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Banking Outlook
3Q17

TRENDS AND DEVELOPMENTS IN THE SPANISH BANKING SECTOR

Solid despite Banco Popular's losses during the second quarter

Declining NPLs:
NPL ratio of **8.3%** (September 17)
down from **13.6%** at year-end 2013

47% reduction in the stock of NPLs since its peak

All portfolios of new lending to the private resident sector show **positive growth** rates in 2017

The **deleveraging process continues**, although at lower rates which shows that it may be reaching a turning point

Total lending has declined **55%** **of GDP** since 2008. The job is already done

THE ITALIAN BANKING SYSTEM

Improving, but from a very low staring point. The volume of NPLs in Italy is still a heavy burden for the system

Improvement in solvency indicators CET1 of

11.47% as of June 2017

9.89% at the end of 2016

The improvement was due to higher CET1 capital rather than to cuts in RWAs

Asset quality indicators improved: the NPL ratio dropped to

12.0% as of June 2017

However, the NPL ratio is still far from the EU average **(4.5%)**

The **improvement was partially caused by the insolvency reforms** which reduced the length of the proceedings and improved recovery rates

THE LIKELY PRO-CYCLICALITY OF THE IFRS 9 ACCOUNTING RULES. SPANISH BANKS AS AN ILLUSTRATION

the new accounting rule may have a pro-cyclical impact on bank provisions

Spanish Banks may see loan-loss provisions to increase due to the changeover to IFRS

€5.2bn

Capital-wise, the average CET1 ratio of **Spanish Banks may drop by**

67 pbs

The impact of the stressed scenario is expected to be higher for IRB banks that for Standard Approach banks

EUROPEAN STRATEGY ON NON-PERFORMING LOANS

NPLs are one of the main problems for European banking systems

€1trn of NPLs remain in the EU banking system

Impacts:

01 Capital consumption and management expenses

02 They may push forward the bank-sovereign vicious circle

03 Heavy burden for new lending growth

There are several initiatives to tackle the problem, focused on 3 areas

- Improved supervisory
- Reform of insolvency frameworks
- Development of a secondary market for NPLs

LATIN AMERICA: THE HIGH DENSITY OF ASSETS STRENGTHENS BANKS' SOLVENCY

The high density of assets strengthens Latin American banks' solvency

High density of assets: Risk Weighted Assets / Total assets of:

80% approximately

Leverage ratio > 8% in all countries analysed (Peru, Mexico, Colombia, Chile and Argentina)

Sound and robust solvency levels, even though Colombia, Chile and Peru have not yet adopted Basel III rules