

Iberoamerican Big Picture

Banking, Economic and Capital Market Trends: Summer 2013

- **Spain: Some Encouraging Macro Signs Emerge** — The unemployment rate continues to grow *but at a decelerating rate*: +2.1% yoy in May 2013 vs +2.4% in April 2013 and +3.9% in May 2012. And while GDP shrank -2.0% in 1Q13, lower labour costs are helping exports. Consumer confidence increased in June, ahead of an expected record tourism season. In [Spanish Banks: Upgrading Stance to Neutral \(25 June\)](#) we wrote about the coincidental behaviour of changes in the NPL ratio and changes in unemployment/GDP.
- **Portugal: Deleveraging Continues** — Loans contracted -5.2% yoy in Apr 13. Consumer & corporate loans' contraction is decelerating (consumer & corporate -11% & -6% yoy, respectively) while housing loan contraction is slightly accelerating (-4% yoy). After Cypriot concerns, household deposit growth rebounded (+0.1% yoy) but total deposits continue to shrink (-2.9% yoy) due to corporate withdrawals. The January NPL ratio (11.1%) is up 260bps yoy and 440bps since December 2011. The corporate sector continues to bear the vast bulk of NPL stock (c70%) and formation (c95%).
- **2Q13 Results: NIM & Provisions Key; Mexico Divergence (p.7)** — We expect BKT, POP to have 'turned the corner' on NIM declines while SAB, CABK, BBVA are likely to see declines for the rest of the year. Underlying provisions will likely remain elevated for most banks ex Buy-rated BKT. In LatAm, BBVA & SAN should show divergence in 2Q13 local currency results. We expect solid QoQ Mexican results for BBVA (good costs, provisions) and weaker for SAN in Mexico QoQ (high costs, real estate provisions). Brazil, SAN's other major LatAm market, remains challenged. We update our estimates and target prices ahead of results as displayed below.
- **Expect DTA Forbearance of Up to 100 bps CET1R (p. 5)** — Key areas of focus for 2Q13 results should include: 1) DTA forbearance (see section inside); 2) potential dividend restrictions by Bank of Spain; 3) restructured loans; 4) mortgage floors; 5) M&A; 6) operating trends and cost of risk/NPL inflows. In addition, Mexico and LatAm margins and provisions would be of interest to analysts and investors alike.
- **Neutral Domestic Spain; Prefer BKT in Spain & BES in Portugal** — We upgraded our stance on the Spanish banks to Neutral on 25 June. Our preferred name in Spain continues to be Bankinter (where we remove our High Risk rating due to superior capitalisation). In Portugal, political uncertainty has driven bank shares' de-rating & severe volatility. We believe concerns are overpriced in BES' 0.4x TBV valuation, given its >9% fully loaded B3 CET1 ratio, no State capital, lower domestic sovereign exposure (c40% TBV) and exposure to export markets.

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Figure 1. Iberian Banks Financial Forecasts

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Banco Popular	POP.MC	3H	3H	€2.15	€2.20	€-0.08	€-0.02
Bco de Sabadell	SABE.MC	3H	3H	€1.15	€1.40	€-0.02	€-0.02
Bankinter	BKT.MC	1H	1	€3.20	€3.50	€0.11	€0.18
BBVA	BBVA.MC	2H	2H	€6.25	€6.35	€0.59	€0.61
CaixaBank	CABK.MC	2H	2H	€2.35	€2.60	€-0.04	€-0.11
Banco Santander	SAN.MC	2H	2H	€4.60	€4.65	€0.35	€0.36
Banco BPI	BBPI.LS	2H	2H	€1.25	€1.25	€0.09	€0.09
Banco Espirito	BES.LS	1H	1H	€1.30	€1.30	€0.01	€0.02

Source: dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Iberian Banks – Summary Performance, 2Q13 Results & Estimates

Reporting Dates

Figure 2. Iberian Banks — Reporting Dates, 2Q13

Bank	Date	Time of Release (UK Time)	Time of Call (UK Time)	Call Number	Access
Sabadell	25 Jul	c07:30	16:00	NA	www.grupobancosabadell.com
Bankinter	25 Jul	c07:15	08:00	Webcast	www.bankinter.com
Banco Popular	26 Jul	c07:30	08:30	+44 207 107 0685	www.bancopopular.es
CaixaBank	26 Jul	c06:00	11:00	+44 20 7162 0077 pwd: 934359	www.caixabank.com
Santander	30 Jul	c07:30	09:00	+44 203 0432 434	www.santander.com
BBVA	31 Jul	c06:45	08:30	+34 91 789 51 15	www.bbva.com
BPI	24 Jul	16:45			www.bancobpi.pt
BES	29 Jul	17:00			www.bes.pt

Source: Company Reports.

Stock Performance

Figure 3. Bank Stock Price Performance (19 Jul 2013)

	3 Yr	1 Yr	6 Month	3 Month	1 Month
Banco Popular	-76%	-31%	-18%	-1%	-3%
Banco Sabadell	-54%	14%	-28%	4%	12%
Bankinter	-11%	94%	11%	22%	12%
BBVA	-21%	34%	-15%	-5%	-4%
CaixaBank	-17%	21%	-13%	-13%	2%
Santander	-33%	23%	-18%	-2%	-2%
IBEX 35	-20%	20%	-8%	0%	-2%
Spanish Banks	-44%	15%	-23%	-8%	-2%
BES	-70%	19%	-42%	-19%	-11%
BPI	-35%	73%	-27%	-5%	-4%
PSI 20	-22%	14%	-12%	-5%	-6%
Portuguese Banks	-68%	40%	-31%	-13%	-10%
European Banks Sector	-14%	33%	-2%	8%	3%

Source: DataStream.

Figure 4. Bank Stock Price Relative Performance (19 Jul 2013)

	3 Yr	1 Yr	6 Month	3 Month	1 Month
Banco Popular	-62%	-64%	-16%	-9%	-6%
Banco Sabadell	-40%	-18%	-26%	-4%	9%
Bankinter	3%	61%	14%	14%	9%
BBVA	-7%	1%	-13%	-13%	-7%
CaixaBank	-4%	-12%	-10%	-21%	-1%
Santander	-19%	-9%	-16%	-10%	-5%
BES	-56%	-13%	-40%	-28%	-14%
BPI	-21%	41%	-25%	-13%	-7%

Source: DataStream.

Summary Estimates

Figure 5. Iberian Banks – Summary Recommendations

	Rating	TP €	Price € *	Upside	Div Yield	ETR	MV (Euro bn)
BKT	1	3.50	3.07	14.0%	1.3%	15.3%	3
CABK	2H	2.60	2.61	-0.4%	2.3%	1.9%	12
POP	3H	2.20	2.84	-22.5%	0.0%	-22.5%	5
SAB	3H	1.40	1.52	-7.9%	0.0%	-7.9%	5
BBVA	2H	6.35	6.44	-1.4%	6.5%	5.1%	37
SAN	2H	4.65	5.02	-7.4%	12.0%	4.6%	54
BES	1H	1.30	0.69	88.0%	0.0%	88.0%	3
BPI	2H	1.25	0.95	32.0%	0.0%	32.0%	1

Source: Citi Research, dataCentral *Priced as of 22 July 2013

Figure 6. Spanish Banks – Forecasts, 2013-16E

	Diluted EPS				BVPS				Tang BVPS				DPS			
	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	0.18	0.19	0.32	0.37	3.76	3.89	4.05	4.23	3.40	3.55	3.70	3.89	0.04	0.05	0.16	0.19
CABK	-0.11	0.17	0.28	0.34	4.83	4.50	4.32	4.35	3.88	3.60	3.45	3.48	0.06	0.08	0.23	0.23
POP	-0.02	0.04	0.00	0.23	5.41	5.37	5.27	5.41	3.89	3.88	3.81	3.97	0.00	0.01	0.00	0.06
SAB	-0.02	0.13	0.21	0.28	2.74	2.84	3.00	3.21	2.39	2.49	2.65	2.86	0.00	0.03	0.05	0.07
BBVA	0.61	0.55	0.77	0.93	8.15	8.23	8.56	9.04	6.57	6.69	7.04	7.54	0.42	0.42	0.42	0.42
SAN	0.36	0.46	0.49	0.51	6.66	6.44	6.29	6.17	4.43	4.38	4.32	4.28	0.60	0.60	0.60	0.60

	Diluted EPS, growth yoy				BVPS, growth yoy				Tang BVPS, growth yoy				DPS, growth yoy			
	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	18%	6%	64%	16%	4%	4%	4%	5%	5%	4%	4%	5%	-18%	13%	248%	16%
CABK	-304%	-253%	62%	23%	0%	-7%	-4%	1%	0%	-7%	-4%	1%	-74%	28%	200%	0%
POP	-99%	-277%	-89%	4782%	-1%	-1%	-2%	3%	-1%	0%	-2%	4%	nm	nm	nm	nm
SAB	-159%	-742%	61%	31%	3%	4%	6%	7%	5%	4%	6%	8%	nm	nm	62%	33%
BBVA	87%	-10%	41%	20%	7%	1%	4%	6%	10%	2%	5%	7%	0%	0%	0%	0%
SAN	41%	33%	5%	6%	-4%	-3%	-2%	-2%	-3%	-1%	-1%	-1%	0%	0%	0%	0%

Source: Citi Research

Figure 7. Spanish Banks – Profitability & Dividend Yield Estimates, 2013-16E

	ROE				Sust		ROTE				Dividend Yield			
	2013E	2014E	2015E	2016E	ROE	COE	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	4.9%	5.0%	8.0%	8.9%	10.0%	11.5%	5.5%	5.5%	8.7%	9.7%	1.3%	1.5%	5.2%	6.0%
CABK	-2.3%	3.6%	6.2%	7.8%	8.5%	12.0%	-2.9%	4.5%	7.8%	9.8%	2.3%	3.0%	8.9%	8.9%
POP	-0.4%	0.8%	0.1%	4.3%	8.5%	13.0%	-0.6%	1.1%	0.1%	6.0%	0.0%	0.4%	0.0%	2.0%
SAB	-0.8%	4.7%	7.3%	9.0%	9.0%	12.0%	-0.9%	5.4%	8.3%	10.2%	0.0%	2.1%	3.5%	4.6%
BBVA	7.7%	6.7%	9.2%	10.6%	10.6%	13.0%	9.7%	8.3%	11.3%	12.8%	6.5%	6.5%	6.5%	6.5%
SAN	5.1%	7.1%	7.6%	8.2%	8.2%	12.3%	7.8%	10.5%	11.2%	11.9%	12.0%	12.0%	12.0%	12.0%

Source: Citi Research

Figure 8. Spanish Banks – Current Valuation

	P/E				P/BV				P/TBV			
	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	17.0	15.9	9.7	8.3	0.82	0.79	0.76	0.73	0.90	0.87	0.83	0.79
CABK	-23.5	15.4	9.5	7.7	0.54	0.58	0.60	0.60	0.67	0.72	0.76	0.75
POP	-120.8	68.2	598.7	12.3	0.52	0.53	0.54	0.53	0.73	0.73	0.75	0.71
SABE	-73.8	11.5	7.1	5.4	0.55	0.53	0.51	0.47	0.64	0.61	0.57	0.53
BBVA	10.6	11.8	8.3	6.9	0.79	0.78	0.75	0.71	0.98	0.96	0.91	0.85
SAN	13.8	10.8	10.3	9.8	0.75	0.78	0.80	0.81	1.13	1.14	1.16	1.17

Source: Citi Research

Figure 9. Spanish Banks – Basel 2 & Basel 3 Core Capital Ratios Estimates, 2013E-16E

	B2 CT1 Ratio				B3 CET1 Ratio			
	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	11.5%	12.6%	13.8%	14.6%	11.9%	12.6%	13.8%	14.6%
CABK	10.7%	12.2%	13.1%	14.1%	7.9%	9.9%	11.5%	12.8%
POP	10.0%	10.8%	11.4%	12.4%	8.6%	9.7%	10.4%	11.4%
SABE	10.3%	11.1%	12.1%	13.2%	5.6%	7.6%	10.1%	12.3%
BBVA	12.0%	12.2%	12.6%	13.0%	9.1%			
SAN	11.3%	11.7%	11.6%	11.5%	8.5%			

Source: Citi Research

Spanish Deferred Tax Assets (DTA) & Mexico Banking System Trends

Deferred Tax Assets

DTA forbearance could help Basel 3 capital positions by €12bn – for the six banks we cover

On 1 July the Spanish daily Cinco Dias reported that the Bank of Spain and the Government are considering implementing an “Italian solution” to the existing stock of DTA's (€50bn at the system level; [click for note](#)). What Italy did in 2011 was to classify DTAs as ‘receivables from the State’ which are not deducted under CRD4.

No official statements have been made by the Government since then. However, according to Spanish banks’ representatives the discussion seems to be focussing on DTAs due to temporary differences, namely due to special provisioning and pension fund contributions. We would put the likelihood of the DTA forbearance taking place at c. 50%. The reasons for our view of the probability:

1. **For the six banks we cover, forbearance would ‘only’ cost 1-2 ppt of Debt/GDP to the Spanish sovereign** – current discussions seem to revolve only around DTAs due to temporary differences. We estimate the deduction for the six banks we cover at c. €12bn, implying a cost of c. 1-2 ppt to Spain’s Debt/GDP ratio (Figure 10);
2. **It should be well received by the market** – for example, the midcap Italian banks rallied into the Italian announcement in January-February 2011; SAB, the greatest beneficiary in Spain at c. 400 bps benefit to its capital ratios (Figure 11), rallied c20% over two days upon the Cinco Dias report; and
3. **It is a form of quid pro quo on the part of the Government**, given that special provisioning is really due to the two Royal Decrees in 2012 (with a third round of provisioning likely after September 2013 for restructured loans) and acquisitions of challenged cajas;
4. **Yet uncertainty remains as no official details have been disclosed yet** – risk factors include: the views of the Troika; the upcoming ECB asset quality review; and any ongoing sale process of cajas (e.g., CatalunyaCaixa and NCG Banco).

Figure 10. Spanish Banks – Potential Benefits from DTA Forbearance, €m and % 2013E RWA *

DTA Breakdown	Total DTA – 2012A	% RWA	DTA Deduction – Basel 3	% RWA	DTA Deduction – o/w temp diff	% RWA	DTA Deduction – o/w Spain	% RWA	Memo: 2013E RWA
BKT	1	0.00%	0	0.00%	0	0.00%	0	0.00%	23,413
CABK	4,558	3.04%	3,319	2.21%	1,583	1.06%	1,583	1.06%	149,945
POP	2,828	3.28%	1,690	1.96%	672	0.78%	672	0.78%	86,213
SAB	4,864	6.34%	3,578	4.66%	3,118	4.06%	3,118	4.06%	76,761
BBVA	5,282	1.64%	5,080	1.58%	1,865	0.58%	1,243	0.39%	321,507
SAN	16,900	3.07%	13,223	2.40%	6,611	1.20%	5,510	1.00%	550,955
Total	34,433	2.85%	26,890	2.22%	13,849	1.15%	12,126	1.00%	1,208,794

Source: Citi Research, company reports * Assumes forbearance on DTAs due to temporary differences

SAB benefits the most at c. 400 bps

On our analysis and assuming 100% forbearance on all temporary differences, SAB benefits the most at c. 400 bps (end-2013) driven by special provisioning taken as part of the CAM acquisition in 2012. CABK and SAN follow at c. 100 bps while POP could see a benefit of c. 80 bps and BBVA of c 40 bps.

Interestingly, on 100% forbearance, we estimate all six banks we cover would be at or above 9% Basel 3 CET1R by the end of this year. In our current company/model estimates, we assume a probability weighted 50% of the benefit goes through as explained above.

Figure 11. Benefit from 100% DTA Forbearance on Spanish Temporary Differences (2013E CET1R under Basel 3) *

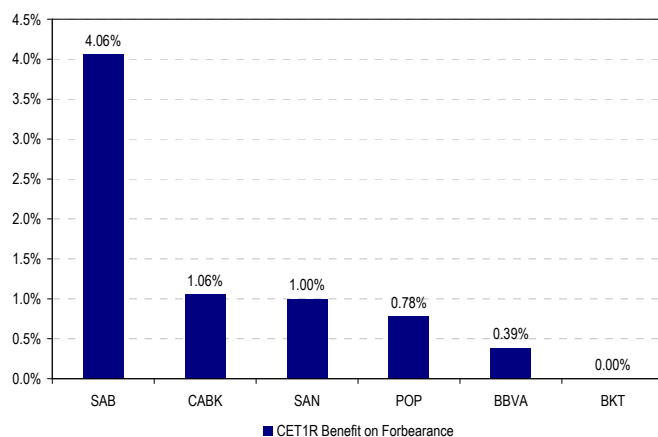
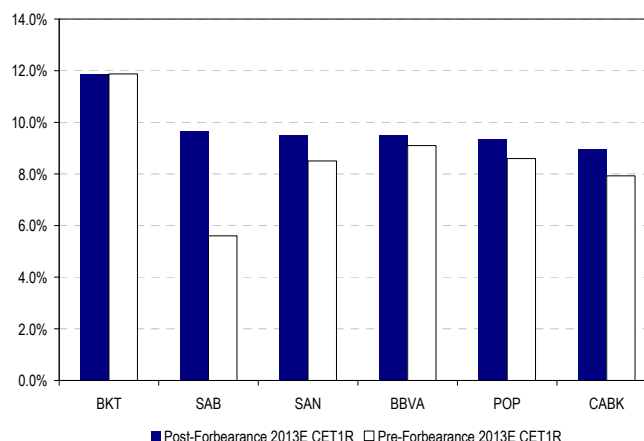


Figure 12. 2013E CET1R Before & After 100% Forbearance on Spanish Temporary Differences (%) *



Source: Citi Research * Our current estimates assume 50% of the benefit from DTA forbearance on Spanish temporary differences

DTA Forbearance Should Be Viewed as Credible by Investors

There are at least three reasons why DTA forbearance should be treated as 'credible' by the market

Many investors believe DTA forbearance is a 'smokescreen' as it involves a 'paper' classification of DTAs as receivables from the state. We disagree with this view for the following reasons:

1. DTAs are a *deduction from capital*, not a *component of capital*
2. DTAs due to tax loss carryforwards, which rely on future profitability, would most likely continue to be deducted; it is DTAs due to temporary differences, ie the ones due to more technical reasons, that are likely to receive forbearance;
3. Even in the absence of forbearance, DTA's due to temporary differences would likely trend down to zero over time anyways – as generic provisions are reclassified as specific. The caveat here is that a bank needs to be profitable on a tax/fiscal basis if it is to be able to utilize these DTAs. On our current estimates, deductions due to DTAs from temporary differences do indeed decline over time.

Mexico Banking System Trends in 2Q13 QTD (April-May)

Better NIM, higher provisions in 2Q13 QTD vs last year

Mexico's CNBV banking regulator has released system data for May 2013. The regulator reports an ROE of 15.0 for the first five months of the year compared to 13.4% for the same period last year. The corresponding ROA improved to 160 bps from 138 bps in the same period last year. On a mom basis, the Net Interest Margin declined slightly by 10 bps to 10.7% for the month of May but QTD in 2Q13 the margin is actually higher at 10.7% vs 10.3% in 2Q12 QTD and 10.3% in 1Q13 QTD (Figure 13). Higher provisions QTD in 2Q13 yoy and qoq partly offset the improvement in margins. The Cost-Income Ratio improved QTD yoy and qoq.

Figure 13. Mexico Banking System – P&L (MXN pesos bn), 4-5/2012, 1-2/2013 & 1-5/2013

	Apr-May 2012	Jan-Feb 2013	Apr-May 2013	yoy	qoq
Interest Income	70	73	77	10%	5%
Interest Expense	-27	-26	-27	0%	4%
NII	43	47	50	16%	6%
Provisions	-10	-12	-15	50%	25%
NII post provisions	33	35	35	6%	0%
Fee income	13	13	14	8%	8%
Fee expense	-3	-4	-3	0%	-25%
Expenses	-37	-39	-38	3%	-3%
Pre-tax Profit	6	5	8	33%	60%
Trading	2	5	5	150%	0%
Other/Taxes/Minorities	5	12	5	0%	-58%
Net Profit	13	22	18	38%	-18%
Net Interest Margin	10.3%	10.3%	10.7%	0.5 ppt	0.5 ppt
Cost/Income Ratio	67.4%	64.2%	57.6%	-9.7 ppt	-6.6 ppt
Cost of Risk	2.4%	2.6%	3.2%	0.8 ppt	0.6 ppt

Source: Citi Research, Mexico CNBV

Loan growth decelerated to 10.5% yoy in 2Q13 QTD vs 11.4% in 1Q13

Total loan volumes in 2Q13 QTD grew 10.5% yoy and 10.0% qoq (Figure 14) a slowdown from the 11.4% rate recorded in 1Q13. Both commercial and retail (ex-mortgage) loans are growing more slowly. Within Retail, personal loans continue to be the fastest growing category at c. 35% yoy but the growth rate has recently slowed down to 21%. Mortgage growth, on the other hand, has accelerated to 10.7% yoy in 2Q13 QTD from 9.7% in 1Q13.

Figure 14. Mexico Banking System – Loan Volumes (MXN pesos bn), 1-5/2012 and 1-5/2013

	Apr-May 2012	Jan-Feb 2013	Apr-May 2013	yoy	qoq
Commercial	1,607	1,699	1,736	8.0%	8.7%
Corporate	1,181	1,215	1,249	5.8%	11.2%
Financials	79	94	100	26.6%	25.5%
Government	347	390	387	11.5%	-3.1%
Retail	527	602	620	17.6%	12.0%
Credit card	246	277	284	15.4%	10.1%
Personal	89	114	120	34.8%	21.1%
Nómina	107	119	124	15.9%	16.8%
ABCD	63	66	66	4.8%	0.0%
Other	22	26	26	18.2%	0.0%
Mortgage	428	460	474	10.7%	12.2%
TOTAL	2,562	2,761	2,830	10.5%	10.0%

Source: Citi Research, Mexico CNBV

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Spain

Asset Quality

- The system NPL ratio increased 223 bps to 11.12% in May 2013 from 8.89% yoy while the NPL stock stood at €170 billion. As of end-March, the NPL stock volume growth has decelerated in all corporate segments except for agriculture and industrials likely driven by transfers to Sareb. The NPL ratio for the real estate loan segment declined slightly to 28.9% at end-1Q13 from 29% at end-4Q12. The Construction NPL ratio also declined slightly, to 25.4% from 25.8% qoq. The non-commercial (individual) NPL ratio rose to 5.09% from 4.77% qoq.

Figure 15. System NPLs and NPL Ratios, Jan 91-May 13 (€ Bn)

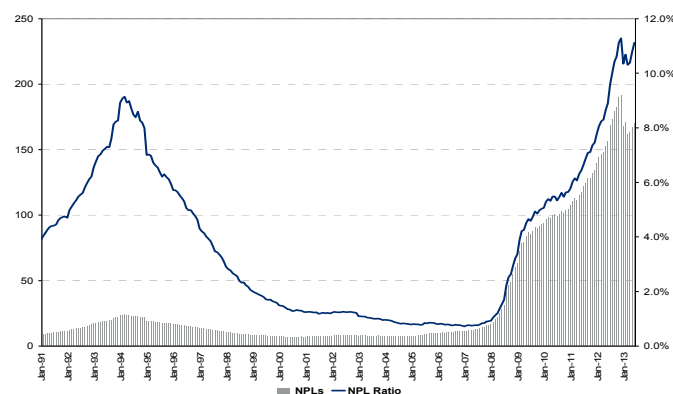


Figure 16. System NPL Ratios By Sector, Jun 06-Mar 13 (€ Bn)

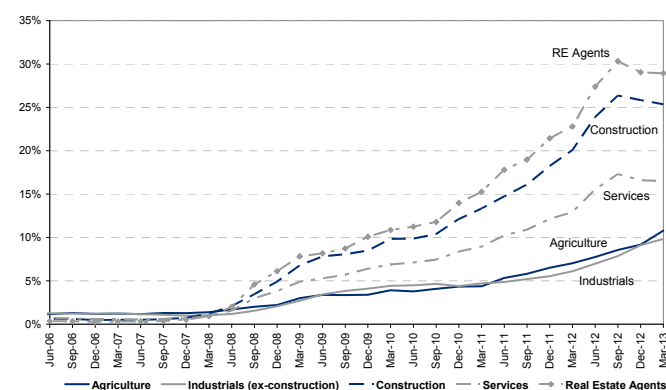


Figure 17. System Corporate NPLs and NPL Ratios, Mar 98-Mar 13 (€ Bn)

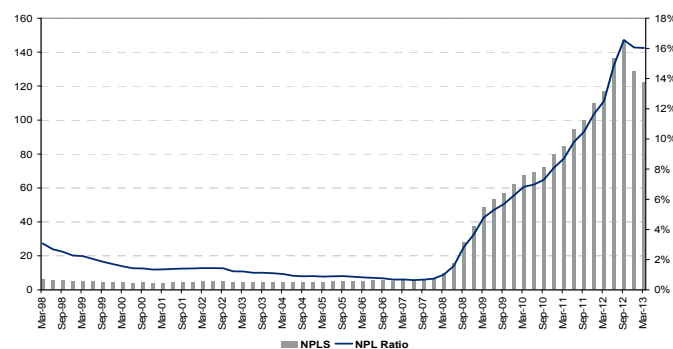


Figure 18. System Individual NPLs and NPL Ratios, Mar 98-Mar 13 (€ Bn)

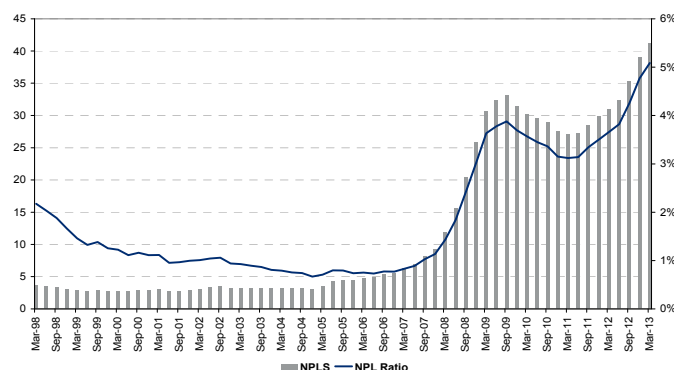


Figure 19. Corporate NPL Stock YoY Growth Rate by Segment, Sep 09-Mar 13 (%)

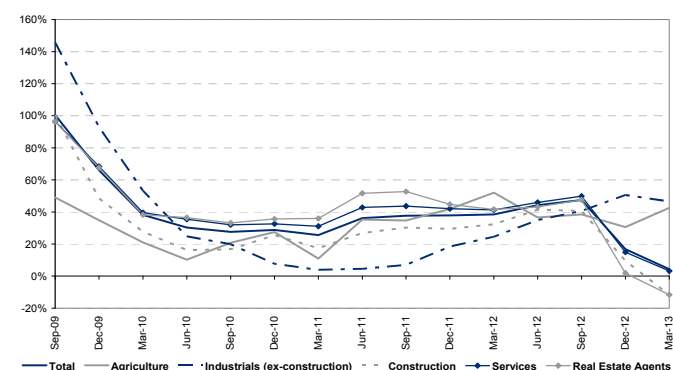
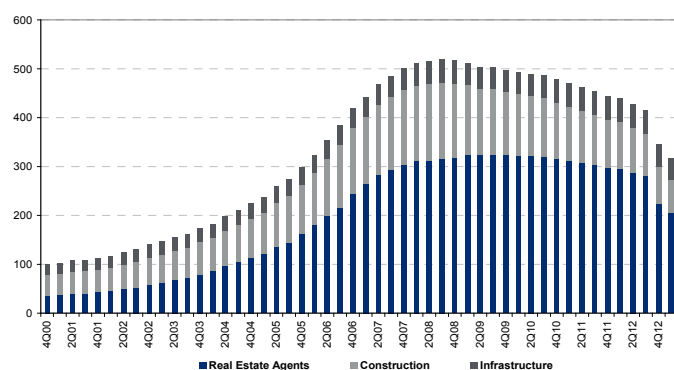


Figure 20. System Total Real Estate Exposure, 4Q00-1Q13 (€bn)



Source for all: Bank of Spain

Note: Includes Construction, Developers, Infrastructure and Property acquisition loans.

Loan and Deposit Growth

- Domestic loans contracted in May the most since the crisis began (-12.8% yoy) driven by delevering and Sareb transfers. Non-financial corporate loans shrinkage accelerated to -20.3% yoy from -6.2% a year ago. The contraction of mortgage volumes stands at -4.3% yoy vs. -1.7 yoy a year ago, however is flat QoQ.
- Total deposits¹ increased by +4.5% yoy vs. contraction of -5.1% a year ago. The Spanish banking system has gained €53 billion of deposits from households since the four-year low reached in July 12.

Figure 21. YoY Loan Growth, Jan 91-May 13

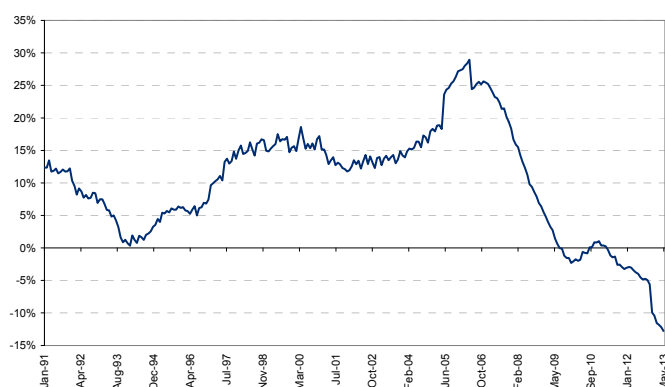


Figure 22. YoY Deposit Growth *, Dec 03-May 13

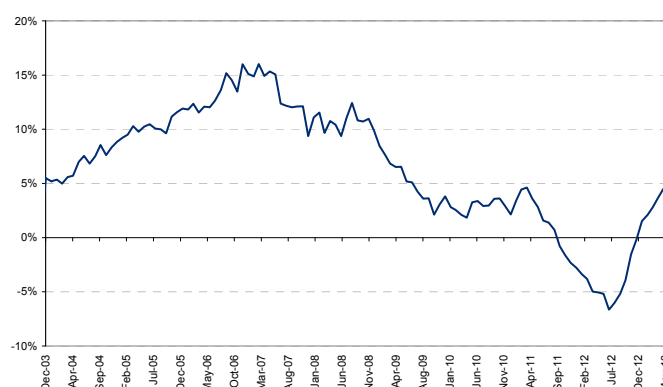


Figure 23. YoY Loan Growth by Type, Jan 04-May 13

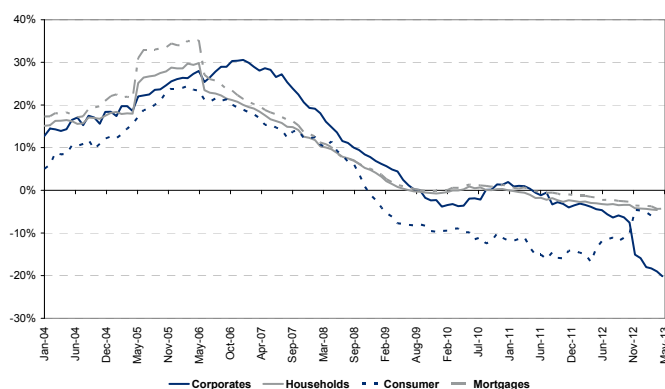
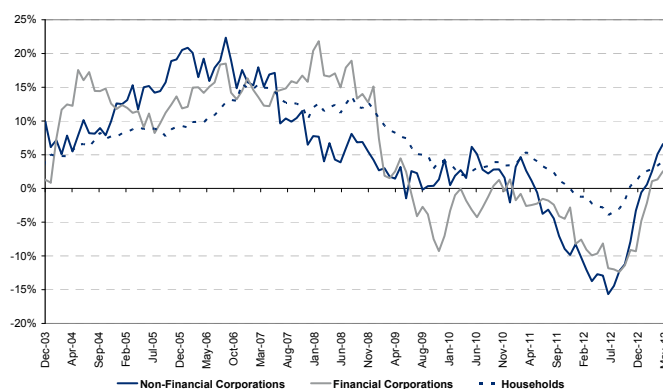


Figure 24. YoY Deposit Growth by Type, Dec 03-May 13



Source for all: Bank of Spain

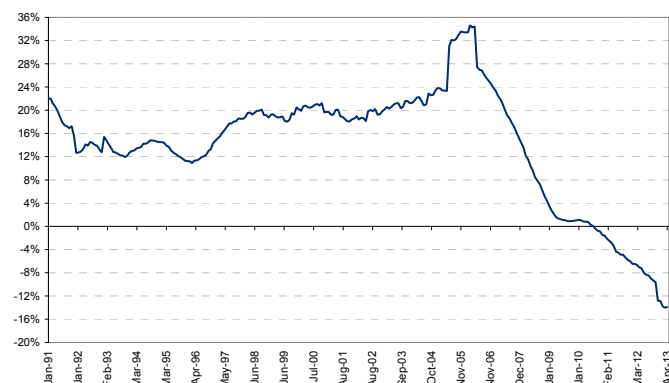
* Note: Deposits include only Households, Financial Corporations and non financial corporations

¹ Our definition of deposits includes deposits from households and non-financial corporates (chapter 8.28 of the statistical database of Bank of Spain). We exclude deposits related to financial institutions, mainly securitizations vehicles, public loans and insurance companies deposits.

Mortgage, Housing & Fund Flows

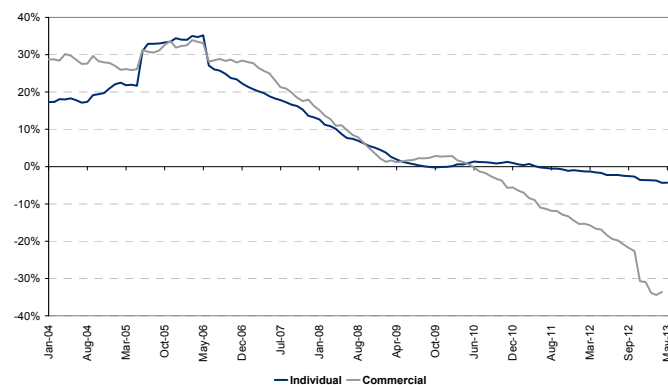
- Mortgage volumes continue to contract at an accelerating pace (-13.9% in Apr 13 vs. -7.1% a year ago), driven by commercial mortgages (Apr 13: -33.6% yoy). Individual mortgages declined -4.3% yoy in Apr 13 vs. -1.6% a year ago.
- Housing prices (per sq m) were down -7.9% yoy in 1Q13, a c200bps improvement to last quarter which was the largest contraction in prices since 1Q96. Mutual funds AuM stood at €135bn at end-June 2013.

Figure 25. System Mortgage Growth (YoY), Jan 91-Apr 13



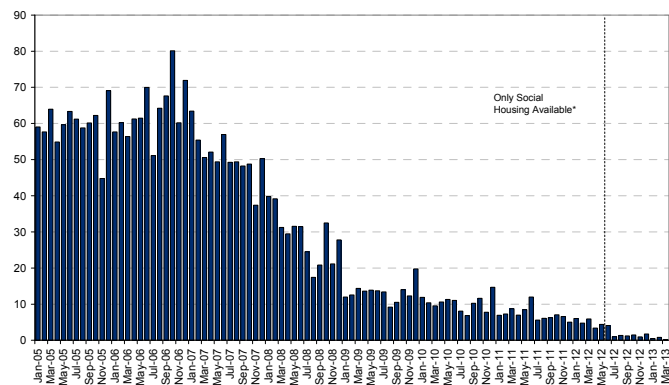
Source: Bank of Spain

Figure 26. Split in System Mortgage Growth (YoY), Jan 04-May 13



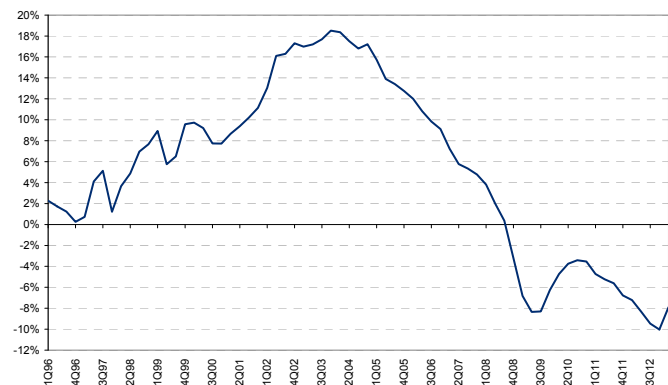
Source: Bank of Spain

Figure 27. Total New Housing Starts ('000's), Jan 05-Mar 13*



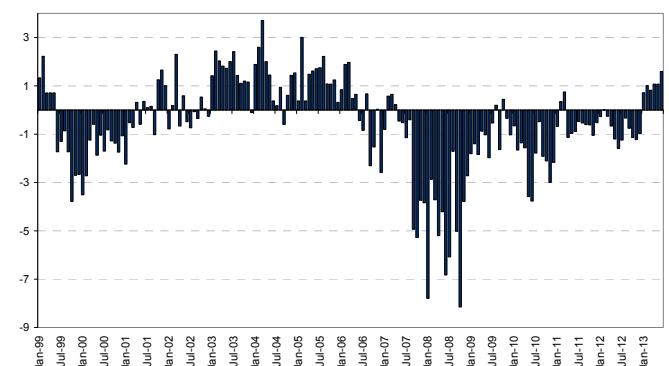
Source: Ministry of Housing. *As of Jul 2012 only social housing data available.

Figure 28. House Prices Growth (YoY), 1Q96-1Q13



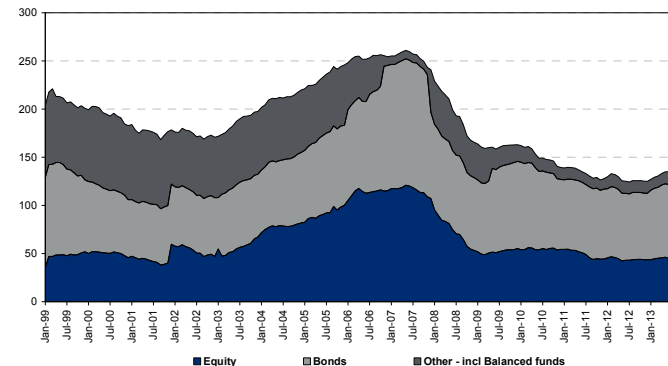
Source: Ministry of Housing

Figure 29. Stock of Mutual Funds, Jan 99-Jun 13 (Euros in Billions)



Source: Inverco. Note: Data has been reclassified as of January 2013 with no reclassification data available prior to that date.

Figure 30. Mutual Fund Flows, Jan 99-Jun 13 (Euros in Billions)



Source: Inverco. Note: Data has been reclassified as of January 2013 with no reclassification data available prior to that date.

Business Mix and Liquidity

- Total loans to GDP decreased marginally in 1Q13 to 153% of GDP from 154% in 4Q12, following the largest contraction QoQ in 4Q12 since the beginning of the crisis which was driven by the corporate segment (most likely transfers of 'bad' bank assets and NPLs to Sareb).
- The loans-to-deposits ratio of Spanish financial institutions declined to 159% in May 13 from 191% a year ago.

Figure 31. Loan Mix, Jan 03-Apr 13 (%)

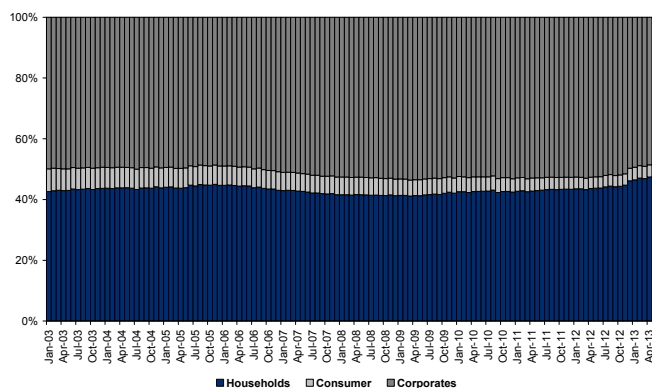


Figure 32. Deposit Mix, Jan 91-Apr 13 (%)

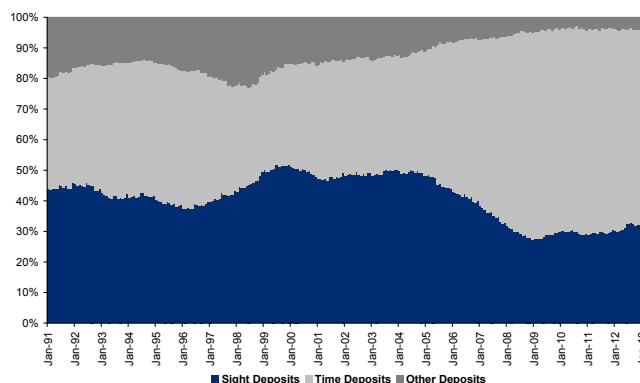


Figure 33. Loans as a Pct of GDP, 4Q02-1Q13

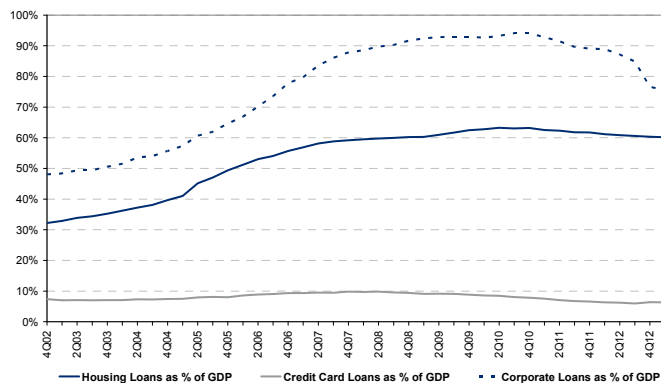
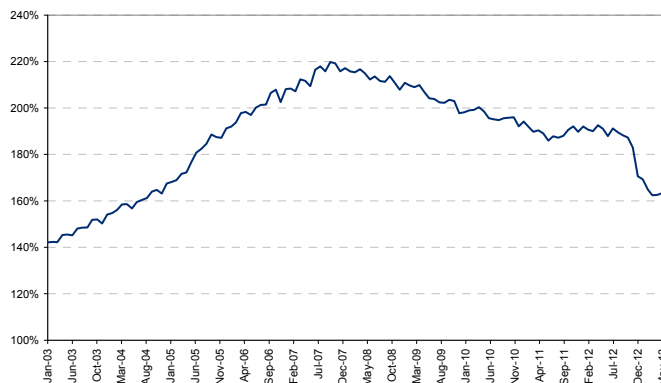


Figure 34. Ratio of Loans to Deposits *, Jan 03-May 13



Source for all: Bank of Spain

* Note: Loan to deposit ratio calculations based only Households and non financial corporations loans and deposits.

Macro Environment

- Spanish real GDP contracted by -2% yoy during 1Q13 compared to -1.9% in 4Q12. Spanish macro trends continue to be negative for Spanish bank stocks but some initial signs of stabilisation include deceleration in the growth of unemployed people and growing exports.
- The inflation rate in Spain was 2.1% in June compared to 1.9% a year ago.
- Unemployment keeps rising steadily and stands at 26.9% in May 13.

Figure 35. GDP Growth, 1Q96-2017E

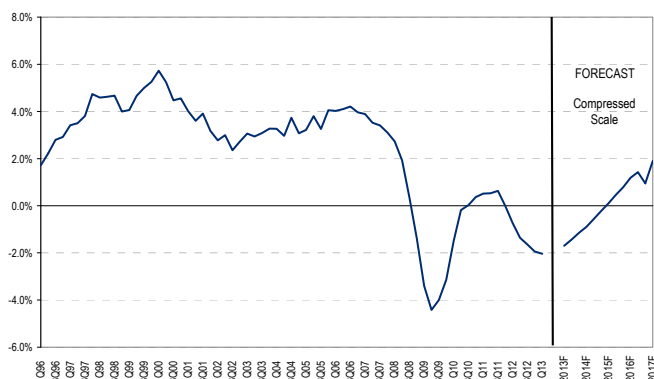


Figure 36. Inflation, Jan 90-2017E



Figure 37. Policy Rates, Oct 11-Jul 13

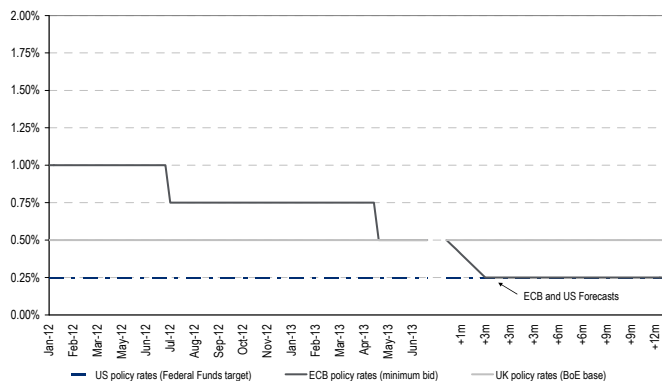


Figure 38. 10-Year Yields, Oct 11-Jul 13

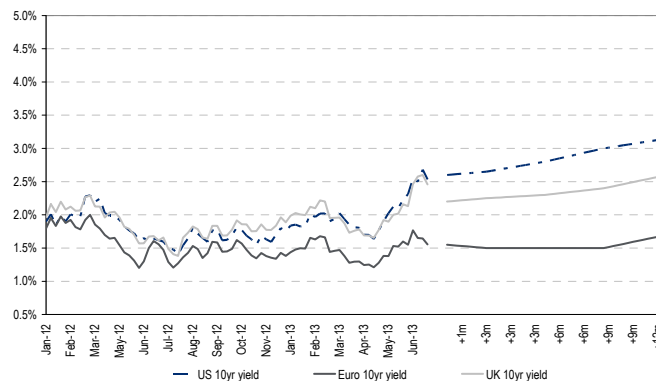


Figure 39. Euros Versus US\$, Jan 03-Jul 13

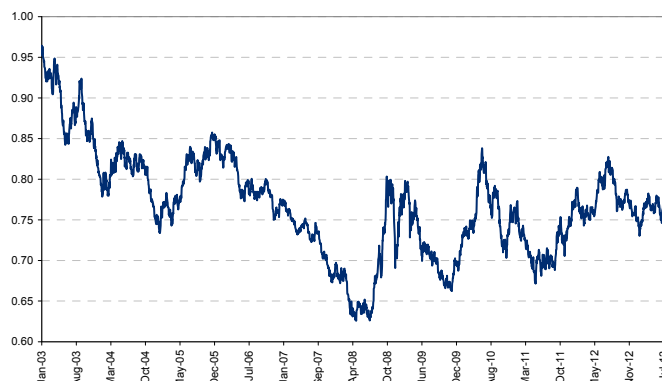


Figure 40. Unemployment Rate (%), Jan 90-May 13



Source for all: DataStream (all) and Citi Economists estimates (Figure 35 to Figure 38).

Confidence Survey

- The economic sentiment indicator improved in Jun 13 to -25.6 from -31.9 at end-1Q13 reflecting overall improvement in sub industry indicators YTD except construction.
- Industrial confidence also improved marginally since end-1Q13.

Figure 41. Consumer Confidence Indicator, Jan 90-Jun 13

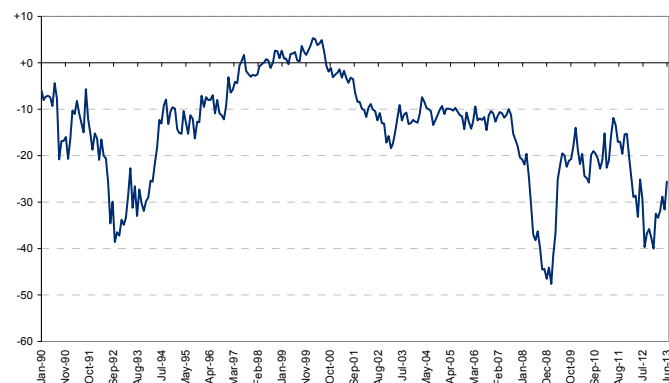


Figure 43. Business Services Confidence, Oct 96-Jun 13

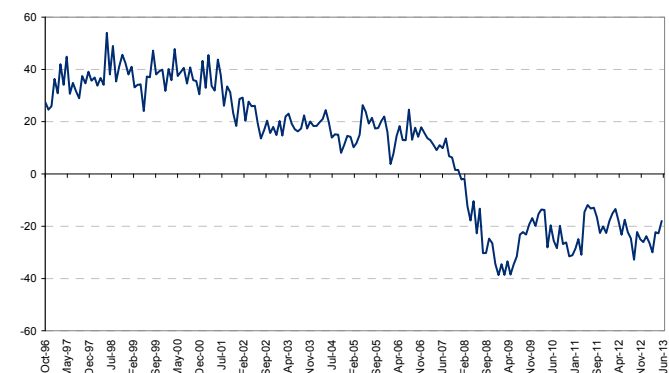


Figure 45. General Sector Indicator Survey, Jan 90-Jun 13

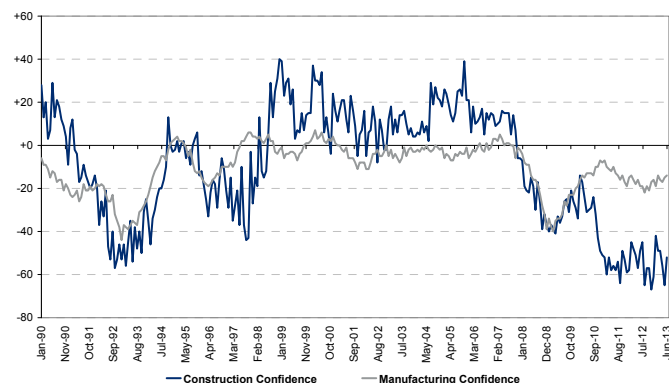


Figure 42. Economic Sentiment Indicator, 1Q90-2Q13

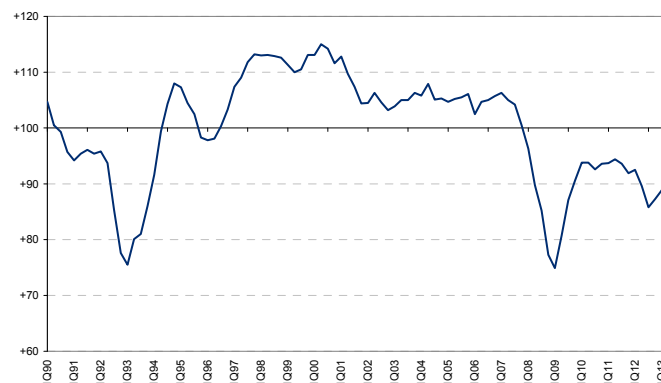


Figure 44. Selected Sector Confidence Indicator, Jun 12-Jun 13

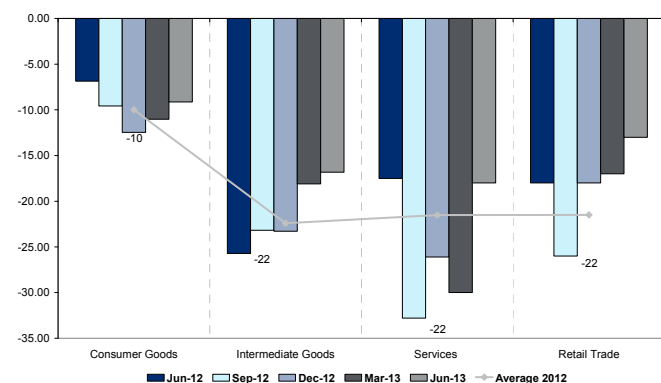
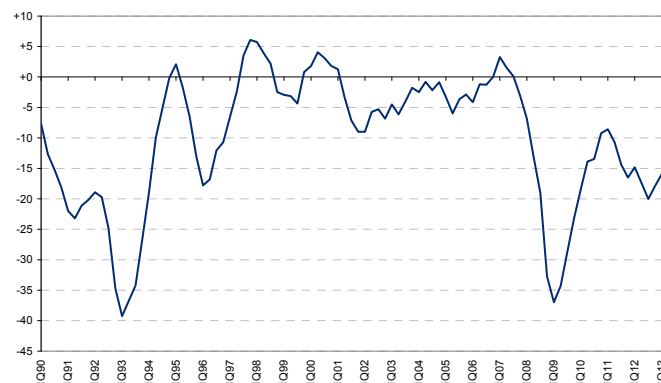


Figure 46. Industrial Confidence Survey, 1Q90-2Q13



Source for all: DataStream

Stock Exchange

- The IBEX 35 rose +1% in 2Q13 but underperformed the MSCI USA index (+5%) and slightly outperformed the MSCI Europe index (flat)
- 2Q13 trading volumes were up +13% higher qoq and down -12% yoy.

Figure 47. IBEX 35 Selected Equity Markets, Jan 00-Jul 13

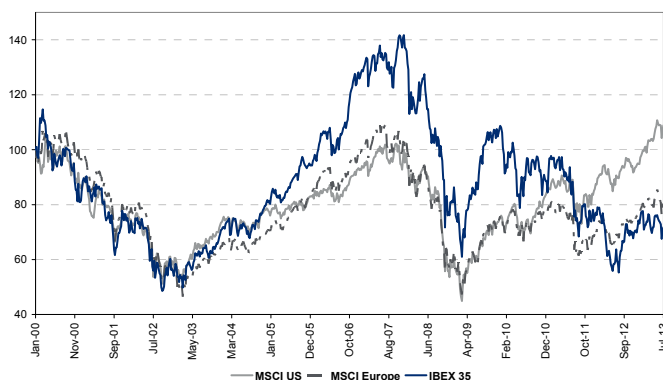


Figure 48. IBEX 35 vs Selected Equity Markets, 1Q00-2Q13

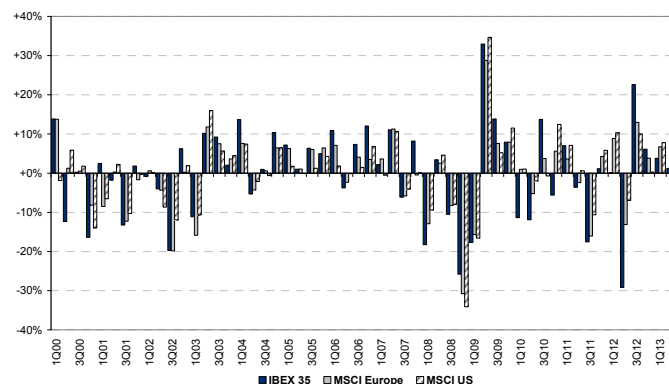


Figure 49. Equity Volumes, Jan 00-Jun 13 (Euros in Thousands)

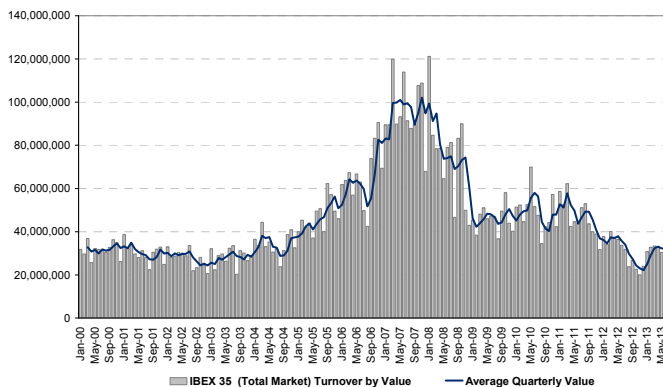
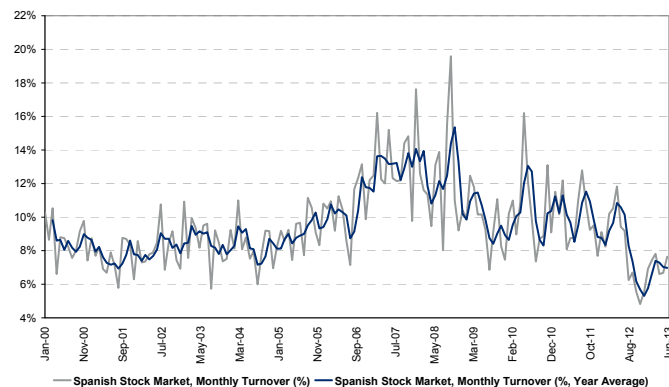


Figure 50. Equity Turnover as % of Market Cap, Jan 00-Jun 13



Source for all: DataStream

Portugal

Volumes and Asset Quality

- Deleveraging is stabilizing with system loans contracting -5.2% yoy at Apr 2013, driven by consumers (-11% yoy) and corporates (-6% yoy, decelerating) housing (-4% yoy, accelerating). After a period of uncertainty triggered by deposit haircuts in Cyprus, deposit contraction decelerated in April (-2.9% yoy at Apr 2013), with more expensive time deposits down 4% yoy and demand deposits in positive territory (+0.1%). Household deposit growth remains positive (+0.1% yoy) while corporates continue to reduce deposits (-15% yoy). Since its 2009 peak, the system's LDR has fallen from c175% to c150% in Apr 13.
- The April NPL ratio (11.1%) is up 260bps yoy and 440bps since December 2011. The corporate sector continues to bear the vast bulk of NPL stock (c70%) and formation (c95%).

Figure 51. YoY Loan Growth, Jan 98-Apr 13

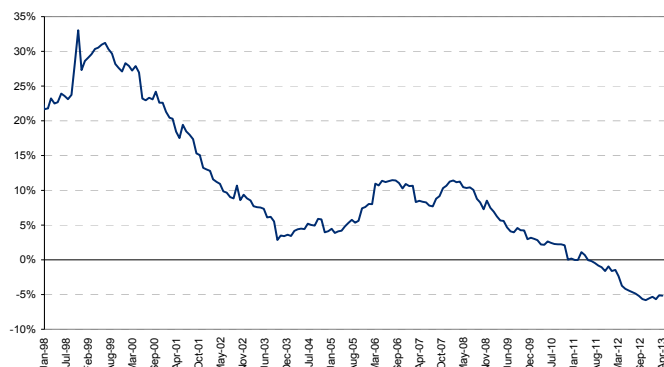


Figure 52. YoY Deposit Growth, Jan 98-Apr 13

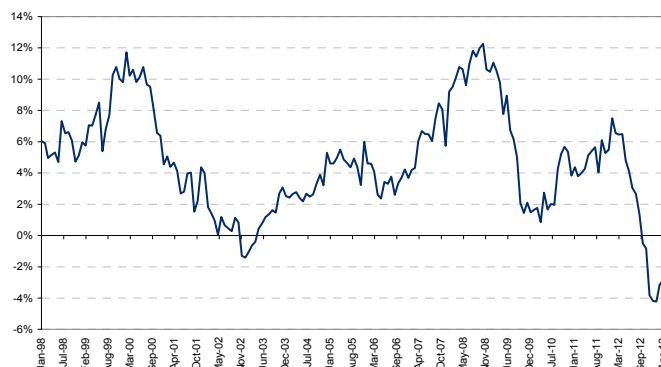


Figure 53. YoY Loan Growth By Type, Jan 98-Apr 13

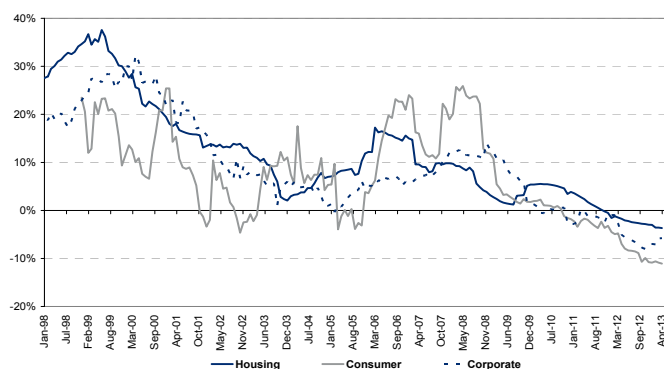


Figure 54. YoY Deposit Growth By Type, Jan 98-Apr 13

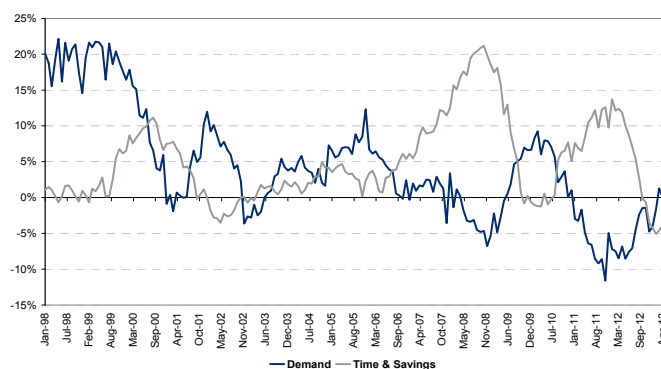


Figure 55. NPLs (% of Total Loans), Jan 98-Apr 13

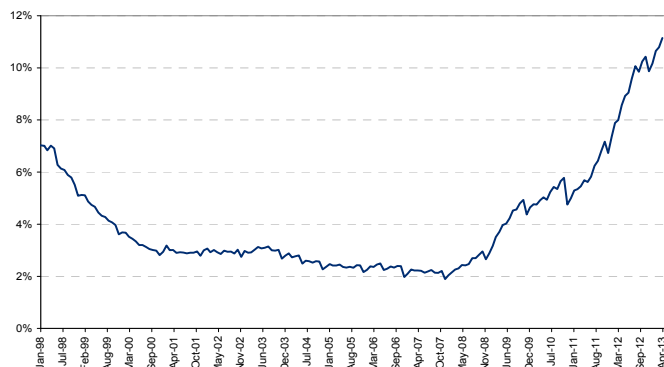
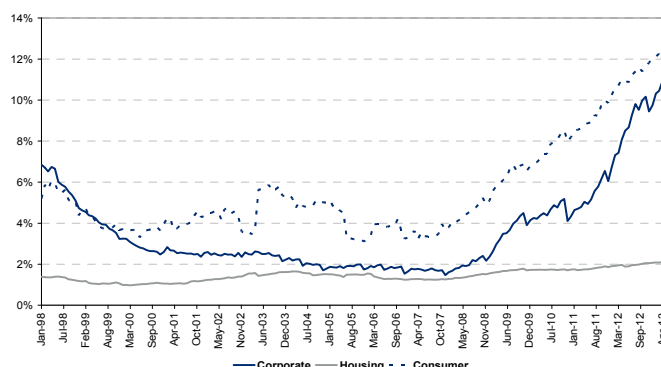


Figure 56. NPLs By Type (% of Total Loans), Jan 98-Apr 13



Source for all: Bank of Portugal

Macro Environment

- After declining -3.8% yoy in 4Q12, the contraction in real GDP over 1Q13 increased to -4%. Portugal macro trends continue to be challenging for banks.
- The inflation rate stood at 1% in Jun 13 versus 0.5% in Mar 13 and 2.7% in Jun 12. After rising considerably from August 2009 to December 2011, the CPI has steadily trended downwards.
- The Portuguese 10-year yield peaked at 16.1% as the government requested a €78bn IMF/EC/ECB stabilisation programme and the country was downgraded below investment grade. Yields have decreased significantly over 2012, with Jun 13 rates at 6.4%. However, recent political instability has led to a pick up in yields.
- This political uncertainty has also led to the underperformance of the Lisbon stock market – it is currently down -8% since the start of 2Q13. Since the peak in sovereign bond yields in Jan-12, the Lisbon stock market is up 13%.

Figure 57. Real GDP Growth, 1Q96-1Q13

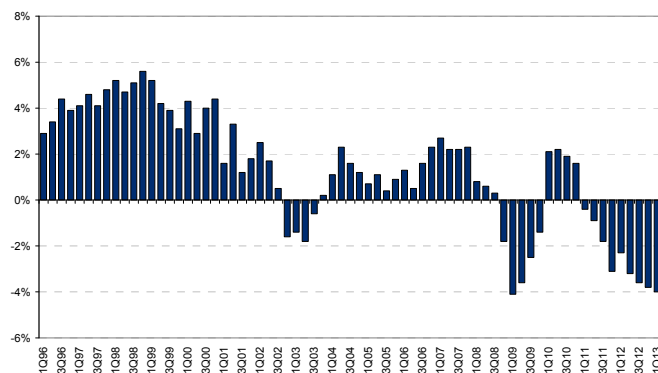


Figure 58. Inflation, Jan 94-Jun 13



Figure 59. 10-Year Government Bond Yields, Jan 94-Jun 13



Figure 60. Lisbon Stock Market, Jan 94-Jul 13



Source for all: DataStream

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Latin America

Brazil — Key Banking Trends

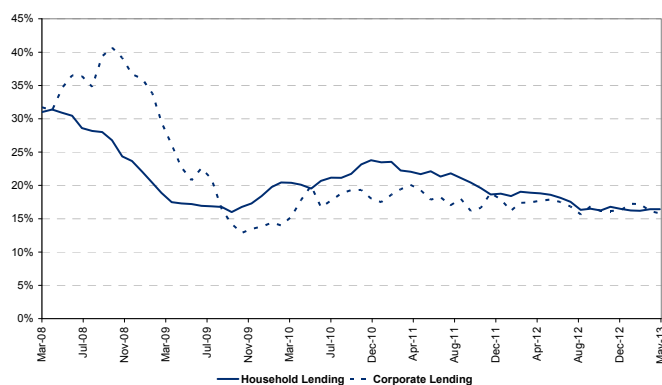
- System loan growth in Brazil declined since end 1Q13 and stands at 16.1% in May 13. Loan growth has fallen steadily since the peak reached in April 2011 (21%).
- Household lending growth marginally picked up to 16.4% in May 13 (16.2% in Mar 13) while corporate lending growth declined to 15.8% in May 13 (17.2% in Mar 13).
- Deposit growth has slowed down to +1.5% (May 13) from +7.1% yoy a year earlier. Savings deposits are up +19.2% yoy in May 13. Time deposit contraction accelerated to -12% in May 13 from +5% in Feb 12.

Figure 61. YoY Total Loan Growth^a, Mar 08-May 13



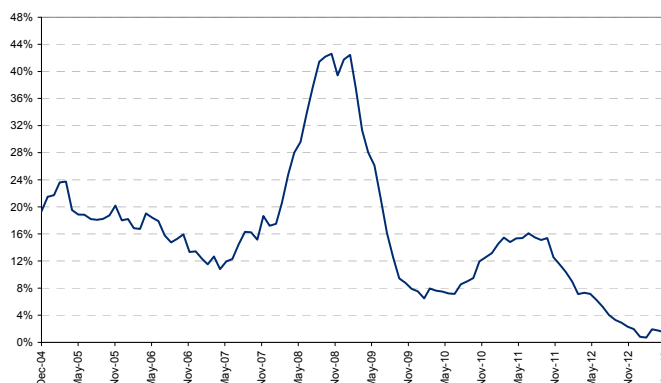
Source: Central Bank of Brazil. ^a Total private system loan growth.

Figure 63. YoY Total Loan Growth By Type^a, Mar 08-May 13



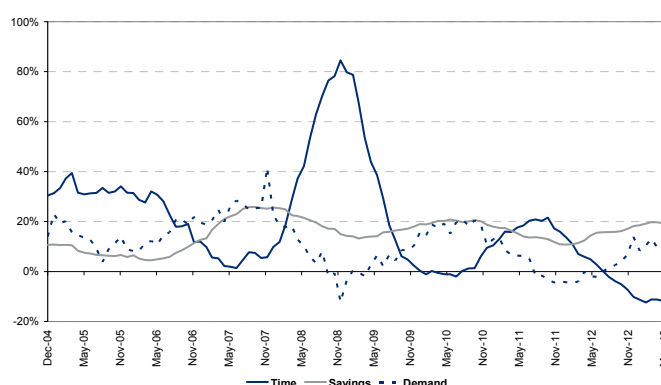
Source: Central Bank of Brazil. ^a Total private system loan growth.

Figure 62. YoY Total Deposits Growth, Dec 04-May 13



Source: Central Bank of Brazil

Figure 64. YoY Total Deposits Growth By Type, Dec 04-May 13

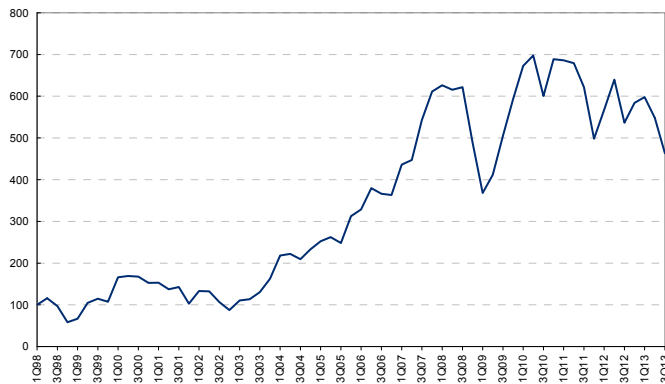


Source: Central Bank of Brazil

Brazil

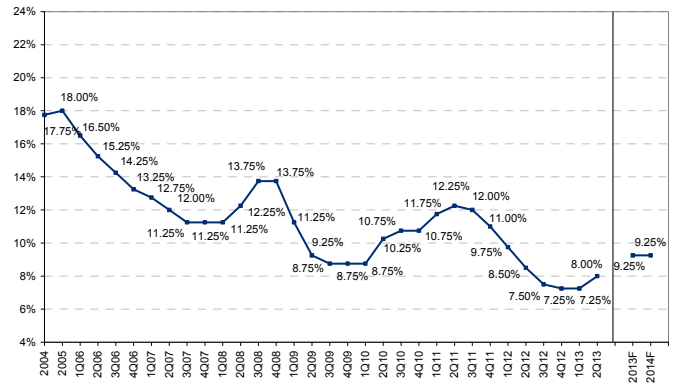
- We include Brazil macro data below, with forecasts from our economists. The data points to overall neutral macro trends at the moment. But our economists expect rates to rise which should be positive for the net interest margins of the Brazil-exposed Spanish banks (mainly SAN).

Figure 65. Bovespa Stock Index, 1Q98-3Q13



Source: Datastream

Figure 66. Central Bank Rate (SELIC), 2004-2014F



Source: Banco Central and Citi Economists' estimates

Brazil — Economic Indicators

Figure 67. Brazil Economic Forecasts

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	2475	585	561	541	579	2263	548	577	578	615	2361	2343
Nominal GDP (Real Bn)	4143	1033	1102	1098	1169	4403	1104	1183	1184	1261	4753	5155
GDP per capita (US\$)	12,806	3,017	2,889	2,781	2,967	11,603	2,804	2,944	2,941	3,125	11,996	11,799
Unemployment Rate (%)	6.0	5.8	5.9	5.4	4.9	5.5	5.7	5.8	5.5	5.0	5.5	5.4
Population (millions)	193.2	193.8	194.2	194.6	195.1	195.1	195.5	196.0	196.4	196.8	196.8	198.6
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	2.7	0.8	0.5	0.9	1.4	0.9	1.9	2.4	2.9	2.9	2.5	3.0
Citi's Brazil Activity Indicator (BAI, y/y)	...	...	...	...	...	...	...	...	...	...	...	...
Real GDP growth (qoq, sa, annualized)	...	0.6	1.3	1.5	2.2	...	2.2	3.7	2.8	2.8	...	...
Domestic Demand Growth (ex-inventory, yoy)	3.8	1.8	1.3	1.5	2.1	1.7	2.2	3.6	5.1	4.5	3.8	3.9
Real Investment Growth (yoy)	4.0	-6.2	-4.5	-11.7	-10.0	-8.1	11.4	5.9	9.9	9.3	9.1	5.1
Real Consumption Growth (yoy)	3.6	2.7	2.6	3.3	3.7	3.1	2.0	3.0	4.0	3.4	3.1	3.7
Real Private Consumption Growth (yoy)	4.1	2.5	2.4	3.4	3.9	3.1	2.1	3.2	3.5	3.2	3.0	3.8
Real Government Consumption Growth (yoy)	1.9	3.4	3.1	3.2	3.1	3.2	1.6	2.5	5.5	4.0	3.4	3.2
Real Export Growth (yoy)	4.5	6.6	-2.5	-3.2	2.1	0.5	-5.7	2.0	3.0	-1.0	-0.3	5.1
Real Import Growth (yoy)	9.7	6.3	1.6	-6.4	0.4	0.2	7.4	9.0	16.2	10.0	10.6	10.0
PRICES												
Consumer Price Inflation (yoy, eop)	6.5	5.2	4.9	5.3	5.8	5.8	6.6	6.8	6.6	6.2	6.2	5.9
Consumer Price Inflation (yoy, average)	6.6	6.5	6.1	5.7	5.4	5.4	5.6	6.0	6.3	6.5	6.5	6.0
Core Inflation (yoy, eop)	6.7	5.6	5.1	5.3	5.9	5.9	5.7	6.0	5.9	5.6	5.6	5.9
Consumer Price Inflation (qoq, eop)	...	1.2	1.1	1.4	2.0	...	1.9	1.3	1.3	1.6	...	...
Core Inflation (qoq, eop)	...	1.4	1.1	1.3	1.9	...	1.3	1.4	1.3	1.6	...	...
Wages (% change yoy, nominal)	8.9	11.0	10.1	10.2	10.7	10.7	11.5	11.7	11.5	11.1	11.1	10.9
Exchange Rate (local currency to USD, eop)	1.88	1.82	2.02	2.03	2.04	2.04	2.01	2.14	2.17	2.18	2.18	2.20
Exchange Rate (local currency to USD, average)	1.67	1.76	1.98	2.04	2.06	1.96	1.99	2.09	2.16	2.18	2.11	2.20
Exchange Rate (% change yoy, + dep.)	-4.9	-1.2	8.1	14.9	17.3	17.0	19.0	13.8	9.7	7.5	7.5	4.4
MONETARY SECTOR												
Monetary Base growth (yoy)	17.5	16.0	17.0	18.0	19.0	17.5	16.0	17.0	18.0	19.0	17.5	18.9
Credit Growth (yoy)	19.0	18.3	18.2	15.9	16.9	16.9	18.2	19.0	19.2	18.8	18.8	18.7
Broad Money growth (yoy)	17.5	16.0	17.0	18.0	19.0	17.5	16.0	17.0	18.0	19.0	17.5	18.9
Central Bank Rate (SELIC, eop)	11.00	9.75	8.50	7.50	7.25	7.25	7.25	8.00	9.00	9.25	9.25	9.25
Central Bank Rate (SELIC, average)	11.71	10.25	8.67	7.67	7.25	8.46	7.25	7.83	8.83	9.25	8.29	9.25
Interbank Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...
Interbank Rate (average)	...	...	...	...	...	...	...	...	...	...	...	...
Short-term Rate (eop)	10.9	9.7	8.4	7.4	6.6	6.6	7.0	8.0	9.0	9.3	9.3	9.3
Short-term Rate (average)	11.6	10.2	8.8	7.7	7.0	8.4	7.0	7.4	8.6	9.2	8.1	9.3
Long-term Rate (eop)	10.7	10.0	8.5	8.4	8.0	8.0	8.3	8.7	8.9	8.6	10.0	12.5
Long-term Rate (average)	11.4	10.2	8.9	8.4	8.0	9.3	8.6	9.3	10.0	10.0	9.0	11.3
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-2.1	-2.1	-2.4	-1.6	-3.5	-2.4	-4.5	-3.1	-2.3	-2.8	-3.1	-3.3
Current Account Balance (in US\$ bn)	-52.5	-12.0	-13.2	-8.9	-20.1	-54.2	-24.7	-17.9	-13.5	-17.1	-73.3	-83.4
Trade Balance (in US\$ bn)	29.8	2.4	4.6	8.7	3.7	19.5	-5.1	2.1	5.8	2.2	4.9	-0.7
Exports, f.o.b. (in US\$ bn)	256.0	55.1	62.1	63.4	62.0	242.6	50.8	63.6	67.6	63.2	245.3	259.9
Manufactured (in US\$ bn)	92.3	21.5	21.8	23.2	24.2	90.7	20.0	22.3	24.8	24.7	91.8	97.2
Other	163.8	33.6	40.4	40.2	37.8	151.9	30.9	41.3	42.9	38.5	153.5	162.6
Imports, f.o.b. (US\$ Bn)	226.2	52.6	57.5	54.7	58.3	223.1	56.0	61.5	61.8	61.1	240.4	260.6
Services (net)	-38.0	-9.4	-10.2	-9.9	-11.6	-41.1	-11.1	-11.6	-11.0	-10.8	-44.5	-47.1
Credit	38.2	10.0	10.0	9.7	10.2	39.9	10.0	9.2	11.5	12.3	43.0	47.5
Debit	76.2	19.4	20.2	19.6	21.8	80.9	21.0	20.9	22.5	23.1	87.5	94.7
Income (net)	-47.3	-5.8	-8.4	-8.3	-12.9	-35.4	-9.5	-9.2	-9.3	-9.4	-37.4	-39.1
Current Transfers (net)	3.0	0.7	0.8	0.7	0.7	2.8	1.0	0.9	0.9	0.9	3.7	3.6
Foreign Direct Investment (in US\$ bn)	66.7	14.9	14.2	17.8	17.7	64.7	12.1	13.8	15.0	14.1	55.0	60.0
Terms of Trade (% change yoy, + improvement)	8.1	-5.2	-5.0	-6.6	-6.4	-5.8	-3.6	-4.9	-5.2	-3.3	-4.3	-0.1
International Reserves (in US\$ bn)	352	365	374	379	379	379	381	384	385	385	385	385
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	2.3	2.4	2.0	1.7	2.0	2.0	2.1	1.8	1.5	1.0	1.0	1.0
Central Gov. Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Consolidated Primary Balance (% of GDP)	3.1	3.2	2.7	2.3	2.4	2.4	2.2	1.9	1.7	1.5	1.5	1.5
Consolidated Public Sector Balance (% of GDP)	-2.6	-2.4	-2.6	-2.8	-2.5	-2.5	-2.8	-3.0	-3.3	-3.6	-3.6	-3.7
Central Gov. Revenues (% of GDP)	19.8	20.2	20.0	19.9	19.7	20	19.8	19.9	20.0	20.2	20.2	20.2
DEBT INDICATORS												
Gross External Debt (US\$ bn)	257.6	246.7	237.6	220.4	212.7	212.7	201.5	190.0	178.0	169.0	218.7	224.7
Gross External Debt (% of GDP)	10.4	9.9	9.9	9.6	9.4	9.4	9.0	8.5	7.8	7.3	9.3	9.0
Public (% of GDP)	4.3	4.2	4.4	4.5	4.6	4.6	4.6	4.4	4.2	4.1	4.1	3.7
Private (% of GDP)	6.1	5.7	5.6	5.1	4.8	4.8	4.5	4.1	3.7	3.2	3.2	3.0
Gross Government Debt (% of GDP)	54.2	56.2	57.3	58.8	58.7	58.7	58.7	58.8	58.8	58.9	58.9	59.3
Domestic (% of GDP)	51.5	53.7	54.0	53.4	55.8	55.8	55.8	55.9	55.9	56.0	56.0	56.4
External (% of GDP)	2.6	2.5	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
External Debt (% of exports of goods and services)	87.5	82.5	80.6	76.9	75.3	75.3	72.5	68.1	62.5	58.6	75.9	73.1
Total External Debt Amortization (US \$bn)	29.8	9.5	7.7	9.2	9.4	35.8	12.8	12.4	11.0	7.5	43.7	38.0
Total External Debt Interest Payments (US \$bn)	-9.7	-2.4	-2.0	-3.1	-4.3	-11.8	-5.0	-4.5	-3.0	-1.9	-14.4	-8.0
Total External Debt Service (% exports of goods & svcs)	6.8	10.8	7.8	8.4	7.0	8.5	12.8	10.8	10.1	7.5	10.1	9.8
Public-external Debt Service (% exports of goods & svcs)	...	10.7	3.5	5.1	2.8	...	10.8	9.7	9.6	4.8	...	...
Public-external Debt Service (% of GDP)	...	1.2	0.4	0.7	0.4	...	1.2	1.2	1.3	0.6	...	...
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	19.2	17.2	18.8	18.0	14.1	17.0	16.6	18.7	18.6	16.0	17.6	17.9
Investment (% of GDP)	21.3	19.3	21.2	19.6	17.6	19.4	21.1	21.8	21.0	18.8	20.7	21.2

Source: National Sources, Citi Economists' estimates

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Mexico — Key Banking Trends

- Domestic loan growth softened to 9.2% yoy in 1Q13 (from 12.7% yoy in 1Q12) driven by a deceleration in corporate lending growth. Mortgage lending weakened to +6.7% in 1Q13 from 9.3% a year ago.
- Deposit growth almost halved to 6.8% yoy from 12.2% a year ago.

Figure 68. YoY Domestic Loan Growth, 4Q97-1Q13

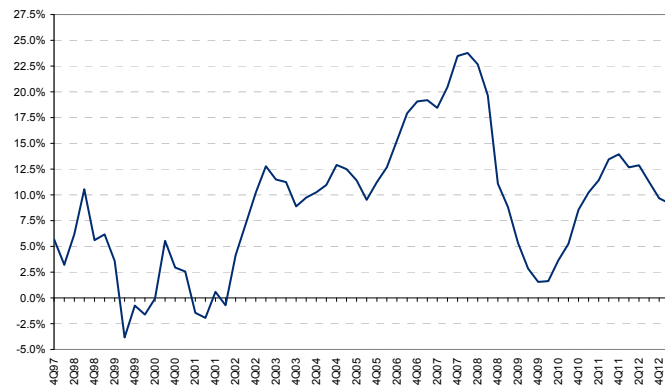


Figure 69. Domestic Deposits Growth, Jan 02-May 13

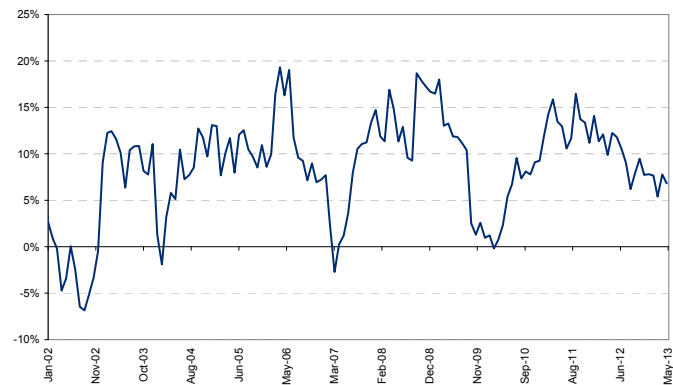


Figure 70. YoY Domestic Lending by Type, 4Q97-1Q13

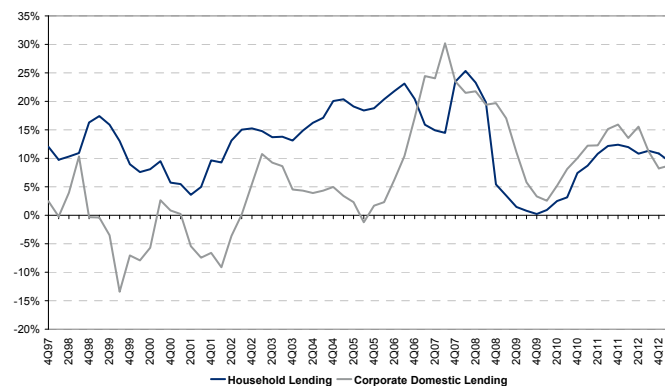


Figure 71. YoY Deposits Growth by Type, Nov 06-May 13

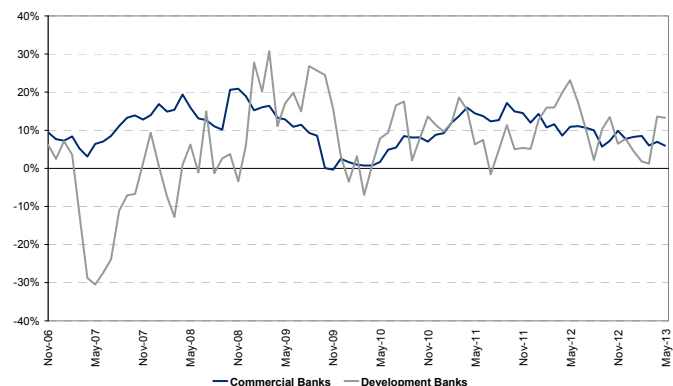


Figure 72. Domestic Retail Lending by type, 4Q97-1Q13

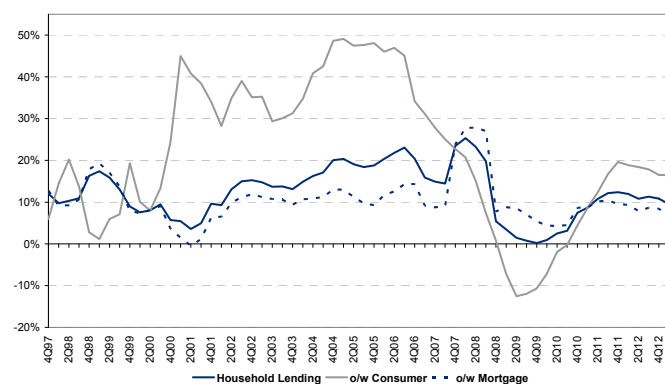
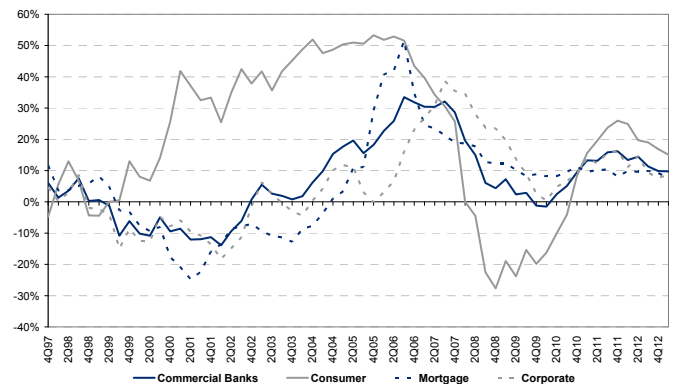


Figure 73. Domestic Commercial Bank Lending by Type, 4Q97-1Q13

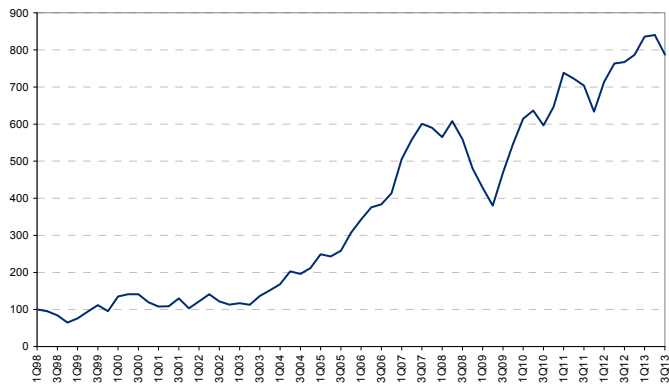


Source for all: Bank of Mexico

Mexico

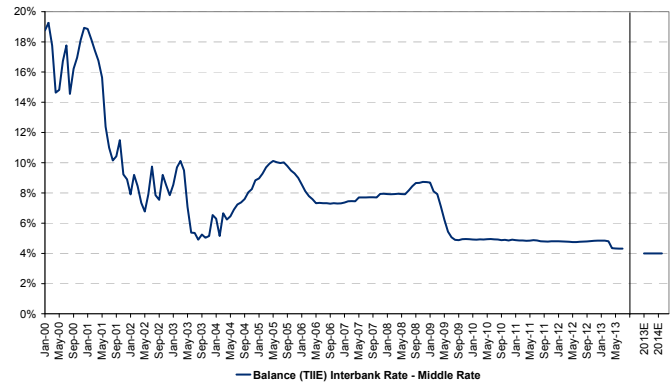
- We include Mexico macro data below, with forecasts from our economists. The data points to marginally neutral macro trends at the moment. BBVA and SAN both have operations in Mexico (see Mexico Banking System section at the beginning of the note).

Figure 74. Stock Price Index, 1Q98-3Q13



Source: DataStream

Figure 75. Interest Rates, Jan 00-2014F



Source: DataStream, Citi Economists' estimates

Mexico — Economic Indicators

Figure 76. Mexico Economic Forecasts

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	1159	289	281	298	310	1178	305	331	329	345	1310	1463
Nominal GDP (Pesos Bn)	14396	3752	3819	3926	4006	15503	3863	4117	4217	4319	16516	17888
GDP per capita (US\$)	10,022	9,905	9,631	10,174	10,535	10,075	10,363	11,209	11,099	11,641	11,093	12,259
Unemployment Rate (%)	5.2	5.0	4.8	5.1	4.9	5.0	4.9	4.7	4.9	4.8	4.8	4.5
Population (millions)	115.6	116.6	116.9	117.2	117.5	116.9	117.8	118.1	118.4	118.7	118.1	119.3
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	3.9	4.9	4.5	3.2	3.2	3.9	0.8	3.4	3.1	3.6	2.7	4.2
Citi's Mexico Activity Indicator (MAI, sa, y/y)	4.1	4.4	4.6	3.5	3.1	3.9	2.3	2.2	3.1	3.7	2.8	4.0
Real GDP growth (qoq, sa, annualized)	...	5.8	3.0	1.4	2.7	...	1.8	2.9	5.3	4.4	...	...
Domestic Demand Growth (ex-inventory, yoy)	4.9	5.0	3.9	2.6	3.3	3.7	0.6	4.0	3.7	4.1	3.1	3.8
Real Investment Growth (yoy)	2.7	10.7	6.4	4.9	4.1	6.4	2.2	8.0	2.3	-0.3	3.0	0.8
Real Consumption Growth (yoy)	4.0	4.1	3.3	2.0	3.1	3.1	0.8	3.6	3.0	3.4	2.7	3.2
Real Private Consumption Growth (yoy)	4.4	4.2	3.4	2.2	3.5	3.3	1.0	4.0	3.4	3.7	3.0	3.6
Real Government Consumption Growth	2.1	3.2	2.2	0.4	0.2	1.5	-0.2	1.0	0.9	1.3	0.7	0.5
Real Export Growth (yoy)	7.5	5.1	6.4	2.4	4.7	4.6	-1.0	2.7	5.2	6.6	3.4	8.6
Real Import Growth (yoy)	7.1	6.7	4.8	0.5	5.0	4.1	-0.2	3.6	3.2	2.6	2.4	5.0
PRICES												
Consumer Price Inflation (yoy, eop)	3.8	3.7	4.3	4.8	3.6	3.6	4.3	4.3	3.7	3.6	3.6	3.7
Consumer Price Inflation (yoy, average)	3.4	3.9	3.9	4.6	4.1	4.1	3.7	4.5	3.8	3.6	3.9	3.4
Core Inflation (yoy, eop)	3.4	3.3	3.5	3.6	2.9	2.9	3.0	2.8	2.7	3.0	3.0	3.4
Consumer Price Inflation (qoq, eop)	...	1.0	-0.2	1.3	1.4	...	1.6	-0.1	0.7	1.4	...	...
Core Inflation (qoq, eop)	...	1.1	0.6	0.7	0.4	...	1.2	0.5	0.6	0.6	...	...
Wages (% change yoy, nominal)	5.4	4.3	4.2	4.5	4.5	4.4	4.6	5.0	4.5	4.2	4.6	4.2
Exchange Rate (local currency to USD, eop)	13.9	12.8	13.4	12.9	12.9	12.9	12.3	12.8	12.7	12.4	12.4	12.3
Exchange Rate (local currency to USD, average)	12.5	12.9	13.6	13.1	13.0	13.1	12.6	12.6	12.8	12.5	12.6	12.2
Exchange Rate (% change yoy, + dep.)	12.9	7.6	14.0	-7.6	-7.8	-7.8	-4.0	-4.2	-1.2	-3.5	-3.5	-0.8
MONETARY SECTOR												
Monetary Base growth (yoy)	6.1	9.9	13.0	8.1	7.0	7.0	6.5	3.3	6.5	6.7	6.7	7.9
Credit growth (yoy)	7.4	8.3	6.5	5.2	6.8	6.8	4.6	6.7	7.7	7.0	7.0	7.9
Broad Money growth (yoy)	11.8	12.9	13.2	11.0	8.9	8.9	9.6	8.6	8.3	8.1	8.1	8.7
Central Bank Rate (Official Overnight, eop)	4.50	4.50	4.50	4.50	4.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00
Central Bank Rate (Official Overnight, average)	4.50	4.50	4.50	4.50	4.50	4.50	4.33	4.00	4.00	4.00	4.08	4.00
Interbank Rate (eop)	4.5	4.5	4.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0
Interbank Rate (average)	4.5	4.5	4.5	4.5	4.5	4.5	4.3	4.0	4.0	4.0	4.1	4.0
Short-term Rate (eop)	4.5	4.5	4.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0
Short-term Rate (average)	4.5	4.5	4.5	4.5	4.5	4.5	4.3	4.0	4.0	4.0	4.1	4.0
Long-term Rate (eop)	6.5	6.2	5.4	5.3	5.4	5.4	4.8	5.5	5.1	5.3	5.3	6.2
Long-term Rate (average)	6.8	6.1	5.8	5.3	5.5	5.7	4.9	5.1	5.3	5.2	5.1	5.7
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-0.8	-0.5	-0.2	-0.3	-2.1	-0.8	-1.7	-1.4	-1.2	-2.3	-1.7	-1.6
Current Account Balance (in US\$ bn)	-9.2	-1.4	-0.5	-0.9	-6.5	-9.0	-5.2	-4.6	-3.9	-7.8	-21.6	-23.0
Trade Balance (in US\$ bn)	-1.5	1.8	1.5	-1.2	-2.0	0.2	-1.1	-1.2	-4.4	-3.5	-10.3	-11.8
Exports, f.o.b. (in US\$ bn)	349.4	89.7	94.5	91.2	95.5	370.9	88.2	98.0	95.2	101.1	382.5	418.4
Main export (oil)	49.3	12.5	11.2	11.6	11.6	47.0	11.3	10.3	9.4	9.1	40.1	37.8
Other	300.1	77.2	83.2	79.6	83.9	323.9	77.0	87.7	85.8	92.0	342.4	380.6
Imports, f.o.b. (US\$ Bn)	350.8	87.9	92.9	92.4	97.5	370.8	89.3	99.2	99.6	104.6	392.8	430.1
Services (net)	-13.5	-2.0	-3.2	-3.9	-3.6	-12.7	-2.4	-4.1	-4.1	-3.5	-14.1	-14.1
Credit	15.9	4.7	4.1	3.7	4.3	16.7	4.8	4.3	3.9	4.6	17.7	19.0
Debit	29.3	6.7	7.2	7.6	7.9	29.4	7.3	8.4	7.9	8.1	31.8	33.1
Income (net)	-17.2	-6.5	-5.4	-1.3	-6.1	-19.0	-6.5	-5.5	-1.1	-6.2	-19.3	-19.6
Current Transfers (net)	23.0	5.4	6.6	5.5	5.2	22.6	4.8	6.2	5.7	5.3	22.0	22.5
Foreign Direct Investment (in US\$ bn)	21.6	4.6	4.6	4.4	-0.1	13.4	5.0	23.9	4.7	5.0	38.6	22.1
Terms of Trade (% change yoy, + improvement)	6.8	-0.6	-7.9	-5.1	-0.8	-3.6	-1.2	0.0	-1.5	-3.3	-1.5	-0.9
International Reserves (in US\$ bn)	142.5	150.3	157.3	161.9	163.5	163.5	167.0	169.0	174.4	179.9	179.9	197.8
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Central Gov. Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Consolidated Primary Balance (% of GDP)	-0.6	0.0	0.1	-0.2	-0.5	-0.6	0.3	0.1	-0.1	-0.3	0.0	0.0
Consolidated Public Sector Balance (% of GDP)	-2.5	-0.4	-0.7	-0.3	-1.2	-2.6	0.0	-0.8	-0.3	-1.0	-2.1	-2.0
Central Gov. Revenues (% of GDP)	21.7	23.1	21.5	20.8	23.2	22.2	23.3	21.4	22.2	22.9	22.5	21.9
DEBT INDICATORS												
Gross External Debt (US\$ bn)	281.0	305.5	310.6	330.1	348.5	314.9	344.3	349.9	357.3	365.9	333.9	354.1
Gross External Debt (% of GDP)	24.3	26.2	27.1	28.7	29.6	26.6	28.7	27.8	27.1	26.6	25.3	24.5
Public (% of GDP)	15.8	17.8	18.3	19.8	20.6	18.1	19.6	19.0	18.3	17.7	17.2	16.7
Private (% of GDP)	8.5	8.4	8.8	8.9	9.0	8.5	9.1	8.8	8.8	8.9	8.1	7.8
Gross Government Debt (% of GDP)	39.6	39.2	39.1	38.9	39.5	39.5	39.0	38.3	37.7	38.2	38.2	38.1
Domestic (% of GDP)	23.8	21.4	20.8	19.1	18.9	21.4	19.4	19.3	19.4	20.5	21.0	21.4
External (% of GDP)	15.8	17.8	18.3	19.8	20.6	18.1	19.6	19.0	18.3	17.7	17.2	16.7
External Debt (% of exports of goods and services)	77.0	81.6	82.0	82.3	82.6	82.6	83.4	84.1	84.2	83.8	83.8	82.0
Total External Debt Amortization (US \$bn)	51.5	12.1	12.5	12.8	12.8	50.2	12.9	13.1	13.3	13.4	52.7	51.6
Total External Debt Interest Payments (US \$bn)	12.9	3.3	3.5	3.0	3.4	13.1	3.4	3.7	3.2	3.5	13.7	13.3
Total External Debt Service (% exports of goods & svcs)	14.1	14.7	14.4	11.5	11.6	13.0	12.5	12.1	12.2	12.6	12.3	12.0
Public-external Debt Service (% exports of goods & svcs)	5.5	5.9	6.8	4.0	4.5	5.3	5.5	5.7	4.2	4.9	5.1	4.8
Public-external Debt Service (% of GDP)	1.7	1.9	2.2	1.3	1.4	1.6	1.7	1.8	1.3	1.5	1.6	1.6
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	24.3	24.6	24.9	23.7	22.6	24.0	23.7	23.9	23.6	23.4	23.7	23.8
Investment (% of GDP)	25.1	25.1	25.1	24.0	24.7	24.7	25.4	25.4	24.8	25.7	25.3	25.4

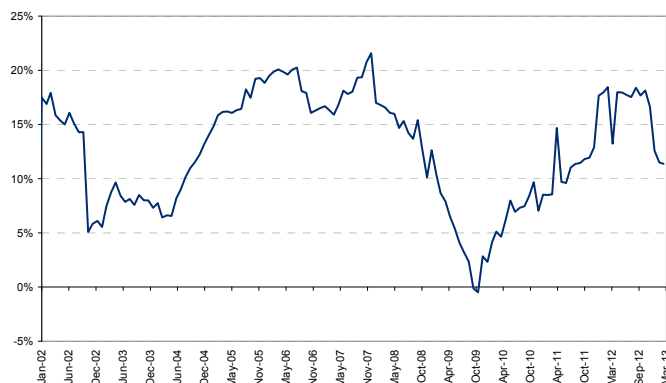
Source: National Sources, Citi Economists' estimates

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Chile — Key Banking Trends

- Total loan growth decelerated to 11.4% yoy on the back of continued decline in consumer lending and corporate lending growth.
- Consumer lending growth currently stands at 11.1% yoy (Ma 13), down from its peak of 19% in Nov 11. Mortgage lending growth slowed to 10.4% in Mar 13.
- Deposit growth of 10% yoy in Jun 13 is down significantly from +23% in May 12.

Figure 77. YoY Total Loan Growth^a, Jan 02- Mar 13



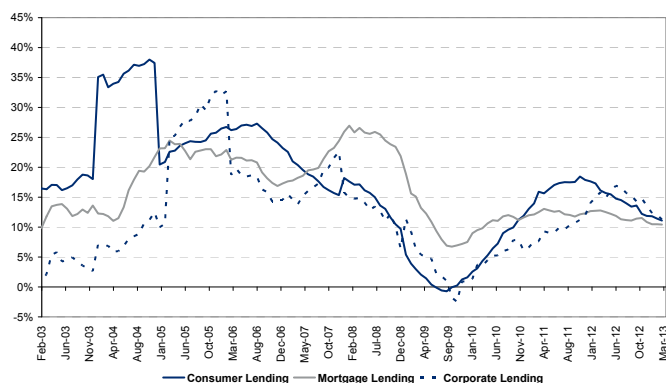
Source: Central Bank of Chile. ^a Local currency.

Figure 78. YoY Total Deposits Growth^a, Feb 92-Jun 13



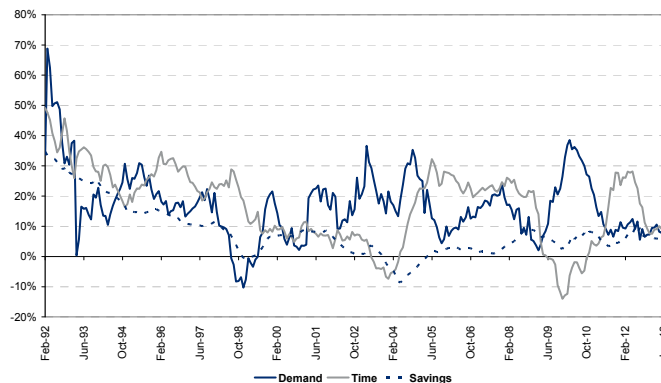
Source: Central Bank of Chile. ^a Local currency.

Figure 79. YoY Total Loan Growth by Type^a, Feb 03-Mar 13



Source: Central Bank of Chile. Note that these asset classes are as provided by the Central Bank and do not tally to the total figure provided by the bank.

Figure 80. YoY Total Deposits Growth by Type^a, Feb 92-Jun 13

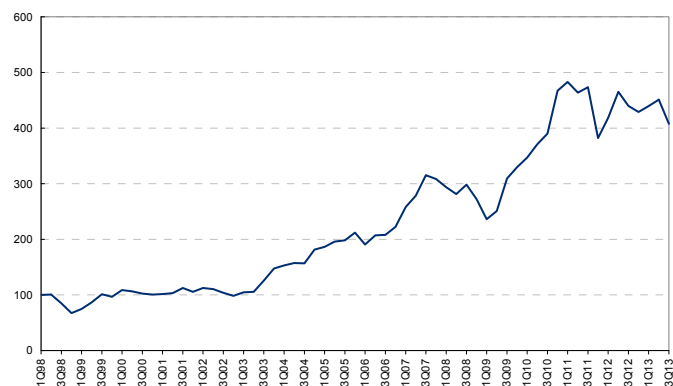


Source: Central Bank of Chile. ^a Local currency.

Chile

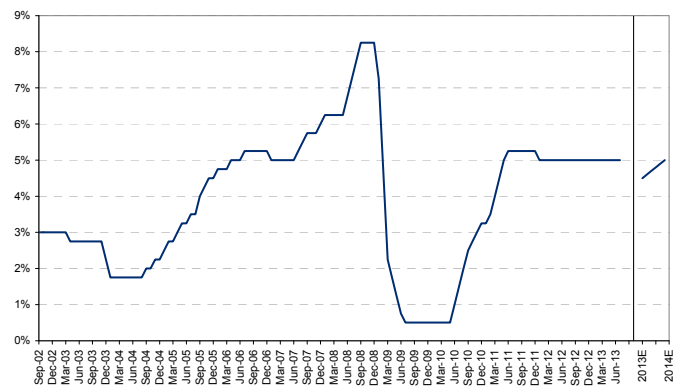
- We include Chile macro data below, with forecasts from our economists. The data points to neutral macro trends at the moment. Among the banks we cover, SAN operates a subsidiary in Chile.

Figure 81. Stock Price Index, 1Q98-3Q13



Source: DataStream

Figure 82. Interest Rates, Sep 02-2014F



Source: DataStream, Citi Economists' estimates

Chile — Economic Indicators

Figure 83. Chile Economic Forecasts

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	251	65	64	66	74	268	70	72	70	76	288	309
Nominal GDP (Pesos Tn)	121	32	32	32	35	131	34	34	34	38	140	151
GDP per capita (US\$)	14,649	15,014	14,915	15,313	17,014	15,509	16,240	16,464	16,042	17,444	15,741	15,975
Unemployment Rate (%)	7.1	6.6	6.6	6.5	6.1	6.4	6.2	6.2	6.2	6.2	6.2	6.5
Population (millions)	17.1	17.2	17.2	17.3	17.3	17.3	17.4	17.4	17.4	17.5	18.3	19.3
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	5.9	5.1	5.7	5.8	5.7	5.6	4.1	4.0	3.9	4.0	4.0	5.0
Citi's Chile Activity Indicator (CHAI, y/y)	...	...	...	...	...	...	...	...	...	...	...	...
Real GDP growth (qoq, sa, annualized)	...	5.1	6.3	3.0	7.9	...	2.1	3.1	2.7	8.1	...	...
Domestic Demand Growth (ex-inventory, yoy)	9.1	4.9	6.9	8.3	8.2	7.1	6.8	4.4	4.1	6.5	5.5	5.2
Real Investment Growth (yoy)	10.2	2.4	12.6	14.6	20.3	12.3	8.8	5.8	5.1	3.7	5.8	6.2
Real Consumption Growth (yoy)	7.8	4.6	5.5	5.5	7.3	5.8	5.5	4.8	4.5	3.1	4.4	5.4
Real Private Consumption Growth (yoy)	8.7	5.1	5.7	6.0	7.4	6.1	6.2	5.0	4.8	3.3	4.8	5.7
Real Government Consumption Growth (yoy)	3.0	1.6	4.2	2.5	7.2	4.2	0.9	3.4	3.0	2.2	2.4	4.0
Real Export Growth (yoy)	5.2	3.5	-0.2	-4.3	4.7	1.0	1.0	0.5	0.7	0.5	0.7	3.6
Real Import Growth (yoy)	14.5	2.9	2.4	2.3	11.9	4.9	8.2	6.5	5.0	7.0	6.6	5.1
PRICES												
Consumer Price Inflation (yoy, eop)	4.4	3.8	2.6	2.8	1.5	1.5	1.5	1.6	1.6	2.4	2.4	3.0
Consumer Price Inflation (yoy, average)	3.3	4.1	3.1	2.6	2.2	3.0	1.5	1.2	1.8	1.8	1.6	3.0
Core Inflation (yoy, eop)	2.5	2.6	2.3	2.1	1.8	1.8	1.9	1.8	2.0	2.1	2.1	3.0
Consumer Price Inflation (qoq, eop)	...	0.6	-0.2	1.0	0.1	...	0.7	-0.1	0.9	0.9	...	...
Core Inflation (qoq, eop)	...	0.7	0.2	0.4	0.5	...	0.7	0.1	0.6	0.5	...	...
Wages (% change yoy, nominal)	5.8	6.5	6.2	6.4	6.4	6.3	5.9	4.5	4.5	4.5	5.0	4.5
Exchange Rate (local currency to USD, eop)	520	488	501	475	479	479	472	500	490	495	495	490
Exchange Rate (local currency to USD, average)	483	486	501	479	480	487	472	491	492	494	487	490
Exchange Rate (% change yoy, + dep.)	11.0	2.3	7.2	-8.7	-7.8	-7.8	-3.3	-0.2	3.2	3.3	3.3	-1.0
MONETARY SECTOR												
Monetary Base growth (yoy)	20.1	14.8	15.2	18.2	14.0	14.0	16.9	16.1	13.3	10.8	10.8	13.2
Broad Money growth (yoy)	18.9	19.7	17.3	11.3	6.2	6.2	7.5	10.4	12.4	13.8	13.8	8.3
Credit Growth (yoy)	16.9	15.7	16.0	12.2	12.1	12.1	11.2	6.3	7.2	6.4	6.4	7.3
Central Bank Rate (CAMARA Overnight, eop)	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.50	4.50	5.00
Central Bank Rate (CAMARA Overnight, average)	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.50	4.81	4.73
Interbank Rate (eop)	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.8	4.5	4.5	5.0
Interbank Rate (average)	4.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.5	4.9	4.7
Short-term Rate (eop)	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.5	4.5	4.5	5.0
Short-term Rate (average)	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.8	4.5	4.8	4.7
Long-term Rate (eop)	4.9	5.8	5.1	5.3	5.5	5.5	5.6	5.6	5.6	5.4	5.4	6.1
Long-term Rate (average)	5.8	5.3	5.3	5.2	5.4	5.3	5.6	5.6	5.6	5.5	5.6	5.9
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-1.3	-0.2	-2.5	-7.4	-3.9	-3.5	-2.4	-2.5	-2.8	-1.9	-2.4	-2.5
Current Account Balance (in US\$ bn)	-3.3	-0.1	-1.6	-4.9	-2.9	-9.5	-1.7	-1.8	-1.9	-1.5	-6.9	-7.9
Trade Balance (in US\$ bn)	10.5	2.6	1.7	-1.8	0.9	3.4	0.8	1.6	1.3	1.7	5.5	8.0
Exports, f.o.b. (in US\$ bn)	81.5	19.9	19.8	17.3	21.3	78.3	19.1	20.9	20.4	22.7	83.1	90.2
Commodity Exports	54.1	13.3	13.0	11.0	14.4	51.7	13.1	13.6	13.3	14.9	54.9	57.5
Other	27.4	6.6	6.8	6.3	6.9	26.6	6.0	7.3	7.1	7.9	28.2	32.6
Imports, c.i.f. (US\$ Bn)	70.9	17.2	18.1	19.2	20.4	74.9	18.3	19.4	19.0	21.0	77.6	82.2
Services (net)	-2.6	-0.1	-0.8	-0.9	-0.7	-2.4	-0.2	-0.6	-0.6	-0.6	-2.0	-2.6
Credit	13.1	3.4	2.9	2.9	3.4	12.6	3.9	3.9	3.8	4.4	16.0	10.3
Debit	15.7	3.5	3.7	3.7	4.1	15.1	4.1	4.5	4.4	4.9	18.0	12.9
Income (net)	-14.1	-3.1	-3.2	-2.7	-3.7	-12.7	-2.7	-3.6	-3.5	-3.5	-13.3	-15.0
Current Transfers (net)	2.9	0.4	0.6	0.5	0.6	2.2	0.5	0.9	0.8	0.8	3.0	1.7
Foreign Direct Investment (in US\$ bn)	22.9	4.9	7.9	6.3	11.3	30.3	8.7	5.0	4.8	5.3	23.8	18.8
Terms of Trade (% change yoy, + improvement)	1.2	-9.7	-7.7	-4.8	-0.5	-5.8	-2.8	3.2	2.4	-2.4	0.0	-1.5
International Reserves (in US\$ bn)	42.0	39.6	40.3	40.1	41.6	41.6	39.8	45.1	44.0	42.8	42.8	45.8
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	1.9	2.1	1.7	1.0	1.2	1.2	0.8	1.0	0.7	0.2	0.2	0.0
Central Gov. Budget Balance (% of GDP)	1.5	1.6	1.2	0.5	0.6	0.6	0.2	0.5	0.3	-0.3	-0.3	-0.4
Consolidated Primary Balance (% of GDP)	2.0	...	...	...	...	1.2	...	...	...	...	0.2	0.0
Consolidated Public Sector Balance (% of GDP)	1.4	...	...	...	...	0.6	...	...	...	...	-0.3	-0.4
Central Gov. Revenues (% of GDP)	22.3	22.9	22.6	22.1	22.2	22.2	21.5	21.5	21.2	20.7	20.7	20.5
DEBT INDICATORS												
Gross External Debt (US\$ bn)	98.7	99.8	101.7	108.5	117.8	117.8	118.8	124.5	125.2	125.4	125.4	134.1
Gross External Debt (% of GDP)	39.3	39.4	39.9	42.0	43.9	43.9	43.3	44.2	43.8	43.5	43.5	43.5
Public (% of GDP)	2.8	2.6	2.5	2.5	2.9	2.9	2.5	2.2	1.8	1.5	1.5	1.5
Private (% of GDP)	36.5	36.8	37.4	39.5	40.9	40.9	40.8	42.0	42.0	42.0	42.0	42.0
Gross Government Debt (% of GDP)	11.0	...	...	...	...	9.2	...	...	...	...	7.1	6.9
Domestic (% of GDP)	8.2	...	...	...	...	6.3	...	...	...	...	5.5	5.4
External (% of GDP)	2.8	...	...	...	...	2.9	...	...	...	...	1.5	1.5
External Debt (% of exports of goods and services)	121.2	125.5	128.6	156.5	138.2	150.5	155.8	148.6	153.6	138.0	150.9	148.7
Total External Debt Amortization (US \$bn)	12.8	...	...	...	...	22.4	...	...	...	...	22.6	23.7
Total External Debt Interest Payments (US \$bn)	2.6	...	...	...	...	2.8	...	...	...	...	2.8	2.9
Total External Debt Service (% exports of goods & svcs)	16.3	...	...	...	...	27.7	...	...	...	...	25.6	26.5
Public-external Debt Service (% exports of goods & svcs)	...	...	...	...	...	...	...	...	...	...	...	...
Public-external Debt Service (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	25.1	27.9	24.0	22.7	23.6	24.5	26.9	24.5	27.6	25.5	26.1	26.3
Investment (% of GDP)	26.4	28.0	26.5	30.1	27.6	28.0	29.3	27.0	30.4	27.5	28.5	28.8

Source: National Sources, Citi Economists' estimates

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Argentina — Key Banking Trends

- System loan growth stabilised at c39% in Mar13 from a peak of 50% in Oct 11 and is currently flat in Jun 13 (c38%). Within retail lending, personal lending growth remains strongest at c45% yoy (Jun 13) while mortgage lending growth is the most sluggish at 29% yoy (Jun 13).
- Deposit growth has decelerated to c29% yoy (Jun 13) from a peak of 45% in Feb 11.

Figure 84. YoY Total Loan Growth, Jun 03-Jun 13

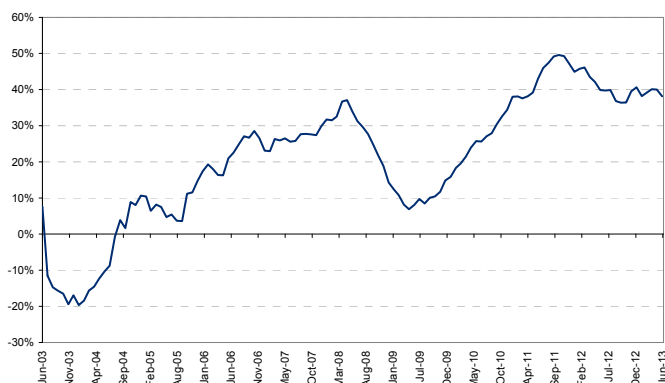


Figure 85. YoY Total Deposits Growth, Jun 03-Jun 13



Figure 86. YoY Total Loan Growth By Type, Jun 03-Jun 13

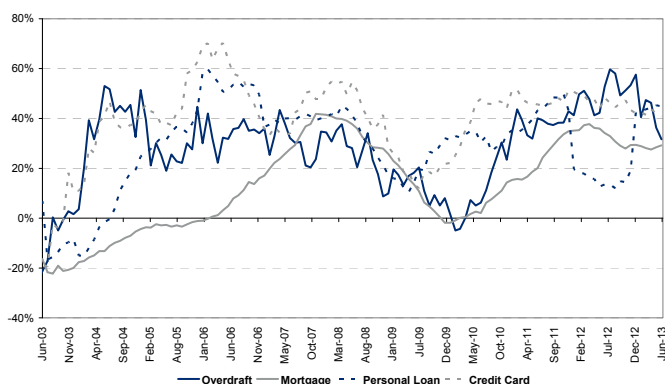
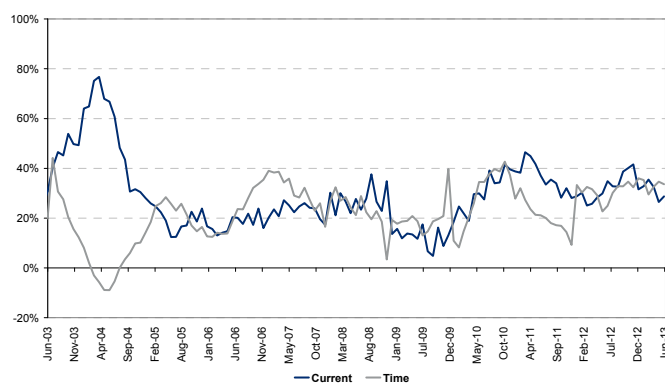


Figure 87. YoY Total Deposits Growth By Type, Jun 03-Jun 13

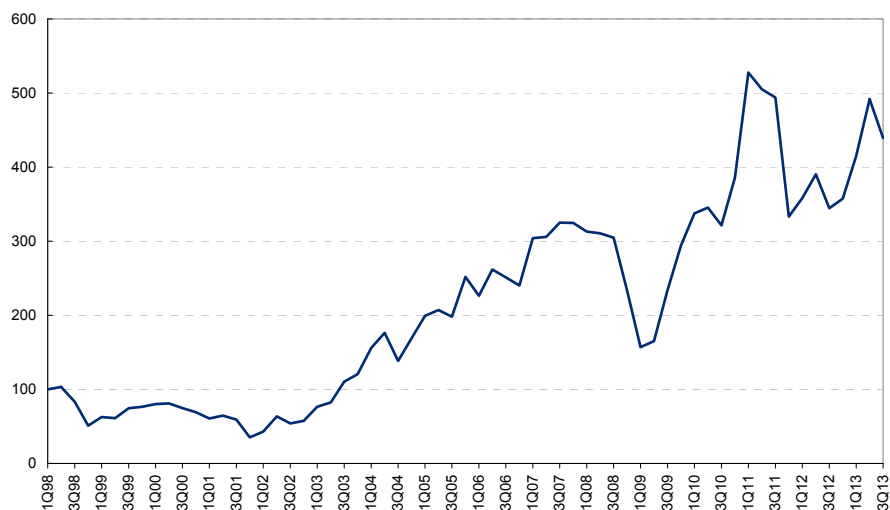


Source for all: Central Bank of Argentina

Argentina

- We include Argentina macro data below, with forecasts from our economists. The data points to overall neutral macro trends which should not meaningfully alter the outlook for the Argentinean operations of the Argentina-exposed Spanish banks (mainly SAN and BBVA).

Figure 88. Merval Stock Index, 1Q98-3Q13



Source: DataStream

Argentina — Economic Indicators

Figure 89. Argentina Economic Indicators

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Est.
Nominal GDP (US\$ bn)	448	108	128	119	121	477	111	131	116	116	474	479
Nominal GDP (ARS Bn)	1842	469	568	546	581	2164	560	693	648	687	2588	3231
GDP per capita (US\$)	10,948	10,567	12,468	11,525	11,765	11,541	10,718	12,591	11,122	11,167	11,360	11,384
Unemployment Rate (%)	7.2	7.1	7.2	7.6	6.9	7.2	7.9	7.7	7.7	7.5	7.7	7.8
Population (millions)	40.9	41.0	41.1	41.2	41.3	41.3	41.4	41.5	41.6	41.7	41.7	42.1
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	8.9	5.2	0.0	0.7	2.1	1.9	3.0	5.1	2.3	1.8	3.1	3.0
Citi's Argentina Activity Indicator (CAAI, y/y)	5.1	3.4	-2.3	-1.2	-0.1	-0.2	0.3	4.9	3.6	2.9	3.0	0.5
Real GDP growth (qoq, sa, annualized)	...	2.4	-3.2	3.2	5.2	...	7.3	4.9	-7.5	3.1	...	...
Domestic Demand Growth (ex-inventory, yoy)	12.0	6.4	-0.2	1.2	3.1	2.5	4.8	5.3	2.7	2.1	3.7	2.8
Real Investment Growth (yoy)	10.7	-4.0	-17.0	-5.8	-2.2	-7.7	-0.5	3.1	2.2	2.0	1.8	2.0
Real Consumption Growth (yoy)	10.7	7.3	4.6	2.7	4.6	4.8	6.1	5.9	2.9	2.2	4.2	3.1
Real Private Consumption Growth (yoy)	10.7	7.0	4.2	2.1	4.5	4.4	6.1	5.6	2.0	1.7	3.8	3.1
Real Government Consumption Growth (yoy)	10.9	9.0	6.8	5.6	5.2	6.5	6.4	7.5	7.2	4.6	6.4	2.8
Real Export Growth (yoy)	4.3	4.2	-9.5	-7.1	-12.5	-6.6	-8.5	5.1	3.2	1.8	0.5	-2.0
Real Import Growth (yoy)	17.8	1.5	-14.0	-5.8	-2.1	-5.2	6.2	6.6	6.2	4.3	5.8	-2.3
PRICES												
Consumer Price Inflation (yoy, eop)	9.5	9.8	9.9	10.0	10.8	10.8	10.6	10.3	9.8	10.2	10.2	13.8
Consumer Price Inflation (yoy, average)	9.8	9.7	9.9	10.0	10.6	10.0	10.8	10.3	10.0	10.1	10.3	12.5
CPI - Citi Estimate (yoy, eop)	24.2	24.7	25.1	25.1	25.2	25.2	23.9	24.4	24.0	26.0	26.0	30.0
Consumer Price Inflation (qoq, eop)	...	2.6	2.4	2.6	2.8	...	2.3	2.1	2.1	3.3	...	...
CPI - Citi Estimate (qoq, eop)	...	6.2	5.2	6.0	5.7	...	5.1	5.7	5.7	7.4	...	...
Wages (% change yoy, nominal)	27.5	28.6	28.8	25.1	25.0	27.1	23.9	25.0	25.0	25.0	24.7	26.5
Exchange Rate (local currency to USD, eop)	4.3	4.4	4.5	4.7	4.9	4.9	5.1	5.4	5.7	6.0	6.0	7.5
Exchange Rate (local currency to USD, average)	4.1	4.4	4.5	4.6	4.8	4.6	5.1	5.3	5.6	5.9	5.5	6.7
Exchange Rate (% change yoy, + dep.)	8.1	8.1	10.2	11.7	14.3	14.3	16.9	19.3	21.4	22.1	22.1	25.0
MONETARY SECTOR												
Monetary Base growth (yoy)	34.6	31.6	33.9	37.3	39.0	39.0	37.4	36.0	33.5	31.7	31.7	37.0
Broad Money growth (yoy)	24.7	24.5	22.8	24.6	32.0	32.0	29.0	27.0	29.0	30.0	30.0	30.0
Credit Growth (yoy)	44.8	41.5	34.7	27.9	31.5	31.5	25.5	27.5	28.0	30.0	30.0	30.0
Central Bank Rate (Reference, eop)	...	...	...	...	...	...	...	...	...	...	...	...
Central Bank Rate (average)	...	...	...	...	...	...	...	...	...	...	...	...
Interbank Rate (eop)	17.2	12.3	13.6	14.9	15.4	15.4	14.9	16.5	18.0	20.0	20.0	24.0
Interbank Rate (average)	13.5	13.6	12.4	14.3	15.3	13.9	15.1	15.9	17.5	19.3	17.0	21.5
Short-term Rate (eop)	17.2	12.3	13.6	14.9	15.4	15.4	14.9	16.5	18.0	20.0	20.0	24.0
Short-term Rate (average)	13.5	13.6	12.4	14.3	15.3	13.9	15.1	15.9	17.5	19.3	17.0	21.5
Long-term Rate (eop)	22.9	20.7	38.8	27.8	32.2	32.2	...	...	...	...	...	0.0
Long-term Rate (average)	17.5	19.8	38.8	27.8	32.2	32.2	...	...	...	...	...	0.0
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-0.4	-0.7	1.2	0.6	-0.8	0.1	-1.1	0.6	0.9	-0.5	0.0	0.2
Current Account Balance (in US\$ bn)	-1.6	-0.7	1.5	0.7	-1.0	0.5	-1.2	0.8	1.0	-0.6	0.1	1.0
Trade Balance (in US\$ bn)	13.2	3.6	5.1	4.4	2.5	15.6	2.8	4.4	4.2	2.4	13.8	14.8
Exports, f.o.b. (in US\$ bn)	84.0	18.3	21.4	22.2	19.4	81.2	20.0	22.8	23.6	21.0	87.4	86.6
Commodities	51.8	11.2	14.1	14.1	11.2	50.6	13.3	16.6	15.4	12.6	57.8	55.9
Non-commodities	32.2	7.1	7.3	8.1	8.1	30.6	6.7	6.2	8.3	8.5	29.7	30.8
Imports, f.o.b. (US\$ Bn)	70.7	14.7	16.2	17.8	16.8	65.6	17.2	18.4	19.4	18.6	73.6	71.9
Services (net)	-2.2	-1.0	-0.8	-1.0	-0.7	-3.5	-0.9	-0.3	0.0	0.4	-0.7	-0.7
Credit	15.6	4.0	3.6	3.6	4.0	15.2	3.6	3.6	3.7	4.2	15.1	15.1
Debit	17.8	5.1	4.3	4.6	4.7	18.7	4.5	3.9	3.6	3.8	15.8	15.8
Income (net)	-12.0	-3.2	-2.8	-2.6	-2.8	-11.3	-2.9	-3.1	-3.1	-3.3	-12.3	-12.3
Current Transfers (net)	-0.5	-0.1	-0.1	0.0	-0.1	-0.4	-0.2	-0.2	-0.2	-0.2	-0.7	-0.7
Foreign Direct Investment (in US\$ bn)	9.9	4.1	3.5	2.3	2.6	12.6	1.1	1.1	1.1	1.1	4.4	4.4
Terms of Trade (% change yoy, + improvement)	10.6	3.3	-1.1	8.3	6.3	4.3	-0.8	-1.0	-0.1	0.2	-0.4	-1.3
International Reserves (in US\$ bn)	46.4	47.3	46.3	45.0	43.3	43.3	40.4	39.0	38.5	37.5	37.5	34.5
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Central Gov. Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Consolidated Primary Balance (% of GDP)	0.3	0.1	-0.1	0.0	-0.2	-0.2	-0.2	-0.4	-0.8	-1.4	-1.4	-1.6
Consolidated Public Sector Balance (% of GDP)	-1.7	-1.8	-2.0	-2.0	-2.6	-2.6	-2.5	-2.2	-2.4	-2.7	-2.7	-2.9
Central Gov. Revenues (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
DEBT INDICATORS												
Gross External Debt (US\$ bn)	140.7	143.5	146.7	141.3	143.9	143.9	144.5	145.6	144.7	144.2	144.2	151.7
Gross External Debt (% of GDP)	31.4	31.3	31.6	30.0	30.2	30.2	30.2	30.2	30.2	30.4	30.4	31.7
Public (% of GDP)	16.3	16.1	16.1	15.0	15.0	15.0	15.0	15.0	15.1	15.3	15.3	16.5
Private (% of GDP)	15.1	15.2	15.4	15.0	15.2	15.2	15.2	15.2	15.1	15.2	15.2	15.2
Gross Government Debt (% of GDP)	40.0	39.6	40.0	38.7	38.7	38.7	38.7	38.9	39.3	39.9	39.9	43.0
Domestic (% of GDP)	23.6	23.4	23.9	23.7	23.7	23.7	23.8	23.9	24.2	24.6	24.6	26.5
External (% of GDP)	16.3	16.1	16.1	15.0	15.0	15.0	15.0	15.0	15.1	15.3	15.3	16.5
External Debt (% of exports of goods and services)	167.5	196.2	171.6	159.1	185.9	177.2	180.7	160.0	153.0	171.4	164.9	175.1
Total External Debt Amortization (US \$bn)	12.0	...	...	...	...	12.2	...	...	...	...	12.3	12.3
Total External Debt Interest Payments (US \$bn)	3.6	...	...	...	...	3.6	...	...	...	...	3.6	3.6
Total External Debt Service (% exports of goods & svcs)	15.6	...	...	...	...	16.5	...	...	...	...	15.5	15.6
Public-external Debt Service (% exports of goods & svcs)	...	...	...	...	...	...	...	...	...	...	...	...
Public-external Debt Service (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	23.5	20.4	22.5	22.7	21.1	21.7	19.3	21.5	22.9	21.4	21.3	21.3
Investment (% of GDP)	23.8	21.1	21.3	22.1	21.9	21.6	20.3	20.9	22.0	22.0	21.3	21.1

Source: National Sources, Citi Economists' estimates

Currencies and Markets

Rates

Declining Euribor rates have put meaningful pressure on Spanish banks' domestic Net Interest Margins. Especially affected are the domestic banks with a small or zero proportion of mortgages with floors. Loan repricing should help margins somewhat.

Figure 90. Euribor, Jul 03-Jul 13

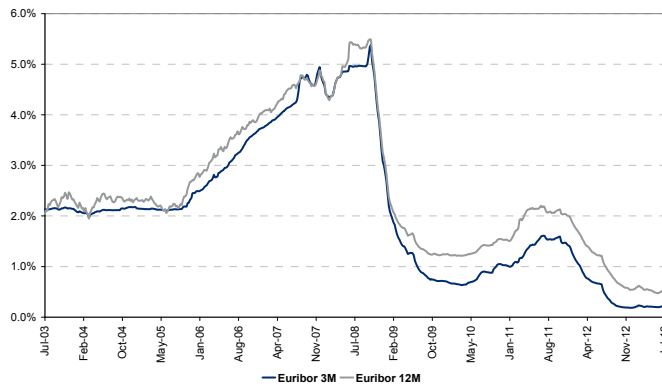


Figure 91. Euribor, Jul 12-Jul 13

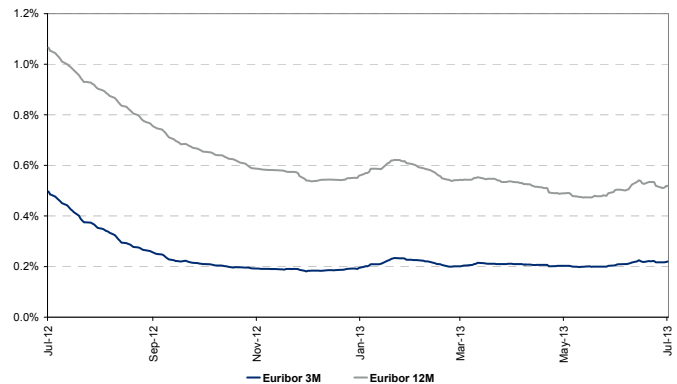


Figure 92. 3M Libor vs 3M Euro Repo Rate, Jul 03-Jul 13

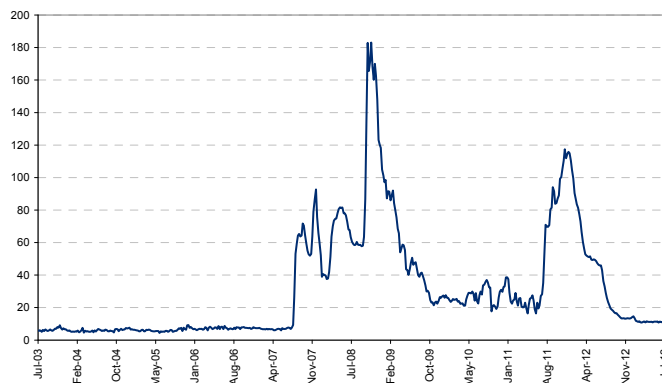


Figure 93. 3M Libor vs 3M Euro Repo Rate, Jul 12-Jul 13



Source for all: Datastream

Currency

Weakness in local Mexican and Brazilian currencies should be a drag on the 2Q13 earnings of SAN and BBVA's local operations when translated into €.

Figure 94. US\$ versus Euro, Jan 03-Jul 13



Figure 95. US\$ versus Euro^a, Jul 12-Jul 13

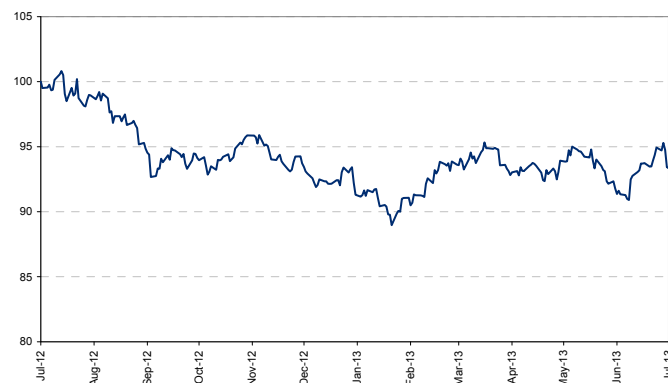


Figure 96. Brazilian Real vs US\$ and Euro^a, Jul 03-Jul 13

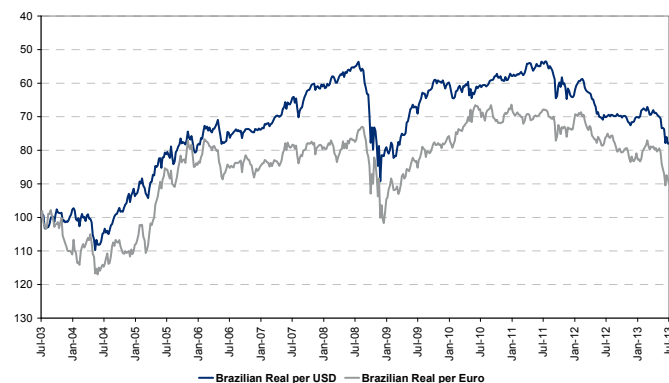


Figure 97. Brazilian Real vs US\$ and Euro^a, Jul 12-Jul 13

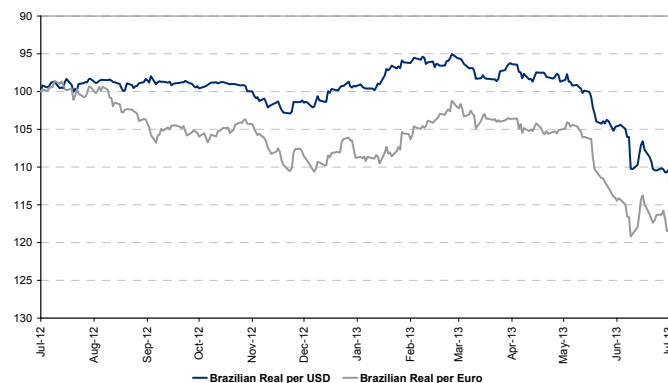


Figure 98. Mexican Pesos versus US\$ and Euro^a, Jul 03-Jul 13

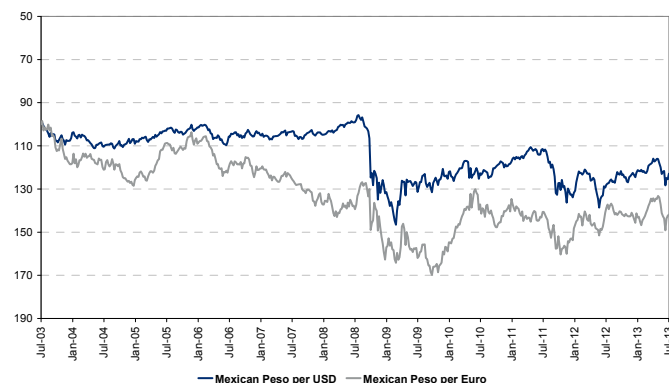
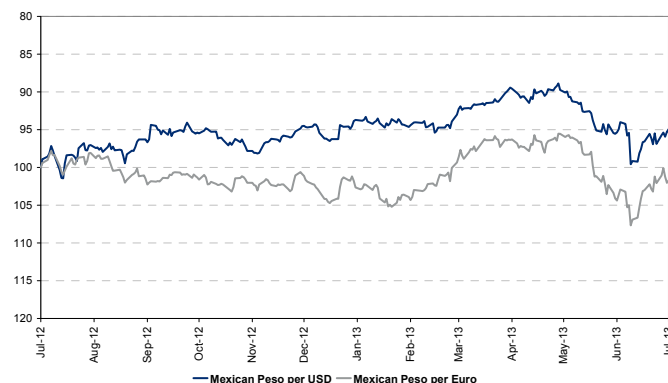


Figure 99. Mexican Pesos versus US\$ and Euro^a, Jul 12-Jul 13



Source for all: Datastream. ^aRebased to 100 and Inverted scale.

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2Q13 Results Previews & Financial Forecasts

Banco Popular

2Q13 Preview: Banco Popular reports 2Q13 results on 26 July at c. 0730 UK. Our expectations for 2Q13 are below. Special items expected: €20m of gains from the sale of Vida insurance; €30m of gains on the sale of NPLs; strong trading income.

New Estimates: We revise our EPS estimates for 2013 (lower loss) on lower expected provisions (reported). We also expect slightly higher NII in 2014 (EPS +23%) and meaningfully higher provisions in 2015-16 as POP rebuilds NPL coverage closer to 55% (EPS -95% and -46% respectively).

Sell/High Risk, TP to €2.20: We give 50% benefit to POP's 2013E deduction for DTA from temporary differences (see section at beginning of note). As a result of this and our new estimates, we increase our target price slightly to €2.20 from €2.15 and reiterate our Sell/High Risk (3H) rating.

Figure 100. Popular — New vs Old Estimates; Citi vs Consensus

	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Net Interest Income	2,499	2,531	1%	2,524	2,543	1%	2,549	2,556	0%	2,575	2,571	0%
Fee Income	754	754	0%	769	769	0%	784	784	0%	800	800	0%
Trading	265	265	0%	270	270	0%	275	275	0%	281	281	0%
Total Income	3,458	3,489	1%	3,502	3,521	1%	3,547	3,553	0%	3,592	3,589	0%
Total Op. Expenses	-1,621	-1,621	0%	-1,572	-1,572	0%	-1,574	-1,574	0%	-1,605	-1,605	0%
Operating Income	1,837	1,868	2%	1,930	1,949	1%	1,973	1,980	0%	1,987	1,983	0%
Prov. Loan Losses (Net)	-2,654	-2,490	-6%	-2,274	-2,274	0%	-1,834	-2,096	14%	-856	-1,416	66%
Income Before Tax	-191	-57	nm	84	103	23%	267	12	-96%	1,159	595	-49%
Net Income	-135	-40	nm	60	74	23%	192	9	-96%	835	429	-49%
EPS	-0.08	-0.02	nm	0.03	0.04	23%	0.10	0.00	-95%	0.43	0.23	-46%

	2013E			2014E			2015E			2016E		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total income	3,542	3,489	-1%	3,723	3,521	-5%	3,793	3,553	-6%	3,657	3,589	-2%
Net profit	209	-40	-119%	628	74	-88%	893	9	-99%	686	429	-38%

Source: Citi Research and Reuters Consensus.

Figure 101. Popular — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net Interest Income	515	530	515	527	693	743	668	615	593	638
Fee Income	172	179	165	170	186	223	192	192	190	188
Trading Income	35	23	39	33	66	151	68	75	54	75
Insurance	43	3	-2	5	-23	-27	-39	-28	-15	-15
Total Income	764	735	716	736	922	1,090	888	855	823	886
Total Op. Expenses	-326	-338	-341	-365	-397	-451	-430	-484	-422	-405
Operating Income	438	397	375	371	526	639	458	371	400	481
Income from Associates (equity method)	12	11	14	10	13	1	3	7	5	7
Other Operating Items	0	0	0	0	0	0	0	0	0	0
Prov. Loan Losses (Net)	-836	-264	-283	-308	-399	-534	-336	-4,388	-448	-517
Other	498	5	1	3	0	-2	-1	153	194	75
Income Before Tax	112	149	108	76	140	104	123	-3,859	151	46
Taxes	77	-31	-7	1	-39	-29	-48	1,147	-46	-13
- Implied Tax Rate	-69%	21%	7%	-2%	28%	28%	28%	30%	31%	28%
Net Attributed Group Income	189	118	100	77	101	75	75	-2,712	105	33
Minority Interest	-3	2	-2	-1	0	0	0	0	0	0
Available Income to Shareholder	186	120	99	76	100	75	76	-2,712	104	33

Source: Company Reports and Citi Research Estimates

Figure 102. Popular — Group Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Net Interest Income	2,087	-15%	2,719	30%	2,531	-7%	2,543	1%	2,556	1%	2,571	1%
Fee Income	686	-8%	794	16%	754	-5%	769	2%	784	2%	800	2%
Trading Income	129	-35%	360	179%	265	-27%	270	2%	275	2%	281	2%
Insurance and Other	49	-26%	-118	-341%	-60	-49%	-61	2%	-62	2%	-64	2%
Total Income	2,951	-15%	3,755	27%	3,489	-7%	3,521	1%	3,553	1%	3,589	1%
Total Op. Expenses	-1,369	4%	-1,761	29%	-1,621	-8%	-1,572	-3%	-1,574	0%	-1,605	2%
Operating Income	1,581	-26%	1,993	26%	1,868	-6%	1,949	4%	1,980	2%	1,983	0%
Income from Associates (equity method)	46	NM	23	-50%	26	13%	28	0%	28	0%	28	0%
Prov. Loan Losses (Net)	-1,690	-9%	-5,658	235%	-2,490	-56%	-2,274	-9%	-2,096	-8%	-1,416	-32%
Other	507	-7%	150	-70%	539	259%	400		100		0	
Income Before Tax	444	-47%	-3,492	-886%	-57	-98%	103	-280%	12	-88%	595	4866%
Taxes	40	-117%	1,031	2488%	17	-98%	-29	-272%	-3	-88%	-167	4866%
- Implied Tax Rate	-9%		30%		29%		28%		28%		28%	
Net Income	484	-20%	-2,461	-608%	-40	-98%	74	-284%	9	-88%	429	4866%
Minority Interest	-4	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Discontinued Operations	0		0		0		0		0		0	
Available Income to Shareholders	480	-19%	-2,461	-613%	-40	-98%	74	-283%	9	-88%	429	4866%
PER SHARE												
EPS	0.94	-21%	-2.24	nm	-0.02	-99%	0.04	-277%	0.00	-89%	0.23	4782%
Adj. Cash EPS	0.94	-21%	-2.24	nm	-0.02	-99%	0.04	-277%	0.00	-89%	0.23	4782%
Dividend	0.11	-35%	0.00	0%	0.00	0%	0.01	0%	0.00	0%	0.06	0%
Payout ratio	12%		nm		0%		24%		0%		25%	
BVPS	13.76	-1%	5.49	-60%	5.41	-1%	5.37	-1%	5.27	-2%	5.41	3%
Number of shares (year end)	515	0%	1,682	0%	1,753	0%	1,801	0%	1,837	0%	1,864	0%
RATIOS												
Net interest margin (CIR Calculation)	1.60%		1.88%		1.61%		1.66%		1.72%		1.74%	
Cost / income ratio	46%		47%		46%		45%		44%		45%	
Provision charge / customer loans (bps)	171		482		219		208		196		132	
NPL ratio (all risks)	6.0%		9.0%		11.9%		13.2%		13.5%		12.9%	
Coverage	35%		65%		55%		54%		55%		55%	
Return on avg Assets	0.4%		-1.7%		0.0%		0.0%		0.0%		0.3%	
Return on avg RWAs	0.5%		-2.8%		0.0%		0.1%		0.0%		0.6%	
ROE	6.8%		-30.2%		-0.4%		0.8%		0.1%		4.3%	
SUMMARY B/S												
Total assets	130,926	1%	157,618	20%	156,752	-1%	150,482	-4%	147,472	-2%	147,472	0%
Gross customer loans	98,873	1%	117,299	19%	113,690	-3%	109,143	-4%	106,960	-2%	106,960	0%
Net customer loans	96,771	1%	108,809	12%	104,318	-4%	99,318	-5%	96,963	-2%	97,474	1%
Customer deposits	59,085	-11%	74,893	27%	79,920	7%	82,078	3%	84,540	3%	87,077	3%
Loan to deposit ratio	163.8%		145.3%		130.5%		121.0%		114.7%		111.9%	
Shareholders' equity	7,091	1%	9,231	30%	9,487	3%	9,668	2%	9,677	0%	10,078	4%
Average shareholders' equity	7,059	-4%	9,565	36%	9,359	-2%	9,578	2%	9,672	1%	9,878	2%
Capital Ratios												
Core capital (EBA)	8,853	0%	8,934	1%	8,617	-4%	8,760	2%	8,769	0%	9,170	5%
Tier 1 capital (EBA)	8,853	-2%	9,099	3%	8,952	-2%	9,055	1%	9,064	0%	9,465	4%
Total capital (EBA)	8,980	-6%	9,788	9%	9,642	-1%	9,745	1%	9,753	0%	10,155	4%
Risk-weighted assets	88,181	-6%	88,757	1%	86,213	-3%	81,260	-6%	76,685	-6%	73,736	-4%
Core capital ratio	10.0%		10.1%		10.0%		10.8%		11.4%		12.4%	
Tier 1 ratio	10.0%		10.3%		10.4%		11.1%		11.8%		12.8%	
Total capital ratio	10.2%		11.0%		11.2%		12.0%		12.7%		13.8%	

Source: Company Reports and Citi Research Estimates

Banco Sabadell

2Q13 Preview: Banco Sabadell reports 2Q13 results on 25 July at c. 0730 UK. Our expectations for 2Q13 are below. Special items expected: Penedes BMN consolidation as of 1 June; Lloyds Spain consolidation as of 30 June; strong trading income.

New Estimates: We revise our EPS estimates for 2013 (higher loss) on lower NII and higher provisions driven by a sooner-than-expected consolidation of Penedes and Lloyds Spain. We also now expect lower NII and slightly higher provisions in 2014-16E (EPS -20%, -3% and -7% respectively).

Sell/High Risk, TP to €1.40: We give 50% benefit to SAB's 2013E deduction for DTA from temporary differences (see section at beginning of note). We also decrease our expectation for sustainable ROE to 9.0% from 9.5%. As a result of these and our new estimates, we increase our target price to €1.40 from €1.15 and reiterate our Sell/High Risk (3H) rating.

Figure 103. Sabadell — New vs Old Estimates; Citi vs Consensus

	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Net Interest Income	1,793	1,762	-2%	2,508	2,340	-7%	2,533	2,364	-7%	2,559	2,387	-7%
Fee Income	657	673	2%	761	778	2%	784	801	2%	807	825	2%
Trading Income	655	709	8%	425	496	17%	438	511	17%	451	527	17%
Total Income	3,081	3,060	-1%	3,717	3,594	-3%	3,780	3,696	-2%	3,844	3,769	-2%
Total Op. Expenses	-1,686	-1,720	2%	-1,620	-1,650	2%	-1,620	-1,650	2%	-1,636	-1,666	2%
Operating Income	1,395	1,340	-4%	2,097	1,944	-7%	2,160	2,046	-5%	2,208	2,102	-5%
Prov. Loan Losses (Net)	-1,427	-1,570	10%	-1,333	-1,333	0%	-1,158	-1,069	-8%	-835	-823	-1%
Income Before Tax	-53	-251	nm	776	624	-20%	1,016	991	-2%	1,388	1,294	-7%
Income to Shareholders	-56	-64	nm	538	428	-20%	709	690	-3%	974	907	-7%
- EPS	-0.02	-0.02	nm	0.17	0.13	-20%	0.22	0.21	-3%	0.30	0.28	-7%

	2013E			2014E			2015E			2016E		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total income	3,063	3,060	-0.1%	3,180	3,594	13.0%	3,278	3,696	12.7%	na	3,769	nm
Net Profit (IFRS)	230	-64	-127.9%	477	428	-10.2%	649	690	6.4%	na	907	nm

Citi Research and Reuters Consensus.

Figure 104. Sabadell — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net Interest Income	379	385	389	384	407	447	526	487	451	431
Fee Income	136	153	136	150	134	155	165	175	168	165
Trading Income	137	52	45	108	161	104	143	198	293	180
Insurance and Other	3	7	3	4	-15	-32	-35	-50	-24	-20
Total Income	655	597	572	646	687	674	799	810	888	756
Total Op. Expenses	-323	-301	-316	-335	-314	-380	-489	-485	-458	-430
Gross Operating Profit (=PPP)	332	295	256	310	373	294	309	325	430	326
Income from Associates (equity method)	17	15	10	-4	5	1	-12	-5	-8	3
Prov. Loan Losses (Net)	-298	-109	-122	-85	-103	-978	-281	-370	-325	-258
Other	-31	-105	-99	-194	-163	306	11	-14	-2	0
Income Before Tax	20	97	45	26	113	-377	27	-64	95	71
Taxes	67	-16	-1	-1	-31	360	4	65	-34	-20
- Implied Tax Rate	-341%	16%	3%	5%	28%	95%	-15%	101%	36%	28%
Net Income	86	81	44	25	82	-17	31	1	60	51
Minority Interest	-2	-1	0	-1	-2	27	-30	-9	-9	-5
Available Income to Shareholder	84	80	43	24	80	10	1	-9	51	46

Source: Company Reports and Citi Research Estimates

Figure 105. Sabadell — Group Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Net Interest Income	1,537	5%	1,868	22%	1,762	-9%	2,340	33%	2,364	1%	2,387	1%
Fee Income	574	11%	629	10%	673	5%	778	16%	801	3%	825	3%
Trading Income	341	30%	606	78%	709	11%	496	-30%	511	3%	527	3%
Insurance and Other	17	-23%	-133	-881%	-84	-37%	-20	-76%	20	-200%	30	50%
Total Income	2,469	9%	2,970	20%	3,060	3%	3,594	17%	3,696	3%	3,769	2%
Total Op. Expenses	-1,276	7%	-1,669	31%	-1,720	3%	-1,650	-4%	-1,650	0%	-1,666	1%
Gross Operating Profit (=PPP)	1,193	12%	1,302	9%	1,340	3%	1,944	45%	2,046	5%	2,102	3%
Income from Associates (equity method)	38	-47%	-12	-131%	1	0%	13	0%	14	0%	15	0%
Prov. Loan Losses (Net)	-615	94%	-1,732	182%	-1,570	-9%	-1,333	-15%	-1,069	-20%	-823	-23%
Other	-429	21%	140	-133%	-22	-116%	0	0%	0	0%	0	0%
Income Before Tax	187	-60%	-302	-261%	-251	-17%	624	-348%	991	59%	1,294	31%
Taxes	48	-159%	398	722%	211	0%	-175	-183%	-277	59%	-362	31%
- Implied Tax Rate	0	0%	1	0%	1	0%	0	0%	0	0%	0	0%
Net Income	236	-38%	96	-59%	-40	-142%	449	-1217%	713	59%	932	31%
Minority Interest	-4	0%	-14	0%	-24	0%	-21	0%	-23	0%	-25	0%
Discontinued Operations	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Available Income to Shareholder	232	-39%	82	-65%	-64	-178%	428	-767%	690	61%	907	31%
PER SHARE												
EPS	0.14	-43%	0.03	-76%	-0.02	-159%	0.13	-742%	0.21	61%	0.28	31%
Adj Cash EPS	0.14	-43%	0.03	-76%	-0.02	-159%	0.13	-742%	0.21	61%	0.28	31%
Dividend	0.08	-33%	0.03	-64%	0.00	0%	0.03	0%	0.05	62%	0.07	33%
Payout ratio	57.2%		84.8%		0.0%		24.6%		24.6%		25.0%	
BVPS	3.00	-5%	2.67	-11%	2.74	3%	2.84	4%	3.00	6%	3.21	7%
Tangible BVPS	2.39	-8%	2.28	-5%	2.39	5%	2.49	4%	2.65	6%	2.86	8%
Number of shares (year end)	1,691		2,998		3,237		3,237		3,237		3,237	
RATIOS												
Net interest margin (CIR Calculation)	1.56%		1.43%		1.10%		1.41%		1.45%		1.47%	
Cost / income ratio	52%		56%		56%		46%		45%		44%	
Provision charge / customer loans (bps)	83		150		130		112		91		69	
NPL ratio (all risks)	5.9%		9.3%		10.3%		11.8%		12.8%		13.2%	
Coverage	48%		68%		68%		63%		61%		60%	
Return on avg Assets	0.23%		0.06%		-0.04%		0.26%		0.42%		0.56%	
Return on avg RWAs	0.40%		0.12%		-0.08%		0.57%		0.95%		1.26%	
ROE	4.7%		1.3%		-0.8%		4.7%		7.3%		9.0%	
SUMMARY B/S												
Total assets	100,437	3%	161,547	61%	168,120	4%	164,159	-2%	161,759	-1%	162,296	0%
Gross customer loans	73,635	1%	115,392	57%	121,212	1%	118,787	-2%	117,599	-1%	118,775	0%
Net customer loans	71,367	1%	103,211	45%	108,494	5%	105,687	-3%	104,232	-1%	105,158	1%
Customer deposits	58,444	6%	82,464	41%	97,545	18%	100,471	3%	103,485	3%	106,590	3%
Loan to deposit ratio	122%		125%		111%		105%		101%		99%	
Shareholders' equity	5,072	5%	8,004	58%	8,883	11%	9,206	4%	9,726	6%	10,407	7%
Average shareholders' equity	4,954	3%	6,538	32%	8,493	30%	9,044	6%	9,466	5%	10,066	6%
CAPITAL												
Core capital	5,061	2%	7,851	55%	7,879	0%	8,202	4%	8,722	6%	9,402	8%
Tier 1 capital	5,582	-1%	7,845	41%	7,883	0%	8,206	4%	8,727	6%	9,407	8%
Total capital	6,149	-8%	8,577	39%	8,523	-1%	8,718	2%	9,136	5%	9,735	7%
Risk-weighted assets	56,167	-7%	75,314	34%	76,761	2%	73,871	-4%	71,983	-3%	71,410	-1%
Core capital ratio	9.0%		10.4%		10.3%		11.1%		12.1%		13.2%	
Tier 1 ratio	9.9%		10.4%		10.3%		11.1%		12.1%		13.2%	
Total capital ratio	10.9%		11.4%		11.1%		11.8%		12.7%		13.6%	

Source: Company Reports and Citi Research Estimates

Bankinter

2Q13 Preview: Bankinter reports 2Q13 results on 25 July c. 0715 UK. Our expectations for 2Q13 are below. Special items expected: strong trading income.

New Estimates: We revise our EPS estimates for 2013 (+72%) on higher NII and trading income and lower provisions. We also now expect higher NII and slightly higher costs and provisions in 2014-16E (EPS +2%, -3% and -2% respectively).

Buy, TP to €3.50: We increase our expectation for sustainable ROE to 10.0% from 9.5%. As a result of this and our new estimates, we increase our target price to €3.50 from €3.20 and reiterate our Buy (1) rating. We remove the High Risk from the shares as we believe Bankinter is well positioned to face most challenges.

Figure 106. Bankinter — New vs Old Estimates; Citi vs Consensus

	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Net Interest Income	558	568	2%	569	579	2%	575	585	2%	581	591	2%
Fee Income	230	230	0%	237	237	0%	244	244	0%	252	252	0%
Trading Income	160	203	27%	120	135	13%	124	139	13%	127	143	13%
Insurance and Other	243	243	0%	255	255	0%	268	268	0%	281	281	0%
Total Income	1,191	1,245	4%	1,182	1,207	2%	1,211	1,237	2%	1,241	1,267	2%
Total Op. Expenses	-625	-631	1%	-613	-620	1%	-614	-620	1%	-620	-626	1%
Operating Income	566	613	8%	568	587	3%	597	617	3%	621	641	3%
Income from Associates (equity method)	20	20	0%	22	22	0%	24	24	0%	26	26	0%
Prov. Loan Losses (Net)	-430	-364	-15%	-337	-337	0%	-196	-210	8%	-160	-172	8%
Other	-28	-49	75%	-20	-35	75%	-20	-35	75%	-20	-35	75%
Income Before Tax	128	221	72%	234	237	2%	405	395	-3%	467	460	-2%
Taxes	-36	-62	72%	-65	-66	2%	-114	-111	-3%	-131	-129	-2%
Available Income to Shareholders	92	159	72%	168	171	2%	292	285	-3%	336	331	-2%
- EPS	0.11	0.18	72%	0.19	0.19	2%	0.32	0.32	-3%	0.37	0.37	-2%
Number of shares (avg)	877	877		888	888		899	899		899	899	
- Implied Tax Rate	28%	28%		28%	28%		28%	28%		28%	28%	

	2013			2014			2015			2016		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total Income	1,226	1,245	2%	1,242	1,207	-3%	1,282	1,237	-4%	na	1,267	nm
Net Profit (IFRS)	167	159	-5%	237	171	-28%	297	285	-4%	na	331	nm

Citi Research and Reuters Consensus.

Figure 107. Bankinter — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net Interest Income	115	137	142	149	165	174	175	147	133	144
Fee Income	50	50	48	51	49	50	51	54	56	57
Trading Income	25	17	28	28	43	38	26	39	67	50
Insurance and Other	62	67	60	61	52	64	55	57	62	60
Total Income	252	270	278	289	308	325	307	296	317	311
Total Op. Expenses	-166	-160	-155	-164	-164	-164	-158	-159	-165	-160
Operating Income	86	110	123	125	144	162	149	136	152	151
Income from Associates (equity method)	3	3	4	4	3.95	5	4	5	4	5
Other Operating Items	0	0	0	0	0	0	0	0	0	0
Prov. Loan Losses (Net)	-24	-41	-51	-43	-80	-191	-72	-76	-75	-87
Other	-3	-5	-11	-43	-4	-18	-17	4	-13	-12
Income Before Tax	63	68	65	44	63.475	-43	65	68	68	57
Taxes	-15	-16	-18	-10	-14	16	-16	-16	-17	-16
- Implied Tax Rate	23%	23%	28%	23%	22%	37%	24%	23%	26%	28%
Net Income Attributed To The Grp	49	52	47	34	49	-27	50	52	50	41

Source: Company Reports and Citi Research Estimates

Figure 108. Bankinter — Group Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Net Interest Income	543	-1%	660	22%	568	-14%	579	2%	585	1%	591	1%
Fee Income	199	2%	204	2%	230	13%	237	3%	244	3%	252	3%
Trading Income	98	-19%	145	48%	203	40%	135	-34%	139	3%	143	3%
Insurance and Other	250	11%	227	-9%	243	7%	255	5%	268	5%	281	5%
Total Income	1,090	0%	1,236	13%	1,245	1%	1,207	-3%	1,237	2%	1,267	2%
Total Op. Expenses	-645	-2%	-645	0%	-631	-2%	-620	-2%	-620	0%	-626	1%
Operating Income	445	2%	591	33%	613	4%	587	-4%	617	5%	641	4%
Income from Associates (equity method)	15	34%	18	20%	20	13%	22	10%	24	9%	26	8%
Prov. Loan Losses (Net)	-158	-27%	-419	165%	-364	-13%	-337	-7%	-210	-38%	-172	-18%
Other	-61	NM	-35	-42%	-49	0%	-35	0%	-35	0%	-35	0%
Income Before Tax	240	17%	154	-36%	221	43%	237	8%	395	66%	460	16%
Taxes	-59	8%	-30	-50%	-62	109%	-66	8%	-111	66%	-129	16%
- Implied Tax Rate	25%		19%		28%		28%		28%		28%	
Net Income	181	20%	125	-31%	159	27%	171	8%	285	66%	331	16%
PER SHARE												
EPS	0.24	20%	0.15	-37%	0.18	18%	0.19	6%	0.32	64%	0.37	16%
Adj. Cash EPS	0.24	20%	0.15	-37%	0.18	18%	0.19	6%	0.32	64%	0.37	16%
Dividend	0.12	22%	0.05	-60%	0.04	-18%	0.05	13%	0.16	248%	0.19	16%
Payout ratio	50%		32%		22%		24%		51%		50%	
BVPS	3.62	4%	3.60	0%	3.76	4%	3.89	4%	4.05	4%	4.23	5%
Number of shares (year end)	742		877		877		899		899		899	
RATIOS												
Net interest margin (CIR Calculation)	0.96%		1.12%		1.00%		1.05%		1.08%		1.10%	
Cost / income ratio	59%		52%		51%		51%		50%		49%	
Provision charge / customer loans (bps)	36		97		90		85		54		44	
NPL ratio (all risks)	3.2%		4.3%		5.1%		5.7%		5.9%		5.9%	
Coverage	52%		48%		49%		52%		51%		50%	
Return on avg RWAs	0.61%		0.46%		0.65%		0.75%		1.30%		1.55%	
ROE	6.9%		4.3%		4.9%		5.0%		8.0%		8.9%	
SUMMARY B/S												
Total assets	59,491	10%	58,166	-2%	55,745	-4%	54,660	-2%	53,596	-2%	53,596	0%
Gross customer loans	44,647	1%	44,122	-1%	41,582	-6%	40,772	-2%	39,979	-2%	39,979	0%
Net Customer Loans	42,658	2%	42,060	-1%	39,376	-6%	38,430	-2%	37,626	-2%	37,654	0%
Customer deposits	24,244	5%	25,503	5%	27,325	7%	29,238	7%	31,285	7%	33,475	7%
Loan to deposit ratio	176.0%		164.9%		144.1%		131.4%		120.3%		112.5%	
Shareholders' equity	2,685	4%	3,158	18%	3,296	4%	3,498	6%	3,639	4%	3,804	5%
Average shareholders' equity	2,632	2%	2,922	11%	3,230	11%	3,397	5%	3,569	5%	3,722	4%
Capital Ratios												
Core Tier 1 capital	2,660	27%	2,607	-2%	2,696	3%	2,825	5%	2,966	5%	3,131	6%
Tier 1 capital	2,668	16%	2,740	3%	2,831	3%	2,960	5%	3,101	5%	3,266	5%
Risk-weighted assets	28,912	-7%	25,509	-12%	23,413	-8%	22,411	-4%	21,438	-4%	21,438	0%
Core Capital Ratio	9.2%		10.2%		11.5%		12.6%		13.8%		14.6%	
Tier 1 ratio	9.2%		10.7%		12.1%		13.2%		14.5%		15.2%	
Total capital ratio	11.5%		13.0%		14.3%		15.4%		16.7%		17.3%	

Source: Company Reports and Citi Research Estimates

BBVA

2Q13 Preview: BBVA reports 2Q13 results on 31 July at c. 0645 UK. Our expectations for 2Q13 are below. Special items expected: c. €500m gains on sale of Colombia and Peru insurance businesses.

New Estimates: We revise our estimates for 2013 (+3%) on higher NII and trading income, partly offset by higher taxes and provisions. We also now expect slightly higher NII and trading income partly offset by higher provisions in 2014-16 (EPS flat, -1% and -1% respectively). Most of these revisions are driven by marking our FX assumptions to market and to new FX expectations for 2013-16.

Neutral/High Risk, TP to €6.35: As a result of our new estimates, we increase our target price slightly to €6.35 from €6.25 and reiterate our Neutral/High Risk (2H) rating.

Figure 109. BBVA — New vs Old Estimates; Citi vs Consensus

	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Net Interest Income	13,686	14,001	2.3%	14,452	14,765	2.2%	15,992	16,234	1.5%	17,527	17,723	1.1%
Net Commission Income	4,394	4,412	0.4%	4,611	4,674	1.4%	4,866	4,900	0.7%	5,114	5,137	0.4%
Trading Income	2,011	2,272	13.0%	1,962	2,057	4.8%	2,088	2,183	4.5%	2,217	2,318	4.5%
Insurance and Other	825	680	-17.5%	1,007	924	-8.3%	1,068	974	-8.8%	1,132	1,024	-9.5%
Total Revenues	20,915	21,365	2.2%	22,033	22,419	1.8%	24,013	24,291	1.2%	25,991	26,202	0.8%
Total Operating Costs	-11,392	-11,294	-0.9%	-11,738	-11,735	0.0%	-12,270	-12,213	-0.5%	-12,811	-12,745	-0.5%
Operating Income	9,523	10,072	5.8%	10,295	10,685	3.8%	11,743	12,078	2.8%	13,180	13,457	2.1%
Provision for loan losses	-6,501	-6,537	0.5%	-4,876	-4,990	2.3%	-4,702	-4,802	2.1%	-4,735	-4,816	1.7%
Other items	-691	-742	7.3%	-830	-845	1.8%	-435	-435	0.0%	-341	-341	0.0%
Pre-tax Profit	2,331	2,793	19.8%	4,589	4,850	5.7%	6,606	6,841	3.6%	8,104	8,300	2.4%
Income Tax	-174	-540	210.4%	-735	-1,007	37.0%	-1,238	-1,513	22.2%	-1,613	-1,891	17.2%
Minorities	-634	-645		-692	-693		-787	-787		-874	-874	
Net Profit (before exceptionals)	1,523	1,608	5.6%	3,161	3,150	-0.4%	4,582	4,541	-0.9%	5,616	5,534	-1.5%
Exceptionals	1,757	1,757		0	0		0	0		0	0	
Net Profit (reported)	3,280	3,365	2.6%	3,161	3,150	-0.4%	4,582	4,541	-0.9%	5,616	5,534	-1.5%
- EPS	0.59	0.61	2.6%	0.55	0.55	-0.3%	0.78	0.77	-0.8%	0.94	0.93	-1.4%

Divisionals	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Spain	-1,683	-1,330	nm	-491	-365	nm	515	634	23.2%	1,181	1,294	9.6%
Eurasia	973	819	-15.8%	1,178	1,105	-6.2%	1,318	1,252	-5.1%	1,425	1,353	-5.0%
USA (\$)	478	424	-11.3%	525	470	-10.4%	531	475	-10.5%	570	513	-10.0%
Mexico	1,685	1,740	3.3%	1,790	1,938	8.3%	1,926	2,066	7.3%	2,056	2,173	5.7%
South America	1,583	1,603	1.3%	1,225	1,225	0.0%	1,398	1,398	0.0%	1,557	1,557	0.0%
Corporate Activities	-920	-1,060	nm	-968	-1,116	nm	-1,014	-1,168	nm	-1,061	-1,224	nm

	2013E			2014E			2015E			2016E		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Revenues	22,491	21,365	-5.0%	23,619	22,419	-5.1%	24,862	24,291	-2.3%	23,867	26,202	9.8%
Net Profit (IFRS)	4,372	3,365	-23.0%	4,530	3,150	-30.5%	5,297	4,541	-14.3%	5,073	5,534	9.1%
EPS (IFRS)	0.76	0.61	-20.4%	0.80	0.55	-31.1%	0.93	0.77	-16.9%	0.83	0.93	13.0%

Citi Research and Reuters Consensus.

Figure 110. BBVA — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net Interest Income	3,173	3,213	3,285	3,482	3,594	3,741	3,877	3,910	3,623	3,522
Fee Income	985	1,035	1,007	1,004	1,062	1,061	1,104	1,126	1,052	1,119
Trading Income	751	331	-5	403	340	461	319	646	719	582
Insurance and Other	221	443	222	477	268	543	211	177	77	93
Total Revenues	5,130	5,022	4,508	5,368	5,265	5,806	5,512	5,858	5,471	5,315
Personnel & General Expenses	-2,112	-2,219	-2,194	-2,372	-2,298	-2,397	-2,511	-2,561	-2,482	-2,539
Depreciation	-194	-206	-214	-225	-230	-236	-259	-294	-276	-282
Total Operating Expenses	-2,307	-2,426	-2,408	-2,597	-2,528	-2,633	-2,771	-2,855	-2,758	-2,822
Operating Profit	2,824	2,596	2,100	2,771	2,738	3,173	2,741	3,003	2,712	2,493
Loan loss provisions (net)	-1,023	-962	-904	-1,337	-1,085	-2,182	-2,038	-2,675	-1,376	-1,436
Other income / losses	-221	-238	-259	-1,900	-353	-410	-757	-496	176	-319
Pre-tax Profit	1,579	1,397	937	-466	1,299	582	-53	-168	1,512	738
Income Tax	-347	-167	-77	385	-223	3	275	220	-395	-155
Minorities	-141	-106	-103	-132	-168	-154	-159	-171	-206	-144
Net Profit	1,091	1,123	757	-213	908	430	63	-119	911	439
Exceptional Items	58	66	48	74	96	75	83	138	823	500
Net Profit (inc one offs)	1,150	1,189	804	-139	1,005	505	146	20	1,734	939

Source: Company Reports and Citi Research Estimates

Figure 111. BBVA — Group Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Net Interest Income	13,152	-1%	15,122	15%	14,001	-7%	14,765	5%	16,234	10%	17,723	9%
Dividends	23	-96%	25	10%	28	10%	30	10%	33	10%	37	10%
Fee Income	4,031	-11%	4,353	8%	4,412	1%	4,674	6%	4,900	5%	5,137	5%
Insurance & Other Income	1,363	18%	1,199	-12%	680	-43%	924	36%	974	5%	1,024	5%
Trading Income	1,481	-22%	1,767	19%	2,272	29%	2,057	-9%	2,183	6%	2,318	6%
Total Income	20,028	-4%	22,441	12%	21,365	-5%	22,419	5%	24,291	8%	26,202	8%
Total Operating Expenses	(9,737)	9%	(10,786)	11%	(11,294)	5%	(11,735)	4%	(12,213)	4%	(12,745)	4%
Operating Profit	10,290	-14%	11,655	13%	10,072	-14%	10,685	6%	12,078	13%	13,457	11%
Prov. Loan loss (net)	(4,226)	-10%	(7,980)	89%	(6,537)	-18%	(4,990)	-24%	(4,802)	-4%	(4,816)	0%
Equity Method	0	NM	0	NM	0	NA	0	NA	0	NA	0	NA
Net income from non-fin activities	0	NM	0	NM	0	NM	0	NM	0	NM	0	NM
Other income / losses	(2,618)	226%	(2,016)	-23%	(742)	-63%	(845)	14%	(435)	-48%	(341)	-22%
Pre-tax Profit	3,446	-46%	1,659	-52%	2,793	68%	4,850	74%	6,841	41%	8,300	21%
Income Tax	(206)	-86%	276	-234%	(540)	-296%	(1,007)	86%	(1,513)	50%	(1,891)	25%
Minorities	(481)	24%	(652)	35%	(645)	-1%	(693)	7%	(787)	14%	(874)	11%
Net Profit (before exceptionals)	2,758	-40%	1,282	-54%	1,608	25%	3,150	96%	4,541	44%	5,534	22%
Exceptionals	246	NM	393	NM	1,757	NM	0	NM	0	NM	0	NM
Net Profit as reported)	3,004	-35%	1,676	-44%	3,365	101%	3,150	-6%	4,541	44%	5,534	22%
Per share data												
EPS	0.64	-42%	0.32	-49%	0.61	87%	0.55	-9%	0.77	41%	0.93	20%
Adj. EPS	0.59	-47%	0.25	-58%	0.29	17%	0.55	90%	0.77	41%	0.93	20%
Dividend	0.42	0%	0.42	0%	0.42	0%	0.42	0%	0.42	0%	0.42	0%
Payout ratio	66%		130%		69%		77%		54%		45%	
BVPS	7.78	-3%	7.60	-2%	8.15	7%	8.23	1%	8.56	4%	9.04	6%
Tangible BVPS	6.01	-3%	5.97	-1%	6.57	10%	6.69	2%	7.04	5%	7.54	7%
Number of shares (year end)	4,903	9%	5,449	11%	5,673	4%	5,823	3%	5,900	1%	5,978	1%
Number of shares (avg)	4,697	12%	5,176	10%	5,561	7%	5,748	3%	5,862	2%	5,939	1%
Operating ratios												
Net Interest margin (NII/ ATA)	2.29%		2.45%		2.22%		2.33%		2.50%		2.64%	
Cost / income ratio	49%		48%		53%		52%		50%		49%	
Provision charge / gross customer loans	117		217		176		131		122		117	
NPL ratio (Citi Definition)	4.39%		5.61%		6.52%		6.37%		6.17%		5.90%	
Coverage	61%		72%		74%		82%		90%		98%	
Return on Avg Assets	0.52%		0.27%		0.53%		0.50%		0.70%		0.82%	
ROE	8.1%		4.2%		7.7%		6.7%		9.2%		10.6%	
Balance Sheet Summary												
Total assets	597,688	8%	637,785	7%	625,500	-2%	639,399	2%	657,223	3%	686,313	4%
Net Customer Loans	347,659	3%	352,931	2%	353,968	0%	360,703	2%	370,838	3%	387,257	4%
Customer deposits	282,173	2%	312,189	11%	308,869	-1%	327,103	6%	344,256	5%	366,041	6%
Loan to deposit ratio	123%		113%		115%		110%		108%		106%	
Shareholders Equity	38,166	6%	41,430	9%	46,225	12%	47,914	4%	50,482	5%	54,018	7%
Average Shareholders' Equity	37,043	14%	39,798	7%	43,827	10%	47,069	7%	49,198	5%	52,250	6%
Capital Position												
Core capital	34,161	13%	35,451	4%	38,735	9%	40,424	4%	42,992	6%	46,528	8%
Tier 1 capital	34,161	3%	35,451	4%	38,735	9%	40,424	4%	42,992	6%	46,528	8%
Total capital	42,770	0%	42,837	0%	46,319	8%	48,008	6%	50,576	6%	54,112	6%
Risk-weighted assets	330,771	6%	329,033	-1%	321,507	-2%	332,488	6%	341,756	6%	356,883	6%
Core capital ratio	10.33%		10.77%		12.05%		12.16%		12.58%		13.04%	
Tier 1 ratio	10.33%		10.77%		12.05%		12.16%		12.58%		13.04%	
Total capital ratio	12.93%		13.02%		14.41%		14.44%		14.80%		15.16%	
Tangible Equity/ Assets	4.93%		5.10%		5.96%		6.09%		6.32%		6.57%	

Source: Company Reports and Citi Research Estimates

Figure 112. BBVA — Divisional Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Spain & Real Estate												
Net Interest Income	4,352	-11%	4,728	9%	3,656	-23%	3,492	-4%	3,850	10%	4,200	9%
Fee Income	1,313	-21%	1,360	4%	1,408	3%	1,434	2%	1,462	2%	1,491	2%
Insurance	455	-10%	265	-42%	39	-85%	150	290%	175	17%	200	14%
Trading Income	250	nm	227	-9%	667	193%	340	-49%	357	5%	375	5%
Total Revenues	6,369	-10%	6,580	3%	5,769	-12%	5,416	-6%	5,845	8%	6,267	7%
Total Operating Expenses	(2,938)	4%	(3,014)	3%	(3,182)	6%	(3,042)	-4%	(2,904)	-5%	(2,774)	-4%
Operating Profit	3,431	-19%	3,567	4%	2,586	-27%	2,374	-8%	2,940	24%	3,493	19%
Prov. Loan losses (Net)	(2,101)	60%	(5,652)	169%	(3,953)	-30%	(2,217)	-44%	(1,797)	-19%	(1,520)	-15%
Net Profit	266	-88%	(2,881)	-1182%	(1,330)	-54%	(365)	-73%	634	-274%	1,294	104%
Loans and credits	209,622	-2%	201,449	-4%	196,035	-3%	190,533	-3%	189,128	-1%	189,838	0%
Deposits	114,783	-10%	145,643	27%	154,235	6%	158,857	3%	163,618	3%	168,521	3%
Eurasia												
Net Interest Income	801	132%	851	6%	1,005	18%	1,087	8%	1,174	8%	1,268	8%
Fee Income	391	66%	451	15%	442	-2%	478	8%	516	8%	557	8%
Trading Income	105	-21%	131	25%	262	100%	283	8%	306	8%	330	8%
Total Revenues	1,952	81%	2,214	13%	2,217	0%	2,507	13%	2,708	8%	2,924	8%
Total Operating Expenses	(645)	119%	(779)	21%	(748)	-4%	(808)	8%	(872)	8%	(942)	8%
Operating Profit	1,307	67%	1,435	10%	1,469	2%	1,699	16%	1,835	8%	1,982	8%
Loan loss provisions (net)	(149)	66%	(328)	121%	(369)	13%	(360)	-3%	(338)	-6%	(365)	8%
Net Profit	1,027	75%	953	-7%	819	-14%	1,105	35%	1,252	13%	1,353	8%
Loans and credits	33,905	42%	29,245	-14%	30,075	3%	32,481	8%	35,079	8%	37,886	8%
Deposits	21,786	4%	17,470	-20%	19,403	11%	20,955	8%	22,632	8%	24,442	8%
Mexico												
Net Interest Income	3,776	2%	4,179	11%	4,468	7%	4,914	10%	5,307	8%	5,697	7%
Fee Income	1,022	-17%	1,073	5%	1,134	6%	1,216	7%	1,266	4%	1,309	3%
Insurance and Other	227	26%	286	26%	295	3%	302	2%	299	-1%	295	-2%
Trading Income	296	-25%	219	-26%	212	-3%	227	7%	237	4%	245	3%
Total Revenues	5,321	-3%	5,757	8%	6,109	6%	6,659	9%	7,108	7%	7,545	6%
Total Operating Expenses	(1,936)	2%	(2,169)	12%	(2,353)	9%	(2,572)	9%	(2,753)	7%	(2,928)	6%
Operating Profit	3,385	-6%	3,588	6%	3,756	5%	4,087	9%	4,355	7%	4,617	6%
Loan loss provisions (net)	(1,180)	-4%	(1,320)	12%	(1,472)	12%	(1,570)	7%	(1,672)	6%	(1,795)	7%
Net Profit	1,711	0%	1,821	6%	1,740	-4%	1,938	11%	2,066	7%	2,173	5%
Loans and credits	32,560	-6%	37,364	15%	42,059	13%	46,414	10%	49,067	6%	53,483	9%
Deposits	35,524	-4%	36,602	3%	42,700	17%	47,553	11%	50,733	7%	55,806	10%
USA												
Net Interest Income	1,518	-15%	1,551	2%	1,417	-9%	1,478	4%	1,496	1%	1,555	4%
Fee Income	610	-6%	581	-5%	522	-10%	548	5%	557	2%	568	2%
Trading Income	132	-15%	153	15%	131	-14%	138	5%	140	2%	143	2%
Total Revenues	2,181	-14%	2,243	3%	2,040	-9%	2,132	5%	2,160	1%	2,233	3%
Total Operating Expenses	(1,419)	-6%	(1,506)	6%	(1,473)	-2%	(1,501)	2%	(1,497)	0%	(1,498)	0%
Operating Profit	763	-26%	737	-3%	567	-23%	630	11%	663	5%	735	11%
Loan loss provisions (net)	(320)	-55%	(72)	-78%	(73)	1%	(112)	53%	(150)	35%	(192)	28%
Net Profit	(713)	-398%	442	-162%	325	-27%	363	12%	359	-1%	380	6%
Loans and credits	38,927	1%	36,068	-7%	36,771	2%	37,582	2%	37,638	0%	39,144	4%
Deposits	37,777	-11%	39,132	4%	39,968	2%	40,850	2%	41,304	1%	43,370	5%
South America												
Net Interest Income	3,161	27%	4,291	36%	4,151	-3%	4,511	9%	5,146	14%	5,764	12%
Fee Income	720	-25%	910	26%	928	2%	1,021	10%	1,123	10%	1,235	10%
Trading Income	485	-6%	443	-9%	554	25%	610	10%	671	10%	738	10%
Total Revenues	4,101	8%	5,363	31%	5,380	0%	5,863	9%	6,633	13%	7,400	12%
Total Operating Expenses	(1,893)	13%	(2,301)	22%	(2,416)	5%	(2,634)	9%	(2,950)	12%	(3,304)	12%
Operating Profit	2,208	4%	3,062	39%	2,964	-3%	3,230	9%	3,684	14%	4,096	11%
Loan loss provisions (net)	(449)	7%	(593)	32%	(655)	10%	(713)	9%	(826)	16%	(925)	12%
Net Profit	1,166	31%	1,365	17%	1,603	17%	1,225	-24%	1,398	14%	1,557	11%
Loans and credits	38,831	28%	47,146	21%	46,374	-2%	51,939	12%	58,171	12%	65,152	12%
Deposits	42,468	27%	53,870	27%	52,698	-2%	59,021	12%	66,104	12%	74,036	12%
Corporate Center												
Total Revenues	86	-91%	284	230%	(150)	-153%	(158)	5%	(163)	3%	(168)	3%
Net Profit	(340)	-68%	(40)	-88%	(1,060)	2566%	(1,116)	5%	(1,168)	5%	(1,224)	5%

Source: Company Reports and Citi Research Estimates

Figure 113. BBVA — Divisional Profit and Loss Account, 2011-16E

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Mexico (Mexican Pesos in Millions)												
Net Interest Income	64,793	7%	70,638	9%	73,959	5%	79,603	8%	86,768	9%	94,577	9%
Fee Income	17,519	-10%	18,133	4%	18,768	4%	19,706	5%	20,692	5%	21,726	5%
Trading Income	5,014	6%	3,692	-26%	3,508	-5%	3,683	5%	3,867	5%	4,060	5%
Total Revenues	91,231	11%	97,304	7%	101,123	4%	107,882	7%	116,215	8%	125,252	8%
Total Operating Expenses	(33,200)	13%	(36,658)	10%	(38,947)	6%	(41,674)	7%	(45,008)	8%	(48,608)	8%
Operating Profit	58,031	10%	60,646	5%	62,176	3%	66,208	6%	71,208	8%	76,644	8%
Loan loss provisions (net)	(20,196)	-2%	(22,305)	10%	(24,362)	9%	(25,433)	4%	(27,331)	7%	(29,791)	9%
Pre-tax Profit	36,829	19%	37,648	2%	37,275	-1%	40,775	9%	43,877	8%	46,853	7%
Net Profit	28,016	20%	28,475	2%	28,700	1%	31,397	9%	33,785	8%	36,077	7%
Loans and credits	587,751	3%	642,080	9%	685,563	7%	747,264	9%	814,517	9%	887,824	9%
Deposits	641,247	5%	628,992	-2%	696,003	11%	765,603	10%	842,164	10%	926,380	10%
RWAs	683,377	3%	777,983	14%	754,499	-3%	814,496	8%	879,181	8%	958,308	9%
Cost/ income ratio (CIR cal.)	36%		38%		39%		39%		39%		39%	
USA (US\$ in Millions)												
Net Interest Income	2,090	-13%	2,012	-4%	1,850	-8%	1,914	4%	1,982	4%	2,100	6%
Fee Income	841	-3%	754	-10%	682	-10%	709	4%	738	4%	767	4%
Trading Income	182	-12%	198	9%	172	-14%	178	4%	186	4%	193	4%
Total Revenues	3,005	-12%	2,911	-3%	2,663	-9%	2,761	4%	2,862	4%	3,015	5%
Total Operating Expenses	(1,953)	-3%	(1,953)	0%	(1,923)	-2%	(1,944)	1%	(1,983)	2%	(2,023)	2%
Operating Profit	1,052	-24%	957	-9%	741	-23%	816	10%	878	8%	992	13%
Loan loss provisions (net)	(442)	-53%	(93)	-79%	(95)	2%	(144)	52%	(199)	38%	(259)	30%
Pre-tax Profit	(1,370)	NM	804	-159%	606	-25%	672	11%	679	1%	733	8%
Net Profit	(926)	NM	575	-162%	424	-26%	470	11%	475	1%	513	8%
Loans and credits	50,368	-2%	47,588	-6%	47,434	0%	48,857	3%	50,811	4%	52,844	4%
Deposits	48,879	-14%	51,630	6%	51,559	0%	53,106	3%	55,761	5%	58,549	5%
RWAs	37,703	3%	31,992	-15%	31,317	-2%	32,256	3%	33,546	4%	34,888	4%
Cost/ income ratio (CIR cal.)	65%		67%		72%		70%		69%		67%	

Source: Company Reports and Citi Research Estimates

CaixaBank

2Q13 Preview: CaixaBank reports 2Q13 results on 26 April at c. 0600 UK. Our expectations for 2Q13 are below. Special items expected: strong trading income.

New Estimates: We revise our EPS estimates for 2013 (higher loss) on higher trading income more than offset by higher provisions. We also now expect lower income from associates in 2014-16 (EPS -5%, -6% and -7% respectively).

Neutral/High Risk, TP to €2.60: We give 50% benefit to CABK's 2013E deduction for DTA from temporary differences (see section at beginning of note). As a result of this and our new estimates, we increase our target price to €2.60 from €2.35 and reiterate our Neutral/High Risk (2H) rating.

Figure 114. CaixaBank — New vs Old Estimates; Citi vs Consensus

	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Net Interest Income	4,010	4,010	0%	4,350	4,350	0%	4,414	4,414	0%	4,478	4,478	0%
Fee Income	1,808	1,808	0%	1,880	1,880	0%	1,956	1,956	0%	2,034	2,034	0%
Trading Income	186	277	49%	193	288	49%	201	299	49%	209	311	49%
Total Income	6,005	6,095	2%	6,424	6,518	1%	6,571	6,669	1%	6,721	6,823	2%
Total Op. Expenses	-4,753	-4,753	0%	-3,375	-3,375	0%	-3,443	-3,443	0%	-3,512	-3,512	0%
Pre-provision Profit	1,251	1,342	7%	3,049	3,143	3%	3,128	3,227	3%	3,209	3,312	3%
Income from Associates (equity method)	910	738	-19%	691	594	-14%	774	657	-15%	866	738	-15%
Prov. Loan Losses (Net)	-4,854	-5,025	4%	-2,664	-2,664	0%	-1,918	-1,918	0%	-1,462	-1,462	0%
Other	2,223	2,163		0	-80		0	-70		0	-60	
Income Before Tax	-470	-782	67%	1,076	993	-8%	1,984	1,896	-4%	2,614	2,528	-3%
Taxes	269	269	0%	-145	-150	3%	-394	-403	2%	-557	-570	2%
- Implied Tax Rate	57%	34%		14%	15%		20%	21%		21%	23%	
Available Income to Shareholders	-201	-513	156%	930	843	-9%	1,590	1,493	-6%	2,056	1,958	-5%
- EPS	-0.04	-0.11	161%	0.18	0.17	-4%	0.27	0.28	0%	0.33	0.34	2%
Number of shares (avg)	4,686	4,587	-2%	5,243	4,966	-5%	5,787	5,420	-6%	6,179	5,760	-7%

	2013			2014			2015			2016		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total income	6,765	6,095	-10%	7,114	6,518	-8%	7,432	6,669	-10%	na	6,823	nm
Net Income	561	-513	-192%	1,437	843	-41%	2,005	1,493	-26%	na	1,958	nm

Citi Research and Reuters Consensus.

Figure 115. CaixaBank — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net Interest Income	801	742	777	850	883	903	1,059	1,027	992	977
Fee Income	383	389	365	425	413	426	429	433	446	450
Trading Income & Other	177	239	216	488	213	60	34	48	51	125
Other	0	0	0	0	0	0	0	0	0	0
Total Income	1,361	1,370	1,358	1,763	1,509	1,389	1,522	1,508	1,489	1,552
Total Op. Expenses	-835	-937	-784	-786	-783	-783	-988	-1,012	-1,778	-1,001
Operating Income	526	433	574	977	726	606	534	496	-289	551
Income from Investments & Dividends	183	503	-11	-16	163	353	204	89	207	268
Prov. Loan Losses (Net)	-373	-1,020	-563	-601	-960	-940	-789	-1,253	-1,951	-858
Other	24	594	16	-87	74	-20	-20	675	2,223	-20
Income Before Tax	360	510	16	273	3	-1	-71	7	191	-56
Taxes	-59	22	-4	-65	45	119	78	49	144	92
- Implied Tax Rate	16.4%	-4.3%	25.0%	23.8%	na	na	109.9%	-700.0%	-75.4%	162.8%
Net Income	301	532	12	208	48	118	7	56	335	35

Source: Company Reports and Citi Research Estimates

Figure 116. Caixabank — Group Profit and Loss Account, 2010-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Net Interest Income	3,170	-7%	3,872	22%	4,010	4%	4,350	8%	4,414	1%	4,478	1%
Fee Income	1,562	11%	1,701	9%	1,808	6%	1,880	4%	1,956	4%	2,034	4%
Trading Income & Other	1,120	36%	355	-68%	277	-22%	288	4%	299	4%	311	4%
Total Income	5,852	4%	5,928	1%	6,095	3%	6,518	7%	6,669	2%	6,823	2%
Total Op. Expenses	-3,342	-1%	-3,564	7%	-4,753	33%	-3,375	-29%	-3,443	2%	-3,512	2%
Operating Income	2,510	10%	2,364	-6%	1,342	-43%	3,143	134%	3,227	3%	3,312	3%
Income from Investments & Dividends	659	-10%	809	23%	738	-9%	594	-20%	657	11%	738	12%
Prov. Loan Losses (Net)	-2,557	76%	-3,942	54%	-5,025	27%	-2,664	-47%	-1,918	-28%	-1,462	-24%
Other	547	NM	709	NM	2,163	0%	-80	0%	-70	0%	-60	0%
Income Before Tax	1,159	-18%	-60	-105%	-782	1211%	993	-227%	1,896	91%	2,528	33%
Taxes	-106	-47%	291	-375%	269	-8%	-150	NM	-403	NM	-570	NM
- Implied Tax Rate	9.1%		487.7%		34.4%		15.1%		21.3%		22.5%	
Net Income	1,053	-13%	231	-78%	-513	-322%	843	-264%	1,493	77%	1,958	31%
PER SHARE												
EPS	0.28	-21%	0.05	-81%	-0.11	-304%	0.17	-253%	0.28	62%	0.34	23%
Dividend	0.23	-26%	0.23	0%	0.06	-74%	0.08	28%	0.23	200%	0.23	0%
Payout ratio	81.5%		423.3%		-54.0%		45.3%		83.9%		68.0%	
BVPS	5.10	-12%	4.82	-5%	4.83	0%	4.50	-7%	4.32	-4%	4.35	1%
Number of shares (year end)	4,064		4,451		4,722		5,210		5,630		5,891	
RATIOS												
Net interest margin (CIR Calculation)	1.17%		1.25%		1.14%		1.24%		1.30%		1.33%	
Cost / income ratio	57.1%		60.1%		78.0%		51.8%		51.6%		51.5%	
Provision charge / customer loans (bps)	137		176		226		125		92		70	
NPL ratio (all risks)	4.90%		8.62%		10.68%		12.31%		13.13%		13.16%	
Coverage	60.1%		59.9%		75.8%		71.7%		68.5%		66.4%	
Return on avg RWAs	0.73%		0.16%		-0.33%		0.59%		1.10%		1.46%	
ROE	5.2%		1.1%		-2.3%		3.6%		6.2%		7.8%	
SUMMARY B/S												
Total assets	270,425	-1%	348,294	29%	357,012	3%	342,731	-4%	335,877	-2%	335,877	0%
Gross customer loans	186,049	-2%	223,449	20%	221,969	-1%	213,090	-4%	208,828	-2%	208,828	0%
Net Customer Loans	180,412	-2%	211,487	17%	203,570	-4%	193,769	-5%	189,519	-2%	190,076	0%
Customer deposits	122,776	-5%	148,862	21%	156,899	5%	160,037	2%	163,238	2%	166,502	2%
Loan to deposit ratio	146.9%		142.1%		129.7%		121.1%		116.1%		114.2%	
Shareholders' equity	20,715	6%	21,453	4%	22,788	6%	23,449	3%	24,340	4%	25,648	5%
Average shareholders' equity	20,138	3%	21,084	5%	22,120	5%	23,118	5%	23,895	3%	24,994	5%
Capital Ratios												
Core capital	17,178	0%	17,653	0%	16,102	0%	16,764	4%	17,655	5%	18,963	7%
Tier 1 capital	17,178	0%	17,653	0%	16,102	0%	16,764	4%	17,655	5%	18,963	7%
Risk-weighted assets	137,355	0%	161,200	0%	149,945	0%	137,093	-9%	134,351	-2%	134,351	0%
Core Capital Ratio	12.51%		10.95%		10.74%		12.23%		13.14%		14.11%	
Tier 1 ratio	12.51%		10.95%		10.74%		12.23%		13.14%		14.11%	
Total capital ratio	12.80%		11.56%		11.15%		12.68%		13.60%		14.57%	

Source: Company Reports and Citi Research Estimates

Figure 117. Caixabank — Divisional Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Banking & insurance												
Net Interest Income	3,540	-2%	4,228	19%	4,473	6%	4,697	5%	4,744	1%	4,791	1%
Fee Income	1,562	11%	1,701	9%	1,808	6%	1,880	4%	1,956	4%	2,034	4%
Trading Income & Other	1,120	36%	355	-68%	277	-22%	288	4%	299	4%	311	4%
Total Income	6,222	6%	6,284	1%	6,558	4%	6,865	5%	6,999	2%	7,137	2%
Total Op. Expenses	-3,219	-4%	-3,563	11%	-4,750	10%	-3,371	-29%	-3,439	2%	-3,508	2%
Operating Income	3,003	20%	2,721	-9%	1,809	-34%	3,494	93%	3,560	2%	3,629	2%
Income from Investments & Dividends	53	71%	92	74%	95	3%	99	5%	104	5%	110	5%
Other Operating Items	0	NM	0	0%	0	0%	0	0%	0	0%	0	0%
Prov. Loan Losses (Net)	-2,557	76%	-3,942	54%	-5,025	27%	-2,664	-47%	-1,918	-28%	-1,462	-24%
Income Before Tax	1,305	55%	-420	-132%	-959	128%	850	-189%	1,677	97%	2,217	32%
Taxes	-212	-18%	189	-189%	134	0%	-255	0%	-503	0%	-665	0%
- Implied Tax Rate	16%		45%		14%		30%		30%		30%	
Net Income	1,093	87%	-231	-121%	-825	257%	595	-172%	1,174	97%	1,552	32%
Minority Interest	0	0%	1	0%	4	0%	0	0%	0	0%	0	0%
Available Income to Shareholders	1,093	87%	-230	-121%	-821	257%	595	-172%	1,174	97%	1,552	32%
Avg equity	14,113	3%	15,459	10%	17,859	16%	18,454	3%	19,628	6%	21,180	8%
ROE	8%		-1%		-5%		3%		6%		7%	
Investments												
Net Interest Income	-370	80%	-356	-4%	-463	30%	-347	-25%	-330	-5%	-313	-5%
Fee Income	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Trading Income	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Other	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total Income	-370	80%	-356	-4%	-463	30%	-347	-25%	-330	-5%	-313	-5%
Total Op. Expenses	-13	-24%	-3	-77%	-4	20%	-4	5%	-4	5%	-4	5%
Operating Income	-383	73%	-359	-6%	-466	30%	-351	-25%	-334	-5%	-317	-5%
Income from Investments & Dividends	606	-13%	717	18%	643	-10%	494	-23%	553	12%	629	14%
Other Operating Items	0	NM	0	0%	0	0%	0	0%	0	0%	0	0%
Other	-259	NM	0	-100%	0	0%	0	0%	0	0%	0	0%
Income Before Tax	-36	-106%	358	-1094%	176	-51%	143	-19%	219	53%	311	42%
Taxes	106	80%	102	-4%	135	32%	105	-22%	100	-5%	95	-5%
- Implied Tax Rate	294%		-28%		-77%		-73%		-46%		-31%	
Net Income	70	-89%	460	557%	311	-32%	249	-20%	319	28%	406	27%
Minority Interest	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Available Income to Shareholders	70	-89%	460	557%	311	-32%	249	-20%	319	28%	406	27%
Avg equity	6,049	9%	6,625	10%	4,196	-37%	4,445	6%	4,764	7%	5,171	9%
ROE	1%		7%		6%		6%		7%		8%	

Source: Company Reports and Citi Research Estimates

Santander

2Q13 Preview: SAN reports 2Q13 results on 30 July at c. 0730 UK. Our expectations for 2Q13 are below. Special items expected: solid trading income; real estate-related provisioning in Mexico.

New Estimates: We revise our estimates for 2013 (+3%) on higher trading income, partly offset by higher provisions. We also now expect slightly higher trading income in 2014-16 and lower NII in 2015-16 (EPS +2%, -2%, and -1% respectively). Mexico estimates go up, Brazil down. Most of these revisions are driven by marking our FX assumptions to market and to new FX expectations for 2013-16.

Neutral/High Risk, TP to €4.65: As a result of our new estimates, we increase our target price slightly to €4.65 from €4.60 and reiterate our Neutral/High Risk (2H) rating.

Figure 118. SAN — New vs Old Estimates; Citi vs Consensus

Total Group	2013E Old	2013E New	Chg	2014E Old	2014E New	Chg	2015E Old	2015E New	Chg	2016E Old	2016E New	Chg
Net interest income	26,684	26,659	0%	27,126	27,273	1%	28,441	27,660	-3%	30,079	29,375	-2%
Fees	9,983	9,981	0%	10,305	10,370	1%	10,866	10,689	-2%	11,535	11,382	-1%
Trading	2,871	3,193	11%	2,913	2,990	3%	3,015	3,044	1%	3,104	3,143	1%
Operating income	39,957	40,254	1%	40,784	41,072	1%	42,785	41,851	-2%	45,202	44,377	-2%
Operating expenses	-19,758	-19,746	0%	-19,809	-19,892	0%	-20,347	-19,994	-2%	-21,307	-20,983	-2%
Gross operating profit	20,199	20,507	2%	20,975	21,180	1%	22,438	21,858	-3%	23,895	23,394	-2%
Provisions	-12,494	-12,697	2%	-10,988	-11,036	0%	-11,256	-10,858	-4%	-11,835	-11,472	-3%
Other	-1,427	-1,421	-1%	-1,330	-1,325	-1%	-1,302	-1,270	-2%	-1,278	-1,249	-2%
Pre-tax profit	6,279	6,389	2%	8,657	8,820	2%	9,879	9,730	-2%	10,783	10,673	-1%
Net profit	3,800	3,917	3%	5,340	5,435	2%	6,148	6,049	-2%	6,738	6,662	-1%
Per share data (Eur)												
EPS	0.35	0.36	3%	0.46	0.46	2%	0.49	0.49	-2%	0.52	0.51	-1%
Dividend	0.60	0.60	0%	0.60	0.60	0%	0.60	0.60	0%	0.60	0.60	0%
Payout ratio	170%	165%	-3%	132%	129%	-2%	122%	124%	2%	116%	117%	1%
NAV per share	6.66	6.67	0%	6.43	6.45	0%	6.29	6.30	0%	6.17	6.18	0%
Efficiency	49.4%	49.1%	-1%	48.6%	48.4%	0%	47.6%	47.8%	0%	47.1%	47.3%	0%
ROE	5.1%	5.2%	3%	7.0%	7.1%	2%	7.8%	7.6%	-2%	8.3%	8.2%	-1%

Divisionals (Euro in Million)	2013E New	2013E New	Chg	2014E New	2014E New	Chg	2015E New	2015E New	Chg	2016E New	2016E New	Chg
Continental Europe	216	182	-16%	1,480	1,503	2%	1,900	1,948	3%	2,119	2,176	3%
Spain	25	-6	-123%	1,152	1,168	1%	1,362	1,379	1%	1,451	1,469	1%
Portugal	75	75	0%	100	100	0%	158	158	0%	172	172	0%
Other (Banif, Asset Mgmt)	-53	-53	0%	-22	-22	0%	-21	-21	0%	-20	-20	0%
Consumer Finance	667	667	0%	635	635	0%	651	651	0%	669	669	0%
Poland	302	300	-1%	336	342	2%	398	429	8%	429	469	9%
LatAm	3,725	3,744	1%	4,044	4,148	3%	4,354	4,261	-2%	4,644	4,568	-2%
Brazil	1,938	1,958	1%	2,151	2,182	1%	2,387	2,247	-6%	2,548	2,422	-5%
Mexico	800	800	0%	845	916	8%	889	936	5%	974	1,024	5%
Chile	376	376	0%	398	400	0%	429	427	0%	472	473	0%
Rest of LatAm	611	611	0%	650	650	0%	650	650	0%	650	650	0%
UK	950	929	-2%	1,037	1,005	-3%	1,087	1,061	-2%	1,138	1,112	-2%
USA	1,018	1,009	-1%	1,049	1,039	-1%	1,085	1,076	-1%	1,123	1,114	-1%
Corporate Centre	-1,870	-1,720	-8%	-2,020	-2,020	0%	-2,020	-2,020	0%	-2,020	-2,020	0%

	2013E			2014E			2015E			2016E		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Revenues	42,945	40,254	-6.3%	44,681	41,072	-8.1%	47,064	41,851	-11.1%	44,888	44,377	-1.1%
Net Profit	5,248	3,917	-25.4%	6,585	5,435	-17.5%	7,816	6,049	-22.6%	7,980	6,662	-16.5%

Citi Research and Reuters Consensus.

Figure 119. SAN — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net interest income	7,075	7,225	7,275	7,536	7,763	7,622	7,438	7,100	6,652	6,612
Fees	2,518	2,667	2,636	2,387	2,612	2,556	2,566	2,526	2,516	2,513
Insurance and Other	225	306	172	229	115	271	66	77	156	97
Trading	664	722	639	474	797	675	643	583	969	928
Operating income	10,481	10,920	10,722	10,626	11,287	11,124	10,713	10,286	10,292	10,150
Operating expenses	(4,731)	(4,826)	(4,909)	(5,093)	-5,043	-4,934	-5,067	-4,939	-4,996	-4,948
Gross operating profit	5,750	6,095	5,812	5,533	6,245	6,190	5,646	5,346	5,295	5,202
Provisions	(2,065)	(2,546)	(2,711)	(2,577)	-3,118	-3,401	-2,987	-3,134	-2,919	-3,153
Equity method earnings	1	1	0	3	-1	-1	0	-3	-2	0
Other	(593)	(1,430)	(441)	(520)	-570	-478	-556	-697	-372	-365
Pretax Profit	3,092	2,119	2,661	2,439	2,556	2,309	2,103	1,512	2,003	1,685
Tax	(759)	(512)	(683)	(545)	-720	-657	-662	-275	-496	-360
Goodwill	0	0	0	0	0	0	0	0	0	0
Other extraordinary income	(6)	(0)	(15)	(1,673)	17	-1,293	-1,120	-581	0	18
Total Minorities	(218)	(214)	(161)	(173)	-227	-237	-198	-234	-303	-253
Net profit	2,108	1,393	1,803	47	1,627	123	122	423	1,205	1,089

Source: Company Reports and Citi Research Estimates

Figure 120. SAN — Group Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Net interest income	28,883	0%	29,923	3%	26,659	-11%	27,273	2%	27,660	1%	29,375	6%
Fee Income	10,145	5%	10,259	1%	9,981	-3%	10,370	4%	10,689	3%	11,382	6%
Insurance and Other	940	91%	530	-43%	421	-21%	439	4%	458	4%	477	4%
Trading	2,499	-4%	2,698	8%	3,193	18%	2,990	-6%	3,044	2%	3,143	3%
Total income	42,466	2%	43,410	2%	40,254	-7%	41,072	2%	41,851	2%	44,377	6%
Operating expenses	(19,412)	7%	(19,983)	2%	(19,746)	-1%	(19,892)	1%	(19,994)	1%	(20,983)	5%
Gross operating profit	23,055	-3%	23,427	1%	20,507	-12%	21,180	3%	21,858	3%	23,394	7%
Prov. Loan Losses (Net)	(9,826)	-3%	(12,640)	28%	(12,697)	0%	(11,036)	-13%	(10,858)	-2%	(11,472)	6%
Equity method earnings	5	-424%	(4)	-182%	0	0%	0	0%	0	0%	0	0%
Other	(2,999)	93%	(2,301)	-23%	(1,421)	-38%	(1,325)	-7%	(1,270)	-4%	(1,249)	-2%
Pre-tax profit	10,230	-14%	8,481	-18%	6,389	-25%	8,820	38%	9,730	10%	10,673	10%
Tax	(2,479)	-14%	(2,314)	-7%	(1,433)	-38%	(2,267)	58%	(2,497)	10%	(2,719)	9%
Goodwill	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Other extraordinary income	(1,656)		(2,977)		29		68		69		69	
Total Minorities	(766)	-17%	(895)	17%	(1,068)	19%	(1,186)	11%	(1,252)	6%	(1,361)	9%
Net profit	5,330	-35%	2,295	-57%	3,917	71%	5,435	39%	6,049	11%	6,662	10%
Per share data												
EPS	0.62	-37%	0.25	-60%	0.36	47%	0.46	28%	0.49	5%	0.51	6%
Adj. Cash EPS	0.81	-18%	0.57	-30%	0.36	-37%	0.46	27%	0.48	5%	0.51	6%
Dividend	0.60	0%	0.60	0%	0.60	0%	0.60	0%	0.60	0%	0.60	0%
Payout ratio	97%	60%	242%	150%	165%	-32%	129%	-22%	124%	-4%	117%	-5%
BVPS	8.58	-5%	6.96	-19%	6.67	-4%	6.45	-3%	6.30	-2%	6.18	-2%
Tangible BVPS	5.76	-5%	4.58	-21%	4.44	-3%	4.40	-1%	4.33	-2%	4.29	-1%
Number of shares (year end)	8,909	7%	10,321	16%	11,222	9%	12,201	9%	12,734	4%	13,289	4%
Number of shares (avg)	8,619	4%	9,262	7%	10,772	16%	11,712	9%	12,468	6%	13,012	4%
Operating Ratios												
Net Interest margin (NII/ ATA)	2.34%		2.37%		2.12%		2.18%		2.18%		2.24%	
Cost / income ratio	45.7%		46.0%		49.1%		48.4%		47.8%		47.3%	
Provision charge / gross customer loans	130		167		173		151		145		147	
Non Performing Loan Ratio	4.2%		4.8%		5.6%		5.6%		5.5%		5.4%	
Coverage	61.4%		72.4%		72.2%		77.7%		82.8%		88.1%	
Return on Avg Assets	0.43%		0.18%		0.31%		0.44%		0.48%		0.51%	
Return on Avg RWAs	0.91%		0.41%		0.71%		0.97%		1.04%		1.11%	
ROE	7.0%		3.1%		5.2%		7.1%		7.6%		8.2%	
Balance Sheet Items												
Total assets	1,251,525	3%	1,269,598	1%	1,244,072	-2%	1,253,802	1%	1,284,604	2%	1,340,034	4%
Net Customer Loans	750,100	4%	719,112	-4%	698,212	-3%	707,003	1%	727,147	3%	759,482	4%
Customer deposits	588,977	1%	589,104	0%	612,440	4%	634,630	4%	662,355	4%	697,397	5%
Loan to deposit ratio	127%		122%		114%		111%		110%		109%	
Shareholders Equity	76,414	2%	71,860	-6%	74,904	4%	78,699	5%	80,196	2%	82,107	2%
Average Shareholders' equity	75,716	5%	74,137	-2%	74,662	1%	76,802	3%	79,447	3%	81,152	2%
Capital Ratios												
Core capital	56,694	7%	57,558	2%	62,382	8%	66,646	7%	68,565	3%	70,856	3%
Tier 1 capital	62,294	3%	62,234	0%	67,073	8%	70,867	6%	72,364	2%	74,276	3%
Risk-weighted assets	565,958	-6%	557,030	-2%	550,955	-1%	568,547	3%	590,121	4%	615,250	4%
Core capital ratio	10.02%		10.33%		11.32%		11.72%		11.62%		11.52%	
Tier 1 ratio	11.01%		11.17%		12.17%		12.46%		12.26%		12.07%	
Total capital ratio	13.56%		13.09%		14.08%		14.32%		14.05%		13.78%	
Tangible Equity/ Assets	4.10%		3.72%		4.01%		4.28%		4.29%		4.26%	

Source: Company Reports and Citi Research Estimates

Figure 121. SAN — Divisional Profit and Loss Account, 2011-16E (Euros in Millions)

	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Continental Europe												
Net interest income	8,876	-10%	8,854	0%	7,824	-12%	7,738	-1%	7,773	0%	7,902	2%
Operating income	13,278	-10%	12,967	-2%	12,140	-6%	12,111	0%	12,351	2%	12,665	3%
Operating expenses	(6,260)	6%	(6,457)	3%	(6,662)	3%	(6,598)	-1%	(6,576)	0%	(6,629)	1%
Gross operating profit	7,018	-21%	6,510	-7%	5,479	-16%	5,513	1%	5,775	5%	6,035	5%
Provisions	(3,414)	-15%	(4,104)	20%	(4,582)	12%	(2,819)	-38%	(2,473)	-12%	(2,435)	-2%
Pre-tax profit	3,097	-34%	1,832	-41%	344	-81%	2,196	539%	2,835	29%	3,160	11%
Tax	(717)	-41%	(412)	-43%	(26)	-94%	(545)	1991%	(709)	30%	(792)	12%
Minorities	(69)	-28%	(48)	-30%	(135)	178%	(147)	9%	(177)	20%	(192)	8%
Net profit	2,287	-32%	(2,745)	-220%	182	-107%	1,503	724%	1,948	30%	2,176	12%
Loans and credits	305,391	-6%	283,427	-7%	269,345	-5%	264,052	-2%	264,789	0%	270,006	2%
Deposits	247,582	0%	256,154	3%	282,301	10%	290,238	3%	299,635	3%	308,747	3%
Cost/ income ratio	47%		50%		55%		54%		53%		52%	
NIM (Citi estimate)	1.80%		1.80%		1.60%		1.62%		1.65%		1.67%	
UK												
Net interest income	4,356	-9%	3,336	-23%	3,191	-4%	3,193	0%	3,313	4%	3,415	3%
Operating income	5,866	-7%	4,906	-16%	4,519	-8%	4,541	0%	4,712	4%	4,857	3%
Operating expenses	(2,596)	2%	(2,690)	4%	(2,485)	-8%	(2,474)	0%	(2,542)	3%	(2,595)	2%
Gross operating profit	3,270	-12%	2,217	-32%	2,034	-8%	2,067	2%	2,170	5%	2,262	4%
Provisions	(633)	-32%	(806)	27%	(740)	-8%	(727)	-2%	(755)	4%	(778)	3%
Pre-tax profit	1,671	-38%	1,244	-26%	1,154	-7%	1,200	4%	1,272	6%	1,338	5%
Tax	(448)	-39%	(286)	-36%	(254)	-11%	(264)	4%	(280)	6%	(294)	5%
Net profit	1,223	-38%	1,115	-9%	929	-17%	1,005	8%	1,061	6%	1,112	5%
Loans and credits	255,699	9%	249,157	-3%	238,062	-4%	246,866	4%	255,463	3%	263,127	3%
Deposits	194,318	5%	194,452	0%	190,449	-2%	199,410	5%	208,358	4%	216,692	4%
Cost/ income ratio	44%		55%		55%		54%		54%		53%	
NIM (Citi estimate)	1.23%		0.93%		0.90%		0.90%		0.90%		0.90%	
USA												
Net interest income	1,702	-2%	1,695	0%	1,532	-10%	1,553	1%	1,565	1%	1,627	4%
Operating income	2,737	30%	2,605	-5%	2,426	-7%	2,478	2%	2,503	1%	2,609	4%
Operating expenses	(997)	6%	(1,183)	19%	(1,227)	4%	(1,244)	1%	(1,238)	0%	(1,271)	3%
Gross operating profit	1,741	49%	1,422	-18%	1,198	-16%	1,234	3%	1,265	2%	1,338	6%
Provisions	(443)	-13%	(265)	-40%	(211)	-20%	(213)	1%	(233)	9%	(262)	13%
Pre-tax profit	1,237	118%	970	-22%	941	-3%	975	4%	987	1%	1,031	4%
Tax	(226)	-33%	(165)	-27%	(160)	-3%	(176)	10%	(188)	7%	(206)	10%
Net profit	1,010	138%	805	-20%	781	-3%	800	2%	800	0%	825	3%
Loans and credits	40,194	9%	41,331	3%	42,356	2%	42,570	1%	42,885	1%	44,600	4%
Deposits	36,884	15%	38,116	3%	39,959	5%	40,161	1%	40,458	1%	42,076	4%
Cost/ income ratio	36%		45%		51%		50%		49%		49%	
NIM (Citi estimate)	3.05%		2.76%		2.43%		2.46%		2.46%		2.50%	
Latin America												
Net interest income	16,349	11%	17,881	9%	16,262	-9%	16,939	4%	17,159	1%	18,580	8%
Operating income	22,265	8%	23,934	7%	22,219	-7%	23,141	4%	23,485	1%	25,446	8%
Operating expenses	(8,868)	11%	(9,124)	3%	(8,752)	-4%	(8,956)	2%	(9,017)	1%	(9,867)	9%
Gross operating profit	13,397	5%	14,811	11%	13,467	-9%	14,185	5%	14,468	2%	15,579	8%
Provisions	(5,447)	16%	(7,380)	35%	(7,064)	-4%	(7,176)	2%	(7,297)	2%	(7,897)	8%
Pre-tax profit	6,930	-5%	6,612	-5%	6,021	-9%	6,668	11%	6,856	3%	7,364	7%
Tax	(1,549)	-9%	(1,484)	-4%	(1,344)	-9%	(1,482)	10%	(1,521)	3%	(1,626)	7%
Minorities	(717)	-16%	(866)	21%	(933)	8%	(1,039)	11%	(1,075)	3%	(1,169)	9%
Net profit	4,664	-1%	4,262	-9%	3,744	-12%	4,148	11%	4,261	3%	4,568	7%
Loans and credits	139,867	10%	140,090	0%	145,252	4%	150,317	3%	160,813	7%	178,552	11%
Deposits	135,034	-2%	134,765	0%	141,836	5%	146,928	4%	156,011	6%	171,988	10%
Cost/ income ratio	40%		38%		39%		39%		38%		39%	
NIM (Citi estimate)	6.02%		6.63%		5.81%		5.75%		5.54%		5.51%	
Corporate Centre												
Operating income	(1,398)	-23%	(1,003)	-28%	(1,050)	5%	(1,200)	14%	(1,200)	0%	(1,200)	0%
Operating expenses	(838)	2%	(530)	-37%	(620)	17%	(620)	0%	(620)	0%	(620)	0%
Net profit	(3,833)	67%	(1,142)	-70%	(1,720)	51%	(2,020)	17%	(2,020)	0%	(2,020)	0%

Source: Company Reports and Citi Research Estimates

BES

2Q13 Preview: BES reports 2Q13 results on 29 July at 1700 UK. Our expectations for 2Q13 are below. Special items expected: impact of life insurance (+40bp B2.5 CET1 ratio, half of which we estimate goes in the revenue line and half through lower deductions of the CET1).

New Estimates: Our underlying forecasts are broadly unchanged for BES. However, we integrate the impact of the reinsurance of life insurance as well as somewhat lower expectations in dividend income, which results in significant EPS changes.

Maintain TP €1.30 & Buy/High Risk Rating: We maintain our €1.30 target price and Buy/High Risk rating (1H).

Figure 122. BES — Changes to Our Financial Forecasts, 2013E-16E (Euros in Millions)

	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg	2016E Old	2016E New	% Chg
Net Interest Income	1,001	1,011	1.0%	1,069	1,082	1.2%	1,226	1,241	1.3%	1,417	1,437	1.4%
Fee Income	722	722	0.0%	737	737	0.0%	793	793	0.0%	846	846	0.0%
Trading Income	249	249	0.0%	262	262	0.0%	275	275	0.0%	289	289	0.0%
Revenues	2,176	2,271	4.4%	2,289	2,389	4.4%	2,526	2,632	4.2%	2,794	2,906	4.0%
Total Op. Expenses	-1,163	-1,163	0.0%	-1,172	-1,172	0.0%	-1,180	-1,180	0.0%	-1,235	-1,235	0.0%
Operating Income	1,014	1,109	9.4%	1,117	1,217	9.0%	1,346	1,452	7.9%	1,559	1,671	7.2%
Prov. Loan Losses (Net)	-890	-881	-1.1%	-661	-667	0.8%	-441	-485	10.1%	-393	-435	10.5%
Income Before Tax	123	228	84.6%	456	550	20.7%	906	967	6.8%	1,166	1,236	6.0%
Net Income	22	98	338.2%	294	359	22.0%	602	644	7.0%	775	824	6.2%
EPS	0.01	0.02	338.2%	0.07	0.09	22.0%	0.15	0.16	7.0%	0.19	0.20	6.2%

Source: Company Reports and Citi Research Estimates

Figure 123. BES — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E
Net interest income (ex-div income)	271.3	271.5	331.4	307.3	294.5	313.1	299.1	273.7	221.9	251.3
Dividend income	4.3	136.7	1.2	25.6	36.7	63.8	(29.6)	1.7	1.9	55.0
Fee income	180.6	204.1	187.5	185.9	196.4	237.6	166.6	193.4	163.0	175.4
Trading income	21.4	(10.7)	(182.4)	(198.6)	(40.3)	83.2	235.2	268.2	99.3	40.0
Other income	36.0	127.2	190.6	3.9	30.2	(44.9)	3.5	(39.2)	(40.8)	136.6
Total income	513.6	728.8	528.4	324.1	517.5	652.8	674.8	697.7	445.3	658.3
Personnel	(158.7)	(153.6)	(159.6)	(115.5)	(143.1)	(148.4)	(148.3)	(159.1)	(145.6)	(148.0)
Other operating expenses	(107.5)	(107.9)	(98.1)	(120.3)	(102.2)	(112.0)	(110.8)	(117.2)	(108.9)	(110.7)
Depreciation	(26.1)	(26.2)	(26.5)	(29.1)	(26.7)	(27.1)	(26.8)	(27.6)	(25.9)	(26.4)
Total operating expenses	(292.3)	(287.7)	(284.2)	(264.9)	(271.9)	(287.5)	(285.8)	(303.8)	(280.5)	(285.0)
Operating income	221.3	441.1	244.1	59.3	245.6	365.3	389.0	394.0	164.8	373.3
Income from associates (equity method)	4.1	8.8	(9.5)	(178.6)	3.4	3.8	1.5	(0.5)	1.8	3.0
Provisions (net)	(103.1)	(366.5)	(191.0)	(187.6)	(190.7)	(235.7)	(325.9)	(447.1)	(240.1)	(248.5)
- O/w Credit provisions	(80.9)	(224.6)	(147.8)	(147.4)	(149.0)	(203.0)	(266.9)	(196.0)	(187.1)	(260.0)
- O/w Other provisions (securities & etc.)	(22.3)	(142.0)	(43.2)	(40.3)	(41.7)	(32.7)	(59.1)	(251.2)	(52.9)	11.5
Income before tax	122.2	83.4	43.6	-307.0	58.4	133.4	64.5	-53.6	-73.4	127.8
Non-recurrent items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes	(22.3)	28.7	(22.6)	77.7	(17.5)	(84.0)	(2.8)	21.4	6.3	(33.9)
- Implied Tax rate	18.2%	-34.4%	51.8%	25.3%	30.0%	63.0%	4.3%	39.8%	8.5%	26.6%
Net income after tax	99.9	112.1	21.0	-229.3	40.9	49.4	61.8	-32.3	-67.1	93.8
Minority interest	(39.1)	(16.9)	(39.2)	(17.4)	(29.4)	(35.4)	3.1	38.0	5.1	(12.6)
Available income to shareholder	60.9	95.2	-18.2	-246.6	11.5	13.9	64.9	5.7	-62.0	81.2

Source: Company Reports and Citi Research Estimates

Figure 124. BES — Group Profit and Loss Account, 2010-16E (Euros in Millions)

	2010	% Chg	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Profit and Loss Account														
Net interest income (ex-div income)	1,164	-3%	1,182	2%	1,180	0%	1,011	-14%	1,082	7%	1,241	15%	1,437	16%
Dividend income	193	116%	168	-13%	73	-57%	77	6%	85	10%	101	20%	112	10%
Fee income	769	13%	758	-1%	794	5%	722	-9%	737	2%	793	8%	846	7%
Trading income	254	-28%	(370)	-246%	546	-248%	249	-54%	262	5%	275	5%	289	5%
Total income	2,367	-2%	2,095	-11%	2,543	21%	2,262	-11%	2,380	5%	2,622	10%	2,896	10%
Total operating expenses	(1,169)	11%	(1,129)	-3%	(1,149)	2%	(1,163)	1%	(1,172)	1%	(1,180)	1%	(1,235)	5%
Operating income	1,197	-12%	966	-19%	1,394	44%	1,100	-21%	1,208	10%	1,443	19%	1,661	15%
Income from associates (equity method)	37	24%	(175)	-571%	8	-105%	9	6%	9	5%	10	5%	10	5%
Provisions (net)	(534)	-25%	(848)	59%	(1,199)	41%	(881)	-27%	(667)	-24%	(485)	-27%	(435)	-10%
Income before tax	701	2%	(58)	-108%	203	-451%	228	12%	550	141%	967	76%	1,236	28%
Non-recurring items	0		0		0		0		0		0		0	
Taxes	(44)	-60%	62	-241%	(83)	-235%	(77)	-7%	(119)	53%	(226)	90%	(282)	25%
Net income after tax	657	14%	4	-99%	120	3100%	151	26%	431	187%	741	72%	955	29%
Minority interest	(146)	176%	(113)	-23%	(24)	-79%	(41)	74%	(64)	55%	(91)	43%	(125)	37%
Available income to shareholder	511	-2%	(109)	-121%	96	-188%	109	14%	368	236%	650	77%	829	28%
Preference dividends	(33)		(23)		(11)		(11)		(9)		(6)		(6)	
Net income after tax, minorities and pref divs	477		(132)		85		98		359		644		824	
Per share data														
Company EPS	0.16	0%	(0.03)	0%	0.02	0%	0.03	0%	0.09	0%	0.16	0%	0.21	0%
Citi EPS (adj. for pref divs)	0.15	-16%	(0.04)	-127%	0.02	-153%	0.02	16%	0.09	265%	0.16	79%	0.20	28%
Citi Adj. Cash EPS (excl. non-recurring items)	0.15	-16%	(0.04)	-127%	0.02	-153%	0.02	16%	0.09	265%	0.16	79%	0.20	28%
Dividend	0.13	-10%	0.00	NM	0.00	NM	0.00	NM	0.02	NM	0.05	112%	0.06	28%
Payout ratio	79.1%		0.0%		0.0%		0.0%		25.0%		30.0%		30.0%	
NAV per share	1.70	4%	1.34	-21%	1.71	27%	1.73	1%	1.80	3.8%	1.91	6.2%	2.06	7.5%
Operating Ratios														
Cost / income ratio - Citi definition	49%		54%		45%		51%		49%		45%		43%	
Cost / income ratio - Company definition	49%		59%		45%		51%		49%		45%		43%	
P&L provisions / customer loans (bps)	101		166		238		172		127		87		72	
Credit provisions / customer loans (bps)	67		117		162		168		117		84		69	
ROE - Citi definition	8.9%		-2.4%		1.4%		1.4%		5.1%		8.6%		10.3%	
ROTE - Citi definition	9.3%		-2.5%		1.5%		1.5%		5.5%		9.3%		11.1%	
ROE - Company definition	7.6%		-1.7%		1.4%		1.4%		4.6%		7.7%		9.1%	
ROA	0.62%		-0.13%		0.12%		0.13%		0.44%		0.76%		0.92%	
Balance Sheet Summary														
Total assets	83,655	2%	80,237	-4%	83,691	4%	84,629	1%	83,964	-1%	87,292	4%	92,418	6%
Net customer loans	50,830	-3%	49,044	-4%	47,707	-3%	47,786	0%	48,823	2%	51,729	6%	55,801	8%
Customer deposits	30,819	21%	34,206	11%	34,540	1%	37,269	8%	40,623	9%	44,279	9%	47,822	8%
Loan to deposit ratio	165%		143%		138%		128%		120%		117%		117%	
Shareholders' equity	5,450	4%	5,392	-1%	6,870	27%	6,968	1%	7,236	4%	7,685	6%	8,260	7%
Tier 1 ratio	8.8%		9.4%		10.4%		10.7%		11.2%		11.8%		12.2%	
Core capital ratio	7.9%		9.2%		10.5%		10.9%		10.2%		10.8%		11.3%	
CET1 Ratio Basel 3 (Citi Estimates)			8.0%		9.2%		9.7%		10.2%		10.8%		11.3%	
Non performing loans ratio	2.0%		6.6%		9.4%		12.0%		12.5%		12.1%		11.8%	
Coverage	173%		64%		57%		54%		56%		58%		59%	
RWAs/ Total assets	82%		82%		74%		73%		73%		71%		70%	

Source: Company Reports and Citi Research Estimates

Figure 125. BES — Financial Summary by Division, 2010-16E (Euros in Millions)

	2010	% Chg	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Domestic P&L														
Net Interest Income	611	-29%	646	6%	823	27%	566	-31%	526	-7%	547	4%	569	4%
Fee Income	610	7%	600	-2%	533	-11%	513	-4%	528	3%	549	4%	560	2%
Trading Income & Other Income	409	7%	(34)	-108%	498	NM	446	-11%	459	3%	473	3%	482	2%
Total Income	1,630	-10%	1,212	-26%	1,854	53%	1,524	-18%	1,513	-1%	1,569	4%	1,611	3%
Total Op. Expenses	(887)	6%	(794)	-11%	(781)	-2%	(762)	-2%	(731)	-4%	(695)	-5%	(702)	1%
Operating Income	744	-24%	418	-44%	1,074	157%	763	-29%	782	2%	874	12%	909	4%
Prov. Loan Losses (Net)	(430)	-20%	(779)	81%	(974)	25%	(768)	-21%	(541)	-30%	(335)	-38%	(268)	-20%
Income Before Tax	313	-28%	(360)	-215%	100	-128%	(5)	-105%	241	-4792%	539	123%	641	19%
Taxes	16	-118%	89	458%	(95)	-206%	(41)	NM	(72)	74%	(162)	123%	(192)	19%
Net Income After Tax	329	-6%	(271)	-182%	6	-102%	(47)	NM	169	NM	377	NM	449	19%
Minority Interest	(22)		2		3		6		(3)		(8)		(9)	
Available Income to Shareholder	307	-11%	(270)	-188%	9	-103%	(41)	-577%	165	NM	370	123%	440	19%
Cost / income ratio	54%		65%		42%		50%		48%		44%		44%	
Provision charge / customer loans (bps)	104		193		255		207		147		89		70	
International P&L														
Net Interest Income	553	63%	536	-3%	357	-33%	444	24%	556	25%	694	25%	868	25%
Fee Income	197	31%	190	-3%	295	55%	249	-16%	249	0%	287	15%	333	16%
Trading Income & Other Income	24	-84%	12	-50%	71	493%	59	-16%	71	20%	82	15%	94	15%
Total Income	774	21%	738	-5%	723	-2%	753	4%	876	16%	1,063	21%	1,295	22%
Total Op. Expenses	(283)	28%	(336)	19%	(367)	9%	(401)	9%	(441)	10%	(485)	10%	(533)	10%
Operating Income	491	18%	403	-18%	356	-12%	352	-1%	435	24%	578	33%	761	32%
Prov. Loan Losses (Net)	(103)	-39%	(70)	-32%	(226)	224%	(113)	-50%	(126)	12%	(150)	19%	(166)	11%
Income Before Tax	388	57%	333	-14%	130	-61%	240	84%	309	29%	428	39%	595	39%
Taxes	(60)	186%	(58)	-3%	(16)	-72%	(36)	122%	(46)	29%	(64)	39%	(89)	39%
Net Income After Tax	328	45%	275	-16%	114	-59%	204	79%	263	29%	364	39%	506	39%
Minority Interest	(124)		(114)		(27)		(47)		(60)		(84)		(116)	
Available Income to Shareholder	204	14%	161	-21%	88	-46%	157	79%	202	29%	280	39%	389	39%
Cost / income ratio	37%		45%		51%		53%		50%		46%		41%	
Provision charge / customer loans (bps)	92		64		185		81		81		83		76	

Source: Company Reports and Citi Research Estimates

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BPI

2Q13 Preview: BPI reports 2Q13 results on 24 July at 1645 UK. Our expectations for 2Q13 are below. Special items expected: none.

No Change to Estimates: Our forecasts are unchanged.

Maintain TP €1.25 & Neutral/High Risk Rating: We maintain our €1.25 target price and Neutral/High Risk rating (2H).

Figure 126. BPI — Quarterly Profit and Loss Account, 1Q11-2Q13E (Euros in Millions)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Net Interest Income	160.0	145.1	136.9	134.7	124.5	167.5	148.0	141.5	116.0	124.6
Fee Income	72.8	75.4	71.6	77.3	75.8	81.1	98.3	77.1	71.9	78.1
Trading Income	35.3	98.6	18.0	54.4	88.6	89.5	43.9	179.3	155.6	92.2
Insurance	3.8	3.6	3.6	(41.1)	6.4	5.8	5.9	4.9	5.7	6.0
Other Income	8.3	1.3	(3.9)	(35.3)	(3.9)	(2.5)	(3.3)	0.4	(4.7)	3.0
Total Income	280.2	324.0	226.2	190.0	291.4	341.4	292.8	403.2	344.5	303.9
Personnel	(96.2)	(136.5)	(95.6)	(89.7)	(92.6)	(94.2)	(93.3)	(101.2)	(92.5)	(94.3)
Other Op. Expenses	(58.8)	(60.5)	(59.9)	(51.6)	(58.6)	(60.9)	(62.9)	(51.1)	(58.5)	(60.7)
Depreciation	(9.8)	(9.8)	(8.6)	(8.6)	(8.5)	(8.4)	(8.2)	(8.0)	(8.1)	(8.4)
Total Op. Expenses	(164.8)	(206.8)	(164.1)	(149.9)	(159.7)	(163.5)	(164.4)	(160.3)	(159.1)	(163.3)
Operating Income	115.4	117.2	62.1	40.1	131.7	177.9	128.4	242.9	185.4	140.6
Income from Associates (equity method)	6.5	8.9	9.4	3.7	1.6	7.2	6.4	8.7	5.7	8.0
Goodwill Amortisation	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prov. Loan Losses (Net)	(33.7)	(46.1)	(27.9)	(105.4)	(59.1)	(120.3)	(75.5)	(48.1)	(115.5)	(79.0)
Other	(6.4)	(18.4)	5.2	1.3	3.2	2.8	2.9	3.3	4.5	2.1
Income Before Tax	81.8	61.6	48.8	(60.3)	77.4	67.6	62.2	206.8	80.1	71.7
Non-recurrent items	0.0	0.0	0.0	(459.4)	0.0	7.3	0.1	1.1	3.3	7.4
Taxes	(9.3)	(2.7)	(3.9)	157.1	(18.1)	(9.2)	(8.3)	(52.6)	(24.4)	(11.9)
- Implied Tax Rate	11%	4%	8%	261%	23%	14%	13%	25%	30%	17%
Net Income After Tax	72.5	58.9	44.9	(362.6)	59.3	65.7	54.0	155.3	59.0	67.2
Minority Interest	(25.3)	(23.3)	(20.6)	(21.7)	(19.8)	(19.7)	(21.6)	(24.3)	(18.2)	(19.8)
Available Income to Shareholder	47.2	35.6	24.3	(384.3)	39.5	46.0	32.4	131.0	40.8	47.3

Source: Company Reports and Citi Research Estimates

Figure 127. BPI — Group Profit and Loss Account, 2010-16E (Euros in Millions)

	2010	% Chg	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
Profit and Loss Account														
Net Interest Income (incl. div. income)	665	8%	577	-13%	582	1%	498	-14%	550	10%	639	16%	733	15%
Fee Income	314	1%	297	-5%	332	12%	322	-3%	346	8%	368	6%	397	8%
Trading Income	119	-45%	206	73%	401	95%	318	-21%	188	-41%	196	4%	203	4%
Insurance	16	36%	(30)	-287%	23	-176%	24	3%	24	3%	25	3%	26	3%
Other Income	(15)	NM	(30)	NM	(9)	-69%	4	-146%	4	3%	5	2%	5	2%
Total Income	1,099	-6%	1,020	-7%	1,329	30%	1,166	-12%	1,113	-5%	1,232	11%	1,364	11%
Total Op. Expenses	(709)	5%	(686)	-3%	(648)	-5%	(644)	-1%	(645)	0%	(661)	3%	(684)	3%
Operating Income	390	-20%	335	-14%	681	103%	521	-23%	468	-10%	571	22%	680	19%
Income from Associates (equity method)	29	60%	29	-2%	24	-16%	32	33%	37	18%	40	6%	42	7%
Prov. Loan Losses (Net)	(121)	-27%	(213)	76%	(303)	42%	(303)	0%	(210)	-31%	(148)	-29%	(107)	-28%
Other	(13)	-40%	(18)	37%	12	-167%	11	-11%	10	NM	5	NM	5	NM
Income Before Tax	285	-11%	132	-54%	414	214%	261	-37%	305	17%	467	53%	621	33%
Taxes	6	-113%	141	NM	(88)	-162%	(45)	-49%	(43)	-5%	(90)	109%	(129)	42%
Net Income After Tax	291	6%	(186)	-164%	334	-279%	227	-32%	262	16%	377	44%	492	31%
Minority Interest	(100)	12%	(91)	-9%	(85)	-6%	(95)	11%	(126)	33%	(152)	21%	(177)	17%
Available Income to Shareholder	191	3%	(277)	-245%	249	-190%	132	-47%	137	3%	225	65%	315	40%
Preference dividends	(6)		(7)		(1)		(1)		(1)		(1)		(1)	
Net income after tax, minorities and pref divs	185		(284)		248		131		135		224		314	
Per share data														
Company EPS	0.19	3%	(0.28)	-245%	0.21	-175%	0.10	-55%	0.10	3%	0.16	65%	0.23	40%
CIR EPS (adj. for pref divs)	0.19		(0.29)		0.21		0.09		0.10		0.16		0.23	
Cash EPS (excl. non-recurring items & goodwill)	0.19	5%	0.18	-6%	0.20	14%	0.09	-57%	0.10	13%	0.16	65%	0.23	40%
Dividend	0.00	-100%	0.00	NM	0.00	NM	0.00	NM	0.00	NM	0.00	NM	0.06	NM
Payout ratio	0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		25.0%	
NAV per share	1.20	-28%	0.47	-61%	1.23	159%	1.35	10%	1.45	7%	1.61	11%	1.78	11%
Operating Ratios														
Cost / income ratio	64%		67%		49%		55%		58%		54%		50%	
Provision charge / customer loans (bps)	39.6		73.5		110.0		115.6		78.7		53.5		37.0	
Return on avg RWAs	1%		-1%		1%		1%		1%		1%		1%	
ROE - Company definition	13%		-33%		23%		7%		7%		11%		13%	
Balance Sheet Summary														
Total assets	45,660	-4%	42,956	-6%	44,565	4%	44,703	0%	45,966	3%	48,421	5%	51,414	6%
Net customer loans	30,055	0%	28,318	-6%	27,346	-3%	25,977	-5%	26,450	2%	27,524	4%	28,546	4%
Customer deposits	23,241	3%	24,671	6%	24,621	0%	25,347	3%	27,146	7%	28,841	6%	30,922	7%
Loan to deposit ratio	129%		115%		111%		102%		97%		95%		92%	
Shareholders' equity	1,192	-27%	469	-61%	1,708	264%	1,875	10%	2,011	7%	2,234	11%	2,469	11%
Average shareholders' equity	1,416	-3.3%	831	-41.3%	1,089	31.0%	1,792	64.6%	1,943	8.5%	2,122	9.2%	2,352	10.8%
Tier 1 ratio	9.1%		9.0%		14.9%		14.3%		13.7%		12.5%		12.1%	
Total capital ratio	11.1%		9.3%		15.0%		14.4%		13.9%		12.6%		12.2%	
Preference shares	247		53		51		51		51		51		51	
CET1	2,267		2,321		3,684		3,534		3,399		3,313		3,331	
Core capital ratio (Bank of Portugal)	8.7%		9.2%		15.0%		14.4%		13.9%		12.7%		12.2%	
CET1 Ratio B3 (fully loaded)					10.1%		9.3%		8.8%		7.9%		7.6%	
CET1 Ratio B3 (fully loaded) ex cocos - ex mitigation					5.2%		5.6%		6.2%		6.6%		7.5%	
Non performing loans ratio	1.9%		3.2%		4.1%		5.1%		4.9%		4.6%		4.5%	
Coverage	101%		70%		72%		78%		88%		96%		139%	
RWAs/ Total assets	57%		59%		55%		55%		55%		54%		53%	

Source: Company Reports and Citi Research Estimates

Figure 128. BPI — Financial Summary by Division, 2010-16E (Euros in Millions)

	2010	% Chg	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg
BPI Domestic Operations														
Net Interest Income (incl. div. income)	455	0%	379	-17%	401	6%	299	-25%	297	-1%	341	15%	390	14%
Fee Income	267	2%	254	-5%	282	11%	264	-6%	280	6%	291	4%	308	6%
Trading Income	51	-45%	143	181%	326	128%	229	-30%	92	-60%	92	0%	92	0%
Insurance	16	36%	(30)	-287%	23	-176%	24	3%	24	3%	25	3%	26	3%
Other Income	(14)	-244%	(30)	NM	(14)	-54%	4	-131%	4	3%	5	2%	5	2%
Total Income	776	-7%	716	-8%	1,018	42%	820	-19%	697	-15%	753	8%	821	9%
Total Op. Expenses	(602)	4%	(573)	-5%	(519)	-9%	(506)	-2%	(497)	-2%	(502)	1%	(512)	2%
Operating Income	174	-31%	143	-18%	499	250%	314	-37%	201	-36%	251	25%	309	23%
Prov. Loan Losses (Net)	(100)	-26%	(204)	104%	(288)	41%	(289)	0%	(202)	-30%	(141)	-30%	(99)	-30%
Other	(9)	-46%	(15)	70%	13	NM	11	-17%	10	NM	5	NM	5	NM
Income Before Tax	88	-23%	(55)	-162%	238	-534%	53	NM	29	-46%	136	374%	237	74%
Taxes	5	-128%	148	NM	(82)	-155%	(24)	-70%	(9)	-65%	(41)	374%	(71)	74%
Net Income After Tax	93	-1%	(367)	-493%	164	-145%	39	NM	20	-49%	95	374%	166	74%
Minority Interest	(7)	-21%	(8)	10%	(2)	-78%	(1)	NM	(0)	-46%	(1)	374%	(2)	74%
Available Income to Shareholder	86	1%	(374)	-534%	163	-143%	38	NM	20	-49%	94	374%	163	74%
Balance Sheet Items														
Shareholders' equity	1,189	-28%	163	-86%	1,384	748%	1,422	3%	1,440	1%	1,524	6%	1,671	10%
Total Assets	40,779	-6%	38,325	-6%	39,659	3%	37,690	-5%	37,690	0%	38,821	3%	40,373	4%
Net loans to customers	28,866	0%	27,298	-5%	26,263	-4%	24,789	-6%	25,084	1%	25,885	3%	26,662	3%
Customer deposits	19,026	0%	19,871	4%	19,307	-3%	19,236	0%	19,813	3%	20,407	3%	21,224	4%
Key Ratios														
- Implied RoAE	6.1%		-55.3%		21.0%		2.7%		1.4%		6.3%		10.2%	
- Implied RoAA	0.21%		-0.95%		0.42%		0.10%		0.05%		0.24%		0.41%	
Provision charges	35		75		110		116		81		55		37	
Loan-to-deposit ratio	151.7%		137.4%		136.0%		128.9%		126.6%		126.8%		125.6%	
Cost/ income ratio	77.6%		80.1%		51.0%		61.7%		71.2%		66.6%		62.3%	
BPI Int'l Operations														
Net Interest Income (incl. div. income)	209	28%	198	-5%	180	-9%	199	10%	252	27%	298	18%	343	15%
Fee Income	47	-5%	43	-7%	51	16%	58	15%	67	15%	77	15%	88	15%
Total Income	323	-4%	305	-6%	311	2%	346	11%	416	20%	479	15%	543	13%
Total Op. Expenses	(107)	10%	(112)	5%	(129)	15%	(138)	7%	(149)	8%	(160)	8%	(172)	8%
Operating Income	216	-9%	192	-11%	182	-6%	207	14%	267	29%	319	19%	371	16%
Prov. Loan Losses (Net)	(21)	-32%	(9)	-56%	(15)	59%	(14)	-6%	(8)	-43%	(7)	-13%	(8)	10%
Other	(5)	-23%	(3)	-28%	(1)	-82%	0	NM	0	NM	0	NM	0	NM
Income Before Tax	197	-5%	187	-5%	177	-5%	209	18%	277	33%	331	20%	384	16%
Taxes	1	NM	(6)	NM	(6)	0%	(21)	231%	(35)	2%	(50)	2%	(58)	2%
Net Income After Tax	197	10%	180	-9%	170	-6%	188	10%	242	29%	282	16%	326	16%
Minority Interest	(99)	10%	(90)	-9%	(85)	-6%	(96)	12%	(127)	33%	(152)	20%	(176)	16%
Available Income to Shareholder	99	10%	90	-9%	85	-5%	92	8%	116	25%	130	13%	151	16%
Balance Sheet Items														
Shareholders' equity	257	29%	306	19%	324	6%	394	21%	457	16%	529	16%	612	16%
Total Assets	4,881	19%	5,473	12%	6,048	11%	7,014	16%	8,276	18%	9,600	16%	11,040	15%
Net loans to customers	1,189	-2%	1,021	-14%	1,082	6%	1,188	10%	1,366	15%	1,639	20%	1,885	15%
Customer deposits	4,215	18%	4,800	14%	5,314	11%	6,111	15%	7,333	20%	8,433	15%	9,698	15%
Key Ratios														
- Implied RoAE	43.1%		31.9%		27.0%		25.7%		27.2%		26.4%		26.4%	
- Implied RoAA	2.19%		1.74%		1.48%		1.41%		1.51%		1.46%		1.46%	
Provision charges	178		92		138		118		59		43		41	
Loan-to-deposit ratio	28.2%		21.3%		20.4%		19.4%		18.6%		19.4%		19.4%	
Cost/ income ratio	33.0%		36.9%		41.5%		40.0%		35.7%		33.3%		31.7%	

Source: Company Reports and Citi Research Estimates

Banco Popular Espanol

Investment strategy

We have a Sell/High Risk (3H) rating on Popular. While we expect NII to recover from 2013 onwards and provisions to decline from 2014 onwards, risks from asset quality deterioration and the removal of mortgage floors remain significant.

Valuation

We value Popular on a Dividend Discount Model (DDM) approach. Our €2.20 target price adjusts for any capital or provisions surplus (shortfall). The DDM assumes a sustainable ROE of 8.5% with a cost of equity of 13.0%.

Risks

We rate Popular as High Risk based on our assessment of industry and company-specific risk factors. With regards to Popular, we would highlight the following specific risks which could cause the stock to deviate from our target price:

1. Macro-economic environment: a weak recovery in real GDP growth and employment in Spain could mean the shares undershoot our target price. Conversely, a better than expected recovery could prevent the shares from reaching our target price.
2. Asset quality: our Sell rating is predicated on the normalization of credit costs in 2014-16. If non-performing loans and provisions increase more than expected, the shares may decline below our target price. Conversely, if non-performing loans and provisions normalize faster than expected, the shares may not reach our target price.
3. Capital: We believe Popular would reach a c10% CET1 ratio (strict Basel 3) shortly after end-2015. Should net deferred tax assets increase more than expected, or RWA relief on SMEs not materialise to the expected extent, the bank's CET1 ratio may not reach 10% and the shares may fall below our target price. Conversely, if capital deductions are less and benefits more than expected, the CET1 ratio may exceed 10% and the shares may not reach our target price.

Banco de Sabadell SA

Investment strategy

We have a Sell/High Risk (3H) rating on SAB. Our rating reflects the risks associated with the bank's capitalisation relative to peers in Spain and Europe. The acquisition of CAM contributed to a significant rise in DTAs which impair capital under strict Basel 3. While phase-in arrangements help, investors prefer European banks to already be at CET1 ratio of 9-10% under strict Basel 3. We estimate that, in the absence of additional measures, Sabadell's CET1 ratio would be c 5% in 2013.

Valuation

We value Sabadell on a Dividend Discount Model (DDM) approach. Our €1.40 target price adjusts for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of 9.0% with a cost of equity of 12.0%.

Risks

We rate Sabadell as High Risk based on our assessment of industry and company-specific risk factors. With regards to Sabadell, we would highlight the following specific risks which could cause the stock to deviate from our target price:

1. Macro-economic environment: a weaker than expected recovery in real GDP growth and employment in Spain could mean the shares fall below our target price. Conversely, a better than expected recovery could prevent the shares from reaching our target price.
2. Asset quality: our Sell rating is predicated on high credit costs in 2013-14. If non-performing loans and provisions increase more than expected, the shares may fall below our target price. Conversely, if non-performing loans and provisions normalize in 2013-14, the shares may not reach our target price.
3. Capital: We believe Sabadell would have c 5% CET1 ratio at end-2013 and 5-6% at end-2014 (under strict Basel 3). Should the company generate enough capital to reach 8-10% CET1 ratio in the meantime, the shares may not reach our target price. Conversely, if the CET1 ratio does not reach 5-6% by end-2014, the shares may fall below our target price.

Bankinter SA

Investment strategy

We have a Buy (1) rating on Bankinter. Fundamentally, Bankinter is one of the best capitalised banks in Spain. While the bank relies on non-deposit funding for a larger part of its book than its peers, it also has the lowest NPL ratio.

Valuation

We value Bankinter on a Dividend Discount Model (DDM) approach. Our €3.50 target price is adjusted for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of 10% (on capital of 10% of RWA) with a cost of equity of 11.5%.

Risks

With regards to Bankinter, we would highlight the following specific risks that could cause the shares to exceed or not reach our target price:

1. Macro-economic environment: a weak recovery in real GDP growth and employment in Spain could mean the shares undershoot our target price. Conversely, a better than expected recovery could make the share price outperform our target price.
2. Asset quality: our Buy rating is predicated on the normalization of credit costs in 2015-16. If non-performing loans and provisions increase more than expected, the shares may not reach our target price. Conversely, if non-performing loans and provisions normalize in 2013-14, the shares may rise beyond our target price.
3. Capital: We believe Bankinter is the best capitalised bank in our Spanish coverage universe. If organic capital generation over the forecast horizon is lower than expected, Bankinter might pay less in dividends thus preventing the share price from reaching our target price. Conversely, if organic capital generation is higher than expected then the shares may surpass our target price.

Banco Bilbao Vizcaya Argentaria SA

Investment strategy

We rate the shares a Neutral/High risk as we consider the valuation multiples to be in-line with expected profitability in the next several years. Earnings are under pressure due to a difficult banking environment in both Spain and a slower-than-expected environment in Latin America.

Revenue growth at BBVA is under pressure due to margin pressure, in Spain and in Latin America, and slower-than-expected volume growth, especially in its emerging franchises in Latin America. BBVA's Mexican bank, Bancomer, is one of the best EM banks globally, in our view. However, its volume growth is lagging peers. Recently Bancomer NII has been softer than expected.

Valuation

We use a two-stage dividend discount model (DDM) to value BBVA, as explained below. We cross check this using a peer-group sum of the parts. SOTP Model - using a peer group P/E-based sum-of-the-parts approach; DDM Valuation - we use a DDM model with the present value of 2013-16E dividends and a terminal value assuming an ROE of 10.7%. We assume a 13.0% cost of equity for the group. We cross-check the valuation using: (1) justified price to book valuation, (2) comparable P/E valuation relative to the banks sector, and (3) comparable P/E valuation relative to BBVA's historical trading range and growth prospects. From these methods, we derive a target price for BBVA of €6.25.

Risks

We rate BBVA as High Risk based on our assessment of industry and company-specific risk factors. Our risk rating principally reflects the uncertainties surrounding the new bank regulation and the economic environment in Spain. Key risks include:

Spanish Macro Deterioration – The Spanish macro situation remains weak, the adjustment packages approved by the Government will add pressure to the current difficult situation. The deleveraging process taking place in the country completes this difficult macro scenario.

Deterioration in the US Economy - The direct exposure of BBVA to the US via Compass and the reliance of Latam, especially Mexico, on the US economy, could cause BBVA to suffer from a deterioration of the US macro.

More Regulatory Pressure - The new banking regulation impact in the capital, provisions and liquidity requirements could negatively impact BBVA profitability and margins, reducing the final valuation of BBVA.

If the impact on the company from any of these factors proves to be more or less negative than we anticipate, then the share price could deviate significantly from our target price.

CaixaBank SA

Investment strategy

We have a Neutral/High Risk (2H) rating on CaixaBank. While we believe that the bank has the potential to be a winner in the consolidation of the Spanish banking system, it also needs to continue rebuilding capital. In addition, consensus estimates remain high, in our view.

Valuation

We value CaixaBank on a Dividend Discount Model (DDM) methodology. Our €2.60 target price is adjusted for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of 8.5% with a cost of equity of 12.0%. We cross check our main valuation against the results of two other methods, Sum of the Parts and Discount to NAV, which explicitly value CaixaBank's stakes.

Risks

We rate CaixaBank as High Risk based on our assessment of industry and company-specific risk factors. With regards to CaixaBank, we would highlight the following specific risks which could cause the stock to deviate from our target price:

1. Macro-economic environment: a weak recovery in real GDP growth and employment in Spain could mean the shares undershoot our target price. Conversely, a better than expected recovery could make the share price outperform our target price.
2. Asset quality: our Neutral rating is predicated on the normalization of credit costs in 2015-16. If non-performing loans and provisions increase more than expected, the shares may not reach our target price. Conversely, if non-performing loans and provisions normalize in 2013-14, the shares may rise beyond our target price.
3. Capital: CaixaBank's reaching its 8% CET1 ratio target (Basel 3) by end-2013 depends on a successful strategy of asset disposals. Should the company dispose of stakes earlier than expected, and/or at a higher price, the shares may surpass our target price. Conversely, if the planned disposals take longer than 2013 to execute, the shares might not reach our target price.

Banco Santander

Investment strategy

We rate the shares Neutral/High Risk as we consider the valuation multiples to be in-line with expected profitability in the next several years. Earnings are under pressure due to a difficult banking environment in both Spain and a slower-than-expected environment in Latin America.

Revenue growth at SAN is under pressure due to margin pressure, in Spain and in Latin America, and slower-than-expected volume growth, especially in its emerging franchises in Latin America.

Valuation

We use a two-stage dividend discount model (DDM) and a SOTP model to value Santander, as explained below.

We use a DDM model with the present value of 2013-16E dividends and a terminal value assuming an ROE of 8.3%. We assume a 12.3% cost of equity for the group. We cross-check the valuation using: (1) justified price to book valuation, (2) comparable P/E valuation relative to the banks sector, and (3) comparable P/E valuation relative to Santander's historical trading range and growth prospects. We roll forward our model to 2016E and from these methods, we derive a target price for Santander of €4.60.

Risks

We rate Banco Santander as High Risk based on our assessment of industry- and company-specific risk factors. Our risk rating principally reflects the uncertainties surrounding the current sovereign debt crisis in Europe. Key risks include:

Spanish Stagnation and Bad Debts - We remain cautious on the outlook for the Spanish economy and asset quality.

Further Deterioration of the US Economy - A renewed deterioration in the US economic conditions could reduce the earnings expectations of Santander's local subsidiary (Sovereign Bank).

Slower-than-expected Recovery in LatAm - A weaker-than-expected recovery in Latin America (particularly Brazil) would impact our earning expectations in the region for Santander.

If these risk factors have a more or less negative impact than we currently anticipate, then the share price could deviate significantly from our target price.

Banco Espirito Santo

Investment strategy

We have a Buy/High Risk (1H) rating on BES. We believe the significant discount on BES's current market valuation is primarily a reflection of the uncertainties regarding the conclusion of the European sovereign debt crisis. To this end, we believe that there will be an orderly conclusion to the crisis and Portugal's funding costs will converge with core Europe once again.

With regards to liquidity and capital, BES is a beneficiary of the IMF/EC/ECB stabilisation programme. Additionally, BES stands out among its peers as being the only large domestic banking group not to have called on state support - this will be a significant competitive advantage for the group domestically, in our opinion.

Internationally, BES continues to grow strongly and by 2014, we expect BES's international businesses to contribute c40% of net income, with BES Africa expected to represent around 65% of this figure. In our opinion, BES has built some of the most profitable and well-managed banks on the African continent which, we believe, need to be introduced to the global investor community.

Valuation

To value BES, we use a 10-year dividend discount model (DDM). We do so as we believe that one should use a balanced mix of current and long-term expected risk discount rates (RDR) to value the group. We do this because the RDRs are only reflective of the current crisis and not the long-term risk premiums in Portugal. On our 10-year DDM BES's fair value is €1.3/share. To derive this figure we use a RDR of 17% over the first 5 years and 12% over the remaining 5 years and also to calculate BES's terminal value. Note that we conservatively assume a long-term growth rate of 0%, despite BES's significant international exposure.

Risks

We rate BES as High Risk, based on our assessment of industry- and company-specific risk factors. Our risk rating principally reflects the uncertainties surrounding the current sovereign debt crisis in Europe. We see the following as risks that could impede the share price from reaching our target price:

The key risk to our investment case for the Portuguese banks is that Portugal does not converge with core Europe and the conclusion to the current debt crisis is disorderly.

In our opinion, a disorderly conclusion to the current debt crisis in Portugal or any of the periphery countries would put significant negative pressure on BES shares.

Additionally, with c70% of its stock of loans in corporates, a further downgrade of Portuguese corporate debt could trigger a significant deterioration in its asset quality, which would impair capital. Outside the Euro Area, the key risks to our investment cases are: (i) a sharp correction in global commodity prices; and (ii) limited improvements in the democratisation and transparency of Angola's government.

Banco BPI

Investment strategy

We have a Neutral/High Risk (2H) rating on BPI.

The current valuation of BPI reflects the prolonged crisis in the European banking system, which is compelling the market to apply capital charges for long-term sovereign exposures to Periphery Europe.

Although the bulk of these risks do appear to be easing post the successful execution of BPI's recapitalisation plan, which came with limited dilution to equity shareholders, there are new concerns around the competitiveness of its business model, which will be negatively affected by the high cost of the €1.2bn of contingent convertible subordinated bond (CoCos) in issue.

Whilst BPI is bringing the outstanding CoCos to €0.9bn, the expense of these instruments will continue to weigh on the operating performance of the bank over the coming years, particularly if the rate environment remains depressed. Furthermore, markets' focus on fully loaded Basel 3 ratios suggest the bank will need to proceed with more corporate action in order to reach a ratio of 9% ex cocos.

On the back of these concerns, we remain Neutral/High Risk on BPI despite the potential upside to its shares from the value of its core businesses in Africa and Portugal.

Valuation

To value BPI, we use a 10yr dividend discount model (DDM). We use a 10yr DDM instead of our standard 5yr DDM because we believe that current risk discount rates (RDRs) are only reflective of today's challenges and not the long-term risk premium of Portugal.

Our 10yr DDM applies a RDR of 15.6% over the first four years and then a long-term RDR of 12.1% over the remaining five years and to calculate the terminal value. Note that we have conservatively assumed a long-term growth rate of 0% despite BPI's significant international exposure.

Based on our 10yr DDM, BPI's fair value is €1.25/share, which is where we set our target price. Our target price values BPI at 0.9x its 2013E BVPS and 8x its 2015E EPS.

Risks

We rate BPI as High Risk, based on our assessment of industry and company-specific risk factors. Our risk rating principally reflects the uncertainties surrounding the current sovereign debt crisis in Europe. We see the following as risks that could impede the share price from reaching our target price:

The key risk to BPI's shares is that Portugal does not converge with core Europe and the conclusion to the current debt crisis is disorderly. In our opinion, a disorderly conclusion to the current debt crisis in Portugal or any of the periphery countries would put significant negative pressure on BPI's shares.

Focusing more specifically on the company itself, the other key risks are: (i) a sharp correction in global commodity prices; and (ii) limited improvements in the democratisation and transparency of Angola's Government. These events would have a materially negative impact on BFA (its Angolan subsidiary).

If the impact of any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

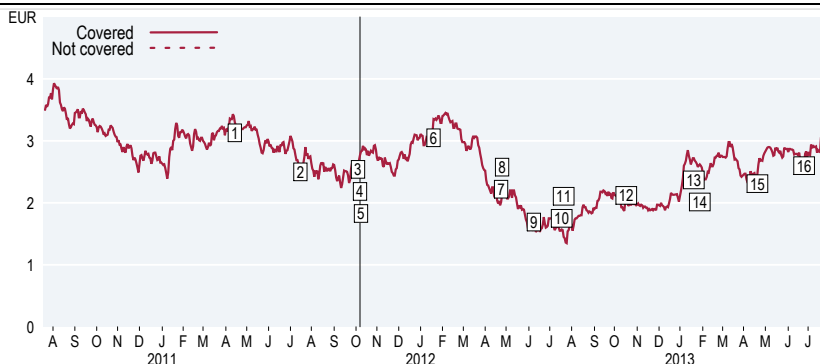
IMPORTANT DISCLOSURES

Bankinter SA (BKT.MC)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since March 11 2013



	Date	Rating	Target Price	Closing Price
1	14-Apr-11	3M	*2.55	3.30
2	15-Jul-11	*3H	*1.91	2.53
3	5-Oct-11	*3S	*1.93	2.60
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*3H	1.93	2.77
6	19-Jan-12	3H	*2.19	3.35

* Indicates change

	Date	Rating	Target Price	Closing Price
7	24-Apr-12	3H	*1.86	2.01
8	25-Apr-12	3H	*1.93	2.14
9	8-Jun-12	3H	*1.41	1.60
10	18-Jul-12	3H	*1.29	1.57
11	20-Jul-12	3H	*1.35	1.45
12	17-Oct-12	3H	*1.54	2.12

	Date	Rating	Target Price	Closing Price
13	21-Jan-13	3H	*1.86	2.72
14	29-Jan-13	3H	*1.93	2.62
15	19-Apr-13	3H	*1.93	2.47
16	25-Jun-13	*1H	*3.20	2.60

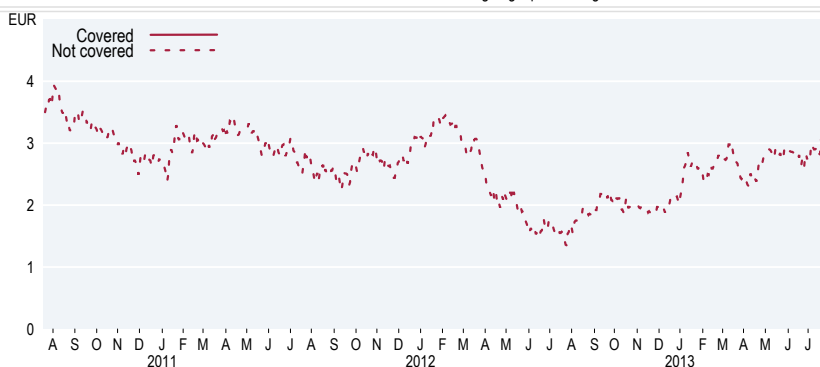
Rating/target price changes above reflect Eastern Standard Time

Bankinter SA (BKT.MC)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since March 11 2013



* Indicates change

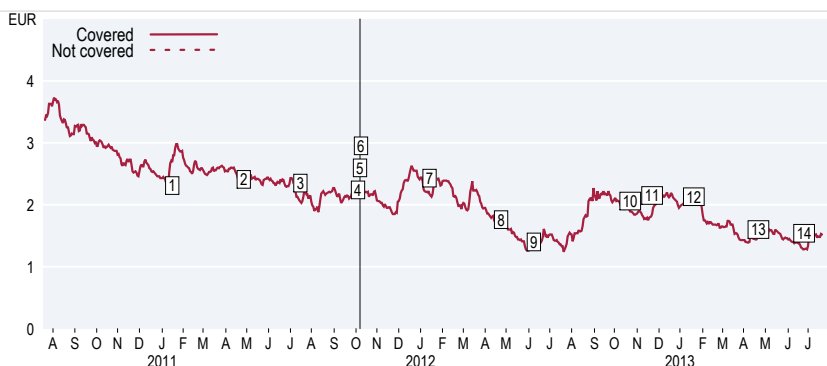
Rating/target price changes above reflect Eastern Standard Time

Banco de Sabadell SA (SABE.MC)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since March 11 2013



	Date	Rating	Target Price	Closing Price
1	17-Jan-11	3M	*2.30	2.69
2	27-Apr-11	3M	*2.06	2.43
3	15-Jul-11	*3H	*1.65	2.05
4	5-Oct-11	*3S	*1.52	2.18
5	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
6	8-Oct-11	*3H	1.52	2.22
7	13-Jan-12	3H	*1.73	2.17
8	24-Apr-12	3H	*1.62	1.67
9	8-Jun-12	3H	*0.99	1.35
10	23-Oct-12	3H	*1.23	1.89

	Date	Rating	Target Price	Closing Price
11	22-Nov-12	3H	*1.09	1.85
12	21-Jan-13	3H	*1.33	2.12
13	22-Apr-13	3H	*1.33	1.48
14	25-Jun-13	3H	*1.15	1.28

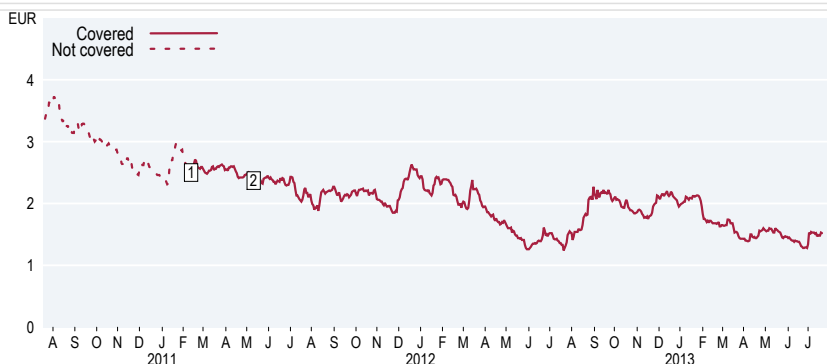
Rating/target price changes above reflect Eastern Standard Time

Banco de Sabadell SA (SABE.MC)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since March 11 2013



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	2.53

* Indicates change

	Date	Rating	Target Price	Closing Price
2	11-May-11	*REM LP	-	2.44

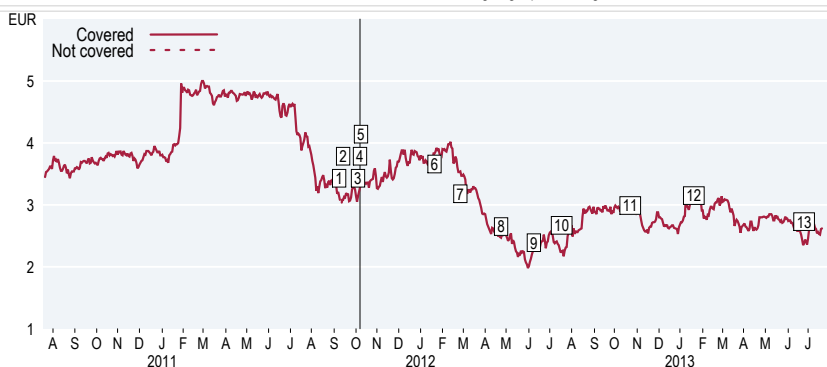
Rating/target price changes above reflect Eastern Standard Time

CaixaBank SA (CABK.MC)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since March 11 2013



	Date	Rating	Target Price	Closing Price
1	8-Sep-11	Coverage terminated		
2	14-Sep-11	*3H	*2.70	3.08
3	5-Oct-11	*3S	*2.75	3.14
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*3H	2.75	3.28

* Indicates change

	Date	Rating	Target Price	Closing Price
6	20-Jan-12	3H	*2.65	3.83
7	27-Feb-12	3H	*2.55	3.54
8	24-Apr-12	3H	*2.25	2.47
9	8-Jun-12	3H	*0.98	2.30
10	18-Jul-12	3H	*1.08	2.25

	Date	Rating	Target Price	Closing Price
11	23-Oct-12	3H	*1.76	2.88
12	21-Jan-13	3H	*2.30	3.09
13	25-Jun-13	*2H	*2.35	2.38

Rating/target price changes above reflect Eastern Standard Time

CaixaBank SA (CABK.MC)

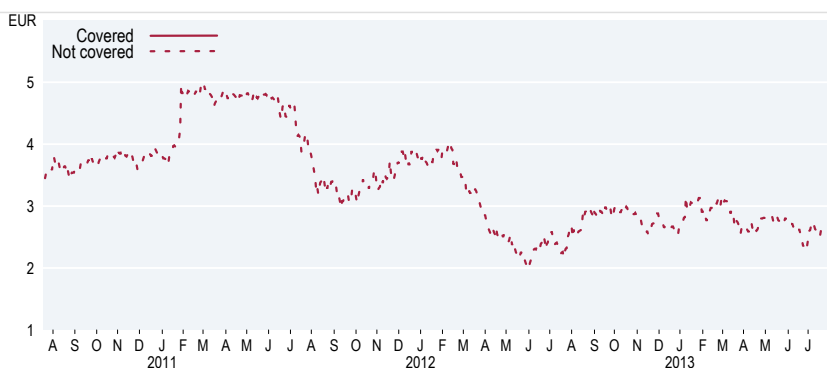
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since March 11 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

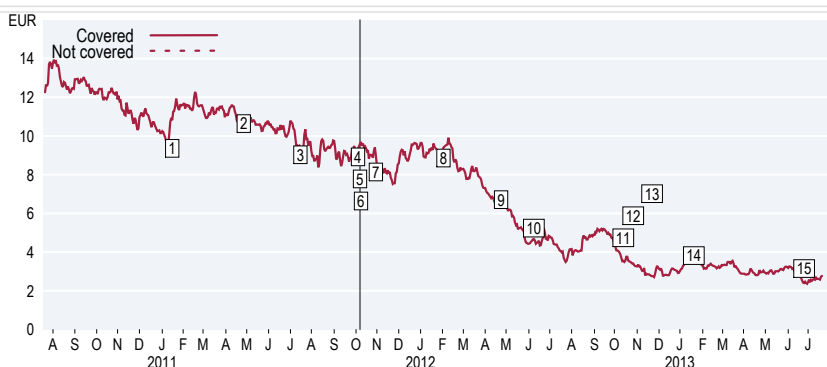
Banco Popular Espanol (POP.MC)

Ratings and Target Price History

Fundamental Research

Analyst: Stefan Nedialkov

Covered since March 11 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

	Date	Rating	Target Price	Closing Price
1	17-Jan-11	2M	*11.63	10.81
2	27-Apr-11	2M	*10.93	10.75
3	15-Jul-11	*3H	*8.07	9.36
4	5-Oct-11	*3S	*7.40	9.35
5	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
6	8-Oct-11	*3H	7.40	9.60
7	31-Oct-11	3H	*7.27	8.97
8	2-Feb-12	3H	*7.00	9.40
9	24-Apr-12	3H	*5.98	6.28
10	8-Jun-12	3H	*2.72	4.68

	Date	Rating	Target Price	Closing Price
11	12-Oct-12	3H	*3.12	3.55
12	26-Oct-12	3H	*2.17	3.41
13	22-Nov-12	3H	*2.00	2.76
14	21-Jan-13	3H	*2.50	3.54
15	25-Jun-13	3H	*2.15	2.40

Banco Popular Espanol (POP.MC)

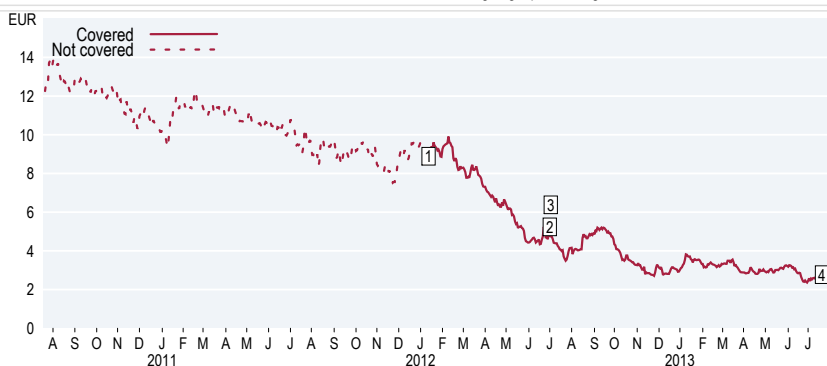
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since March 11 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

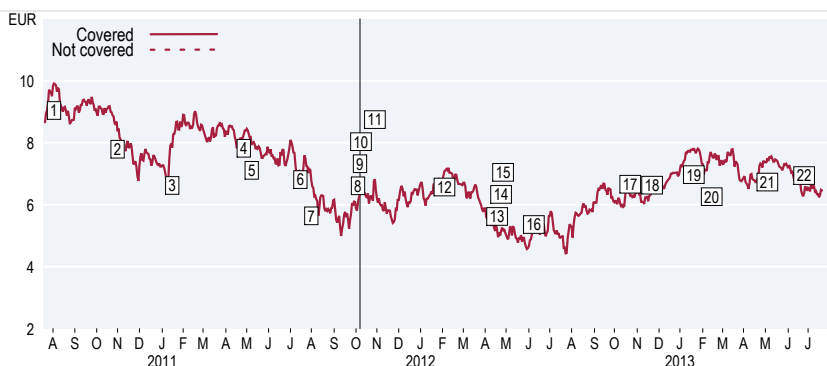
	Date	Rating	Target Price	Closing Price
1	12-Jan-12	*ADD LP	-	9.12
2	2-Jul-12	*REM LP	-	4.81

	Date	Rating	Target Price	Closing Price
3	3-Jul-12	*ADD LP	-	4.75
4	19-Jul-13	*REM LP	-	2.77

Banco Bilbao Vizcaya Argentaria SA (BBVA.MC)

Ratings and Target Price History Fundamental Research

Analyst: Ronit Ghose



	Date	Rating	Target Price	Closing Price
1	3-Aug-10	1M	*10.57	9.91
2	1-Nov-10	1M	*10.11	8.37
3	17-Jan-11	1M	*9.56	7.84
4	27-Apr-11	1M	*9.69	8.27
5	9-May-11	1M	*9.45	7.93
6	15-Jul-11	*1H	*8.48	6.98
7	30-Jul-11	*2H	*8.04	7.12
8	5-Oct-11	*2S	*6.65	6.08

* Indicates change

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	8-Oct-11	*2H	6.65	6.35
11	28-Oct-11	2H	*6.40	6.82
12	3-Feb-12	2H	*6.70	7.08
13	18-Apr-12	2H	*6.80	5.18
14	24-Apr-12	2H	*5.90	5.15
15	26-Apr-12	2H	*6.00	5.15
16	8-Jun-12	2H	*5.50	5.15

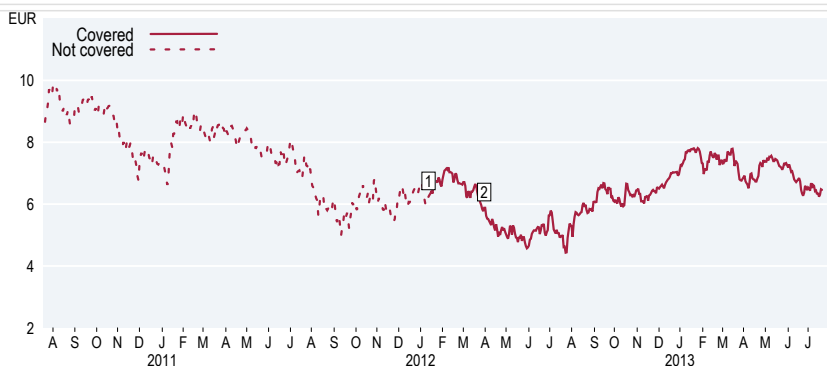
	Date	Rating	Target Price	Closing Price
17	23-Oct-12	2H	*6.50	6.29
18	22-Nov-12	2H	*6.30	6.43
19	21-Jan-13	2H	*7.10	7.82
20	14-Feb-13	2H	*7.20	7.60
21	3-May-13	*3H	*6.75	7.50
22	25-Jun-13	*2H	*6.25	6.36

Rating/target price changes above reflect Eastern Standard Time

Banco Bilbao Vizcaya Argentaria SA (BBVA.MC)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Ronit Ghose



	Date	Rating	Target Price	Closing Price
1	12-Jan-12	*ADD LP	-	6.24

* Indicates change

	Date	Rating	Target Price	Closing Price
2	30-Mar-12	*REM LP	-	5.88

Rating/target price changes above reflect Eastern Standard Time

Banco Santander (SAN.MC)

Ratings and Target Price History Fundamental Research

Analyst: Ronit Ghose



	Date	Rating	Target Price	Closing Price
1	4-Aug-10	2M	*9.47	9.55
2	15-Oct-10	2M	*9.57	8.85
3	17-Jan-11	2M	*9.69	7.94
4	15-Feb-11	2M	*8.99	8.41
5	15-Jul-11	*2H	*7.57	6.86
6	28-Jul-11	2H	*7.09	6.97
7	5-Oct-11	*2S	*6.15	5.75
8	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
9	8-Oct-11	*2H	6.15	5.99
10	3-Nov-11	2H	*6.24	5.64
11	20-Jan-12	2H	*6.06	5.78
12	27-Feb-12	2H	*6.26	6.13
13	17-Apr-12	2H	*6.40	5.01
14	24-Apr-12	2H	*5.30	4.81
15	27-Apr-12	2H	*5.25	4.84
16	8-Jun-12	2H	*4.75	4.85

	Date	Rating	Target Price	Closing Price
17	23-Oct-12	2H	*6.00	5.73
18	22-Nov-12	2H	*5.50	5.77
19	21-Jan-13	2H	*5.90	6.46
20	14-Feb-13	2H	*6.10	5.98
21	3-May-13	*3H	*4.75	5.58
22	25-Jun-13	*2H	*4.60	4.87

Rating/target price changes above reflect Eastern Standard Time

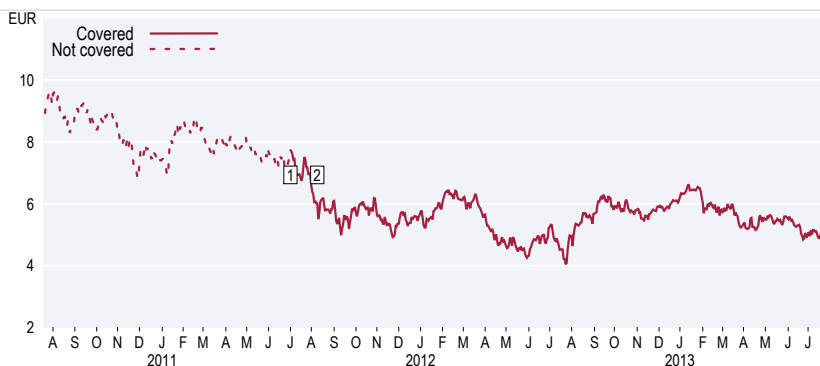
Banco Santander (SAN.MC)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ronit Ghose



	Date	Rating	Target Price	Closing Price
1	1-Jul-11	*ADD LP	-	7.73

	Date	Rating	Target Price	Closing Price
2	9-Aug-11	*REM LP	-	6.01

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Banco BPI (BBPI.LS)

Ratings and Target Price History

Fundamental Research

Analyst: Florent Nitu

Covered since May 1 2013



	Date	Rating	Target Price	Closing Price
1	21-Jun-11	*1H	*1.33	0.98
2	7-Oct-11	Stock rating system changed		
3	20-Oct-11	*2H	*0.72	0.60

	Date	Rating	Target Price	Closing Price
4	3-Nov-11	2H	*0.49	0.47
5	31-Jan-12	2H	*0.51	0.47
6	24-Oct-12	2H	*1.08	0.89

	Date	Rating	Target Price	Closing Price
7	4-Feb-13	2H	*1.29	1.25
8	1-May-13	2H	*1.25	1.09

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Banco BPI (BBPI.LS)

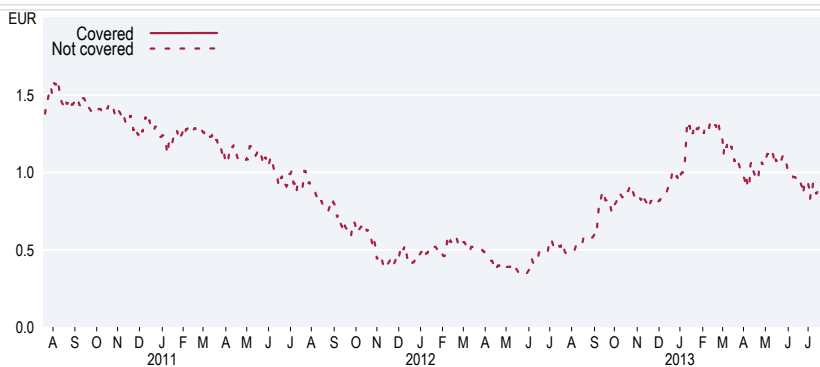
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Florent Nitu

Covered since May 1 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Banco Espirito Santo (BES.LS)

Ratings and Target Price History

Fundamental Research

Analyst: Florent Nitu

Covered since May 31 2013



	Date	Rating	Target Price	Closing Price
1	22-Jun-11	*1H	*1.93	1.56
2	7-Oct-11	Stock rating system changed		
3	20-Oct-11	1H	*1.73	0.96
4	3-Nov-11	1H	*1.51	0.85

* Indicates change

	Date	Rating	Target Price	Closing Price
5	5-Dec-11	1H	*1.45	0.84
6	31-Jan-12	1H	*1.51	0.76
7	2-Apr-12	1H	*1.39	0.80
8	21-May-12	1H	*0.82	0.51

	Date	Rating	Target Price	Closing Price
9	24-Oct-12	1H	*1.17	0.76
10	23-Nov-12	1H	*1.23	0.76
11	14-May-13	1H	*1.30	0.76

Rating/target price changes above reflect Eastern Standard Time

Banco Espirito Santo (BES.LS)

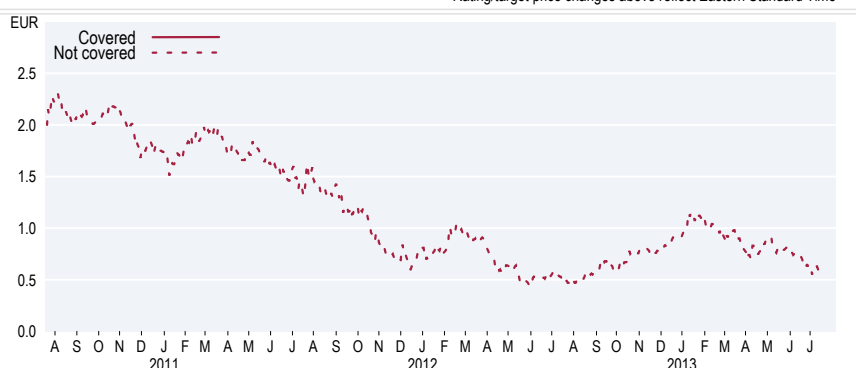
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Florent Nitu

Covered since May 31 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Ltd is currently mandated as advisor to Banco Sabadell in relation to the announced acquisition of Banco Gallego from Fondo de Reestructuración Ordenada Bancaria.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Bankinter SA, CaixaBank SA, Banco Bilbao Vizcaya Argentaria SA, Banco Santander, Banco Espirito Santo.

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Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Banco de Sabadell SA, CaixaBank SA, Banco Santander, Banco Espirito Santo.

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The Firm is a market maker in the publicly traded equity securities of Banco Bilbao Vizcaya Argentaria SA, Banco Santander.

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Citi Research Equity Ratings Distribution

Data current as of 30 Jun 2013

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
48%	40%	12%	6%	88%	6%
53%	50%	45%	58%	51%	49%

Guide to Citi Research Fundamental Research Investment Ratings:

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Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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