

The Great Spanish Legacy Assets Shed-Off

Spanish Banks: Buy Bankinter, Prefer BBVA vs SAN

- **Problem Assets to Peak in 2014** — Asset quality remains the single most important issue facing Spanish banks. While the rate of NPL formation remains the most widely observed measure, other problem asset developments are equally important (foreclosures, substandard loans, restructured performing and developer performing loans). Our analysis shows that problem assets (16.9% of domestic Spanish assets in 2Q13) should peak in 2014 and see a reduction of c30% through 2016. Most foreclosed assets should be sold by 2018 at discounts of c10-15%.
- **Formation of Non-Real Estate NPL Ratios Slowing** — We now expect domestic NPL ratios for the six banks we cover to peak in 2015, with 2016 coverage in the 50-70% range. At the system level, the NPL ratio should peak in 2016-17 (*Spanish Banks*, 26 June). For some categories of NPLs we are already witnessing a slowdown in new formation, and even an absolute decline in the NPL ratio (e.g. BKT mortgages). While a swallow does not a summer make, the rate of deterioration has slowed since 2012 – in-line with lower rises in the unemployment rate and less negative GDP growth.
- **New Estimates** — We revise our estimates and sustainable ROE assumptions for all banks. Our estimates for domestic Spain earnings improve on better NIM assumptions driven by more aggressive than expected term deposit repricing. For SAN and BBVA, we expect weaker LatAm/South America results. Sustainable ROE estimates are in the 9.0-12.0% range, up from 8.5-10.6% previously. The range of Cost of Equity assumptions remains at 11.5-13.0% with BBVA's assumed CoE declining to 12.0% from 13.0% on lower sovereign yields in Spain and a change in the CoE methodology.
- **Buy BKT; Prefer BBVA vs SAN** — In Spain, our preference remains for BKT, which has the lowest content of problem assets, should achieve 10.5% sustainable ROE in the medium term and enjoys substantial excess capital. We also prefer BBVA over SAN, as BBVA: 1) has higher exposure to recovering Spain (57% of total assets vs 27% for SAN); 2) sports a higher coverage of problem assets (43% vs 34%); and 3) trades on a similar P/B multiple (0.9x '13E) for a higher sustainable ROE (12% vs 10%). POP and SAB remain Sell rated as we struggle to justify their market valuations. While CABK is Neutral rated, we believe it offers investors upside risk from cost synergies and consolidation.
- **Catalysts in 2H13** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14); asset disposals; and decision on DTA forbearance (expected in September/October).

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
BBVA	BBVA.MC	2H	2H	€6.35	€7.10	€0.61	€0.65
Bankinter	BKT.MC	1	1	€3.50	€4.00	€0.18	€0.25
CaixaBank	CABK.MC	2H	2H	€2.60	€2.90	€-0.11	€0.08
Banco Popular	POP.MC	3H	3H	€2.20	€2.80	€-0.02	€0.10
Bco de Sabadell	SABE.MC	3H	3H	€1.40	€1.60	€-0.02	€0.04
Banco Santander	SAN.MC	2H	2H	€4.65	€4.90	€0.36	€0.49

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

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Spanish Banks – Estimates & Valuation

Figure 1. Spanish Banks – Summary Recommendations

	Rating	TP	Price	Upside	Div Yield	ETR	MV (Euro bn)
BKT	1	4.00	3.49	14.6%	1.8%	16.4%	3
CABK	2H	2.90	2.86	1.4%	7.0%	8.4%	14
POP	3H	2.80	3.76	-25.5%	0.3%	-25.3%	6
SAB	3H	1.60	1.78	-10.1%	0.0%	-10.1%	5
BBVA	2H	7.10	7.38	-3.8%	5.7%	1.9%	41
SAN	2H	4.90	5.45	-10.1%	11.0%	0.9%	59

Source: Citi Research

Figure 2. 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	0.25	0.21	0.34	0.49	3.85	4.00	4.21	4.48	3.50	3.66	3.87	4.14	0.06	0.05	0.17	0.24
CABK	0.08	0.16	0.29	0.40	5.05	4.68	4.55	4.67	4.05	3.74	3.62	3.73	0.20	0.08	0.20	0.20
POP	0.10	0.12	0.21	0.38	5.59	5.62	5.71	5.95	3.64	3.72	3.85	4.13	0.01	0.01	0.00	0.08
SAB	0.04	0.10	0.19	0.29	2.70	2.77	2.92	3.14	2.28	2.35	2.50	2.72	0.00	0.03	0.05	0.07
BBVA	0.65	0.57	0.76	0.92	7.89	8.09	8.42	8.90	6.39	6.62	6.96	7.45	0.42	0.35	0.42	0.42
SAN	0.49	0.50	0.51	0.56	6.57	6.50	6.37	6.29	4.44	4.50	4.46	4.46	0.60	0.50	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	64%	-16%	62%	43%	7%	4%	5%	6%	8%	5%	6%	7%	24%	-18%	227%	45%
CABK	48%	96%	85%	35%	5%	-7%	-3%	3%	1%	-8%	-3%	3%	-13%	-60%	150%	0%
POP	-110%	13%	76%	87%	2%	0%	2%	4%	-7%	2%	4%	7%	nm	nm	nm	nm
SAB	4%	173%	92%	52%	1%	3%	5%	7%	0%	3%	6%	9%	nm	nm	90%	53%
BBVA	101%	-12%	33%	21%	4%	3%	4%	6%	7%	4%	5%	7%	0%	-17%	20%	0%
SAN	98%	1%	4%	8%	-6%	-1%	-2%	-1%	-3%	1%	-1%	0%	0%	-17%	20%	0%

Source: Citi Research

Figure 3. 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	6.8%	5.4%	8.4%	11.3%	10.5%	11.5%	7.5%	5.9%	8.9%	18.3%	1.8%	1.4%	4.7%	6.9%
CABK	1.6%	3.3%	6.4%	8.6%	10.0%	12.0%	2.0%	4.1%	7.9%	15.7%	7.0%	2.8%	7.0%	7.0%
POP	1.9%	2.1%	3.6%	6.6%	9.0%	13.0%	2.7%	3.2%	5.3%	14.4%	0.3%	0.3%	0.0%	2.2%
SAB	1.4%	3.6%	6.7%	9.6%	10.0%	12.0%	1.6%	4.3%	7.6%	16.7%	0.0%	1.4%	2.7%	4.1%
BBVA	8.4%	7.1%	9.2%	10.6%	12.0%	12.0%	10.5%	8.8%	10.8%	18.6%	5.7%	4.7%	5.7%	5.7%
SAN	7.2%	7.6%	8.0%	8.8%	10.0%	12.0%	10.9%	11.1%	11.5%	17.6%	11.0%	9.2%	11.0%	11.0%

Source: Citi Research

Figure 4. Spanish Banks – Current Valuation

	P/E				P/BV				P/TBV			
	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	13.8	16.4	10.1	7.1	0.91	0.87	0.83	0.78	1.00	0.95	0.90	0.84
CABK	35.3	18.0	9.8	7.2	0.57	0.61	0.63	0.61	0.71	0.77	0.79	0.77
POP	36.5	32.2	18.3	9.8	0.67	0.67	0.66	0.63	1.03	1.01	0.98	0.91
SABE	48.9	17.9	9.3	6.1	0.66	0.64	0.61	0.57	0.78	0.76	0.71	0.66
BBVA	11.3	13.0	9.7	8.0	0.94	0.91	0.88	0.83	1.16	1.12	1.06	0.99
SAN	11.1	11.0	10.6	9.8	0.83	0.84	0.86	0.87	1.23	1.21	1.22	1.22

Source: Citi Research

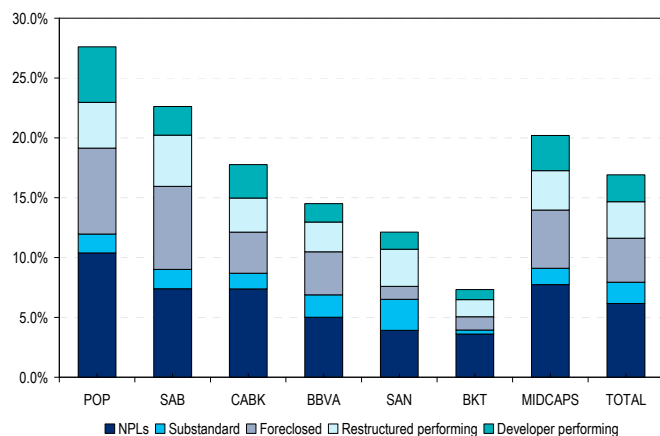
Figure 5. Spanish Banks – Basel 2 & Basel 3 Core Capital Ratios Estimates, 2013-16E

	B2 CT1 Ratio				B3 CET1 Ratio			
	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
BKT	11.5%	12.8%	14.2%	15.7%	11.5%	12.8%	14.2%	15.7%
CABK	12.3%	14.1%	15.2%	16.6%	7.1%	9.3%	10.8%	12.6%
POP	10.4%	11.2%	12.3%	13.7%	8.8%	10.0%	11.6%	13.2%
SABE	9.9%	10.8%	11.7%	12.7%	5.5%	7.4%	9.0%	10.1%
BBVA	11.3%	11.8%	12.3%	12.9%	9.1%			
SAN	11.4%	11.7%	11.7%	11.7%	8.5%			

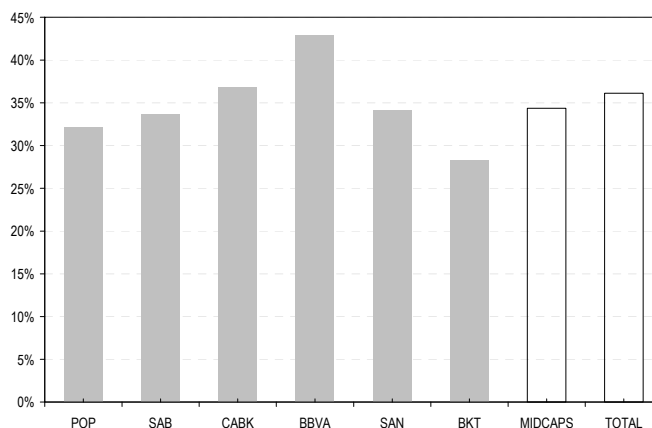
Source: Citi Research

The Great Legacy Asset Shed-off – In Charts

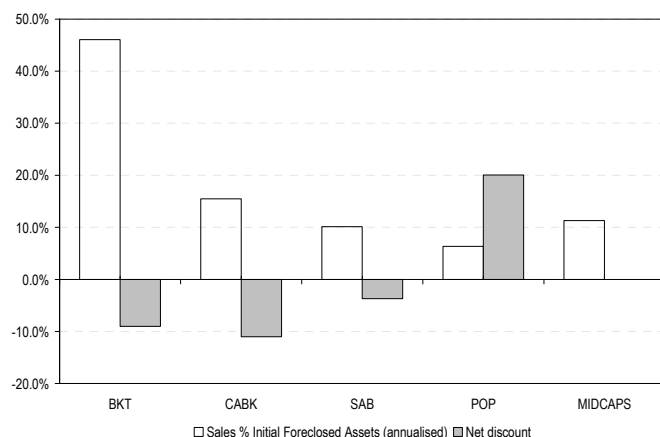
Problem Assets as % of Total Assets, 2Q13



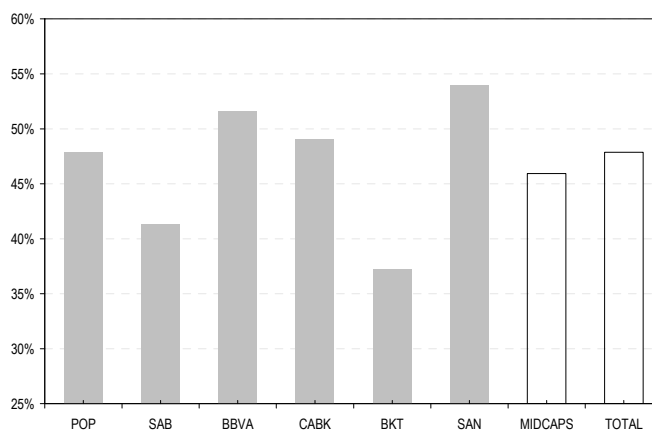
Coverage of Problem Assets, 2Q13



Foreclosed Assets – Sales Activity and Net Discounts on Sales, 2Q13*

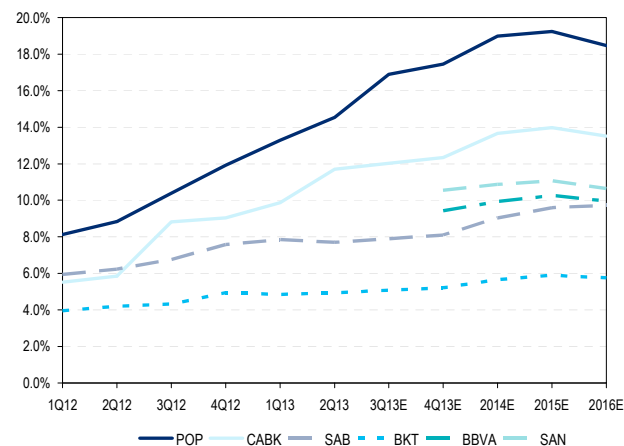


Coverage of Total Foreclosed Assets, 2Q13 *

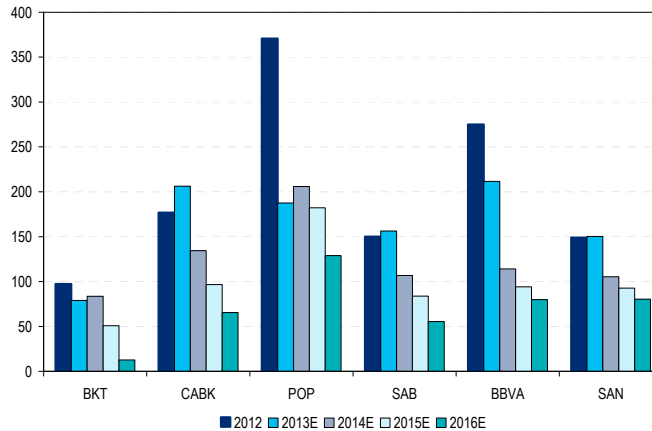


* Includes some estimates

NPL Ratios, 1Q12-2016E (% Gross Loans)



Cost of Risk, 2012-16E (bps)



Source: Citi Research, company reports

1. Cleaning Up the Legacy – by 2018

Figure 6. Spanish Banks Domestic Cost of Risk – 2012-16E, Normalised and Historical Average (bps) *

Bank	2012	2013E	2014E	2015E	2016E	2013E-2016E, chg (bps)	Normalised Co Est	Normalised Citi Est	2000-2007 Avg	MEMO: Sustainable ROE (Citi)
BKT	97	79	84	51	13	-66	35-40	40	36	10.5%
CABK	177	206	134	97	65	-141	60-80	70	n/a	10.0%
POP	371	187	206	182	129	-59	60-70	80	60	9.0%
SAB	150	156	107	84	55	-101	50-60	60	44	10.0%
BBVA	275	211	114	94	80	-132	n/a	65	35	12.0%
SAN	149	150	105	93	80	-70	n/a	65	39	10.0%

Source: Citi Research, company reports

* On gross domestic loans. Our provision estimates incorporate writedowns and provisions for all problem assets: NPL, substandard, foreclosed, restructured performing loans, developer performing loans. Valuations incorporate estimated haircuts on unsold foreclosed assets at the end of our valuation horizon (2016) as well as shortfalls relative to minimum coverage ratio levels for NPLs (50-60% depending on the bank) and total problem assets (40-45% depending on the bank).

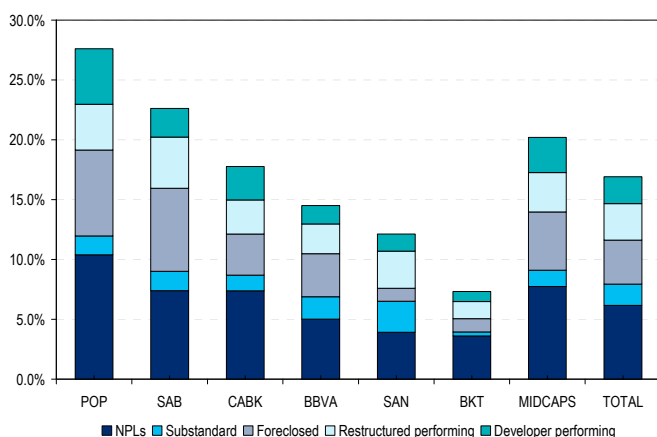
Problem assets in Spain should peak in 2014, driving down the domestic cost of risk for all banks under our coverage...

...we believe the market has more than priced this in for POP and SAB

Asset quality remains the single most important issue facing the Spanish banks, following the decisive ECB action of yesteryear on the sovereign front. While the rate of non-performing loan formation remains the most widely observed measure of asset quality trends, we believe legacy assets, 'quasi-NPLs' and riskier loan exposures are an equally important part of the picture. In this note we analyse the total exposure to 'problem assets' by bank, coverage of these assets and the time it could take to run them off. For the six banks under our coverage:

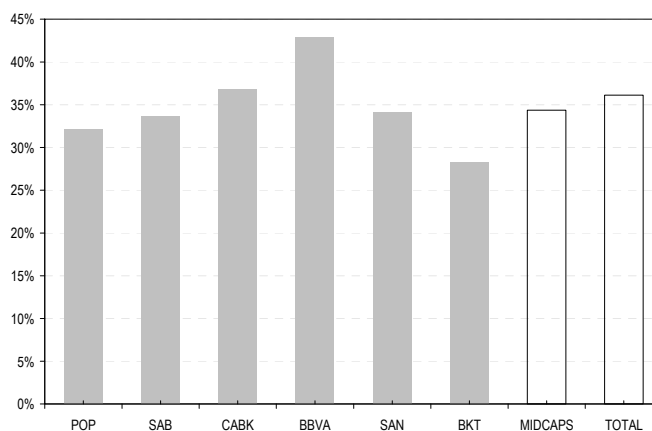
- **Problem assets are 16.9% of domestic Spanish assets** for the six banks we cover – for the four midcaps we cover the level is 20.2%.
- **Coverage of problem assets currently stands at 36.1% (six banks) and 34.4% (four midcaps).**
- **We estimate a reduction in problem assets of c30% through 2016 and a peak in 2014** based on projections for the four midcaps. Most foreclosed assets should be sold by 2018 based on current and future estimated rate of sales.

Figure 7. Problem Assets as % of Total Assets, 2Q13



Source: Citi Research, company reports

Figure 8. Coverage of Problem Assets



Source: Citi Research, company reports

Our definition of problem assets

Our definition of problem assets is all-encompassing and conservative. It includes the following components:

- **Non-performing loans (6.2% of domestic Spanish assets)** as defined by the banks – these are mostly 90+ delinquent loans.
- **Foreclosed assets (3.7%)** are mostly residential, commercial or developer real estate.
- **Restructured performing loans (3.0%)** are loans with some forbearance and where the borrower is meeting all payments on time.
- **Developer performing loans (2.2%)** – due to data disclosure and comparability issues among the banks this category includes both restructured and non-restructured loans.
- **Substandard loans (1.8%)** – these are loans to borrowers who are in the process of experiencing some payment difficulty but are not generally overdue by more than 90 days.

Figure 9 shows the details of problem assets by bank. We note that restructured substandard and restructured NPL loans are included in the more general NPL and substandard categories. Ditto for developer loans. In terms of limitations to our approach, an overlap in our definition arises in the developer performing loans category which includes restructured developer performing loans as well (theoretically these are already captured in the more general restructured performing loans bucket). And provisions for developer loans usually include generic provisions which are already captured in the on-balance sheet loan loss reserve amounts, thus introducing some double counting

Figure 9. Problem Assets Details by Bank, 2Q13 (€ in million) *

Volumes	POP	BKT	SAB	CABK	BBVA	SAN	MIDCAPS	TOTAL
NPLs	16,650	2,083	12,622	25,876	17,546	13,093	57,231	87,870
Substandard	2,520	196	2,755	4,600	6,536	8,673	10,071	25,280
Foreclosed	11,506	640	11,842	12,095	12,570	3,618	36,083	52,271
Restructured performing	6,136	831	7,323	10,000	8,715	10,340	24,290	43,346
Developer performing	7,424	484	4,078	9,798	5,405	4,774	21,784	31,963
Total	44,236	4,234	38,620	62,369	50,773	40,498	149,459	240,730
% Spain Assets	POP	BKT	SAB	CABK	BBVA	SAN	MIDCAPS	TOTAL
NPLs	10.4%	3.6%	7.4%	7.4%	5.0%	3.9%	7.7%	6.2%
Substandard	1.6%	0.3%	1.6%	1.3%	1.9%	2.6%	1.4%	1.8%
Foreclosed	7.2%	1.1%	6.9%	3.4%	3.6%	1.1%	4.9%	3.7%
Restructured performing	3.8%	1.4%	4.3%	2.8%	2.5%	3.1%	3.3%	3.0%
Developer performing	4.6%	0.8%	2.4%	2.8%	1.5%	1.4%	2.9%	2.2%
Total	27.6%	7.3%	22.6%	17.8%	14.5%	12.1%	20.2%	16.9%
Provisions	POP	BKT	SAB	CABK	BBVA	SAN	MIDCAPS	TOTAL
Loans	8,702	960	8,091	17,041	15,294	11,862	34,793	61,950
Foreclosed assets	5,508	239	4,893	5,935	6,489	1,954	16,574	25,017
Total	14,210	1,199	12,984	22,976	21,783	13,816	51,368	86,967
Coverage	POP	BKT	SAB	CABK	BBVA	SAN	MIDCAPS	TOTAL
Problematic loans	26.6%	26.7%	30.2%	33.9%	40.0%	32.2%	30.7%	32.9%
Foreclosures	47.9%	37.3%	41.3%	49.1%	51.6%	54.0%	45.9%	47.9%
Total	32.1%	28.3%	33.6%	36.8%	42.9%	34.1%	34.4%	36.1%

Source: Citi Research, company reports * In terms of limitations to our approach, an overlap in our definition arises in the developer performing loans category which includes restructured developer performing loans as well (theoretically these are already captured in the more general restructured performing loans bucket). And provisions for developer loans usually include generic provisions which are already captured in the on-balance sheet loan loss reserve amounts, thus introducing some double counting.

POP Has the Most Problem Assets, BBVA Has the Best Coverage

28% of POP's assets could be problematic

Among the six banks we cover, POP has the highest level of problem assets at 27.6% of total assets as well as the highest NPL content (10.4% of assets). BKT has the lowest amount, at 7.3% of assets. Among the banks within that range, SAB is at the higher end with 22.6%, while SAN, BBVA and CABK are 12-18%.

While the two Royal Decrees and the restructured loan review have forced the banks to take provisions against all developer and restructured loans (performing, NPL and substandard), we believe that banks with a higher content of restructured performing and developer performing loans have the highest potential for further negative provision surprises. POP has the highest component of restructured performing (3.8% of assets) and developer performing (4.6%) loans, or a total of 8.4%. SAB and CABK come next with 6.7% and 5.6% total, respectively. They are followed by SAN (4.5%) and BBVA (4.0%), while BKT is at the lower end with 2.2%.

At 43%, BBVA has the highest coverage of potentially problematic assets

In terms of coverage, BBVA has the highest level at 43% while BKT has the lowest at 28%. However, most of BKT's problem assets are NPLs rather than foreclosures or developer loans – and we estimate that the non-mortgage NPL book is 50-60% covered. In terms of problematic loan coverage, BBVA has the highest level at 40% while POP and BKT have the lowest at 27%. When it comes to foreclosed assets coverage, SAN is best covered at 54%, while BKT is at the low end at 37%.

Expect c30% Reduction in Problem Assets for the Midcaps Through 2016 – and a Peak in 2014

Figure 10. Spanish Banks Estimated Peak Year of Problem Asset Exposures by Type *

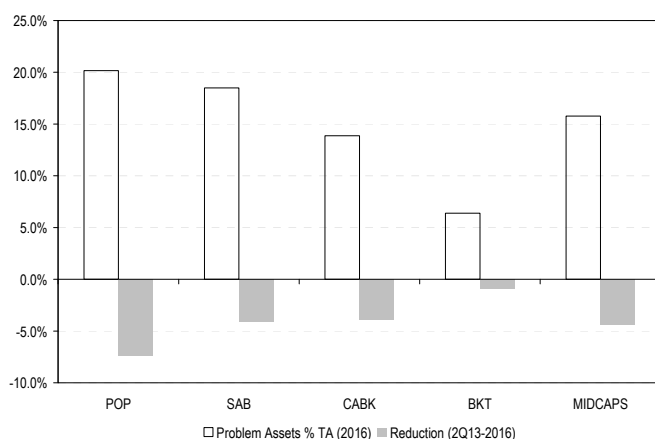
Problem asset type	Estimated Peak (year)
NPLs	2015
Substandard	2013
Foreclosed assets	2014
Restructured performing	2013
Developer performing	peaked
Total	2014

Source: Citi Research * based on bottom-up modelling of problem assets for the four midcaps under our coverage

POP should show the greatest decline in problem assets through 2016

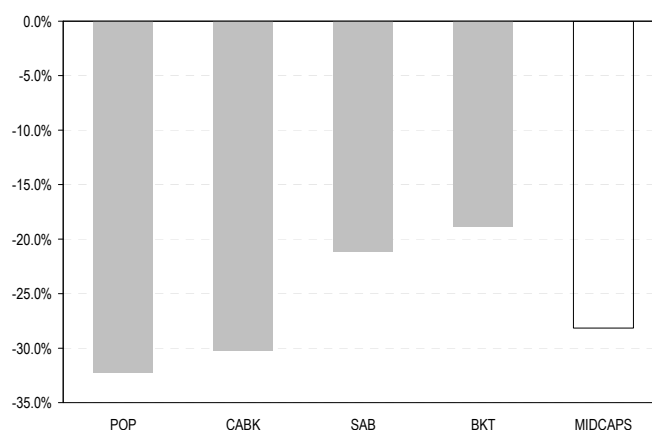
We have modeled the formation of new problem assets through our forecasting horizon (2Q13-2016). Based on our work, we believe that for the four midcaps we cover total problem assets should decline by 28% through the end of 2016 and represent 16% of total assets, down from 20% in 2Q13 (Figure 11 - Figure 12). For all four midcap banks, the reduction should be driven by sales of foreclosed assets, declining new foreclosures and migration of performing developer and restructured loans into the substandard and NPL categories. NPLs should rise by 3-18% for all four banks through 2016, however we expect the NPL ratios to start declining as the pace of delevering slows down (and turns into very modest loan growth in 2016).

Figure 11. Cumulative Problem Asset Reduction % Total Assets, 2Q13-2016E



Source: Citi Research, company reports

Figure 12. Cumulative Problem Asset Reduction - % Chg, 2Q13-2016



Details of our forecasts for problem asset reduction by type are shown in Figure 13.

Figure 13. Problem Asset Reduction by Type, 2Q13-2016 (%)

	POP	CABK	SAB	BKT	MIDCAPS
NPLs	9.9%	3.1%	17.9%	8.5%	8.5%
Substandard	14.0%	-23.9%	-19.3%	0.0%	-12.7%
Foreclosed	-39.8%	-55.0%	-47.7%	-100.0%	-48.6%
Restructured performing	-100.0%	-21.0%	-42.9%	-3.6%	-47.0%
Developer performing	-74.8%	-100.0%	-27.0%	-63.3%	-76.9%
Total	-32.3%	-30.2%	-21.2%	-18.9%	-28.2%

Source: Citi Research, company reports

Foreign interest in Spanish real estate is picking up meaningfully

A number of foreclosed real estate asset sales took place in Spain over the past several months, raising hopes of improved investor sentiment. Sareb sold a €100m portfolio to a foreign private equity group (discount unknown), SAB sold a €90m portfolio to a group of foreign investors (for a small profit to net book value) and the regional government of Madrid and the City of Madrid also sold real estate holdings. More deals are in the works, with Sareb marketing portfolios and the banks offering attractive financing to buyers of residential and commercial real estate.

POP & SAB have the highest content of foreclosed assets

Of the banks we cover, POP and SAB have the largest content of foreclosed assets on their balance sheets as noted above (c7% of total assets). BKT and SAN are at the low end with c.1% of total assets. Coverage is best at SAN (54%) and lowest at BKT (37%) - Figure 14 and Figure 15.

Figure 14. Foreclosed Assets as % Total Assets, 2Q13 *

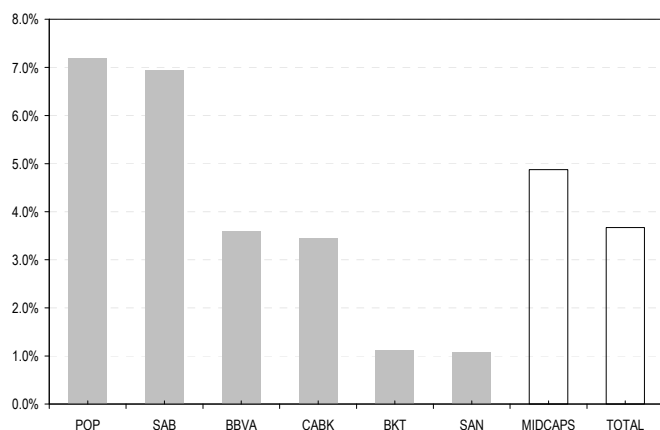
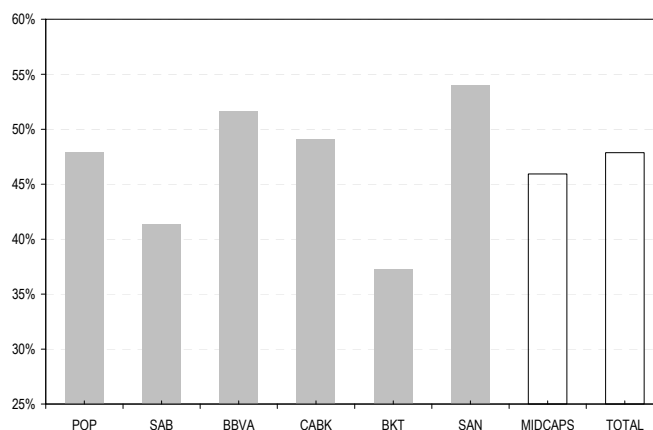


Figure 15. Coverage of Total Foreclosed Assets, 2Q13 *



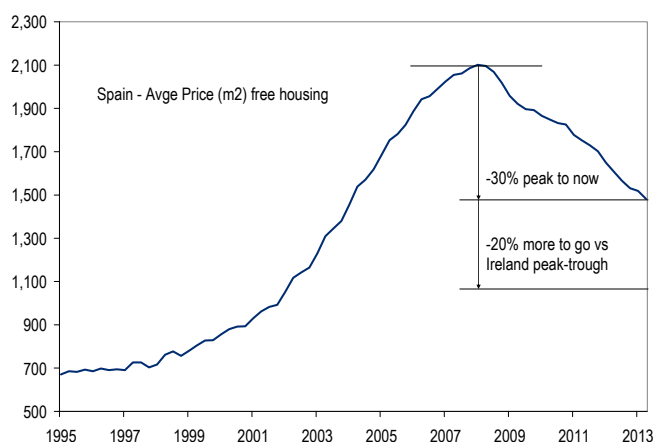
Source: Citi Research, company reports * Company definition

Net discounts on sales are up to c. -10% currently

The rate of foreclosed asset sales was virtually nil a few years ago but has now increased to 11% of the stock of foreclosed assets for the four midcaps (annualized, Figure 17). In 2Q13, POP sold c6% of its foreclosed portfolio, SAB c10%, CABK c16% and BKT was the standout at c45%. **The realised net discounts on sales were between 4-11%. But POP likely achieved a gain on its sales of c20%. These outcomes highlight two important points:**

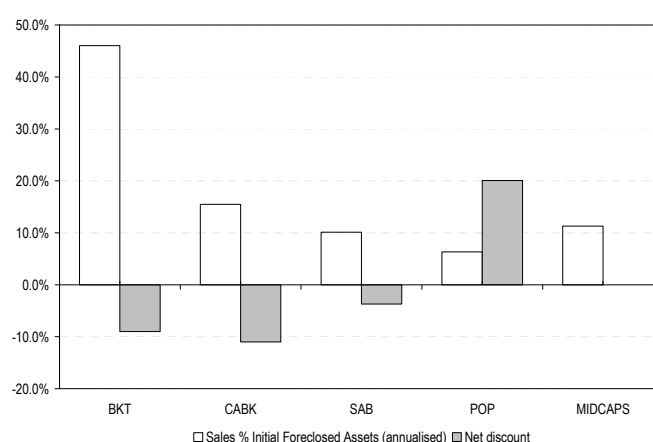
- Buyers are starting to feel comfortable that the trough in real estate prices is within view (Figure 16); and
- The banks' marks on their balance sheets are relatively realistic.

Figure 16. Spanish House Prices – Average Price per Sq M, 1995-2013 (in euro)



Source: Citi Research, INE

Figure 17. Foreclosed Assets – Sales Activity and Net Discounts on Sales, 2Q13 *



Source: Citi Research, company reports * Includes some estimates

At current rates, it would take the midcaps 9 years to clear the existing stock of foreclosed assets – but we believe this would happen sooner as the pace of sales accelerates

At this rate of foreclosed asset sales, we estimate that the current backlog will be cleared in 9 years on average for the four midcaps, i.e. by 2022 (Figure 18). On current 2Q13 rates of sale, we calculate BKT will dispose of its book in 2 years, while for POP the process would take closer to 16 years (Figure 18). But we believe an acceleration in the rate of sales is likely to occur in 2014, as the Spanish economy improves. **We expect gross inflows into foreclosed assets to be close**

to zero by 2016 and the stock to be c€19bn from a peak of c.€40bn at end-2014. The pace of sales should also accelerate to 45% of the then-existing stock so that the last of the foreclosed assets should be sold by the end of 2018, on our estimates.

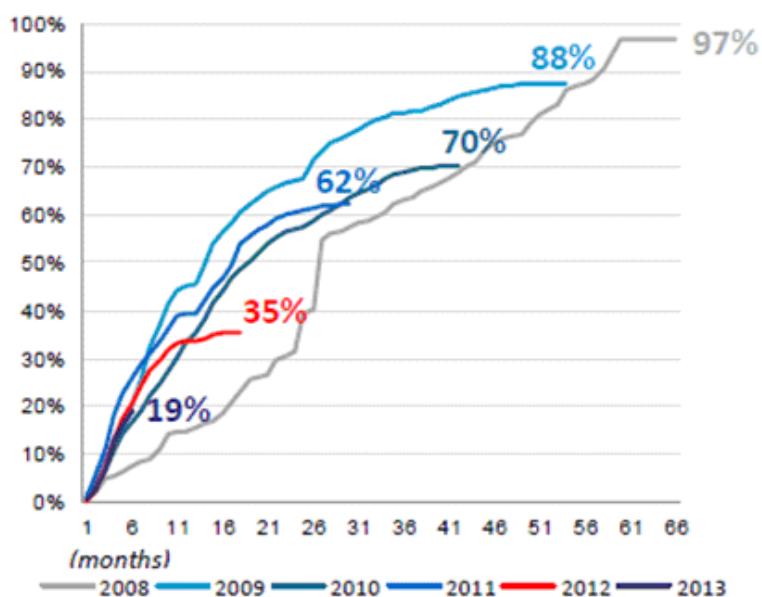
Figure 18. Foreclosed Assets & Activity Details, 2Q13 *

	POP	SAB	BBVA	CABK	BKT	SAN	MIDCAPS	TOTAL
Gross amount	11,506	11,842	12,570	12,095	640	3,618	36,083	52,271
Allowances	5,508	4,893	6,489	5,935	239	1,954	16,574	25,017
Coverage of For. Assets	48%	41%	52%	49%	37%	54%	46%	48%
For. Assets % Total Assets	7.2%	6.9%	3.6%	3.4%	1.1%	1.1%	4.9%	3.7%
Gross entries	638	301		1,464	85		2,488	
Gross sales	175	300		428	72		975	
Sales % Gross entries	27%	100%		29%	85%		39%	
Gross entries % initial	23%	10%		53%	54%		29%	
Sales % Initial Foreclosed Assets (annualised)	6.3%	10.1%		15.5%	46.1%		11.3%	
Yrs to clear existing stock at current rate of sales **	16	10		6	2		9	
Gross discount	-28%	-45%		-60%	-44%			
Provisions	48%	41%		49%	35%			
Net discount	20%	-4%		-11%	-9%			

Source: Citi Research, company reports * Includes actuals & estimates ** Theoretical; assumes no additional gross entries which would not be the case for another 2-3 years on our estimates

As another point on the speed of sales, CaixaBank has noted that the majority of vintages of foreclosed housing are cleared within an average of four years (Figure 19). As we expect a peak in foreclosed assets in 2014, most foreclosed assets should be sold off by 2018-20.

Figure 19. CaixaBank: Vintages of Finished Housing Are Cleared in an Average of 4 Years – % of sales and rentals of finished housing, evolution by vintage year of foreclosure



Source: CaixaBank

Developer Loans Best Provisioned at BBVA, Least at POP

POP has the most developer loans as % of its book, and has provided the least

POP has the largest developer loan content of the six banks we cover, at 13% of total assets. BKT is at the lower end, with c.2%. POP also has the largest content of performing developer loans (6%) indicating greater risk for negative asset quality surprises, especially given the bank's relatively low coverage level (29% vs 36% for the six banks we cover). BBVA sports the best coverage at 45%, followed by SAN at c40% (Figure 20 - Figure 21).

Figure 20. Developer Loans as % Total Assets, 2Q13 *

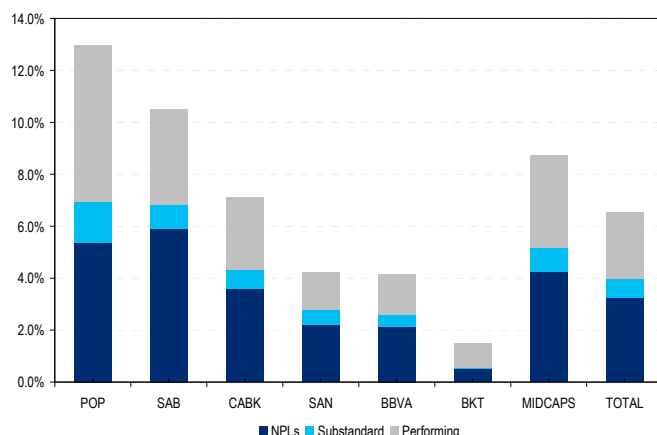
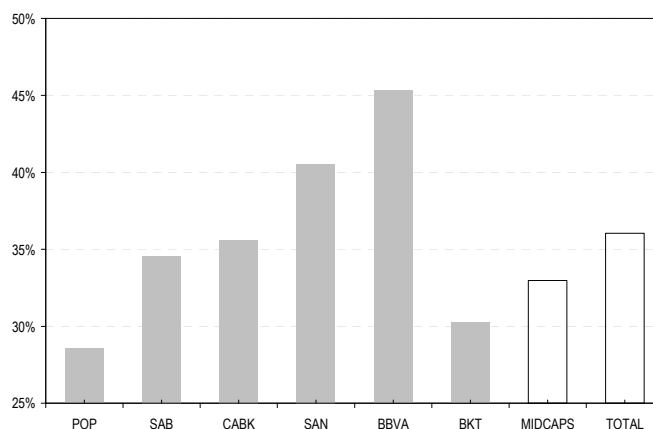


Figure 21. Coverage of Total Developer Loans, 2Q13 * **



Source: Citi Research, company reports * SAB as of 4Q12 ** Includes specific and generic provisions as well as Asset Protection Scheme (APS) amounts.

Restructured Loans: 2Q13 Reclassifications Ahead of 3Q13 Bank of Spain Review

Banks started to reclassify and provide for restructured loans in 2Q13As

As the Bank of Spain restructured loan review deadline approaches (30 September), the Spanish banks have started reclassifying performing and substandard loans into NPLs and some of them also took provisions. Based on 2Q13 disclosure, we estimate SAN has the largest amount of restructured loans at 10% of its domestic assets, while BKT has the lowest at c3%. However, SAB has the largest amount of performing restructured loans (c4%) indicating higher risk of potential reclassifications in the future. But in terms of coverage, SAB also has the highest level at 21%, which goes some way towards mitigating the risk of future provisions out of the performing book.

During 2Q13, the six banks took c.€720m of provisions upon reclassification of €7.2bn of restructured loans, or an average of 10% coverage. This is in-line with our previous expectations of a 10% provision hit upon reclassification.

Figure 22 shows a detailed split by restructured loans, coverage, company guidance for future restructured loan provisions and the amount of provisions currently in Citi estimates.

Figure 22. Restructured Loans and Provisions, 2Q13 (€ in million)

Exposures	SAN	SAB	POP	CABK	BBVA	BKT	MIDCAPS	TOTAL
Performing	10,340	7,323	6,136	10,033	8,715	831	24,323	43,379
Substandard	8,673	1,889	1,484	4,587	6,536	98	8,058	23,267
NPL	14,343	6,635	6,743	11,382	8,957	497	25,257	48,557
Total	33,356	15,847	14,363	26,002	24,209	1,426	57,638	115,203
Total % domestic assets	10.0%	9.3%	9.0%	7.4%	6.9%	2.5%	7.8%	8.1%
Performing % domestic assets	3.1%	4.3%	3.8%	2.9%	2.5%	1.4%	3.3%	3.0%
Specific Provisions								
Performing	n/a	524	0	0	n/a	0	524	n/a
Substandard	n/a	486	338	863	n/a	18	1,705	n/a
NPL	n/a	2,286	2,062	4,098	n/a	199	8,645	n/a
Total	6,626	3,296	2,400	4,961	4,358	217	10,874	21,857
% coverage	19.9%	20.8%	16.7%	19.1%	18.0%	15.2%	18.9%	19.0%
Reclassified in 2Q13								
Amount	2,000	378	1,532	3,287	0	36	5,233	7,233
Provisions taken	0	321	0	375	0	20	716	716
Provisions to 20% total coverage	45	0	473	239	484	68	780	1,310
>> co guidance	0	n/a	0	0	n/a	20	n/a	n/a
>> in Citi estimates	0	100	0	0	600	20	120	720

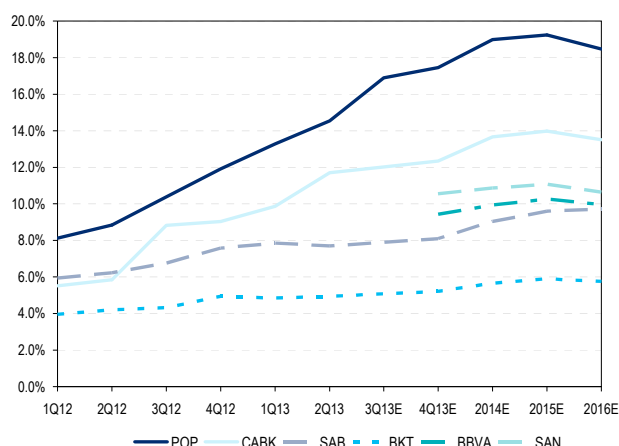
Source: Citi Research, company reports

2. Initial Signs of Slowing NPL Formation

Some categories of NPLs, such as mortgages, are forming at a much slower rate; for some banks, mortgage NPL ratios are declining (eg BKT)

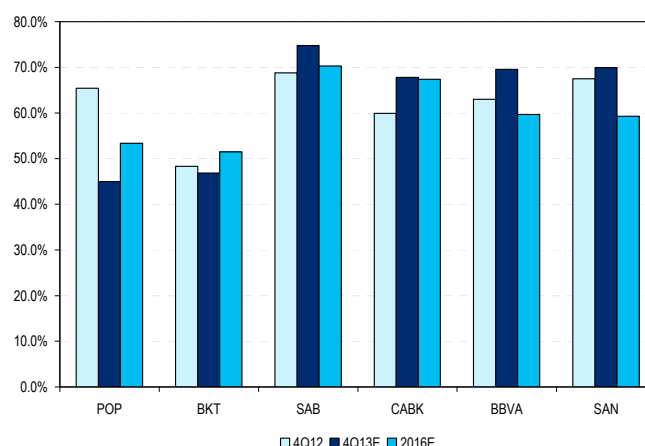
We now expect the NPL ratio for the six banks we cover to peak in 2015, with 2016 coverage in the 50-70% range (Figure 23 & Figure 24). At the system level, we still expect the NPL ratio to peak in 2016-17 (*Spanish Banks: Upgrading Stance to Neutral*, 26 June). As the charts below show, for certain categories of NPLs we are already witnessing a slowdown in new NPL formation, and even an absolute decline in the NPL ratio (e.g. BKT mortgages). While a swallow does not a summer make, the rate of deterioration has slowed since 2012 – in-line with lower increases in the unemployment rate and less negative GDP growth.

Figure 23. NPL Ratios, 1Q12-2016 (% Gross Loans)



Source: Citi Research, company reports

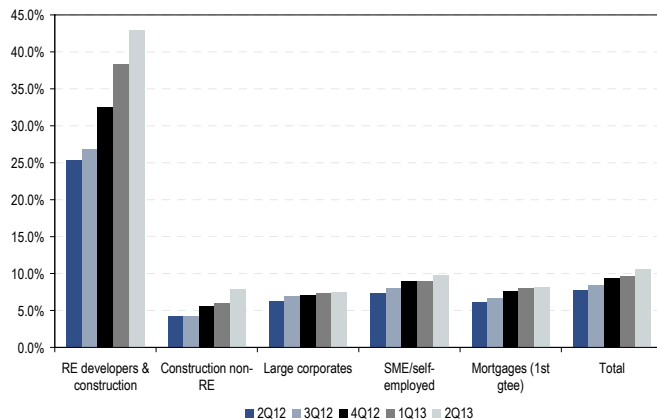
Figure 24. NPL Coverage, 4Q12-2016E (NPL Allowance % Gross NPL)



Source: Citi Research

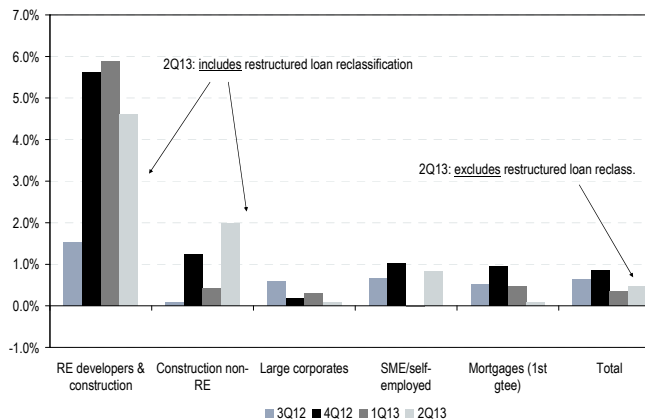
- **SAB NPL ratio formation:** while real estate-related NPL ratios continue to form at elevated levels, large corporate and mortgage NPL ratio formation was close to zero in 2Q13 (Figure 25 - Figure 26).

Figure 25. Sabadell – NPL Ratio by Loan Type, 3Q12-2Q13 (%) *



Source: Citi Research, company reports * Company definition

Figure 26. Sabadell – NPL Ratio Formation, 3Q12-2Q13 (ppt) *



- **POP NPL ratio formation:** real estate NPL ratio formation is running at 5 ppt qoq, while non-RE has been on a steadily declining trend (close to zero in 2Q13). In fact, excluding restructured loan loss reclassifications in 2Q13, POP's NPL ratio formation was negative (Figure 27 - Figure 28).

Figure 27. Popular – NPL Ratio by Loan Type, 3Q12-2Q13 (%) *

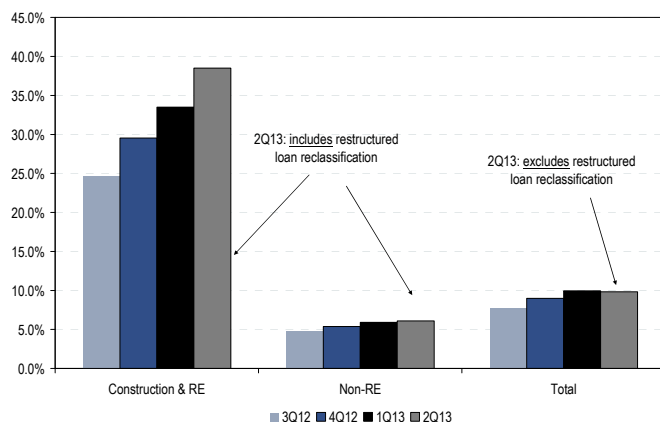
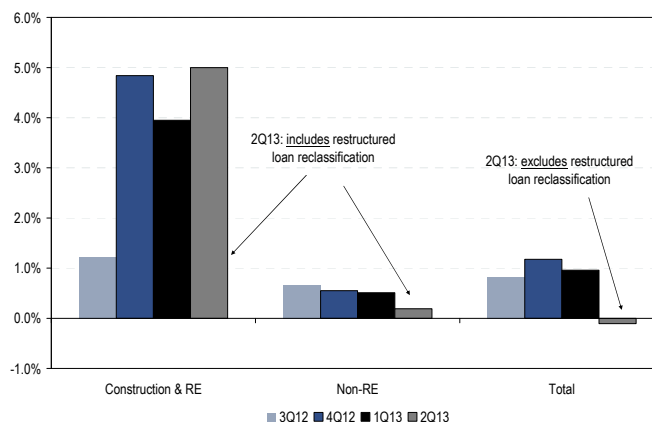


Figure 28. Popular – NPL Ratio Formation, 3Q12-2Q13 (ppt) *



Source: Citi Research, company reports

* Company definition

■ **CABK NPL ratio formation:** excluding 2Q13 reclassifications, the NPL ratio for mortgages declined qoq.

Figure 29. CaixaBank – NPL Ratios & Formation by Loan Type, 1Q12-2Q13 *

NPL Ratios	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13 incl restr loans	2Q13 excl restr loans
Individuals	1.95%	2.15%	3.51%	3.57%	3.76%	5.67%	3.76%
Residential mortgages	1.57%	1.73%	2.77%	2.80%	3.00%	4.70%	2.98%
Other	3.07%	3.38%	5.54%	5.72%	5.98%	8.37%	5.91%
Business	10.37%	11.00%	16.57%	17.24%	19.08%	20.98%	19.98%
Non-RE	3.93%	3.99%	5.67%	5.96%	7.86%	9.41%	8.86%
RE developers	28.16%	31.33%	40.91%	44.22%	47.22%	50.59%	48.43%
Public sector	0.66%	0.46%	0.75%	0.74%	0.76%	1.54%	1.02%
Total loans	5.25%	5.58%	8.44%	8.63%	9.41%	11.17%	9.75%
Total ex RE developers		2.53%	3.84%	3.98%	4.71%	6.41%	5.08%

Generation	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13 incl restr loans	2Q13 ex restr loans
Individuals	0.13%	0.20%	1.36%	0.07%	0.19%	1.91%	0.00%
Residential mortgages	0.09%	0.16%	1.04%	0.03%	0.20%	1.70%	-0.02%
Other	0.26%	0.31%	2.16%	0.18%	0.26%	2.39%	-0.07%
Business	0.83%	0.63%	5.57%	0.67%	1.84%	1.90%	0.90%
Non-RE	0.44%	0.06%	1.68%	0.29%	1.90%	1.55%	1.00%
RE developers	2.32%	3.17%	9.58%	3.31%	3.00%	3.37%	1.21%
Public sector	0.26%	-0.20%	0.29%	-0.01%	0.02%	0.78%	0.26%
Total loans	0.35%	0.33%	2.86%	0.19%	0.78%	1.76%	0.34%
Total ex RE developers	0.00%	2.53%	1.31%	0.14%	0.73%	1.70%	0.37%

Source: Citi Research, company reports

* Company definition

- **BKT NPL ratio formation:** the mortgage NPL ratio declined qoq to 2.24% from 2.29%.

Figure 30. Bankinter – NPL Ratio by Loan Type, 3Q12-2Q13 (%) *

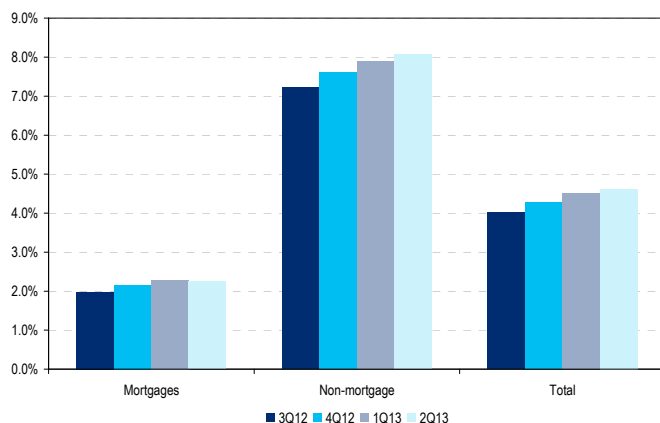
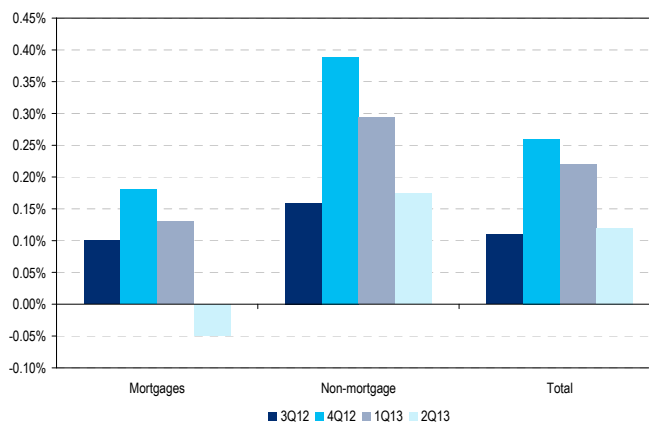


Figure 31. Bankinter – NPL Generation, 3Q12-2Q13 (ppt) *

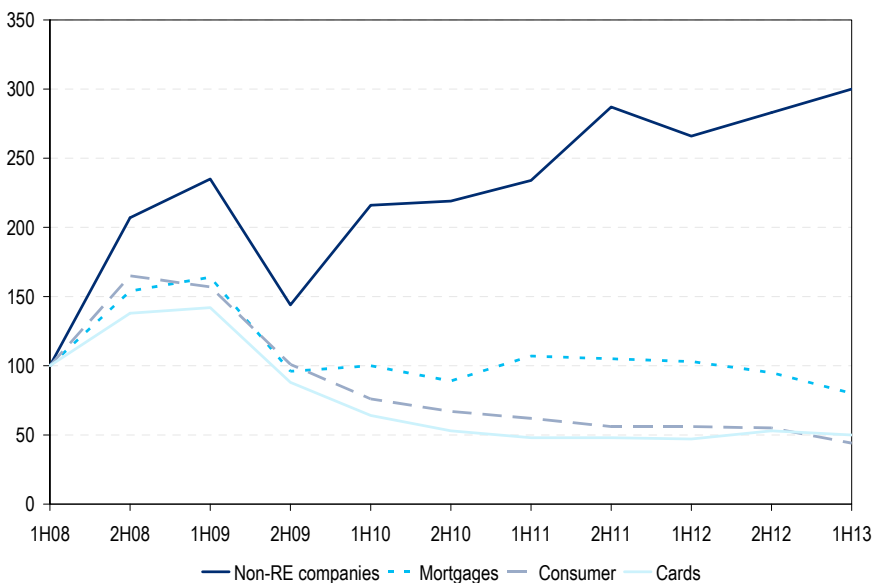


Source: Citi Research, company reports

* Company definition

- **SAN gross NPL entries growth:** new mortgage, consumer and card gross NPL entries continue to decline since the peak in 2H08; however, gross entries from non-RE companies continue to grow since the recent trough in 2H09 when we saw some initial signs of recovery.

Figure 32. SAN – Gross NPL Entries by Loan Type, 1H08-1H13 (1H08 = 100)



Source: Citi Research, Santander

3. Net Interest Margins: Expect Further Improvement Into 2014

NIMs on the mend from 2013 onwards

Figure 33. Domestic NIM Forecasts, 2012-16E (bps)

Bank	2012	2013E	2014E	2015E	2016E	2013E-2016E, chg (bps)
POP	188	161	186	195	201	40
SAB	143	105	128	133	137	31
CABK	125	114	127	137	143	29
BBVA	140	112	117	126	141	29
SAN	152	138	153	154	154	16
BKT	112	112	111	115	120	8

Source: Citi Research

Four of the six banks we cover showed domestic NIM improvement in 2Q13

In 2Q13, POP, BKT and SAN improved NIM qoq driven by better customer margins (Figure 34 - Figure 35). For the three banks the improvement was driven by lower deposit costs. SAB guided to an inflection point in 3Q13, while CABK suffered due to acquisitions but guided to improvement in 1H14 (60%+ of deposits mature in 2014). While BBVA's deposit costs in Spain increased qoq due to what we see as a push for deposits in the quarter, the company guides to a 100+ bps benefit from the repricing of €40bn of term deposits starting in 3Q-4Q13.

Figure 34. Domestic NIM Margins, 1Q12-2Q13 (bps) *

Bank	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	YoY	QoQ
POP	195	194	174	158	152	168	-26	16
BKT	111	120	125	109	96	112	-8	16
SAN	150	153	154	141	129	134	-19	5
CABK	128	134	123	120	110	111	-23	1
BBVA	145	137	136	123	121	114	-23	-6
SAB	161	143	128	121	114	100	-42	-14

Source: Citi Research, company data * Domestic Spanish for all

Figure 35. Customer Margins, 1Q12-2Q13 (bps) *

Bank	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	YoY	QoQ
BKT	124	132	117	74	75	103	-29	28
SAN	324	327	308	262	237	254	-73	17
POP	251	252	225	214	224	241	-11	17
CABK	182	193	181	184	166	162	-31	-4
BBVA	246	253	253	231	218	206	-47	-12
SAB	216	215	202	193	175	158	-57	-17

Source: Citi Research, company data * Domestic Spanish for all

BKT showed the best improvement in deposit costs in 2Q13

In 2Q13, BKT showed the best improvement in deposit costs followed by POP (most term deposits mature in 2013); BBVA showed deterioration in the cost of deposits, likely driven by an increase in Spanish deposit volumes (+7% qoq). We believe SAB and CABK should see improvement in 2H13 and early 2014, respectively (Figure 36).

Figure 36. Customer Deposits Costs, 1Q12-2Q13 (bps) *

Bank	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	YoY	QoQ
BKT	200	187	187	212	204	167	-20	-37
POP	209	211	218	217	199	174	-37	-25
SAN	-164	-168	-144	-81	-16	-28	140	-12
SAB	212	200	203	209	219	207	7	-11
CABK	170	164	169	159	155	145	-19	-10
BBVA	139	131	125	139	128	135	4	7

Source: Citi Research, company reports * Domestic Spanish for all; SAN data shows loan spreads

SAN was the only one to report an uptick in domestic asset yields

On the asset side to, SAN showed the best increase in loan yields by +5 bps qoq. In fact, the other five banks saw yields decline by 5-28 bps qoq, likely driven by further Euribor resets and new, higher-margin loan production not being sufficient to offset pressure from the back book (Figure 37).

Figure 37. Loan Yields, 1Q12-2Q13 (bps) *

Bank	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	YoY	QoQ
SAN	160	159	164	181	221	226	67	5
BBVA	385	384	378	371	347	341	-42	-5
POP	460	463	443	431	423	415	-48	-8
BKT	324	319	304	286	280	270	-49	-9
CABK	352	357	350	343	321	307	-50	-14
SAB	428	416	405	402	394	366	-50	-28

Source: Citi Research, company reports * Domestic Spanish for all; SAN data shows loan spreads

The Carry Trade

The carry trade in Spain is becoming less profitable as sovereign 10-year yields hover around the 4% mark (down from 6.5-7.0% at the peak). Securities yields for the four midcaps declined by 0-40 bps qoq (Figure 38).

While all four midcap banks increased the weighting of securities in their portfolios qoq (50-120 bps), SAB sold a portion of its ALCO portfolio and booked gains to offset extra provisioning. For BKT, the carry trade contributes c.15% of NII (as per company guidance and our estimates) and this should decline over time as the bank repays the ECB LTRO (in our estimates).

Figure 38. Securities Yields, 1Q12-2Q13 (bps) *

Bank	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	YoY	QoQ
POP	319	309	318	290	281	281	-28	0
BKT	391	350	380	371	326	310	-40	-16
SAB	322	308	393	373	346	320	12	-26
CABK	310	304	372	401	384	343	39	-41

Source: Citi Research, company reports * Domestic Spanish for all

Figure 39. Weighting of Securities, 1Q12-2Q13 (bps) *

Bank	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	YoY ppt	QoQ ppt
BKT	16%	18%	17%	17%	20%	21%	3.1%	1.2%
SAB	15%	16%	15%	16%	18%	19%	2.8%	1.1%
CABK	7%	7%	9%	9%	11%	12%	4.6%	0.7%
POP	13%	14%	13%	14%	17%	17%	3.6%	0.5%

Source: Citi Research, company reports * Domestic Spanish for all; as % Average Assets

4. Capital: Lower Dividends in 2014, Better Book Value Growth

New Dividend Forecasts

Lower 2014 dividends for SAN, BBVA, CABK

Following the Bank of Spain recommendations on 2013 dividends (25% cash payout limit and reasonable scrip; [Bank of Spain Recommends 25% Dividend Payout Cap for 2013](#), 27 June), SAN reiterated its €0.60 scrip dividend and CABK reiterated its €0.20 dividend guidance. Our latest dividend estimates assume that banks would pay out less in 2014, as we believe the Bank of Spain may extend its recommendation into next year. Figure 40 shows details of our dividend and payout expectations for 2013-16E.

Figure 40. Spanish Banks – Details of Dividend and Payout Estimates & Scrip vs Cash, 2013-16E (in euro and %)

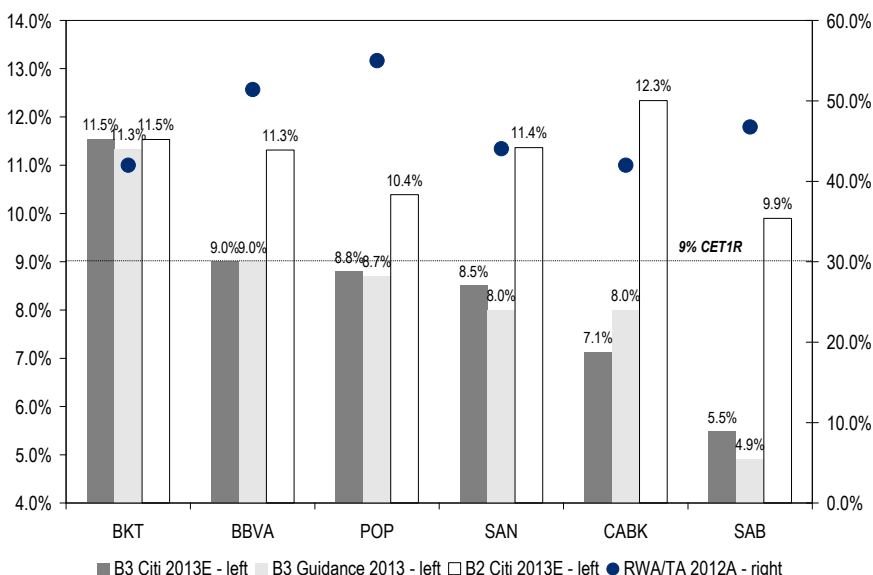
DPS	2013E	2014E	2015E	2016E	EPS	2013E	2014E	2015E	2016E
SAN	0.60	0.50	0.60	0.60	SAN	0.49	0.50	0.51	0.56
BBVA	0.42	0.35	0.42	0.42	BBVA	0.65	0.57	0.76	0.92
CABK	0.20	0.08	0.20	0.20	CABK	0.08	0.16	0.29	0.40
POP	0.01	0.01	0.00	0.08	POP	0.10	0.12	0.21	0.38
SAB	0.00	0.03	0.05	0.07	SAB	0.04	0.10	0.19	0.29
BKT	0.06	0.05	0.17	0.24	BKT	0.25	0.21	0.34	0.49
Scrip	2013E	2014E	2015E	2016E	Pay out ratio (Scrip)	2013E	2014E	2015E	2016E
SAN	0.48	0.30	0.24	0.24	SAN	98%	60%	47%	43%
BBVA	0.17	0.14	0.08	0.08	BBVA	26%	25%	11%	9%
CABK	0.18	0.04	0.10	0.10	CABK	229%	25%	34%	25%
POP	0.01	0.01	0.00	0.06	POP	7%	6%	0%	16%
SAB	0.00	0.00	0.00	0.00	SAB	0%	0%	0%	0%
BKT	0.00	0.00	0.00	0.00	BKT	0%	0%	0%	0%
Cash	2013E	2014E	2015E	2016E	Pay out ratio (Cash)	2013E	2014E	2015E	2016E
SAN	0.12	0.20	0.36	0.36	SAN	24%	40%	70%	65%
BBVA	0.25	0.21	0.34	0.34	BBVA	39%	37%	44%	37%
CABK	0.02	0.04	0.10	0.10	CABK	19%	25%	34%	25%
POP	0.00	0.00	0.00	0.02	POP	2%	2%	0%	5%
SAB	0.00	0.03	0.05	0.07	SAB	0%	25%	25%	25%
BKT	0.06	0.05	0.17	0.24	BKT	24%	24%	48%	49%
% Scrip	2013E	2014E	2015E	2016E	Pay out ratio (Total)	2013E	2014E	2015E	2016E
SAN	80%	60%	40%	40%	SAN	122%	101%	117%	108%
BBVA	40%	40%	20%	20%	BBVA	65%	61%	55%	46%
CABK	92%	50%	50%	50%	CABK	247%	50%	68%	50%
POP	75%	75%	75%	75%	POP	10%	9%	0%	21%
SAB	0%	0%	0%	0%	SAB	0%	25%	25%	25%
BKT	0%	0%	0%	0%	BKT	24%	24%	48%	49%

Source: Citi Research

New Capital Ratios Forecasts

Figure 41 shows our latest estimates for the six banks' Basel 2 & Basel 3 capital ratios at end-2013.

Figure 41. Basel 2 & Basel 3 Capital Ratios and Risk Weights, 2013E



Source: Citi Research

Figure 42. Capital Ratios – Core Equity Tier 1 Ratios & Impacts from Transition to Full Basel 3, 2013E (%)

Bank	2013E B2 CET1R Citi	Net DTA	Financial/ Other Stakes	Minorities	Divestments	Insurance	Intangibles	10-15% Deductions	IAS19	Other	SME RWA *	Other Mitigants	2013E B3 CET1R Citi	2013E B3 CET1R Guidance
BKT	11.5%					Note (1)				-0.2%	0.2%		11.5%	11.3%
BBVA	11.3%	-1.6%	-1.1%	-0.1%		Note (2)	-0.5%			-0.1%		1.0% **	9.0%	9.0%
POP	10.4%	-2.2%				Note (2)				-0.2%	0.8%		8.8%	8.7%
SAN	11.4%	-2.4%		-0.5%		Note (2)	-0.5%	-0.4%	-0.6%			1.5% ***	8.5%	8.0%
CABK	12.3%	-3.3%	-2.8%		0.9%	Note (2)							7.1%	8.0%
SAB	9.9%	-4.4%	-0.1%		0.1%	Note (2)							5.5%	4.9%

Source: Citi Research, company reports * Wherever disclosed separately. ** Excess of Core vs Tier 1. *** Implementation of internal risk models in local business units.
Note (1): BKT - insurance business is deducted 50/50 from Tier 1/ Tier 2. Under Basel 3, it could change to RWA's at 250/370% (Danish proposal) which would mean a smaller capital consumption for BKT according to the company. Most of the impact for BKT under Basel 3 is due to CVA and the treatment of securitisations. Note (2): outcome depends on the approach the regulator chooses – process is ongoing (existing vs Danish proposal). Most banks guide to a small impact, however.

Deferred Tax Assets & Potential Forbearance

We should hear on the specifics of DTA forbearance in September-October

Figure 43 - Figure 45 show our updated estimates for the impact from DTA forbearance on banks' capital ratios (see our July reports [Spanish Banks - Forbearance on Deferred Tax Assets Could Help Capital](#); and [Iberoamerican Big Picture: Summer 2013](#)). **Note that our latest valuations for the four midcaps assume 75% forbearance on the total DTA deduction vs. 50% of the temporary difference DTA deduction previously.**

Figure 43. Potential Capital Benefits under Two Scenarios (ppt to 2013E B3 CET1 Ratios)

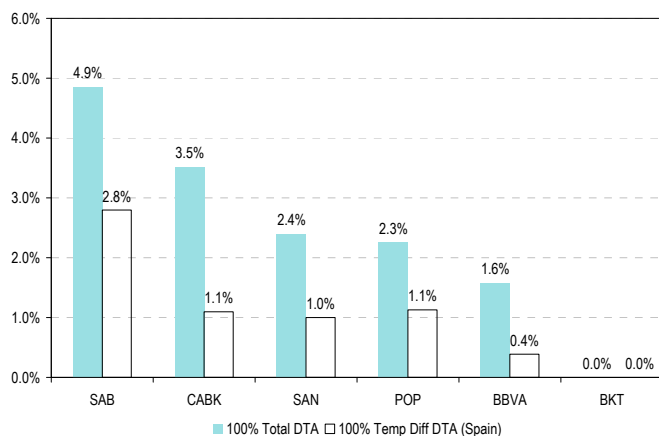
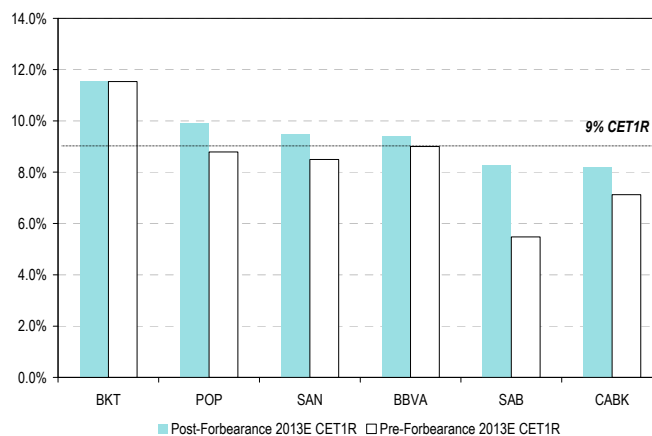


Figure 44. 100% Temp Diff DTA (Spain) Forbearance – 2013E Basel 3 Capital Ratios Before & After Forbearance



Source: Citi Research

Figure 45. Spanish Banks – Potential Benefits from DTA Forbearance, €m and % 2013E RWA

DTA Breakdown	Total NET DTA – 2Q13A	% RWA	DTA Deduction – Basel 3	% RWA	DTA Deduction – o/w temp diff	% RWA	DTA Deduction – o/w Spain	% RWA	Memo: 2013E RWA
BKT	15	0.06%	0	0.00%	0	0.00%	0	0.00%	23,999
CABK	6,735	4.76%	4,981	3.52%	1,552	1.10%	1,552	1.10%	141,578
POP	2,861	3.29%	1,960	2.26%	980	1.13%	980	1.13%	86,855
SAB	4,652	5.82%	3,882	4.85%	2,237	2.80%	2,237	2.80%	79,975
BBVA	6,741	2.05%	5,204	1.58%	1,911	0.58%	1,274	0.39%	329,397
SAN	17,621	3.31%	12,786	2.40%	6,393	1.20%	5,327	1.00%	532,736
	38,625	3.23%	28,814	2.41%	13,073	1.09%	11,371	0.95%	1,194,540

Source: Citi Research, company reports

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Company Sections

Company Focus

- Estimate Change
- Target Price Change

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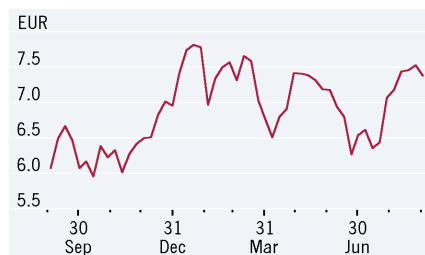
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Neutral/High Risk	2H
Price (03 Sep 13)	€7.38
Target price	€7.10
	from €6.35
Expected share price return	-3.8%
Expected dividend yield	5.7%
Expected total return	1.9%
Market Cap	€42,234M
	US\$55,715M

Price Performance

(RIC: BBVA.MC, BB: BBVA SM)



Banco Bilbao Vizcaya Argentaria SA (BBVA.MC)

Reiterating Neutral, TP Goes to €7.10

- **New Estimates** — We revise our 2013-16E EPS estimates by +8%, +4%, -2% and -2%. Higher NIM estimates for Spain on the back of deposit repricing drive our 2013-14 estimates higher. Lower Eurasia and South America estimates, partly offset by higher US estimates, drive our 2015-16E estimates slightly lower.
- **Reiterating Neutral, TP to €7.10** — We now assume a higher sustainable ROE of 12.0% vs 10.6% previously (2016E is 10.6%) as we believe there is upside risk to deposit repricing and asset quality improvement which: 1) will materialize beyond 2016; and 2) be perceived by the market closer to 2015. Our Cost of Equity declines from 13% to 12%, as we now base our blended Group COE on segment loan volumes (rather than RWA which the company does not disclose any more). On the back of our new estimates, sustainable ROE and CoE assumptions, our new target price is set at €7.10 (from €6.35). We reiterate our Neutral/High Risk rating on the shares.
- **Catalysts** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14); decision on DTA forbearance.

Banco Bilbao Vizcaya Argentaria SA (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	3,003.7	1,748.2	3,635.5	3,293.6	4,450.3
Diluted EPS (€)	0.64	0.34	0.65	0.57	0.76
Diluted EPS (Old) (€)	0.64	0.32	0.61	0.55	0.77
PE (x)	11.5	21.9	11.3	13.0	9.7
P/BV (x)	0.9	1.0	0.9	0.9	0.9
DPS (€)	0.42	0.42	0.42	0.35	0.42
Net Div Yield (%)	5.7	5.7	5.7	4.7	5.7
ROE (%)	8.1	4.4	8.4	7.1	9.2

BBVA

Figure 46. BBVA – Target Price Setting

Mid-Valuation	7.10
Target Price	7.10
Upside	-3.8%
Dividend yield	5.7%
Expected Total Return	1.9%
Performance Rating	2
Risk Rating	H

Source: Citi Research

Figure 47. BBVA – Valuation Method

	2014-16E	2013E	2014E	2015E	2016E
DPS	1.19	0.42	0.35	0.42	0.42
PV	0.89	0.39	0.29	0.31	0.28
Terminal Value	Sustainable	2013E	2014E	2015E	2016E
ROE	12.0%	8.4%	7.1%	9.2%	10.6%
COE	12.0%				
Growth	1.0%				
2016E BVPS	8.90				
TV	8.90				
PV of TV	5.93				
Total PV	6.81				

Source: Citi Research

Figure 48. BBVA – Valuation Method II

	Base Case Valuation	Growth Adjusted Valuation	Growth Adjusted Valuation (2)	Normalised RoE
ROE	12.0%	12.0%	12.0%	12.0%
COE	12.0%	12.0%	12.0%	
Growth	0.0%	1.0%	2.0%	
P/B multiple	1.00	1.00	1.00	
BVPS, 13E	7.89	7.89	7.89	
PV of Fair Value	7.39	7.39	7.39	
2013 EPS	0.65	0.65	0.65	
2012 P/E	11.3	11.3	11.3	

Source: Citi Research

Figure 49. BBVA — 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	14,001	14,537	3.8%	14,765	15,347	3.9%	16,234	16,561	2.0%	17,723	18,260	3.0%
Fee Income	4,412	4,438	0.6%	4,674	4,705	0.7%	4,900	4,930	0.6%	5,137	5,199	1.2%
Trading Income	2,272	2,306	1.5%	2,057	2,024	-1.6%	2,183	2,145	-1.7%	2,318	2,279	-1.7%
Revenues	21,365	21,759	1.8%	22,419	22,684	1.2%	24,291	24,261	-0.1%	26,202	26,385	0.7%
Total Op. Expenses	-11,294	-11,280	-0.1%	-11,735	-11,772	0.3%	-12,213	-12,335	1.0%	-12,745	-13,059	2.5%
Operating Income	10,072	10,479	4.0%	10,685	10,913	2.1%	12,078	11,925	-1.3%	13,457	13,326	-1.0%
Prov. Loan Losses (Net)	-6,537	-6,786	3.8%	-4,990	-4,908	-1.6%	-4,802	-4,682	-2.5%	-4,816	-4,727	-1.8%
Income Before Tax	2,793	3,041	8.9%	4,850	5,230	7.8%	6,841	6,878	0.5%	8,300	8,343	0.5%
Net Income	3,365	3,636	8.0%	3,150	3,294	4.6%	4,541	4,450	-2.0%	5,534	5,450	-1.5%
EPS	0.61	0.65	7.6%	0.55	0.57	4.0%	0.77	0.76	-2.2%	0.93	0.92	-1.6%

Source: Company Reports and Citi Research Estimates

Figure 50. BBVA – Citi vs Consensus

25-Jun-13	2013E			2014E			2015E			2016E		
Consensus - Reuters	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Revenues	22,178	21,759	-1.9%	23,274	22,684	-2.5%	24,488	24,261	-0.9%	Na	26,385	Na
Net Profit (IFRS)	4,469	3,636	-18.7%	4,337	3,294	-24.1%	5,141	4,450	-13.4%	Na	5,450	Na
EPS (IFRS)	0.74	0.65	-12.3%	0.76	0.57	-24.8%	0.89	0.76	-14.9%	na	0.92	Na

Source: Citi Research, Reuters consensus

Figure 51. 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%	14,537	-4%	15,347	6%	16,561	8%	18,260	10%
Dividends	23	-96%	25	10%	28	10%	30	10%	33	10%	37	10%
Fee Income	4,031	-11%	4,353	8%	4,438	2%	4,705	6%	4,930	5%	5,199	5%
Insurance & Other Income	1,363	18%	1,199	-12%	478	-60%	607	27%	625	3%	647	3%
Trading Income	1,481	-22%	1,767	19%	2,306	31%	2,024	-12%	2,145	6%	2,279	6%
Total Income	20,028	-4%	22,441	12%	21,759	-3%	22,684	4%	24,261	7%	26,385	9%
Total Operating Expenses	(9,737)	9%	(10,786)	11%	(11,280)	5%	(11,772)	4%	(12,335)	5%	(13,059)	6%
Operating Profit	10,290	-14%	11,655	13%	10,479	-10%	10,913	4%	11,925	9%	13,326	12%
Prov. Loan loss (net)	(4,226)	-10%	(7,980)	89%	(6,786)	-15%	(4,908)	-28%	(4,682)	-5%	(4,727)	1%
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%	(652)	-68%	(774)	19%	(365)	-53%	(256)	-30%
Pre-tax Profit	3,446	-46%	1,659	-52%	3,041	83%	5,230	72%	6,878	32%	8,343	21%
Income Tax	(206)	-86%	276	-234%	(734)	-366%	(1,278)	74%	(1,702)	33%	(2,093)	23%
Minorities	(481)	24%	(579)	20%	(649)	12%	(659)	2%	(726)	10%	(799)	10%
Net Profit	2,758	-40%	1,356	-51%	1,659	22%	3,294	99%	4,450	35%	5,450	22%
Per share data												
EPS	0.64	-42%	0.32	-49%	0.65	101%	0.57	-12%	0.76	33%	0.92	21%
Adj. EPS	0.59	-47%	0.26	-55%	0.30	13%	0.57	92%	0.76	33%	0.92	21%
Dividend	0.42	0%	0.42	0%	0.42	0%	0.35	-17%	0.42	20%	0.42	0%
Payout ratio	66%		130%		65%		61%		55%		46%	
BVPS	7.78	-3%	7.60	-2%	7.89	4%	8.09	3%	8.42	4%	8.90	6%
Tangible BVPS	6.01	-3%	5.97	-1%	6.39	7%	6.62	4%	6.96	5%	7.45	7%
Number of shares (year end)	4,903	9%	5,449	11%	5,724	5%	5,837	2%	5,906	1%	5,976	1%
Number of shares (avg)	4,697	12%	5,176	10%	5,586	8%	5,780	3%	5,871	2%	5,941	1%
Operating ratios												
Net Interest margin (NII/ ATA)	2.29%		2.45%		2.32%		2.47%		2.59%		2.76%	
Cost / income ratio	49%		48%		52%		52%		51%		49%	
Provision charge / gross customer loans	117		217		186		132		122		118	
NPL ratio (Citi Definition)	4.39%		5.61%		6.41%		6.72%		6.52%		5.62%	
Coverage	61%		72%		68%		67%		71%		83%	
Return on Avg Assets	0.52%		0.27%		0.58%		0.53%		0.70%		0.82%	
ROE	8.1%		4.2%		8.4%		7.1%		9.2%		10.6%	
Balance Sheet Summary												
Total assets	597,688	8%	637,785	7%	615,695	-3%	629,466	2%	648,040	3%	676,765	4%
Net Customer Loans	347,659	3%	352,931	2%	350,039	-1%	356,600	2%	367,120	3%	383,274	4%
Customer deposits	282,173	2%	312,189	11%	321,920	3%	341,513	6%	359,896	5%	381,410	6%
Loan to deposit ratio	123%		113%		109%		104%		102%		100%	
Shareholders Equity	38,166	6%	41,430	9%	45,162	9%	47,234	5%	49,709	5%	53,160	7%
Average Shareholders' Equity	37,043	14%	39,798	7%	43,296	9%	46,198	7%	48,471	5%	51,434	6%
Capital Position												
Core capital	34,161	13%	35,451	4%	37,271	5%	39,343	6%	41,818	6%	45,269	8%
Tier 1 capital	34,161	3%	35,451	4%	37,271	5%	39,343	6%	41,818	6%	45,269	8%
Total capital	42,770	0%	42,837	0%	44,297	3%	46,369	6%	48,844	6%	52,295	6%
Risk-weighted assets	330,771	6%	329,033	-1%	329,397	0%	333,617	6%	340,221	6%	351,918	6%
Core capital ratio	10.33%		10.77%		11.32%		11.79%		12.29%		12.86%	
Tier 1 ratio	10.33%		10.77%		11.32%		11.79%		12.29%		12.86%	
Total capital ratio	12.93%		13.02%		13.45%		13.90%		14.36%		14.86%	
Tangible Equity/ Assets	4.93%		5.10%		5.94%		6.14%		6.34%		6.58%	

Source: Company Reports and Citi Research Estimates

Figure 52. 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%	3,946	-17%	3,893	-1%	4,105	5%	4,585	12%
Fee Income	1,313	-21%	1,360	4%	1,440	6%	1,482	3%	1,526	3%	1,571	3%
Insurance	455	-10%	265	-42%	43	-84%	130	199%	155	19%	180	16%
Trading Income	250	nm	227	-9%	704	210%	335	-52%	352	5%	368	5%
Total Revenues	6,369	-10%	6,580	3%	6,134	-7%	5,840	-5%	6,137	5%	6,704	9%
Total Operating Expenses	(2,938)	4%	(3,014)	3%	(3,187)	6%	(3,109)	-2%	(3,090)	-1%	(3,098)	0%
Operating Profit	3,431	-19%	3,567	4%	2,947	-17%	2,731	-7%	3,047	12%	3,606	18%
Prov. Loan losses (Net)	(2,101)	60%	(5,652)	169%	(4,169)	-26%	(2,169)	-48%	(1,755)	-19%	(1,483)	-15%
Net Profit	266	-88%	(2,881)	-1182%	(1,259)	-56%	(83)	-93%	738	-992%	1,399	90%
Loans and credits	209,622	-2%	201,449	-4%	192,855	-4%	187,103	-3%	185,418	-1%	185,858	0%
Deposits	114,783	-10%	145,643	27%	166,313	14%	171,298	3%	176,432	3%	181,720	3%
Eurasia												
Net Interest Income	801	132%	851	6%	987	16%	1,038	5%	1,105	7%	1,188	8%
Fee Income	391	66%	451	15%	418	-7%	452	8%	488	8%	527	8%
Trading Income	105	-21%	131	25%	266	103%	287	8%	310	8%	335	8%
Total Revenues	1,952	81%	2,214	13%	2,233	1%	2,423	9%	2,602	7%	2,804	8%
Total Operating Expenses	(645)	119%	(779)	21%	(740)	-5%	(785)	6%	(840)	7%	(907)	8%
Operating Profit	1,307	67%	1,435	10%	1,493	4%	1,639	10%	1,762	8%	1,898	8%
Loan loss provisions (net)	(149)	66%	(328)	121%	(411)	25%	(349)	-15%	(323)	-7%	(348)	8%
Net Profit	1,027	75%	953	-7%	828	-13%	1,053	27%	1,189	13%	1,292	9%
Loans and credits	33,905	42%	29,245	-14%	29,482	1%	31,251	6%	33,439	7%	36,114	8%
Deposits	21,786	4%	17,470	-20%	19,021	9%	20,542	8%	22,186	8%	23,961	8%
Mexico												
Net Interest Income	3,776	2%	4,179	11%	4,559	9%	4,964	9%	5,322	7%	5,812	9%
Fee Income	1,022	-17%	1,073	5%	1,159	8%	1,244	7%	1,285	3%	1,346	5%
Insurance and Other	227	26%	286	26%	323	13%	330	2%	325	-2%	324	0%
Trading Income	296	-25%	219	-26%	209	-4%	225	7%	232	3%	243	5%
Total Revenues	5,321	-3%	5,757	8%	6,251	9%	6,764	8%	7,165	6%	7,725	8%
Total Operating Expenses	(1,936)	2%	(2,169)	12%	(2,371)	9%	(2,594)	9%	(2,755)	6%	(2,967)	8%
Operating Profit	3,385	-6%	3,588	6%	3,880	8%	4,170	7%	4,409	6%	4,758	8%
Loan loss provisions (net)	(1,180)	-4%	(1,320)	12%	(1,464)	11%	(1,565)	7%	(1,655)	6%	(1,807)	9%
Net Profit	1,711	0%	1,823	7%	1,788	-2%	1,954	9%	2,066	6%	2,213	7%
Loans and credits	32,560	-6%	37,364	15%	40,984	10%	45,771	12%	49,168	7%	54,084	10%
Deposits	35,524	-4%	36,602	3%	42,470	16%	47,867	13%	51,890	8%	57,079	10%
USA												
Net Interest Income	1,518	-15%	1,551	2%	1,418	-9%	1,503	6%	1,540	2%	1,580	3%
Fee Income	610	-6%	581	-5%	552	-5%	569	3%	573	1%	588	3%
Trading Income	132	-15%	153	15%	156	2%	140	-10%	141	1%	145	3%
Total Revenues	2,181	-14%	2,243	3%	2,134	-5%	2,219	4%	2,261	2%	2,320	3%
Total Operating Expenses	(1,419)	-6%	(1,506)	6%	(1,483)	-2%	(1,514)	2%	(1,508)	0%	(1,532)	2%
Operating Profit	763	-26%	737	-3%	651	-12%	706	8%	753	7%	788	5%
Loan loss provisions (net)	(320)	-55%	(72)	-78%	(81)	12%	(117)	45%	(157)	34%	(201)	28%
Net Profit	(713)	-398%	442	-162%	401	-9%	412	3%	417	1%	411	-2%
Loans and credits	38,927	1%	36,068	-7%	38,009	5%	39,239	3%	39,670	1%	40,860	3%
Deposits	37,777	-11%	39,132	4%	41,314	6%	42,651	3%	43,119	1%	44,413	3%
South America												
Net Interest Income	3,161	27%	4,291	36%	4,327	1%	4,671	8%	5,231	12%	5,859	12%
Fee Income	720	-25%	910	26%	923	2%	1,016	10%	1,117	10%	1,229	10%
Trading Income	485	-6%	443	-9%	536	21%	590	10%	648	10%	713	10%
Total Revenues	4,101	8%	5,363	31%	5,292	-1%	5,731	8%	6,398	12%	7,142	12%
Total Operating Expenses	(1,893)	13%	(2,301)	22%	(2,403)	4%	(2,619)	9%	(2,933)	12%	(3,285)	12%
Operating Profit	2,208	4%	3,062	39%	2,889	-6%	3,113	8%	3,465	11%	3,857	11%
Loan loss provisions (net)	(449)	7%	(593)	32%	(661)	12%	(708)	7%	(793)	12%	(888)	12%
Net Profit	1,166	31%	1,436	23%	1,314	-8%	1,210	-8%	1,350	12%	1,506	12%
Loans and credits	38,831	28%	47,146	21%	46,055	-2%	51,581	12%	57,771	12%	64,704	12%
Deposits	42,468	27%	53,870	27%	52,937	-2%	59,289	12%	66,404	12%	74,372	12%
Corporate Center												
Total Revenues	86	-91%	284	230%	(284)	-200%	(293)	3%	(302)	3%	(311)	3%
Net Profit	(340)	-68%	(40)	-88%	(1,197)	2910%	(1,253)	5%	(1,311)	5%	(1,371)	5%

Source: Company Reports and Citi Research Estimates

Figure 53. 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%	75,900	7%	80,840	7%	88,115	9%	96,505	10%
Fee Income	17,519	-10%	18,133	4%	19,300	6%	20,265	5%	21,279	5%	22,342	5%
Trading Income	5,014	6%	3,692	-26%	3,487	-6%	3,662	5%	3,845	5%	4,037	5%
Total Revenues	91,231	11%	97,304	7%	104,069	7%	110,148	6%	118,620	8%	128,266	8%
Total Operating Expenses	(33,200)	13%	(36,658)	10%	(39,473)	8%	(42,236)	7%	(45,615)	8%	(49,264)	8%
Operating Profit	58,031	10%	60,646	5%	64,596	7%	67,912	5%	73,005	7%	79,002	8%
Loan loss provisions (net)	(20,196)	-2%	(22,305)	10%	(24,370)	9%	(25,492)	5%	(27,395)	7%	(30,004)	10%
Pre-tax Profit	36,829	19%	37,648	2%	39,507	5%	42,420	7%	45,610	8%	48,998	7%
Net Profit	28,016	20%	28,522	2%	29,672	4%	31,815	7%	34,207	8%	36,749	7%
Loans and credits	587,751	3%	642,080	9%	687,170	7%	749,015	9%	816,427	9%	898,069	10%
Deposits	641,247	5%	628,992	-2%	712,093	13%	783,303	10%	861,633	10%	947,796	10%
RWAs	683,377	3%	0	0%	0	0%	0	0%	0	0%	0	0%
Cost/ income ratio (CIR cal.)	36%		38%		38%		38%		38%		38%	
USA (US\$ in Millions)												
Net Interest Income	2,090	-13%	2,012	-4%	1,865	-7%	1,974	6%	2,071	5%	2,133	3%
Fee Income	841	-3%	754	-10%	726	-4%	748	3%	770	3%	793	3%
Trading Income	182	-12%	198	9%	205	3%	184	-10%	190	3%	196	3%
Total Revenues	3,005	-12%	2,911	-3%	2,805	-4%	2,916	4%	3,041	4%	3,133	3%
Total Operating Expenses	(1,953)	-3%	(1,953)	0%	(1,950)	0%	(1,989)	2%	(2,028)	2%	(2,069)	2%
Operating Profit	1,052	-24%	957	-9%	855	-11%	927	8%	1,013	9%	1,064	5%
Loan loss provisions (net)	(442)	-53%	(93)	-79%	(106)	14%	(154)	45%	(211)	37%	(272)	29%
Pre-tax Profit	(1,370)	NM	804	-159%	736	-8%	773	5%	802	4%	792	-1%
Net Profit	(926)	NM	575	-162%	527	-8%	541	3%	561	4%	554	-1%
Loans and credits	50,368	-2%	47,588	-6%	50,480	6%	51,994	3%	53,554	3%	55,161	3%
Deposits	48,879	-14%	51,630	6%	54,869	6%	56,515	3%	58,211	3%	59,957	3%
RWAs	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Cost/ income ratio (CIR cal.)	65%		67%		70%		68%		67%		66%	

Source: Company Reports and Citi Research Estimates

Company Focus

- Estimate Change
- Target Price Change

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Sell/High Risk	3H
Price (03 Sep 13)	€3.76
Target price	€2.80
from €2.20	
Expected share price return	-25.5%
Expected dividend yield	0.3%
Expected total return	-25.2%
Market Cap	€6,436M
	US\$8,490M

Price Performance

(RIC: POP.MC, BB: POP SM)



Banco Popular Espanol (POP.MC)

Reiterating Sell, TP to €2.80

- **New Estimates** — We revise our 2013-16E EPS estimates to €0.10, €0.12, €0.21 and €0.38, now assuming a small profit in 2013. Higher NIM estimates for Spain and lower provisions drive our estimates higher.
- **Reiterating Sell, TP to €2.80** — We assume a higher sustainable ROE of 9% vs 8.5% previously (2016E is 6.6%), as we believe there is upside risk to deposit repricing and asset quality improvement. On the back of our new estimates and sustainable ROE assumptions, our new target price is set at €2.80 (from €2.20). We reiterate our Sell/High Risk rating on the shares.
- **Catalysts** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14); decision on DTA forbearance.

Banco Popular Espanol (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	479.7	-1,150.5	177.1	208.2	375.3
Diluted EPS (€)	0.94	-1.05	0.10	0.12	0.21
Diluted EPS (Old) (€)	0.94	-2.24	-0.02	0.04	0.00
PE (x)	4.0	-3.6	36.5	32.2	18.3
P/BV (x)	0.3	0.7	0.7	0.7	0.7
DPS (€)	0.11	0.00	0.01	0.01	0.00
Net Div Yield (%)	2.9	0.0	0.3	0.3	0.0
ROE (%)	6.8	-12.0	1.9	2.1	3.6

Banco Popular

Figure 54. Popular – Target Price Setting

Mid-point valuation	2.62
Surplus (deficit) capital per share	0.33
Surplus (deficit) to target NPL coverage ratio	-0.11
Surplus (deficit) to target Prob Assets coverage ratio	0.00
Foreclosure haircuts	-0.02
Valuation post capital & provisions surplus (deficit)	2.82
Target Price	2.80
Upside	-25.5%
Dividend yield	0.3%
Expected Total Return	-25.2%
Performance Rating	3
Risk Rating	H

Source: Citi Research

Figure 55. Popular – Valuation

	2014-16E	2013E	2014E	2015E	2016E
DPS	0.09	0.01	0.01	0.00	0.08
PV	0.06	0.01	0.01	0.00	0.05
Terminal Value	Sustainable	2013E	2014E	2015E	2016E
ROE	9.0%	1.9%	2.1%	3.6%	6.6%
COE	13.0%				
Growth	1.0%				
2016E BVPS	5.95				
TV	3.97				
PV of TV	2.56				
Total PV	2.62				

Source: Citi Research

Figure 56. Popular — 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	2,531	2,618	3%	2,543	2,873	13%	2,556	2,931	15%	2,571	2,989	16%
Fee Income	754	782	4%	769	797	4%	784	821	5%	800	846	6%
Trading Income	265	331	25%	270	260	-4%	275	268	-3%	281	276	-2%
Revenues	3,489	3,671	5%	3,521	3,869	10%	3,553	3,957	11%	3,589	4,046	13%
Total Op. Expenses	-1,621	-1,731	7%	-1,572	-1,679	7%	-1,574	-1,681	7%	-1,605	-1,714	7%
Operating Income	1,868	1,940	4%	1,949	2,191	12%	1,980	2,276	15%	1,983	2,332	18%
Prov. Loan Losses (Net)	-2,490	-2,115	-15%	-2,274	-2,229	-2%	-2,096	-1,933	-8%	-1,416	-1,368	-3%
Income Before Tax	-57	251	nm	103	289	181%	12	521	4249%	595	992	67%
Net Income	-40	177	nm	74	208	181%	9	375	4249%	429	715	67%
EPS	-0.02	0.10	nm	0.04	0.12	180%	0.00	0.21	4237%	0.23	0.38	66%

Source: Citi Research

Figure 57. Popular – Citi vs Consensus

	2013E			2014E			2015E			2016E		
Consensus - Reuters	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total income	3,559	3,671	3%	3,711	3,869	4%	3,782	3,957	5%	3,657	4,046	11%
Pre-tax profit	70	251	259%	864	289	-67%	1,186	521	-56%	997	992	0%
Net profit	72	177	146%	597	208	-65%	854	375	-56%	686	715	4%

Source: Citi Research, Reuters

Figure 58. 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%	2,618	-4%	2,873	10%	2,931	2%	2,989	2%
Fee Income	686	-8%	794	16%	782	-2%	797	2%	821	3%	846	3%
Trading Income	129	-35%	360	179%	331	-8%	260	-21%	268	3%	276	3%
Insurance and Other	49	-26%	-118	-341%	-60	-49%	-61	2%	-63	3%	-65	3%
Total Income	2,951	-15%	3,755	27%	3,671	-2%	3,869	5%	3,957	2%	4,046	2%
Total Op. Expenses	-1,369	4%	-1,761	29%	-1,731	-2%	-1,679	-3%	-1,681	0%	-1,714	2%
Operating Income	1,581	-26%	1,993	26%	1,940	-3%	2,191	13%	2,276	4%	2,332	2%
Income from Associates (equity method)	46	NM	23	-50%	26	13%	28	0%	28	0%	28	0%
Prov. Loan Losses (Net)	-1,690	-9%	-4,348	157%	-2,115	-51%	-2,229	5%	-1,933	-13%	-1,368	-29%
Other	507	-7%	150	-70%	400	166%	300		150		0	
Income Before Tax	444	-47%	-2,181	-591%	251	-112%	289	15%	521	80%	992	90%
Taxes	40	-117%	1,031	2488%	-74	-107%	-81	10%	-146	80%	-278	90%
- Implied Tax Rate	-9%		47%		29%		28%		28%		28%	
Net Income	484	-20%	-1,150	-338%	177	-115%	208	17%	375	80%	715	90%
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%	-1,151	-340%	177	-115%	208	18%	375	80%	715	90%
PER SHARE												
EPS	0.94	-21%	-1.05	nm	0.10	-110%	0.12	13%	0.21	76%	0.38	87%
Adj. Cash EPS	0.94	-21%	-1.05	nm	0.10	-110%	0.12	13%	0.21	76%	0.38	87%
Dividend	0.11	-35%	0.00	0%	0.01	0%	0.01	0%	0.00	0%	0.08	0%
Payout ratio	12%		nm		10%		9%		0%		21%	
BVPS	13.76	-1%	5.49	-60%	5.59	2%	5.62	0%	5.71	2%	5.95	4%
Number of shares (year end)	515	0%	1,682	0%	1,757	0%	1,806	0%	1,842	0%	1,880	0%
RATIOS												
Net interest margin (CIR Calculation)	1.60%		1.88%		1.61%		1.86%		1.95%		2.01%	
Cost / income ratio	46%		47%		47%		43%		42%		42%	
Provision charge / customer loans (bps)	171		371		187		206		182		129	
NPL ratio (all risks)	6.0%		9.0%		11.7%		12.9%		13.2%		12.9%	
Coverage	35%		65%		49%		50%		54%		56%	
Return on avg Assets	0.4%		-0.8%		0.1%		0.1%		0.3%		0.5%	
Return on avg RWAs	0.5%		-1.3%		0.2%		0.2%		0.5%		0.9%	
ROE	6.8%		-14.1%		1.9%		2.1%		3.6%		6.6%	
SUMMARY B/S												
Total assets	130,926	1%	157,618	20%	157,918	0%	151,601	-4%	148,569	-2%	148,569	0%
Gross customer loans	98,873	1%	117,299	19%	112,828	-4%	108,315	-4%	106,149	-2%	106,149	0%
Net customer loans	96,771	1%	108,809	12%	104,740	-4%	100,227	-4%	98,061	-2%	98,061	0%
Customer deposits	59,085	-11%	74,893	27%	82,965	11%	85,205	3%	87,761	3%	90,394	3%
Loan to deposit ratio	163.8%		145.3%		126.2%		117.6%		111.7%		108.5%	
Shareholders' equity	7,091	1%	9,231	30%	9,829	6%	10,144	3%	10,519	4%	11,195	6%
Average shareholders' equity	7,059	-4%	9,565	36%	9,530	0%	9,986	5%	10,331	3%	10,857	5%
Capital Ratios												
Core capital (EBA)	8,853	0%	8,934	1%	8,855	-1%	9,130	3%	9,505	4%	10,181	7%
Tier 1 capital (EBA)	8,853	-2%	9,099	3%	9,188	1%	9,425	3%	9,800	4%	10,476	7%
Total capital (EBA)	8,980	-6%	9,788	9%	9,876	1%	10,113	2%	10,488	4%	11,164	6%
Risk-weighted assets	88,181	-6%	88,757	1%	86,855	-2%	81,865	-6%	77,256	-6%	74,284	-4%
Core capital ratio	10.0%		10.1%		10.2%		11.2%		12.3%		13.7%	
Tier 1 ratio	10.0%		10.3%		10.6%		11.5%		12.7%		14.1%	
Total capital ratio	10.2%		11.0%		11.4%		12.4%		13.6%		15.0%	10.2%

Source: Company Reports and Citi Research Estimates

Company Focus

- Estimate Change
- Target Price Change

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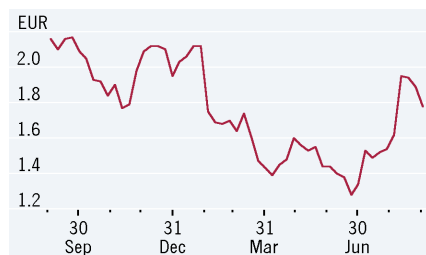
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Sell/High Risk	3H
Price (03 Sep 13)	€1.78
Target price	€1.60
from €1.40	
Expected share price return	-9.9%
Expected dividend yield	0.0%
Expected total return	-9.9%
Market Cap	€5,256M
	US\$6,934M

Price Performance

(RIC: SABE.MC, BB: SAB SM)



Banco de Sabadell SA (SABE.MC)

Reiterating Sell, TP to €1.60

- **New Estimates** — We revise our 2013 EPS estimate to €0.04 from a loss of -€0.02 on higher trading income (mainly due to 2Q13). Our 2014-16E EPS estimates change by -25%, -10% and +3% mainly driven by a lower NIM assumption in 2014-15.
- **Reiterating Sell, TP to €1.60** — We assume a higher sustainable ROE of 10% vs 9.5% (2016E is 9.6%) previously as we believe there is some upside risk to deposit repricing and asset quality improvement. On the back of our new estimates and sustainable ROE assumptions, our new target price is set at €1.60 (from €1.40). We reiterate our Sell/High Risk rating on the shares.
- **Catalysts** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14); decision on DTA forbearance.

Banco de Sabadell SA (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	231.9	81.9	109.4	299.4	575.7
Diluted EPS (€)	0.14	0.03	0.04	0.10	0.19
Diluted EPS (Old) (€)	0.14	0.03	-0.02	0.13	0.21
PE (x)	12.4	51.0	48.9	17.9	9.3
P/BV (x)	0.6	0.7	0.7	0.6	0.6
DPS (€)	0.08	0.03	0.00	0.03	0.05
Net Div Yield (%)	4.6	1.7	0.0	1.4	2.7
ROE (%)	4.7	1.3	1.4	3.6	6.7

Banco de Sabadell

Figure 59. Sabadell – Target Price Setting

Valuation	1.81
Surplus (deficit) capital per share	-0.04
Surplus (deficit) to target NPL coverage ratio	0.00
Surplus (deficit) to target Prob Assets coverage ratio	-0.04
Foreclosure haircuts	-0.16
Valuation post capital needs	1.57
Target Price	1.60
Upside	-9.9%
Dividend yield	0.0%
Expected Total Return	-9.9%
Performance Rating	3
Risk Rating	H

Source: Citi Research

Figure 60. Sabadell – Valuation

	2014E-16E	2013E	2014E	2015E	2016E
DPS	0.15	0.00	0.03	0.05	0.07
PV	0.10	0.00	0.02	0.04	0.05
Terminal Value	Long term	2013E	2014E	2015E	2016E
ROE	10.0%	1.4%	3.6%	6.7%	9.6%
COE	12.0%				
Growth	1.0%				
2016E BVPS	3.14				
TV	2.57				
PV of TV	1.71				
Total PV	1.81				

Source: Citi Research

Figure 61. Sabadell — Changes to Our Financial Forecasts, 2013E-15E (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	1,762	1,748	-1%	2,340	2,160	-8%	2,364	2,203	-7%	2,387	2,247	-6%
Fee Income	673	740	10%	778	822	6%	801	847	6%	825	872	6%
Trading Income	709	1,321	86%	496	605	22%	511	623	22%	527	641	22%
Revenues	3,060	3,690	21%	3,594	3,487	-3%	3,696	3,573	-3%	3,769	3,661	-3%
Total Op. Expenses	-1,720	-1,838	7%	-1,650	-1,789	8%	-1,650	-1,771	7%	-1,666	-1,771	6%
Operating Income	1,340	1,852	38%	1,944	1,698	-13%	2,046	1,802	-12%	2,102	1,890	-10%
Prov. Loan Losses (Net)	-1,570	-1,889	20%	-1,333	-1,263	-5%	-1,069	-982	-8%	-823	-656	-20%
Income Before Tax	-251	-46	-82%	624	445	-29%	991	832	-16%	1,294	1,248	-4%
Net Income	-64	109	-270%	428	299	-30%	690	576	-17%	907	873	-4%
EPS	-0.02	0.04	-277%	0.13	0.10	-25%	0.21	0.19	-10%	0.28	0.29	3%

Source: Citi Research

Figure 62. Sabadell – Citi vs Consensus

Consensus - Reuters	2013E			2014E			2015E			2016E		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total income	3,299	3,690	11.9%	3,142	3,487	11.0%	3,266	3,573	9.4%	na	3,661	nm
Pre-tax profit	45	-46	-203.0%	505	445	-11.9%	801	832	3.8%	na	1,248	nm
Net Profit (IFRS)	37	109	195.7%	364	299	-17.8%	587	576	-1.9%	na	873	nm

Source: Citi Research, Reuters

Figure 63. 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%	1,748	-6%	2,160	24%	2,203	2%	2,247	2%
Fee Income	574	11%	629	10%	740	18%	822	11%	847	3%	872	3%
Trading Income	341	30%	606	78%	1,321	118%	605	-54%	623	3%	641	3%
Insurance and Other	17	-23%	-133	-881%	-120	-10%	-100	-16%	-100	0%	-100	0%
Total Income	2,469	9%	2,970	20%	3,690	24%	3,487	-6%	3,573	2%	3,661	2%
Total Op. Expenses	-1,276	7%	-1,669	31%	-1,838	10%	-1,789	-3%	-1,771	-1%	-1,771	0%
Gross Operating Profit (=PPP)	1,193	12%	1,302	9%	1,852	42%	1,698	-8%	1,802	6%	1,890	5%
Income from Associates (equity method)	38	-47%	-12	0%	1	0%	10	0%	12	0%	14	0%
Prov. Loan Losses (Net)	-615	94%	-1,732	182%	-1,889	9%	-1,263	-33%	-982	-22%	-656	-33%
Other	-429	21%	140	0%	-11	0%	0	0%	0	0%	0	0%
Income Before Tax	187	-60%	-302	-261%	-46	-85%	445	-1060%	832	87%	1,248	50%
Taxes	48	-159%	398	0%	185	0%	-125	0%	-233	0%	-349	0%
- Implied Tax Rate	0	0%	1	0%	4	0%	0	0%	0	0%	0	0%
Net Income	236	-38%	96	-59%	139	45%	320	130%	599	87%	898	50%
Minority Interest	-4	0%	-14	0%	-30	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%	109	34%	299	174%	576	92%	873	52%
PER SHARE												
EPS	0.14	-43%	0.03	-76%	0.04	4%	0.10	173%	0.19	92%	0.29	52%
Adj Cash EPS	0.14	-43%	0.03	-76%	0.04	4%	0.10	173%	0.19	92%	0.29	52%
Dividend	0.08	-33%	0.03	-64%	0.00	0%	0.03	0%	0.05	90%	0.07	53%
Payout ratio	57.2%		84.8%		0.0%		25.2%		24.9%		25.0%	
BVPS	3.00	-5%	2.67	-11%	2.70	1%	2.77	3%	2.92	5%	3.14	7%
Tangible BVPS	2.39	-8%	2.28	-5%	2.28	0%	2.35	3%	2.50	6%	2.72	9%
Number of shares (year end)	1,691		2,998		3,013		3,013		3,013		3,013	
RATIOS												
Net interest margin (CIR Calculation)	1.56%		1.43%		1.05%		1.28%		1.33%		1.37%	
Cost / income ratio	52%		56%		50%		51%		50%		48%	
Provision charge / customer loans (bps)	83		150		156		107		84		55	
NPL ratio (all risks)	5.9%		9.3%		11.2%		12.5%		13.2%		13.2%	
Coverage	48%		68%		75%		71%		70%		70%	
Return on avg Assets	0.23%		0.06%		0.07%		0.18%		0.35%		0.53%	
Return on avg RWAs	0.40%		0.12%		0.14%		0.39%		0.78%		1.20%	
ROE	4.7%		1.3%		1.4%		3.6%		6.7%		9.6%	
SUMMARY B/S												
Total assets	100,437	3%	161,547	61%	171,028	6%	166,890	-2%	164,313	-2%	164,663	0%
Gross customer loans	73,635	1%	115,392	57%	120,805	4%	118,389	-2%	117,205	-2%	118,377	0%
Net customer loans	71,367	1%	103,211	45%	108,137	5%	105,367	-3%	103,944	-1%	104,978	1%
Customer deposits	58,444	6%	82,464	41%	101,174	23%	104,209	3%	107,335	3%	110,555	3%
Loan to deposit ratio	122%		125%		107%		101%		97%		95%	
Shareholders' equity	5,072	5%	8,004	58%	8,136	2%	8,360	3%	8,792	5%	9,447	7%
Average shareholders' equity	4,954	3%	6,538	32%	7,960	22%	8,248	4%	8,576	4%	9,120	6%
CAPITAL												
Core capital	5,061	2%	7,851	55%	7,917	1%	8,141	3%	8,574	5%	9,228	8%
Tier 1 capital	5,582	-1%	7,845	41%	7,913	1%	8,137	3%	8,570	5%	9,225	8%
Total capital	6,149	-8%	8,577	39%	8,492	-1%	8,600	1%	8,940	4%	9,521	6%
Risk-weighted assets	56,167	-7%	75,314	34%	79,975	6%	75,101	-6%	73,120	-3%	72,452	-1%
Core capital ratio	9.0%		10.4%		9.9%		10.8%		11.7%		12.7%	
Tier 1 ratio	9.9%		10.4%		9.9%		10.8%		11.7%		12.7%	
Total capital ratio	10.9%		11.4%		10.6%		11.5%		12.2%		13.1%	

Source: Company Reports and Citi Research Estimates

Company Focus

- Estimate Change
- Target Price Change

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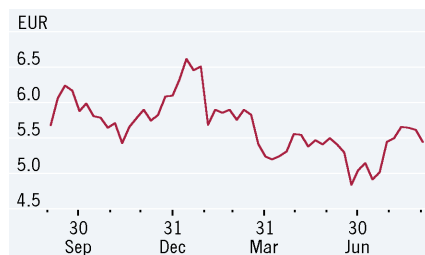
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Neutral/High Risk	2H
Price (03 Sep 13)	€5.45
Target price	€4.90
	from €4.65
Expected share price return	-10.1%
Expected dividend yield	11.0%
Expected total return	0.9%
Market Cap	€60,463M
	US\$79,763M

Price Performance

(RIC: SAN.MC, BB: SAN SM)



Banco Santander (SAN.MC)

Reiterating Neutral, TP to €4.90

- **New Estimates** — We revise our 2013-16E EPS estimates by +35%, +7%, +6% and +9%. Higher NIM estimates for Spain and lower provisions in Spain (mainly) together with Continental Europe and UK estimates, partly offset by lower LatAm earnings, drive our group estimates higher.
- **Reiterating Neutral, TP to €4.90** — We assume a higher sustainable ROE of 10% vs 8.2% previously (2016E: 8.8%) as we believe there is upside to deposit repricing and asset quality improvement which: 1) should materialize beyond 2016; and 2) be perceived by the market closer to 2015. Our cost of equity declines slightly to 12% from 12.3%. On the back of our new estimates, sustainable ROE and CoE assumptions, our new target price is set at €4.90 (from €4.65). We reiterate our Neutral/High Risk rating on the shares.
- **Catalysts** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14); decision on DTA forbearance.

Banco Santander (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	5,335.3	2,294.6	5,279.7	5,758.4	6,287.0
Diluted EPS (€)	0.62	0.25	0.49	0.50	0.51
Diluted EPS (Old) (€)	0.62	0.25	0.36	0.46	0.49
PE (x)	8.8	22.0	11.1	11.0	10.6
P/BV (x)	0.6	0.8	0.8	0.8	0.9
DPS (€)	0.60	0.60	0.60	0.50	0.60
Net Div Yield (%)	11.0	11.0	11.0	9.2	11.0
ROE (%)	7.0	3.1	7.3	7.6	8.0

Banco Santander

Figure 64. SAN– Target Price Setting

Mid-Valuation	4.86
Target Price	4.90
Upside	-10.1%
Dividend yield	11.0%
Expected Total Return	0.9%
Performance Rating	2
Risk Rating	H

Source: Citi Research

Figure 65. SAN – Valuation Method I

	2014E-16E	2013E	2014E	2015E	2016E
DPS	1.70	0.60	0.50	0.60	0.60
PV	1.27	0.56	0.42	0.45	0.40
Terminal Value	Long term	2013E	2014E	2015E	2016E
ROE	10.0%	7.2%	7.6%	8.0%	8.8%
COE	12.0%				
Growth	1.0%				
2016E BVPS	6.29				
TV	5.15				
PV of TV	3.43				
Total PV	4.70				

Source: Citi Research

Figure 66. SAN – Valuation Method II

	Base Case Valuation	Growth Adjusted Valuation	Growth Adjusted Valuation (2)	Sustainable ROE
ROE	10.0%	10.0%	10.0%	10.0%
COE	12.0%	12.0%	12.0%	
Growth	0.0%	1.0%	2.0%	
P/B multiple	0.83	0.82	0.80	
BVPS, 13E	6.57	6.57	6.57	
Fair Value	5.47	5.37	5.25	
PV	5.12	5.03	4.92	
2013E EPS	0.49	0.49	0.49	
2013E P/E	11.2	11.0	10.7	

Source: Citi Research

Figure 67. SAN — 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	26,659	26,519	-1%	27,273	27,759	2%	27,660	28,160	2%	29,375	30,028	2%
Fee Income	9,981	9,985	0%	10,370	10,358	0%	10,689	10,658	0%	11,382	11,329	0%
Trading Income	3,193	3,078	-4%	2,990	2,818	-6%	3,044	2,873	-6%	3,143	2,962	-6%
Revenues	40,254	40,201	0%	41,072	41,576	1%	41,851	42,351	1%	44,377	45,010	1%
Total Op. Expenses	-19,746	-19,637	-1%	-19,892	-19,806	0%	-19,994	-19,934	0%	-20,983	-20,889	0%
Operating Income	20,507	20,564	0%	21,180	21,770	3%	21,858	22,417	3%	23,394	24,120	3%
Prov. Loan Losses (Net)	-12,697	-11,527	-9%	-11,036	-10,984	0%	-10,858	-10,918	1%	-11,472	-11,417	0%
Income Before Tax	6,389	7,440	16%	8,820	9,293	5%	9,730	10,070	3%	10,673	11,301	6%
Net Income	3,917	5,280	35%	5,435	5,758	6%	6,049	6,287	4%	6,662	7,108	7%
EPS	0.36	0.49	35%	0.46	0.50	7%	0.49	0.51	6%	0.51	0.56	9%

Source: Citi Research

Figure 68. SAN – Citi vs Consensus

	2013E			2014E			2015E			2016E		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Revenues	42,252	40,201	-4.9%	43,646	41,576	-4.7%	45,965	42,351	-7.9%	n/a	45,010	n/a
Profit before tax	8,193	7,440	-9.2%	10,263	9,293	-9.4%	12,264	10,070	-17.9%	n/a	11,301	n/a
Net Profit	4,980	5,280	6.0%	6,184	5,758	-6.9%	7,524	6,287	-16.4%	n/a	7,108	n/a

Source: Citi Research, Reuters

Figure 69. 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%	26,519	-11%	27,759	5%	28,160	1%	30,028	7%
Fee Income	10,145	5%	10,259	1%	9,985	-3%	10,358	4%	10,658	3%	11,329	6%
Insurance and Other	940	91%	530	-43%	619	17%	641	4%	661	3%	690	4%
Trading	2,499	-4%	2,698	8%	3,078	14%	2,818	-8%	2,873	2%	2,962	3%
Total income	42,466	2%	43,410	2%	40,201	-7%	41,576	3%	42,351	2%	45,010	6%
Operating expenses	(19,412)	7%	(19,983)	2%	(19,637)	-2%	(19,806)	1%	(19,934)	1%	(20,889)	5%
Gross operating profit	23,055	-3%	23,427	1%	20,564	-12%	21,770	6%	22,417	3%	24,120	8%
Prov. Loan Losses (Net)	(9,826)	-3%	(12,640)	28%	(11,527)	-9%	(10,984)	-5%	(10,918)	-1%	(11,417)	5%
Equity method earnings	5	-424%	(4)	-182%	(3)	0%	(3)	0%	(3)	0%	(3)	0%
Other	(2,999)	93%	(2,301)	-23%	(1,594)	-31%	(1,489)	-7%	(1,426)	-4%	(1,399)	-2%
Pre-tax profit	10,230	-14%	8,481	-18%	7,440	-12%	9,293	25%	10,070	8%	11,301	12%
Tax	(2,479)	-14%	(2,314)	-7%	(1,790)	-23%	(2,359)	32%	(2,547)	8%	(2,843)	12%
Goodwill	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Other extraordinary income	(1,656)		(2,977)		686		0		0		0	
Total Minorities	(766)	-17%	(895)	17%	(1,057)	18%	(1,176)	11%	(1,235)	5%	(1,350)	9%
Net profit	5,330	-35%	2,295	-57%	5,280	130%	5,758	9%	6,287	9%	7,108	13%
Per share data												
EPS	0.62	-37%	0.25	-60%	0.49	98%	0.50	1%	0.51	4%	0.56	8%
Adj. Cash EPS	0.81	-18%	0.57	-30%	0.43	-25%	0.50	17%	0.51	4%	0.56	8%
Dividend	0.60	0%	0.60	0%	0.60	0%	0.50	-17%	0.60	20%	0.60	0%
Payout ratio	97%	60%	242%	150%	122%	-49%	101%	-18%	117%	16%	108%	-8%
BVPS	8.58	-5%	6.96	-19%	6.57	-6%	6.50	-1%	6.37	-2%	6.29	-1%
Tangible BVPS	5.76	-5%	4.58	-21%	4.44	-3%	4.50	1%	4.46	-1%	4.46	0%
Number of shares (year end)	8,909	7%	10,321	16%	11,222	9%	11,956	7%	12,478	4%	13,023	4%
Number of shares (avg)	8,619	4%	9,262	7%	10,772	16%	11,589	8%	12,217	5%	12,750	4%
Operating Ratios												
Net Interest margin (NII/ ATA)	2.34%		2.37%		2.15%		2.30%		2.29%		2.36%	
Cost / income ratio	45.7%		46.0%		48.8%		47.6%		47.1%		46.4%	
Provision charge / gross customer loans	130		167		157		151		147		148	
Non Performing Loan Ratio	4.2%		4.8%		5.9%		5.9%		5.8%		5.6%	
Coverage	61.4%		72.4%		66.2%		71.0%		76.1%		82.6%	
Return on Avg Assets	0.43%		0.18%		0.43%		0.48%		0.51%		0.56%	
Return on Avg RWAs	0.91%		0.41%		0.97%		1.06%		1.12%		1.22%	
ROE	7.0%		3.1%		7.2%		7.6%		8.0%		8.8%	
Balance Sheet Items												
Total assets	1,251,525	3%	1,269,598	1%	1,201,563	-5%	1,214,547	1%	1,245,131	3%	1,300,044	4%
Net Customer Loans	750,100	4%	719,112	-4%	692,476	-4%	703,370	2%	723,195	3%	755,327	4%
Customer deposits	588,977	1%	589,104	0%	606,431	3%	630,365	4%	658,068	4%	693,269	5%
Loan to deposit ratio	127%		122%		114%		112%		110%		109%	
Shareholders Equity	76,414	2%	71,860	-6%	73,687	3%	77,691	5%	79,517	2%	81,970	3%
Average Shareholders' equity	75,716	5%	74,137	-2%	72,895	-2%	75,689	4%	78,604	4%	80,743	3%
Capital Ratios												
Core capital	56,694	7%	57,558	2%	60,545	5%	64,780	7%	66,826	3%	69,486	4%
Tier 1 capital	62,294	3%	62,234	0%	65,164	5%	69,168	6%	70,994	3%	73,447	3%
Risk-weighted assets	565,958	-6%	557,030	-2%	532,736	-4%	554,835	4%	572,085	3%	595,011	4%
Core capital ratio	10.02%		10.33%		11.36%		11.68%		11.68%		11.68%	
Tier 1 ratio	11.01%		11.17%		12.23%		12.47%		12.41%		12.34%	
Total capital ratio	13.56%		13.09%		14.09%		14.25%		14.14%		14.01%	
Tangible Equity/ Assets	4.10%		3.72%		4.15%		4.43%		4.47%		4.47%	

Source: Company Reports and Citi Research Estimates

Figure 70. 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%	8,236	-7%	8,540	4%	8,546	0%	8,678	2%
Operating income	13,278	-10%	12,967	-2%	12,645	-2%	12,936	2%	13,138	2%	13,448	2%
Operating expenses	(6,260)	6%	(6,457)	3%	(6,524)	1%	(6,472)	-1%	(6,454)	0%	(6,516)	1%
Gross operating profit	7,018	-21%	6,510	-7%	6,121	-6%	6,463	6%	6,684	3%	6,932	4%
Provisions	(3,414)	-15%	(4,104)	20%	(3,734)	-9%	(2,866)	-23%	(2,592)	-10%	(2,399)	-7%
Pre-tax profit	3,097	-34%	1,832	-41%	1,760	-4%	3,060	74%	3,589	17%	4,060	13%
Tax	(717)	-41%	(412)	-43%	(374)	-9%	(738)	97%	(871)	18%	(996)	14%
Minorities	(69)	-28%	(48)	-30%	(145)	199%	(156)	8%	(184)	18%	(199)	8%
Net profit	2,287	-32%	(2,745)	-220%	1,241	-145%	2,165	75%	2,534	17%	2,866	13%
Loans and credits	305,391	-6%	283,427	-7%	266,923	-6%	261,540	-2%	261,992	0%	267,168	2%
Deposits	247,582	0%	256,154	3%	268,589	5%	275,968	3%	284,566	3%	293,136	3%
Cost/ income ratio	47%		50%		52%		50%		49%		48%	
NIM (Citi estimate)	1.80%		1.80%		1.70%		1.83%		1.86%		1.88%	
UK												
Net interest income	4,356	-9%	3,336	-23%	3,199	-4%	3,320	4%	3,517	6%	3,698	5%
Operating income	5,866	-7%	4,906	-16%	4,593	-6%	4,735	3%	4,985	5%	5,212	5%
Operating expenses	(2,596)	2%	(2,690)	4%	(2,615)	-3%	(2,603)	0%	(2,675)	3%	(2,730)	2%
Gross operating profit	3,270	-12%	2,217	-32%	1,978	-11%	2,132	8%	2,310	8%	2,482	7%
Provisions	(633)	-32%	(806)	27%	(549)	-32%	(736)	34%	(789)	7%	(813)	3%
Pre-tax profit	1,671	-38%	1,244	-26%	1,218	-2%	1,183	-3%	1,303	10%	1,446	11%
Tax	(448)	-39%	(286)	-36%	(249)	-13%	(260)	4%	(287)	10%	(318)	11%
Net profit	1,223	-38%	1,115	-9%	955	-14%	923	-3%	1,017	10%	1,128	11%
Loans and credits	255,699	9%	249,157	-3%	233,187	-6%	241,810	4%	250,232	3%	257,738	3%
Deposits	194,318	5%	194,452	0%	197,616	2%	206,914	5%	216,198	4%	224,846	4%
Cost/ income ratio	44%		55%		57%		55%		54%		52%	
NIM (Citi estimate)	1.23%		0.93%		0.92%		0.96%		0.98%		1.00%	
USA												
Net interest income	1,702	-2%	1,695	0%	1,455	-14%	1,445	-1%	1,417	-2%	1,462	3%
Operating income	2,737	30%	2,605	-5%	2,323	-11%	2,342	1%	2,318	-1%	2,396	3%
Operating expenses	(997)	6%	(1,183)	19%	(1,207)	2%	(1,223)	1%	(1,217)	0%	(1,250)	3%
Gross operating profit	1,741	49%	1,422	-18%	1,116	-22%	1,118	0%	1,100	-2%	1,146	4%
Provisions	(443)	-13%	(265)	-40%	(82)	-69%	(179)	118%	(198)	11%	(204)	3%
Pre-tax profit	1,237	118%	970	-22%	1,001	3%	906	-9%	871	-4%	910	5%
Tax	(226)	-33%	(165)	-27%	(167)	1%	(163)	-3%	(165)	1%	(182)	10%
Net profit	1,010	138%	805	-20%	833	3%	743	-11%	705	-5%	728	3%
Loans and credits	40,194	9%	41,331	3%	39,511	-4%	39,711	1%	40,004	1%	41,604	4%
Deposits	36,884	15%	38,116	3%	37,274	-2%	37,463	1%	37,740	1%	39,250	4%
Cost/ income ratio	36%		45%		52%		52%		53%		52%	
NIM (Citi estimate)	3.05%		2.76%		2.40%		2.51%		2.48%		2.50%	
Latin America												
Net interest income	16,349	11%	17,881	9%	15,739	-12%	16,564	5%	16,790	1%	18,299	9%
Operating income	22,265	8%	23,934	7%	21,696	-9%	22,769	5%	23,115	2%	25,159	9%
Operating expenses	(8,868)	11%	(9,124)	3%	(8,625)	-5%	(8,842)	3%	(8,922)	1%	(9,728)	9%
Gross operating profit	13,397	5%	14,811	11%	13,071	-12%	13,927	7%	14,193	2%	15,431	9%
Provisions	(5,447)	16%	(7,380)	35%	(6,894)	-7%	(6,935)	1%	(7,072)	2%	(7,733)	9%
Pre-tax profit	6,930	-5%	6,612	-5%	5,760	-13%	6,591	14%	6,753	2%	7,331	9%
Tax	(1,549)	-9%	(1,484)	-4%	(1,227)	-17%	(1,440)	17%	(1,467)	2%	(1,589)	8%
Minorities	(717)	-16%	(866)	21%	(914)	6%	(1,019)	12%	(1,051)	3%	(1,152)	10%
Net profit	4,664	-1%	4,262	-9%	3,619	-15%	4,131	14%	4,235	3%	4,590	8%
Loans and credits	139,867	10%	140,090	0%	149,161	6%	156,614	5%	167,272	7%	185,121	11%
Deposits	135,034	-2%	134,765	0%	146,969	9%	154,039	5%	163,582	6%	180,055	10%
Cost/ income ratio	40%		38%		40%		39%		39%		39%	
NIM (Citi estimate)	6.02%		6.63%		5.63%		5.59%		5.36%		5.37%	
Corporate Centre												
Operating income	(1,398)	-23%	(1,003)	-28%	(1,056)	5%	(1,205)	14%	(1,205)	0%	(1,205)	0%
Operating expenses	(838)	2%	(530)	-37%	(666)	26%	(666)	0%	(666)	0%	(666)	0%
Net profit	(3,833)	67%	(1,142)	-70%	(1,368)	20%	(2,204)	61%	(2,204)	0%	(2,204)	0%

Source: Company Reports and Citi Research Estimates

Company Focus

- Estimate Change
- Target Price Change

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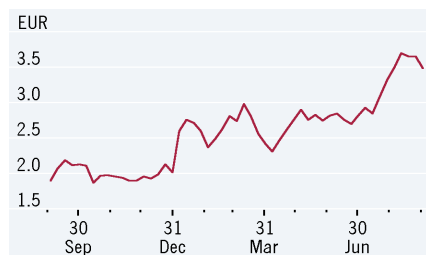
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Buy	1
Price (03 Sep 13)	€3.49
Target price	€4.00
from €3.50	
Expected share price return	14.8%
Expected dividend yield	1.7%
Expected total return	16.5%
Market Cap	€3,057M
	US\$4,033M

Price Performance

(RIC: BKT.MC, BB: BKT SM)



Bankinter SA (BKT.MC)

Reiterating Buy, TP to €4.00

- **New Estimates** — We revise our 2013-16E EPS estimates by +39%, +10%, +9% and +33%, respectively. Higher NIM assumptions (driven by more aggressive than expected deposit repricing) and lower provisions drive our estimates higher. Our new estimates put us only +1% ahead of consensus for 2015.
- **Reiterating Buy, TP €4.00** — We now value BKT on an excess capital basis. We believe this is the only bank within our Spanish coverage for which such an approach is warranted due to limited risks to the bank's excess capital position over the forecasting horizon. We estimate a sustainable 14.5% ROE on the basis of equity at 10% of RWA. The excess capital over 10% of RWA is added back to the valuation at the respective valuation multiple. On the back of our new estimates and sustainable ROE estimate, we set our new target price at €4.00 (from €3.50) and reiterate our Buy rating on the shares.
- **Catalysts** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14).

Bankinter SA (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	181.2	124.6	221.4	188.4	309.5
Diluted EPS (€)	0.24	0.15	0.25	0.21	0.34
Diluted EPS (Old) (€)	0.24	0.15	0.18	0.19	0.32
PE (x)	14.3	22.7	13.8	16.4	10.1
P/BV (x)	1.0	1.0	0.9	0.9	0.9
DPS (€)	0.12	0.05	0.06	0.05	0.17
Net Div Yield (%)	3.5	1.4	1.8	1.4	4.7
ROE (%)	6.9	4.3	6.8	5.4	8.9

Bankinter

Figure 71. Bankinter – Target Price Setting

Valuation @10% RWA	2.41
Surplus (deficit) capital per share	1.82
Surplus (deficit) to target NPL coverage ratio	0.00
Surplus (deficit) to target Prob Assets coverage ratio	-0.14
Foreclosure haircuts	-0.09
Valuation post capital surplus (deficit)	4.00
Target Price	4.00
Share price upside	14.8%
Dividend yield	1.7%
Expected Total Return	16.5%
Performance Rating	1
Risk Rating	nm

Source: Citi Research

Figure 72. Bankinter – Valuation

	2014-16E	2013E	2014E	2015E	2016E
DPS	0.46	0.06	0.05	0.17	0.24
PV of DPS	0.33	0.06	0.04	0.12	0.16
Terminal Value	Sustainable	2013E	2014E	2015E	2016E
ROE at 10% RWA	14.5%	8.9%	8.0%	13.8%	20.3%
>>> memo: Reported ROE	10.5%	6.8%	5.4%	8.4%	11.3%
COE	11.5%				
Growth	1.0%				
2016E BVPS @10% RWA	2.39				
TV	3.08				
PV of TV	2.08				
Total PV	2.41				

Source: Citi Research

Figure 73. Bankinter — 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	568	647	14%	579	628	8%	585	640	9%	591	653	10%
Fee Income	230	233	1%	237	245	3%	244	255	4%	252	263	4%
Trading Income	203	203	0%	135	140	4%	139	146	5%	143	150	5%
Revenues	1,245	1,347	8%	1,207	1,290	7%	1,237	1,332	8%	1,267	1,366	8%
Total Op. Expenses	-631	-653	3%	-620	-659	6%	-620	-666	7%	-626	-673	7%
Operating Income	613	694	13%	587	631	7%	617	666	8%	641	693	8%
Prov. Loan Losses (Net)	-364	-329	-10%	-337	-341	1%	-210	-203	-3%	-172	-50	-71%
Income Before Tax	221	303	38%	237	255	7%	395	430	9%	460	613	33%
Net Income	159	221	39%	171	188	10%	285	309	9%	331	442	33%
EPS	0.18	0.25	39%	0.19	0.21	10%	0.32	0.34	9%	0.37	0.49	33%

Source: Citi Research

Figure 74. Bankinter – Citi vs Consensus

	2013			2014			2015			2016		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total Income	1,263	1,347	7%	1,271	1,290	2%	1,312	1,332	2%	n/a	1,366	n/a
Pre-tax profit	248	303	22%	342	255	-26%	418	430	3%	n/a	613	n/a
Net Profit (IFRS)	183	221	21%	249	188	-24%	307	309	1%	n/a	442	n/a

Source: Citi Research, Reuters

Figure 75. 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%	647	-2%	628	-3%	640	2%	653	2%
Fee Income	199	2%	204	2%	233	15%	245	5%	255	4%	263	3%
Trading Income	98	-19%	145	48%	203	40%	140	-31%	146	4%	150	3%
Insurance and Other	250	11%	227	-9%	245	8%	258	5%	270	5%	279	3%
Total Income	1,104	0%	1,254	14%	1,347	7%	1,290	-4%	1,332	3%	1,366	3%
Total Op. Expenses	-645	-2%	-645	0%	-653	1%	-659	1%	-666	1%	-673	1%
Operating Income	460	3%	609	32%	694	14%	631	-9%	666	6%	693	4%
Income from Associates (equity method)	15	34%	18	20%	18	2%	20	11%	21	5%	22	5%
Prov. Loan Losses (Net)	-158	-27%	-419	165%	-329	-22%	-341	4%	-203	-40%	-50	-75%
Other	-61	NM	-32	-47%	-59	0%	-35	0%	-33	0%	-30	0%
Income Before Tax	240	17%	154	-36%	303	97%	255	-16%	430	69%	613	43%
Taxes	-59	8%	-30	-50%	-82	177%	-66	-19%	-120	82%	-172	43%
- Implied Tax Rate	25%		19%		27%		26%		28%		28%	
Net Income	181	20%	125	-31%	221	78%	188	-15%	309	64%	442	43%
PER SHARE												
EPS	0.24	20%	0.15	-37%	0.25	64%	0.21	-16%	0.34	62%	0.49	43%
Dividend	0.12	22%	0.05	-60%	0.06	24%	0.05	-18%	0.17	227%	0.24	45%
Payout ratio	50%		32%		24%		24%		48%		49%	
BVPS	3.62	4%	3.60	0%	3.85	7%	4.00	4%	4.21	5%	4.48	6%
Number of shares (year end)	742		877		877		899		899		899	
RATIOS												
Net interest margin (CIR Calculation)	0.96%		1.12%		1.12%		1.11%		1.15%		1.20%	
Cost / income ratio	58%		51%		48%		51%		50%		49%	
Provision charge / customer loans (bps)	36		97		79		84		51		13	
NPL ratio (all risks)	3.2%		4.3%		4.9%		5.3%		5.5%		5.4%	
Coverage	52%		48%		47%		50%		51%		51%	
Return on avg RWAs	0.61%		0.46%		0.89%		0.80%		1.38%		2.03%	
ROE	6.9%		4.3%		6.8%		5.4%		8.4%		11.3%	
SUMMARY B/S												
Total assets	59,491	10%	58,166	-2%	57,141	-2%	55,998	-2%	54,878	-2%	53,781	-2%
Gross customer loans	43,575	2%	43,029	-1%	41,661	-3%	40,828	-2%	40,011	-2%	39,211	-2%
Net Customer Loans	42,605	2%	42,060	-1%	40,692	-3%	39,859	-2%	39,042	-2%	38,242	-2%
Customer deposits	24,244	5%	25,503	5%	26,480	4%	28,069	6%	29,753	6%	31,538	6%
Loan to deposit ratio	175.7%		164.9%		153.7%		142.0%		131.2%		121.3%	
Shareholders' equity	2,685	4%	3,158	18%	3,378	7%	3,599	7%	3,786	5%	4,028	6%
Average shareholders' equity	2,632	2%	2,922	11%	3,264	12%	3,488	7%	3,692	6%	3,907	6%
Capital Ratios												
Core Tier 1 capital	2,660	27%	2,607	-2%	2,789	7%	2,937	5%	3,124	6%	3,367	8%
Tier 1 capital	2,668	16%	2,740	3%	2,922	7%	3,070	5%	3,257	6%	3,500	7%
Risk-weighted assets	28,912	-7%	25,509	-12%	23,999	-6%	22,959	-4%	21,951	-4%	21,512	-2%
Core Capital Ratio	9.2%		10.2%		11.6%		12.8%		14.2%		15.7%	
Tier 1 ratio	9.2%		10.7%		12.2%		13.4%		14.8%		16.3%	
Total capital ratio	11.5%		13.0%		13.6%		14.8%		16.2%		17.6%	

Source: Company Reports and Citi Research Estimates

Company Focus

- Estimate Change
- Target Price Change

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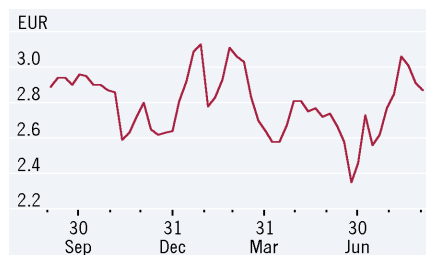
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Neutral/High Risk	2H
Price (03 Sep 13)	€2.86
Target price	€2.90
	from €2.60
Expected share price return	1.6%
Expected dividend yield	7.0%
Expected total return	8.6%
Market Cap	€13,764M
	US\$18,158M

Price Performance

(RIC: CABK.MC, BB: CABK SM)



CaixaBank SA (CABK.MC)

Reiterating Neutral, TP to €2.90

■ **New Estimates** — We revise our 2013 EPS estimate to €0.08 from a loss of -€0.11 on lower provisions for restructured loans. Our 2014-16E EPS estimates change by -7%, +6% and +17% driven, respectively, by a lower NIM, higher income from associates and lower provisions.

■ **Reiterating Neutral, TP to €2.90** — We assume a higher sustainable ROE of 10% vs 8.5% previously (2016E: 8.6%) as we believe there is upside to asset quality improvement and cost containment. On the back of our new estimates and sustainable ROE assumptions, our new target price is set at €2.90 (from €2.60). We reiterate our Neutral/High Risk rating on the shares.

■ **Catalysts** — 3Q13 results (October); Bank of Spain refinanced loans review (by 30 September); ECB asset quality review, potentially (2H13-1H14); disposal of financial and non-financial stakes; decision on DTA forbearance.

CaixaBank SA (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	1,053.0	232.3	370.2	784.0	1,576.3
Diluted EPS (€)	0.28	0.05	0.08	0.16	0.29
Diluted EPS (Old) (€)	0.28	0.05	-0.11	0.17	0.28
PE (x)	10.1	52.4	35.3	18.0	9.8
P/BV (x)	0.6	0.6	0.6	0.6	0.6
DPS (€)	0.23	0.23	0.20	0.08	0.20
Net Div Yield (%)	8.1	8.1	7.0	2.8	7.0
ROE (%)	5.2	1.1	1.6	3.3	6.4

CaixaBank

Figure 76. CaixaBank – Target Price Setting

Valuation	2.89
Surplus (deficit) capital per share	0.25
Surplus (deficit) to target NPL coverage ratio	0.00
Surplus (deficit) to target Prob Assets coverage ratio	0.00
Foreclosure haircuts	-0.24
Valuation post capital surplus (deficit)	2.90
Target Price	2.90
Upside	1.6%
Dividend yield	7.0%
Expected Total Return	8.6%
Performance Rating	2
Risk Rating	H

Source: Citi Research

Figure 77. CaixaBank – Valuation

	2014-16E	2013E	2014E	2015E	2016E
DPS	0.48	0.20	0.08	0.20	0.20
PV	0.35	0.19	0.07	0.15	0.13
Terminal Value	Sustainable	2013E	2014E	2015E	2016E
ROE	10.0%	1.6%	3.3%	6.4%	8.6%
COE	12.0%				
Growth	1.0%				
2016E BVPS	4.67				
TV	3.82				
PV of TV	2.54				
Total PV	2.89				

Source: Citi Research

Figure 78. CaixaBank — 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	4,010	3,895	-3%	4,350	4,180	-4%	4,414	4,337	-2%	4,478	4,486	0%
Fee Income	1,808	1,792	-1%	1,880	1,864	-1%	1,956	1,938	-1%	2,034	2,016	-1%
Trading Income	277	460	66%	288	281	-2%	299	295	-2%	311	310	-1%
Revenues	6,095	6,147	1%	6,518	6,325	-3%	6,669	6,570	-1%	6,823	6,811	0%
Total Op. Expenses	-4,753	-4,710	-1%	-3,375	-3,343	-1%	-3,443	-3,382	-2%	-3,512	-3,416	-3%
Operating Income	1,342	1,437	7%	3,143	2,981	-5%	3,227	3,188	-1%	3,312	3,395	3%
Prov. Loan Losses (Net)	-5,025	-4,378	-13%	-2,664	-2,710	2%	-1,918	-1,910	0%	-1,462	-1,292	-12%
Income Before Tax	-782	-89	-89%	993	869	-13%	1,896	1,968	4%	2,528	2,896	15%
Net Income	-513	370	-172%	843	784	-7%	1,493	1,576	6%	1,958	2,252	15%
EPS	-0.11	0.08	-172%	0.17	0.16	-7%	0.28	0.29	6%	0.34	0.40	17%

Source: Citi Research

Figure 79. CaixaBank – Citi vs Consensus

	2013			2014			2015			2016		
	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons	Cons	Citi	vs cons
Total income	6,786	6,147	-9%	7,100	6,325	-11%	7,434	6,570	-12%	na	6,811	na
Pre-tax profit	89	-89	-200%	1,535	869	-43%	2,245	1,968	-12%	na	2,896	na
Net Income	375	370	-1%	1,334	784	-41%	1,883	1,576	-16%	na	2,252	na

Source: Citi Research, Reuters

Figure 80. 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%	3,895	1%	4,180	7%	4,337	4%	4,486	3%
Fee Income	1,562	11%	1,701	9%	1,792	5%	1,864	4%	1,938	4%	2,016	4%
Trading Income & Other	1,120	36%	355	-68%	460	30%	281	-39%	295	5%	310	5%
Total Income	5,852	4%	5,928	1%	6,147	4%	6,325	3%	6,570	4%	6,811	4%
Total Op. Expenses	-3,342	-1%	-3,564	7%	-4,710	32%	-3,343	-29%	-3,382	1%	-3,416	1%
Operating Income	2,510	10%	2,364	-6%	1,437	-39%	2,981	107%	3,188	7%	3,395	7%
Income from Investments & Dividends	659	-10%	809	23%	731	-10%	678	-7%	759	12%	852	12%
Prov. Loan Losses (Net)	-2,557	76%	-3,942	54%	-4,378	11%	-2,710	-38%	-1,910	-30%	-1,292	-32%
Other	547	NM	709	NM	2,121	0%	-80	0%	-70	0%	-60	0%
Income Before Tax	1,159	-18%	-60	-105%	-89	49%	869	NM	1,968	126%	2,896	47%
Taxes	-106	-47%	291	-375%	459	58%	-85	NM	-391	NM	-643	NM
- Implied Tax Rate	9.1%		487.7%		516.2%		9.8%		19.9%		22.2%	
Net Income	1,053	-13%	231	-78%	370	60%	784	112%	1,576	101%	2,252	43%
PER SHARE												
EPS	0.28	-21%	0.05	-81%	0.08	48%	0.16	96%	0.29	85%	0.40	35%
Dividend	0.23	-26%	0.23	0%	0.20	-13%	0.08	-60%	0.20	150%	0.20	0%
Payout ratio	81.5%		423.3%		247.1%		50.4%		68.3%		50.5%	
BVPS	5.10	-12%	4.82	-5%	5.05	5%	4.68	-7%	4.55	-3%	4.67	3%
Number of shares (year end)	4,064		4,451		4,697		5,187		5,574		5,797	
RATIOS												
Net interest margin (CIR Calculation)	1.17%		1.25%		1.14%		1.27%		1.37%		1.43%	
Cost / income ratio	57.1%		60.1%		76.6%		52.9%		51.5%		50.1%	
Provision charge / customer loans (bps)	137		177		206		134		97		65	
NPL ratio (all risks)	4.90%		8.62%		11.75%		12.97%		13.26%		12.81%	
Coverage	60.1%		59.9%		67.8%		67.7%		67.4%		67.4%	
Return on avg RWAs	0.73%		0.16%		0.24%		0.58%		1.24%		1.79%	
ROE	5.2%		1.1%		1.6%		3.3%		6.4%		8.6%	
SUMMARY B/S												
Total assets	270,425	-1%	348,294	29%	337,090	-3%	320,235	-5%	313,831	-2%	313,831	0%
Gross customer loans	186,049	-2%	223,049	20%	212,217	-5%	201,606	-5%	197,574	-2%	197,574	0%
Net Customer Loans	180,412	-2%	210,487	17%	194,936	-7%	183,448	-6%	179,434	-2%	180,077	0%
Customer deposits	122,776	-5%	148,862	21%	165,041	11%	168,342	2%	171,709	2%	175,143	2%
Loan to deposit ratio	146.9%		141.4%		118.1%		109.0%		104.5%		102.8%	
Shareholders' equity	20,715	6%	21,453	4%	23,695	10%	24,292	3%	25,349	4%	27,044	7%
Average shareholders' equity	20,138	3%	21,084	5%	22,574	7%	23,993	6%	24,820	3%	26,197	6%
Capital Ratios												
Core capital	17,178	0%	17,653	0%	17,470	0%	18,067	3%	19,124	6%	20,819	9%
Tier 1 capital	17,178	0%	17,653	0%	17,470	0%	18,067	3%	19,124	6%	20,819	9%
Risk-weighted assets	137,355	0%	161,200	0%	141,578	0%	128,094	-10%	125,532	-2%	125,532	0%
Core Capital Ratio	12.51%		10.95%		12.34%		14.10%		15.23%		16.58%	
Tier 1 ratio	12.51%		10.95%		12.34%		14.10%		15.23%		16.58%	
Total capital ratio	12.80%		11.56%		13.27%		15.14%		16.29%		17.64%	

Source: Company Reports and Citi Research Estimates

Figure 81. CaixaBank — Divisional Profit and Loss Account, 2010-16E (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%	4,419	5%	4,610	4%	4,702	2%	4,796	2%
Fee Income	1,562	11%	1,701	9%	1,792	5%	1,864	4%	1,938	4%	2,016	4%
Trading Income & Other	1,120	36%	355	-68%	460	30%	281	-39%	295	5%	310	5%
Total Income	6,222	6%	6,284	1%	6,671	6%	6,754	1%	6,935	3%	7,121	3%
Total Op. Expenses	-3,219	-4%	-3,563	11%	-4,709	32%	-3,342	-29%	-3,381	1%	-3,414	1%
Operating Income	3,003	20%	2,721	-9%	1,962	-28%	3,412	74%	3,554	4%	3,707	4%
Income from Investments & Dividends	53	71%	92	74%	87	-5%	91	5%	96	5%	101	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%	-4,378	11%	-2,710	-38%	-1,910	-30%	-1,292	-32%
Income Before Tax	1,305	55%	-420	-132%	-263	-37%	713	-372%	1,671	134%	2,456	47%
Taxes	-212	-18%	189	-189%	289	0%	-214	0%	-501	0%	-737	0%
- Implied Tax Rate	16%		45%		110%		30%		30%		30%	
Net Income	1,093	87%	-231	-121%	26	-111%	499	1820%	1,170	134%	1,719	47%
Minority Interest	0	0%	1	0%	0	0%	0	0%	0	0%	0	0%
Available Income to Shareholders	1,093	87%	-230	-121%	26	-111%	499	1788%	1,170	134%	1,719	47%
Avg equity	14,113	3%	15,459	10%	17,313	12%	17,812	3%	18,982	7%	20,701	9%
ROE	8%		-1%		0%		3%		6%		8%	
Investments												
Net Interest Income	-370	80%	-356	-4%	-524	47%	-430	-18%	-365	-15%	-310	-15%
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%	-524	47%	-430	-18%	-365	-15%	-310	-15%
Total Op. Expenses	-13	-24%	-3	-77%	-1	5%	-1	5%	-1	5%	-1	5%
Operating Income	-383	73%	-359	-6%	-525	46%	-431	-18%	-366	-15%	-312	-15%
Income from Investments & Dividends	606	-13%	717	18%	644	-10%	586	-9%	663	13%	751	13%
Other Operating Items	0	NM	0	0%	0	0%	0	0%	0	0%	0	0%
Other	-259	NM	0	-100%	55	0%	0	0%	0	0%	0	0%
Income Before Tax	-36	-106%	358	-1094%	174	-51%	155	-10%	297	91%	440	48%
Taxes	106	80%	102	-4%	170	67%	129	-24%	110	-15%	93	-15%
- Implied Tax Rate	294%		-28%		-98%		-83%		-37%		-21%	
Net Income	70	-89%	460	557%	344	-25%	285	-17%	407	43%	533	31%
Minority Interest	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Available Income to Shareholders	70	-89%	460	557%	344	-25%	285	-17%	407	43%	533	31%
Avg equity	6,049	9%	6,625	10%	5,409	-18%	5,693	5%	6,100	7%	6,633	9%
ROE	1%		7%		6%		5%		7%		8%	

Source: Company Reports and Citi Research Estimates

Banco Bilbao Vizcaya Argentaria SA

Company description

Banco Bilbao Vizcaya Argentaria S.A. is a leading global retail bank. It offers consumer and mortgage loans, private banking, asset management, insurance, mutual funds and securities brokerage services. It operates in Europe, Latin America and US. BBVA also has a 15% stake in China's CITIC Bank and a 25% stake in Garanti (Turkish bank).

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 12%. We assume a 12% 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 €7.10.

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.

Banco Popular Espanol

Company description

Banco Popular Espanol SA attracts deposits and offers commercial banking services. The bank offers consumer loans, mortgage loans, asset management and factoring services, mutual funds, pension plans, life insurance, venture capital and real estate loans.

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 €2.80 target price adjusts for any capital or provisions surplus (shortfall). The DDM assumes a sustainable ROE of 9% with a cost of equity of 13%.

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

Company description

Banco de Sabadell SA attracts deposits and provides commercial banking services. The bank offers mortgage, consumer, student and building improvement loans,

private banking services and insurance, and sponsors Visa credit cards. The bank operates branches throughout Spain, elsewhere in Europe, the Caribbean, the Americas and Asia.

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 €1.60 target price adjusts for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of 10% with a cost of equity of 12%.

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.

Banco Santander

Company description

Banco Santander Central Hispano SA is one of the best retail banks globally, in our view. The bank offers consumer credit, mortgage loans, lease financing, factoring, mutual funds, pension funds, insurance, commercial credit, investment banking services, structured finance, and advice on mergers and acquisitions. Santander operates in Continental Europe, UK, LatAm and US.

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 10%. We assume a 12% 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 €4.90.

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.

Bankinter SA

Company description

Bankinter S.A. provides retail and corporate banking services and financial services throughout Spain. The Bank offers mortgage loans, pension funds, life insurance, lease financing, credit cards, mutual funds, online stock brokerage, private banking and Internet banking services.

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 €4.00 target price is adjusted for any capital and provisions surplus (shortfall). The DDM

assumes a sustainable ROE of 14.5% (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.

CaixaBank SA

Company description

CaixaBank is the banking operation of "la Caixa", one of the largest financial institutions in Spain. CaixaBank also owns the largest life insurer in Spain, stakes in Repsol, Telefonica, BME and a number of international banks.

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 €2.90 target price is adjusted for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of 10% with a cost of equity of 12%. 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.

Notes

Notes

Notes

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

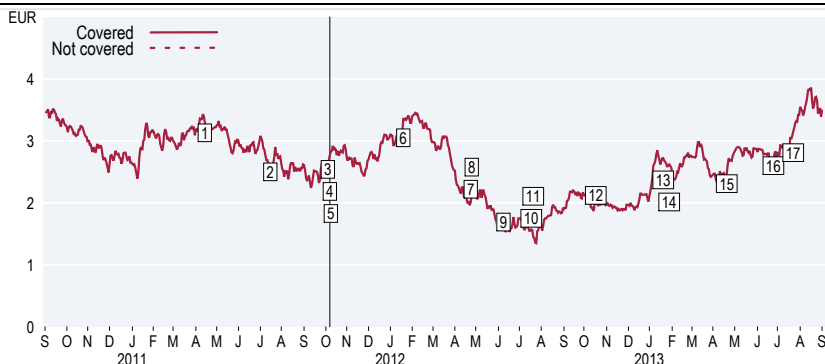
Bankinter SA (BKT.MC)

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
17	23-Jul-13	*1	*3.50	3.15

Rating/target price changes above reflect Eastern Standard Time

Bankinter SA (BKT.MC)

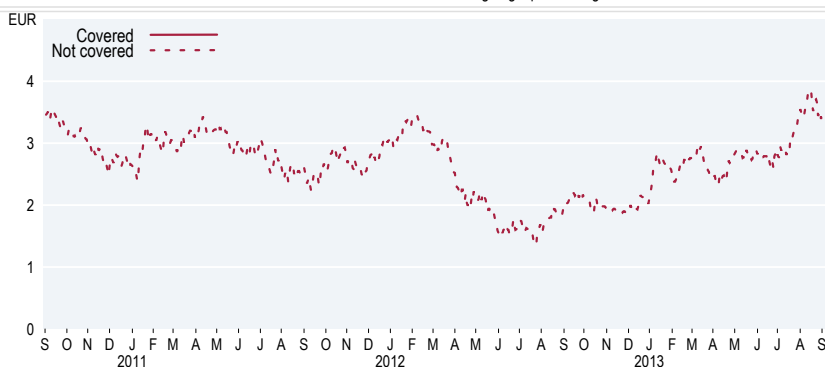
Ratings and Target Price History

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

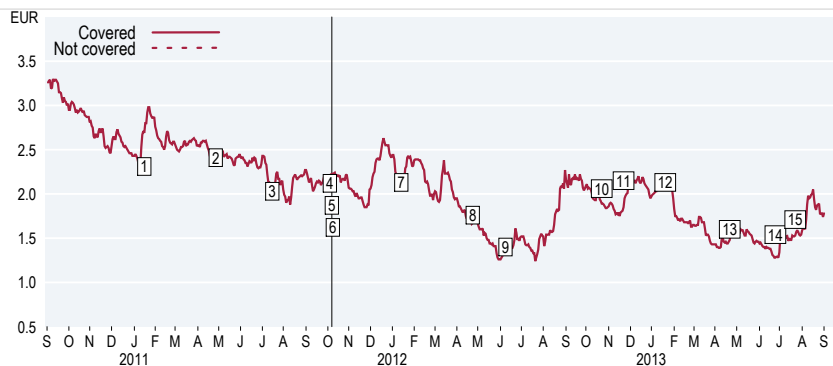
Banco de Sabadell SA (SABE.MC)

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
15	23-Jul-13	3H	*1.40	1.53

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

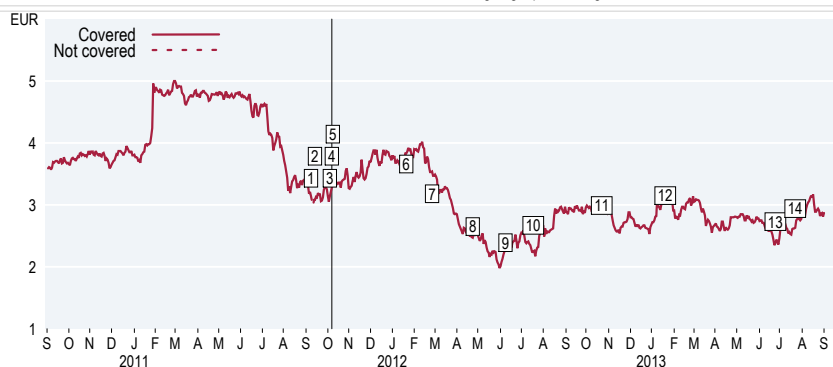
CaixaBank SA (CABK.MC)

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
14	23-Jul-13	2H	*2.60	2.63

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

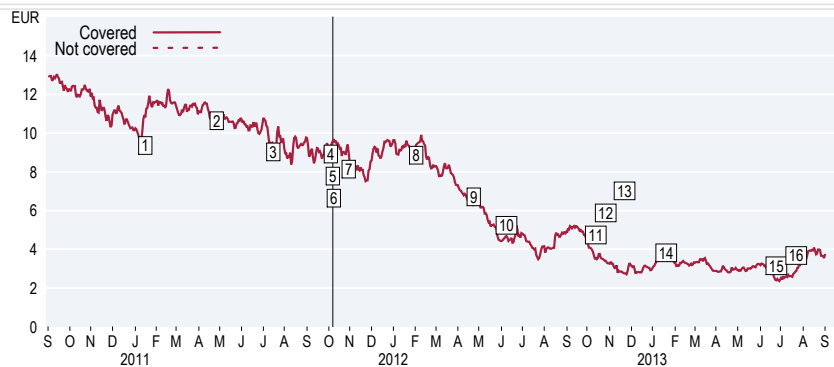
Banco Popular Espanol (POP.MC)

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	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		
6 8-Oct-11	*3H	7.40	9.60

* Indicates change

Date	Rating	Target Price	Closing Price
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
11 12-Oct-12	3H	*3.12	3.55
12 26-Oct-12	3H	*2.17	3.41

Date	Rating	Target Price	Closing Price
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
16 23-Jul-13	3H	*2.20	2.87

Rating/target price changes above reflect Eastern Standard Time

Banco Popular Espanol (POP.MC)

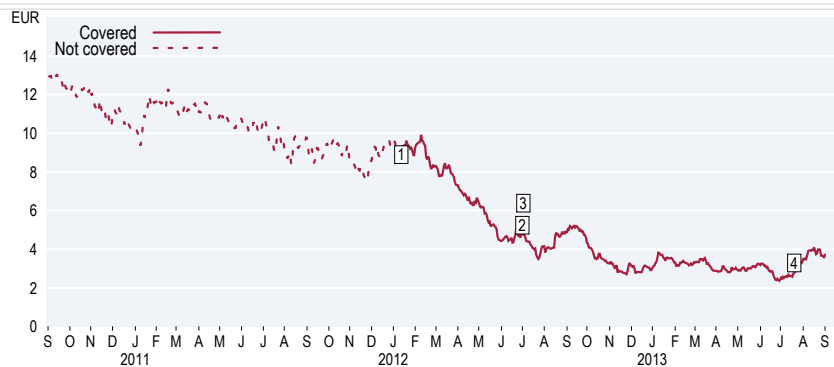
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since March 11 2013



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

* Indicates change

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

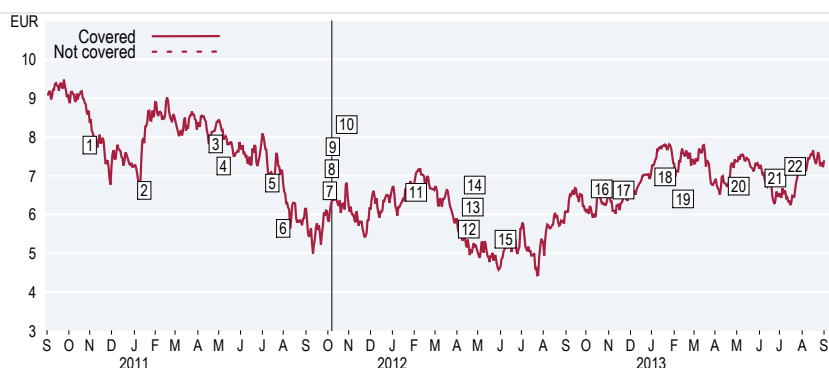
Rating/target price changes above reflect Eastern Standard Time

Banco Bilbao Vizcaya Argentaria SA (BBVA.MC)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since August 13 2013



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

* Indicates change

	Date	Rating	Target Price	Closing Price
9	8-Oct-11	*2H	6.65	6.35
10	28-Oct-11	2H	*6.40	6.82
11	3-Feb-12	2H	*6.70	7.08
12	18-Apr-12	2H	*6.80	5.18
13	24-Apr-12	2H	*5.90	5.15
14	26-Apr-12	2H	*6.00	5.15
15	8-Jun-12	2H	*5.50	5.15
16	23-Oct-12	2H	*6.50	6.29

	Date	Rating	Target Price	Closing Price
17	22-Nov-12	2H	*6.30	6.43
18	21-Jan-13	2H	*7.10	7.82
19	14-Feb-13	2H	*7.20	7.60
20	3-May-13	*3H	*6.75	7.50
21	25-Jun-13	*2H	*6.25	6.36
22	23-Jul-13	2H	*6.35	6.66

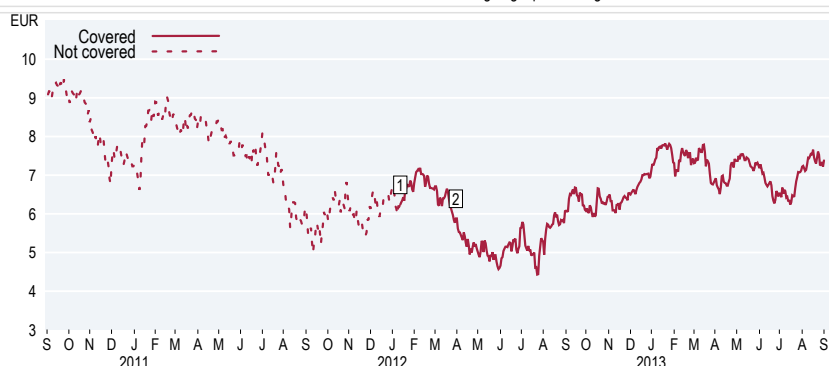
Rating/target price changes above reflect Eastern Standard Time

Banco Bilbao Vizcaya Argentaria SA (BBVA.MC)

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

Analyst: Stefan Nedialkov

Covered since August 13 2013



	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

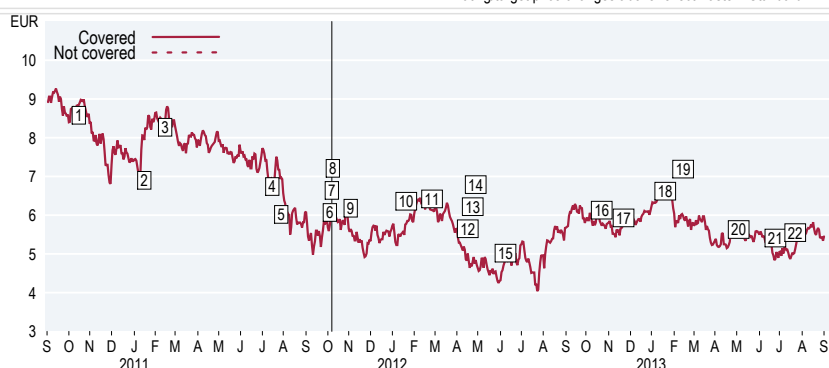
Rating/target price changes above reflect Eastern Standard Time

Banco Santander (SAN.MC)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since August 13 2013



	Date	Rating	Target Price	Closing Price
1	15-Oct-10	2M	*9.57	8.85
2	17-Jan-11	2M	*9.69	7.94
3	15-Feb-11	2M	*8.99	8.41
4	15-Jul-11	*2H	*7.57	6.86
5	28-Jul-11	2H	*7.09	6.97
6	5-Oct-11	*2S	*6.15	5.75
7	7-Oct-11	Stock rating system changed		
8	8-Oct-11	*2H	6.15	5.99

* Indicates change

	Date	Rating	Target Price	Closing Price
9	3-Nov-11	2H	*6.24	5.64
10	20-Jan-12	2H	*6.06	5.78
11	27-Feb-12	2H	*6.26	6.13
12	17-Apr-12	2H	*6.40	5.01
13	24-Apr-12	2H	*5.30	4.81
14	27-Apr-12	2H	*5.25	4.84
15	8-Jun-12	2H	*4.75	4.85
16	23-Oct-12	2H	*6.00	5.73

	Date	Rating	Target Price	Closing Price
17	22-Nov-12	2H	*5.50	5.77
18	21-Jan-13	2H	*5.90	6.46
19	14-Feb-13	2H	*6.10	5.98
20	3-May-13	*3H	*4.75	5.58
21	25-Jun-13	*2H	*4.60	4.87
22	23-Jul-13	2H	*4.65	5.13

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: Stefan Nedialkov

Covered since August 13 2013



	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

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12 Month Rating			Relative Rating		
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53%	50%	45%	58%	51%	49%

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