

Spanish Banks

3Q23 preview: BBVA and SAN what to watch for?

Earnings Preview

More upgrades to NII guidance due

Front-book mortgages are at >3.8% as of August, which is driving back-book levels to a new high. Euribor 12m was up further QoQ and so was the forward curve which means repricing will continue, albeit with a lag. Overall, we expect customer spreads to reach a new 20-year high in 3Q. While deposit outflows have been -1% QoQ, deposit beta on retail clients are at 6%. We expect NII to grow c.3% QoQ, which will drive more upgrades to cons. Focus will be on NII guidance. At Santander, NIM pressure short-term is set to continue in the US, while its Brazilian unit is set to show signs of improvements.

Fees expected to be soft in 3Q on seasonality

AUMs were up +c.1% in September QoQ (Inverco) with resilient NNM in 3Q. However, the product mix remains skewed towards low-margin products (e.g. money market and fixed income funds). Banking fees are also expected to be soft QoQ, in line with the trends in new loan origination. Fees were otherwise supported by solid payments activity. BBVA and SAN's fees seen as most resilient. We model mid-to-high single-digit y/y growth in fees at SAN & BBVA in 2023e, which compares to low-single-digit decline on average at other Spanish banking peers.

Cost of risk still benign

We expect default rate to have remained broadly unchanged QoQ, resulting in a CoR of c.40bps on average for domestic banks. We expect banks to start allocating part of the overlays to specific positions this quarter. Overall, we are below LLP consensus for all Spanish banks, particularly Santander. We factor-in a top up at Santander to reflect model adjustments in the US as well the ruling by the CJEU on Polish CHF mortgages.

Organic generation drives capital build and distributions

We model SAN CET1 up +6bps in 3Q to 12.3% supported by organic generation after including the accrual of a first SBB tranche for 2023 of €1.3bn (c.25% of 1H earnings). At BBVA, execution of the recently announced €1bn SBB has started, with the bank repurchasing >10% of the target amount so far. We see CET1 down -16bps QoQ to 12.83% due to the SBB accrual. We expect a further €600m SBB against 2023 results to be announced at 4Q. We have a Neutral rating on BBVA.

Santander's price action affected by 'higher for longer'

Santander is a 'show-me story' – it trades at the lowest P/POPP multiple in Europe and we believe its Brazilian unit, which accounts for >25% of earnings, is at a key turning point with SELIC cuts running at 50bps per BCB meeting. While the US auto lending market remains challenged, our data suggests loan losses will remain resilient vs. consensus. However, with rates now viewed 'higher for longer' SAN's equity story has been delayed somewhat, but not derailed in our view. Reiterate Buy and top pick.

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Exhibit 1: BofA ratings and POs

SAN & BBVA to report 3Q results on 25th and 31st October respectively

Buy	Neutral	Underperform
Santander	BBVA	

	PO new	PO old
Santander	4.80	4.80
BBVA	8.85	8.50

	3Q23 results details
Santander	25/10 - call @ 9.00am BST
BBVA	31/10 - call @ 8.30am BST

Source: BofA Global Research
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NII = Net Interest Income
AUM = Assets Under Management
CET1 = Common Equity Tier 1
SELIC = Brazilian policy rate
RWA = Risk-Weighted Assets
LLP = Loan Loss Provisions
P/POPP = Price to Pre-Provision Profit
QoQ = Quarter on Quarter
FX = Foreign Exchange
NIM = Net Interest Margin
SBB = Share Buy Back
CABK: CaixaBank
SAN: Santander
BKT: Bankinter

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Refer to important disclosures on page 17 to 21. Analyst Certification on page 15. Price Objective Basis/Risk on page 14.

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Investment recommendations

Exhibit 2: Spanish banks - Investment thesis

Buy SAN; Neutral on BBVA

Bank	Rating	Price Objective	Investment Thesis
Santander	Buy	EUR 4.80	Santander is a 'show-me story' its shares have underperformed the synthetic valuation of its subsidiaries. It trades at the lowest P/PPOP multiple in Europe and we believe its Brazilian unit, which accounts for >25% of earnings, is at a key turning point with SELIC cuts running at 50bps per BCB meeting. While its capital buffers will now be supported by the organic generation and although the US auto lending market remains challenged, our proprietary data suggests loan losses will be more resilient than cons. With SAN trading on 4.5-5x P/E 2023-24e, we have a Buy rating.
BBVA	Neutral	EUR 8.85	Mexico represents a significant c.60% of BBVA's group profits. This has been a key source of growth for BBVA, which is set to normalize as we approach peak with early signs of an economic slowdown around the corner in Mexico and with elections next year. While Türkiye has been performing better than feared, it will continue to affect valuation both positively and negatively being a source of volatility. While inexpensive at c.6x P/E 2024e, we see limited upside near-term – Neutral rating.

Source: BofA Global Research

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Estimates and POs: what's changed?

Santander – Buy, PO €4.80 (unchanged)

At Santander we slightly increase our NII outlook for 2024 on the back of more resilient deposit betas in Europe (Spain/Portugal mainly) as well better trends in Brazil. For this year, we increase the negative charge from hyperinflation in Argentina and top-up loan loss provisions in the US to reflect model adjustments as well as the unfavourable court ruling by the CJEU on Polish CHF mortgages. We also slightly increase costs by 1-2% in 2023-24e. Our estimates overall are broadly unchanged in 2024e. We have a Buy rating on Santander.

BBVA – Neutral, PO €8.85 (up from €8.50)

At BBVA we increase trading income to reflect the less onerous hedging against the Mexican peso (MXN) which has been a headwind recently in the Corporate Center as well as including a higher negative charge in other operating income from hyperinflation in Türkiye and Argentina. We also incorporate an increase in the tax rate from 25% to 30% in Türkiye, with 3Q including a top-up to cover for the retroactive application to 1Q-2Q. At group level this is partly offset by the Corporate Center with the tax rate stable at c.31-32%. Overall, we increase net profit by c.2% which drives our higher PO. We have a Neutral on BBVA.

Exhibit 3: Changes to BofA ratings, POs and EPS estimates, 2023-25e

We raise PO at BBVA on higher EPS estimates

Company	BofA rating		Price Objective		Upside / Downside	Adj. EPS FY23e			Adj. EPS FY24e			Adj. EPS FY25e		
	New	Old	New	Old	%	New	Old	% change	New	Old	% change	New	Old	% change
Santander	Buy	Buy	4.80	4.80	33%	0.63	0.67	-6%	0.76	0.76	0%	0.84	0.84	0%
BBVA	Neutral	Neutral	8.85	8.50	14%	1.26	1.30	-3%	1.37	1.35	2%	1.46	1.39	5%

Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH

Exhibit 4: BofA EPS estimates vs consensus, 2023-25e

We are ahead of consensus in 2024-25e EPS estimates

Company	Adj. EPS FY23e			Adj. EPS FY24e			Adj. EPS FY25e		
	BofA est.	Cons	BofA vs Cons	BofA est.	Cons	BofA vs Cons	BofA est.	Cons	BofA vs Cons
Santander	0.63	0.62	1.9%	0.76	0.67	12.7%	0.84	0.73	15.8%
BBVA	1.26	1.26	-0.1%	1.37	1.24	10.5%	1.46	1.25	16.3%

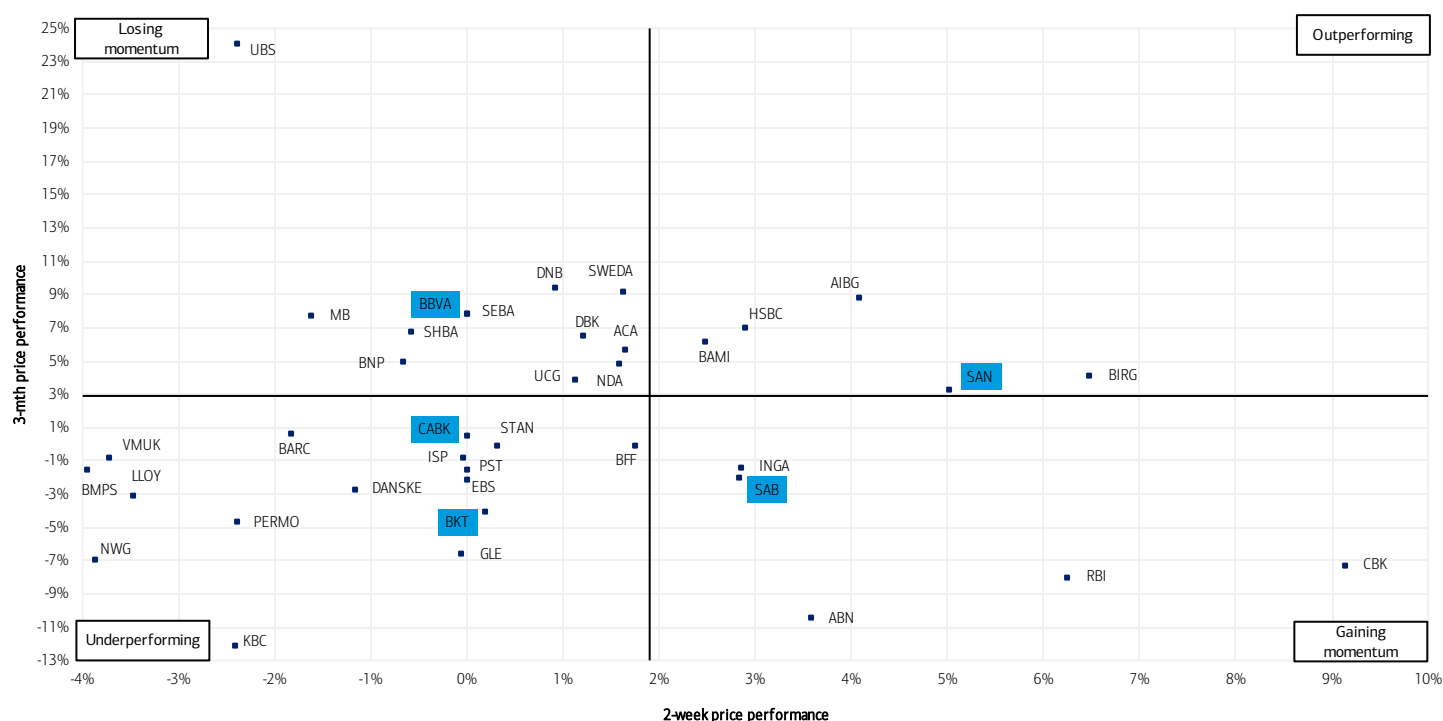
Source: BofA Global Research Estimates, Visible Alpha

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Share price performance

Exhibit 5: 2-week vs 3-month share price performance across EU Banks

Santander outperforming most recently. BBVA best performer in Spain over the summer



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Exhibit 6: 1-month vs 6-month share price performance across EU Banks

Santander lagging peers on a 6-month basis



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Santander – BofA ests. & consensus

Exhibit 7: BofA estimates vs. consensus, 3Q23

We are 3% below consensus net profit mainly on higher provisions

Santander - results P&L €'m	Actuals		BofA est. 3Q23e	Consensus 3Q23 Cons.	BofA estimates		
	3Q22	2Q23			y/y %	q/q %	vs. Cons
Net interest income	10,051	10,735	11,013	10,871	10%	3%	1%
Fees	3,015	3,060	3,098	3,084	3%	1%	0%
Trading	372	587	592	503	59%	1%	18%
Other revenues	36	(83)	(351)	32	n.m.	n.m.	n.m.
Total revenues	13,474	14,299	14,351	14,490	7%	0%	-1%
Personnel expenses	(3,177)	(3,358)	(3,312)	(3,306)	4%	-1%	0%
Admin & D&A expenses	(2,983)	(2,976)	(3,110)	(3,146)	4%	4%	-1%
Total costs	(6,160)	(6,334)	(6,422)	(6,453)	4%	1%	0%
Pre-provision profit	7,314	7,965	7,930	8,037	8%	0%	-1%
Loan loss provisions	(2,721)	(2,898)	(3,126)	(3,070)	15%	8%	2%
Other non-operating income	(747)	(833)	(553)	(530)	-26%	-34%	4%
Pre-tax profit	3,846	4,234	4,251	4,437	11%	0%	-4%
Tax	(1,164)	(1,264)	(1,212)	(1,333)	4%	-4%	-9%
Minority interest and others	(260)	(300)	(293)	(283)	13%	-2%	4%
Net profit (reported)	2,422	2,670	2,746	2,821	13%	3%	-3%
Net profit (adjusted)	2,300	2,547	2,622	2,700	14%	3%	-3%
Key KPIs	3Q22	2Q23	3Q23e	3Q23 Cons.	y/y %	q/q %	vs. Cons
NIM % (avg. loans)	3.79%	4.13%	4.20%	4.12%	+41 bps	+7 bps	+8 bps
Net customer loans	1,067,466	1,045,044	1,036,800	1,049,119	-3%	-1%	-1%
Cost / income %	46%	44%	45%	45%	-1 ppts	+0 ppts	+0 ppts
Tax rate	30%	30%	29%	30%	-2 ppts	-1 ppts	-2 ppts
Cost of risk (bps) - BofA	103	111	119	116	+17 bps	+8 bps	+3 bps
Gross NPLs	35,600	34,949	34,713	35,334	-2%	-1%	-2%
NPLs ratio %	3.1%	3.1%	3.1%	3.1%	-2 bps	+0 bps	-1 bps
Coverage ratio %	69.7%	68.4%	71.9%	67.9%	+2 ppts	+4 ppts	+4 ppts
Tang. Book value	72,235	73,941	74,183	75,241	3%	0%	-1%
ROTE %	13.4%	14.7%	14.7%	15.0%	+1.3 ppts	-0.0 ppts	-0.3 ppts
CET1 % - fully loaded	12.10%	12.24%	12.29%	12.27%	+19 bps	+5 bps	+2 bps
RWAs	617,116	631,021	630,418	631,320	2%	0%	0%
Net attributable profit	3Q22	2Q23	3Q23e	3Q23 Cons.	y/y %	q/q %	vs. Cons
Spain	452	666	826	752	83%	24%	10%
United Kingdom	402	423	389	410	-3%	-8%	-5%
Portugal	135	142	209	195	55%	48%	7%
Poland	22	155	169	160	n.m.	10%	6%
Brazil	662	354	707	520	7%	n.m.	36%
Chile	160	180	127	139	-21%	-30%	-9%
USA	399	367	62	171	-84%	-83%	-63%
Mexico	328	401	393	366	20%	-2%	7%
Digital Consumer Bank	336	277	264	259	-21%	-5%	2%
Corporate centre	(543)	(341)	(275)	(252)	-49%	-19%	9%
Other	69	47	(125)	103	n.m.	n.m.	n.m.
Santander Group	2,422	2,670	2,746	2,821	13%	3%	-3%

Source: BofA Global Research Estimates.

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Exhibit 8: Santander – BofA estimates new vs. old, 2023-25e

We increase costs and provisions for 2023, and earnings fall c.5%. No material change to 2024-25e

BofA estimates - New vs. Old 2023-25e

Santander € in millions	2023e			2024e			2025e		
	New	Old	Change	New	Old	Change	New	Old	Change
Net interest income	42,963	42,572	0%	43,333	42,907	1%	44,487	44,069	1%
Fees & commission	12,332	12,290	0%	12,762	12,706	0%	13,226	13,175	0%
Net financial results	2,458	2,180	13%	2,119	1,933	10%	2,045	1,868	9%
Other revenues	(461)	223	n.m.	867	830	4%	1,040	1,018	2%
Total revenues	57,292	57,265	0%	59,080	58,375	1%	60,799	60,130	1%
Personnel expenses	(13,356)	(13,207)	1%	(13,637)	(13,401)	2%	(13,979)	(13,765)	2%
Admin & D&A expenses	(12,088)	(11,953)	1%	(12,343)	(12,129)	2%	(12,652)	(12,459)	2%
Total costs	(25,443)	(25,160)	1%	(25,980)	(25,531)	2%	(26,632)	(26,224)	2%
Pre-provision profit	31,849	32,105	-1%	33,099	32,844	1%	34,167	33,906	1%
Loan loss provisions	(12,370)	(11,787)	5%	(11,872)	(11,566)	3%	(12,047)	(11,709)	3%
Other non-operating income	(2,763)	(2,670)	3%	(2,191)	(2,194)	0%	(2,108)	(2,106)	0%
Pre-tax profit	16,716	17,649	-5%	19,036	19,085	0%	20,012	20,091	0%
Tax	(4,880)	(5,112)	-5%	(5,634)	(5,639)	0%	(5,920)	(5,922)	0%
Minority interest and others	(1,145)	(1,150)	0%	(1,270)	(1,267)	0%	(1,345)	(1,379)	-2%
Underlying net profit	10,692	11,386	-6%	12,132	12,179	0%	12,748	12,790	0%
Attributable net profit	10,692	11,386	-6%	12,132	12,179	0%	12,748	12,790	0%
Net profit (BofA adjusted)	10,198	10,893	-6%	11,638	11,685	0%	12,254	12,296	0%
EPS adj. diluted	0.63	0.67	-6%	0.76	0.76	0%	0.84	0.84	0%
Avg. shares diluted	16,205	16,246	0%	15,407	16,246	-5%	14,561	16,246	-10%

Source: BofA Global Research Estimates.

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Santander - Summary of financials

Exhibit 9: Santander – Summary of financials

P&L, Balance Sheet, key ratios

Income Statement						Ratio Analysis					
€ in millions, year-end Dec	FY21	FY22	FY23e	FY24e	FY25e		FY21	FY22	FY23e	FY24e	FY25e
Net interest income	33,370	38,619	42,963	43,333	44,487	Per Share Data					
% change	4%	16%	11%	1%	3%	EPS reported	0.50	0.57	0.66	0.79	0.88
Fees & Commissions	10,502	11,790	12,332	12,762	13,226	EPS Adjusted (for valuation)	0.47	0.54	0.63	0.76	0.84
% change	5%	12%	5%	3%	4%	% change	72%	14%	17%	20%	11%
Trading revenues	1,563	1,653	2,458	2,119	2,045	DPS	0.10	0.12	0.17	0.20	0.23
% change	-29%	6%	49%	-14%	-3%	% change	n.m.	18%	43%	20%	12%
Other revenues	969	57	--	--	--	Dividend yield	2.9%	3.3%	4.6%	5.2%	5.5%
% change	140%	-94%	-100%	n.a.	n.a.	Payout ratio %	20%	20%	25%	25%	25%
Total Revenues	46,404	52,119	57,753	58,213	59,758	Buyback per share	0.10	0.12	0.17	0.20	0.23
% change	4%	12%	11%	1%	3%	Buyback yield	1.4%	3.2%	3.8%	4.9%	5.3%
Staff expenses	(11,043)	(12,547)	(13,356)	(13,637)	(13,979)	Buyback as % of earnings	20%	20%	25%	25%	25%
% change	3%	14%	6%	2%	3%	Total yield	4.4%	6.5%	8.4%	10.1%	10.8%
Other expense	(10,372)	(11,356)	(12,088)	(12,343)	(12,652)	BV per share	5.02	5.28	5.83	6.33	7.06
% change	2%	9%	6%	2%	3%	TBV per share	4.06	4.17	4.62	5.06	5.72
Total expenses	(21,415)	(23,903)	(25,443)	(25,980)	(26,632)	Avg shares outstanding	17,308	16,892	16,205	15,407	14,561
% change	2%	12%	6%	2%	3%	Valuation metrics					
Pre-provision profit	24,989	28,216	32,310	32,233	33,127	P/E	7.6x	6.7x	5.7x	4.8x	4.3x
% change	6%	13%	15%	0%	3%	P/BV	0.72x	0.68x	0.62x	0.57x	0.51x
Loan loss provisions	(7,436)	(10,474)	(12,370)	(11,872)	(12,047)	P/TBV	0.89x	0.86x	0.78x	0.71x	0.63x
Other provisions	(2,293)	(2,492)	(2,763)	(2,191)	(2,108)	Profitability					
Other non-recurrent pre-tax	0	--	(461)	867	1,040	ROE	9.7%	10.4%	11.1%	12.1%	12.2%
Profit before taxes	15,250	15,250	16,716	19,036	20,012	ROTE	12.0%	13.0%	14.0%	15.2%	15.2%
% change	58%	0%	10%	14%	5%	ROA	0.5%	0.5%	0.6%	0.7%	0.7%
Taxes	(5,076)	(4,486)	(4,880)	(5,634)	(5,920)	RoRWA	1.4%	1.5%	1.7%	1.8%	1.9%
% Tax rate	33%	29%	29%	30%	30%	NIM (NII / AIEA)	2.44%	2.61%	2.77%	2.79%	2.85%
Minorities, g'will + other	(1,530)	(1,159)	(1,145)	(1,270)	(1,345)	Total revenues / RWAs	8%	9%	9%	9%	9%
Underlying net profit	8,654	9,605	10,692	12,132	12,748	NII / Tot revenues	72%	74%	75%	73%	73%
One-off gains & provisions	(530)	--	--	--	--	Fees / Tot revenues	23%	23%	22%	22%	22%
Reported net profit	8,124	9,605	10,692	12,132	12,748	Efficiency					
BofA adjusted net profit	8,170	9,122	10,198	11,638	12,254	Cost / income	46%	46%	44%	44%	44%
						Cost / assets	1.4%	1.4%	1.5%	1.5%	1.5%
						Cost / RWAs	3.8%	4.0%	4.1%	4.1%	4.1%
						Balance sheet gearing					
						Loan / deposit	106%	101%	103%	105%	107%
						Bond securities / assets	10%	11%	11%	11%	11%
						Customer loans / assets	61%	60%	59%	60%	61%
						Customer deposits / funding	79%	79%	78%	78%	78%
						Bonds issued / funding	21%	21%	22%	22%	22%
						Asset quality					
						Gross NPEs	33,234	34,673	34,673	34,673	34,673
						% change	5%	4%	0%	0%	0%
						Gross NPE ratio	3.2%	3.1%	3.1%	3.1%	3.1%
						Texas ratio %	35%	37%	34%	32%	30%
						Coverage ratio - Stage 3	41%	41%	53%	62%	64%
						Cost of risk (bps)	79	104	120	114	114
						Capital					
						Core Tier 1 Capital (Basel III)	70,208	73,350	78,040	80,767	83,811
						RWAs (Basel III)	579,478	609,404	624,413	634,981	651,045
						% change	3%	5%	2%	2%	3%
						RWAs density	60%	59%	61%	61%	61%
						Leverage ratio %	5%	5%	5%	6%	6%
						Core Tier 1 fully loaded %	12.1%	12.0%	12.5%	12.7%	12.9%
						Buffer over SREP %		3.19%	3.65%	3.87%	4.02%

Source: BofA Global Research Estimates

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Santander – Company profile

Exhibit 10: Santander – Company profile

Buy, PO €4.80

Santander (SAN.SM) | Buy | PO €4.80

INVESTMENT THESIS

Santander is a 'show-me story' its shares have underperformed the synthetic valuation of its subsidiaries. It trades at the lowest P/PPOP multiple in Europe and we believe its Brazilian unit, which accounts for >25% of earnings, is at a key turning point with SELIC cuts running at 50bps per BCB meeting. While its capital buffers will now be supported by the organic generation and although the US auto lending market remains challenged, our proprietary data suggests loan losses will be more resilient than cons. We have a Buy rating.

VALUATION

We derive our PO of €4.80 using a SoTP on 2024e estimates where we value each geography using a Gordon growth-implied P/CET1 multiple assuming 13% CET1 allocation to each region's RWAs. We assume 13% CoE for Spain, 13.5% for the UK and the US, 14% for Mexico and 15% for Brazil. We then add cumulative dividends over 2023-24 and capital excess/deficit to the steady-state CET1, and discount back to 1yr fwd from today.

UPSIDE RISKS

1. Geared to interest rates in Spain
2. Positive earnings revision deriving from NII and cost of risk, from more resilient US and better growth in Brazil
3. Better asset quality than market fears

DOWNSIDE RISKS

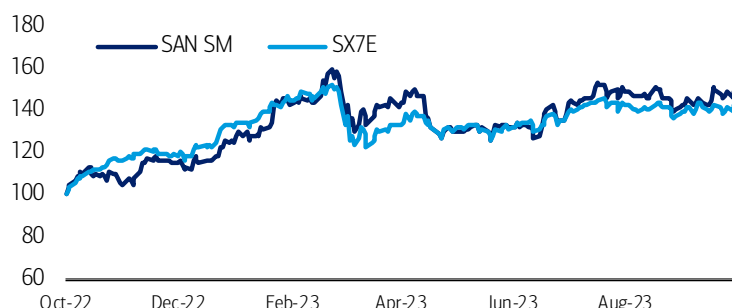
1. Selic rate in Brazil may not drop as fast as we forecast
2. Deposit beta may be higher than expected affecting funding mix
3. Higher default rates may affect cost of risk normalization and capital levels

KEY CATALYSTS

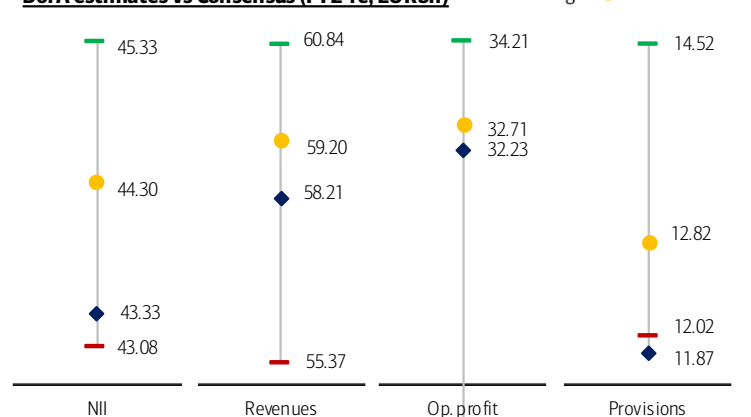
- Oct-23: 3Q23 results
- Late-23/early-24: possible repeat of Spanish election
- Oct-31st 2023: BCB Copom meeting
- Nov-2nd 2023: BoE MPC meeting

KEY CHARTS

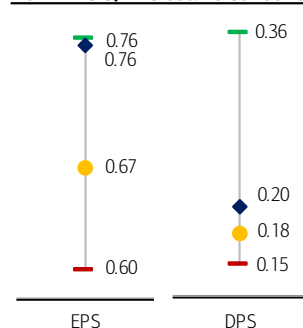
LTM share price performance vs SX7E index



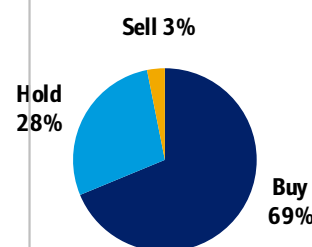
BofA estimates vs Consensus (FY24e, EURbn)



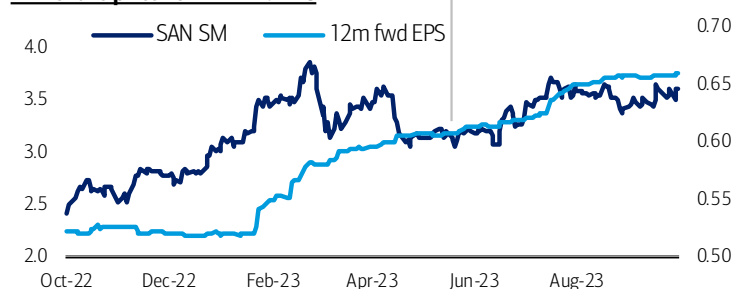
BofA EPS & DPS est. vs Consensus (FY24e)



Consensus rating distribution



LTM share price vs 12m fwd EPS



Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH



BBVA – BofA ests. & consensus

Exhibit 11: BBVA – BofA estimates vs. consensus, 3Q23

We are broadly in line with consensus 3Q earnings. Ahead in Spain and Mexico, below in Turkey and South America

BBVA - results P&L €'m	Actuals		BofA est. 3Q23e	Consensus 3Q23 Cons.	BofA estimates		
	3Q22	2Q23			y/y %	q/q %	vs. Cons
Net interest income	5,261	5,768	6,171	5,966	17%	7%	3%
Fees	1,380	1,470	1,495	1,490	8%	2%	0%
Trading	573	334	456	334	-21%	36%	36%
Other revenues	(358)	(383)	(665)	(315)	86%	74%	n.m.
Total revenues	6,857	7,189	7,457	7,475	9%	4%	0%
Personnel expenses	(1,475)	(1,530)	(1,607)	(1,598)	9%	5%	1%
Admin & D&A expenses	(1,343)	(1,392)	(1,504)	(1,497)	12%	8%	0%
Total costs	(2,818)	(2,922)	(3,112)	(3,094)	10%	6%	1%
Pre-provision profit	4,038	4,267	4,345	4,381	8%	2%	-1%
Loan loss provisions	(940)	(1,025)	(1,094)	(1,144)	16%	7%	-4%
Other non-operating income	(110)	(65)	(99)	(95)	-11%	52%	4%
Pre-tax profit	2,988	3,178	3,153	3,142	5%	-1%	0%
Tax	(1,004)	(1,028)	(1,016)	(975)	1%	-1%	4%
Minority interest and others	(143)	(118)	(47)	(99)	-67%	-60%	-52%
Net profit (reported)	1,841	2,032	2,090	2,068	14%	3%	1%
Net profit (adjusted)	1,763	1,958	2,016	2,001	14%	3%	1%

Key KPIs	3Q22	2Q23	3Q23e	3Q23 Cons.	y/y %	q/q %	vs. Cons
NIM % (avg. loans)	5.86%	6.32%	6.60%	6.37%	+74 bps	+28 bps	+24 bps
Net customer loans	361,730	369,761	371,741	373,619	3%	1%	-1%
Cost / income %	41%	41%	42%	41%	+1 ppts	+1 ppts	+0 ppts
Tax rate	34%	32%	32%	31%	-1 ppts	-0 ppts	+1 ppts
Cost of risk (bps) - BofA	105	112	117	122	+12 bps	+5 bps	-5 bps
Gross NPLs	15,162	14,691	14,570	14,643	-4%	-1%	0%
NPLs ratio %	3.5%	3.4%	3.3%	3.4%	-22 bps	-5 bps	-13 bps
Coverage ratio %	82.9%	79.6%	82.1%	79.2%	-1 ppts	+2 ppts	+3 ppts
Tang. Book value	44,032	46,767	46,449	47,984	5%	-1%	-3%
ROTE %	16.7%	17.6%	17.8%	17.3%	+1.1 ppts	+0.1 ppts	+0.5 ppts
CET1 % - fully loaded	12.45%	12.99%	12.83%	13.09%	+39 bps	-16 bps	-25 bps
RWAs	341,448	347,488	359,320	352,134	5%	3%	2%

Net attributable profit	3Q22	2Q23	3Q23e	3Q23 Cons.	y/y %	q/q %	vs. Cons
Spain	504	690	843	809	67%	22%	4%
Mexico	1,143	1,331	1,408	1,311	23%	6%	7%
Turkey	275	248	(53)	64	n.m.	n.m.	n.m.
South America	200	183	104	184	-48%	-43%	-43%
Rest of business	55	121	105	81	92%	-13%	31%
Corporate centre	(336)	(540)	(317)	(379)	-6%	-41%	-16%
BBVA Group	1,841	2,032	2,090	2,068	14%	3%	1%

Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH

Exhibit 12: BBVA – BofA estimates new vs. old, 2023-25e

We lower operating costs by 1-2% in 2024-25e and increase provisions for this year and 2025

BofA estimates - New vs. Old 2023-25e

BBVA € in millions	2023e			2024e			2025e		
	New	Old	Change	New	Old	Change	New	Old	Change
Net interest income	23,764	23,740	0%	23,446	23,449	0%	23,193	23,517	-1%
Fees & commission	5,911	5,904	0%	6,014	6,029	0%	6,101	6,182	-1%
Net financial results	1,586	1,437	10%	1,326	1,328	0%	1,328	1,375	-3%
Other	(2,402)	(2,364)	2%	(960)	(1,115)	-14%	(480)	(890)	-46%
Total revenues	28,859	28,717	0%	29,826	29,691	0%	30,142	30,184	0%
Personnel expenses	(6,335)	(6,346)	0%	(6,522)	(6,598)	-1%	(6,610)	(6,779)	-2%
Admin & D&A expenses	(5,890)	(5,892)	0%	(6,073)	(6,133)	-1%	(6,268)	(6,400)	-2%
Total costs	(12,226)	(12,237)	0%	(12,595)	(12,731)	-1%	(12,878)	(13,179)	-2%
Pre-provision profit	16,634	16,480	1%	17,232	16,960	2%	17,264	17,005	2%
Loan loss provisions	(4,286)	(4,264)	1%	(4,678)	(4,658)	0%	(4,564)	(4,860)	-6%
Other non-operating income	(339)	(341)	-1%	(325)	(330)	-1%	(183)	(309)	-41%
Pre-tax profit	12,009	11,875	1%	12,228	11,973	2%	12,518	11,835	6%
Tax	(3,768)	(3,281)	15%	(3,584)	(3,513)	2%	(3,647)	(3,478)	5%
Minority interest and others	(446)	(543)	-18%	(500)	(483)	3%	(533)	(472)	13%
Net attributable profit	7,795	8,051	-3%	8,144	7,977	2%	8,338	7,886	6%
Net profit (BofA adjusted)	7,499	7,755	-3%	7,849	7,681	2%	8,043	7,590	6%
EPS adj. diluted	1.26	1.30	-3%	1.37	1.35	2%	1.46	1.39	5%
Avg. shares diluted	5,973	5,971	0%	5,728	5,698	1%	5,515	5,460	1%

Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH

BBVA – Summary of financials

Exhibit 13: BBVA – Summary of financials

P&L, Balance Sheet, key ratios

Income Statement						Ratio Analysis					
€ in millions, year-end Dec	FY21	FY22	FY23e	FY24e	FY25e		FY21	FY22	FY23e	FY24e	FY25e
Net interest income	14,686	19,153	23,764	23,446	23,193	Per Share Data					
% change	-13%	30%	24%	-1%	-1%	EPS reported	0.70	1.03	1.31	1.42	1.51
Fees & Commissions	4,765	5,353	5,911	6,014	6,101	EPS Adjusted (for valuation)	0.71	1.01	1.26	1.37	1.46
% change	3%	12%	10%	2%	1%	% change	74%	43%	24%	9%	6%
Trading revenues	1,910	1,938	1,586	1,326	1,328	DPS	0.31	0.43	0.67	0.72	0.77
% change	13%	1%	-18%	-16%	0%	% change	n.m.	39%	55%	8%	6%
Other revenues	(295)	(1,555)	(2,402)	(960)	(480)	Dividend yield	4.5%	5.7%	8.5%	8.9%	9.1%
% change	118%	n.m.	54%	-60%	-50%	Payout ratio %	44%	40%	50%	50%	50%
Total Revenues	21,066	24,890	28,859	29,826	30,142	Buyback per share	0.52	0.07	0.28	0.29	0.31
% change	-8%	18%	16%	3%	1%	Buyback yield	0.0%	6.9%	3.1%	3.6%	3.6%
Staff expenses	(5,046)	(5,612)	(6,335)	(6,522)	(6,610)	Buyback as % of earnings	75%	7%	21%	20%	20%
% change	-11%	11%	13%	3%	1%	Total yield	4.5%	12.6%	11.7%	12.5%	12.7%
Other expense	(4,483)	(5,149)	(5,890)	(6,073)	(6,268)	BV per share	6.60	7.53	8.14	8.73	9.12
% change	-12%	15%	14%	3%	3%	TBV per share	6.27	7.19	7.76	8.33	8.71
Total expenses	(9,530)	(10,761)	(12,226)	(12,595)	(12,878)	Avg shares outstanding	6,654	6,237	5,973	5,728	5,515
% change	-11%	13%	14%	3%	2%	Valuation metrics					
Pre-provision profit	11,536	14,129	16,634	17,232	17,264	P/E	10.8x	7.6x	6.1x	5.6x	5.2x
% change	-6%	22%	18%	4%	0%	P/BV	1.16x	1.02x	0.94x	0.88x	0.84x
Loan loss provisions	(3,034)	(3,378)	(4,286)	(4,678)	(4,564)	P/TBV	1.22x	1.06x	0.99x	0.92x	0.88x
Other provisions	(264)	(291)	(329)	(315)	(173)	Profitability					
Other non-recurrent	2	31	(10)	(10)	(10)	ROE	10.6%	13.9%	15.7%	15.9%	16.0%
Profit before taxes	8,240	10,490	12,009	12,228	12,518	ROTE	11.5%	14.6%	16.5%	16.7%	16.8%
% change	58%	27%	14%	2%	2%	ROA	0.7%	0.9%	1.0%	1.0%	1.1%
Taxes	(2,207)	(3,461)	(3,768)	(3,584)	(3,647)	RoRWA	1.4%	2.0%	2.1%	2.1%	2.1%
% Tax rate	27%	33%	31%	29%	29%	NIM (NII / AIEA)	2.23%	2.95%	3.43%	3.30%	3.26%
Minorities, g'will + other	(965)	(407)	(446)	(500)	(533)	Total revenues / RWAs	6%	8%	8%	8%	8%
Underlying net profit	5,069	6,622	7,795	8,144	8,338	NII / Tot revenues	70%	77%	82%	79%	77%
Discontinued ops & other	(416)	(201)	--	--	--	Fees / Tot revenues	23%	22%	20%	20%	20%
Reported net profit	4,653	6,420	7,795	8,144	8,338	Efficiency					
BofA adjusted net profit	4,710	6,309	7,499	7,849	8,043	Cost / income	45%	43%	42%	42%	43%
						Cost / assets	1.4%	1.6%	1.7%	1.7%	1.7%
						Cost / RWAs	2.9%	3.3%	3.5%	3.4%	3.3%
Balance Sheet						Balance sheet gearing					
€ in millions, year-end Dec	FY21	FY22	FY23e	FY24e	FY25e						
ASSETS						Loan / deposit	91%	91%	94%	96%	98%
Net customer loans	318,939	358,023	369,495	372,748	375,261	Bond securities / assets	5%	6%	6%	6%	6%
% change	-13%	12%	3%	1%	1%	Customer loans / assets	48%	50%	49%	49%	50%
Loan loss reserves	11,116	11,237	12,198	13,521	14,707	Customer deposits / funding	86%	88%	88%	87%	87%
Bond portfolio	34,781	43,606	44,042	44,482	44,927	Bonds issued / funding	14%	12%	12%	13%	13%
Other earnings assets	271,761	270,751	297,783	292,481	291,143	Asset quality					
Avg. earnings assets	658,828	648,931	691,851	710,517	710,521	Gross NPEs	15,443	14,463	13,984	13,498	13,008
% change	-2%	-2%	7%	3%	0%	% change	0%	-6%	-3%	-3%	-4%
Goodwill & intangibles	2,197	2,156	2,284	2,284	2,284	Gross NPE ratio	4.1%	3.4%	3.2%	3.0%	2.9%
Other assets	35,207	38,604	42,660	42,366	42,225	Texas ratio %	29%	26%	24%	22%	21%
Total assets	662,885	713,140	756,265	754,362	755,839	Coverage ratio - Stage 3	47%	52%	59%	70%	82%
RWA / assets	46%	47%	48%	50%	52%	Cost of risk (bps)	89	100	118	126	122
LIABILITIES						Capital					
Customer funding	405,525	449,285	450,997	444,682	441,360	Core Tier 1 Capital (Basel III)	39,184	42,486	45,380	47,526	49,600
% change	-14%	11%	0%	-1%	-1%	RWAs (Basel III)	307,335	336,920	364,529	380,239	390,333
o/w Customer deposits	349,761	393,856	395,013	388,139	384,251	% change	-13%	10%	8%	4%	3%
o/w Securities issued	55,763	55,429	55,983	56,543	57,109	RWAs density	97%	94%	99%	102%	104%
Shareholders' equity	43,907	46,990	48,619	50,000	50,324	Leverage ratio %	7%	7%	6%	7%	7%
Minorities	4,853	3,624	3,697	4,196	4,729	Core Tier 1 fully loaded %	12.7%	12.6%	12.4%	12.5%	12.7%
Total liabilities & equity	662,885	713,140	756,265	754,362	755,839	Buffer over SREP %		4.01%	3.85%	3.90%	4.11%

Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH

BBVA – Company profile

Exhibit 14: BBVA – Company profile

Neutral, PO €8.85

BBVA (BBVA.SM) | Neutral | PO €8.85

INVESTMENT THESIS

Mexico represents a significant c.60% of BBVA's group profits. This has been a key source of growth for BBVA, which is set to normalize as we approach peak with early signs of an economic slowdown around the corner in Mexico and with elections next year. While Türkiye has been performing better than feared, it will continue to affect valuation both positively and negatively being a source of volatility. While inexpensive, we see limited upside near-term – Neutral rating.

VALUATION

We derive our PO of €8.85 using a SoTP on 2024e estimates where we value each geography using a Gordon growth-implied P/CET1 multiple assuming 13% CET1 allocation to each region's RWAs. We assume 13% CoE for Spain, 14% for Mexico, 30% for Türkiye and a blended 18% for South America. We then add the market value of the stake in Telefonica, the cumulative dividends over 2023-24 and capital excess/deficit to steady-state CET1, and discount back to 1yr fwd from today.

UPSIDE RISKS

1. Positive earnings revision deriving from NII and cost of risk, provide upside to capital distribution
2. More stable markets would favour a recovery in AUMs, driving fee growth
3. Stronger real GDP growth in Spain and Mexico

DOWNSIDE RISKS

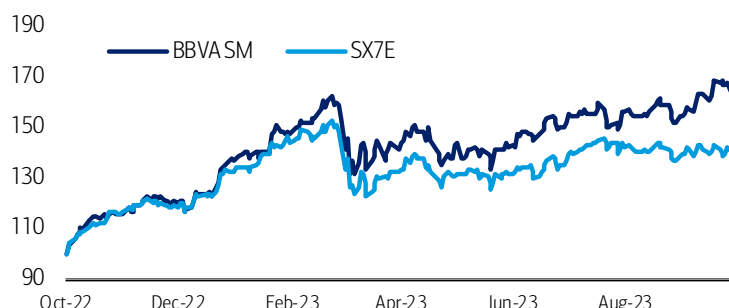
1. Deterioration in sovereign risk in key geographies
2. Türkiye risk could still affect capital and shareholders' returns
3. Asset quality deteriorating more than we forecast

KEY CATALYSTS

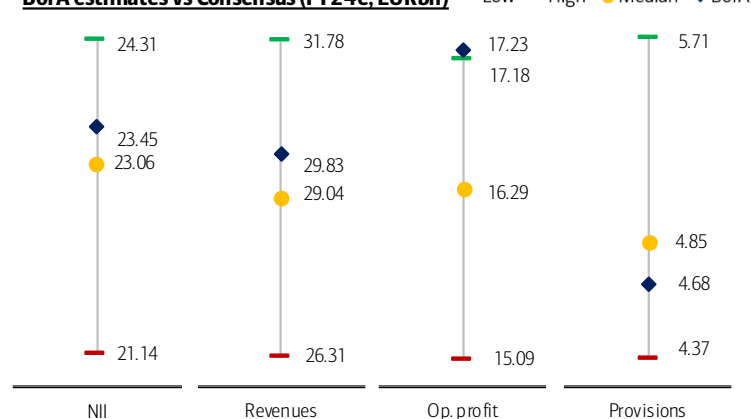
- Oct-23: 3Q23 results
- Late-23/early-24: possible repeat of Spanish election
- Oct-26th 2023: TCMB Monetary Policy meeting
- Nov-9th 2023: Banxico Monetary Policy meeting

KEY CHARTS

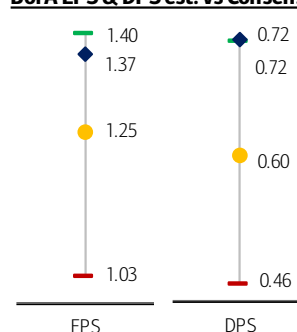
LTM share price performance vs SX7E index



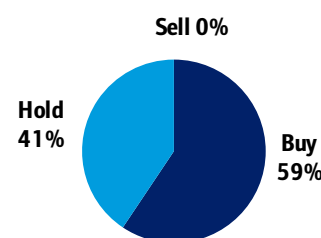
BofA estimates vs Consensus (FY24e, EURbn)



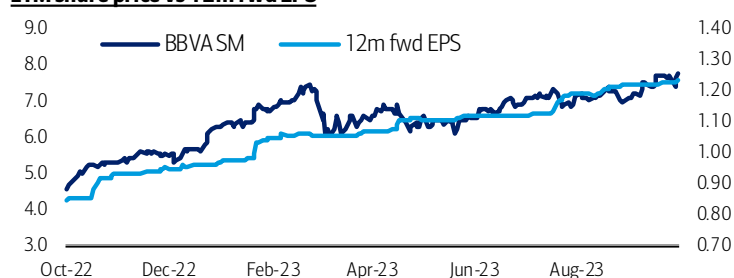
BofA EPS & DPS est. vs Consensus (FY24e)



Consensus rating distribution



LTM share price vs 12m fwd EPS



Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH



Exhibit 15: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BBVA	BBVA US	BBVA	US\$ 8.24	B-2-7
BBVXF	BBVA SQ	BBVA	EUR 7.782	B-2-7
BCDRF	SAN SQ	Santander	EUR 3.6105	B-1-7
SAN	SAN US	Santander	US\$ 3.81	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Investment Rationale**BBVA**

Mexico represents a significant c.60% of BBVA's group profits. This has been a key source of growth for BBVA, which is set to normalize as we approach peak with early signs of an economic slowdown around the corner in Mexico and with elections next year. While Türkiye has been performing better than feared, it will continue to affect valuation both positively and negatively being a source of volatility. While inexpensive, we see limited upside near-term - Neutral rating.

Santander

Santander is a 'show-me story' its shares have underperformed the synthetic valuation of its subsidiaries. It trades at the lowest P/PPOP multiple in Europe and we believe its Brazilian unit (>25% of earnings) is at a key turning point with SELIC cuts running at 50bps per BCB meeting. While its capital buffers will now be supported by the organic generation and although the US auto lending market remains challenged, our proprietary data suggests loan losses will be more resilient than cons. Buy.

Price objective basis & risk**BBVA (BBVXF / BBVA)**

We derive our PO of €8.85 (ADR USD 9.36) using a SoTP on 2024e estimates where we value each geography using a Gordon growth-implied P/CET1 multiple assuming 13% CET1 allocation to each region's RWAs. We assume 13% CoE for Spain, 14% for Mexico, 30% for Türkiye and a blended 18% for South America. We then add the market value of the stake in Telefonica, the cumulative dividends over 2023-24 and capital excess/deficit to steady-state CET1, and discount back to 1yr fwd from today.

Upside risks to our forecasts:

1. Positive earnings revision deriving from NII and cost of risk, provide upside to capital distribution
2. More stable markets would favour a recovery in AUMs, driving fee growth
3. Stronger real GDP growth in Spain and Mexico

Downside risks to our forecasts:

1. Deterioration in sovereign risk in key geographies
2. Türkiye risk could still affect capital and shareholders' returns
3. Asset quality deteriorating more than we forecast

Santander (BCDRF / SAN)

We derive our PO of €4.80 (ADR USD 5.08) using a SoTP on 2024e estimates where we value each geography using a Gordon growth-implied P/CET1 multiple assuming 13% CET1 allocation to each region's RWAs. We assume 13% CoE for Spain, 13.5% for the UK and the US, 14% for Mexico and 15% for Brazil. We then add cumulative dividends over 2023-24 and capital excess/deficit to the steady-state CET1, and discount back to

1yr fwd from today.

Upside risks to our forecasts:

1. Geared to interest rates in Spain
2. Positive earnings revision deriving from NII and cost of risk, from more resilient US and better growth in Brazil
3. Better asset quality than market fears

Downside risks to our forecasts:

1. Selic rate in Brazil may not drop as fast as we forecast
2. Deposit beta may be higher than we forecast affecting funding mix
3. Higher default rates may affect cost of risk normalization and capital levels

Analyst Certification

I, Antonio Reale, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Allied Irish Banks	AIBRF	AIBG ID	Alastair Ryan
	Banco BPM	BNCZF	BAMI IM	Antonio Reale
	Bank of Ireland Group	XBOIF	BIRG ID	Alastair Ryan
	BFF Banking Group	XBBZF	BFF IM	Antonio Reale
	BNP Paribas	BNPQF	BNP FP	Tarik El Mejjad
	BNP Paribas	BNPQY	BNPQY US	Tarik El Mejjad
	CaixaBank	CIXPF	CABK SQ	Antonio Reale
	Credit Agricole	CRARF	ACA FP	Tarik El Mejjad
	Danske Bank	DNSKF	DANSKE DC	David Taranto
	Erste Bank	EBKOF	EBS AV	Alastair Ryan
	Erste Bank	EBKDY	EBKDY US	Alastair Ryan
	HSBC	XHSBF	5 HK	Alastair Ryan
	HSBC	HBCYF	HSBA LN	Alastair Ryan
	HSBC -A	HSBC	HSBC US	Alastair Ryan
	ING Groep NV	ING	ING US	Tarik El Mejjad
	ING Groep NV	INGVF	INGA NA	Tarik El Mejjad
	Intesa Sanpaolo	IITSF	ISP IM	Antonio Reale
	Intesa Sanpaolo	ISNPY	ISNPY US	Antonio Reale
	KBC Group	KBCSF	KBC BB	Tarik El Mejjad
	KBC Group NV	KBCSY	KBCSY US	Tarik El Mejjad
	Lloyds Banking Group	LLDTF	LLOY LN	Rohith Chandra-Rajan
	Lloyds Banking Group	LYG	LYG US	Rohith Chandra-Rajan
	NatWest Group	RBSPF	NWG LN	Rohith Chandra-Rajan
	Natwest Group PLC	NWG	NWG US	Rohith Chandra-Rajan
	Nordea	NBNKF	NDA FH	David Taranto
	Nordea	XSABF	NDA SS	David Taranto
	Nordea Bank Abp	NRDBY	NRDBY US	David Taranto
	Permanent TSB	ILPMF	PTSB ID	Alastair Ryan
	Santander	SAN	SAN US	Antonio Reale
	Santander	BCDRF	SAN SQ	Antonio Reale
	Societe Generale	SCGLF	GLE FP	Tarik El Mejjad
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	StanChart	SCBFF	STAN LN	Alastair Ryan
	StanChart	XCHBF	2888 HK	Alastair Ryan
	UBS	XUJF	UBSG SW	Alastair Ryan
	UBS	UBS	UBS US	Alastair Ryan
	Unicredit	UNCFF	UCG IM	Antonio Reale
	Unicredit	UNCRY	UNCRY US	Antonio Reale
NEUTRAL				
	Banco Bilbao Vizcaya Argentaria	BBVA	BBVA US	Antonio Reale
	Bankinter	BKIMF	BKT SQ	Antonio Reale
	Barclays	BCLYF	BARC LN	Rohith Chandra-Rajan
	Barclays	BCS	BCS US	Rohith Chandra-Rajan
	BBVA	BBVXF	BBVA SQ	Antonio Reale
	Commerzbank	CRZBF	CBK GY	Rohith Chandra-Rajan
	Handelsbanken	SVNLF	SHBA SS	David Taranto
	Monte dei Paschi	BMDPF	BMPS IM	Antonio Reale
	Svenska Handelsbanke	SVNLY	SVNLY US	David Taranto
UNDERPERFORM				
	ABN AMRO	ABMRF	ABN NA	Tarik El Mejjad
	Banco Sabadell	BNSDF	SAB SQ	Antonio Reale
	Deutsche Bank	DB	DB US	Rohith Chandra-Rajan
	Deutsche Bank	XDUSF	DBK GY	Rohith Chandra-Rajan
	DNB	DNBBF	DNB NO	David Taranto
	DNB ASA	DNBBY	DNBBY US	David Taranto
	Mediobanca	MDIBF	MB IM	Antonio Reale
	Poste Italiane	PITAF	PST IM	Antonio Reale
	Raiffeisen Bank International	RAIFF	RBI AV	Alastair Ryan
	SEB	SVKEF	SEBA SS	David Taranto
	Swedbank	SWDBF	SWEDA SS	David Taranto
	Swedbank AB	SWDBY	SWDBY US	David Taranto
	Virgin Money UK PLC	CBBYF	VMUK LN	Rohith Chandra-Rajan
	Virgin Money UK PLC	CYBBF	VUK AU	Rohith Chandra-Rajan

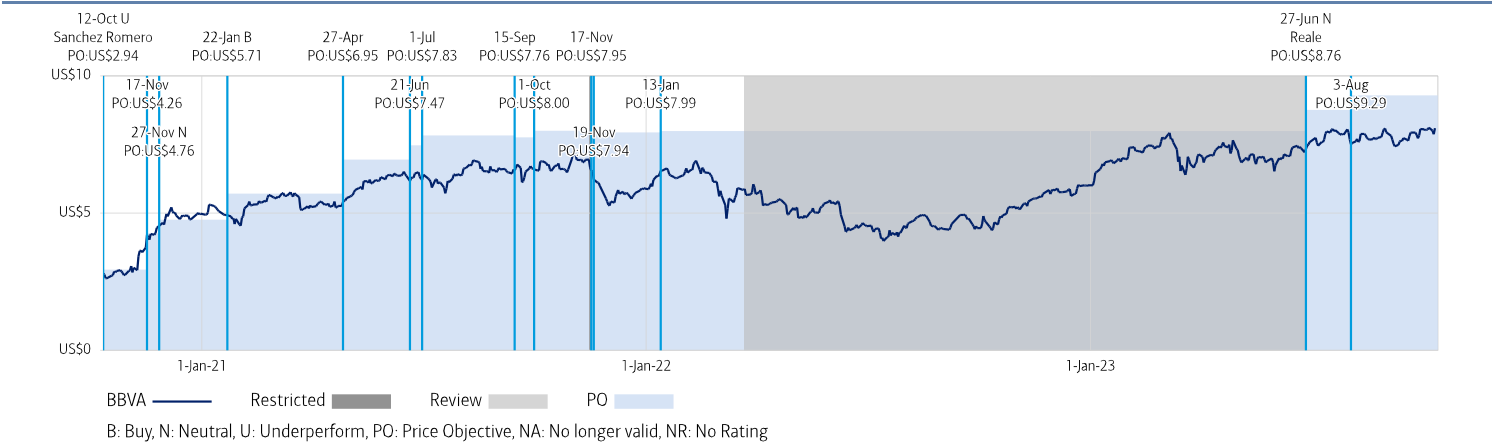
EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

Disclosures

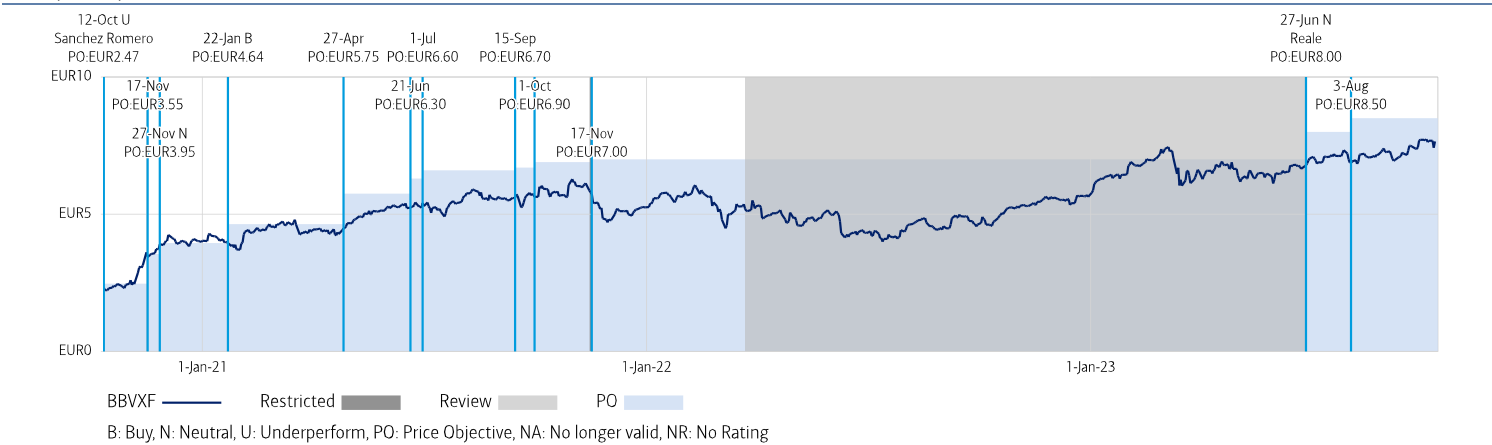
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BBVA (BBVA) Price Chart



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BBVA (BBVXF) Price Chart



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Santander (BCDRF) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Santander (SAN) Price Chart

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Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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