Phase 3	**100,397**	**46,938**	**41,235**	**4,398**	**19,328**	**5,516**	**217,812**

Note: Consolidated data

Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

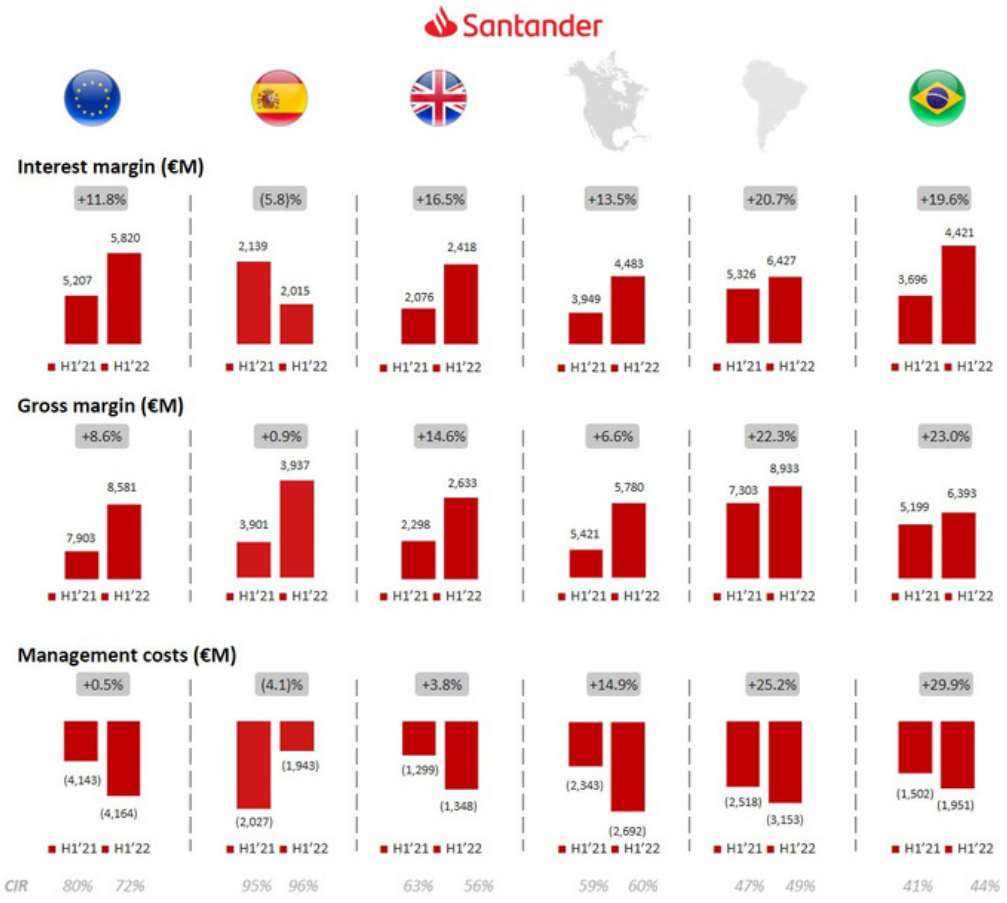
2.Results by Geographical Region

Santander – General improvement in margins and increase in efficiency ratio.

The considerable diversification of Banco Santander allows it to maintain **sustained growth in margins**, leveraging operations in geographical regions where rate rises are reflected in the first half of 2022:

•Growth in **Europe** (11.8%) is largely due to net mortgage production in the UK and rising rates there.
•**Spain** reveals a 5.8% decrease in interest margin due to credit and the ALCO portfolio.
•In contrast, in the UK gross margin growth is 14.6%, both due to widening margins and business growth.
•**North America** continues to grow steadily (20.7%), mainly due to the more than 1m new customers attracted in Mexico.
•**South America** remains the region contributing the greatest interest margin to the group (€6.4b), as also for gross margin. It benefits from a rate environment conducive to banking business, and also from customer growth, particularly in Brazil and Chile.
•**Brazil** remains the country contributing the most, exceeding €6b gross margin, with less than half of the assets of Spain, for example. Meanwhile, it has seen a significant increase in costs due to inflation and pay rises over the last year.

Increased efficiency, visible especially in Europe, Spain and the UK. Progress in the bank's digitalisation process is serving to lower management costs in relative terms.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022
Note: Santander Europe includes Santander Spain and Santander UK. Santander South America includes Santander Brazil

2.Results by Geographical Region

Santander – Diverse profitability according to the geographical region analysed.

Profitability growth and improved ratios depend on geography:

•**Europe** reveals the highest relative growth in pre-tax profit (37.2%), largely explained by Spain's pre-tax profit growth. However, the ROTE for the continent falls short of double digits.

•In **Spain**, the significant growth in pre-tax results (76.7%) is explained by other operating results and a reduction in the insolvency provisions.

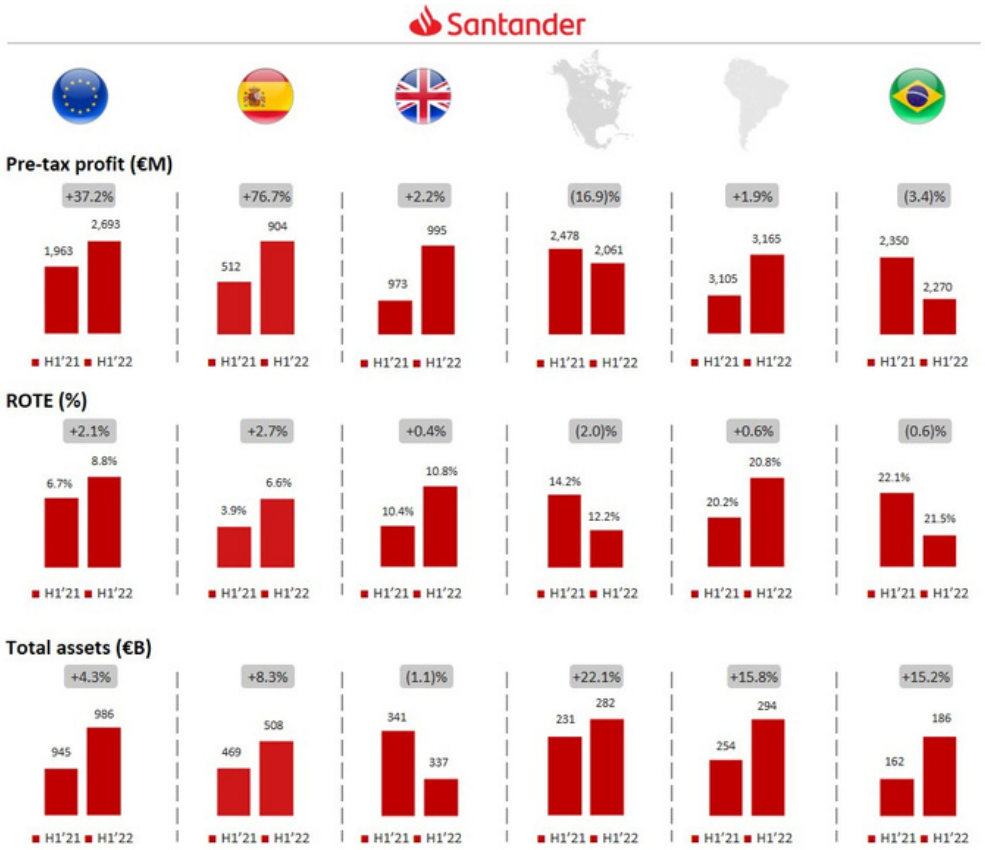
•**United Kingdom** remains stable compared to its comparison with the first half of 2021 (2.2%).

•**North America** has seen its results shrink (16.9%) due to higher costs and a downturn in the US business with the loss of customers linked to retail banking.

•**South America** has the best profitability ratios, approaching or exceeding 20% in all countries. Business growth is very significant in South America (11%) and supports the increase in volume, despite the increase in expenses in Brazil.

•**Brazil** contributes 28.7% to the consolidated pre-tax result.

The **increase in business** on all three continents has been mainly supported by mortgage growth in the UK and new lending in Mexico (+€40m) and Brazil (+€941m).



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022
Note: Santander Europe includes Santander Spain and Santander UK. Santander South America includes Santander Brazil

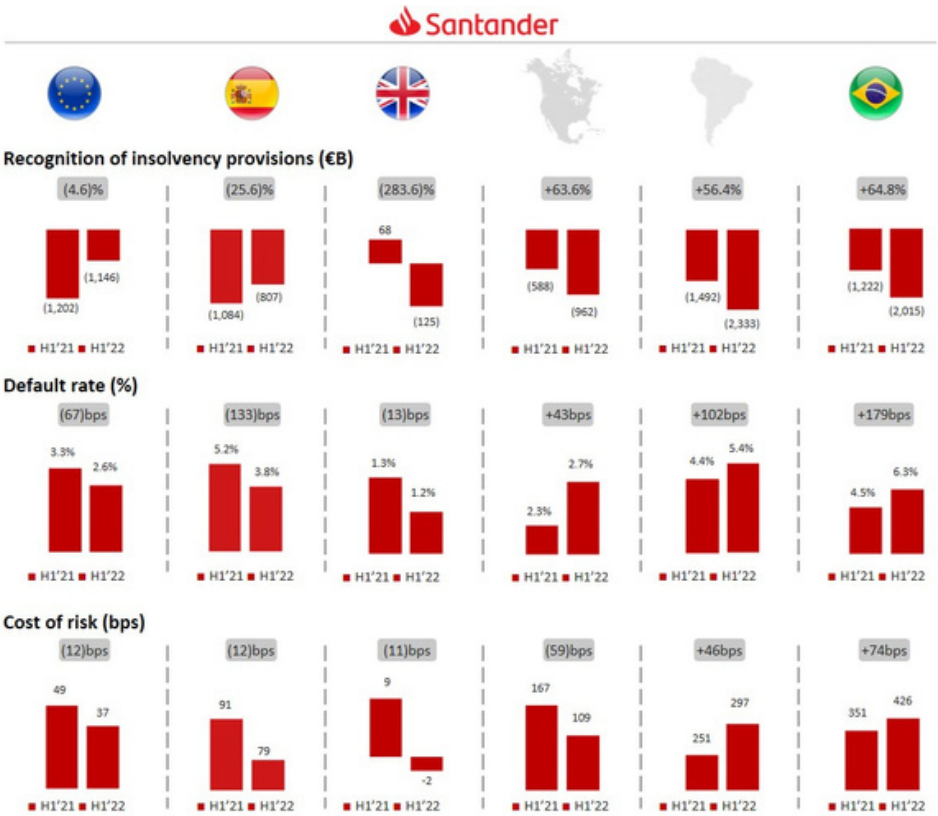
2.Results by Geographical Region

Santander - Differentiated evolution in provisions and default rates in accordance with the specific characteristics of each country.

The recognition of insolvency provisions and the default rate, as well as the cost of risk, **depend on geography:**

•**Europe** has experienced a small decrease in the recognition of insolvency provisions ((4.6)%) linked to the decrease in the default rate and risk cost.
•**Spain** reveals a decrease in the default ratio of 25.6% thanks to the sale of "non-performing loan" (NPL) portfolios.
•The **UK** default rate has fallen to 1.2% and the cost of risk is now negative.
•**North America** has registered a 43bps year-on-year upturn in the default rate, mainly due to the worsening US retail business.
•**South America** reveals an increase of €1m in the provisions for insolvencies, largely explained by Brazil.
•In **Brazil**, the cost of risk has risen (74bps) because of risk linked to unsecured individual customers.
Cost of risk management indicates a better situation than estimated in the first half of 2021, except in South America, where the situation is the opposite, especially due to Brazil.

We may conclude that the situation is getting worse in countries where interest rates are high and, together with other factors such as inflation, they are beginning to drain the payment capacity of economically disadvantaged households.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022
Note: Santander Europe includes Santander Spain and Santander UK. Santander South America includes Santander Brazil

2.Results by Geographical Region

BBVA & Sabadell – Positive margins at both banks, with a significant increase in foreign geographical regions.

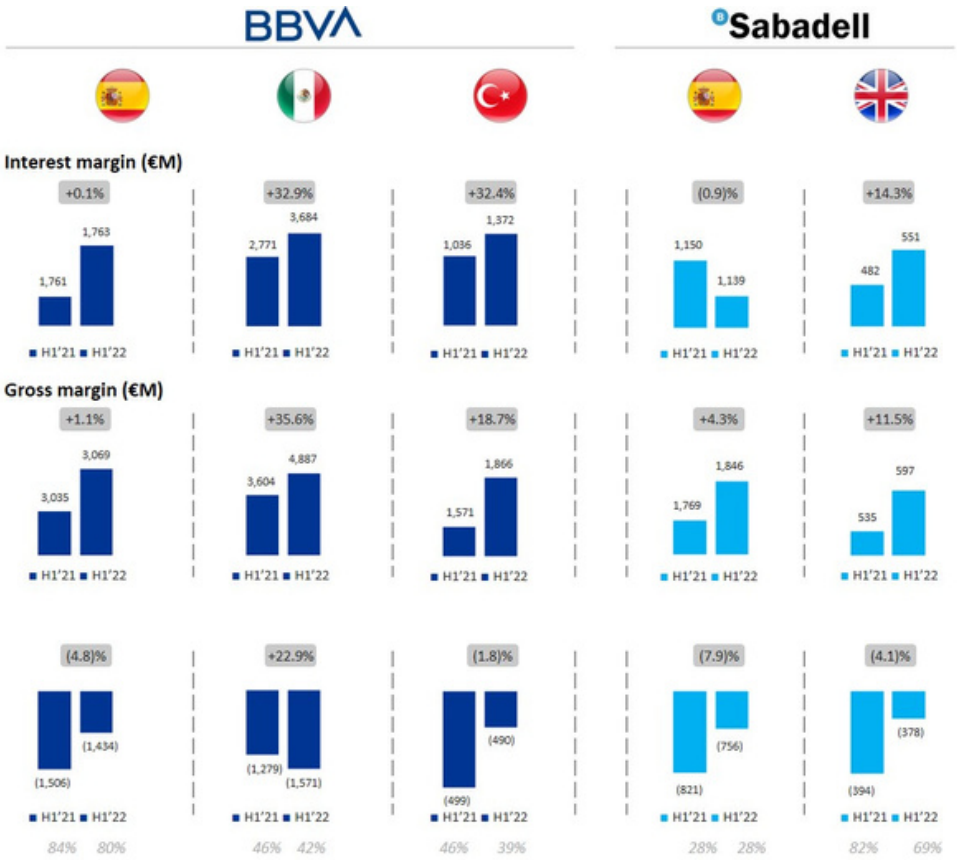
BBVA has improved its gross margin in all its geographical regions, albeit with minor nuances:

•In **Spain**, growth is greater in percentage terms in loans to companies of all sizes. There has been a 4bps increase in the cost of deposits, reducing the customer margin by 2bps.
•**Mexico and Turkey** have clearly improved their interest margin (32.9% and 32.4% respectively) and increased their fees, with double-digit growth.

Efficiency is key for **BBVA**, the Spanish bank that first committed to digital transformation and improved management costs, and is dedicated to digital channels for 4 key factors: (i) service provision (ii) attracting new customers (iii) product sales and (iv) financial advice.

BBVA's positioning in emerging countries is achieving results, with growth in margins.

Banco Sabadell shows variations in its two main geographical regions:
•In **Spain**, gross margin reveals positive growth of 4.3%, accompanied by a reduction in management costs of 7.9%.
•In the UK (TSB), it has experienced double-digit growth in both margins. There has also been 8% growth in mortgages.
•The **UK** has likewise seen a 4.1% reduction in management costs.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

2.Results by Geographical Region

BBVA & Sabadell – Significant increase in profitability at both banks, with growth in volumes.

At **BBVA**, pre-tax profitability has risen in all 3 major geographical regions:

•In **Spain**, where there was no margin growth, both the reduction in costs and a reduction in the provision for insolvencies underpin a significant improvement in pre-tax results, with an increase of 43.7%.

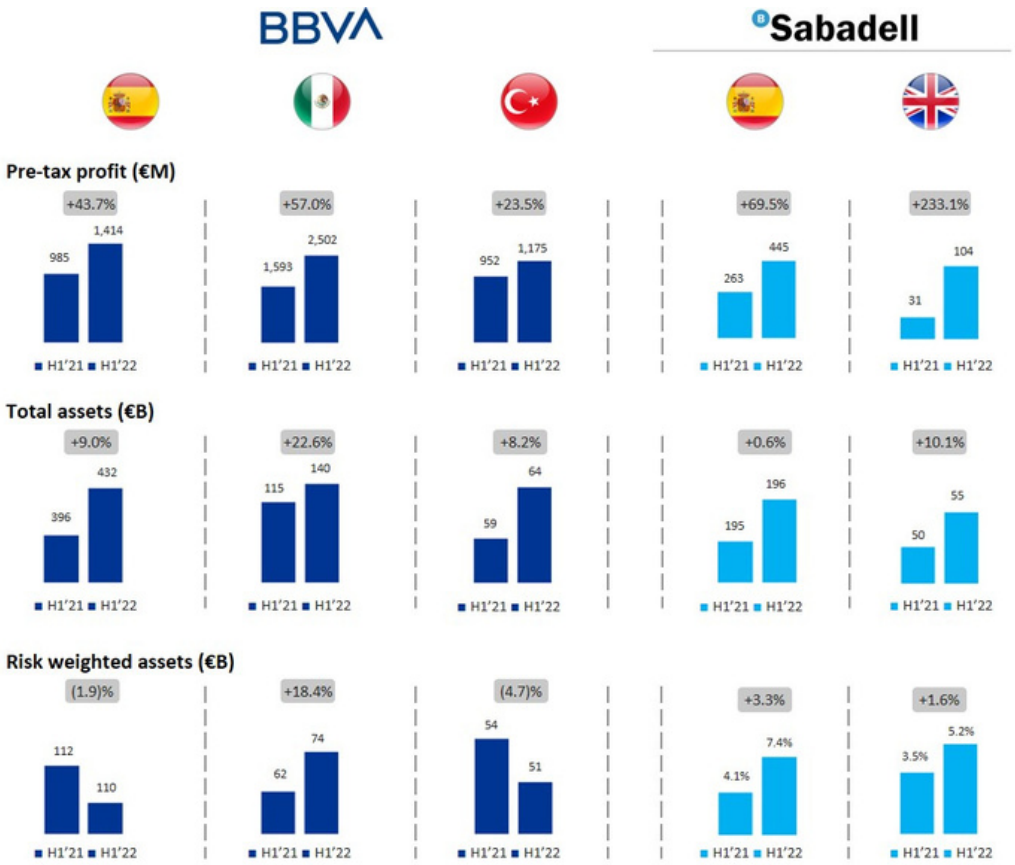
•**Mexico and South America** are the geographical regions that contribute the most in absolute value to the bottom line. Mexico has registered double-digit business growth which, together with the increase in rates, explains the increase in profitability seen.

•In **Turkey**, pre-tax results have been adjusted downwards due to hyperinflation.

Banco Sabadell, meanwhile, has significantly increased pre-tax results compared with the same period in 2021:

•**Spain** reveals a very positive increase in the pre-tax result (69.5%), explained by a reduction in the insolvency provisions of €139m. This reduction was made possible by the improved collection prospects of the investment portfolio.

•In the **UK**, improved revenues and efficiency allowed pre-tax results to triple (233.1%). It is already several quarters since TSB last made a negative contribution to the group, and has repeatedly begun to deliver profits in excess of €50m.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

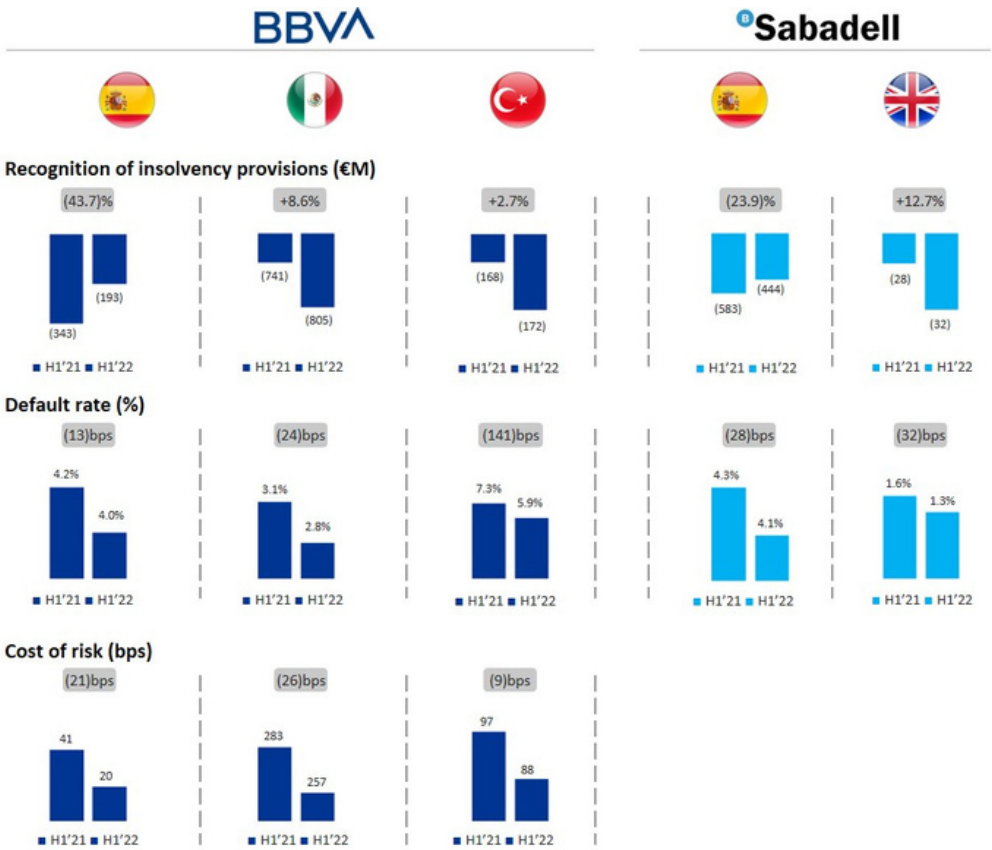
2.Results by Geographical Region

BBVA & Sabadell - Reduction in the recognition of provisions in Spain and the default rate at both banks.

BBVA has improved credit risk management across all its metrics and geographical regions:

•**Spain** has seen a significant decrease in the recognition of insolvency provisions of 43.7%, demonstrating confidence in its outstanding loans portfolio. It also shows a reduction in the default rate of 13bps, remaining at 4.0%, which is the sector average.
•**Mexico** reveals an increase in provisions, improving the default rate by 24bps and the cost of risk by 26bps.
•**Turkey** has improved the default rate by 141bps.
•Very significant reduction in cost of risk, demonstrating the robustness and solvency of customers across all 3 geographical regions.

Banco Sabadell has reduced its default rate in both regions, compared to the same period in 2021:
•**Spain** has seen insolvency provisions fall by €139m, in line with the decrease in the default rate ((28)bps).
•**The United Kingdom** slightly increased the recognition of provisions up to €(32)m, a negligible amount, while the default rate decreased by 32bps.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

2.Results by Geographical Region

CaixaBank – Positive margins and profitability in both regions, with double-digit growth.

Caixabank reveals very similar evolution in its two relevant geographical regions (Spain is more than 90%), with highly interrelated economies.

Spain:

•CaixaBank's margins (interest and gross) have seen double-digit growth, after successfully "digesting" the process of integrating the former Bankia.

•It registers a pre-tax result distorted due to negative differences from the consolidation with Bankia (€4.284b) during the first half of 2021. **Without this effect, the result would have risen by +39.8%.**

•The integration process is slowing the evolution of profitability ratios in the short term.

•**Slight organic growth** may be seen in its business. The main focus of Caixabank Spain is the retention of the customer portfolio derived from Bankia.

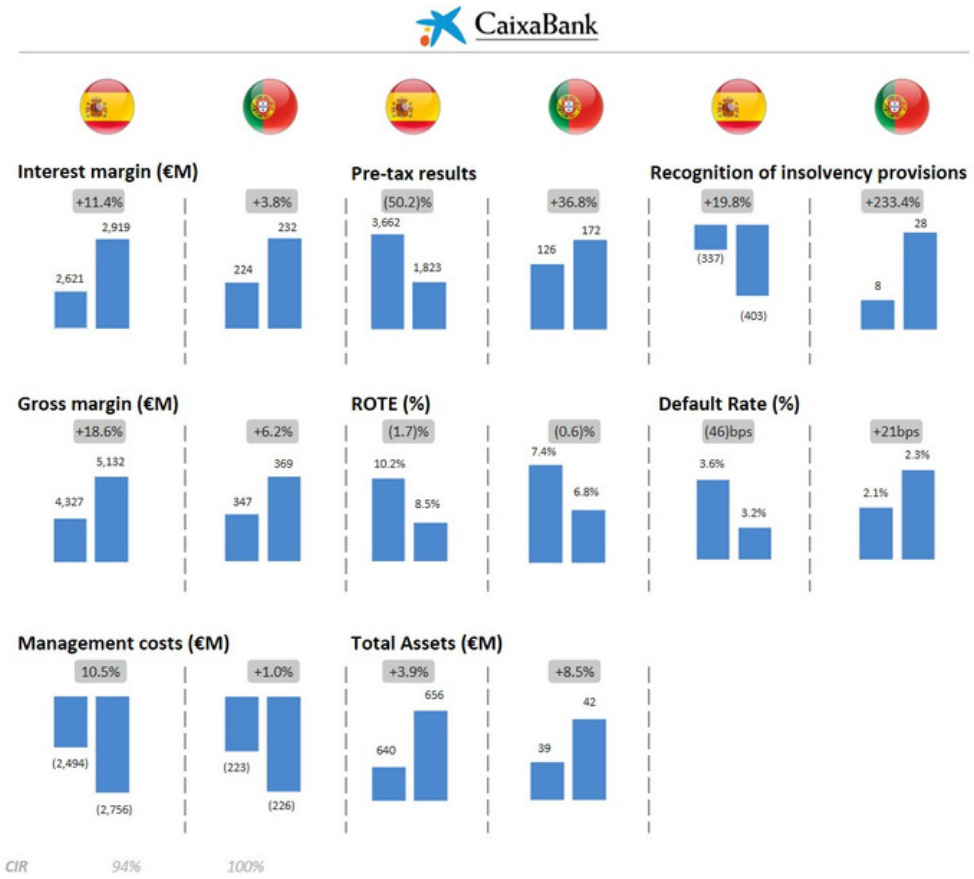
•Small **improvements in the default rate**, which is below the average of its peers in Spain (4.0%).

Portugal:

•Portugal continues to grow its business month by month, although no similar increase in interest margin is being seen. This is despite greater **business growth focused on mortgages and loans to businesses.**

•Improved efficiency is leading to a significant improvement in pre-tax results.

•The default rate is down by 46bps.



Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022

03 First Quarter 2022 Results

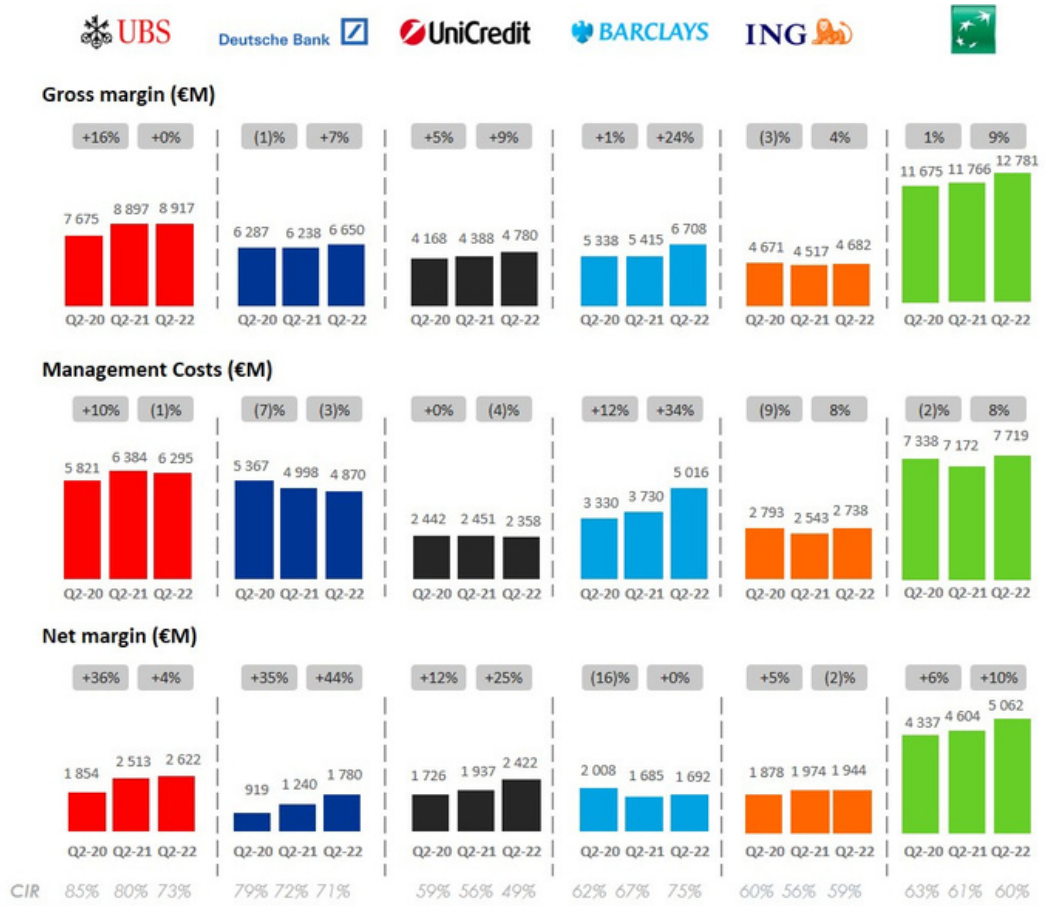
3.Main Foreign Banks

Gross margin:
•In general, major European banks are experiencing an increase in their gross margin, with the exception of UBS.
•UniCredit and Barclays saw their gross margin grow by 9% and 24% respectively compared to the second quarter of 2021, explained by revenue growth across all businesses.
•BNPP revenue increased (9%) due to higher revenue from Corporate and Institutional Banking.

Management costs:
•While UBS, UniCredit and DB have managed to reduce their management fees, Barclays is seeing a sharp increase here.

Net margin:
•The UniCredit and DB efficiency ratios fell by 7% and 12% respectively, compared to the first quarter of 2021, explaining in particular a 25% and 44% increase in net margin.
•Despite an increase in revenue, Barclays has seen a 4% decline in its EBITDA compared to the second quarter of 2021, explained by a sharp increase in the cost-income ratio.

Overall revenue increase in Q2 2022, marking a continuation of the momentum seen in 2021.



Source: Quarterly Accounts of the 6 banks – 2nd Quarter 2022
Note: For UBS, the amounts are in USD. For Barclays the amounts are in GBP

03 First Quarter 2022 Results

3.Main Foreign Banks

Cost of risk:

•We see an upward trend in the cost of risk for major European banks compared to the second quarter of 2021, particularly linked to the crisis in Ukraine and high inflation.

•Conversely, UniCredit experienced a drop in its cost of risk due to the lower default rate.

•For BNPP, the level of provision is slightly lower than in the second quarter of 2021.

Net profit:

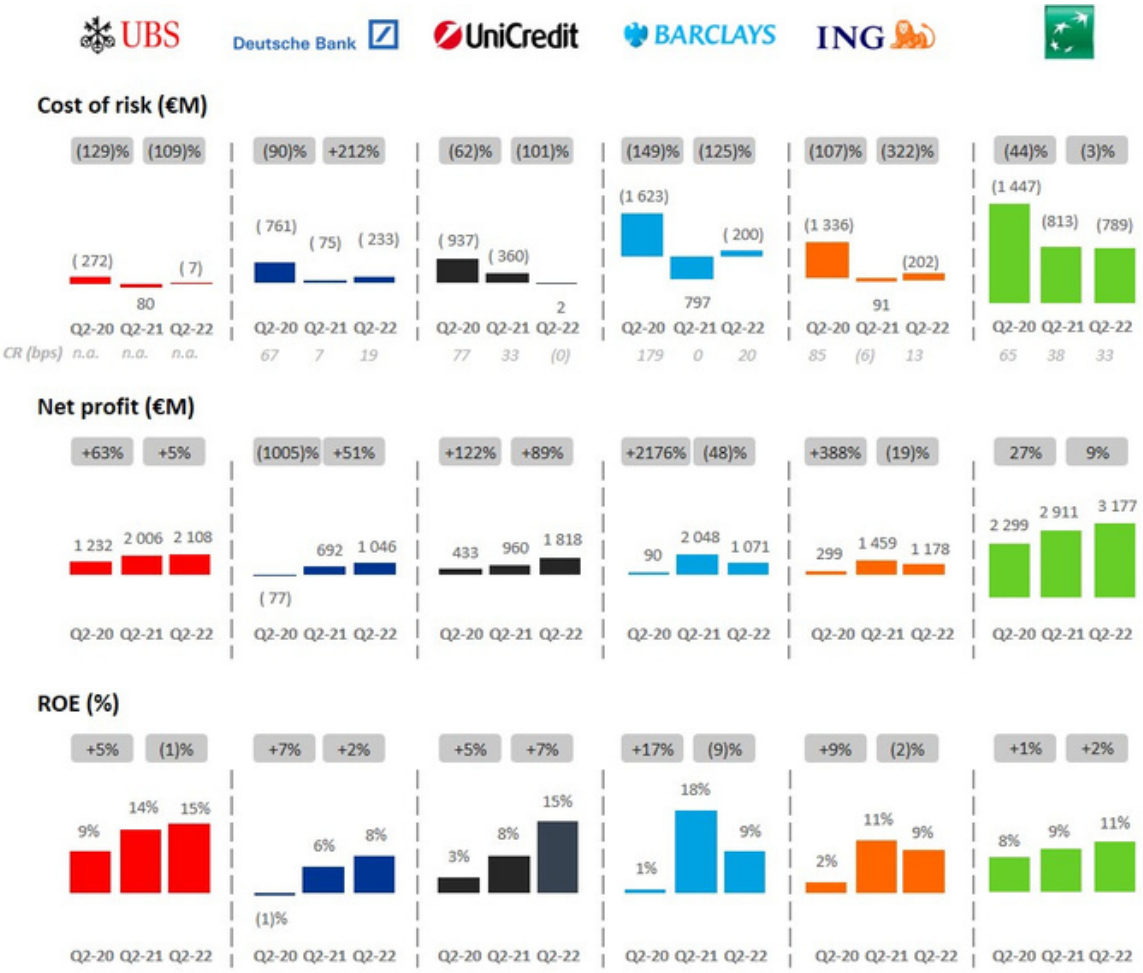
•Overall, European banks are experiencing net revenue growth.

•UniCredit has seen a significant increase in its net profit (+89%) compared to the second quarter of 2021, explained by a drop in administration fees accompanied by low cost of risk. As a result, UniCredit's ROE has doubled compared to the second quarter of 2021.

•BNP also increased its net profit by 9% compared with the second quarter of 2021.

•By contrast, Barclays has seen its ROE halved in comparison with the second quarter of 2021.

Mixed net profits driven by revenue growth trends and unequal management fees.



Source: Quarterly Accounts of the 5 banks – 2nd Quarter 2022

03 First Quarter 2022 Results

3.Main Foreign Banks

Gross margin:

•Differing variations in margins across the different US banks in an environment of volatility and high inflation.
•Citigroup and Bank of America experienced increases in their respective gross margins, supported in particular by strong performance in Consumer Banking and Global Markets.
•For Goldman Sachs and Morgan Stanley, a decline across the sector in Investment Banking revenues has had a major impact on their respective gross margins.
•Wells Fargo reveals a $3.117m impairment of its equity securities, explaining more than 50% of its reduced income under "Non Interest Income".

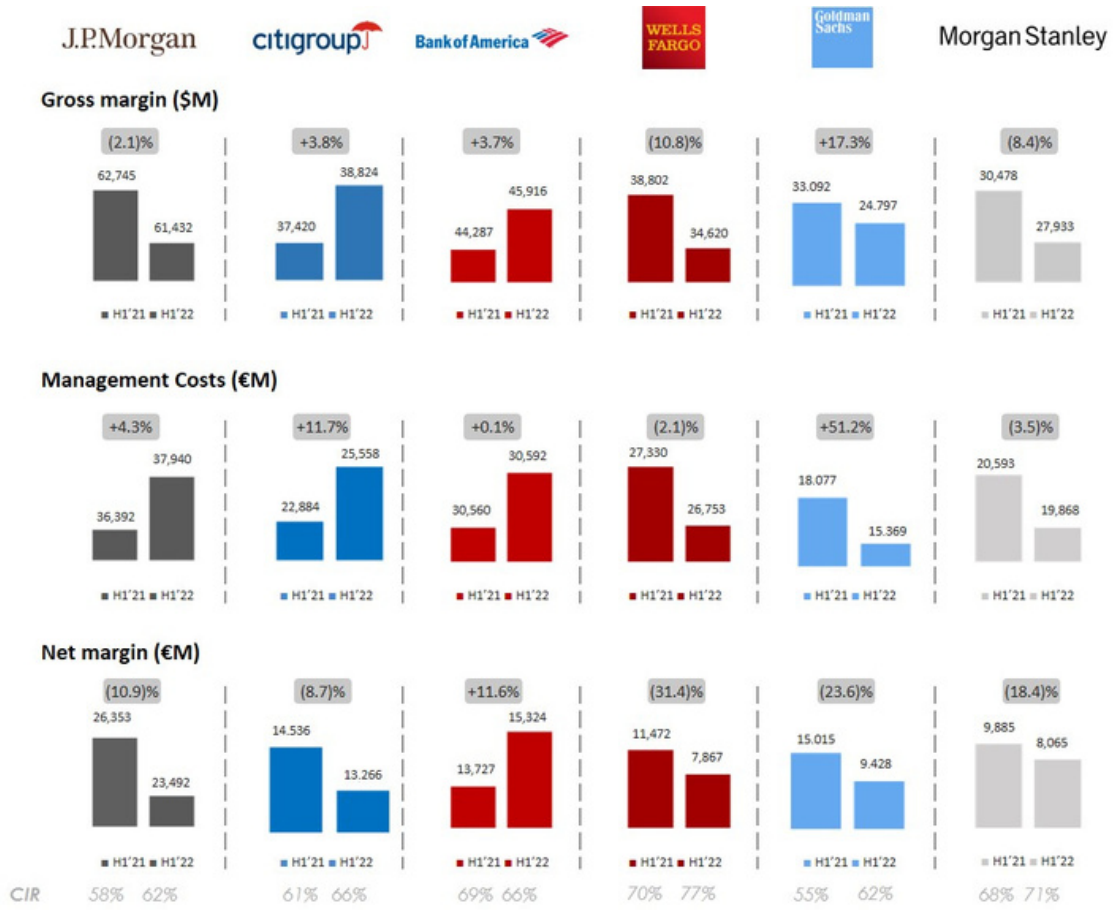
Management costs:

•Management costs for the major US banks present a mixed picture across the various banks, closely correlated with increases or decreases in gross margin.

Net margin

•The net margins of Wells Fargo, Goldman Sachs and Morgan Stanley have been brought down by the impact of fees, not sufficiently offset by lower management costs.
Bank of America is the only bank to increase its net margin on the back of revenue growth and stable costseen its ROE halved in comparison with the second quarter of 2021.

Mixed results in Q2 2022 marked by a return of inflation and a context of market uncertainty



Source: Quarterly accounts of the 6 banks – 1st half 2022

03 First Quarter 2022 Results

3.Main Foreign Banks

Provisions:

•Provisions are back to normal after 2021, when they were exceptionally added to the income statements.

•JP increased its provisions by $1.10 billion this quarter to address potential losses from credit defaults and the credit card business.

•Citigroup and GS made similar half-yearly provisions.

•Wells Fargo is the exception, although if we consider only the second quarter, it has already provisioned $580m.

•This shift in provisions would seem to indicate that American banks expect the economy to deteriorate rapidly in the second part of the year.

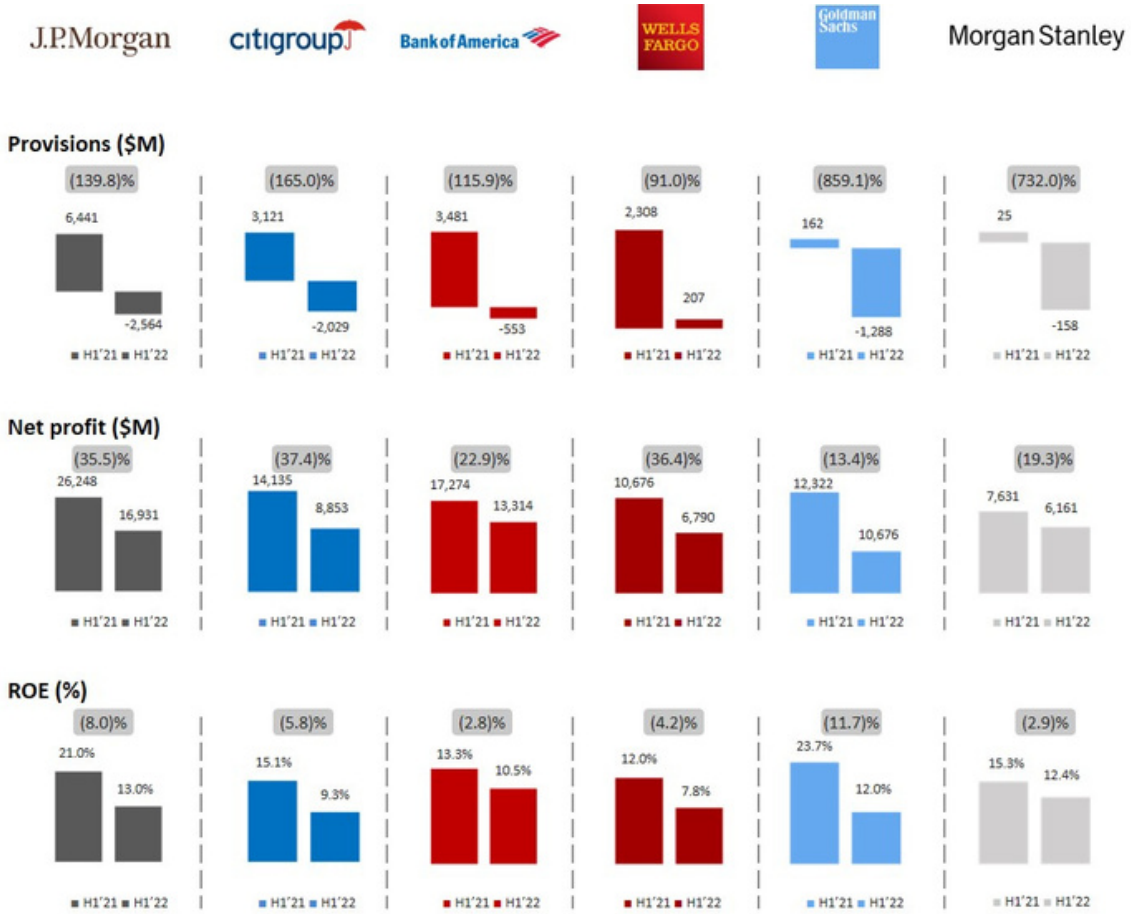
Net profit:

•Significant decline in net results for all US banks, in line with the disadvantageous scissor effect and impact of provisions.

•Citigroup has experienced 11% gross margin growth compared to the second quarter of 2021. The drop in net profit is explained in particular by a higher level of provisions than their peers.

•This in turn leads to a drop in profitability. Very significant falls for Citigroup and Wells Fargo, with an ROE below double digits.

Reduction in net results registered as a result of an increase in provisions in response to greater uncertainties.



Source: Quarterly accounts of the 6 banks – 1st half 2022

04 ESG policies – Climate stress test

An exercise that comprised three sections to be completed for each of the participating banks.

The ECB has published an aggregate report on the results of the Climate Stress Test exercise...

1

Questionnaire: Capacities at risk of climate change

- Understand the level of implementation of climate change risks in financial institutions' decision-making processes.
- Objective: identify best in class, possible information gaps, areas of development in modelling, etc.

2

Bank exposure to sectors most impacted by transition risk

- Measure bank exposure to the 22 most polluting industries, which thus have the highest transition risk.
- Objective: Identify the banks with the greatest exposure.

3

Climate stress test model

- Measure the impact of transition risk (short- and long-term) and physical risk on the banks' income statements, taking into account different risks.
- Objective: Establish an initial measurement of the potential impact of adverse scenarios.

"66% of banking customers in the European Union want their banks to show greater commitment to the climate and environmental protection. Among 16- to 24-year-olds, the percentage rises to 77%."

Main Objectives

- The report underlines that this has been a two-sided learning exercise, for both the banks and the supervisor.
- The aim is for the lessons learned to improve the different procedures that financial institutions put in place to measure climate change risks.
- And to answer a few questions: What would be the impact of a rapid increase in the price of CO2 emissions? Are institutions prepared for a "green" economy?

Source: https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220708~565c38d18a.en.html

04 ESG policies – Climate stress test

...useful for understanding where banks stand in transitional and physical risk management.

- Much progress has been made by banks since the first review in 2020. There is nonetheless still work to be done to eliminate inefficiencies, information gaps, and inadequately calibrated or inconsistent models.
- The development and implementation of credit risk policies is at a very early stage. More than 60% of institutions have not integrated this, and only 20% take climate criteria into account when granting loans.
- Most banks on average generate more than 60% of their recurring revenue from companies in the 22 most polluting industries. In many cases the majority of banks' "financed emissions" are derived from large counterparties.
- Better collaboration with customers is needed to obtain the necessary and relevant information to enable the risks to be reliably measured with guarantees.
- Most banks are exposed to acute impacts to their bottom line from adverse climate scenarios, such as floods, droughts or heat waves.
- Physical risk has a varying impact on the different European institutions. The impact of extreme drought or heat wave scenarios is strongly related to sectoral activities and the geographical location of exposures.
- A disorderly transition scenario, with highly accelerated increases in the price per tonne of CO2, reveals greater losses on banks' balance sheets than the orderly scenario, over the next 30 years.
- Transition risk measurement models are based on proxies, and are still lacking in sophistication.
- The stress test exercise indicates credit- and market-related losses for all scenarios on an aggregate basis of €70b for the 41 banks analysed.

"Including and improving the calibration of climate change risks is one of the ECB's top 3 priorities for 2024. Criteria will be set by reference to the best practices uncovered during the exercise.

Source: https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220708~565c38d18a.en.html

05 Digital Banking

The commitment to digital transformation and the use of new analytical models reveal positive results.

Santander	Openbank customers >1.7m Annual growth in PagoNext Revenue 87%	45.5%	PagoNxt Openbank
BBVA	45.5m digital customers worldwide Customer penetration 71.4% 55% of new business is digital	43.9%	BBVA ITALIA Atom bank (REINO UNIDO) ocon (BRASIL)
CaixaBank	11.1m digital customers Strong commitment to "In touch" remote channel service	57.6%	
Sabadell	100% Digital Processes: Consumer Loans / Accounts / Cards Use of Analytics: 76% new production with priority customers	53.7%	
bankinter.	1.2b digital transactions 701 thousand EVO Bank customers	44.4%	EVO
Unicaja Banco	59% digital clients 22% new consumer production	52.9%	

Efficiency ratio

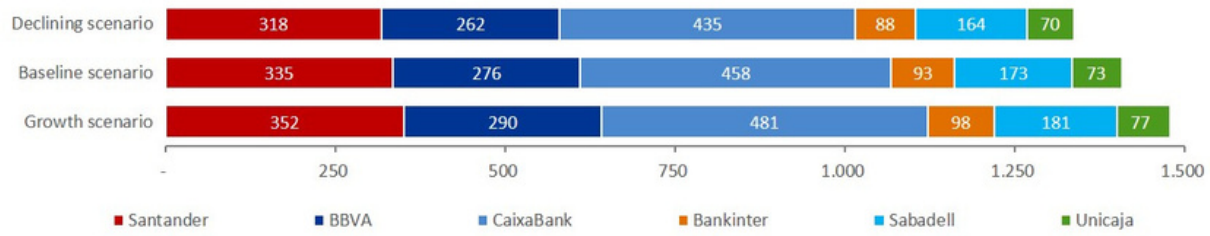
Source: Quarterly Accounts of Top 5 Banking Institutions – 1st Half 2022

06 Non-tax monetary obligations - Impact on banks

The special tax on banks will have an impact of between €1.339b and €1.478b on the six banks analysed.

In millions of Euros	Santander	BBVA	CaixaBank	bankinter.	Sabadell	Unicaja Banco	Total
Stage 2 (special surveillance risk)	66,138	32,341	29,477	2,693	13,614	3,554	147,817
Stage 3 (non-performing risk)	34,259	14,597	11,758	1,705	5,714	1,962	69,995
Total Phase 2 + Phase 3	**100,397**	**46,938**	**41,235**	**4,398**	**19,328**	**5,516**	**217,812**

Note: Consolidated data



Note: The baseline scenario projects the results from the first half to the second half to obtain the taxable base. The growth scenario increases half-year results by 10%. The decline scenario reduces half-year results by 10%

- **Caixabank** is the bank with the biggest impact (34%) due to its high degree of concentration on the Spanish market. More than 90% of its revenue comes from Spain and it is the bank with the highest volume of assets.
- By contrast, for **Santander** (24%) and **BBVA** (20%) this accounts for around 1% of the total gross margin, due to their geographical diversification.
- **Sabadell, Bankinter and Unicaja** together contribute 24% of the total of the 6 banks analysed.
- On the baseline scenario, the amount collected from the 6 banks represents 94% of the total estimated to be collected by the government.

Source: Quarterly Accounts of Top 6 Banking Institutions – 1st Half 2022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