

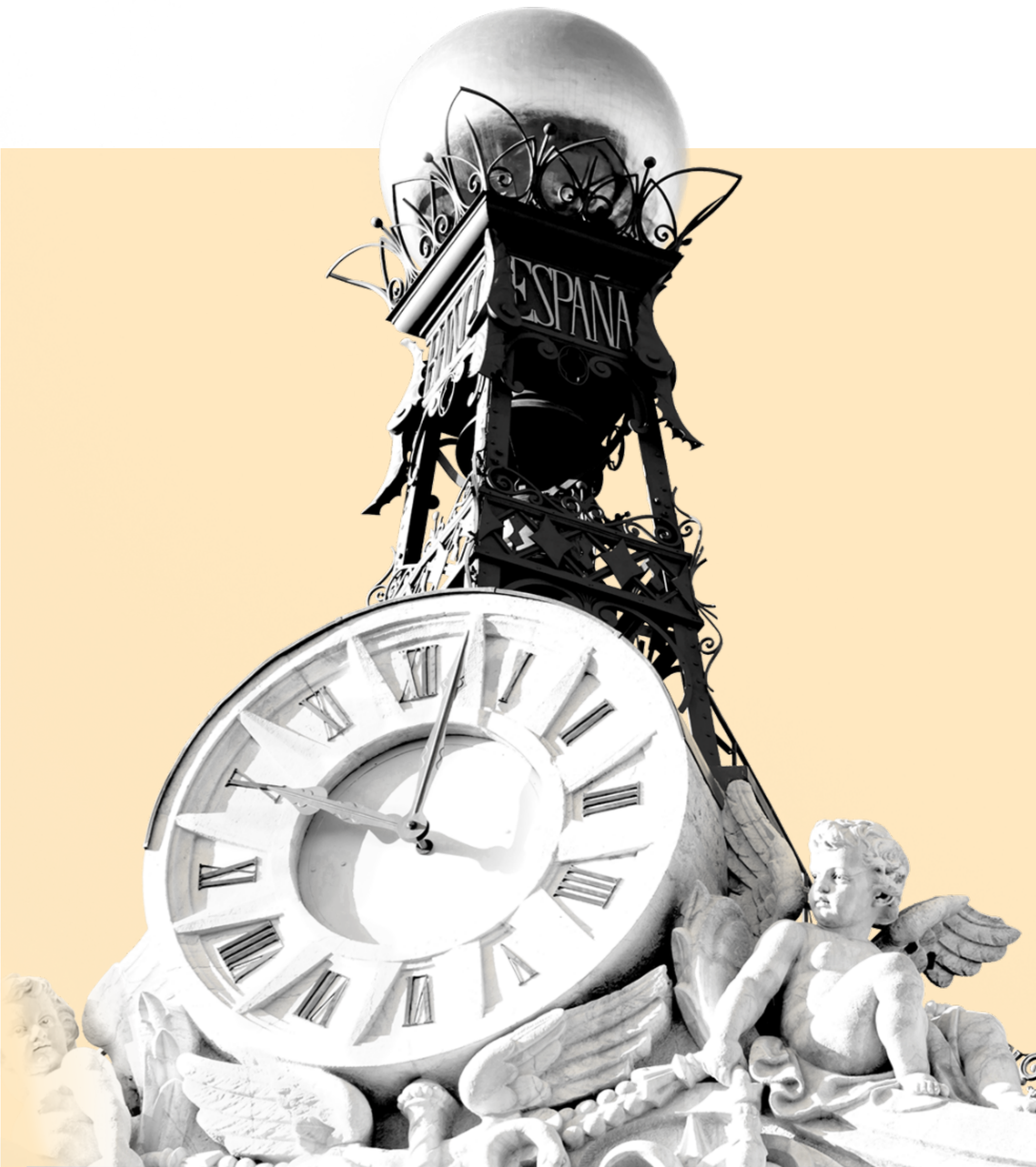
ABC DELOITTE FINANCIAL FORUM

SITUATION OF THE SPANISH BANKING SYSTEM AND MAIN RISKS AND CHALLENGES AHEAD*

* ENGLISH TRANSLATION FROM THE ORIGINAL IN SPANISH

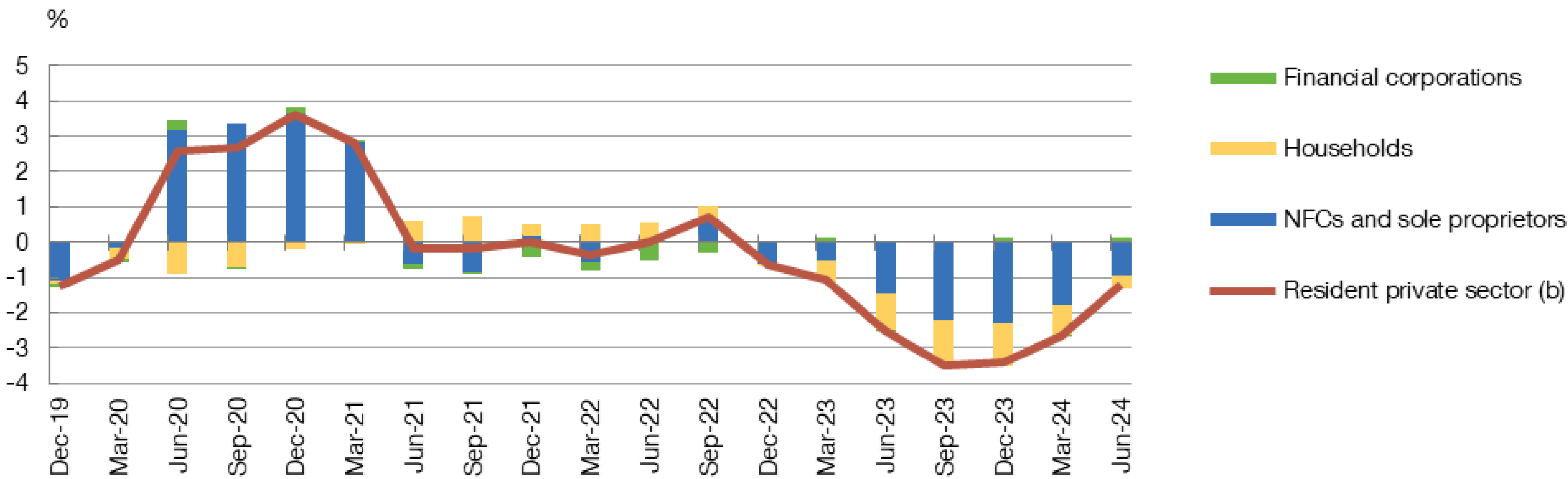
SOLEDAD NÚÑEZ
DEPUTY GOVERNOR

13 November 2024



LENDING HAS BEEN SLOWING ITS YEAR-ON-YEAR DECLINE IN 2024 ...

Contributions to the year-on-year rate of change in lending to the resident private sector, by sector.
Business in Spain. Individual data

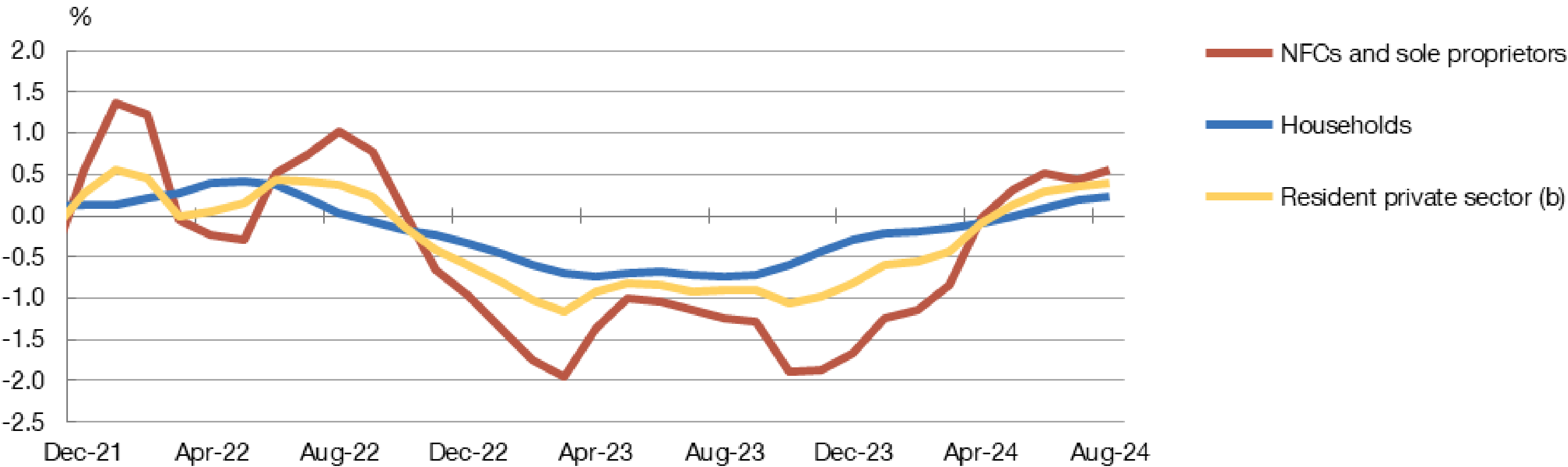


SOURCE: Banco de España.

b The resident private sector includes households, NFCs and sole proprietors and financial corporations.

... AND HAS EVEN GROWN IN RECENT QUARTERS

Indicator of change in lending to the resident private sector (a). Business in Spain.
Individual data



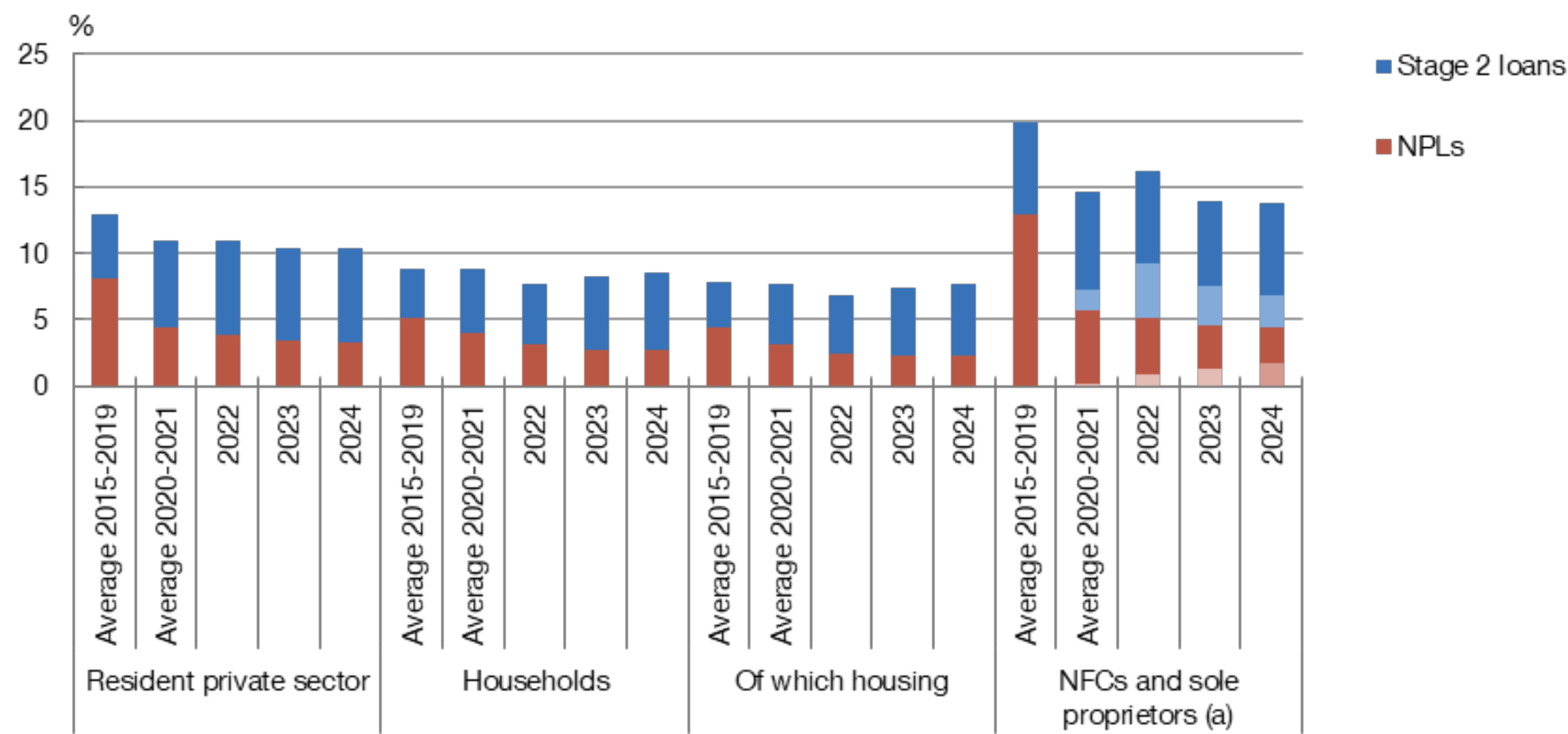
SOURCE: Banco de España.

a This monthly indicator shows the quarter-on-quarter rate of change of the three-month moving average of seasonally adjusted lending.

b The resident private sector includes households, NFCs and sole proprietors, and financial corporations.

CREDIT QUALITY REMAINED STABLE

Share of NPLs and Stage 2 loans. At June of each year. Business in Spain. Individual data

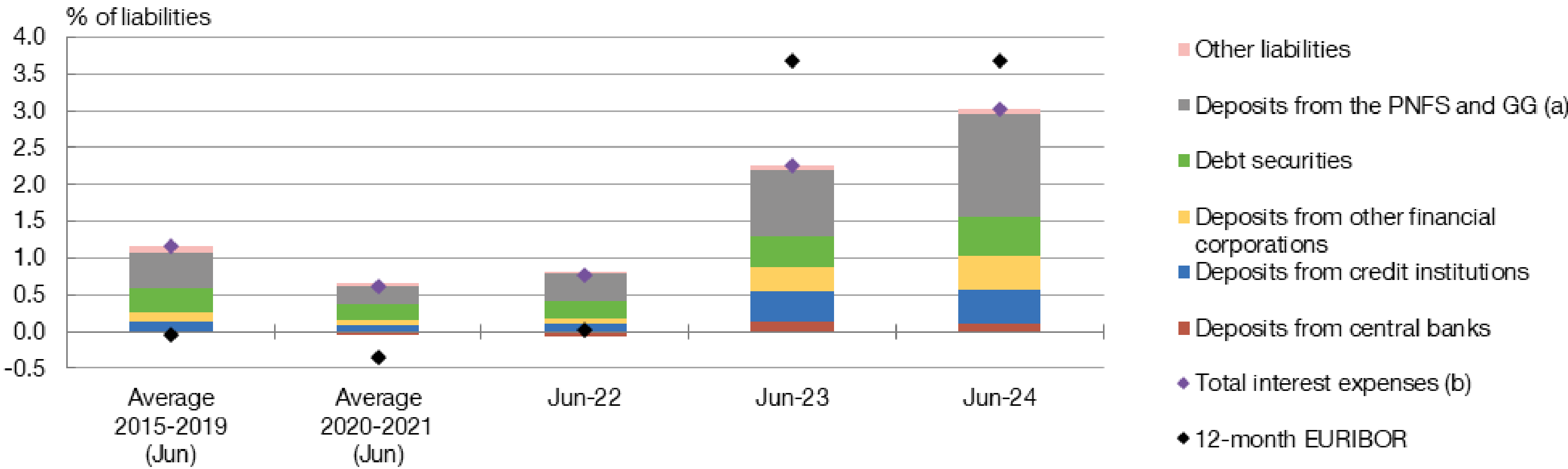


SOURCE: Banco de España.

a Lighter colours show the contribution to the ratio of ICO-backed loans to NFCs and sole proprietors.

THE AVERAGE RATE ON BANK LIABILITIES STILL SHOWS A YEAR-ON-YEAR RISE

Interest expenses on funding. Data at consolidated level



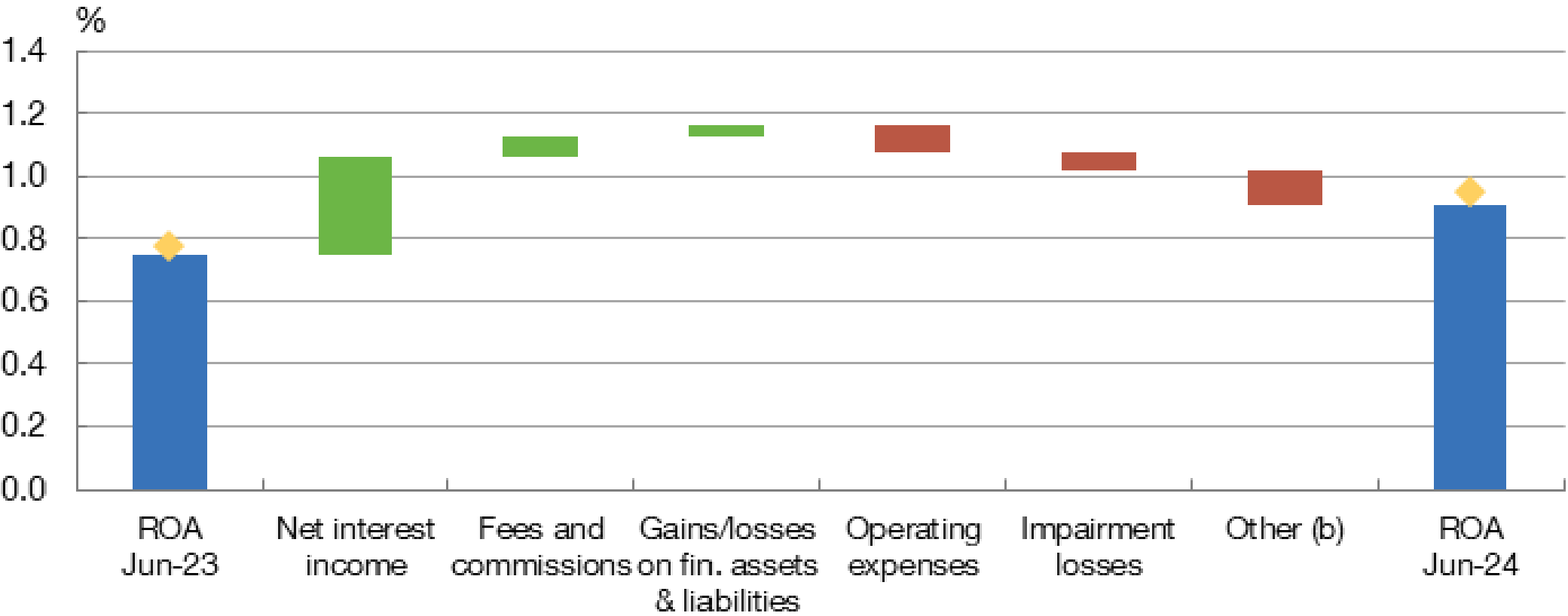
SOURCE: Banco de España.

a PNFS = private non-financial sector; GG = general government.

b Excludes expenses associated with interest rate hedge derivatives.

CONSOLIDATED PROFIT GREW 22%, DRIVEN BY NET INTEREST INCOME AND FEES AND COMMISSIONS

Breakdown of the change in profit. Consolidated net profit as a percentage of ATAs (a)



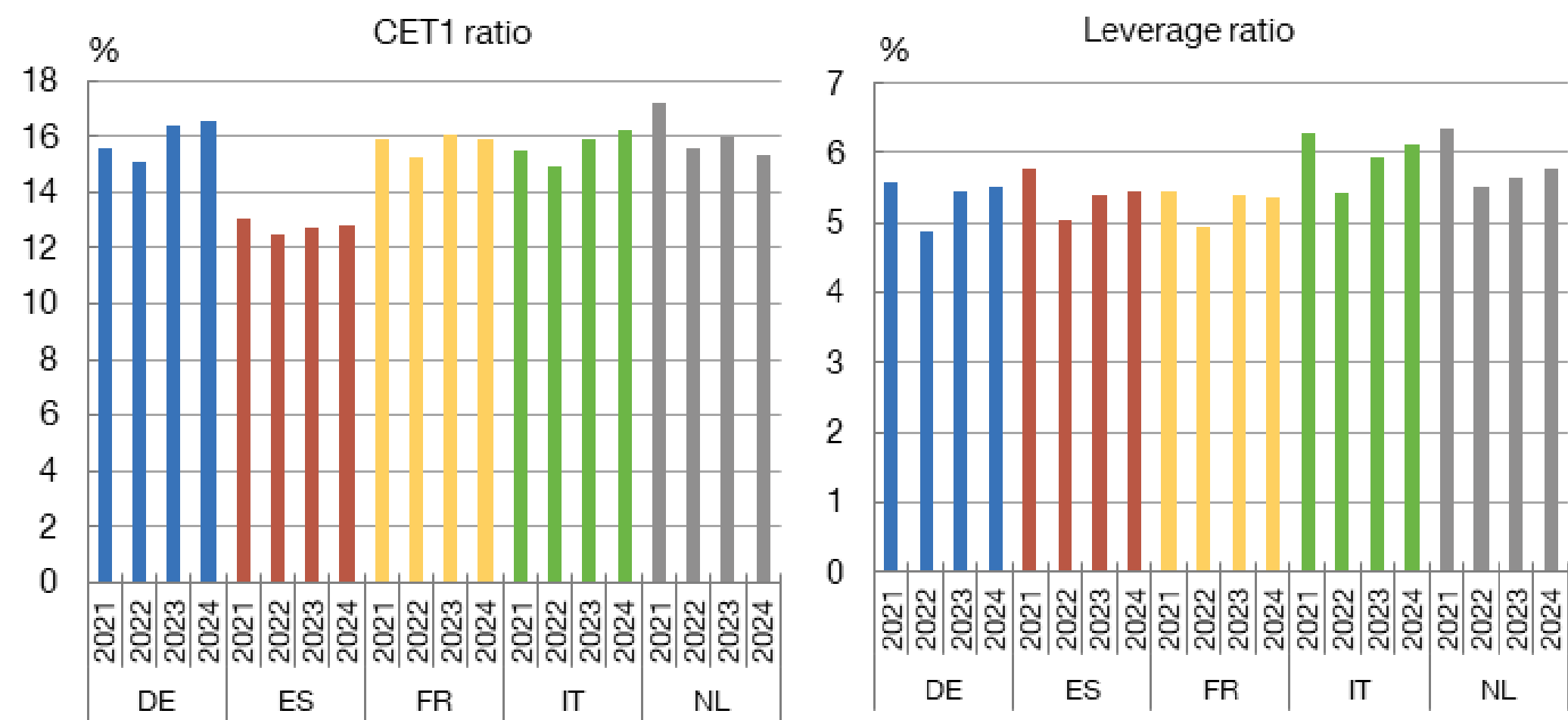
SOURCE: Banco de España.

a The red (green) colour of the bars denotes a negative (positive) contribution of the corresponding item to the change in consolidated profit at June 2024 compared with June 2023. The yellow diamonds denote the ROA excluding the impact of the temporary levy on the banking sector.

b Includes, among other items, the temporary levy on the banking sector mentioned in the previous note.

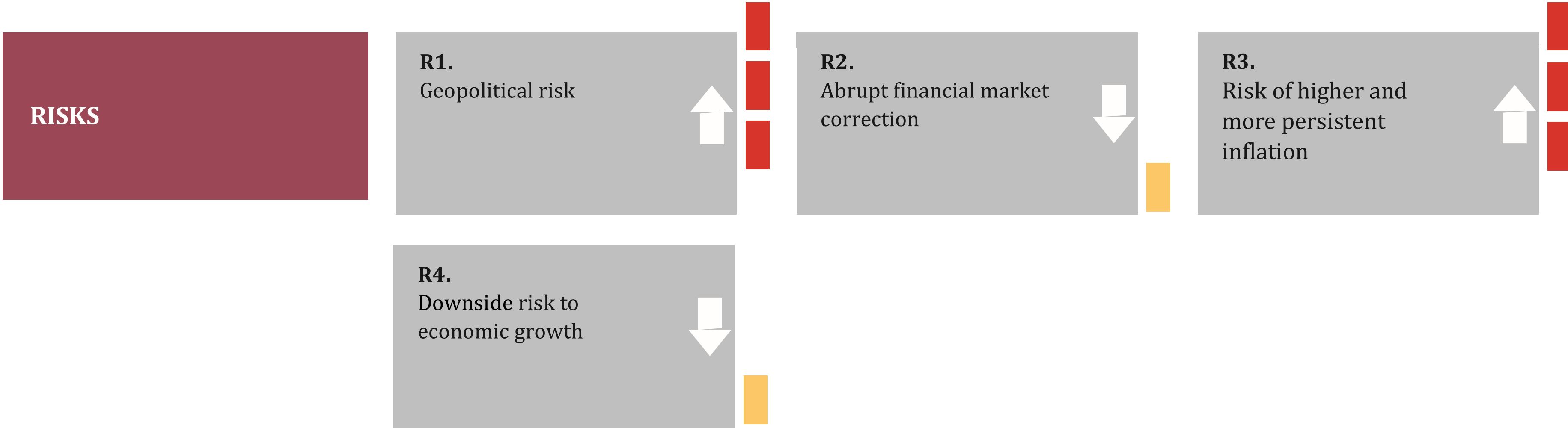
PROFITABILITY IS ONE OF THE HIGHEST AMONG THE MAIN EUROPEAN COUNTRIES. HOWEVER, THE CET1 RATIO REMAINS BELOW THAT OF OTHER EUROPEAN BANKS, WHILE THE LEVERAGE RATIO IS SIMILAR

European comparison of the CET1 ratio and the leverage ratio. Consolidated data as at June each year



SOURCE: EBA.

GEOPOLITICAL AND MARKET RISKS WORSEN, BUT MACROECONOMIC RISKS FALL



a Risks to financial stability are identified as adverse changes in economic and financial conditions, or in the physical or geopolitical environment, with an uncertain probability of occurrence, which hamper or impede financial intermediation, with negative consequences for real economic activity.

b The risks and vulnerabilities shown here are measured using the following scale: one yellow block denotes a low level, two orange blocks a medium level and three red blocks a high level. The arrows denote the change in the levels of the risks and vulnerabilities in the last six months.

MACROFINANCIAL DEVELOPMENTS HAVE SO FAR BEEN RESILIENT TO GEOPOLITICAL TENSIONS, BUT THEY REMAIN A LEADING RISK FACTOR

Chart 2
Changes in natural gas and oil prices (b), and in global trade

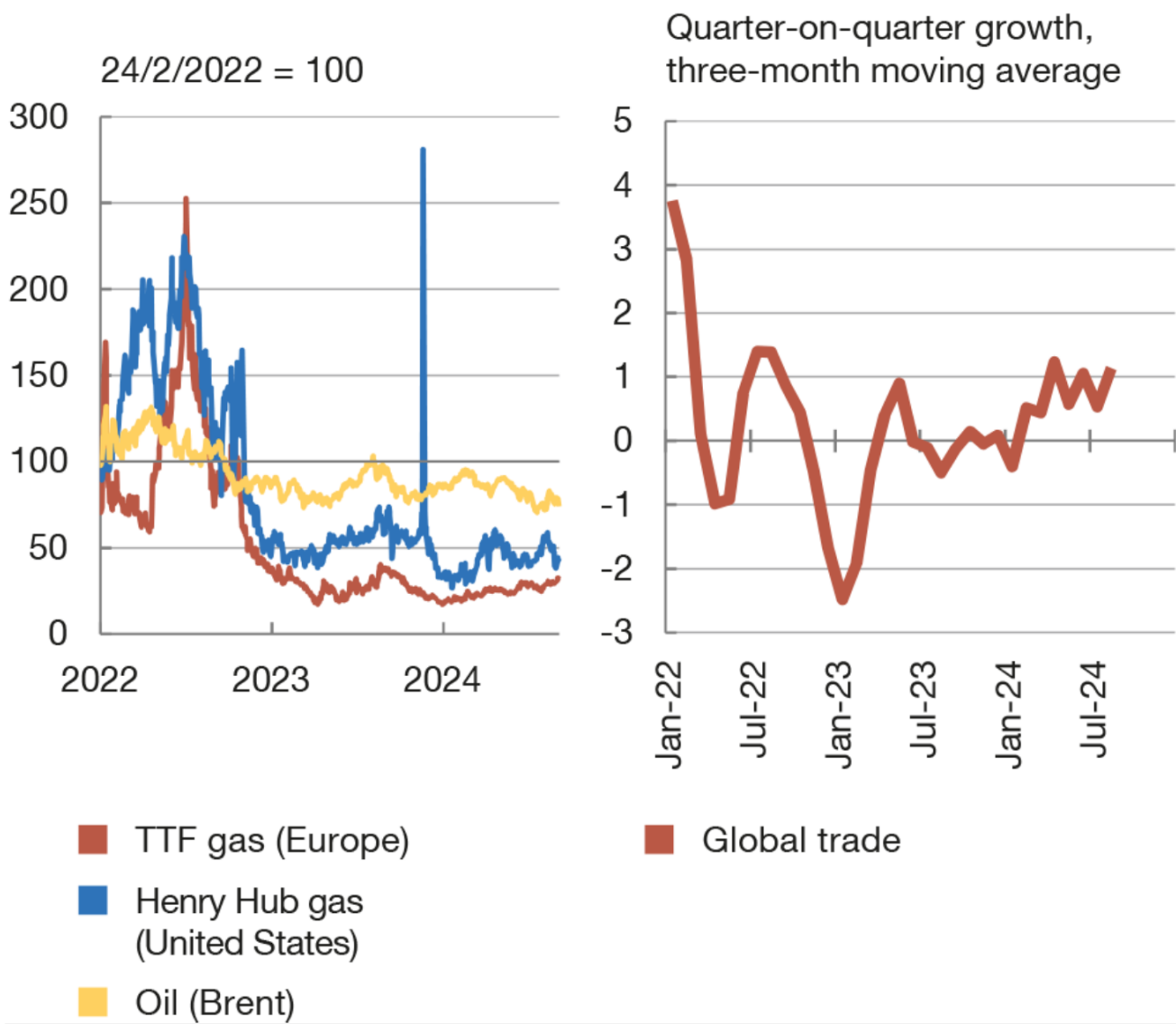
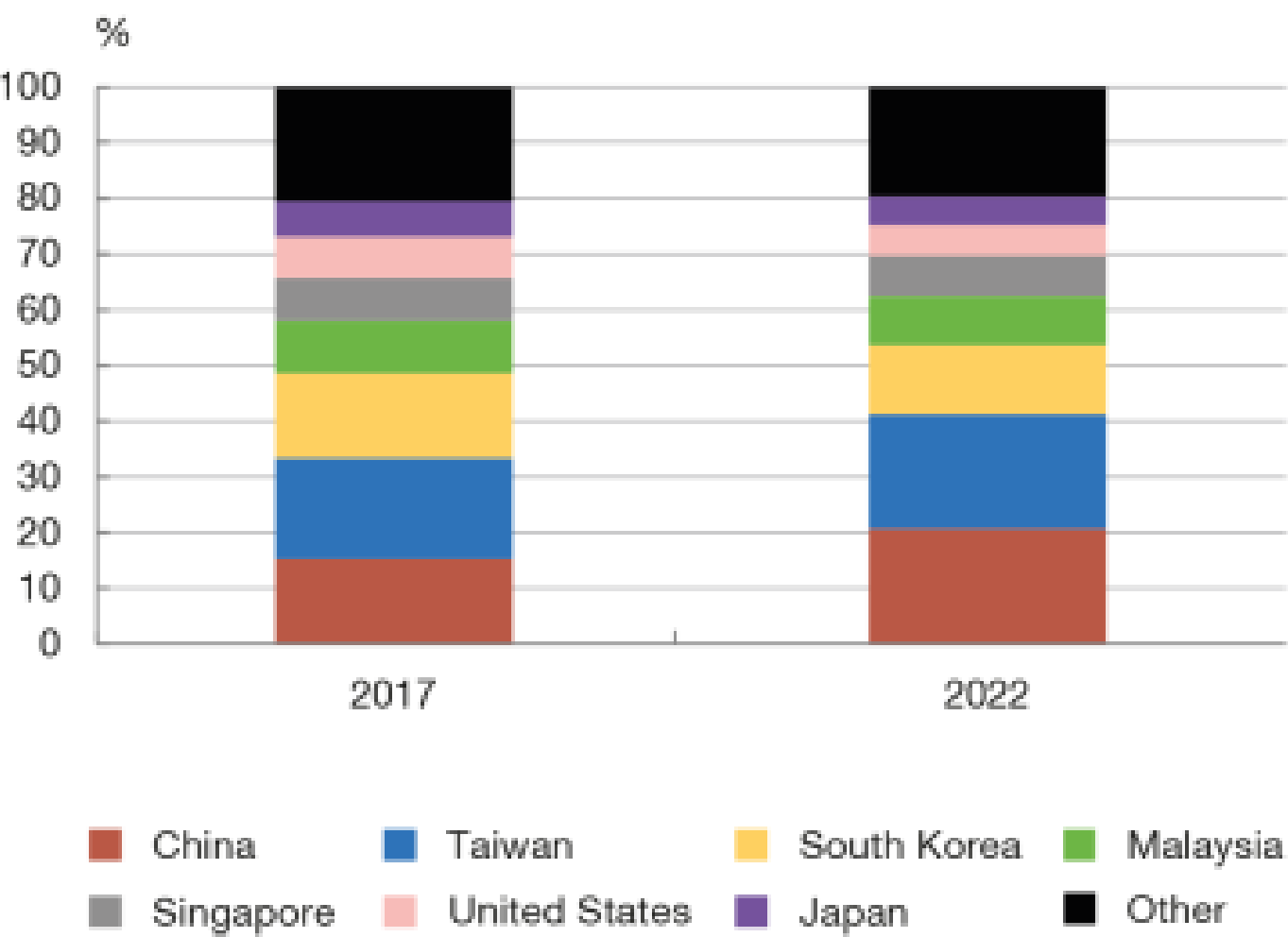


Chart 1
Semiconductors. Share of main world exporters (a)

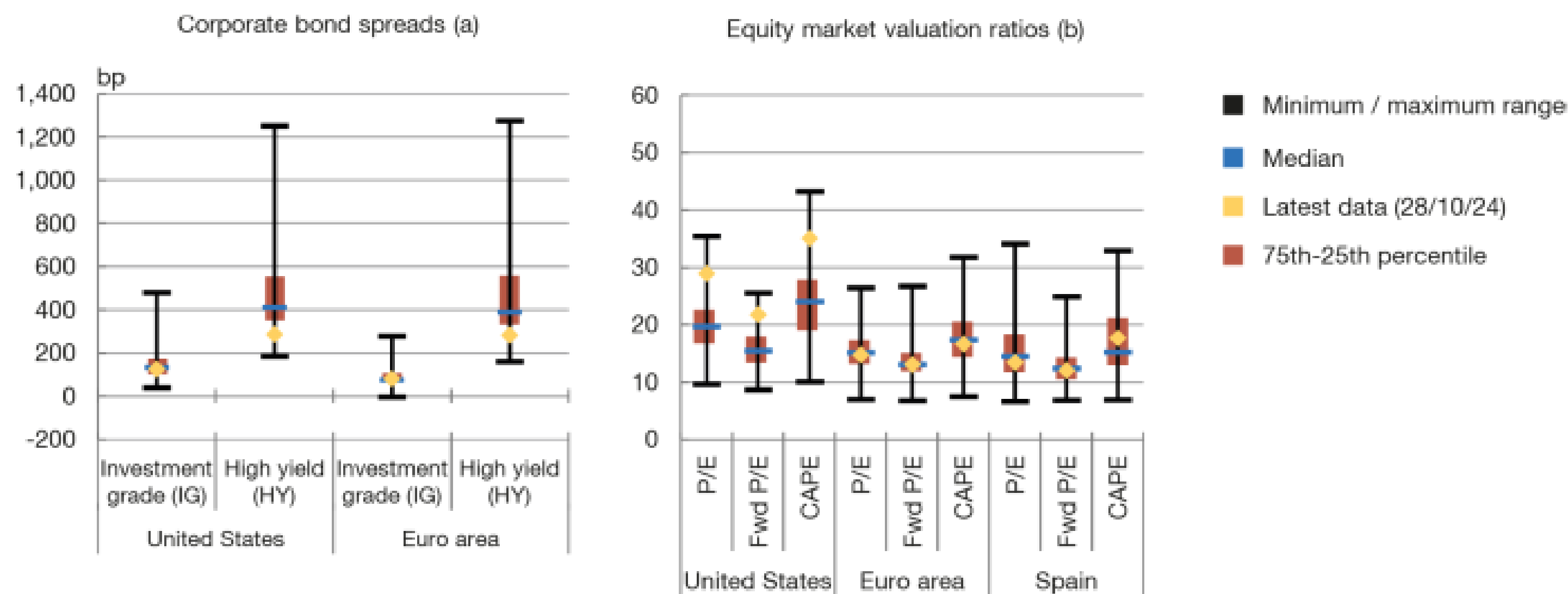


SOURCES: Centre d'Etudes Prospectives et d'Informations Internationales, Refinitiv Eikon and CPB.

a The data for China are adjusted and do not contain re-exports by Hong Kong of products from mainland China, to avoid double counting of flows.
b The spot prices for the three markets are expressed in euro for comparison purposes.

RISK PREMIA STAND AT HISTORICALLY LOW LEVELS AND RISK-BEARING FINANCIAL ASSETS ARE RECORDING HIGH VALUATIONS

Corporate bond and equity market metrics



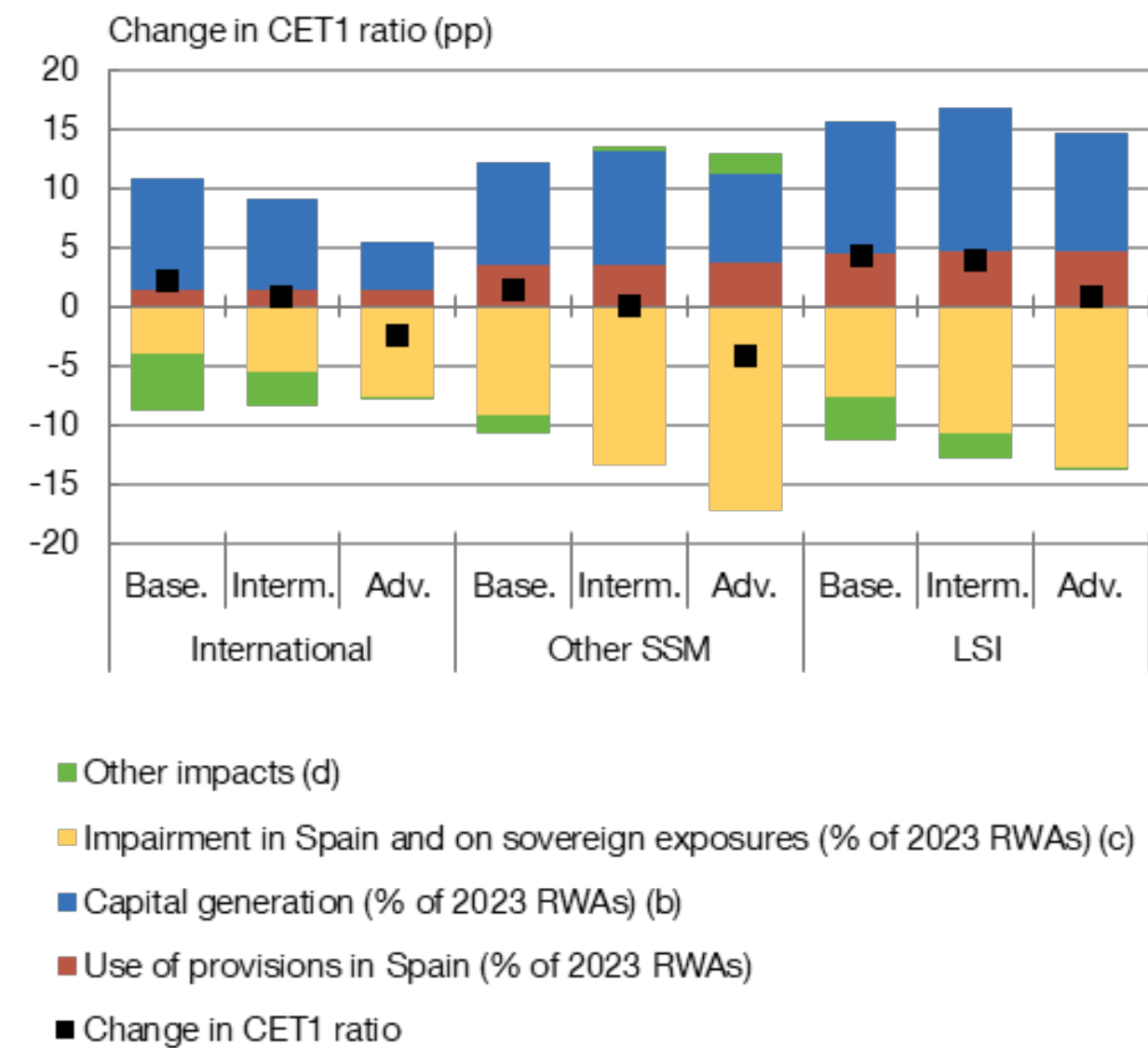
SOURCES: Refinitiv Datastream and Banco de España.

a Corporate spreads over the swap curve of the ICE Bank of America Merrill Lynch indices. Monthly series data since 1998.

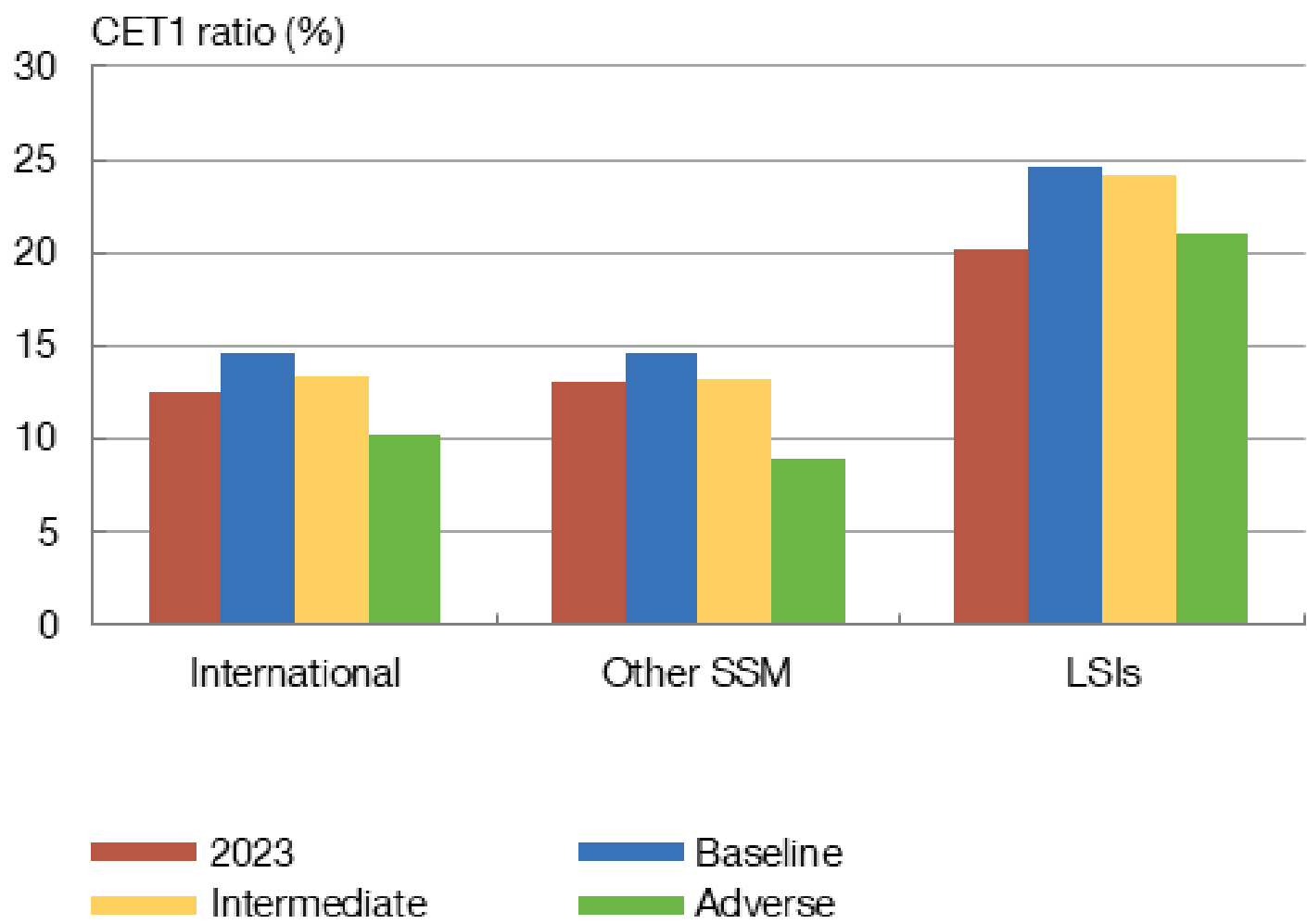
b Drawing on monthly data from the stock market index series constructed by Datastream (since 1985 for the euro area and the United States and since 1987 for Spain). The sample is somewhat smaller for Spain's CAPE ratio and the euro area Fwd P/E ratio. Ratios provided by Datastream, except for the CAPE (cyclically adjusted price-to-earnings) ratio which is calculated as the value of the stock market index in real terms (adjusted for CPI) divided by a 10-year moving average of the index firms' earnings in real terms. The price-to-earnings (P/E) ratio and 1-year forward P/E (Fwd P/E) ratio capture the relationship between the stock price and earnings per share (observed or expected).

THE STRESS TESTS INDICATE SOUNDNESS

Impact of risk materialisation scenarios on bank solvency (a)



CET1 ratio observed in 2023 and results in 2026 of the baseline, intermediate and adverse scenarios



SOURCE: Banco de España.

a The impacts are defined as the expected changes in the CET1 ratio in 2026 and in different financial flows in 2024-2026 (e.g. capital generation) stemming from the materialisation of adverse changes in the macro-financial conditions envisaged in the scenarios.

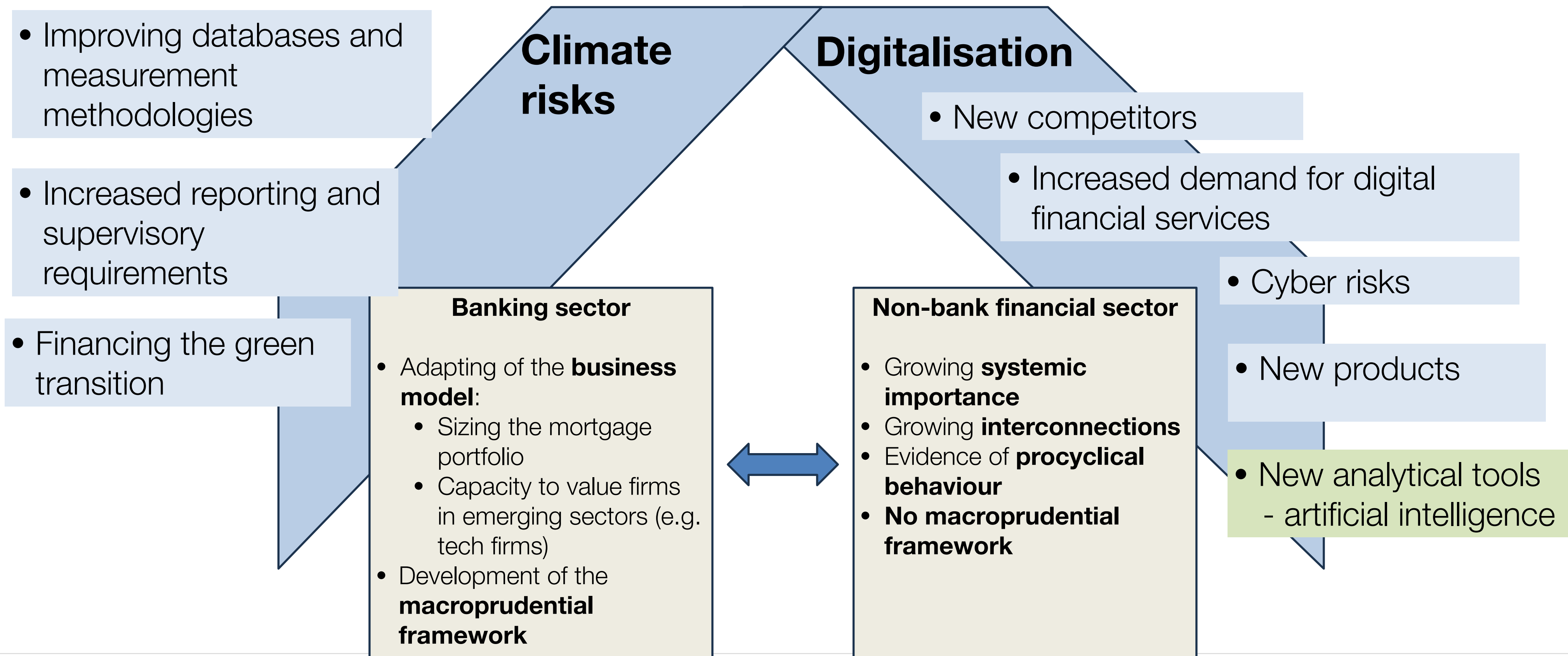
b The generation of loss-absorbing capital is determined by net operating income in Spain and by the net profit/loss generated abroad for banks with significant international activity.

c Impairment losses on loans and foreclosed assets in operations in Spain and impact on capital of the potential impairment of sovereign exposures at consolidated level.

d Other consolidated gains and losses, tax effects, exchange rate effects, distribution of profit, coverage of losses on ICO-backed loans by the Government and changes in RWAs.

d Shown are the differences in the average CET1 capital ratios of SIs and LSIs projected for 2026 in the sensitivity exercises compared with those projected in the main solvency exercise. The sensitivity exercises consider the following impacts: i) the effect of reclassifying all sovereign bond exposures at fair value, and ii) the effect of excluding from the exercise the impact of potential latent losses accumulated during the period 2020-2023 in the corporate credit portfolio as a result of the extraordinary crises that arose in this period.

SIGNIFICANT MEDIUM AND LONG-TERM CHALLENGES FOR THE SPANISH BANKING SECTOR



Thank you
