Spanish Banks

Santander and BBVA – reinstating coverage

Reinstatement of Coverage

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Equity
Spain
Banks

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Spanish banks key play on rates

We reinstate coverage on Santander and BBVA (& respective ADRs) in this note. Spain is one of the most rate-sensitive countries globally, due to the large stack of variable loans and the reliance on stable, low-remunerated retail funding. It has maintained one of the lowest deposit betas in Europe, while the pass-through to its mortgages has been mainly mechanical, albeit with a lag. In fact, up to 60-80% of variable mortgages have yet to. While more re-pricing is due, customer spreads have reached a 20-year high and are approaching the peak, expected in 3Q.

Deleveraging continues but beta offers optionality

In Spain, loan books have shrunk virtually every year since 2008. All in, we forecast loan growth to be negative also in 2023e at -0.5-1% and flat in 2024e, resuming growth only in 2025e. With limited new loans, lower rates and deposit beta moving up from 6% ytd to a conservative BofA est. of 20-30% on average for the year, we forecast negative NII growth in 2024e. While we believe deposit beta could be meaningfully lower than we assume, the market is unlikely to reward banks until this is crystallized in 4Q 2023.

Distribution key to investment thesis

Capital build-up remains crucial for Spanish banks as they continue to lag peers; our EU coverage sits on c.480bps of capital buffers over the minimum vs. Spanish banks running at c.410bps on average. We see capital buffers increasing from here, leaving scope for higher distribution or any product factories add-on. We expect SAN's CET1 ratio to reach 12.5% by year-end – the largest capital buffer on record for the bank.

Buy Santander – approaching an inflection point

SAN is a 'show-me story' – its shares have underperformed the synthetic valuation of its subsidiaries and the Spanish peers by c.20% in the last 18 months. It trades at the lowest P/PPOP multiple in Europe and we believe its Brazilian unit, which accounts for >25% of earnings, is close to trough, approaching a key turning point with SELIC cuts likely starting on Aug-2nd. Its tighter capital buffers will be supported by organic generation and while the US auto lending market remains challenged, our proprietary data suggests loan losses will be much better than cons. Our Santander ADR PO is USD 5.10. We reinstate with a Buy.

BBVA's performance tied to Mexico, seen close to peak

Mexico represents a significant c.60% of BBVA's group profits. This has been a key source of growth for BBVA, which is now fading as we approach peak with early signs of an economic slowdown now visible in Mexico and elections next year. We are also more cautious on Türkiye as FX depreciation and hyperinflation do not seem to be priced in yet. While inexpensive at c.6x P/E 2024e, we see limited upside near-term. Our BBVA ADR PO is USD 8.76 – Neutral rating.

Exhibit 1: BofA ratings and POs

We reinstate coverage with Buy on Santander and a Neutral on BBVA

Buy	Neutral	Underperform
Santander	BBVA	

	BofA PO	Upside/ downside potential
Santander	EUR 4.65	51%
SAN ADR	USD 5.10	
BBVA	EUR 8.00	19%
BBVA ADR	USD 8.76	

Source: BofA Global Research

BofA GLOBAL RESEARCH

YTD = Year to date
NII = Net Interest Income
PPOP = Pre-Provision Operating Profit
SELIC = Sistema Especial de Liquidação e Custodia (Brazilian federal funds rate)
ECB = European Central Bank
CET1 = Common Equity Tier 1
FX = Foreign Exchange
BofA est. = BofA Global Research estimates

Contents

Investment thesis

Exhibit 2: Spanish banks investment thesis
Buy on Santander and Neutral on BBVA

Bank	Rating	Price Objective	Investment Thesis
Santander	Buy	EUR 4.65	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 close to trough, approaching a key turning point with SELIC cuts due. While its tighter capital buffers will be supported by the organic generation and although the US auto lending market remains challenged, our proprietary data suggests loan losses will be significantly better than cons. With SAN trading on 4.5-5x P/E 2023-24e, we have a Buy rating.
BBVA	Neutral	EUR 8.00	Mexico represents a significant c.60% of BBVA's group profits. This has been a key source of growth for BBVA, which is now fading as we approach peak with early signs of an economic slowdown now visible in Mexico and elections next year. We also prefer to gain exposure directly via CaixaBank vs. BBVA's Spanish business given the better funding profile, while we are cautious on Türkiye as FX depreciation and hyperinflation do not seem to be priced in yet. While inexpensive at c.6x P/E 2024e, we see limited upside near-term – we have a Neutral rating.

Source: BofA Global Research

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Exhibit 3: Summary ratings, POs, trading multiples and BofA EPS estimates vs. consensus
Our adjusted EPS estimates are c.10-20% ahead on Santander and 4-5% ahead on BBVA

Company	BofA rating	Price Objective	Upside / Downside potential	P/E multiple			Adj. EPS FY23e			Adj. EPS FY24e			Adj. EPS FY25e		
			%	2023e	2024e	2025e	New	Cons	BofA vs Cons	New	Cons	BofA vs Cons	New	Cons	BofA vs Cons
Santander	Buy	4.65	51%	4.9x	4.3x	3.7x	0.64	0.57	11.4%	0.74	0.63	18.1%	0.85	0.70	22.5%
BBVA	Neutral	8.00	19%	5.6x	5.6x	5.6x	1.19	1.14	4.3%	1.17	1.11	5.5%	1.18	1.13	4.3%

Source: BofA Global Research, Visible Alpha. Notes: Adj. EPS incorporates AT1 coupons, non-recurring items and tax treatment on AT1. Share count adjusted for any buyback forecast.

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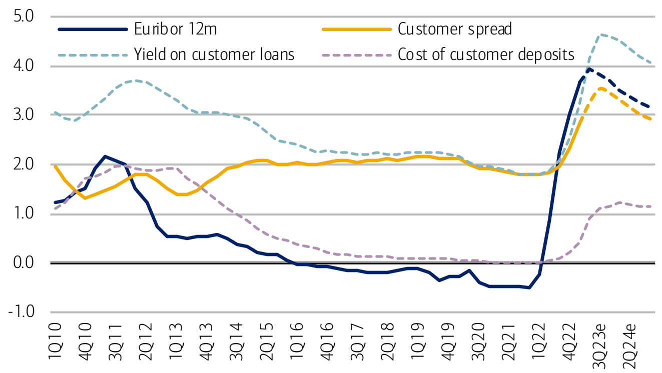
Story in 6 charts

Exhibit 4: Spanish banks geared to higher Euribor, now set to correct

Euribor 12m fwd close to peak, customers spreads to normalize to c.3%



Source: BofA Global Research, Company report, Haver. Notes: Average yield/cost metrics across Spanish banks in the coverage vs Euribor 12m (historical & forward)

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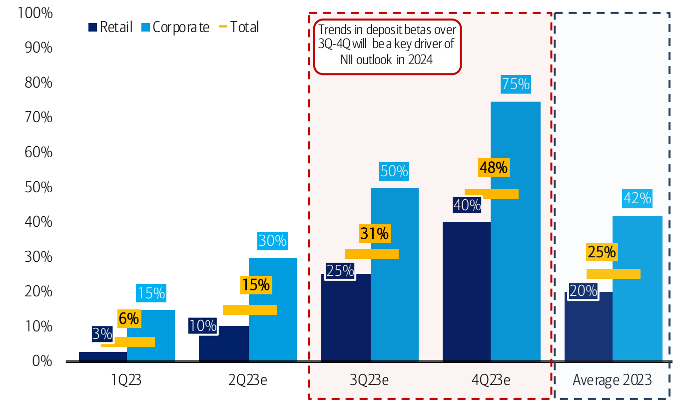
Exhibit 5: Trends in deposit betas in 2H23 key to investment case

We model conservative c20-30% avg. betas in 2023e, surging in 3Q/4Q23e



Source: BofA Global Research estimates

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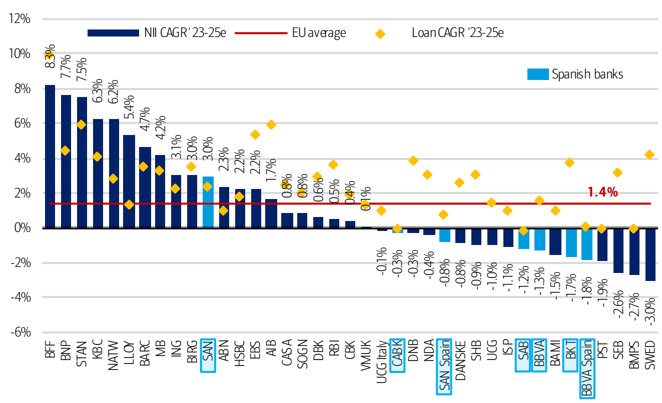
Exhibit 6: We expect NII to be approaching peak levels

We model negative 1-2% NII CAGR '23-25e at Spanish domestic banks on low volumes & normalizing rates; depo beta in 4Q will be key for the outlook



Source: BofA Global Research

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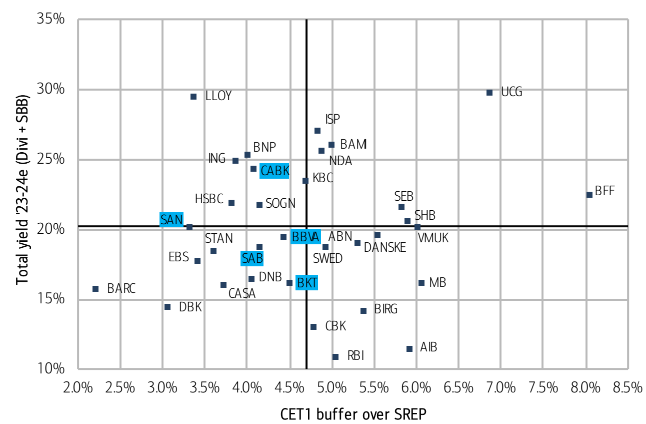
Exhibit 7: Spanish banks don't stand out on excess cap. & distribution

CABK is the only exception: yielding above EU avg. of 20% over 2023-24e



Source: BofA Global Research, Company report. Notes: Axes interception = average EU banks

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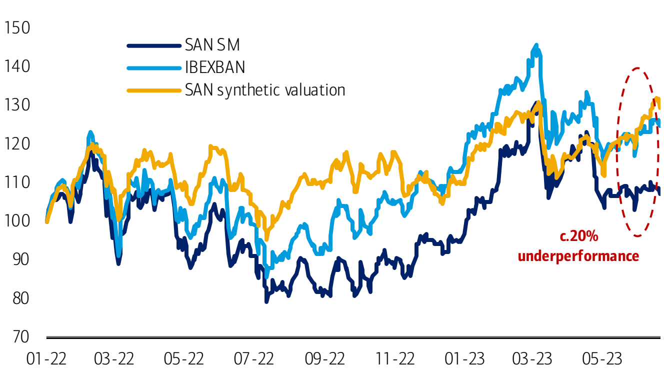
Exhibit 8: SAN shares have underperformed its synthetic valuation and Spanish banks index by c.20% over the last 18 months

c.20% underperformance overdone, approaching key inflection point



Source: BofA Global Research, Bloomberg

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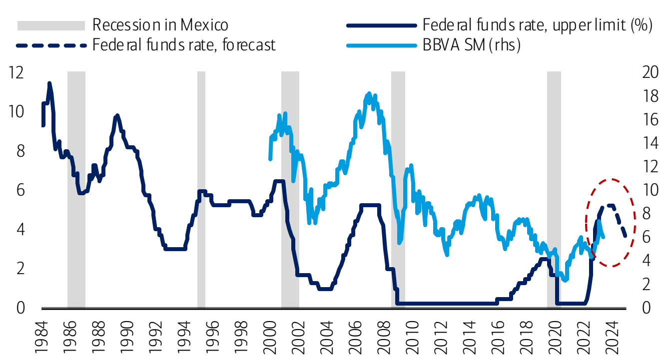
Exhibit 9: BBVA performance tied to Mexico, seen close to peak

Mexico's strong performance so far is due a slowdown. BBVA shares strongly correlated to Mexico and Federal funds rate in the US



Source: BofA Global Research estimates, INEGI

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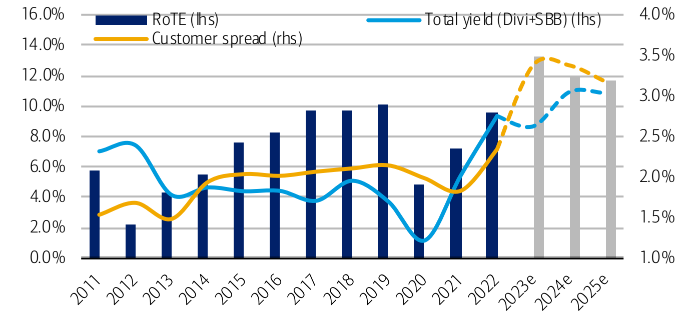
Estimates, valuation and risks

We reinstate coverage on Spanish large caps with a Buy rating on Santander and Neutral rating on BBVA. Santander sits on the lowest P/PPOP in Europe just a its Brazilian unit is approaching a key inflection point with SELIC cuts set to start in August. We also think resilient US loan losses are currently underappreciated by the market. On the other hand, for BBVA we view the Mexican economy as overheated and close to peak, with a slowdown already visible. We are cautious on Türkiye as FX depreciation and hyperinflation are not yet priced in, in our view.

Overall, our price objectives imply 20-50% upside potential to current share prices given broadly undemanding valuations at c.4.5-5.5x P/E 23-24e on average. Our EPS estimates are c.10-20% ahead of consensus on Santander and c.4-5% ahead on BBVA over 2023-25e.

Exhibit 10: Despite peak in customer spreads ROTE remains high

Spanish Banks RoTE to remain around 12% on average in 2025e



Source: BofA Global Research, Company report. Notes: Average metrics refer to Spanish businesses only. Total historical yield computed on year-end market cap.

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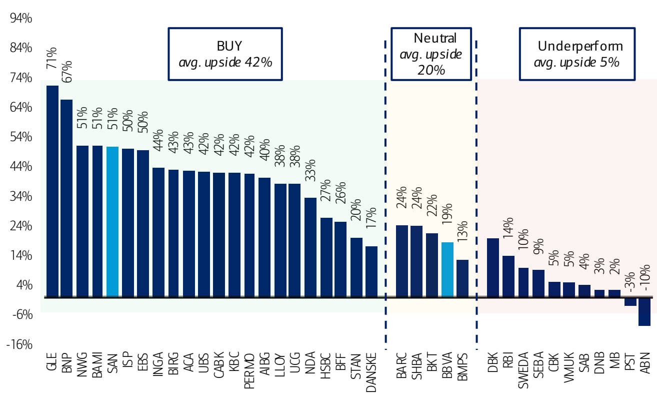
Exhibit 11: Buy SAN; Neutral on BBVA

Our POs c.50% upside on SAN and c.20% upside on BBVA



Source: BofA Global Research

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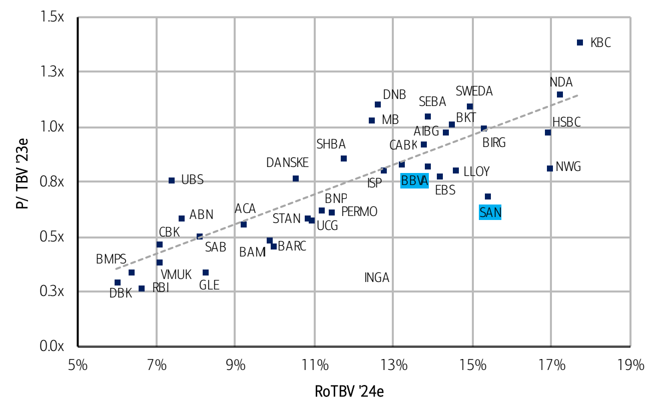
Exhibit 12: Regression analysis – P/TBV '23e vs RoTBV '24e

SAN valuation screens particularly depressed at 0.7x P/TBV for 15.5% RoTE



Source: BofA Global Research, Bloomberg. Notes: Prices as of 22/06/2023

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Exhibit 13: BofA ratings, POs and EPS estimates

Our adjusted EPS estimates are c.10-20% ahead on Santander and c.4-5% ahead on BBVA

Company	BofA rating	Price Objective	Upside / Downside potential	Adj. EPS FY23e			Adj. EPS FY24e			Adj. EPS FY25e		
			%	New	Cons	BofA vs Cons	New	Cons	BofA vs Cons	New	Cons	BofA vs Cons
Santander	Buy	4.65	51%	0.64	0.57	11.4%	0.74	0.63	18.1%	0.85	0.70	22.5%
BBVA	Neutral	8.00	19%	1.19	1.14	4.3%	1.17	1.11	5.5%	1.18	1.13	4.2%

Source: BofA Global Research, Visible Alpha; Note: Adj. EPS incorporates AT1 coupons, non-recurring items and tax treatment on AT1. Share count adjusted for any buyback forecast

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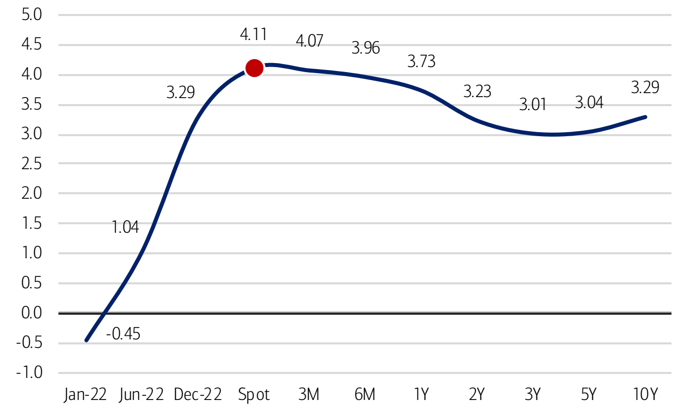
Euribor curve implies peak spreads in 3Q in our view

We have based our rate assumptions on the 12m Euribor curve, which underpins the bulk of Spanish loan books pricing. Overall, we expect a peak in customer spreads in 3Q23, with the 12m Euribor forward curve peaking at the current spot rate of c.4%. However, we flag that up to 60-80% of variable mortgages that are yet to reprice for rates >3%. That said, our NII forecasts currently incorporate a rather conservative assumption on deposit betas, which we assume increase from 6% in 1Q to 30-45% in 3Q/4Q23 – so averaging 20-30% for full-year 2023 for our coverage. While we believe deposit betas could be meaningfully lower than we assume, the market is unlikely to reward banks until this is crystallized in 3Q/4Q.

Exhibit 14: 12m Euribor forward curve

Market pricing peak 12m Euribor at current spot rate of c.4.10%



Source: BofA Global Research, Bloomberg (22/06/2023)

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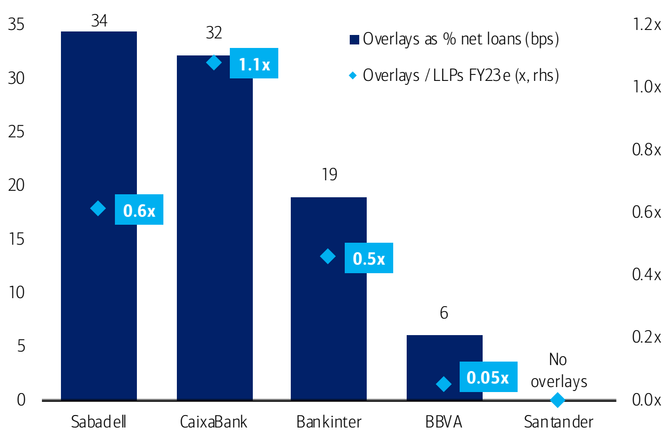
We expect cost of risk to remain low

Spanish books have been de-risked over the last decade. Gross NPE ratios now range from 2-4%. While Spanish large caps have lower provisions overlays in their balance sheet vs. Spanish domestic banks (Exhibit 15), between 10-20% of their corporate loan books in Spain is protected by State guarantees (Exhibit 16) which will likely help them mitigate any significant deterioration in asset quality in the country. In fact, State-guaranteed ICO loans currently account for c.10-20% of corporate loans in Spain, with the State guarantee covering c.70-80% of notional amounts on average. We are c.3-5% below consensus cost of risk at Santander over 2023-24e, mainly driven by Iberia, Brazil and the US, whereas we sit c.3% ahead at BBVA in 2023e (and in line in 2024e), mainly driven by higher provision estimates in Mexico and Türkiye.

Exhibit 15: Overlays as % of net loans and loan loss provisions (LLPs)

SAB & CABK have the largest amount of overlays, worth 30-35bps of CoR



Source: BofA Global Research, Company report. Notes: data as of 1Q23 (4Q22 when not available)

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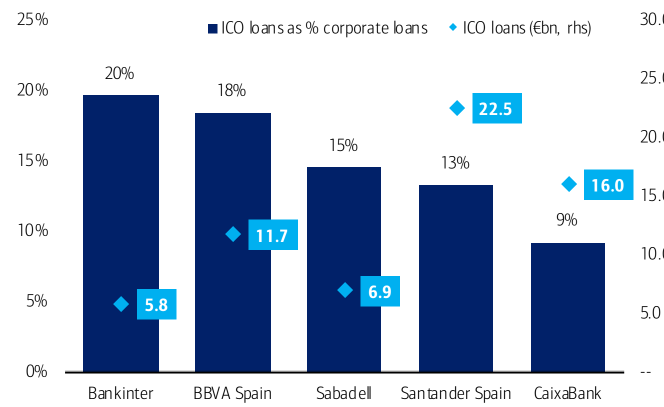
Exhibit 16: ICO loans as % of total corporate loans in Spain

10-20% of corporate loans in Spain are covered by State guarantees



Source: BofA Global Research, Company report. Notes: ICO loans in Spain are guaranteed by the Instituto de Crédito Oficial (Government financing agency) up to a certain percentage (70-80%)

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Rationale behind our ratings and where we sit vs. consensus

Santander – Buy, PO €4.65 / ADR USD 5.10

At Santander we are 10% ahead of consensus on pre-tax profit in 2024e. Overall, we are >10% & c.16% ahead of consensus earnings 2023-24e respectively mainly due to lower LLPs. This is mainly in the US where we expect a more resilient credit cycle than the market and in Brazil where rate cuts will contribute to support household disposable income and lower debt servicing. We're otherwise below consensus on NII in the US, Chile and in Digital Consumer Bank (DCB) for both 2023 and 2024e. Meanwhile we are 5% ahead on NII in Brazil, after factoring in a SELIC cut in August, and forecast rates at 9.5% by the end of 2024e (down from current 13.75%). We also forecast capital buffers to improve supported by organic generation with CET1 fully loaded at 12.5% by year-end. On depressed valuation multiples of c.4.5x P/E 2024e we we have a Buy rating and are projecting a ROTE '24e of c.15%.

BBVA – Neutral, PO €8.00 / ADR USD 8.76

Mexico accounts for >60% of group earnings and is key to BBVA's investment case. While performance so far has been very strong, our economists expect it to be approaching peak levels with trend growth falling sharply. Similarly, we forecast 2023e to be the peak year for divisional earnings. This along with a surge in deposit betas in Spain, means we are broadly in-line with consensus. We still expect lower costs and lower LLPs in 2024e, driving our group earnings 5% ahead of consensus. On c.6x P/E 2024e and ROTE at 14%, we have a Neutral rating.

Valuation overview

We derive our price objectives for Santander and BBVA using a Sum-of-the-Parts approach where we value each geography with Gordon growth-implied P/TBV multiples. In particular, we use c.13% CoE for Spain, 14% for Mexico, 15% for Brazil, 13.5% for the UK and the US and 30% for Türkiye. All in, our assumptions imply c.15.5% blended CoE at both Santander and BBVA. We then assume 0% long-term growth across each geography. For more details around valuation please see the company profile section at the end of the report.

Exhibit 17: Summary valuation – Spanish large caps

Our POs imply c.50% upside potential on Santander and c.20% upside on BBVA to current share prices

Metrics	Santander	BBVA
RoTE FY24e	14.9%	13.7%
Assumed CoE	15.5%	15.5%
Long term growth	0%	0%
Implied P/TBV FY24e	0.92x	0.85x
Implied P/E FY24e	6.4x	6.4x
Implied market value	72,941	43,681
Discounted value per share	4.51	7.05
Cum. discounted DPS	0.37	1.00
Other adjustments	-0.23	-0.05
12m fwd PO (EUR)	**4.65**	**8.00**
Current price	3.08	6.75
Implied upside / (downside)	*51%*	*19%*
Trading P/TBV FY24e	0.62x	0.77x
Trading P/E FY24e	4.3x	5.7x
Total yield FY24e	11.2%	11.0%

Source: BofA Global Research. Notes: market prices and multiples as of 22/06/2023

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Risks to our recommendations

Santander

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

BBVA

1. Deterioration in sovereign risk in key geographies

2. Türkiye risk could still affect capital and shareholders' returns

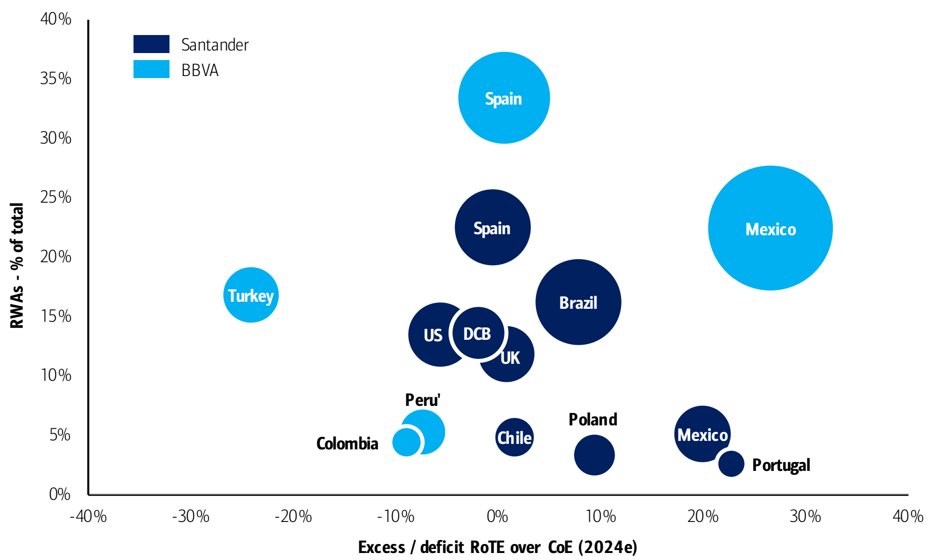
3. Asset quality deteriorating more than we forecast

Geographical footprint key for Santander and BBVA

Both BBVA and Santander have long looked outside their domestic borders for growth and to diversify their business models. While Santander has hitched its fortunes to Brazil, today its biggest market accounting for c25% of group earnings, BBVA has focused on building up its operations in Mexico. The country accounts for a large c.60% of its earnings today. BBVA also owns the largest private bank in Türkiye; it first invested in the country in 2011 by acquiring a 25% stake in Garanti, building to an 86% stake in its Turkish franchise today. Santander also has operations in the UK and in the US and expanded its domestic franchise with the acquisition of Banco Popular in 2017. In the following sections, we do a deep dive into the core international markets in collaboration with our economists.

Exhibit 18: Mexico overheated, Brazil at trough, Türkiye a question mark. SAN top pick

We see Mexico approaching peak, while expect SAN Brazil to benefit from incoming rate cuts. We are cautious on Türkiye near-term and see US loan losses as more contained than the market fears



Source: BofA Global Research. Notes: Bubble size = % revenues 2024e on Group total

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Brazil: Trough in sight, rates cut due

Santander opened its first branch in Brazil in 1982 and has been growing since through acquisitions mainly Banespa and Banco Real to be the third-largest private bank in the country. With the business IPO'd in 2009 growth has been both organic and inorganic, with 13 acquisitions and partnerships in the last two years alone. Santander's Brazilian business is the group's crown jewel, and it accounts for c.25% of earnings, c.9% of loans. About 46% of its Brazilian loan book is towards households (payroll, mortgages & personal loans), 28% large corporates, 13% SMEs & 13% consumer finance (auto loans).

Macro backdrop

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Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)

Credit conditions have tightened

While banks may increase rates for those able to repay their loans, the rise in borrowing costs hinders consumer spending and leads companies to cut back on growth plans, including hiring. The shrinking credit supply is usually followed by a prolonged recession. Brazil's credit market has faced many challenges in the past decade including alternating economic policies, an impeachment and the pandemic. After peaking at 54% of GDP in December 2015, outstanding credit shrank in real terms for three consecutive years, on the back of the worst recession in Brazilian history. It was only in December 2022 that total credit was able to recover to its peak level. Santander has been tightening credit standards, growing less than peers for the last 11 quarters in a row. This is also partly due to its mix, which is more skewed towards households.

Bad debt has been on the rise, but is approaching peak

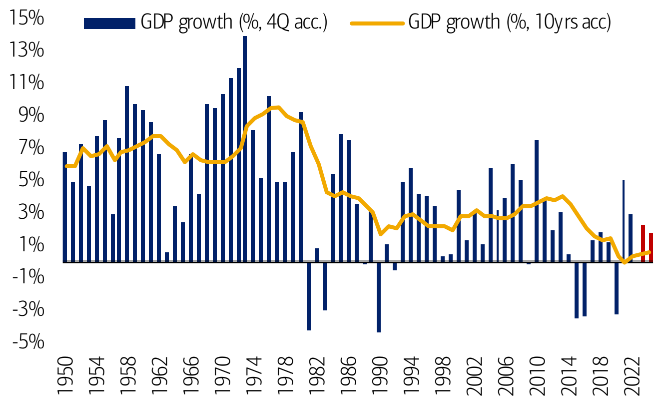
According to the central bank (Banco Central do Brasil/BCB), in March 2023, 27.7% of household disposable income was committed to debt service, of which almost 10p.p. was for the payment of interest due that month. Before COVID, that figure was 23%. Household indebtedness also increased sharply reaching 48.5% of 12-month accumulated disposable income, from 41.5% in December 2019. Families' purchasing power deteriorated with higher inflation and loan conditions worsened with higher spreads and consumers faced difficulty paying off the debt they accumulated. Households' delinquency rate on non-earmarked loans rose to 6.2% in April, a level not seen since September 2016. Though companies' delinquency rate on non-earmarked credit remains at a reasonable level (at 2.8%, yet in an upward trend). For Santander, we forecast gross NPLs to peak in 2023 at 7.9% (up from 7.6% in 2022) with cost of risk set to fall from 2024 to 435bps vs. consensus of 458bps.

Cutting cycle to start in August

Last week, in a unanimous decision, the Copom (Monetary Policy Committee) kept the SELIC rate at 13.75%, in line with expectations for the 7th time in a row. However, monthly inflation prints should continue to surprise to the downside, and further revisions to long-term inflation expectations should happen in the next 7 weeks. We continue to expect the easing cycle to begin on August 2nd, with an initial 50bps cut. Our economists expect the SELIC rate to end the year at 11.75%, with the terminal rate of this cycle at 9.50% achieved in 2024. While risks of further delays remain, this is a key positive catalyst for Santander's profitability in Brazil.

Exhibit 19: GDP growth 4Q & 10yrs accumulated, 1950-2024e

10yrs accumulated growth at record low levels



Source: BofA Global Research, BCB

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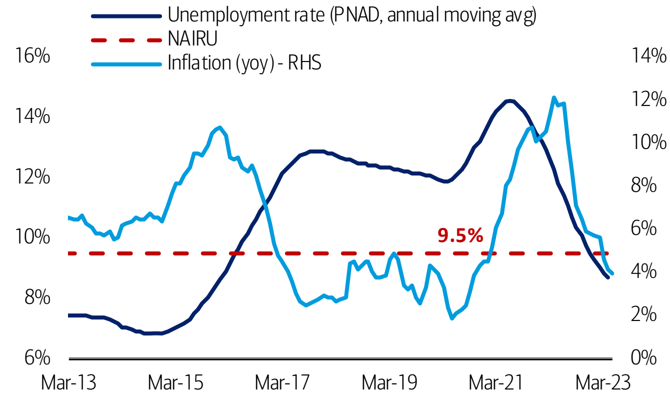
Exhibit 20: Unemployment and inflation data, 2013-23

Unemployment already in line with the NAIRU



Source: BofA Global Research, BCB. Notes: NAIRU = Non-accelerating inflation rate of unemployment

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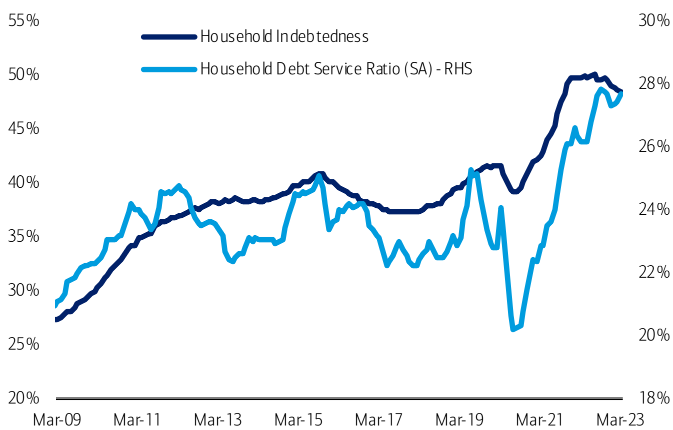
Exhibit 21: Household indebtedness, 2009-23

Household indebtedness peaked at record high levels



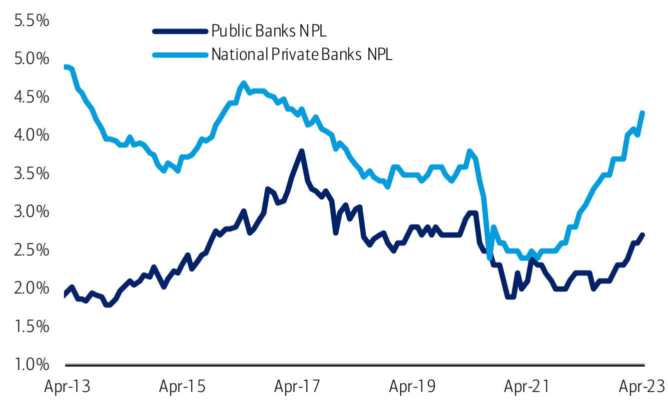
Source: BofA Global Research, BCB

BofA GLOBAL RESEARCH

Exhibit 22: NPL ratios across public and private banks, 2013-23

NPLs going back up, but mainly in private banks where it's approaching peak

Space for Public banks to become more active, BNDES to be the highlight



Source: BofA Global Research, BCB. Notes: BNDES = Brazilian Development Bank

BofA GLOBAL RESEARCH

Santander: rate cuts provide key inflection point

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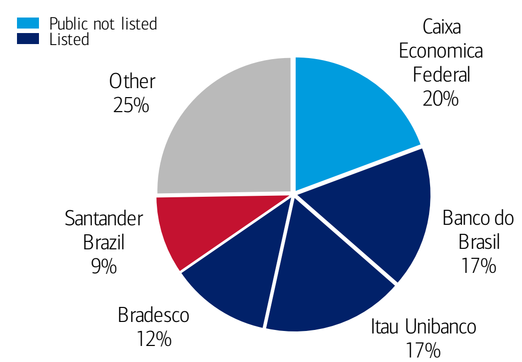
Brazilian banks have a large share of their liabilities linked to the SELIC rate. While their loan book tends to be fixed rate, however, the duration is short, with on average 50-60% of the loan book maturing in less than a year. This is also the case at Santander with a loan book duration of c.18 months. Hence, even if it's a fixed rate market in principle, the short duration makes it variable or semi-variable in practice as the loan book matures and reprices for the prevailing interest rates, albeit with a 12-18-month lag.

The duration gap between assets and liabilities means Santander's NIM negatively correlates to higher rates, i.e. a rate cut will expand margins. Furthermore, given the loan mix skew towards households, it should also help to alleviate asset quality concerns and increase appetite for new lending. As a result, our forecasts factor in a peak in cost of risk this year and net interest margin expansion, with NII +12% y/y in 2024e, also supported by a normalization in volumes at +10% y/y next year, which has been running at subpar levels. We are c.24% ahead of consensus for the division in 2024e.

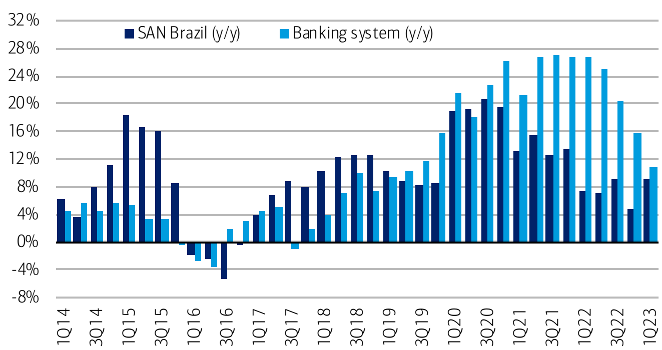
Exhibit 23: Brazilian banks market share - % loans
SAN Brazil has c.10% market share on total lending



Source: BofA Global Research, Company report

BofA GLOBAL RESEARCH

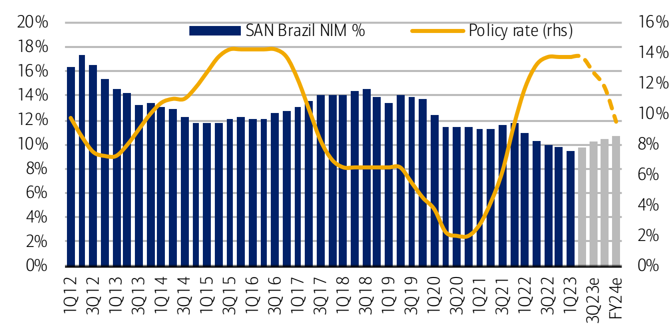
Exhibit 24: Loan growth – SAN Brazil vs Banking system
SAN Brazil has been tightening credit standards more than peers



Source: BofA Global Research, Banco Central do Brasil, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 25: SAN Brazil net interest margin vs SELIC rate
NIM has compressed over the recent hike cycle but is expected to take a key positive turn with SELIC cuts and climb back above 10%



Source: BofA Global Research, Haver Analytics

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Exhibit 26: Brazilian banks – key metrics
We expect progressive improvement in margins and profitability at SAN Brazil, supported by incoming rate cuts

	Santander Brazil		Average peers		Banco do Brasil		Itau Unibanco		Bradesco	
	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
P&L										
NIM %	10.1%	10.7%	10.8%	10.9%	9.5%	9.6%	11.4%	11.0%	11.5%	12.2%
C/I %	34%	33%	41%	40%	35%	35%	40%	40%	48%	46%
RoE %	13%	16%	17%	18%	20%	19%	20%	20%	12%	15%
CoR (bps)	480	435	438	396	268	271	420	378	625	541
Balance sheet										
TIER1 %	12.2%	12.2%	13.8%	14.0%	14.8%	15.1%	14.1%	14.5%	12.5%	12.3%
Gross NPL %	7.9%	7.7%	6.0%	5.8%	4.1%	4.1%	5.1%	4.7%	8.7%	8.4%
Coverage %	108%	106%	121%	111%	131%	118%	109%	102%	122%	113%
Loan growth y/y %	7%	7%	8%	11%	11%	10%	7%	11%	5%	10%

Source: BofA Global Research estimates. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Ratios are derived from estimates in Brazilian Real

BofA GLOBAL RESEARCH

Exhibit 27: Santander Brazil – BofA estimates vs consensus, 2023-25e
We are c.20-30% ahead on net profit 2024-25e, mainly on higher NII and lower provisions

	Santander Brazil - BofA estimates			Santander Brazil - VA consensus			BofA vs consensus		
EURm	**2023e**	**2024e**	**2025**	**2023e**	**2024e**	**2025**	**2023e**	**2024e**	**2025**
P&L									
Net interest income	9,132	10,274	11,143	8,999	9,802	10,367	1%	5%	7%
Fees & commissions	3,381	3,556	3,668	3,410	3,556	3,692	-1%	0%	-1%
Other	521	514	498	511	490	478	2%	5%	4%
Total revenues	**13,035**	**14,344**	**15,308**	**12,919**	**13,848**	**14,536**	**1%**	**4%**	**5%**
Operating costs	-4,411	-4,683	-4,898	-4,437	-4,594	-4,744	-1%	2%	3%
Pre-provision income	**8,623**	**9,661**	**10,410**	**8,482**	**9,254**	**9,792**	**2%**	**4%**	**6%**
Loan loss provisions	-4,362	-4,177	-4,079	-4,434	-4,363	-4,482	-2%	-4%	-9%
Other	-651	-303	-293	-369	-335	-332	76%	-10%	-12%
Pre-tax profit	**3,610**	**5,182**	**6,038**	**3,680**	**4,557**	**4,978**	**-2%**	**14%**	**21%**
Tax	-1,155	-1,658	-1,932	-1,276	-1,679	-1,844	-9%	-1%	5%
Other	-233	-335	-390	-244	-316	-344	-4%	6%	13%
Net profit	**2,222**	**3,189**	**3,716**	**2,160**	**2,562**	**2,790**	**3%**	**24%**	**33%**
Key metrics									
Net customer loans	93,058	98,954	99,990	93,066	97,258	102,234	0%	2%	-2%
y/y growth	*8%*	*6%*	*1%*	*8%*	*5%*	*5%*	*-0.0 ppt*	*+1.8 ppt*	*-4.1 ppt*
Net interest margin %	10.2%	10.7%	11.2%	10.0%	10.3%	10.4%	+0.1 ppt	+0.4 ppt	+0.8 ppt
Cost / income ratio %	34%	33%	32%	34%	33%	33%	-0.5 ppt	-0.5 ppt	-0.6 ppt
Tax rate %	32%	32%	32%	35%	37%	37%	-2.7 ppt	-4.8 ppt	-5.0 ppt
Cost of risk (bps)	487	435	410	495	458	449	-8 bps	-23 bps	-39 bps
NPL ratio %	7.9%	7.7%	7.6%	7.6%	7.2%	6.9%	+0.3 ppt	+0.5 ppt	+0.7 ppt

Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

Mexico: Overheated macro, close to peak

BBVA Bancomer is the largest financial institution in Mexico with 23% market share in loans and deposits and more than 26m clients. Bancomer's franchise has a differentiated mix of scale, loan mix, and funding that has been driving a ROTE premium vs. peers. Mexico represents a significant c.60% of BBVA's group profits. The Mexican banking sector has been one of the rare markets to face structural ROE expansion in the last decade on, among other things, higher product penetration, which remains materially lower than in peer countries. Santander has been present in Mexico since 1997 and merged a few years later with Serfin, to become the country's third bank with a c.15% market share and 15% of its group earnings coming from Mexico. Sabadell also has a small presence accounting for 5% of earnings.

Macro backdrop

Carlos Capistran
Canada and Mexico Economist
BofAS

Mexican economy overheated and close to peak

Our economists believe that the Mexican economy may be overheated. The output gap is positive according to our economists' most recent estimates. Credit for consumption, house prices, and wages are all growing at double digit rates. Services inflation is running above 5%. We believe that the economy is overheated mostly because trend growth has collapsed, rather than because demand is growing too fast. The former could be due to falling productivity, years of low investment and potential misallocation of resources reflected in a real exchange rate appreciation. Prolonged periods of overheating can lead to bubbles and eventual crashes. However, in the following quarters Mexico has to deal with a US Fed that is still hiking, in the next few months with a potential US recession and in 2H 2024 with federal elections in the US and in Mexico. This should cool down the Mexican economy, helping it to rebalance.

Strong start to the year but signs of economic slowdown now visible

Flash GDP beat expectations in 1Q at 4.5% q/q saar driven by strong services, but signs of an economic slowdown are now visible, partly driven by the deceleration in US activity. On the supply side, monthly GDP (IGAE) was lower than expected in February at 0.1% m/m sa and industrial production in March also surprised to the downside at -0.9% m/m sa mostly due to a sharp fall in mining followed by a contraction in manufacturing. The picture looks more mixed on the demand side, where consumption decelerated in February (-0.8% mom sa) but investment rebounded strongly (1.9% mom sa), likely due to nearshoring, government infrastructure projects, and a rebound from the pandemic. We estimate 1.5% GDP growth for 2023.

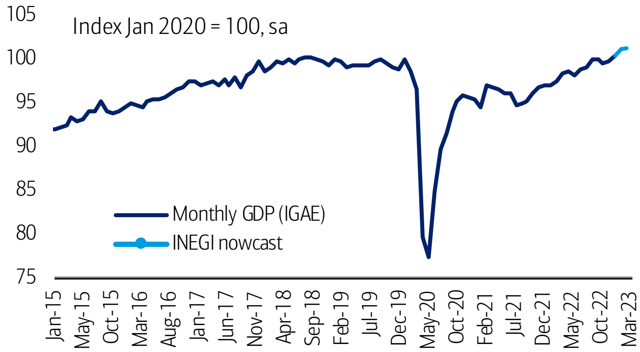
Labour market still tight

The labor market remains strong. In March, the unemployment rate reached a new record low at 2.77% sa, and formal jobs increased 135.8k, which is >4x the 33k historical average. The correlation between unemployment and wages is clear and shows that the labor market is tight. We believe Mexico has a domestic inflation problem and the high wage growth rate is a concern. It is good for growth but doesn't seem sustainable.

Banxico on hold for many months

Inflation trending down will likely keep Banxico on hold with the policy rate at 11.25%. We believe the bar for Banxico to hike again is high, although risks remain to the upside. The bar is so high, in our view, that we believe Banxico would likely not hike again even if the US Fed hiked once or twice more. We expect Banxico to start the cutting cycle in February 2024. We see two necessary conditions for Banxico to cut: (1) core inflation below 5% and (2) 12-month ahead inflation expectations below 4%.

Exhibit 28: Monthly GDP, rebased at Jan-20 (Jan-20=100)
Strong growth in 1Q23, but likely to decelerate in the following quarters



Source: BofA Global Research, INEGI

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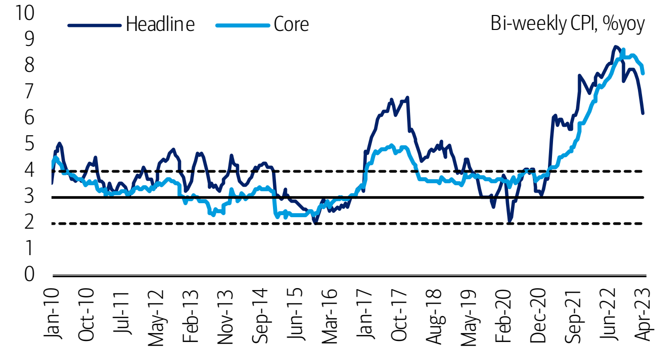
Exhibit 29: Headline and Core inflation trend, 2010-23e
Inflation still high but trending down



Source: BofA Global Research, INEGI

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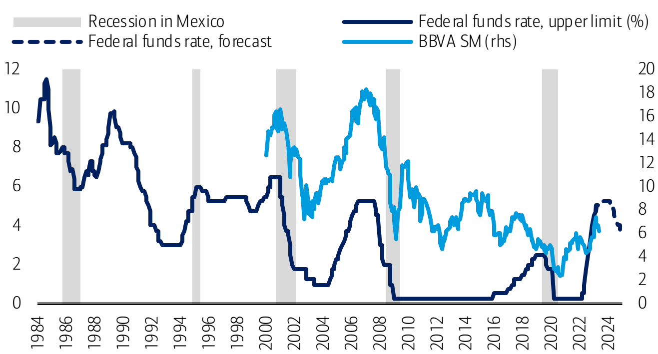
Exhibit 30: Recessions in Mexico vs Fed Funds rates & BBVA share price
Growth is approaching peak; deceleration will affect BBVA's prospects



Source: BofA Global Research, INEGI

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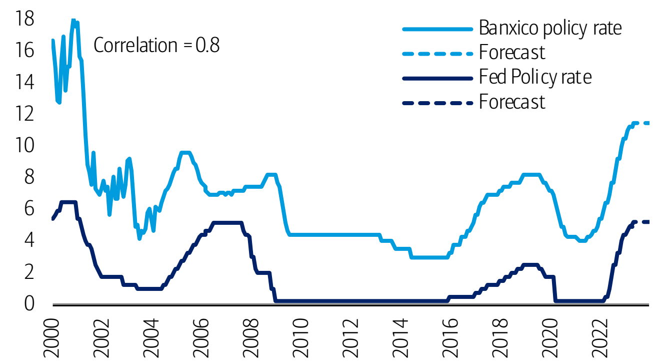
Exhibit 31: Policy rates, Mexico vs. US closely correlated
Banxico policy rate tends to follow the path of Fed Funds



Source: BofA Global Research, INEGI

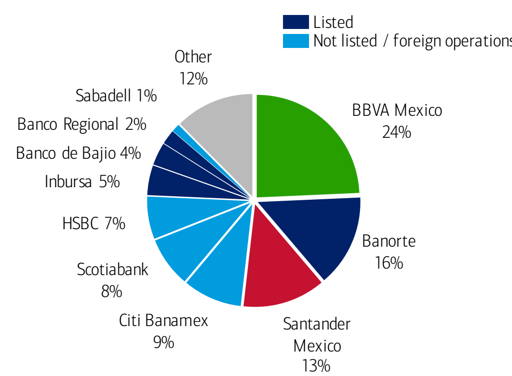
BofA GLOBAL RESEARCH

BBVA's Bancomer market leader, solid franchise

Antonio Reale >>
Research Analyst
MLI (UK)

The value of deposit franchises has been a key focal point. The experience in the US has amplified this trend, even more so where competition is high. This is especially the case when rates go up, less so when they're set to stay on hold or come down. Hence, we believe that BBVA's solid deposit franchise will be a less meaningful competitive advantage going forward. Mexico has been a highly competitive market for the past few years, with new players entering different segments of the market hence, pricing power has been a key tool for banks to exercise competition both on the lending and most importantly on the funding side. In this regard, Santander's funding mix is more tilted towards corporates, which have been less sticky and more expensive than peers in a higher rate environment. BBVA, on the other hand, has had the lowest funding cost given its well-recognized Bancomer brand and solid retail franchise in the country. Santander is remunerating total deposits 2.5x more than BBVA. This is reflected in our NII forecasts which contributes to driving the higher profitability at BBVA relative to peers. However, this is less relevant at this point of the hiking cycle. With rates at 11.25%, we believe Banxico is unlikely to hike again, and our economists believe it could start the cutting cycle in 2024.

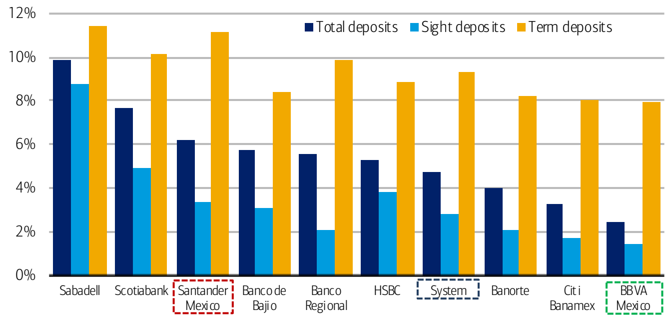
Exhibit 32: Mexican banks market share - % loans
BBVA Mexico provides c.25% of total loans in the country



Source: BofA Global Research, Company report

BofA GLOBAL RESEARCH

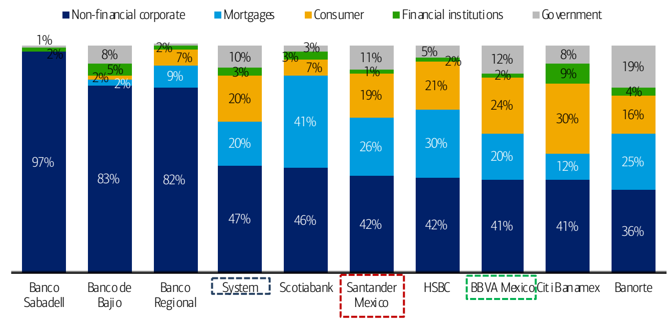
Exhibit 33: Deposit cost breakdown - sight vs term
BBVA has the lowest funding costs in Mexico at c.2.5% blended



Source: BofA Global Research, CNBV. **Notes:** Annualized monthly cost as of Mar-23

BofA GLOBAL RESEARCH

Exhibit 34: Loan mix by customer
Corporates accounts for 40-50% of total loans among larger banks



Source: BofA Global Research, CNBV. Notes: Data as of Mar-23

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Exhibit 35: Mexican banks – key metrics
BBVA Mexico materially ahead on efficiency & profitability vs peers

	BBVA Mexico		Santander Mexico		Average peers		Banorte		Banco de Bajio		Banco Regional		Banamex	Scotiabank	HSBC	Sabadell
	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2022	2022	2022	2022
P&L																
NIM %	13.9%	13.5%	9.4%	9.4%	10.7%	10.3%	13.8%	13.5%	9.6%	8.5%	8.7%	8.8%	11.9%	4.8%	10.5%	3.8%
C/I %	31%	32%	44%	44%	37%	36%	34%	33%	33%	36%	43%	40%	66%	49%	58%	58%
RoE %	26%	26%	16%	16%	23%	22%	21%	21%	28%	23%	21%	21%	11%		15%	5%
CoR (bps)	296	311	225	245	105	120	172	190	60	76	84	95	219	65	221	22
Balance sheet																
TIER1 %	16.8%	16.8%	15.8%	15.8%	17.3%	17.5%	21.8%	22.5%	15.5%	15.1%	14.6%	14.9%	17.6%		15.5%	
Gross NPL %	2.5%	2.5%	2.4%	2.5%	1.2%	1.3%	1.1%	1.2%	1.1%	1.2%	1.3%	1.3%	2.7%	2.8%	3.0%	2.3%
Coverage %	129%	129%	108%	108%	163%	157%	140%	140%	208%	191%	140%	140%	161%	29%	123%	70%
Loan growth y/y %	7%	6%	7%	8%	11%	9%	8%	8%	10%	8%	14%	12%				

Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Mexican pesos

BofA GLOBAL RESEARCH

Exhibit 36: Santander Mexico – BofA estimates vs consensus
We are 2-3% ahead of consensus on top line estimates, which feeds through to the bottom line

	Santander Mexico - BofA estimates			Santander Mexico - VA consensus			BofA vs consensus		
EURm	2023e	2024e	2025	2023e	2024e	2025	2023e	2024e	2025
P&L									
Net interest income	4,187	4,290	4,457	4,111	4,227	4,342	2%	1%	3%
Fees & commissions	1,325	1,430	1,488	1,319	1,372	1,435	0%	4%	4%
Other	-56	-53	-51	-59	-61	-57	-7%	-13%	-10%
Total revenues	**5,457**	**5,667**	**5,894**	**5,370**	**5,538**	**5,720**	**2%**	**2%**	**3%**
Operating costs	-2,390	-2,501	-2,555	-2,356	-2,438	-2,505	1%	3%	2%
Pre-provision income	**3,066**	**3,166**	**3,339**	**3,013**	**3,100**	**3,215**	**2%**	**2%**	**4%**
Loan loss provisions	-1,004	-1,118	-1,164	-1,015	-1,080	-1,136	-1%	3%	2%
Other	-46	-46	-44	-74	-69	-68	-38%	-34%	-35%
Pre-tax profit	**2,017**	**2,002**	**2,131**	**1,924**	**1,950**	**2,011**	**5%**	**3%**	**6%**
Tax	-504	-481	-511	-476	-481	-496	6%	0%	3%
Other	-53	-54	-57	-32	-37	-43	65%	43%	34%
Net profit	**1,459**	**1,468**	**1,563**	**1,416**	**1,432**	**1,472**	**3%**	**3%**	**6%**
Key metrics									
Net customer loans	44,815	46,424	48,572	44,611	46,361	48,900	0%	0%	-1%
y/y growth	*9%*	*4%*	*5%*	*9%*	*4%*	*5%*	*+0.5 ppt*	*-0.3 ppt*	*-0.8 ppt*
Net interest margin %	9.7%	9.4%	9.4%	9.6%	9.3%	9.1%	+0.2 ppt	+0.1 ppt	+0.3 ppt
Cost / income ratio %	44%	44%	43%	44%	44%	44%	-0.1 ppt	+0.1 ppt	-0.4 ppt
Tax rate %	25%	24%	24%	25%	25%	25%	+0.3 ppt	-0.7 ppt	-0.7 ppt
Cost of risk (bps)	234	245	245	237	238	239	-3 bps	+8 bps	+7 bps
NPL ratio %	2.4%	2.5%	2.5%	2.6%	2.5%	2.4%	-0.2 ppt	-0.0 ppt	+0.1 ppt

Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

USA: Deep dive on auto loan market

Santander owns five businesses in the US: (i) a commercial bank (Santander Bank NA), (ii) a consumer and auto finance bank (SCUSA), (iii) Banco Santander International of Miami; (iv) Santander Securities of Boston; and (v) Santander US Capital Markets of New York. As of 1Q23 its loan book was $123bn, or c.10% of the group, comprising 50% consumer (o/w 40% autos), c.20% CIB and c.20% corporates. In this section, we deep-dive into performance of the consumer business, in particular retail auto loans and lease ABS leveraging on the dataset of our US ABS team. We focus on: credit trends for prime and subprime auto loan ABS, periodic and cumulative residual value gains/losses for retail auto lease ABS and the credit quality trend for Santander's US business.

Chris Flanagan
FI/MBS/CLO Strategist
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Theresa O'Neill
ABS Strategist
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Auto loan outlook not as gloomy as perceived

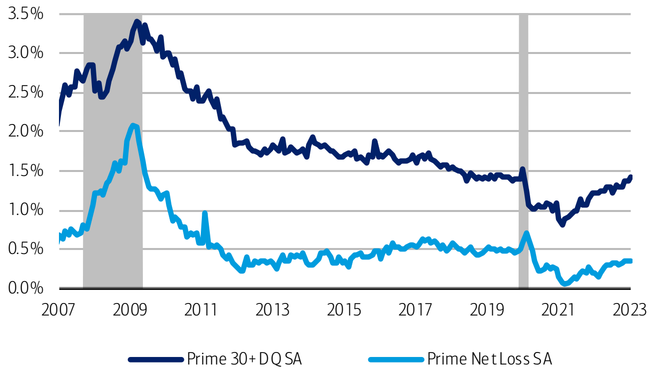
Indeed, cumulative net losses (CNL) for the 2021 vintages for prime and subprime sectors are performing worse than the 2020 vintages. However, early signs show the 2022 vintages are performing only slightly worse than the 2021 vintages. Meanwhile the 2018-2020 vintages for both sectors are outperforming their respective 2015-2017 vintages. Tighter lending standards and government aid during the pandemic, along with strong used vehicle valuations, have contributed to support performance, especially for the 2020 vintage. Overall, the picture is not as gloomy as perceived, we believe.

Delinquency and net loss rates only modestly higher than pandemic lows

Delinquency and net loss rates have trended higher since the middle of 2021, though they have only been moving away from historical lows reached during the pandemic. We believe that credit metrics will continue to move to higher levels. Specifically, we expect modestly weaker performance for prime auto loans and moderately weaker credit performance for subprime auto loan ABS in 2023. We forecast more significant deterioration in subprime performance compared to prime because lower income households are more likely to be impacted by the pickup in inflation, along with a weakening economy. More broadly, our view reflects our expectations that a weakening employment situation along with a gradual decline in used vehicles prices will contribute to higher delinquencies and net losses in the auto loan ABS market. We reflect that in our forecasts. Our US economists expect a mild recession for the US economy in 1H24, with real GDP declining -1% and -0.5% in 1Q-2Q24, respectively. While they estimate a softening in demand, it's not enough to trigger significant job losses as they forecast the average unemployment rate to rise to 3.9% by 4Q23, 4.1% in 1Q24 & 4.7% by 4Q24.

Prime performance in charts

Exhibit 37: Prime auto loan performance
Net loss rates moving back to pre-pandemic levels



Source: BofA Global Research

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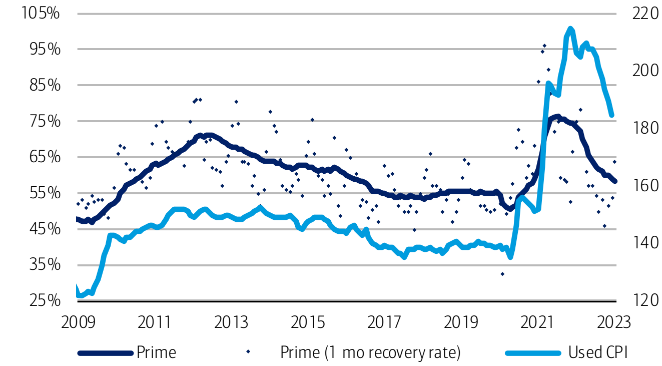
Exhibit 38: Prime recovery rates vs used car CPI
Recovery rates trending down as used car inflation slows



Source: BofA Global Research

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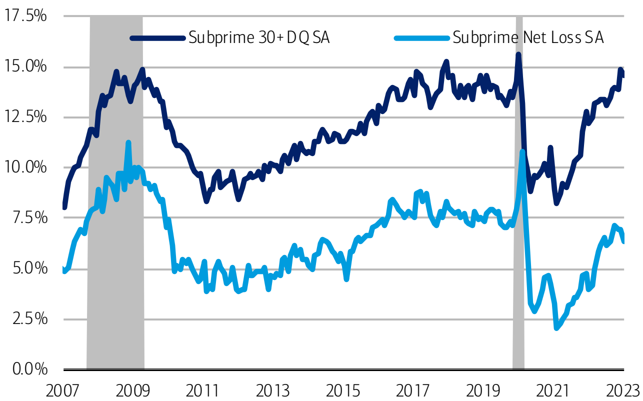
Subprime performance in charts

Exhibit 39: Subprime auto loan performance
Net loss rates climbing back up from post-recession lows



Source: BofA Global Research

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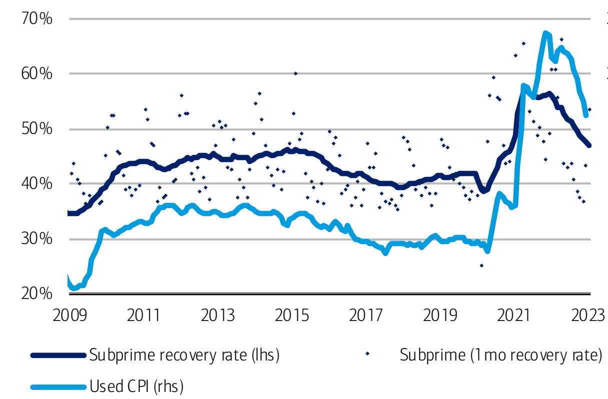
Exhibit 40: Subprime recovery rates vs used car CPI
Recovery rates trending down as used car inflation slows

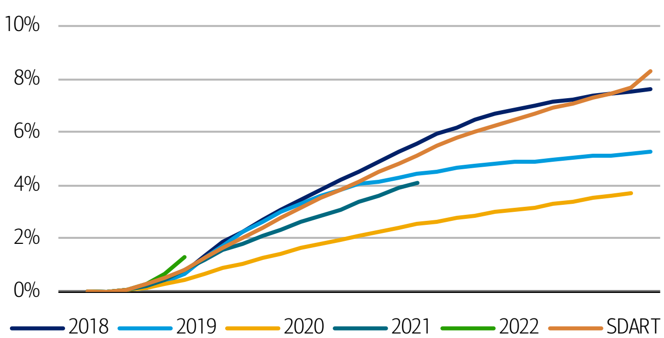


Source: BofA Global Research

BofA GLOBAL RESEARCH

Santander Drive Auto Receivables Trust (SDART) performance charts

Exhibit 41: Cumulative net loss
2019-2021 vintages trending below 2018 and 10yr CNL average; 2021 vintage is above 2020



Source: Intex, BofA Global Research; SDART: post GFC

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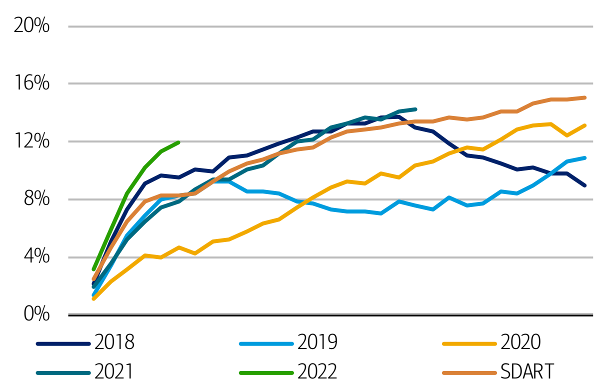
Exhibit 42: 30-day+ delinquencies
2021 vintage trending above 2018-2020

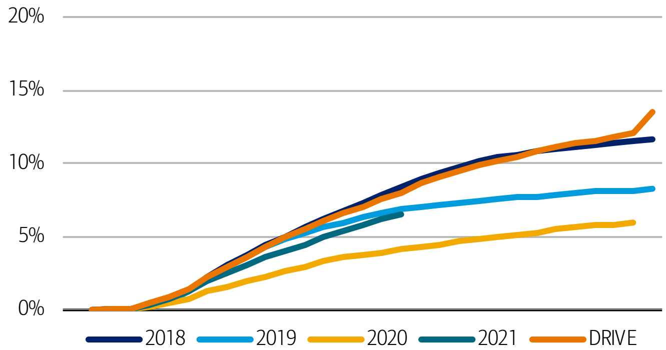


Source: Intex, BofA Global Research; SDART: post GFC

BofA GLOBAL RESEARCH

Drive Auto Receivables Trust (DRIVE) performance charts

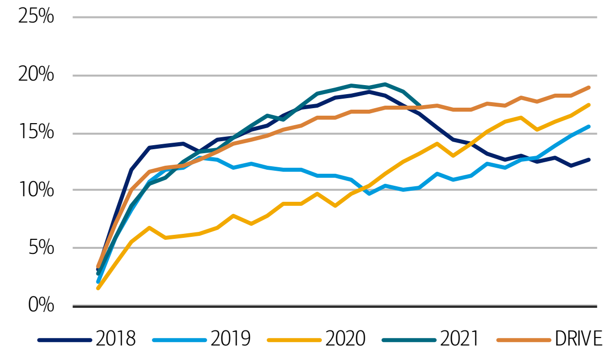
Exhibit 43: DRIVE cumulative net loss
2019-2021 vintages trending below 2018 vintage and 10yr average



Source: Intex, BofA Global Research; DRIVE: post GFC

BofA GLOBAL RESEARCH

Exhibit 44: DRIVE 30-day+ delinquencies
2021 vintage trending above 2018-2020



Source: Intex, BofA Global Research; DRIVE: post GFC

BofA GLOBAL RESEARCH

Santander's NII and cost of risk under scrutiny in the US

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Santander's loan book in the US is for 40% in auto loans, mainly skewed towards subprime. There has been a gradual upward credit migration from subprime to nonprime and prime with tighter credit standards which will contribute to erode margins – we forecast NII to fall c.6% this year. However, unlike peers which had been loosening lending standards on auto loans from 4Q20 to 1Q22, Santander has been tightening them, with a gradual upward credit migration. This should contribute to keeping volumes and margins low in the short term but result in a better relative performance for those loans as they season in 2023 in terms of defaults. In addition, while Stellantis announced in 2021 the formation of its own captive finance arm, SC and Stellantis have extended the agreement in 2022, and so far volumes have been running well below targets. Hence, we believe Santander's US business will suffer more from slower new loan formation and lower margins (deposit betas), hence it's lower NII the issue more than an increase in default rates. Overall, we expect NII to trough this year in the US and cost of risk to remain significantly better than consensus fears.

We factor-in these trends in our estimates for Santander US, we forecast volumes running at -1% in 2023 and +4% in 2024 with lower credit spreads (NIM down vs. 2022) and a modest increase in defaults.

Exhibit 45: Santander US – BofA estimates vs consensus

Our earnings forecasts for SAN US are materially ahead of consensus, mainly on 10-15% lower provisions

	Santander US - BofA estimates			Santander US - VA consensus			BofA vs consensus		
EURm	**2023e**	**2024e**	**2025**	**2023e**	**2024e**	**2025**	**2023e**	**2024e**	**2025**
P&L									
Net interest income	5,769	5,873	6,149	5,800	6,017	6,214	-1%	-2%	-1%
Fees & commissions	758	771	792	763	788	821	-1%	-2%	-4%
Other	679	670	655	672	683	700	1%	-2%	-6%
Total revenues	**7,206**	**7,313**	**7,596**	**7,235**	**7,488**	**7,735**	**0%**	**-2%**	**-2%**
Operating costs	-3,627	-3,619	-3,683	-3,629	-3,667	-3,751	0%	-1%	-2%
Pre-provision income	**3,579**	**3,694**	**3,913**	**3,607**	**3,821**	**3,984**	**-1%**	**-3%**	**-2%**
Loan loss provisions	-2,475	-2,574	-2,694	-2,750	-3,008	-3,025	-10%	-14%	-11%
Other	-23	-22	-22	32	-38	-38	n.m.	-42%	-44%
Pre-tax profit	**1,081**	**1,099**	**1,197**	**889**	**775**	**921**	**22%**	**42%**	**30%**
Tax	-226	-231	-251	-178	-173	-209	27%	33%	20%
Other	0	0	0	23	-14	-25	n.m.	n.m.	n.m.
Net profit	**855**	**868**	**946**	**734**	**588**	**686**	**17%**	**48%**	**38%**
Key metrics									
Net customer loans	129,219	134,658	141,621	130,672	134,665	139,009	-1%	0%	2%
y/y growth	*-1%*	*4%*	*5%*	*0%*	*3%*	*3%*	*-1.1 ppt*	*+1.2 ppt*	*+1.9 ppt*
Net interest margin %	4.4%	4.5%	4.5%	4.4%	4.5%	4.5%	+0.0 ppt	-0.1 ppt	-0.1 ppt
Cost / income ratio %	50%	49%	48%	50%	49%	48%	+0.2 ppt	+0.5 ppt	-0.0 ppt
Tax rate %	21%	21%	21%	20%	22%	23%	+0.9 ppt	-1.3 ppt	-1.7 ppt
Cost of risk (bps)	191	195	195	211	227	221	-20 bps	-32 bps	-26 bps

Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

Türkiye: Challenging times ahead

BBVA owns the largest foreign bank in Türkiye – Garanti with an c.86% stake or €7.8bn worth of book value, which is 15% of the group's equity. About 8% of group earnings at BBVA come from Türkiye. In this cross-asset section jointly with our economists, we discuss macro forecasts and implications for BBVA in Türkiye.

Macro backdrop

Zumrut Imamoglu
Türkiye & Israel Economist
MLI (UK)

Tough times ahead

Although economic conditions are challenging and the regulatory environment is more complicated than ever, a change toward more orthodoxy should help improve market conditions. Two major problems to tackle are accumulating reserves and bringing down inflation. Depreciation of 20-25% and a potential increase in the minimum wage would add 10-15% to inflation in total. A domestic demand contraction of 8-10% is needed to push the current account deficit into a surplus. Such sharp adjustments are costly.

Rebalancing needed in the economy

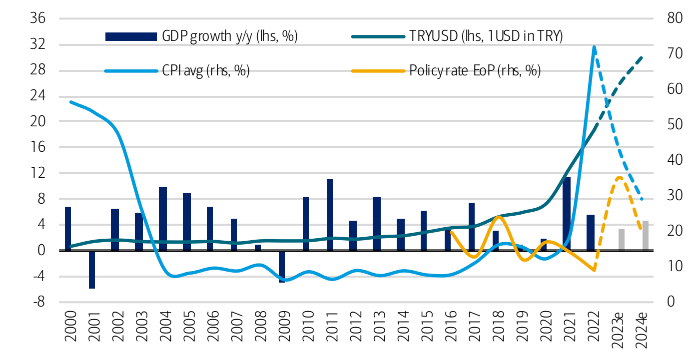
The trade deficit has continued to widen, even when gold and energy are accounted for. The May trade deficit was a record $12.7bn and the 12-month trailing deficit increased to $122bn. Reserve levels, as expected, declined more around the time of the elections. Usable reserves decreased to $11bn as of May 26, net foreign assets contracted to -$14bn and net reserves excluding swaps decreased to -$60bn. Loan growth for retail collapsed as new regulations between the two rounds of elections pushed the deposit rates to 40-45% and consumer loan rates to 40%. Therefore, our expectation of tightening happened partially through regulation, even before the presidential run-off, and state bank lending dropped sharply. The exchange rate management is now looser as we expected as well. We see our fair value at around current levels of 24-25 levels. All indicators point to a need to rebalance the economy. Our economists believe that a tightening of financial conditions, substantial cuts to non-earthquake spending and a depreciation of 20-25% in TRY are necessary to achieve this. But that's easier said than done.

Brace for volatility

Under orthodoxy, the authorities would ease regulations, which would increase volatility but also liquidity in the TRY-based asset markets. Our economists see the policy rate at 25-30% in 3Q23 before rising gradually to 35% by year-end, which is seen as peak before falling back to 30% by 1Q24. We believe that more tightening might be needed depending on the course of inflation data but regulations in the banking system are already keeping financial conditions very tight. The level of the policy rate should be evaluated together with the adjustment to these regulations.

Exhibit 46: Türkiye key Macro indicators

Rate hikes, slowing inflation and TRY depreciation ahead

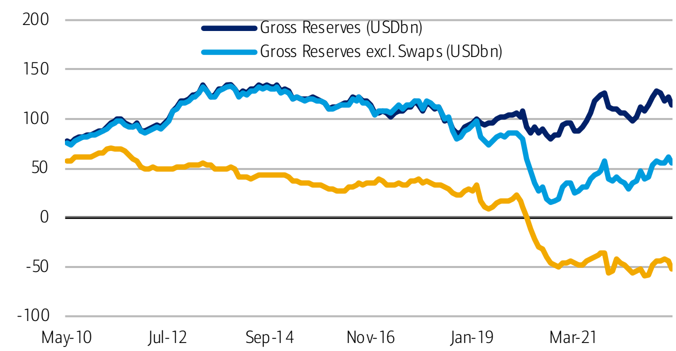


Source: BofA Global Research, Haver Analytics

BofA GLOBAL RESEARCH

Exhibit 47: Gross and Net CBT reserves

Net reserves levels are negative



Source: BofA Global Research, Haver Analytics

BofA GLOBAL RESEARCH

BBVA's Garanti largest foreign bank in Türkiye

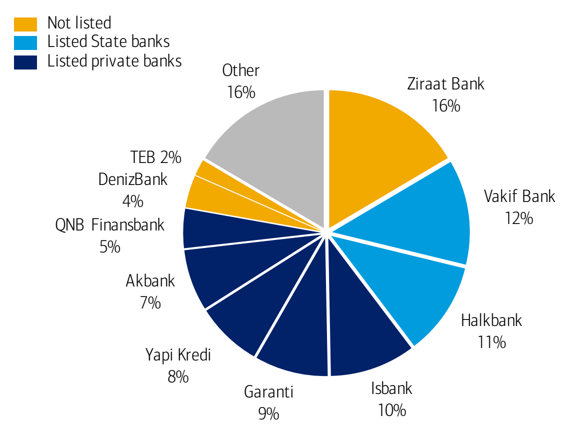
Antonio Reale >>
Research Analyst
MLI (UK)

Ilija Novosselsky >>
Research Analyst
MLI (UK)

It's virtually impossible to hedge the magnitude of the interest rate increase and Turkish Lira (TL) depreciation expected by our economists. Hence banks, incl. BBVA's Garanti have tried to shorten their asset/liability mismatches, aiming not to underwrite new loans with maturities higher than six months. BBVA estimates mismatches at around three months or less, meaning that the effects of negative interest rate hikes start reversing after that. Customer spreads in the TL front-book are currently negative for most Turkish banks, meaning they are virtually 'closed for business'. While the back-book has been coming down sharply, it is still in positive territory at BBVA. In addition, we note the TL490bn in June (was TL360bn in 1Q) of 5-10Y fixed rate bonds that have been issued by the Treasury since May-22, which contributes to the maturity mismatch, of which BBVA has c.TL60bn or c.4% of the balance sheet (1Q23).

Exhibit 48: Turkish banks market share - % loans

Listed banks account for >60% of loan market share



Source: BofA Global Research, Company report

BofA GLOBAL RESEARCH

FX depreciation and hyperinflation not yet priced in

Overall, we think it's unlikely BBVA Garanti will be able to earn a return on equity (RoE) above CPI inflation before 2025. As a result, ROE will run below inflation and below cost of equity. Our SoTP for BBVA incorporates a cost of equity of 30% for Türkiye. While BBVA hedges its CET1 ratio to the extent it can afford to, group TBV and P&L remain exposed to FX fluctuations which we think are not reflected in the price. BBVA guides that for every 10% TL depreciation its group CET1 would drop by only by 1bp. Meanwhile if it were to walk away from its Turkish business, it would erode c.39bps of its group CET1. But it's P&L and TBV erosion that's most relevant, in our view.

Regulatory easing would be a short-term support

We believe some regulatory easing is unavoidable, as lending to the corporate segment has almost stopped and banks are reducing business activity due to negative margins on their core corporate operations. We are already seeing the start of the unwind, and we think that changes will be gradual. The target share of TL deposits decreased from 60% to 57% with an industry average slightly above 57% last week. Conversion ratios from FX deposits into FX-protected deposits decreased to 10% by end-September.

Exhibit 49: Turkish banks – key metrics

Garanti has higher profitability and higher cost of risk vs. peers

	BBVA Garanti		Average peers		Isbank		Yapi Kredi		Akbank	
	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
P&L										
NIM %	4.8%	5.2%	5.3%	5.4%	6.3%	6.7%	4.6%	4.8%	4.9%	4.6%
C/I %	50%	50%	52%	57%	61%	62%	52%	56%	44%	51%
RoE %	24%	22%	23%	19%	22%	20%	24%	19%	24%	18%
CoR (bps)	109	140	91	123	68	120	94	140	110	110
Balance sheet										
Total capital ratio %	14.9%	14.1%	17.4%	16.1%	19.2%	18.1%	15.3%	14.3%	17.6%	15.7%
Gross NPL %	2.8%	3.0%	3.0%	3.1%	2.8%	2.9%	3.4%	3.6%	2.7%	2.9%
Coverage %	189%	198%	162%	177%	153%	176%	179%	186%	155%	169%
Loan growth y/y % (TL)	25%	27%	28%	27%	29%	28%	23%	26%	32%	28%
Loan growth y/y % (USD)	5%	-2%	-4%	-3%	-6%	-3%	-1%	-4%	-4%	-3%

Source: BofA Global Research estimates. Notes: key ratios and metrics are derived from estimates in Turkish Lira

BofA GLOBAL RESEARCH

Exhibit 50: BBVA Türkiye – BofA estimates vs consensus

We are below consensus on income, provisions and tax estimates, which nets out to 10-20% ahead on profits

	BBVA Türkiye - BofA estimates			BBVA Türkiye - VA consensus			BofA vs consensus		
EURm	2023e	2024e	2025	2023e	2024e	2025	2023e	2024e	2025
P&L									
Net interest income	2,110	2,320	2,421	2,305	2,413	2,396	-8%	-4%	1%
Fees & commissions	623	630	639	633	626	626	-2%	1%	2%
Other	-225	-327	-239	-144	-127	-118	56%	n.m.	n.m.
Total revenues	**2,508**	**2,622**	**2,821**	**2,794**	**2,912**	**2,903**	**-10%**	**-10%**	**-3%**
Operating costs	-1,420	-1,420	-1,420	-1,361	-1,423	-1,458	4%	0%	-3%
Pre-provision income	**1,089**	**1,203**	**1,402**	**1,433**	**1,489**	**1,446**	**-24%**	**-19%**	**-3%**
Loan loss provisions	-441	-587	-629	-460	-678	-664	-4%	-13%	-5%
Other	-64	-16	-93	-77	-58	-50	-16%	-73%	87%
Pre-tax profit	**583**	**599**	**679**	**896**	**753**	**731**	**-35%**	**-20%**	**-7%**
Tax	-34	-150	-170	-403	-391	-341	-92%	-62%	-50%
Other	-78	-64	-72	-64	-24	-27	22%	n.m.	n.m.
Net profit	**472**	**386**	**437**	**429**	**338**	**363**	**10%**	**14%**	**20%**
Key metrics									
Net customer loans	30,100	30,151	34,377	37,837	38,527	39,765	-20%	-22%	-14%
y/y growth	*-20%*	*0%*	*14%*	*1%*	*2%*	*3%*	*-20.7 ppt*	*-1.7 ppt*	*+10.8 ppt*
Net interest margin %	6.2%	7.7%	7.5%	6.1%	6.3%	6.1%	+0.1 ppt	+1.4 ppt	+1.4 ppt
Cost / income ratio %	57%	54%	50%	49%	49%	50%	+7.9 ppt	+5.3 ppt	+0.1 ppt
Tax rate %	6%	25%	25%	45%	52%	47%	-39.2 ppt	-26.9 ppt	-21.6 ppt
Cost of risk (bps)	131	195	195	122	178	170	+8 bps	+17 bps	+25 bps
NPL ratio %	6.5%	7.2%	7.4%	6.2%	7.2%	7.1%	+0.3 ppt	-0.0 ppt	+0.3 ppt

Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

UK: The one where no growth is too much

The UK represents c.13% of Santander's group earnings and c.20% of Sabadell's. SAN UK is the 5th largest bank in the UK with c.450 branches and c.14m customers. It is predominantly a mortgage bank. TSB similarly is a retail mortgage bank with a smaller c.3% market share; it was acquired by Sabadell in 2015.

Macro backdrop

Robert Wood
UK Economist
MLI (UK)

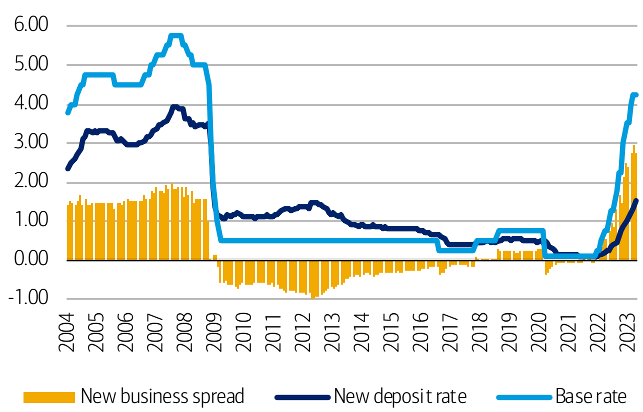
An entrenched inflation problem driven by structural supply shocks

The UK has an entrenched inflation problem in our view. Capacity pressures are high because the supply side of the economy has been hit by four shocks: energy, supply chain disruptions, workforce sickness and Brexit. These shocks mean weak demand bumps up against even weaker supply. While two supply shocks have now eased – energy & supply chain – two remain – labour & Brexit – and even the easing shocks have left behind some entrenched inflation in the form of deanchored expectations. The labour market remains tight not because demand is strong but because supply is weak, and supply is weak because of Brexit and workforce sickness. We don't expect these chronic issues to ease near-term. As such, it will be harder to bring inflation back to target than elsewhere. Our economists forecast headline CPI inflation at 4.25% in Dec-23 and back to c.2.4% by end-2024, but core to remain stickier, at 5.75% in Dec-23 and 3.0% in Dec-24.

Persistent inflation = extended period of higher rates and weaker growth

Unless none of current inflation reflects capacity pressures or deanchored expectations, bringing inflation to target sustainably will require the central bank to generate a margin of spare capacity. To do that the economy will need to grow more slowly than its potential, which we peg at 1% a year. We expect UK growth of 0.4% in 2023 and 0.3% in 2024. To deliver that growth outlook the central bank will in our view need to keep interest rates restrictive for an extended period. Improving growth in recent months seems to us inconsistent with rates being restrictive enough yet. Last week, the Bank of England surprised consensus hawkishly, hiking 50bp compared to 25bp expected. We maintain our call for two more 25bp rate hikes (August and September) and raise terminal as a result to 5.5% from 5.25%. Uncertainty is high, risks two-sided.

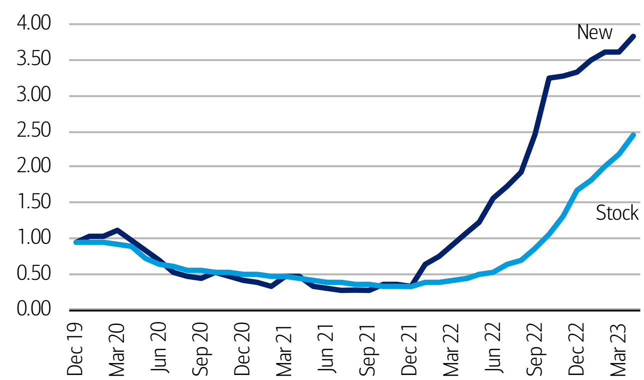
Exhibit 51: New deposits, rate and spread (%)
Deposit spread wider, now 270bp. Expect decline to pre financial crisis level



Source: Bank of England, BofA Global Research

BofA GLOBAL RESEARCH

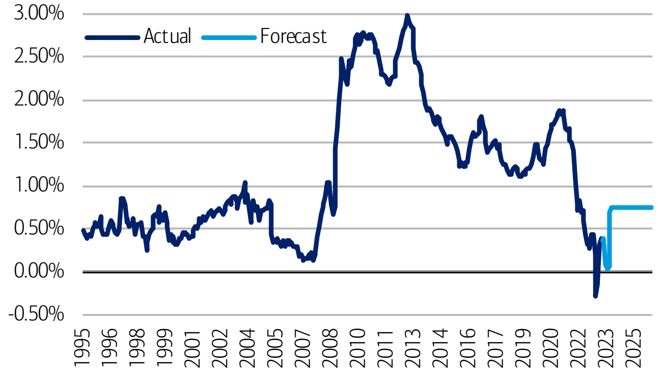
Exhibit 52: Time deposit rates (%)
New business rates up to 3.7%, 1.6x stock



Source: Bank of England, BofA Global Research

BofA GLOBAL RESEARCH

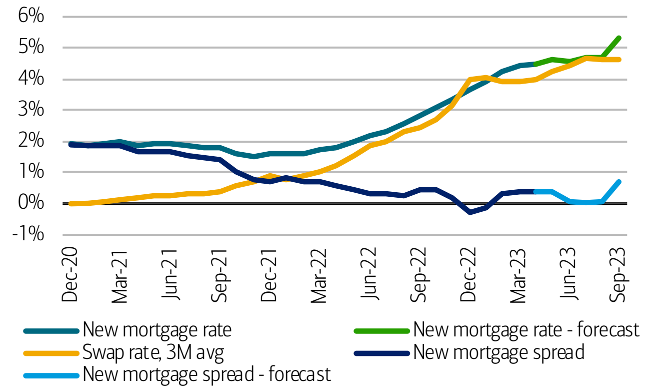
Exhibit 53: Spread on new mortgage lending
Volatile near term, settling around 75bp



Source: Bank of England, DataStream, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 54: UK new mortgage spread to swap rates
Current pricing indicates a recovery in Q3



Source: Bank of England, company data, BofA Global Research estimates

BofA GLOBAL RESEARCH

Mortgage repricing to weigh on volume outlook at both SAN and TSB

Antonio Reale >>
Research Analyst
MLI (UK)

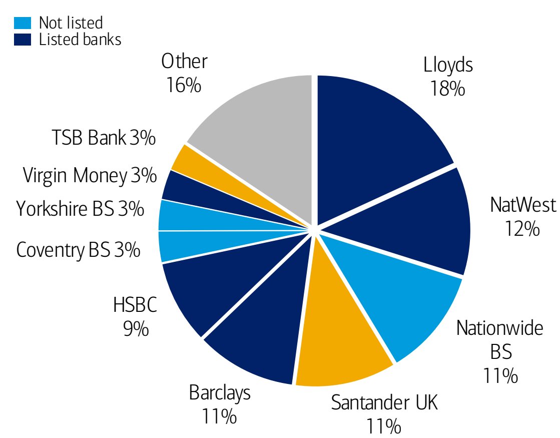
Rohith Chandra-Rajan >>
Research Analyst
MLI (UK)

We continue to expect a rising deposit beta and migration to more expensive deposits. On the lending side, we expect pressure on mortgage volumes as new production rates move up 300-350bps from current 2-3% levels reflecting higher policy rates and weighing on affordability, and we expect some compression in mortgage spreads ahead. We reflect this in our volume forecasts at both Santander and SAB TSB, with negative volumes this year and muted growth next year, given their mix skew towards mortgages. Otherwise, we see banks' balance sheets as relatively resilient to the macro and outlook for provisions, given the substantial mortgage de-risking post GFC.

Structural hedges provide some mitigants against NII headwinds

Lower volumes and higher deposit betas mean we expect NII to fall next year at both Santander UK and Sabadell TSB. This is despite the contribution deriving from their structural hedges: Santander has £110bn with a 5-year maturity (c.20% of the book matures every year) with current swap rates running at c.5% vs. 1.2% assumed in its back-book. Similarly, Sabadell TSB has a book of €26bn currently yielding c.1.2%. Below we provide an overview of structural hedge portfolios at Santander UK and TSB Bank, as well as at main UK banking peers for context.

Exhibit 55: Market share of UK banks by gross loans
Santander UK above 10% market share while TSB at 2%



Source: BofA Global Research, UK Finance

BofA GLOBAL RESEARCH

Exhibit 56: Structural hedge books UK banks
Front book yields currently running at c.5%, vs back-book yields of 0.7-1.2%

Bank	Structural hedge book size	Maturities	Back-book yield	Front-book yield
Santander UK	GBP 110bn	5 years c.20% book repricing per year	c.1.2%	5-year swap rate - currently 4.8%
TSB Bank	EUR 26bn	5 years c.20% book repricing per year	c.1.2%	5-year swap rate - currently 4.8%
Lloyds	GBP 250bn	5 years	c.1.0%	5-year swap rate - currently 4.8%
Natwest	GBP 230bn	6 years average	c.0.8%	c.4.8%
Barclays	GBP 260bn	5 years	c.0.9%	5-year swap rate - currently 4.8%
Virgin Money	GBP 32bn	5 years	c.0.7%	5-year swap rate - currently 4.8%

Source: BofA Global Research, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

Exhibit 57: UK banks – key metrics
SAN UK metrics broadly in line with peer average. TSB Bank still materially lagging peers on efficiency and profitability

	Santander UK		TSB Bank		Average peers		Lloyds		Natwest		Barclays		Virgin Money	
	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
P&L														
NIM %	2.1%	2.1%	2.8%	2.8%	2.8%	2.9%	3.0%	3.1%	2.1%	2.1%	4.3%	4.7%	1.9%	1.8%
C/I %	48%	51%	70%	75%	56%	56%	54%	53%	54%	52%	64%	64%	52%	56%
RoTE %	13%	11%	10%	7%	13%	12%	15%	14%	18%	18%	10%	10%	8%	7%
CoR (bps)	13	20	18	25	36	36	24	27	23	29	60	54	37	36
Balance sheet														
CET1 %					13.9%	13.8%	13.7%	13.6%	13.7%	13.8%	13.9%	14.0%	14.5%	13.7%
Gross NPL %	1.3%	1.5%	1.3%	1.5%	2.0%	1.8%	1.6%	1.6%	1.7%	1.7%	2.5%	2.5%	2.0%	1.5%
Coverage %	34%	34%	42%	42%	62%	58%	63%	50%	50%	50%	80%	80%	54%	53%
Loan growth y/y %	-1.0%	1.0%	-2.0%	1.0%	-0.8%	1.7%	-1.7%	0.9%	1.6%	2.5%	-0.7%	2.4%	-2.6%	0.8%

Source: BofA Global Research estimates. Notes: Key ratios and metrics are derived from estimates in British Pounds

BofA GLOBAL RESEARCH

Exhibit 58: Santander UK – BofA estimates vs consensus
We are c.10% below consensus earnings in 2024-25e on higher provisions

	Santander UK - BofA estimates			Santander UK - VA consensus			BofA vs consensus		
EURm	2023e	2024e	2025	2023e	2024e	2025	2023e	2024e	2025
P&L									
Net interest income	5,227	5,180	5,270	5,167	5,197	5,237	1%	0%	1%
Fees & commissions	355	366	373	370	380	388	-4%	-4%	-4%
Other	19	19	19	20	21	21	-6%	-9%	-9%
Total revenues	**5,601**	**5,565**	**5,663**	**5,558**	**5,598**	**5,646**	**1%**	**-1%**	**0%**
Operating costs	-2,709	-2,820	-2,904	-2,733	-2,811	-2,870	-1%	0%	1%
Pre-provision income	**2,892**	**2,745**	**2,758**	**2,825**	**2,787**	**2,776**	**2%**	**-2%**	**-1%**
Loan loss provisions	-328	-505	-512	-388	-393	-360	-15%	29%	42%
Other	-454	-375	-330	-363	-333	-318	25%	13%	4%
Pre-tax profit	**2,109**	**1,865**	**1,917**	**2,074**	**2,062**	**2,099**	**2%**	**-10%**	**-9%**
Tax	-569	-504	-518	-566	-563	-575	1%	-11%	-10%
Other	0	0	0	-1	-2	-2	n.m.	n.m.	n.m.
Net profit	**1,540**	**1,361**	**1,399**	**1,506**	**1,497**	**1,522**	**2%**	**-9%**	**-8%**
Key metrics									
Net customer loans	251,423	253,937	257,746	249,817	253,421	258,202	1%	0%	0%
y/y growth	*0%*	*1%*	*1%*	*-1%*	*1%*	*2%*	*+0.6 ppt*	*-0.4 ppt*	*-0.4 ppt*
Net interest margin %	2.1%	2.1%	2.1%	2.1%	2.1%	2.0%	+0.0 ppt	-0.0 ppt	+0.0 ppt
Cost / income ratio %	48%	51%	51%	49%	50%	51%	-0.8 ppt	+0.5 ppt	+0.5 ppt
Tax rate %	27%	27%	27%	27%	27%	27%	-0.3 ppt	-0.3 ppt	-0.4 ppt
Cost of risk (bps)	13	20	20	15	16	14	-2 bps	+4 bps	+6 bps

Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

Exhibit 59: TSB Bank – BofA estimates vs consensus

We are 20-30% below consensus earnings in 2024-25e, due 4-5% lower top line, partially offset by lower provisions

	TSB Bank - BofA estimates			TSB Bank - VA consensus			BofA vs consensus		
EURm	**2023e**	**2024e**	**2025**	**2023e**	**2024e**	**2025**	**2023e**	**2024e**	**2025**
P&L									
Net interest income	1,199	1,182	1,194	1,185	1,237	1,276	1%	-4%	-6%
Fees & commissions	128	131	137	119	126	129	8%	4%	7%
Other	-28	-33	-33	-33	-35	-34	-15%	-7%	-4%
Total revenues	**1,299**	**1,280**	**1,298**	**1,271**	**1,328**	**1,370**	**2%**	**-4%**	**-5%**
Operating costs	-915	-954	-980	-903	-949	-975	1%	1%	1%
Pre-provision income	**384**	**326**	**317**	**368**	**379**	**394**	**4%**	**-14%**	**-20%**
Loan loss provisions	-77	-107	-107	-107	-130	-125	-28%	-18%	-15%
Other	-34	-34	-34	-3	-4	-3	n.m.	n.m.	n.m.
Pre-tax profit	**273**	**185**	**177**	**258**	**245**	**267**	**6%**	**-24%**	**-34%**
Tax	-82	-55	-53	-80	-74	-80	3%	-25%	-34%
Other	0	0	0	0	0	0	n.m.	n.m.	n.m.
Net profit	**191**	**129**	**124**	**178**	**171**	**187**	**7%**	**-24%**	**-34%**
Key metrics									
Net customer loans	42,783	42,569	42,696	43,843	44,966	46,442	-2%	-5%	-8%
y/y growth	*-2%*	*-1%*	*0%*	*1%*	*3%*	*3%*	*-2.4 ppt*	*-3.1 ppt*	*-3.0 ppt*
Net interest margin %	2.8%	2.8%	2.8%	2.7%	2.8%	2.8%	+0.1 ppt	-0.0 ppt	+0.0 ppt
Cost / income ratio %	70%	75%	76%	71%	71%	71%	-0.6 ppt	+3.1 ppt	+4.3 ppt
Tax rate %	30%	30%	30%	31%	30%	30%	-0.9 ppt	-0.1 ppt	+0.0 ppt
Cost of risk (bps)	18	25	25	24	29	27	-7 bps	-4 bps	-2 bps

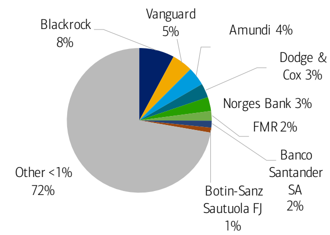
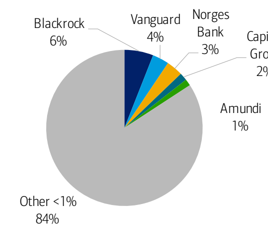
Source: BofA Global Research estimates, Visible Alpha. Notes: 1. Net Interest Margin (NIM) and Cost of Risk (CoR) computed on average net customer loans; 2. Key metrics and ratios are derived from estimates in Euro

BofA GLOBAL RESEARCH

Management and shareholders

Exhibit 60: Management, Board and Shareholders

Below we provide an overview of key Management, Board of Directors and Shareholders across our Spanish bank coverage

Bank	Board of Directors	Key Management	Management BIO	Ownership
Santander	**Ana Botín**, Executive Chair **Héctor Grisi**, CEO **Directors:** Bruce Carnegie-Brown, José Antonio Álvarez, Homaira Akbari, Germán de la Fuente, Sol Daurella, Henrique de Castro, Gina Díez Barroso, Glenn Hutchins, Belén Romana, Ramiro Mato, Luis Isasi, Pamela Walkden, Javier Botín, Jaime Pérez Renovales	**Ana Botín,** Executive Chair **Héctor Grisi**, Chief Executive Officer **José García Cantera**, Chief Financial Officer **José Luis de Mora,** Head of Strategy & Corporate Development **José María Linares**, Head of CIB **Víctor Matarranz**, Head of WM & Insurance **Mahesh Aditya**, Chief Risk Officer **Dirk Marzluf**, Chief Operating & Technical Officer **Pedro Castro e Almeida (*)**, Head of Europe	**Héctor Grisi Checa, Chief Executive Officer** CEO of Santander since Jan-2023. He joined the bank in 2015 as CEO of Santander Mexico. Prior to that, he spent 18 years in Crédit Suisse in various leadership roles, including Head of IB for Mexico, Central America and the Caribbean as well as CEO of CS México. **José García Cantera, Chief Financial Officer** CFO since 2015. Previously Head of the Global Corporate Banking Division since 2012. Prior to that, Chief Executive Officer of Banco Espanol de Credito.	
BBVA	**Carlos Torres Vila**, Chairman **Onur Genç**, CEO **José Miguel Andrés Torrecillas**, Deputy Chair **Directors:** Jaime Caruana Lacorte, Sonia Lilia Dulá, Raúl Galamba de Oliveira, Belén Garijo López, Connie Hedegaard Koksbang, Lourdes Máiz Carro, José Maldonado Ramos, Ana Peralta Moreno, Juan Pi Llorens, Ana Revenga Shanklin, Carlos Salazar Lomelín, Jan Verplancke	**Carlos Torres Vila,** Chairman **Onur Genç**, Chief Executive Officer **Rafael Salinas**, Global Head of Finance **Luisa Gómez Bravo**, Global Head of CIB **José Luis Elechiguerra**, Global Head-Engineering **Victoria del Castillo**, Global Head of Strategy & M&A **Jaime Sáenz de Tejada**, Head of Risk Managament **María Jesús Arribas**, Global Head of Legal	**Onur Genç, Chief Executive Officer** CEO of BBVA since 2018. Previously Country Manager USA at BBVA between 2017-18. Prior to that, Executive Vice President at Garanti ('12-17) and Director at McKinsey & Co. ('99-12). **Rafael Salinas, Global Head of Finance** CFO since 2021. Previously held senior roles at BBVA including Head of Global Risk Management ('15-21) & Head of Risk & Portfolio Management CIB ('06-15).	

Source: BofA Global Research, Company report; Note (*) replacing Antonio Simões, who will continue in his position until 1 Sept. and will begin his new role in Jan. 2024 as CEO of Legal & General

BofA GLOBAL RESEARCH

Santander | Company profile

Exhibit 61: Santander – Company profile

Buy, PO €4.65

Santander (SAN.SM) | Buy | PO €4.65

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 close to trough, approaching a key turning point with SELIC cuts due. While its tighter capital buffers will be supported by the organic generation and although the US auto lending market remains challenged, our proprietary data suggests loan losses will be significantly better than cons. We are buyers of Santander.

VALUATION

We derive our PO of €4.65 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

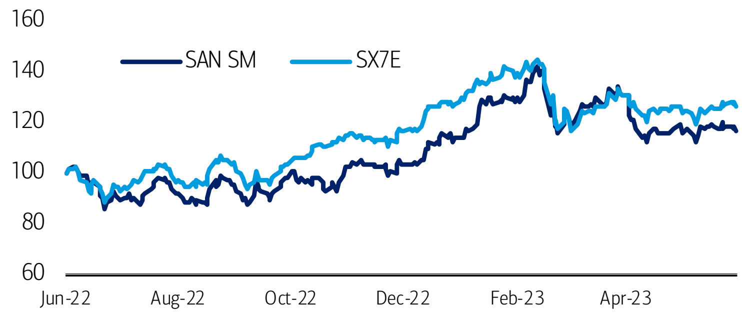
1. Selic rate in Brazil may not drop as fast as we forecast
2. Deposit beta may be higher than expected affecting funding mix
3. Higher default rates may affect cost of risk normalization and capital levels

KEY CATALYSTS

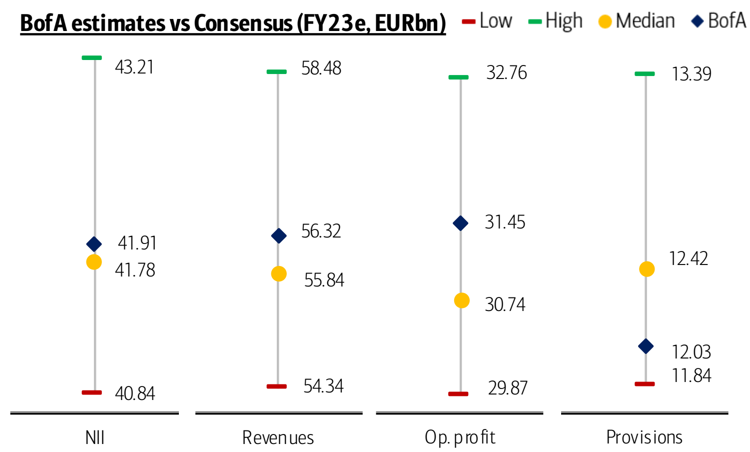
- July 2023: 2Q23 results
- July 23rd '23: Spanish general elections
- 3Q23e: announcement of first buyback for FY23
- August 2nd '23: BCB Copom meeting
- August 3rd '23: BoE MPC meeting

KEY CHARTS

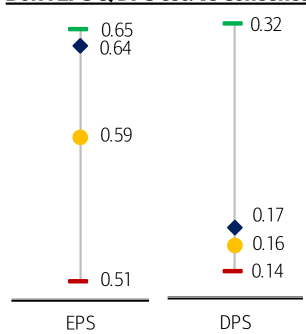
LTM share price performance vs SX7E index



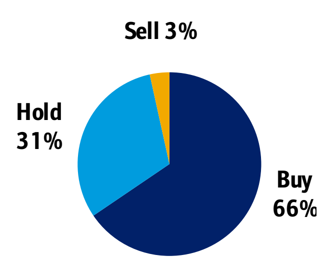
BofA estimates vs Consensus (FY23e, EURbn)



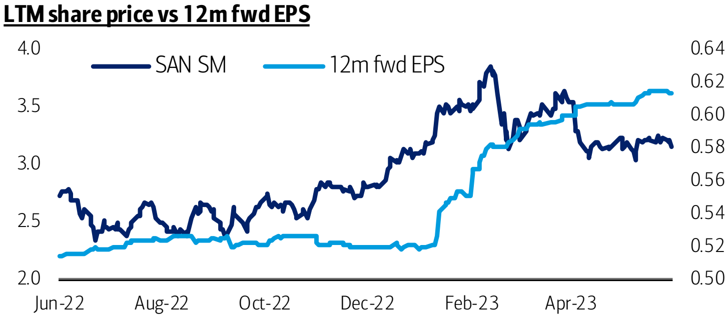
BofA EPS & DPS est. vs Consensus (FY23e)



Consensus rating distribution



LTM share price vs 12m fwd EPS



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Santander | Summary of financials

Exhibit 62: Santander – Summary of financials
P&L, Balance Sheet, key ratios

Income Statement					
€ in millions, year-end Dec	**FY21**	**FY22**	**FY23e**	**FY24e**	**FY25e**
Net interest income	33,370	38,619	41,907	42,882	44,423
% change	4%	16%	9%	2%	4%
Fees & Commissions	10,502	11,790	12,377	12,843	13,278
% change	5%	12%	5%	4%	3%
Trading revenues	1,563	1,653	2,041	1,880	1,812
% change	-29%	6%	23%	-8%	-4%
Other revenues	969	57	--	--	--
% change	140%	-94%	-100%	n.a.	n.a.
Total Revenues	**46,404**	**52,119**	**56,325**	**57,606**	**59,513**
% change	4%	12%	8%	2%	3%
Staff expenses	(11,043)	(12,547)	(13,059)	(13,408)	(13,813)
% change	3%	14%	4%	3%	3%
Other expense	(10,372)	(11,356)	(11,820)	(12,136)	(12,502)
% change	2%	9%	4%	3%	3%
Total expenses	**(21,415)**	**(23,903)**	**(24,879)**	**(25,544)**	**(26,315)**
% change	2%	12%	4%	3%	3%
Pre-provision profit	**24,989**	**28,216**	**31,446**	**32,062**	**33,198**
% change	6%	13%	11%	2%	4%
Loan loss provisions	(7,436)	(10,474)	(12,033)	(12,020)	(12,069)
Other provisions	(2,293)	(2,492)	(2,616)	(2,181)	(2,087)
Other non-recurrent pre-tax	0	--	143	782	1,018
Profit before taxes	**15,260**	**15,250**	**16,941**	**18,642**	**20,061**
% change	58%	0%	11%	10%	8%
Taxes	(5,076)	(4,486)	(4,904)	(5,427)	(5,837)
% Tax rate	33%	29%	29%	29%	29%
Minorities, g'will + other	(1,530)	(1,159)	(1,138)	(1,299)	(1,401)
Underlying net profit	**8,654**	**9,605**	**10,899**	**11,916**	**12,822**
One-off gains & provisions	(530)	--	--	--	--
Reported net profit	**8,124**	**9,605**	**10,899**	**11,916**	**12,822**
BofA adjusted net profit	**8,170**	**9,122**	**10,405**	**11,422**	**12,329**

Balance Sheet					
€ in millions, year-end Dec	**FY21**	**FY22**	**FY23e**	**FY24e**	**FY25e**
ASSETS					
Net customer loans	972,682	1,036,004	1,037,324	1,063,838	1,089,103
% change	6%	7%	0%	3%	2%
Loan loss reserves	22,964	22,684	26,418	29,927	31,104
Bond portfolio	163,854	193,716	191,687	188,758	184,448
Other earnings assets	282,672	313,736	341,757	336,866	330,889
Avg. earnings assets	1,368,879	1,481,332	1,557,112	1,580,116	1,596,951
% change	4%	8%	5%	1%	1%
Goodwill & intangibles	16,584	18,645	18,880	18,880	18,880
Other assets	160,043	172,558	175,523	175,492	175,457
Total assets	**1,595,835**	**1,734,659**	**1,765,172**	**1,783,835**	**1,798,776**
RWA / assets	36%	35%	35%	36%	36%
LIABILITIES					
Customer funding	1,164,507	1,305,740	1,274,940	1,274,487	1,271,950
% change	7%	12%	-2%	0%	0%
o/w Customer deposits	918,344	1,025,402	992,691	993,092	992,428
o/w Securities issued	246,163	280,339	282,250	281,395	279,522
Shareholders' equity	**86,930**	**89,104**	**93,556**	**97,809**	**102,417**
Minorities	10,123	8,481	9,565	10,571	11,656
Total liabilities & equity	**1,595,835**	**1,734,659**	**1,765,172**	**1,783,835**	**1,798,776**

Ratio Analysis	**FY21**	**FY22**	**FY23e**	**FY24e**	**FY25e**
Per Share Data					
EPS reported	0.50	0.57	0.67	0.77	0.89
EPS Adjusted (for valuation)	0.47	0.54	0.64	0.74	0.85
% change	72%	14%	19%	16%	15%
DPS	0.10	0.12	0.17	0.20	0.23
% change	n.m.	18%	46%	16%	15%
Dividend yield	3.3%	3.7%	5.2%	5.7%	6.2%
Payout ratio %	20%	20%	25%	25%	25%
Buyback per share	0.10	0.12	0.17	0.20	0.23
Buyback yield	1.6%	3.6%	3.8%	5.5%	6.0%
Buyback as % of earnings	20%	20%	25%	25%	25%
Total yield	4.9%	7.3%	9.0%	11.2%	12.1%
BV per share	5.02	5.28	5.76	6.35	7.08
TBV per share	4.06	4.17	4.60	5.12	5.78
Avg shares outstanding	17,308	16,892	16,244	15,403	14,461
Valuation metrics					
P/E	6.7x	5.8x	4.9x	4.3x	3.7x
P/BV	0.63x	0.60x	0.55x	0.50x	0.45x
P/TBV	0.78x	0.76x	0.69x	0.62x	0.55x
Profitability					
ROE	9.7%	10.4%	11.4%	11.9%	12.3%
ROTE	12.0%	13.0%	14.3%	14.9%	15.2%
ROA	0.5%	0.5%	0.6%	0.6%	0.7%
RoRWA	1.4%	1.5%	1.7%	1.8%	1.9%
NIM (NII / AIEA)	2.44%	2.61%	2.69%	2.71%	2.78%
Total revenues / RWAs	8%	9%	9%	9%	9%
NII / Tot revenues	72%	74%	74%	73%	73%
Fees / Tot revenues	23%	23%	22%	22%	22%
Efficiency					
Cost / income	46%	46%	44%	44%	43%
Cost / assets	1.4%	1.4%	1.4%	1.4%	1.5%
Cost / RWAs	3.8%	4.0%	4.1%	4.1%	4.1%
Balance sheet gearing					
Loan / deposit	106%	101%	104%	107%	110%
Bond securities / assets	10%	11%	11%	11%	10%
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%	51%	59%	61%
Cost of risk (bps)	79	104	116	114	112
Capital					
Core Tier 1 Capital (Basel III)	70,208	73,350	76,831	80,776	83,558
RWAs (Basel III)	579,478	609,404	613,521	638,839	654,290
% change	3%	5%	1%	4%	2%
RWAs density	60%	59%	59%	60%	60%
Leverage ratio %	5%	5%	5%	5%	6%
Core Tier 1 fully loaded %	12.1%	12.0%	12.5%	12.6%	12.8%
Buffer over SREP %		3.19%	3.67%	3.79%	3.92%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

BBVA | Company profile

Exhibit 63: BBVA – Company profile

Neutral, PO €8.0

BBVA (BBVA.SM) | Neutral | PO €8.0

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 now fading as we approach peak with early signs of an economic slowdown now visible in Mexico and elections next year. We also prefer to gain exposure directly via Caixabank vs. BBVA's Spanish business given the better funding profile, while we are cautious on Türkiye as FX depreciation and hyperinflation do not seem to be priced in yet. While inexpensive we see limited upside - Neutral rating.

VALUATION

We derive our PO of €8.0 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

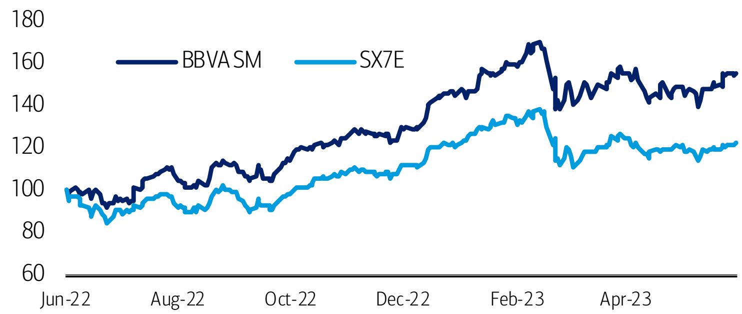
1. Deterioration in sovereign risk in key geographies
2. Türkiye risk could still affect capital and shareholders' returns
3. Asset quality deteriorating more than we forecast

KEY CATALYSTS

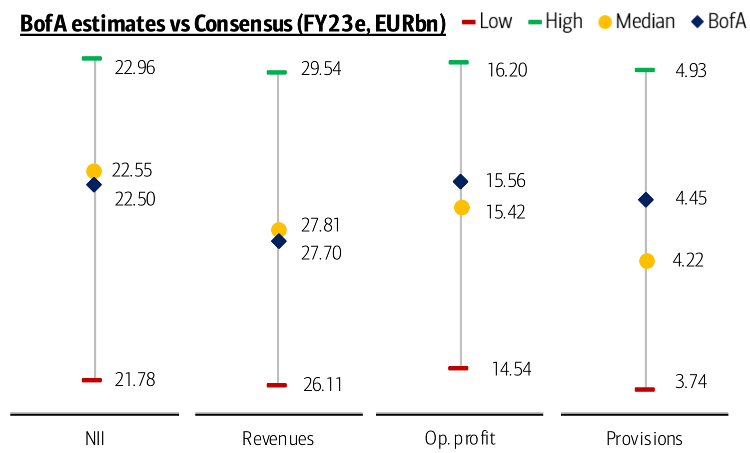
- July 2023: 2Q23 results
- July 23rd '23: Spanish general elections
- July 20th '23: TCMB Monetary Policy meeting
- August 10th '23: Banxico Monetary Policy meeting

KEY CHARTS

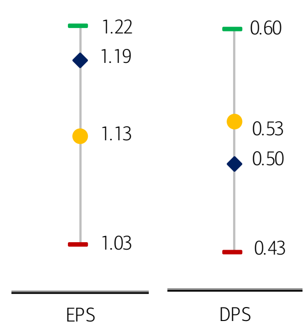
LTM share price performance vs SX7E index



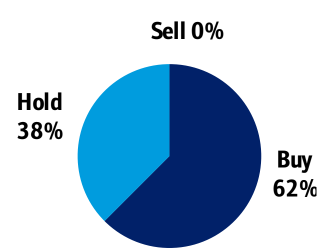
BofA estimates vs Consensus (FY23e, EURbn)



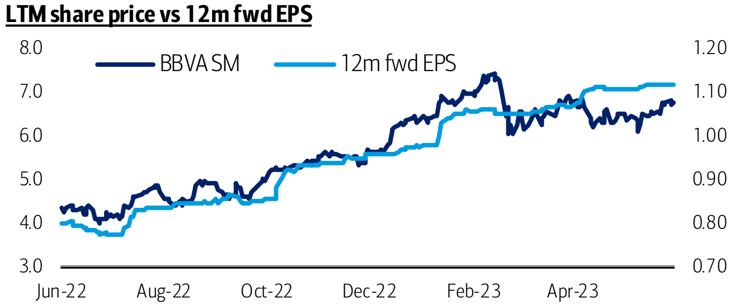
BofA EPS & DPS est. vs Consensus (FY23e)



Consensus rating distribution



LTM share price vs 12m fwd EPS



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

BBVA | Summary of financials

Exhibit 64: BBVA – Summary of financials
P&L, Balance Sheet, key ratios

Income Statement					
€ in millions, year-end Dec	**FY21**	**FY22**	**FY23e**	**FY24e**	**FY25e**
Net interest income	14,686	19,153	22,496	22,105	21,926
% change	-13%	30%	17%	-2%	-1%
Fees & Commissions	4,765	5,353	5,723	5,769	5,889
% change	3%	12%	7%	1%	2%
Trading revenues	1,910	1,938	1,504	1,263	1,218
% change	13%	1%	-22%	-16%	-4%
Other revenues	(295)	(1,555)	(2,023)	(1,093)	(829)
% change	118%	n.m.	30%	-46%	-24%
Total Revenues	**21,066**	**24,890**	**27,701**	**28,044**	**28,204**
% change	-8%	18%	11%	1%	1%
Staff expenses	(5,046)	(5,612)	(6,266)	(6,359)	(6,496)
% change	-11%	11%	12%	1%	2%
Other expense	(4,483)	(5,149)	(5,875)	(6,060)	(6,325)
% change	-12%	15%	14%	3%	4%
Total expenses	**(9,530)**	**(10,761)**	**(12,141)**	**(12,419)**	**(12,821)**
% change	-11%	13%	13%	2%	3%
Pre-provision profit	**11,536**	**14,129**	**15,560**	**15,625**	**15,383**
% change	-6%	22%	10%	0%	-2%
Loan loss provisions	(3,034)	(3,378)	(4,454)	(4,741)	(4,825)
Other provisions	(264)	(291)	(201)	(192)	(185)
Other non-recurrent	2	31	(10)	(10)	(10)
Profit before taxes	**8,240**	**10,490**	**10,895**	**10,682**	**10,364**
% change	58%	27%	4%	-2%	-3%
Taxes	(2,207)	(3,461)	(3,020)	(3,076)	(2,982)
% Tax rate	27%	33%	28%	29%	29%
Minorities, g'will + other	(965)	(407)	(449)	(448)	(446)
Underlying net profit	**5,069**	**6,622**	**7,426**	**7,158**	**6,936**
Discontinued ops & other	(416)	(201)	--	--	--
Reported net profit	**4,653**	**6,420**	**7,426**	**7,158**	**6,936**
BofA adjusted net profit	**4,710**	**6,309**	**7,130**	**6,862**	**6,640**

Balance Sheet					
€ in millions, year-end Dec	**FY21**	**FY22**	**FY23e**	**FY24e**	**FY25e**
ASSETS					
Net customer loans	318,939	358,023	353,552	357,284	364,756
% change	-13%	12%	-1%	1%	2%
Loan loss reserves	11,116	11,237	12,509	14,035	15,577
Bond portfolio	34,781	43,606	44,042	44,482	44,927
Other earnings assets	271,761	270,751	292,964	290,503	289,315
Avg. earnings assets	658,828	648,931	681,469	691,414	695,634
% change	-2%	-2%	5%	1%	1%
Goodwill & intangibles	2,197	2,156	2,209	2,209	2,209
Other assets	35,207	38,604	39,676	39,490	39,352
Total assets	**662,885**	**713,140**	**732,443**	**733,968**	**740,559**
RWA / assets	46%	47%	48%	50%	51%
LIABILITIES					
Customer funding	405,525	449,285	433,620	430,244	434,002
% change	-14%	11%	-3%	-1%	1%
o/w Customer deposits	349,761	393,856	377,636	373,701	376,893
o/w Securities issued	55,763	55,429	55,983	56,543	57,109
Shareholders' equity	**43,907**	**46,990**	**51,174**	**53,642**	**56,275**
Minorities	4,853	3,624	3,981	4,429	4,875
Total liabilities & equity	**662,885**	**713,140**	**732,443**	**733,968**	**740,559**

Ratio Analysis					
	FY21	**FY22**	**FY23e**	**FY24e**	**FY25e**
Per Share Data					
EPS reported	0.70	1.03	1.24	1.22	1.23
EPS Adjusted (for valuation)	0.71	1.01	1.19	1.17	1.18
% change	74%	43%	18%	-1%	1%
DPS	0.31	0.43	0.50	0.50	0.50
% change	n.m.	39%	16%	0%	1%
Dividend yield	5.1%	6.5%	7.4%	7.1%	6.9%
Payout ratio %	44%	40%	40%	40%	40%
Buyback per share	0.52	0.07	0.26	0.25	0.13
Buyback yield	0.0%	7.9%	1.1%	3.9%	3.6%
Buyback as % of earnings	75%	7%	21%	20%	10%
Total yield	5.1%	14.3%	8.4%	11.0%	10.5%
BV per share	6.60	7.53	8.54	9.17	10.00
TBV per share	6.27	7.19	8.17	8.79	9.61
Avg shares outstanding	6,654	6,237	5,990	5,850	5,628
Valuation metrics					
P/E	9.5x	6.7x	5.7x	5.7x	5.7x
P/BV	1.02x	0.89x	0.79x	0.73x	0.67x
P/TBV	1.07x	0.94x	0.82x	0.77x	0.70x
Profitability					
ROE	10.6%	13.9%	14.5%	13.1%	12.1%
ROTE	11.5%	14.6%	15.2%	13.7%	12.6%
ROA	0.7%	0.9%	1.0%	0.9%	0.9%
RoRWA	1.4%	2.0%	2.1%	1.9%	1.8%
NIM (NII / AIEA)	2.23%	2.95%	3.30%	3.20%	3.15%
Total revenues / RWAs	6%	8%	8%	8%	8%
NII / Tot revenues	70%	77%	81%	79%	78%
Fees / Tot revenues	23%	22%	21%	21%	21%
Efficiency					
Cost / income	45%	43%	44%	44%	45%
Cost / assets	1.4%	1.6%	1.7%	1.7%	1.7%
Cost / RWAs	2.9%	3.3%	3.5%	3.4%	3.4%
Balance sheet gearing					
Loan / deposit	91%	91%	94%	96%	97%
Bond securities / assets	5%	6%	6%	6%	6%
Customer loans / assets	48%	50%	48%	49%	49%
Customer deposits / funding	86%	88%	87%	87%	87%
Bonds issued / funding	14%	12%	13%	13%	13%
Asset quality					
Gross NPEs	15,443	14,463	14,004	13,538	13,062
% change	0%	-6%	-3%	-3%	-4%
Gross NPE ratio	4.1%	3.4%	3.3%	3.2%	3.0%
Texas ratio %	29%	26%	23%	20%	19%
Coverage ratio - Stage 3	47%	52%	63%	76%	90%
Cost of risk (bps)	89	100	125	133	134
Capital					
Core Tier 1 Capital (Basel III)	39,184	42,486	46,802	49,102	51,567
RWAs (Basel III)	307,335	336,920	352,283	368,137	380,757
% change	-13%	10%	5%	5%	3%
RWAs density	97%	94%	100%	103%	104%
Leverage ratio %	7%	7%	7%	7%	8%
Core Tier 1 fully loaded %	12.7%	12.6%	13.3%	13.3%	13.5%
Buffer over SREP %		4.01%	4.69%	4.74%	4.94%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 65: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BBVA	BBVA US	BBVA	US$ 7.33	B-2-7
BBVXF	BBVA SQ	BBVA	EUR 6.748	B-2-7
BCDRF	SAN SQ	Santander	EUR 3.0835	B-1-7
SAN	SAN US	Santander	US$ 3.33	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Investment Rationale

BBVA

Mexico represents c.60% of BBVA's group profits. This has been a key source of growth for BBVA, which is now fading as we approach peak with early signs of an economic slowdown now visible in Mexico and elections next year. We also prefer to gain exposure directly via Caixabank vs. BBVA's Spanish business given the better funding profile, while we are cautious on Türkiye as FX depreciation and hyperinflation do not seem to be priced in yet. While inexpensive we see limited upside - Neutral.

Santander

SAN 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 close to trough, approaching a key turning point with SELIC cuts due. While its tighter capital buffers will be supported by organic generation and despite the US auto lending market remaining challenged, our proprietary data suggests loan losses will be materially better than cons. Buy.

Price objective basis & risk

BBVA (BBVXF / BBVA)

We derive our PO of €8.00 (ADR USD 8.76) 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 €4.65 (ADR USD 5.10) 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	XUHJF	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
	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	BNDSF	SAB SQ	Antonio Reale
	Commerzbank	CRZBF	CBK GY	Rohith Chandra-Rajan
	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

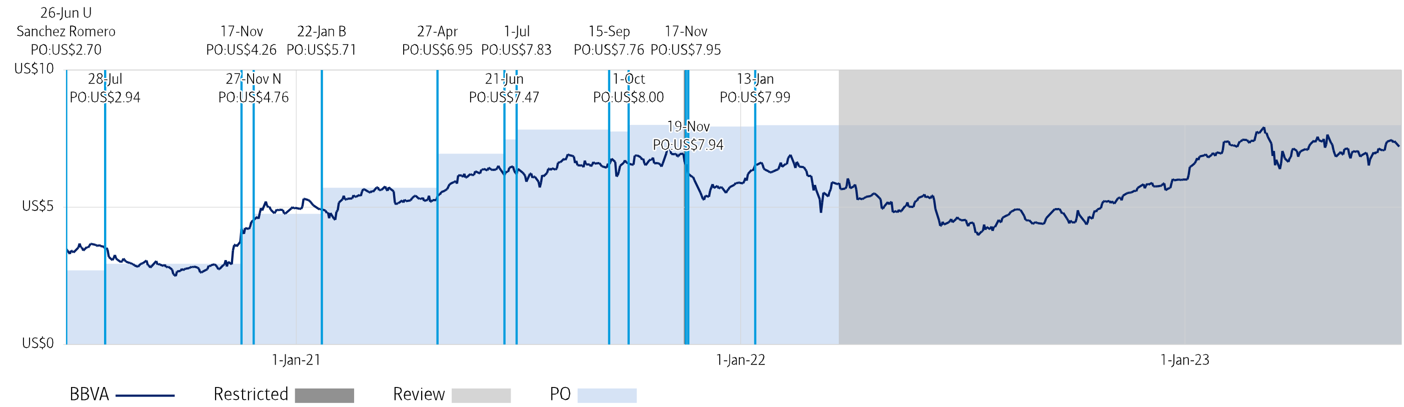
EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

Disclosures

Important Disclosures

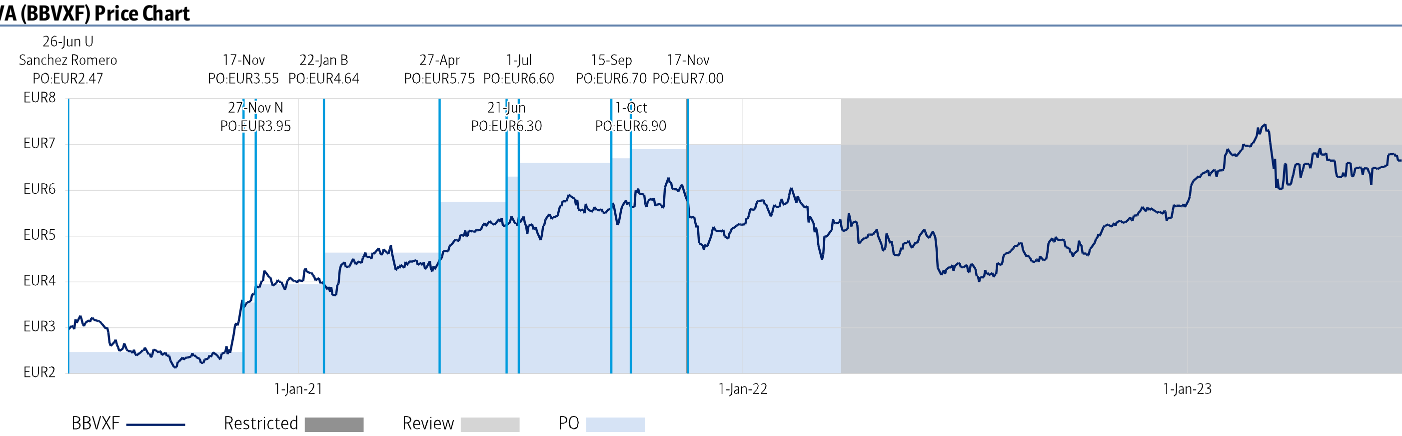
BBVA (BBVA) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

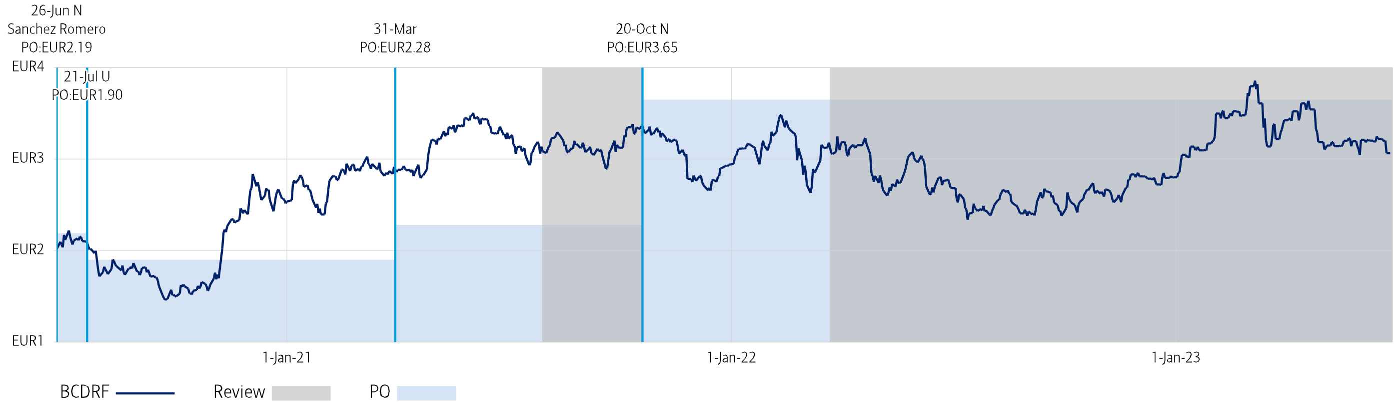
BBVA (BBVXF) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Santander (BCDRF) Price Chart



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

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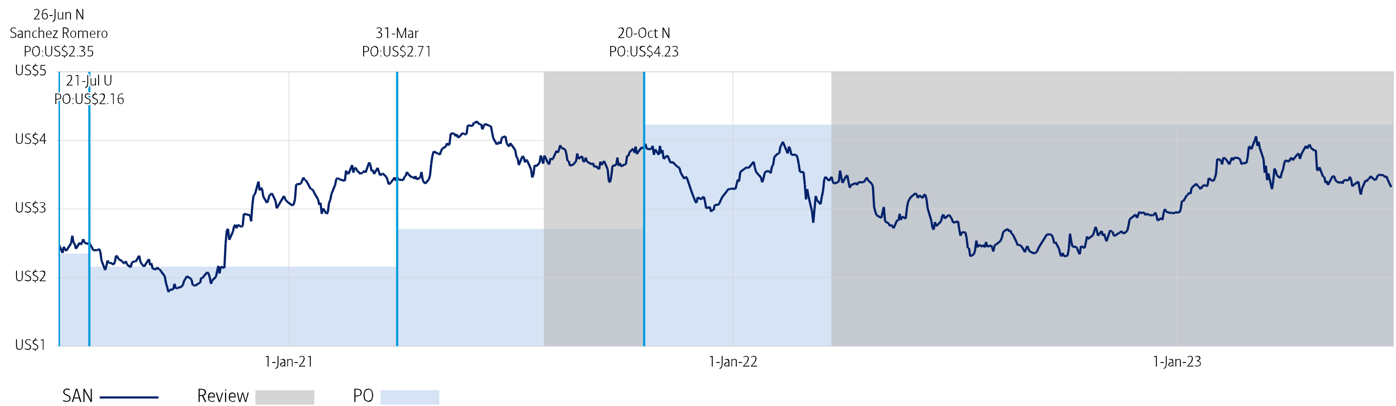
Santander (SAN) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	88	50.87%	Buy	72	81.82%
Hold	40	23.12%	Hold	29	72.50%
Sell	45	26.01%	Sell	34	75.56%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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