Lisbon School of Economics & Management
Universidade de Lisboa

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK PROJECT

EQUITY RESEARCH:
BANKINTER, S.A.

CÉSAR ALEXANDRE GONÇALVES DA PONTE

JUNE 2023

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SUPERVISOR:
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Abstract

The project consists of estimating the target price of Bankinter S.A., for 1st January 2024. This Equity Research Report follows the CFA Institute research report guidelines.

Bankinter is a Spanish publicly traded company in the commercial banking industry listed on Madrid and Barcelona stock exchanges. It conducts its activity in Spain, Portugal, Ireland, and Luxembourg.

This report issues a Buy recommendation for Bankinter, with a 2024YE PT of € 6.39 per share and an upside potential of 19.71% in 6 months, an annualized return of 12.74%, against the current price of € 5.34 per share, as of 31st May 2023, with medium risk.

The buy recommendation is mainly explained by: Robust financials and low capital requirements; Better performance in Spain under stress scenarios and better asset quality; Strong digital development; Robust client profile; Strong Dividend Commitment (50% payout ratio).

We reached Bankinter's valuation through the Residual Income model on a consolidated basis, and we complemented it with other methods, namely the dividend discounted model, the flow to equity approach and the multiple valuation.

The bank is subject to significant risks, such as regulatory changes, unexpected changes in interest rates, slowing of economic growth and disposable income, decreases in asset values, and operational risks that can affect both net interest income and fee income.

As a trust institution, the bank must be conscious of its obligation to preserve its credibility to stay out of a bank run, considered the worst-case scenario in a bank, which may lead to a bank's bankruptcy.

JEL classification: G10; G21; G32; G34; G35

Keywords: Equity Research; Valuation; Mergers & Acquisitions; Banking; Bankinter

Resumo

Este projeto consiste na estimação do preço alvo da ação do Bankinter S.A. para 1 de janeiro de 2024. Este relatório de avaliação segue as diretrizes de investigação do CFA Institute.

Bankinter é uma empresa espanhola cotada na bolsa de Madrid e Barcelona a operar na banca comercial. Exerce atividade em Espanha, Portugal, Irlanda e Luxemburgo.

Este relatório emite uma recomendação de Compra para o Bankinter, com um Preço-Alvo de € 6.39 por ação para 2024YE com uma valorização potencial de 19.71% em 6 meses, e um retorno anualizado de 12.74% face ao preço corrente de € 5.34 por ação no dia 31 de maio de 2023, com nível médio de risco.

A recomendação de compra é principalmente explicada por: Fundamentos sólidos e baixos requisitos de capital; Melhor desempenho na Espanha em cenários de stress e melhor qualidade dos ativos; Forte desenvolvimento digital; Perfil robusto de clientes; Compromisso forte com dividendos (taxa de pagamento de 50%).

Chegamos à avaliação do Bankinter por meio do modelo do Rendimento Residual numa base consolidada, e complementámos com outros métodos, como o modelo de dividendos descontados, a abordagem de fluxo de capitais próprios e a avaliação por múltiplos.

O banco está sujeito a riscos significativos, como mudanças regulatórias, mudanças inesperadas nas taxas de juros, desaceleração do crescimento económico e rendimento disponível, queda nos valores dos ativos e riscos operacionais que podem afetar tanto o resultado de juros líquidos quanto o rendimento de serviços.

Como instituição de confiança, o banco deve estar consciente de sua obrigação de preservar sua credibilidade para evitar uma corrida aos depósitos, considerado o pior cenário possível num banco, o que pode levar à falência do banco.

Classificação JEL: G10; G21; G32; G34; G35

Palavras-Chave: Equity Research; Avaliação de Empresas; Fusões e Aquisições; Banca; Bankinter

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To all,

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Bankinter, SA

Buy

Medium Risk

31st May 2023

Bolsas y Mercados Españolas

Bankinter: Poised for a comeback

YE2024 PT of € 6.39 (+19.71%); Recommendation is to Buy with Medium Risk

Research Snapshot

Buy is the recommendation for Bankinter SA with a target price of c. € 6.39 and an upside potential of 19.71% from 31st May 2023 and an annualized return of 12.74% (Figure 1). After the sensitivity analysis and Monte Carlo simulation, the qualitative assessment (Table 1) determined that this stock has a medium risk.

Key Statistics

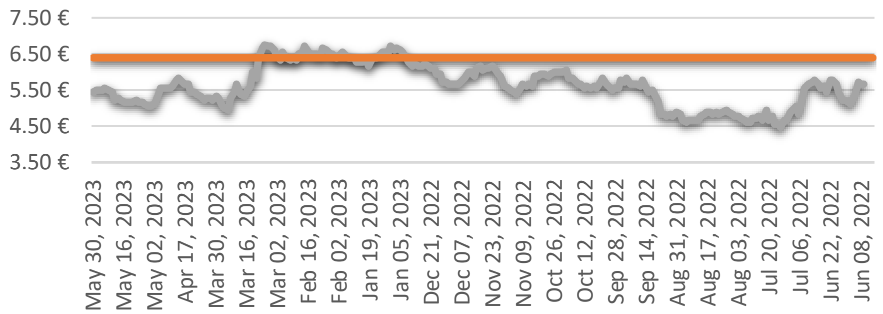
Table 3. Key Statistics

Ticker	BME: BKT	**52-Wk High**	€6.93	**5Y Beta**	1.15
Website	www.bankinter.com	**52-Wk Low**	€4.53	**Float**	66%
Industry	Banking	**Current Price**	€5.34	**Inst. Own.**	33%

Source: *Reuters (31st May 2023)*

Stock Performance

Figure 1. Relative Price Performance



Source: *Yahoo Finance*

Highlights

- The residual income model indicates the buy recommendation, supported by the multiple valuation (Table 4). The dividend discount model and flow to equity approach led to a more conservative PT, giving a Hold recommendation. However, we did not consider those methods for regulatory reasons, further explained in the valuation chapter.
- Due to the commercial strategy and the increase in the digital services provided, we expect a growth in deposits and credit above the market's growth by 50 bps each year (Table 2).
- The increase in interest rates carves out the industry's expectations on net interest margin, but it raises some concerns about non-performing loans. Therefore, we assume an increasing amount of capital requirements to face unexpected losses not covered by impairments (an increase of 20 bps in the required capital ratio for the forecasted years).

Table 1. Risk Assessment

Low	Medium	High

Source: *Author's estimations*

Our risk assessment reflects intense internal competition but with protection from regulation and high entry barriers.

Table 2. Financial Highlights

€ B	22	23F	27F
Liquidity	13.3	12.8	16.2
Securities	16.4	17.1	17.8
Credit	75.5	77.7	83.8
Others	2.3	1.7	1.8
Assets	107.5	109.3	119.6
Funding	15.1	15.1	16.1
Deposits	72.9	74.2	77.2
Others	14.6	14.6	19.0
Liabilities	102.6	103.8	112.3
Equity	4.9	5.5	7.3
€ M			
NII	1,537	1,643	1,891
G. Income	2,084	2,253	2,538
EBT	785	909	1,177
Profit	560	670	859
%			
ROE	11.5	12.9	12.2
CET1 ratio	12.0	12.7	14.4
TCR	15.3	15.7	18.0

Source: *Annual Accounts 2022; Author's estimations*

Table 4. Residual Income valuation

Equity Invested	€ 5,963.47 k
PV of Equity Excess Return	€ -217.35 k
Value of Equity	€ 5,746.12 k
No. of shares	898,866 k
Value per Share	€ 6.39

Current Price	€ 5.34
Upside	19.71%

Source: *Author's estimations*

Business Description

Bankinter S.A. (BKT) is a Spanish publicly traded commercial bank, listed on the Bolsa de Madrid and the Bolsa de Barcelona stock exchanges, which operates mainly in Spain and Portugal but also with some activity in Ireland and Luxembourg (Figure 2). It collected c. € 949M from clients' deposits and operated with 446 branches and a team of 6,419 employees in 2022 distributed through the four countries (Figure 3).

BKT counts some subsidiaries and minority interests in insurance, real estate, and hotels. Línea Directa Asseguradora was part of Bankinter S.A. Still, it became an independent company after its IPO in 2021 to achieve the strategic goal of separating the banking and insurance businesses.

In 2023, Bankinter closed a significant deal with Sonae, acquiring 50% of Universo, Sonae's credit card, with the purpose of becoming the market leader in Portugal's credit consumption. This transaction occured after a strategic partnership of Bankinter with Sonae in acquiring the Atrium Saldanha shopping center.

Figure 2. Map of Operations

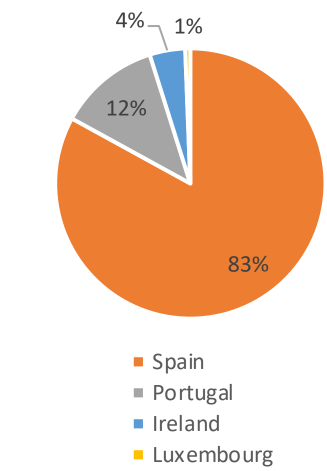
Source: *Author, Company Data*

Mission: provide proper financial solutions that meet its customers' needs and assist them in achieving their goals.

Vision: dedicated to assuring an effortless and convenient banking experience, with a strong focus on technological innovation.

Values: Agility, Enthusiasm, Integrity, Originality.

Figure 3. Workforce (per country)



Source: *Author, Annual Accounts 2022*

History

In 1965 Bank of America and Banco Santander created an industrial bank named Banco Intercontinental Español, S.A. as a joint venture. Later, in 1972 it became independent from the founders with its IPO and changed from an industrial bank to a commercial bank. Year 1987 marked the release of a "Special Deposit" with a high-interest rate. The company is known for being a very innovative bank; it was one the pioneers of telephone banking, mobile banking, and online banking.

The bank had some important deals in M&A: the first operation was the acquisition of 100% of Línea Directa; following that, the acquisition of Barclay's banking business in Portugal allowed the first international expansion of the bank, and more recently, in 2019, Bankinter bought Evo Banco and Avantcard.

More recently, the firm launched Bankinter Capital Advisor, a completely digital advisory service designed to offer the best-tailored investment recommendations to clients.

Figure 4. Accounts Advertisement

Source: *Company's Website*

Products and Services

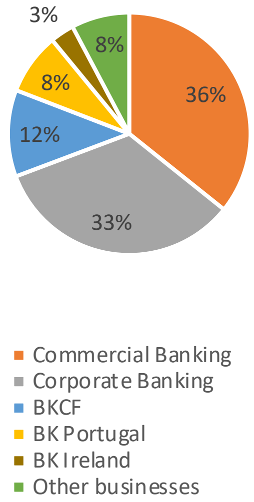
- Accounts: Current, Savings, Payroll, Professional, Pension, Term Deposits.
- Loans: Mortgages, Term, Personal (Figure 4).
- Insurance: Home, Life, Car, Health, Death, Accident, Building, Machinery and Equipment, Professional Civil Liability.
- Cards: Debit, Credit.
- Services: Investment Funds, Asset Management, Wealth Management, Telephone Banking, e-Banking, Investment Banking, Consumer Finance, Forex Exchange.

Business Lines

Commercial Banking: This line is the most important in the business; it accounts for c. 36% of Gross Operating Income (Figure 5). The customers of this segment are divided into:

- Private Banking: wealthy customers worth > € 1 M.
- Personal Banking: household income ≥ 70,000 euros, or financial assets between € 75,000 – € 1,000,000.
- Individual Retail Banking: mainstream clients.
- Foreign Customers: which include European non-Spanish clients.

Figure 5. Gross Operating Income (per segment)



Source: *Author; Annual Accounts 2021*

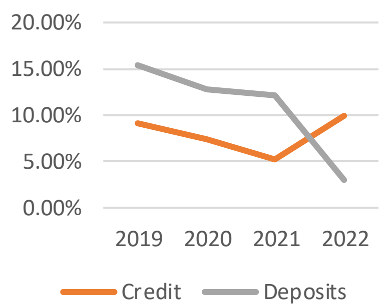
Corporate Banking: Corporate banking is an important activity today. This business line is divided according to the dimension of the client: Corporate Banking (> € 50M in revenue), Mid-corporate banking (€ 5 M < and > € 50 M), and SME banking (< € 5 M).

Bankinter Portugal: In April 2016, Bankinter acquired Barclays' personal, private and corporate banking business in Portugal and the 84 branches. The country constitutes about 8% of the gross operating income. It received the Five Starts Award in the payroll account category.

Bankinter Consumer Finance: This segment includes credit cards and consumer loans; the customers could be exclusive from this business line or shared with the commercial banking line.

Bankinter Ireland: Acquired by Bankinter in 2019, it previously was Avantcard Ireland Ltd., a subsidiary of EVO Banco, the digital bank. The company holds consumer and mortgage lending operations in this country.

Figure 6. Credit and Deposits growth



Source: *Author; Annual Accounts*

Key Drivers of Profitability

- Credit: The core function of a bank is to offer credit in the form of loans, such as for housing, cars, consumption, and other purposes, with interest rates that may be floating or fixed. The interest rate charged depends on the type of loan, and the Central Bank defines a maximum spread for each kind of loan. The bank has been increasing in credit, with annual growth rates above 5% in the past 5 years (Figure 6), with deceleration in the pandemic years when the domestic demand was lower.
- Deposits: To provide credit, the bank must maintain a certain amount of deposits to comply with the reserve requirements implied by the regulator. These deposits may be demand or term deposits, with only the latter earning interest. Banks must balance their desire for a more significant margin against the goal of expanding their market share in deposits. Bankinter's deposits have had impressive growth in the past years, due to the extra household savings during the 2020-21 period. The last 5Y CAGR is 8.51%, despite the slowdown in 2022 when savings started to decrease. (Figure 6).

Table 5. Company's strategy

Strategy
Focus on Digitalization
Clients in every stage of life
Internationalization of firms
Prudent Risk profile
Good dividend policy

Source: *Author, Executive Summary 2022*

Strategy

Focus on Digitalization: The central pillar of Bankinter is to differentiate from the concurrence by providing a more digital product (Table 5); it has been part of the bank's history and will always be the BKT's focus. The heavy investment in technology is imbedded most recently in Bankinter Interactive Assistant.

Clients in every stage of life: The salary account and mortgages are the main products to compete for the "highly loyal and profitable" clients. Customer service has continuously improved, emphasizing tailored products for household customers. In 2023 it is being implemented a new front-end for customized commercial management.

Internationalization of firms: The bank's corporate segment is expanding, potentially arise to the internationalization of Spanish companies, which the bank is assisting with funding and support. The Supply Chain Finance platform will address working capital issues for international businesses.

Prudent Risk Profile: One of the main flags of the bank is the moderate risk exposure; the 2.10% NPL ratio is the lowest in the Spanish banking system and expects the lowest losses under a stress scenario. The LTD ratio below 100% shows that banks keep more deposits than loans (Table 6).

Table 6. Risk Profile

	2021	2022
NPL RATIO	2.24%	2.10%
LTD RATIO	96.94%	97.25%

Source: *Author; Annual Accounts*

Good Dividend Policy: The firm has a strategic goal of a 50% Payout Ratio; the pandemic crisis made it impossible to happen, but in 2022 that objective was surpassed, with a € 0.28 dividend.

Shareholder's structure

Bankinter, S.A. comprises 898,866,154 shares, all with voting and dividend rights, fully subscribed for € 0.3 per share each. The number of shareholders is 55,088, and 54% are Spanish.

The company estimates that c.66% are free-floating shares, and Cartival, S.A. (23.19%) holds the most significant portion of the company. Fidelity International Limited and Lazard Asset Management are the other significant institutional shareholders of Bankinter[1] (Table 7). Fernando Masaveu Herrero is the only substantial shareholder, with 5.31% of Bankinter's capital.

Table 7. Shareholder's Structure

SHAREHOLDER	TOTAL VOTING RIGHTS
CARTIVAL, S.A. (BOARD MEMBER)	23.19%
FERNANDO MASAVEU HERRERO	5.31%
LAZARD ASSET MANAGEMENT INC,	3.03%
FIDELITY INTERNATIONAL LIMITED	2.03%

Source: *Author; Annual Corporate Governance Report 2022*

Management and ESG

As a Spanish financial institution, Bankinter complies with the corporate governance principles and guidelines outlined by the Spanish legal framework, the Spanish Securities Market Commission (CNMV), and the Spanish Corporate Governance Code.

The Spanish model of corporate governance is considered a hybrid of the German and Anglo-Saxon models, emphasizing the role of the board of directors in overseeing the management of the company while also taking into account the participation of other stakeholders in decision-making processes, along with various committees and commissions that oversee specific areas of the company's operations. Additionally, Bankinter has a Code of Conduct and Ethics that outlines the values and principles that guide the conduct of its employees and directors.

Bankinter's corporate governance approach is founded on transparency, accountability, and responsible management. The company strives to balance the interests of its various stakeholders while ensuring its operations' long-term sustainability and success. The members of the board are elected for a four-year-term. Additionally, the Sustainability and Appointment Committee endorsed a policy on incompatibilities and restrictions for the senior officers and other executives of Bankinter, which establishes that the board members may not hold:

Figure 7. Board of Directors

Source: *Annual Corporate Governance Report 2022*

[1] note that the shares that Lazard and Fidelity own are on behalf of their clients.

i) an executive position combined with two non-executive positions, nor

ii) four non-executive positions.

Board Members

The Board of Directors (Figure 7) comprises 11 experienced members, including 8 Non-Executive Directors, 6 of whom are independent. The board members held 5.87% of the company's shares, but they represented 29.06%.

Following the By-laws, the Board of Directors has five committees:

- Executive: guides the CEO and board members to establish items for board meeting agendas.
- Remuneration: decides the remuneration scheme for the Board Members and reports on managerial or employee incentive plans.
- Sustainability and Appointment: evaluate the board and its committees or defines future succession plans of the Chairman and executive directors.
- Audit: is responsible for financial and accounting supervision, including regulatory compliance and good corporate governance.
- Risk and compliance: execute supervisory on risk and compliance concerns.

Remuneration Policy

The fixed remuneration of the board members is as follows in Table 8. The remuneration policy is subject to a set of principles, such as prudent and effective risk management, the principle of equal pay, alignment with long-term interests, an appropriate balance between fixed and variable components, diversity of elements, internal fairness and external competitiveness, supervision and effectiveness, flexibility and transparency, simplicity, and customization. According to the firm, no golden parachute clause exists in any director's contract.

According to the firm's by-laws, the directors receive an annual fixed amount, attendance fees and shares, share options or any remuneration linked to the value of shares. The total fixed payment in 2022 was 1,406,517, and the total amount paid in attendance fees was 410,473 (Table 9). The attendance fees, to be paid after each meeting, were:

- Board of directors: 2,229 euros per meeting to the Chairman of the board and 1,672 euros per meeting to board members.
- Committees: 1,672 euros per meeting to the Chairman of the committee and 1,115 euros per meeting to committee members.

In 2022, the CEO received € 971,043 in fixed salary and an extra € 387,331 in variable remuneration for her executive tasks. The variable incentives will be paid out in cash and shares between 2022 and 2028.

The chairman Pedro Guerrero does not count on variable remuneration; he earned an annual fixed payment of € 748,083 and benefited from a medical insurance policy and other items of payment-in-kind totaling € 4,930, but he is not included in the company's pension scheme.

The Vice-Chairman position was performed by a legal person director from Cartival S.A. until 23 March 2022, when Alfonso Naveda was appointed as a new proprietary director. The Cartival's director earned a fixed amount of € 145,049, while Alfonso Naveda received € 697,500 and benefited from a medical insurance policy and other remuneration in kind totalling € 3,037. None of them benefited from the company's pension scheme.

Table 8. Director Fixed Remuneration

DIRECTORS	FIXED REMUNERATION
PEDRO GUERRERO	195,190
ALFONSO NAVEDA	146,670
MARÍA TREVIÑO	172,226
FERNANDO HERRERO	97,595
MARCELINO NAVEDA	97,595
MARÍA MENDOZA	97,595
TERESA RUBIO	114,818
MARÍA CASTRO	114,818
ÁLVARO PLAZA	114,818
FERNANDO PONS	97,595
CRISTINA ÁLVAREZ	114,818
FORMER DIRECTORS	42,779

Source: *Author; Annual Accounts 2022*

Table 9. Attendance Fees

DIRECTORS	ATTENDANCE FEES
PEDRO GUERRERO	49,371
ALFONSO NAVEDA	27,556
MARÍA TREVIÑO	31,575
FERNANDO HERRERO	129,170
MARCELINO NAVEDA	23,538
MARÍA MENDOZA	17,223
TERESA RUBIO	40,760
MARÍA CASTRO	43,056
ÁLVARO PLAZA	53,390
FERNANDO PONS	51,094
CRISTINA ÁLVAREZ	31,001
FORMER DIRECTORS	10,334

Source: *Author; Annual Accounts 2022*

ESG

Bankinter complies seriously with ESG purposes, such as reducing the carbon footprint, using sustainable resources, and practicing good waste management, etc.; the recognition by FTSE4Good Sustainability, United Nations Global Compact, Merco Empresas, Financial Times, among other indices, proves the commitment with ESG principles.

BKT received an ESG score of 80.73 (equivalent to A-). Environmental Pillar and ESG controversies are the categories in which the company performed better; the score obtained was A+, the Governance Pillar was the worst category with a B-, and all the others got the A- evaluation (Figure 8).

Since 2019, Bankinter has not had any estimated cost of controversy, which is excellent for improving a good brand image of the bank. In the whole Refinitiv ESG Universe, Bankinter appears as the best firm in the world. Since banks are trust institutions, a sound and intact reputation is crucial to keep a sustainable financial position.

Bankinter has included ESG criteria in its Risk Framework Agreement since 2021.

Environmental: Bankinter has promised to reduce its carbon footprint by implementing energy-saving measures such as using energy-efficient lighting and improving its air conditioning systems (Figure 9). The bank has also set a goal of reducing its carbon footprint by 30% by 2025. In January 2024, it will be mandatory for FIs to disclose their Green Asset Ratio; this means the banks will compete to show a higher portion of their loan portfolios allocated to EU taxonomy-eligible economic activities.

Social: The bank is committed to promoting workplace diversity and inclusion. The bank has a gender equality strategy and has set goals for increasing women's representation in senior management positions. Bankinter also contributes to various social initiatives promoting education, entrepreneurship, and financial inclusion. In 2022 BKT committed c. € 2.8 M to social responsibility initiatives (Figure 10).

Governance: Bankinter operates under a robust corporate governance framework, with an independent board of directors and an executive committee that oversees the bank's operations. In addition, the bank has policies and procedures to prevent corruption and encourage ethical behavior. Bankinter's board of directors has adequate and suitable expertise and experience to cover every field necessary for the bank's operations. Thus, it surpasses the targets from national and international recommendations on gender diversity and independence of the board (Figure 11).

Milestones in terms of ESG in 2022:

- The Environmental and Climate Change Policy, the Accessibility Policy, and the Sectoral Financing Guides were updated.
- A Social Investing Procedure has been established.
- The 3D Sustainability Plan has been extended to Portugal.
- The sustainable turnover has increased.
- The ESG training program has been extended to all of the Bank's workforce.
- Expansion of the scope of the environmental management system.
- Expansion of the scope of the physical and digital accessibility management system.
- Development of program for employee health and safety "Bankinter Te Cuida".

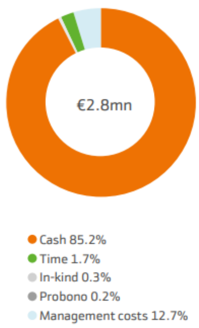
Figure 8. ESG score (per pillar)

Source: *Reuters*

Figure 9. Environmental milestones

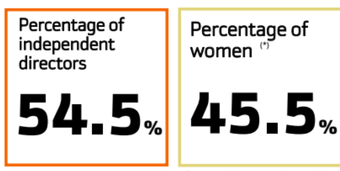
Source: *Integrated Annual Report 2022*

Figure 10. Social investment



Source: *Integrated Annual Report 2022*

Figure 11. Governance milestones



Source: *Integrated Annual Report 2022*

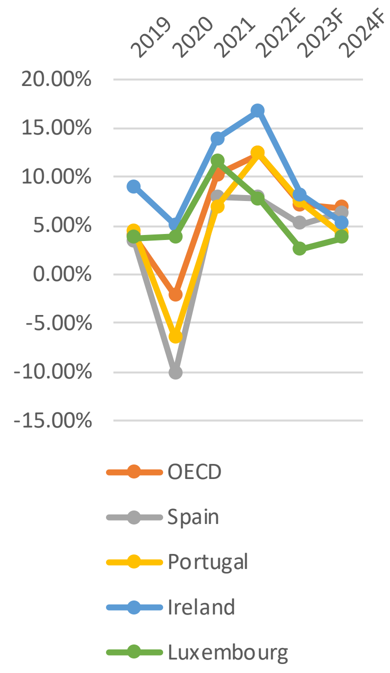
Industry Overview and Competitive Positioning

Macroeconomic Outlook

World

The global economy exceeded the growth expectations for 2022. Europe avoided a recession and found new alternatives to energy supply. A new energy plan, "REPowerEU", was set in motion to reduce dependence on unrenewable energies outside the EU. The US economy surpassed expectations in both the labor market and consumption. The ending of China's zero-covid policy led to a recovery in its economy. OCED estimates a nominal GDP growth of 7.14% for 2023 (Figure 12).

Figure 12. Nominal GDP Growth



Source: *Author; OECD data*

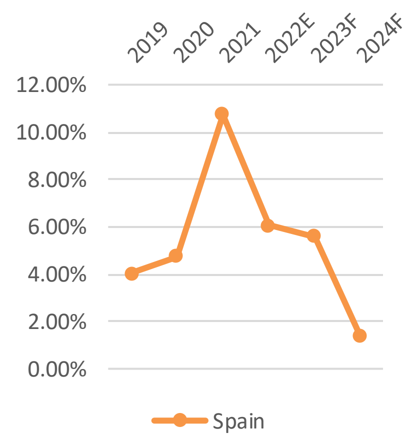
Inflation rates are expected to decelerate, and, therefore, the leading central banks can end their tightening cycles by mid-year 2023, but inflation rates will remain high in OECD countries in 2023 with 6.57% with a decrease of 144 bps in 2024 (Figure 14). Inflation in the Euro Area will remain above the ECB's target in the next two years but will slow down soon.

According to most economists, the rising cost of living harshly affects Europe, especially the UK, which will enter a recession in 2023. Germany is expected to follow the same with a downfall in private consumption. Given that, social protests in Europe can become more common and threaten political stability. The US will probably do better than Europe, but with a decreasing pace of future growth, China is the superpower with better forecasts, and the recovery will be on in 2023.

Oil prices might remain high in 2023-24, firstly because the war is not expected to be resolved soon, and secondly, China will increase its oil demand due to the consumption recovery.

The banking system is exposed to interest rate risk; a massive peak in interest rates can harm the banking solvency, liquidity gets more expensive, the number of provisions and NPL increases, and the loan portfolio prices decrease sharply. The collapse of Silicon Valley Bank and the acquisition of Credit Suisse by UBS raise some concerns about the financial stability of banks. The FED conducted stress tests on the systemic banks in 2022 and ECB in 2021. Both concluded that Too-Big-To-Fail banks have enough capital in their balance sheets (MREL) to absorb losses incurred from adverse economic developments.

Figure 13. M2 (% change)



Source: *Author; Economist Intelligence Unit*

Spain

Spain is one of the largest economies in Europe. Tourism, automotive manufacturing, food and beverage production, and renewable energy are vital economic sectors contributing to GDP. The Spanish economy is outperforming the GDP's growth expectations due to the tourism and consumption recovery, fueled by an improvement in the labor market. The persistent high-interest rates and inflation must worsen the scenario for 2024; however, the economy is proving some resilience, the constraints in the supply chain are lifting, some extra savings are saving domestic demand during the pandemic lock-down (Figure 16), and the state released some public policies to support consumption and mitigate the higher cost of living. The slowdown in the evolution of M2 (Figure 13), the leading indicator of inflation, can mean there is less money available for spending, which can help mitigate inflationary pressures.

The unemployment rate in Spain remains one of the highest in the EU; the above 10% unemployment rate threatens future economic growth as the cost-of-living increases. OECD forecasts inflation slightly below 5% for 2023 and 2024, which is clearly above the ECB's target and may implicate the implementation of some fiscal and social policies by the government.

The real estate market in Spain suffered one of the most severe crises in Europe in 2008-14. Since then, things have changed. First, fixed interest rate represents 72% of the mortgage portfolio compared to less than 10% at that time. Housing prices today remain lower than in the 2007 peak, but the prices will likely slow down as the interest remains high.

Portugal

Portugal is an open economy, part of the EU and Euro Area, focused on tourism, retail, financial services, information and communication technologies, and health services.

In alignment with Spain, Portugal is expected to avoid a recession in 2023 despite the challenging international environment. This is largely attributed to the rebound in tourism, the recovery of private consumption, and increased net exports. However, the industrial production and construction sectors are still weak due to the volatile commodities market.

Inflation is anticipated to remain high, with significant pressure on food and energy markets. The government closely monitors this situation and is expected to implement policies to alleviate the impact. The employment rate has been declining over the past five years at around 6%, but it is unlikely to experience a surge in unemployment.

The housing market in Portugal is slowing down, and Moody's predicts that house prices may decrease by a maximum of 3%. Despite increasing mortgage payments, the real estate market has proven resilient. Unlike Spain, Portugal is highly exposed to increasing floating interest rates as more than 90% of house mortgages are linked to the Euribor rate. However, the higher interest rates may improve the NII of banks, offsetting the increase in provisions.

Ireland

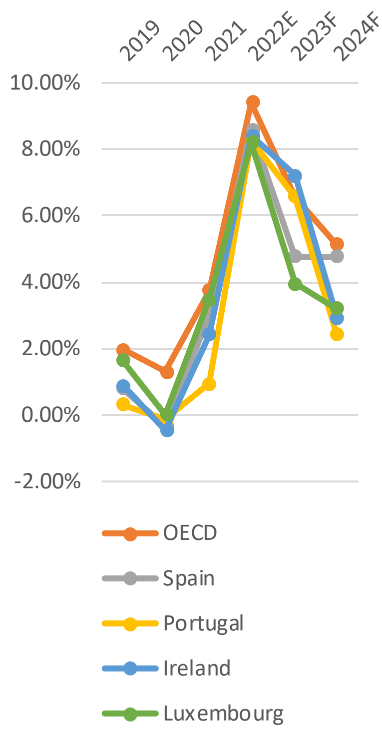
Ireland is a knowledge economy with a high flow of Foreign Direct Investment focused on services, such as high-tech, life sciences, financial services, and agribusiness. The country always features as one of the countries with higher economic freedom. It was one of the least affected economies by the pandemic.

Investment increase was the main driver of economic growth in Ireland, primarily due to the investment of the multinational corporations in intellectual property; exports of goods and services kept growing alongside consumption, despite the deterioration in consumer sentiment. The savings rate remains one of the highest ones in the Euro Area (Figure 16).

Ireland has experienced a sharp rise in inflation in recent months, with an 8.54% increase in prices for 2022. OECD inflation expectations remain high for 2023 and will decrease 428 bps to 2.93% in 2024. However, there is a risk that inflation could become more persistent if wage pressures intensify or inflation expectations become unanchored.

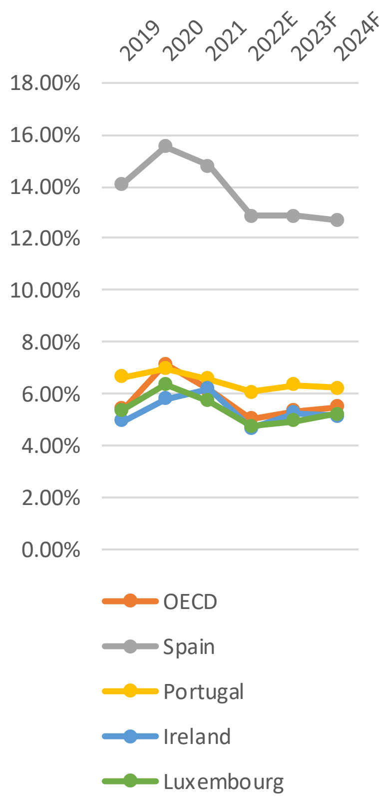
Despite the news about big techs firing some employees, Ireland did not feel that impact yet, and the unemployment rate remains low, around 5% for 2022-2024 (Figure 15).

Figure 14. Inflation Rate



Source: *Author; OECD data*

Figure 15. Unemployment Rate



Source: *Author; OECD data*

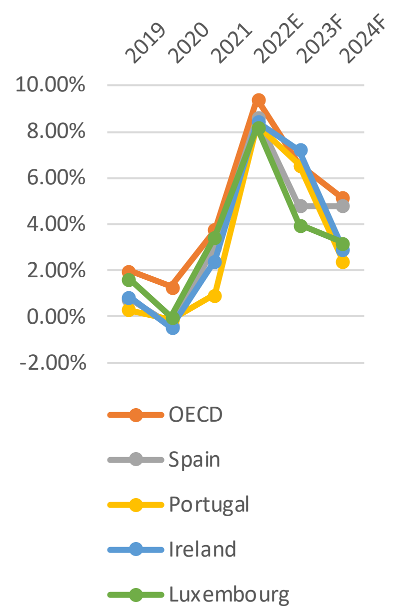
Luxembourg

Luxembourg is known as one of the wealthiest countries in the world. Luxembourg's economy is mainly driven by the financial industry, which contributing to 27% of its GDP. Still, it is an industrial sector specializing in steel, chemicals, rubber, and glass products. The favorable tax regime and regulatory framework are one of the reasons behind the dynamic investment in the country.

Luxembourg's economic outlook for 2023 and beyond is positive but subject to some uncertainties and challenges. According to the latest projections, the country's nominal GDP growth is expected to reach 2.59% in 2023 and 3.71% in 2024; the country was one of the least affected countries in the EU by the pandemic. The recovery is supported by strong domestic demand, especially private consumption and investment, and by improving external demand from its main trading partners in the euro area.

The unemployment rate remains controlled, and it might not harm future growth. On the other hand, inflation is still a threat; the main drivers of inflation are energy prices, which are influenced by global market developments and domestic taxes, as well as food prices, which reflect weather conditions and supply disruptions. OECD expects inflation below 4% for the 2023-2024 period.

Figure 16. Household Savings Rate (Net)



** Portugal is Gross*

Source: *Author; OECD data*

Market Analysis

ECB's regulation is pushing banks to get more concentrated and systemic; the regulators prefer a small number of big banks over a considerable number of small banks. EU suffered a c. 35% reduction in the number of banks from 2008 to 2021 (Table 10).

The industry is an oligopoly dominated by a few major banks that offer a combination of retail, commercial, and investment services. As digitalization and technological advancements continue to reshape the industry, banks are redefining their business models as either fully digital banks, banking-as-a-service providers, or platform providers. Therefore, banks are evolving towards a more client-focused approach, with significant investments in mobile and web applications and disinvestment in physical branches. Additionally, the use of big data and advanced technologies can assist banks in providing financial solutions that fit their customers' demands, increase speed in credit decisions, reduce fraud, and improve compliance with regulations. Cybersecurity and ESG policies are also becoming relevant issues in the industry.

Table 10. Evolution of Banking in EU

	2008	2021
NO. OF BANKS	8,162	5,263
NO. OF DOMESTIC BRANCHES	233,723	138,376
NO. OF EMPLOYEES	2,789,622	2,149,178

Source: *Author; European Banking Federation Facts & Figures 2021*

Regulation

Banking regulation is crucial to ensure a stable, fair and efficient market functioning. The regulator assumes the mission to protect consumers and maintain financial stability. Furthermore, most banks serve as intermediaries, assisting in allocating capital. Banks would be free to take risky behaviors without the existence of regulation, which could lead to bank failure and a financial crisis. The rules are then intended to promote safe banking practices by guaranteeing that banks have sufficient capital to cover their risk exposures and that financial institutions are managed in accordance with best practices and are owned by transparent and credible shareholders (Table 11).

Table 11. Principles of Regulation in EU

BANKING REGULATION IN EU
SINGLE SUPERVISORY MECHANISM
CAPITAL ADEQUACY REQUIREMENTS
LIQUIDITY REQUIREMENTS
RISK MANAGEMENT AND GOVERNANCE
ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM
DEPOSIT GUARANTEE SCHEMES
RESOLUTION FRAMEWORK

Source: *Author; ECB; European Banking Authority*

Consequently, two major topics demand to be emphasized: the Basel Regulatory Framework, which imposes capital and liquidity requirements, and banking licenses, which, while not a set of impositions, are a way to regulate the number of market participants.

The BCBS develops industry's best norms and recommendations that local banking regulators/supervisors can enforce within their respective national systems. The Basel Regulatory Framework is a combination of three pillars (Figure 17):

- Pillar 1: focuses on the minimum capital requirements that banks must meet to cover their credit, market, and operational risk exposure. The Capital Adequacy Ratio is the most basic measure of this (Figure 18). Regulatory capital is made up of two parts: Tier 1 capital, which includes instruments capable of absorbing losses and compressing CET1 and AT1, and Tier 2 capital, which only provides loss absorption on a gone concern basis. RWAs are an objective measurement of a bank's exposures that are risk-adjusted. Furthermore, banks must adhere to liquidity ratios to ensure sufficient liquidity to conduct business.
- Pillar 2: requires banks to evaluate the adequacy of their risk management and capital planning processes.
- Pillar 3: aims to promote market discipline by requiring banks to disclose publicly certain information about their risk profile, capital adequacy, and risk management practices.

The regulatory capital requirements affect the bank's buffers; banks gradually rebuild buffers above the new regulatory minimum; thus, capital requirements influence lending to the real economy in a variety of ways. The European Systemic Risk Board concluded that an increase of 1% in capital requirements reduces bank lending by 8%.

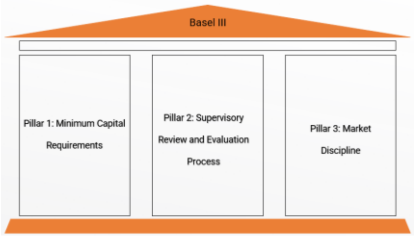
Currently, fintechs are emerging as new players in the banking industry and pose a potential threat to traditional banks due to their superior technological capabilities and customer-centric approach. These digital-first institutions have competitive advantages in the technological and digital areas, which are further enhanced by the PSD2 directive (Figure 19). This European regulation requires banks operating in the EU to share customer data with third-party firms, enabling non-banking entities to offer payment services and allowing consumers to access a broader range of financial products. PSD2 also introduces the open banking license and seeks to promote secure payments in Europe by encouraging banks to adopt new technologies. Overall, digitalization and regulatory changes are disrupting the market, and banks that fail to adapt may be left behind while others can take advantage of the opportunity it presents.

Demand and Supply Drivers

The main drivers of credit demand are macroeconomic conditions and current monetary policy. As previously stated, major drivers influencing credit issuance include Russia's invasion of Ukraine, supply chain disruptions, a hike in inflation, and tightening monetary policy worldwide. The increase in interest rates should increase net interest income, which is the primary source of revenue for banks in the current scenario. Aside from that, GDP growth, real disposable income, and housing investment are all drivers of credit demand.

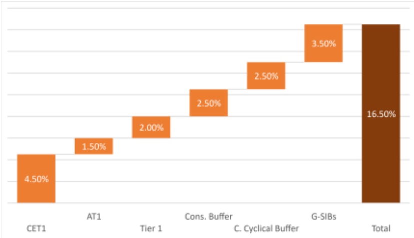
The regulatory framework is the primary driver on the supply side. The amount of credit that banks can supply to the economy is regulated, and as previously stated, an increase in regulatory capital will decrease bank lending. The issuance of banking licenses can also have an impact on aggregate supply. The greater the number of banks, the greater the aggregate credit supply. The household saving ratio is also a

Figure 17. Basel III pillars



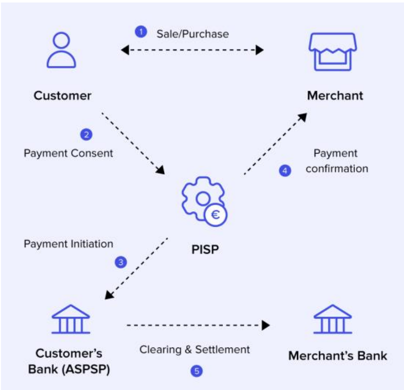
Source: *Author; BIS*

Figure 18. Capital Adequacy Ratio



Source: *Author; BIS*

Figure 19. PSD2 Directive



Source: *Zoho Books*

significant supply driver. Given that the credit supplied by banks is derived from deposits, the higher the saving ratio in an economy, the more credit banks will be able to grant.

Porter's Five Forces

Threat of new entrants- Extremely Low [1] (Figure 20)
• Licenses and legal requirements
• High capital requirements
• Well-established industry
• Robust digital infrastructure

Banking is a highly regulated industry that requires extensive licensing and regulatory compliance. Most people cannot meet the capital requirements to open a new bank; thus, the central bank's qualitative assessment is also restricted (Table 12).

Bankinter has a robust digital infrastructure for online operations that is difficult to compete with. Furthermore, it has knowledge of industry practices that a newer company does not.

Bargaining power of Suppliers- Low [2]
• External services companies
• Workforce

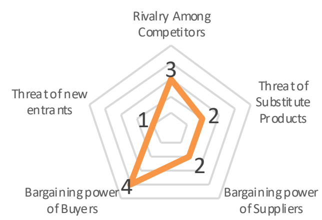
Several critical services of a bank, such as ATM services or Person-to-Person payments, are not internally developed but are outsourced; the companies providing those services have more bargaining power than the employees, but it is not a high risk for the bank. Employees are usually represented by a trade union but generally do not have high bargaining power.

Bargaining power of Buyers- Medium [3]
• Customers demand discounts and better service
• Some loyalty to a bank

Individual customers and corporate customers are the two types of bank customers. Individual customers expect a certain level of service and want to pay the least possible interest and fees. Some may be loyal to a specific bank, so Bankinter must provide a much better service than the other and/or charge a much lower interest lending rate to keep and raise the clientele.

Corporate customers have far more bargaining power: if a person leaves the bank, the impact is almost negligible; however, if a corporate customer leaves the bank, the bank may suffer (if the company is a major client). Therefore, the exposure to bargaining power of buyers is higher if there is a high portion of loans to large corporations (Figure 21).

Figure 20. Porter's Five Forces



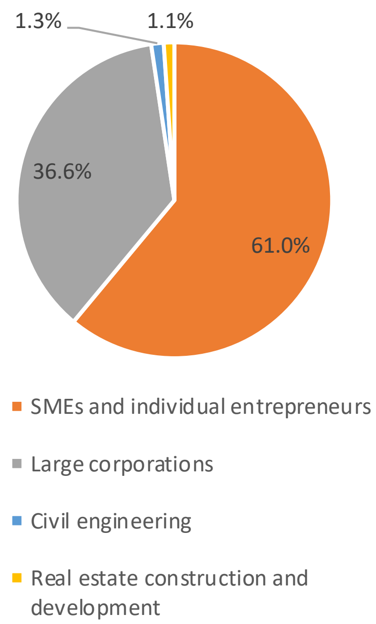
Source: *Author's estimations*

Table 12. ECB licensing assessment

BANKING LICENSING
ANALYSIS OF THE ORIGIN AND COMPOSITION OF THE APPLICANT'S CAPITAL
PROGRAM OF ACTIVITIES AND BUSINESS PLAN
FIT AND PROPER ASSESSMENT OF THE MANAGEMENT
SUITABILITY ASSESSMENT OF DIRECT AND INDIRECT SHAREHOLDERS

Source: *Author; ECB's Website*

Figure 21. Breakdown of Loans to Non-Financial Business



Source: *Author; Annual accounts 2022*

Threat of Substitute Products- Low [2]

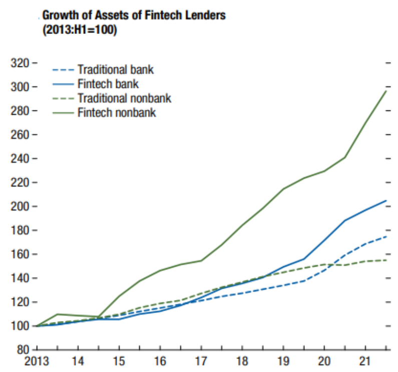
• Fintechs

• Cryptocurrencies

Several fintechs use technology to provide a financial service with usually no fees and a more personalized service; these firms have been growing throughout the last years (Figure 22), having more significant market share among younger customers. BKT is unlikely to be affected by this type of business due to its long history of innovative banking practices; EVO bank, a 100% digital bank that is part of the Bankinter group, is one example of Fintech.

Cryptocurrencies serve the primary purpose of providing a decentralized financial service. The concept of an unregulated financial ecosystem might be appealing to some people, but it may pose a future threat to existing banking institutions.

Figure 22. Fintech asset evolution



Source: *IMF- Global Financial Stability Report Apr. 2022*

Rivalry Among Competitors- High [4]

• Strong competition

• Similar products and services

This industry is highly competitive (Table 13), as the Herfindahl bellow 1,500 points; mainly because the banks offer similar services. Although some switching costs are relevant, a customer with a bank account in one bank is unlikely to abandon that bank because another one offers a 10 bps lower spread on a mortgage loan.

When a player seeks to increase its market share in deposits or loans by lowering lending interest rates or raising borrowing rates, it may spark a price war that harms the industry's overall profitability.

Table 13. Competitiveness of the market

HERFINDAHL INDEX FOR CI (BASED ON ASSETS)	2022
SPAIN	1,327
PORTUGAL	1,204
IRELAND	969

Source: *Author; EU structural financial indicators: end of 2022 (ECB)*

SWOT Analysis

A SWOT analysis is a method for assessing internal and external factors that may impact an entity's performance.

Table 14. SWOT

STRENGTHS	WEAKNESSES
• Banking license obligation. • Good understanding of the market. • Valuable customer database information. • Some level of customer loyalty. • Banking is a crucial industry in a country's economy, particularly regarding efficient capital allocation.	• Highly sensitive to reputational damage. • Market and economic fluctuations provoke unstable revenues. • Highly regulated industry, imposing restrictions on activity and mandatory capital limits.
OPPORTUNITIES	**THREATS**
• Become a disruptive innovator, investing in advanced technology data treatment. • Develop customer relationship culture and shift to a customer-centric marketing outlook. • Attract new customers through special offers. • Focus on Cybersecurity development. • Increase customer loyalty. • Differentiate product offerings (e.g., cross-selling opportunities).	• Uncertainty on regulations and regulatory requirements. • Volatility and evolution in interest rates, market rates and the global economy. • Demographic issues (increasingly ageing population and globalization). • Fraud and cyberattack, resulting in the disclosure of confidential and sensitive information. • Consumers are becoming more price sensitive and demanding.

Source: *Author's estimations*

Investment Summary

The base case recommendation for BKT is to BUY, with a 2024YE PT of € 6.39 /share, representing an upside potential of c. 20% in 6 months, corresponding to an annualized return of c. 12.74% (Figure 23), against the current price of € 5.34 /share, as of 31st May 2023, with a Medium Risk.

Blue and grey sky scenarios were assessed with a 2024YE PT of € 6.47/ share and € 6.25 / share, respectively, considering the assumptions in (Table 15).

Despite the base case neutral recommendation, BKT's stock is trading at a discount, mainly explainabled by:

i) Banking crisis in the first half of 2023;

ii) Bank exposure to interest rate risk;

iii) High inflation pressures in Euro Area because of the pandemic and Russian-Ukranian War;

iv) Increasing funding costs due to interest rate increase;

Nevertheless, the recommendation is based on the following key pillars:

- Robust financials and low capital requirements;
- Better performance in Spain under stress scenarios and better asset quality;
- Strong digital development;
- Robust client profile;
- Strong Dividend Commitment (50% payout ratio);

Valuation Methods

Several absolute methodologies were computed to determine BKT's Target Price, with similar conclusions, ranging from € 6.08/ share to € 6.42/ share (Table 16). The Residual Income method was used as the base model to support the conclusions reached with this model, we conducted a valuation through a relative valuation method, using equally weighted multiple comparables, but results were considered not significant in the recommendation decision. A set of criteria was applied when selecting the peer comparable companies to ensure that this was a solid way to support the conclusions of the much robust discount method.

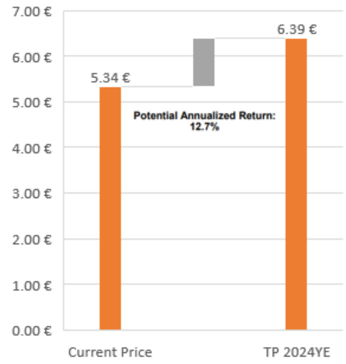
Investment Risks

Bankinter is exposed to significant risks, investors should be aware of threats that may impact the business. Regulatory changes, unexpected changes in interest rates, slowing of economic growth and disposable income, decreases in asset values, and operational risks can affect both net interest income and fee income.

As a trust institution, the bank must be conscious of its obligation to preserve its credibility (Table 17) for the purpose of staying out of a bank run, considered the worst-case scenario which may result to the collapse of any bank.

The Monte Carlo simulation with 100,000 trials and a mean value of € 6.40 concluded there is a 95% probability that the YE24 Target Price for Bankinter is between € 5.39 and € 7.42.

Figure 23. PT bridge



Source: *Author's estimations*

Table 15. Assumptions scenarios

ASSUMPTION	BASIS	BLUE	GREY
EURIBOR 12M 2027F	1.00%	2.00%	0.00%
PERSISTENCE FACTOR	0.8	0.8	0.7
GROWTH ABV. MKT.	0.5%	1%	-1%

Source: *Author's estimations*

Table 16. Valuation methodologies

METHOD	
RESIDUAL INCOME	€ 6.39
UPSIDE POTENTIAL	19.71%
DDM	€ 6.08
UPSIDE POTENTIAL	13.88%
FLOW TO EQUITY	€ 6.03
UPSIDE POTENTIAL	13.01%
MULTIPLE VALUATION	€ 6.42
UPSIDE POTENTIAL	20.18%

Source: *Authors estimations*

Table 17. Brand Value ranking

SPAINISH BRANDS	
BKT VALUE	€ 329 M
POSITION IN THE RANKNIG	22TH

Source: *Author; InterBrand Mejores Marcas Españolas 2021*

Valuation

For Bankinter's valuation, please consider the forecasted macroeconomic data, breakdown of loans and deposits per country, assumptions, financial statements, key ratios, and valuation methods. All of them are attached to this report in the appendices.

Revenue forecasts

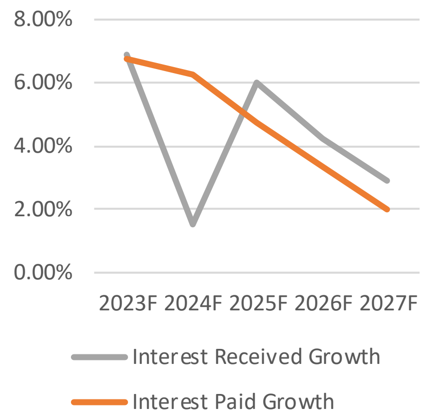
The valuation methods performed are all based on the net profit that arises from revenue, and it is vital to forecast accurately. The main drivers of income are loans and deposits.

Net Interest Income| The primary source of revenue comes from the difference between interest received and interest paid (Figure 24). For the interest earned, the formula is average interest * total loans. The total loans are expected to grow 50 bps above the proxy for domestic credit growth. While the average interest is calculated based on Euribor 12M growth in 2023 and 2024 and the inflation rate (weighted by country) from 2025 to 2027.

The interest paid grows at the inflation rate and deposit's growth, which extend 50 bps above the market's proxy (Real GDP growth weighted by country).

The Net Interest Income has a CAGR of c. 4% between 2023 and 2027, which shows the bank's NII benefits from the interest rate increase.

Figure 24. Annual growth of credit and deposits



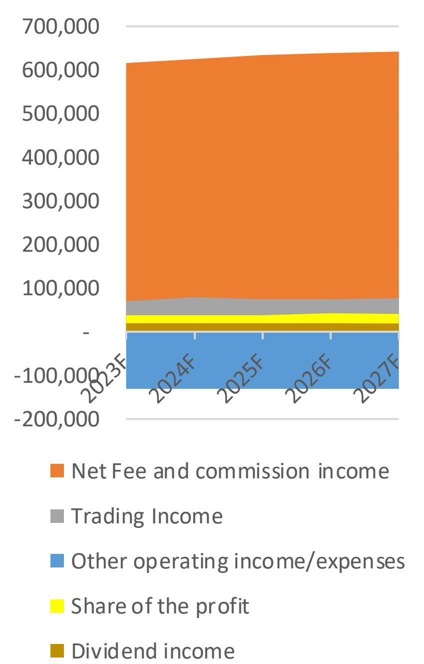
Source: *Author's estimations*

Non-Interest Income| The second component of BKT's revenue is non-interest income, which includes dividend income, share of the profit or loss of entities accounted for using the equity method, net fee and commission income, trading income and other operating income/expenses. Most of the non-interest income comes from net fee and commission income (Figure 25), forecasted to grow as the deposits grow, given by real GDP growth plus 50 bps, weighted by country.

The non-interest income shows an increase of c. 1.5% between 2023 and 2027, which shows that this source of income does not benefit from the boost in interest rates. Still, it benefits from the rise in commercial capability.

Considering that Bankinter is a financial services firm, we picked the Residual Income method. Since the firm only segmented the Income Statement after 2019, the valuation was conducted based on consolidated results. The Executive Summary provides some information about the % of loans per country. Still, overall, it is almost impossible to segment data, and then the sum of the parts approach was not used.

Figure 25. Non-Interest Income composition



Source: *Author's estimations*

Residual Income

The Residual Income valuation model was the primary valuation methodology employed in this business evaluation. Given the complex nature of the business and the difficulties of displaying changes in Regulatory Capital, it seems more reasonable to assess the value of equity using the Residual Income model.

Value of Equity = Equity Capital Invested Currently + PV of Expected Future Returns to Common Equity Investors. Excess return refers to the difference between the actual return achieved by a company and the expected market return, measured by the cost of equity. Thus, Excess Return valuation focuses on determining the extent to which a company's returns exceed the market's expectations.

Cost of Equity| The cost of equity used as the discount rate for the Accumulated Present Value of Equity Excess Return is given by the usual CAPM expression: Re = Rf + β x (Rm – Rf) (Table 18)

The risk-free rate considered is the German Bund 10Y added by Damodaran's Country Risk Premium for Spain. We retrieve the beta from Damodaran's database for levered betas, banks section. The Market risk premium used is the one from Fernandez's survey from 2023.

Table 18. Cost of Equity

COST OF EQUITY	12.6%
GERMAN BUND 10Y (1 JUN. 2023)	2.25%
COUNTRY RISK PREMIUM (DAMODARAN 2023)	2.76%
BETA (REUTERS)	1.15
MRP (FERNANDEZ SURVEY 2023)	6.6%

Source: *Author's estimations*

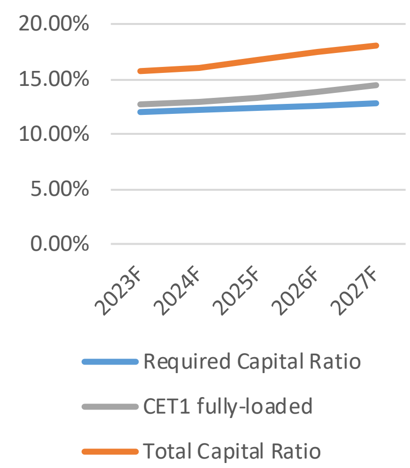
Persistence Factor| This factor represents the probability that a company's residual income will endure over time. We expect BKT to retain most of its clients, the deposits are more challenging to maintain since they're liquid or almost cash, but on the other side, the mortgages tend to retain the clients; a household client or a xcorporation will not likely amortize the whole mortgage to make another loan in a different bank. Considering the industry dynamics, the persistence factor stays at 0.8.

This model leads to the Target Price of € 6.39 per share, with an upside potential of c. 19.71% and it conduces to the Buy recommendation.

Flow to Equity

This model estimates the equity value by discounting future cash flows to equity, using the cost of equity as the discount rate. Damodaran's formula for Free Cash Flows to Equity in financial services companies is FCEE = Net Income – Changes in Regulatory Capital.

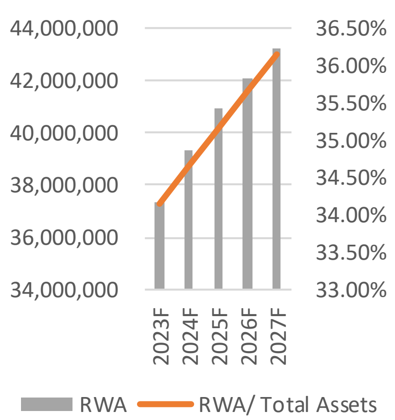
Figure 26. Capital Requirements



Source: *Author's estimations*

Regulatory Capital| The changes in regulatory capital negatively affect the shareholder's remuneration and thus destroy value. The estimation of regulatory capital changes results from the assessment of future capital ratios (Figure 26) and future RWAs. The RWA forecasts are calculated based on the ratio RWA/Total Assets plus 50 basis points every year to translate the increase in risk coming from uncertainty and banking and Bankinter's growth (Figure 27). The target capital ratio is expected to increase by 20 bps from 2024 to 2027.

Figure 27. RWA forecast



Source: *Author's estimations*

Terminal Growth| The terminal growth rate reflects the company's long-term FCFE growth. It is also a significant estimation process since it impacts the terminal value, accounting for almost 75% of the company's worth. In this case, we considered the 1.6% Spain's long-term GDP growth rate from IMF.

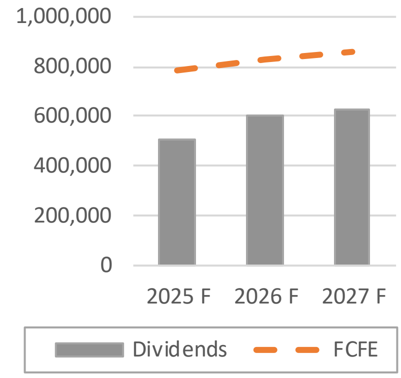
The model could be more accurate, as we need access to the internal rating models and the regulator's risk weights. Thus, we cannot accurately estimate the changes in regulatory capital, which makes this approach less viable.

Dividend Discount Model

This method to measure the intrinsic value of a company's stock assumes that the present value of a stock is equal to the sum of all the future dividend payments. The discount rate used is BKT's cost of equity.

Dividend policy| The firm traditionally distributes 50% of the profit as dividends, the pandemic stopped this; during 2020, Bankinter was not allowed to distribute dividends in the last three quarters, but in 2022 the firm finally reached the strategic goal of a 50% payout ratio. Considering that all the regulatory capital ratios are met, there is reason to believe the firm will maintain the same payout ratio for the following years (Figure 28).

Figure 28. DDM vs FTE



Source: *Author's estimations*

Single Growth DDM| In the computation of the dividend discounted model, we assumed the strategic goal of a 50% payout ratio is met. We also considered a constant dividend growth of c. 5.53% in perpetuity; such value arises from the CAGR dividend growth from the 2022-2007 period to incorporate the effect of the Global Financial Crisis.

Considering 50% of the net income forecast as the dividends from 2025 to 2027, we reached a PT of € 6.08 and an upside potential of c. 13.79%. This valuation method leads to a more conservative PT and indicates a Hold recommendation. Given that this method implies the regular payment of dividends, it is not considered the primary model. The regulator can change regulation by suggesting lower dividend payout or higher capital requirements; therefore, it is the most accurate method.

Market Approach

The multiple valuation is a valuation approach to determine a firm's value by comparing it to the peer group within the same industry. Therefore, it is crucial to ensure that the peer group is well selected to guarantee a good quality of this method.

Peers' Selection| The specific regulation, different accounting standards, the complexity of financial products, uncertainty about macroeconomic factors, and a unique set of risks are some factors that make a bank utterly different from any non-financial corporation. Therefore, picking other banks as peers within the same market makes sense.

The main criteria for the peers were Iberian banks listed on the stock exchange. Caixabank SA, Banco de Sabadell SA, Banco Bilbao Vizcaya Argentaria SA, Banco Santander SA, Unicaja Banco SA, and Banco Comercial Português, S.A. were the selected ones (Table 19).

Table 19. Peer Group

TICKER
BKT.MC
CABK.MC
SABE.MC
BBVA.MC
SAN.MC
UNI.MC
BCP.LS

Source: *Reuters*

Relative Valuation| The regression method was applied in the multiple valuation. In the first regression, the historical P/BV was assumed as the dependent variable and ROE, P/E, and Beta 5Y as the independent variables. In the second regression, the historical P/E was assumed as the dependent variable and g 5Y, Payout ratio, and Beta 5Y as the independent variables.

In the first regression, the theoretical value was € 6.42 and € 9.32 in the second regression. Since the first regression is the most common for bank valuation and presents a 0.67 R-squared, higher than the other one, only the first regression was considered for the multiple valuation (Table 20).

Hence, the multiple valuation confirms the Buy recommendation conducted by the Residual Income, with an upside potential of c. 20.18%.

Table 20. P/BV regression

	COEFFICIENTS
INTERCEPT	1.10095823496657
ROE	0.0518088175332713
BETA 5Y	-0.607646718397444

Source: *Author's estimations*

Financial Analysis

Capital Ratios| The capital ratios are crucial in determining the overall performance of a bank, luckily the forecast anticipate that the bank will not need to raise equity, since all the capital ratios are stable and above the minimum level required by the Central Bank. The regulator defined the regulatory capital of 11.79% for Bankinter in both 2022 and 2023, which is one of the lowest one in the peer group.

While comparing to Santander (Figure 29), the biggest bank operating in Spain, the regulatory capital stays at 13.26% and the required CET1 ratio for 2022 is 9.07%. The fact that Santander is part of the restricted G-SIBs group justifies the higher capital requirements. Overall, having lower capital requirements is a better way to remunerate the shareholders and thus creates value to the business.

Profitability| Bankinter is among the best banks in terms of profitability within the comparison group, with an ROE higher than the median and a cost-to-income lower than the median. The effort to increase profitability arises from better efficiency during operations, the ratio of administrative expenses to gross income decreased more than 8 pp from 2018 to 40.2% in 2022, and we expect it to stay above 40% in 2027.

Banks are always highly leveraged and therefore tend to show high values of ROE; the ROE has decreased during the pandemic years but already recovered in 2022 (Figure 30), for 2023 the forecasts preview a decreasing ROE but above 12%. NIM stayed close to 1.5%, a reasonable margin to gain market share without giving up on profitability.

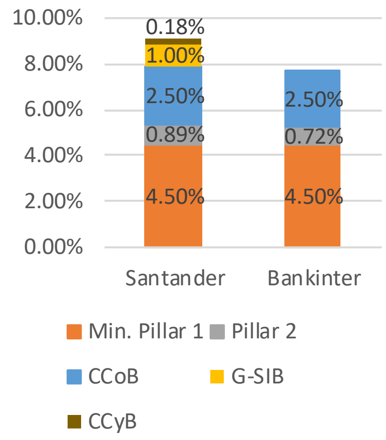
Liquidity| The company is likely to be able to handle liquidity in the coming years since Bankinter has maintained a lot of reserves during the last years and has a good amount of High-Quality Liquid Assets to face eventual liquidity problems. Thus, we expect the sum of cash and cash at central banks will have a CAGR of 6.39% between 2023 and 2027.

Compared to its peers, the firm is not among the best banks in liquidity, with both NSFR and LCR below the median and a Loan-to-Deposits ratio above the median. Even though the bank looks worse than its peers, the proportions are pretty good, with the LTD ratio below 100% and NSFR and LCR clearly above the minimum required by the Basel III regulatory framework of 100% (Figure 31).

Asset Quality| Bankinter does not present relevant signs of future stress, as the credit quality remains resilient despite all the uncertainty brought by the increase in interest rates and bank collapses in the first half of 2023. A few corporates turned into NPL, but the NPL stayed at 2.1%, the second lowest ratio among the peer group. Conversely, The NPL coverage registered in FY2022 was 66.34%, 2.11 pp more inferior than the peer group´s average. The cost of risk is below the peer's average with a value of 0.36%.

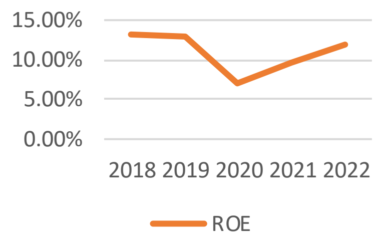
The typical Bankinter's customer is medium/ high profile and better protected against economic downturns. The campaign set in place for the payroll account might be strategic to absorb eventual losses. Therefore, we do not expect critical changes in these ratios, as Bankinter may remain one of the best banks in Spain in terms of asset quality.

Figure 29. Bankinter/Santander capital ratios



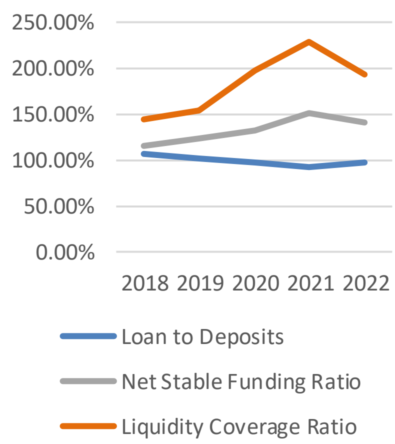
Source: *Author; Bankinter & Santander Annual Report 2022*

Figure 30. Return on Equity evolution



Source: *Author; Annual Accounts*

Figure 31. Liquidity ratios



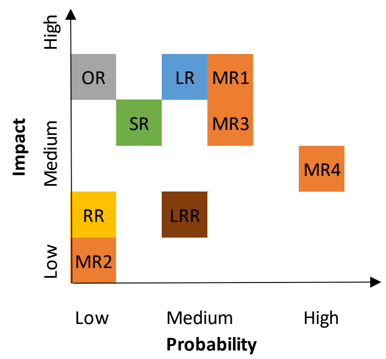
Source: *Author; Annual Accounts*

Investment Risks

Risk identification and characterization

Interest Rate Risk | Market Risk [MR1, Figure 32]: It arises from exposures to interest rate changes. The interest rate risk is a significant risk for marked-to-market assets, such as bonds, which price varies negatively with the interest rate and for some non-market-to-market assets, such as loans, in which the interest rate can affect the ability to generate cash-flows.

Figure 32. Risk Matrix



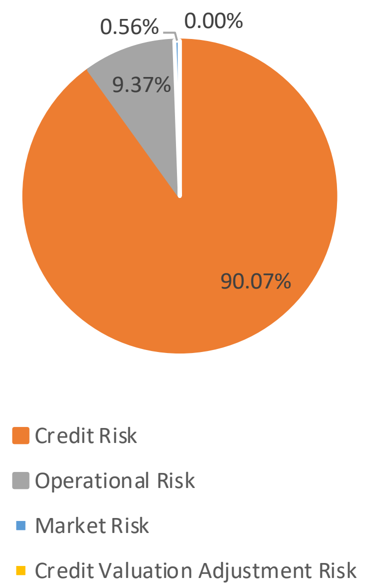
Source: *Author's estimations*

Currency Rate Risk | Market Risk [MR2]: This risk comes from changes in the balance sheet due to exchange rate fluctuations.

Credit Risk | Market Risk [MR3]: Potential loss due to default or decrease in the borrower's credit quality; such changes depend on the economic cycle. The probability of default, loss given default and exposure at default are the key indicators to measure the credit risk. This type of risk represents most of the risk-weighted assets (Figure 33).

Equity Risk | Market Risk [MR4]: Change in equity can result in a loss in the bank's equity portfolios, which are measured at fair value. As the equity portfolio increases, the more significant equity risk is. Moreover, the bank can accept equity as collateral, and a negative impact on the collateral will lead to an increased number of impairments.

Figure 33. Breakdown of RWA



Source: *Author; Pillar 3 Market Discipline 2022*

Operational Risk [OR]: Risk of loss arising from failures and mistakes happening during the regular working day. The sources of such risk are technology, staff members, customer relationships, physical assets, and external. This type of risk is difficult to foresee and impossible to diversify, sell-off, or hedge. The only way to mitigate it is insurance, but it is not applicable to all sources of operational risk.

Liquidity Risk [LR]: This risk is usually critical for most financial institutions since most bankruptcies happen due to insufficient liquidity. The situation of low-interest rates (sometimes even negative) in the past years led to an increase in liquidity. A paradigm change to high-interest rates will lead to liquidity struggles in many financial institutions.

Reputational Risk [RR]: This risk comes when the stakeholders' expectations are not met, and it can severely affect the bank since banks are built on the customer's trust. The broken trust can eventually lead to a bank run in the worst-case scenario. To reduce reputational risk, the firm must carefully monitor all their institutional relations with customers, shareholders, employees, and external services firms. The management is responsible for following a professional conduct and ethics code and training and informing the staff about reputational disputes.

Systemic Risk [SR]: It is the risk of the entire financial system collapse. The banking system became too large and more concentrated in the last decades, which led to the TBTF banks; the failure of one of these financial institutions could trigger a crisis for the whole system with severe economic and reputational consequences for the other banks in the system. In 2010 the European Systemic Risk Board was founded to mitigate this risk.

Legal and Regulatory Risk [LRR]: Legal risk takes the form of a loss resulting from the bank not applying the Law as it should. Banks in the EU already faced a lot of lawsuits resulting in vast amounts of fines and settlement agreements.

Regulatory risk comes from losses due to regulation changes, in fact, the cost to meet all the regulatory requirements has been increasing in the last years, and it is one of the reasons that the banking system is getting more concentrated in a few companies.

Scenario Analysis

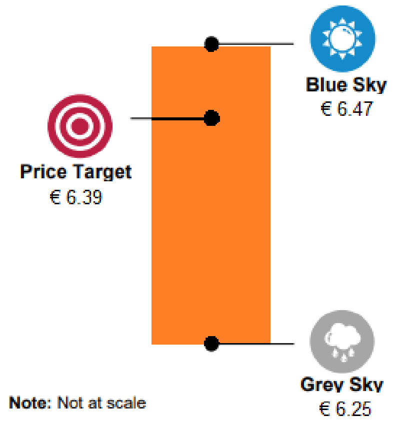
A blue sky and grey sky scenarios were assessed, assuming changes in i) Nominal GDP growth rate; ii) unemployment rate; iii) inflation rate; iv) Euribor 12M; v) Persitance Factor; vi) Growth rate in deposits and loans above the market.

The main drivers are Growth rate and Euribor. For the growth rate the basis scenario assumes a growth in deposits and loans above 50 bps, while the blue sky and grey sky scenarios assume, respectively, 100 bps and -100 bps growth above the market growth (Table 15).

The best scenario assumes an Euribor rate of 2% for 2027, while the basis scenario assumes a 1% rate and the worst scenario assumes a 0%. There are only forecasts for Euribor until 2023. Therefore, it is assumed that the Euribor rate will coverge into those values in 2027 throughout the years.

The blue sky scenario lead to a price of € 6.47, 8 cents above the basis case and the grey sky scenario conducted to a price 14 cents below the basis case of € 6.39 (Figure 34).

Figure 34. Blue/ Grey Scenarios



Source: *Author's estimations*

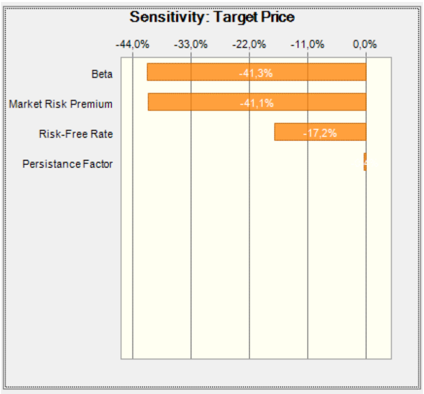
Sensitivity Analysis

With the purpose of measuring possible changes in Target Price target due to variations on critical variables, we conducted a sensitivity analysis recurring to the Crystal Ball software. For this analysis, 100,000 possible scenarios were evaluated. In each scenario, different combinations of variables were tested to assess which variables have the greatest impact in the price target if base assumptions were not observed.

We determined that the variables that created the greatest effect in the PT were: Beta; Market Risk Premium; Beta; Risk-Free Rate; and Persistence Factor (Figure 35)

The two most important variables (Beta and Market Risk Premium) accounted, respectively, for -41.3% and -41.1% of the changes that occurred in the Price. Therefore, these will be used in the computation of the sensitivity analysis (Table 21).

Figure 35. PT Sensitivity



Source: *Crystal Ball software; Author's estimations*

Table 21. Sensitivity analysis

		Market Risk Premium						
		5.1%	5.6%	6.1%	6.6%	7.1%	7.6%	8.1%
Beta	0.85	€ 7.88	€ 7.66	€ 7.46	€ 7.26	€ 7.06	€ 6.87	€ 6.69
	0.95	€ 7.62	€ 7.39	€ 7.17	€ 6.95	€ 6.75	€ 6.54	€ 6.35
	1.05	€ 7.38	€ 7.13	€ 6.89	€ 6.67	€ 6.45	€ 6.23	€ 6.03
	1.15	€ 7.14	€ 6.88	€ 6.63	€ 6.39	€ 6.16	€ 5.93	€ 5.72
	1.25	€ 6.91	€ 6.64	€ 6.38	€ 6.12	€ 5.88	€ 5.65	€ 5.43
	1.35	€ 6.69	€ 6.40	€ 6.13	€ 5.87	€ 5.62	€ 5.38	€ 5.15
	1.45	€ 6.47	€ 6.18	€ 5.89	€ 5.63	€ 5.37	€ 5.12	€ 4.88

Source: *Author's estimations*

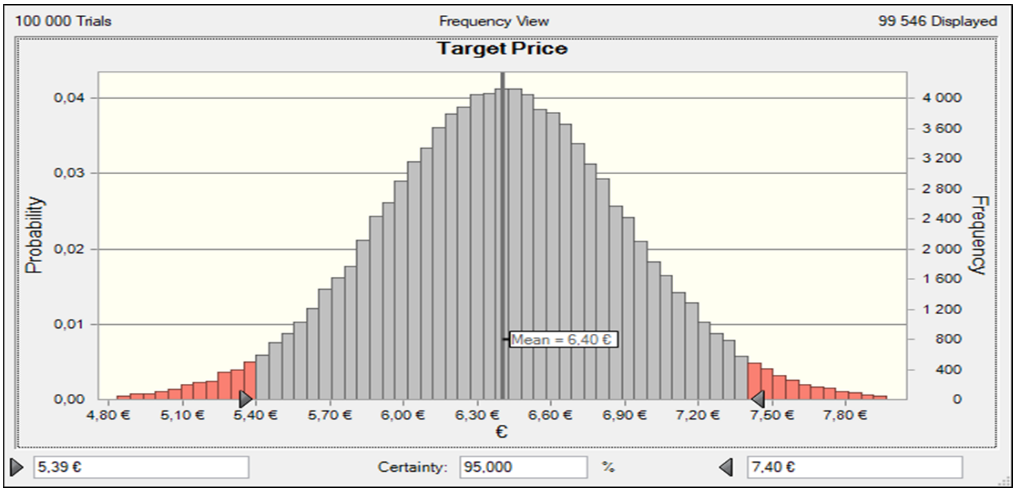
Table 22. Upside Pontetial Sensatitivty analysis

Beta	Market Risk Premium						
	5.1%	5.6%	6.1%	6.6%	7.1%	7.6%	8.1%
0.85	47.49%	43.51%	39.63%	35.87%	32.21%	28.66%	25.20%
0.95	42.72%	38.43%	34.27%	30.24%	26.33%	22.54%	18.86%
1.05	38.11%	33.54%	29.11%	24.84%	20.71%	16.71%	12.83%
1.15	33.66%	28.82%	24.16%	19.66%	15.33%	11.14%	7.09%
1.25	29.36%	24.28%	19.40%	14.70%	10.18%	5.82%	1.62%
1.35	25.20%	19.89%	14.81%	9.93%	5.24%	0.73%	-3.61%
1.45	21.17%	15.66%	10.39%	5.34%	0.50%	-4.15%	-8.61%

Source: *Author's estimations*

Monte Carlo Simulation

Figure 36. Monte Carlo simulation



Source: *Crystal Ball software; Author's estimations*

Table 23. PT percentiles

PERCENTILES	FORECASTED VALUES	UPSIDE POTENTIAL
0%	€ -27.05	-606.55%
10%	€ 5.75	7.68%
20%	€ 5.98	11.99%
30%	€ 6.14	14.98%
40%	€ 6.28	17.60%
50%	€ 6.40	19.85%
60%	€ 6.53	22.28%
70%	€ 6.67	24.91%
80%	€ 6.82	27.72%
90%	€ 7.05	32.02%
100%	€ 38.80	626.59%

Source: *Crystal Ball software; Author's estimations*

To complement the sensitivity analysis, we performed a Monte Carlo simulation (Figure 36 & Table 24), using Crystal Ball software, to test sensitivity of the sensible identified variables. We ran 100,000 simulations and reached a mean target price of € 6.40, a median of € 6.40 and a related standard deviation of € 0.56; with a 95.0% confidence level. The results range from € -27.05 to € 38.80 (Table 23), and it is possible to conclude that there is a 95% probability that the YE24 Target Price for Bankinter is between € 5.39 and € 7.42.

To perform this simulation, we assumed a normal distribution for the Beta and the Market Risk Premium, and a log-normal distribution for the Persistence Factor and Risk-Free Rate. The mean and standard deviation of each assumption is disclosed in Table 24. The reasoning for these standard deviations is, respectively: 10% of the computed mean value.

Table 24. Monte Carlo assumptions

ASSUMPTION	MEAN	STDEV
BETA	1.15	0.12
MRP	6.60%	0.66%
PERSISTENCE FACTOR	0.80	0.08
RISK-FREE RATE	5.01%	0.5%

Source: *Author's estimations*

Appendices

Appendix 1: Statement of Financial Position

BALANCE SHEET	2018	2019	2020	2021	2022	2023 F	2024 F	2025 F	2026 F	2027 F
ASSETS										
Cash, cash balances at central banks and other demand deposits	5,503,428	6,407,046	15,044,317	22,373,090	13,351,217	12,768,161	14,977,773	15,790,383	15,851,691	16,182,572
Financial assets held for trading	5,162,908	3,848,150	2,158,742	4,038,256	4,055,770	3,986,788	4,399,885	4,301,722	4,318,408	4,402,228
Non-trading financial assets mandatorily at fair value through profit or loss	129,178	130,303	119,555	131,316	161,397	162,479	164,648	168,975	168,878	169,876
Financial assets at fair value through other comprehensive income	4,839,963	5,340,159	2,629,598	2,751,517	2,810,920	3,262,499	3,199,713	3,203,162	3,291,078	3,277,144
Financial assets at amortised cost	58,844,761	65,670,760	72,861,812	76,285,363	84,862,782	87,440,180	88,998,867	91,241,125	92,679,770	93,816,142
Derivatives – hedge accounting	170,197	202,118	210,773	170,077	1,128,474	503,108	294,653	322,613	373,458	330,241
Fair value changes of the hedged items in portfolio hedge of interest rate risk	11,010	107,439	195,805	46,124	-648,517	-135529	35467	-17980	-39347	-7287
Investments in joint ventures and associates	110,563	140,875	109,526	169,971	178,203	0	0	0	0	0
Assets under reinsurance and insurance contracts	9,134	12,108	0	0	0	0	0	0	0	0
Tangible assets	473,411	600,654	455,070	450,436	447,853	456,810	465,946	475,265	484,770	494,466
Intangible assets	294,077	391,936	258,075	269,685	278,940	290,098	301,702	313,770	326,320	339,373
Tax assets	547,502	470,032	380,085	638,444	460,241	507,586	541,422	517,910	538,007	538,007
Other assets	209,248	217,848	120,326	153,645	156,758	315,864	329,546	340,808	349,334	354,877
Non-current assets and disposal groups classified as held for sale	196,159	192,917	1,708,409	106,184	262,994	262,994	262,994	262,994	262,994	262,994
TOTAL ASSETS	76,501,539	83,732,345	96,252,093	107,584,108	107,507,032	109,313,453	113,431,193	116,402,837	118,067,355	119,622,626
LIABILITIES AND EQUITY										
LIABILITIES										
Financial liabilities held for trading	3,798,092	2,823,849	1,382,300	3,696,496	3,347,198	3,250,783	3,763,137	3,581,134	3,605,562	3,702,588
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0	0	0	0	0	0
Financial liabilities at amortised cost	66,361,761	73,970,770	87,472,834	97,809,974	97,817,081	99,131,420	102,220,634	104,871,236	106,097,083	107,062,601
Derivatives – hedge accounting	86,845	265,394	482,033	275,264	625,125	460,807	453,732	513,221	475,920	480,958
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19,748	40,022	38,775	1,957	-203,914	0	0	0	0	0
Liabilities under reinsurance and insurance contracts	749,563	750,267	0	0	0	0	0	0	0	0
Provisions	301,925	382,733	438,511	419,911	376,159	458,948	468,582	480,116	488,375	494,987
Tax liabilities	425,515	421,254	220,102	254,543	291,132	267,425	282,664	294,993	292,479	297,330
Share capital repayable on demand	0	0	0	0	0	0	0	0	0	0
Other liabilities	272,238	278,092	264,433	273,803	349,279	267,394	278,976	288,510	295,727	300,419
Liabilities included in disposal groups classified as held for sale	0	0	988,948	0	0	0	0	0	0	0
TOTAL LIABILITIES	72,015,687	78,932,381	91,287,936	102,731,948	102,602,060	103,836,777	107,467,726	110,029,210	111,255,146	112,338,883
EQUITY										
Capital	269,660	269,660	269,660	269,660	269,660	269,660	269,660	269,660	269,660	269,660
Share premium	1,184,265	1,184,265	1,184,265	0	0	0	0	0	0	0
Equity instruments issued other than capital	0	0	0	0	0	0	0	0	0	0
Other equity	18,151	12,567	7,482	6,162	11,905	11,905	11,905	11,905	11,905	11,905
Retained earnings	2,523,867	2,762,882	3,051,137	3,306,854	4,406,753	4,741,576	5,110,903	5,503,145	5,918,493	6,348,121
Revaluation reserves	7,425	4,716	4,806	0	0	0	0	0	0	0
Other reserves	-10,907	4,252	-14,778	-12,092	-13,290	- 13,513	- 14,022	- 14,390	- 14,595	- 14,788
(-) Treasury shares	-693	-1,222	-3,641	-1,025	-1,393	- 1,393	- 1,393	- 1,393	- 1,393	- 1,393
Profit or loss attributable to owners of the parent	526,398	550,665	317,123	1,333,108	560,203	669,646	738,654	784,484	830,696	859,257
(-) Interim dividends	-173,980	-175,442	0	-166,046	-199,838	- 251,117	- 276,995	- 294,181	- 311,511	- 322,221
Accumulated other comprehensive income	141,666	187,621	148,103	115,539	-129,028	49912	124756	114397	108955	133201
Minority interests [Non-controlling interests]	0	0	0	0	0	0	0	0	0	0
TOTAL EQUITY	4,485,852	4,799,964	4,964,157	4,852,160	4,904,972	5,476,676	5,963,467	6,373,627	6,812,209	7,283,743
TOTAL EQUITY AND LIABILITIES	76,501,539	83,732,345	96,252,093	107,584,108	107,507,032	109,313,453	113,431,193	116,402,837	118,067,355	119,622,626

Appendix 2: Income Statement

INCOME STATEMENT	2018	2019	2020	2021	2022	2023 F	2024 F	2025 F	2026 F	2027 F
Interest income	1,320,454	1,391,590	1,385,745	1,446,347	1,767,606	1,889,396	1,918,245	2,033,625	2,119,995	2,180,959
Interest expenses	-226,173	-200,947	-138,745	-171,069	-230,884	- 246,485	- 261,965	- 274,353	- 283,582	- 289,254
A) NET INTEREST INCOME	1,094,281	1,190,643	1,247,000	1,275,278	1,536,722	1,642,911	1,656,280	1,759,272	1,836,412	1,891,705
Dividend income	12,584	12,257	19,032	20,611	17,960	18,080	18,322	18,803	18,793	18,904
Share of the profit or loss of entities accounted for using the equity method	27,984	30,601	28,766	33,368	36,600	37,215	38,617	39,629	40,195	40,725
Net Fee and commission income	449,680	479,489	496,760	603,459	606,092	616,589	626,656	633,803	638,999	642,147
Trading Income	52,816	67,874	49,099	74,299	70,792	69,588	76,798	75,085	75,376	76,839
Other operating income/expense	-87,417	-99,887	-131,617	-151,688	-183,864	- 130,895	- 130,895	- 130,895	- 130,895	- 130,895
Income from assets under insurance and reinsurance contracts	839,602	882,715	0	0	0	0	0	0	0	0
Expenses from liabilities under insurance and reinsurance contracts	-449,697	-508,989	0	0	0	0	0	0	0	0
B) GROSS OPERATING INCOME	1,939,833	2,054,703	1,709,040	1,855,327	2,084,302	2,253,489	2,285,779	2,395,697	2,478,881	2,539,425
Administrative expenses	-941,602	-996,290	-753,281	-775,417	-837,950	- 880,668	- 919,484	- 951,099	- 974,583	- 989,202
Depreciation and amortization	-61,794	-80,943	-75,577	-77,787	-80,088	- 51,883	- 53,463	- 55,096	- 56,784	- 58,529
Provisions or reversal or provisions	-143,579	-143,861	-204,766	-182,835	-107,017	- 130,571	- 9,634	- 11,533	- 8,259	- 6,612
Impairment or reversal of impairment and gains or losses on modifications of cash flows of financial assets not measured at fair value through profit or loss or modification gains or losses, net	-62,971	-138,960	-425,429	-263,071	-253,018	- 261,049	- 271,355	- 278,034	- 282,817	- 286,646
Gains or losses on derecognition of non-financial assets	1,349	327	-1,190	-742	-1,313	-20049	-20250	-20497	-20265	-20337
C) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	721,093	741,405	230,539	536,709	785,037	909,268	1,011,593	1,079,438	1,136,172	1,178,098
Tax expense or income related to profit or loss from continuing operations	-194,695	-190,740	-56,413	-139,276	-224,834	- 239,622	- 272,939	- 294,954	- 305,476	- 318,841
D) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	526,398	550,665	174,126	397,433	560,203	669,646	738,654	784,484	830,696	859,257
Profit or loss after tax from discontinued operations	0	0	142,997	935,675	0	0	0	0	0	0
E) PROFIT OR LOSS FOR THE PERIOD	526,398	550,665	317,123	1,333,108	560,203	669,646	738,654	784,484	830,696	859,257
Attributable to minority interests (non-controlling interests)	0	0	0	0	0	0	0	0	0	0
Attributable to the owners of the parent	526,398	550,665	317,123	1,333,108	560,203	669,646	738,654	784,484	830,696	859,257

Appendix 3: Key Ratios

Key Ratios	2018	2019	2020	2021	2022	2023 F	2024 F	2025 F	2026 F	2027 F
Profitability Ratios										
Net Income	526,398	550,665	317,123	397,433	560,203	669,646	738,654	784,484	830,696	859,257
Net Interest Income	1,094,281	1,190,643	1,247,000	1,275,278	1,536,722	1,642,911	1,656,280	1,759,272	1,836,412	1,891,705
Net Profit Margin	**48.10%**	**46.25%**	**25.43%**	**31.16%**	**36.45%**	**40.76%**	**44.60%**	**44.59%**	**45.23%**	**45.42%**
Net Interest Income	1,094,281	1,190,643	1,247,000	1,275,278	1,536,722	1,642,911	1,656,280	1,759,272	1,836,412	1,891,705
Average Total Assets	73,917,095	80,116,942	89,992,219	101,918,101	107,545,570	108,410,242	111,372,323	114,917,015	117,235,096	118,844,990
Asset Turnover	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**	**0.02**	**0.01**	**0.02**	**0.02**	**0.02**
Average Total Assets	73,917,095	80,116,942	89,992,219	101,918,101	107,545,570	108,410,242	111,372,323	114,917,015	117,235,096	118,844,990
Average Total Equity	4,367,736	4,642,908	4,882,061	4,908,159	4,878,566	5,190,824	5,720,072	6,168,547	6,592,918	7,047,976
Equity Multiplier	**16.92**	**17.26**	**18.43**	**20.77**	**22.04**	**20.88**	**19.47**	**18.63**	**17.78**	**16.86**
Estimated ROE	**12.05%**	**11.86%**	**6.50%**	**8.10%**	**11.48%**	**12.90%**	**12.91%**	**12.72%**	**12.60%**	**12.19%**
Estimated 3-step ROE	**12.05%**	**11.86%**	**6.50%**	**8.10%**	**11.48%**	**12.90%**	**12.91%**	**12.72%**	**12.60%**	**12.19%**
ROA	**0.71%**	**0.69%**	**0.35%**	**0.39%**	**0.52%**	**0.62%**	**0.66%**	**0.68%**	**0.71%**	**0.72%**
Capital Ratios										
RWA	**32,800,807**	**33,769,813**	**33,954,487**	**35,303,115**	**36,174,282**	**37,328,679**	**39,301,973**	**40,913,611**	**42,088,998**	**43,241,538**
Common Equity Tier 1 (CET 1)	3,852,906	3,921,925	4,171,576	4,254,202	4,343,884	4,736,982	5,096,569	5,463,636	5,851,222	6,241,655
CET1 (%)	**11.75%**	**11.61%**	**12.29%**	**12.05%**	**12.01%**	**12.69%**	**12.97%**	**13.35%**	**13.90%**	**14.43%**
Tier 1 capital (TIER 1 = CET 1 + AT1)	4,051,906	4,120,925	4,521,576	4,604,202	4,693,884	5,068,065	5,452,785	5,845,507	6,260,183	6,677,905
Tier 1 (%)	**12.35%**	**12.20%**	**13.32%**	**13.04%**	**12.98%**	**13.58%**	**13.87%**	**14.29%**	**14.87%**	**15.44%**
Tier 2 capital (TIER 2)	636,382	587,393	579,899	830,371	830,371	797,206	857,723	919,498	984,727	1,050,434
Tier 2 (%)	**1.94%**	**1.74%**	**1.71%**	**2.35%**	**2.30%**	**2.14%**	**2.18%**	**2.25%**	**2.34%**	**2.43%**
Total capital (TIER 1 + TIER 2)	4,688,288	4,708,318	5,101,475	5,434,574	5,524,256	5,865,272	6,312,370	6,842,508	7,373,389	7,797,631
Solvency ratio (%)	**14.29%**	**13.94%**	**15.02%**	**15.39%**	**15.27%**	**15.71%**	**16.06%**	**16.72%**	**17.52%**	**18.03%**
Efficiency Ratios										
Administrative Expenses	941,602	996,290	753,281	775,417	837,950	880,668	919,484	951,099	974,583	989,202
Gross Income	1,939,833	2,054,703	1,709,040	1,855,327	2,084,302	2,253,489	2,285,779	2,395,697	2,478,881	2,539,425
Administrative Expenses/ Gross Income	**48.54%**	**48.49%**	**44.08%**	**41.79%**	**40.20%**	**39.08%**	**40.23%**	**39.70%**	**39.32%**	**38.95%**
Other Ratios										
Loan to Deposits	**106.60%**	**101.80%**	**96.90%**	**92.20%**	**97.20%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Credit as % of Assets	**72.87%**	**72.64%**	**67.82%**	**63.85%**	**70.24%**	**71.11%**	**69.97%**	**69.86%**	**70.06%**	**70.08%**
NPL Ratio	**2.90%**	**2.51%**	**2.37%**	**2.24%**	**2.10%**	**2.17%**	**2.25%**	**2.31%**	**2.35%**	**2.38%**
Cost of Risk	**0.11%**	**0.23%**	**0.65%**	**0.38%**	**0.33%**	**0.33%**	**0.34%**	**0.34%**	**0.34%**	**0.34%**

Appendix 4: Common-Size Statement of Financial Position

BALANCE SHEET	2018	2019	2020	2021	2022 E	2023 F	2024 F	2025 F	2026 F	2027 F
ASSETS	76,501,539	83,732,345	96,252,093	107,584,108	107,507,032	109,313,453	113,431,193	116,402,837	118,067,355	119,622,626
Cash, cash balances at central banks and other demand deposits	7.19%	7.65%	15.63%	20.80%	12.42%	11.68%	13.20%	13.57%	13.43%	13.53%
Financial assets held for trading	6.75%	4.60%	2.24%	3.75%	3.77%	3.65%	3.88%	3.70%	3.66%	3.68%
Non-trading financial assets mandatorily at fair value through profit or loss	0.17%	0.16%	0.12%	0.12%	0.15%	0.15%	0.15%	0.15%	0.14%	0.14%
Financial assets at fair value through other comprehensive income	6.33%	6.38%	2.73%	2.56%	2.61%	2.98%	2.82%	2.75%	2.79%	2.74%
Financial assets at amortised cost	76.92%	78.43%	75.70%	70.91%	78.94%	79.99%	78.46%	78.38%	78.50%	78.43%
Derivatives – hedge accounting	0.22%	0.24%	0.22%	0.16%	1.05%	0.46%	0.26%	0.28%	0.32%	0.28%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.01%	0.13%	0.20%	0.04%	-0.60%	-0.12%	0.03%	-0.02%	-0.03%	-0.01%
Investments in joint ventures and associates	0.14%	0.17%	0.11%	0.16%	0.17%	0.00%	0.00%	0.00%	0.00%	0.00%
Assets under reinsurance and insurance contracts	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tangible assets	0.62%	0.72%	0.47%	0.42%	0.42%	0.42%	0.41%	0.41%	0.41%	0.41%
Intangible assets	0.38%	0.47%	0.27%	0.25%	0.26%	0.27%	0.27%	0.27%	0.28%	0.28%
Tax assets	0.72%	0.56%	0.39%	0.59%	0.43%	0.46%	0.48%	0.44%	0.46%	0.45%
Other assets	0.27%	0.26%	0.13%	0.14%	0.15%	0.29%	0.29%	0.29%	0.30%	0.30%
Non-current assets and disposal groups classified as held for sale	0.26%	0.23%	1.77%	0.10%	0.24%	0.24%	0.23%	0.23%	0.22%	0.22%
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LIABILITIES AND EQUITY										
LIABILITIES										
Financial liabilities held for trading	4.96%	3.37%	1.44%	3.44%	3.11%	2.97%	3.32%	3.08%	3.05%	3.10%
Financial liabilities at amortised cost	86.75%	88.34%	90.88%	90.91%	90.99%	90.69%	90.12%	90.09%	89.86%	89.50%
Derivatives – hedge accounting	0.11%	0.32%	0.50%	0.26%	0.58%	0.42%	0.40%	0.44%	0.40%	0.40%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.03%	0.05%	0.04%	0.00%	-0.19%	0.00%	0.00%	0.00%	0.00%	0.00%
Liabilities under reinsurance and insurance contracts	0.98%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Provisions	0.39%	0.46%	0.46%	0.39%	0.35%	0.42%	0.41%	0.41%	0.41%	0.41%
Tax liabilities	0.56%	0.50%	0.23%	0.24%	0.27%	0.24%	0.25%	0.25%	0.25%	0.25%
Other liabilities	0.36%	0.33%	0.27%	0.25%	0.32%	0.24%	0.25%	0.25%	0.25%	0.25%
TOTAL LIABILITIES	94.14%	94.27%	94.84%	95.49%	95.44%	94.99%	94.74%	94.52%	94.23%	93.91%
EQUITY										
Capital	0.35%	0.32%	0.28%	0.25%	0.25%	0.25%	0.24%	0.23%	0.23%	0.23%
Share premium	1.55%	1.41%	1.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other equity	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Retained earnings	3.30%	3.30%	3.17%	3.07%	4.10%	4.34%	4.51%	4.73%	5.01%	5.31%
Revaluation reserves	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other reserves	-0.01%	0.01%	-0.02%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%
(-) Treasury shares	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Profit or loss attributable to owners of the parent	0.69%	0.66%	0.33%	1.24%	0.52%	0.61%	0.65%	0.67%	0.70%	0.72%
(-) Interim dividends	-0.23%	-0.21%	0.00%	-0.15%	-0.19%	-0.23%	-0.24%	-0.25%	-0.26%	-0.27%
Accumulated other comprehensive income	0.19%	0.22%	0.15%	0.11%	-0.12%	0.05%	0.11%	0.10%	0.09%	0.11%
Items that will not be reclassified to profit or loss	-0.01%	0.00%	0.01%	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Items that may be reclassified to profit or loss	0.20%	0.23%	0.15%	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EQUITY	5.86%	5.73%	5.16%	4.51%	4.56%	5.01%	5.26%	5.48%	5.77%	6.09%

Appendix 5: Common-Size Income Statement

INCOME STATEMENT	2018	2019	2020	2021	2022 E	2023 F	2024 F	2025 F	2026 F	2027 F
NET INTEREST INCOME	1,094,281	1,190,643	1,247,000	1,275,278	1,536,722	1,642,911	1,656,280	1,759,272	1,836,412	1,891,705
Interest income	120.67%	116.88%	111.13%	113.41%	115.02%	115.00%	115.82%	115.59%	115.44%	115.29%
Interest expenses	-20.67%	-16.88%	-11.13%	-13.41%	-15.02%	-15.00%	-15.82%	-15.59%	-15.44%	-15.29%
A) NET INTEREST INCOME	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Dividend income	1.15%	1.03%	1.53%	1.62%	1.17%	1.10%	1.11%	1.07%	1.02%	1.00%
Share of the profit or loss of entities accounted for using the equity method	2.56%	2.57%	2.31%	2.62%	2.38%	2.27%	2.33%	2.25%	2.19%	2.15%
Net Fee and commission income	41.09%	40.27%	39.84%	47.32%	39.44%	37.53%	37.84%	36.03%	34.80%	33.95%
Trading Income	4.83%	5.70%	3.94%	5.83%	4.61%	4.24%	4.64%	4.27%	4.10%	4.06%
Other operating income/expense	-7.99%	-8.39%	-10.55%	-11.89%	-11.96%	-7.97%	-7.90%	-7.44%	-7.13%	-6.92%
Net Income from assets under insurance and reinsurance contracts	35.63%	31.39%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
B) GROSS OPERATING INCOME	177.27%	172.57%	137.05%	145.48%	135.63%	137.16%	138.01%	136.18%	134.98%	134.24%
Administrative expenses	-86.05%	-83.68%	-60.41%	-60.80%	-54.53%	-53.60%	-55.51%	-54.06%	-53.07%	-52.29%
Depreciation and amortisation	-5.65%	-6.80%	-6.06%	-6.10%	-5.21%	-3.16%	-3.23%	-3.13%	-3.09%	-3.09%
Provisions or reversal or provisions	-13.12%	-12.08%	-16.42%	-14.34%	-6.96%	-7.95%	-0.58%	-0.66%	-0.45%	-0.35%
Impairments	-5.75%	-11.67%	-34.12%	-20.63%	-16.46%	-15.89%	-16.38%	-15.80%	-15.40%	-15.15%
Gain/losses on disposals of assets	-8,794	46,756	-19,448	-19,508	-1.38%	-1.22%	-1.22%	-1.17%	-1.10%	-1.08%
C) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	65.90%	62.27%	18.49%	42.09%	51.09%	55.34%	61.08%	61.36%	61.87%	62.28%
Tax expense or income related to profit or loss from continuing operations	-17.79%	-16.02%	-4.52%	-10.92%	-14.63%	-14.59%	-16.48%	-16.77%	-16.63%	-16.85%
D) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	48.10%	46.25%	13.96%	31.16%	36.45%	40.76%	44.60%	44.59%	45.23%	45.42%
Profit or loss after tax from discontinued operations	0.00%	0.00%	11.47%	73.37%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
E) PROFIT OR LOSS FOR THE PERIOD	48.10%	46.25%	25.43%	104.53%	36.45%	40.76%	44.60%	44.59%	45.23%	45.42%

Appendix 6: Income Statement forecasts (Forecasting Assumptions)

Assumption	Unit	2023F	2024F	2025F	2026F	2027F	Notes
Income Statement Assumptions							
Interest income	YoY	6.89%	1.53%	6.01%	4.25%	2.88%	Loans and advances * Average Interest rate
Average interest rate	%	2.43%	2.42%	2.50%	2.56%	2.60%	We assumed the same pace as Euribor rate in 2023-24, then it grows at inflation rate (weighted by country)
Interest expenses	YoY	6.76%	6.28%	4.73%	3.36%	2.00%	We assumed both the deposits' growth and with inflation rate (weighted by country), it is assumed the same constitution in demand and term deposits
Net Interest Income							
Dividend income	k €	18,080	18,322	18,803	18,793	18,904	We assumed non-trading financial assets' growth
Equity method	k €	37,215	38,617	39,629	40,195	40,725	We assumed asset's Growth
Net Fee and commission income	YoY	1.73%	1.63%	1.14%	0.82%	0.49%	We assumed deposits' growth
Trading Income	k €	69,588	76,798	75,085	75,376	76,839	We assumed financial assets held for trading
Other operating income/expenses	k €	-130,895	-130,895	-130,895	-130,895	-130,895	We assumed the 2018-2022 average
Gross Operating Income							
Administrative expenses	YoY	5.10%	4.41%	3.44%	2.47%	1.50%	It is expected to growth at the inflation rate weighted by the percentage of workforce in each
Depreciation	%	5.53%	5.53%	5.53%	5.53%	5.53%	Average depreciation rate * Tangible Assets
Amortization	%	9.71%	9.71%	9.71%	9.71%	9.71%	Average amortization rate * Intangible Assets
Provisions or reversal of provisions	YoY	3.17%	3.95%	2.46%	1.72%	1.35%	The provisions will remain the same percentage in credit
Impairment or reversal of impairment	YoY	3.17%	3.95%	2.46%	1.72%	1.35%	The impairments comes from the cost of risk
Gain/losses on disposals of assets	k €	-20,049	-20,250	-20,497	-20,265	-20,337	We assumed 3 Year average, this value means that it is not expected a close of any branch, as the CEO promised
Profit or Loss Before Tax From Continuing Operations							
Tax expense	k €	239,622	272,939	294,954	305,476	318,841	Average tax rate * Profit before tax
Tax rate	%	26.35%	26.98%	27.32%	26.89%	27.06%	We assume the average tax rate of last 3 years
Profit or Loss for the Period							
Dividend	YoY	19.54%	10.31%	6.20%	5.89%	3.44%	Payout ratio * Net Profit
Payout Ratio	%	50.00%	50.00%	50.00%	50.00%	50.00%	The company will likely maintain the strategic goal of a 50% payout ratio

Appendix 7: Balance sheet forecasts (Forecasting Assumptions)

Assumption	Unit	2023F	2024F	2025F	2026F	2027F	Notes
Balance Sheet Assumptions							
Assets							
Securities	% of Deposits	23.08%	23.08%	23.08%	23.08%	23.08%	Securities remain constant in % deposits
Loans and advances (Gross)	YoY	2.94%	2.11%	2.46%	1.72%	1.35%	We estimate that loans will grow 50 bps above the market, the proxy for the market growth is Domestic Credit Growth in Spain, Portugal and Ireland. The percentage of each country in countries loans is estimated by the author.
Impairments	% of Gross Credit	0.33%	0.34%	0.34%	0.34%	0.34%	Cost of Risk * Gross Credit. The growth in unemployment rate increases impairments in the same rate, when the unemployment rate decreases the average is assumed. This way we can capture the effect on an eventual crisis.
Loans and advances (Net)	YoY	2.94%	2.10%	2.46%	1.72%	1.35%	Loans and advances (Gross) - Impairments
Tangible Assets	YoY	2.00%	2.00%	2.00%	2.00%	2.00%	We estimate tangible assets will grow 2 pp above the average depreciation rate
Intangible Assets	YoY	4.00%	4.00%	4.00%	4.00%	4.00%	We estimate intangible assets will grow 4 pp above the average amortization rate
Derivatives – hedge accounting	k €	503,108	294,653	322,613	373,458	330,241	We assume the 3 year average replacing 2022 (outlier) with 2021 from 2024-2027
Fair value changes of the hedged items	k €	-135,529	35,467	-17,980	-39,347	-7,287	We assume the 3 year average replacing 2022 (outlier) with 2021 from 2024-2027
Non-current assets classified as held for sale	k €	262,994	262,994	262,994	262,994	262,994	There is no reason to believe the company will sell more assets, the company has no intention of closing branches.
Tax assets	% of Assets	0.46%	0.48%	0.44%	0.46%	0.45%	We assumed the last 3 years average of tax assets in % of total assets
Other Assets	% SG&A + Dep.	33.87%	33.87%	33.87%	33.87%	33.87%	We expect the average weight of other assets in (SG&A + Depreciations) will remain in the future, since other assets are related this 2 types of expenses
Liabilities							
Deposits in Central banks	% of Deposits	16.61%	17.25%	18.08%	17.61%	17.12%	We expect the average percentage of deposits in central banks to customer's deposits
Deposits in Credit institutions	% of Deposits	3.73%	3.73%	3.73%	3.73%	3.73%	We expect the average percentage of deposits in credit institution to customer's deposits
Customer's Deposits	YoY	1.73%	1.63%	1.14%	0.82%	0.49%	We assume the deposits will grow 50 bps above the market, the proxy for the market growth is Real GDP of Portugal and Spain (weighted)
Debt Securities Issued	YoY	0.26%	11.66%	8.89%	6.88%	6.88%	Debt securities are issued in order to keep the same capital structure
Other financial liabilities	YoY	0.26%	11.66%	8.89%	6.88%	6.88%	Other financial liabilities are issued in order to keep the same capital structure
Financial liabilities held for trading	% of Securities	18.99%	21.63%	20.35%	20.32%	20.77%	It is expected the average percentage of financial liabilities held for trading in % of securities
Derivatives – hedge accounting	k €	460,807	453,732	513,221	475,920	480,958	We assume the 3 year average
Provisions	% of Credit	0.59%	0.59%	0.59%	0.59%	0.59%	We expected the average provisions in % of credit
Tax Liabilities	% of Liabilities	0.26%	0.26%	0.27%	0.26%	0.26%	We assumed the last 3 years average of tax assets in % of total assets
Other Liabilities	% SG&A + Dep.	28.67%	28.67%	28.67%	28.67%	28.67%	We expect the average weight of other liabilities in (SG&A + Depreciations) will remain in the future, since other liabilities are related this 2 types of expenses

Appendix 8: Breakdown of loans and deposits (per country)

	2022	2023 E	2024 E	2025 F	2026 F	2027 F
Loans per country						
Spain	85.56%	85.45%	85.34%	85.23%	85.11%	85.00%
Luxembourg	ND	ND	ND	ND	ND	ND
Ireland	3.05%	3.11%	3.17%	3.23%	3.29%	3.35%
Portugal	11.39%	11.46%	11.53%	11.61%	11.68%	11.75%
Deposits per country						
Spain	91.22%	91.18%	91.13%	91.09%	91.04%	91.00%
Luxembourg	ND	ND	ND	ND	ND	ND
Ireland	ND	ND	ND	ND	ND	ND
Portugal	8.78%	8.82%	8.87%	8.91%	8.96%	9.00%

Appendix 9: Forecasted macroeconomic data

Macroeconomics and Market	2018	2019	2020	2021	2022	2023 E	2024 E	2025 F	2026 F	2027 F	
Euribor 12M (1st day of the year)	-0.19%	-0.12%	-0.25%	-0.50%	-0.50%	3.32%	2.74%	2.16%	1.58%	1.00%	Source: ECB, Author estimations for 24-27(See Investment Risk)
Spain	1.83%	2.66%	-9.93%	4.80%	-0.73%						
Nominal GDP growth	3.60%	3.46%	-10.24%	7.95%	7.80%	5.15%	6.29%	4.86%	3.43%	2.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Real GDP growth	2.28%	1.98%	-11.33%	5.52%	4.65%	1.25%	1.68%	1.13%	0.81%	0.49%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Inflation	1.74%	0.78%	-0.34%	3.01%	8.60%	4.78%	4.78%	3.69%	2.59%	1.50%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Unemployment Rate	15.25%	14.10%	15.53%	14.78%	12.85%	12.88%	12.70%	12.14%	11.57%	11.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Domestic Credit Growth	-3.12%	-1.71%	9.35%	9.37%	1.70%	3.00%	1.90%	2.20%	1.50%	1.20%	Source: IMF (International Financial Statistics), The Economist Intelligence estimations for 23-27
Household Savings Rate	1.40%	4.21%	10.81%	7.00%	4.21%	4.23%	2.33%	5.22%	8.11%	11.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Luxembourg											
Nominal GDP growth	3.40%	3.74%	3.83%	11.53%	7.77%	2.59%	3.71%	3.14%	2.57%	2.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Inflation	2.02%	1.65%	0.00%	3.47%	8.19%	3.96%	3.20%	2.64%	2.07%	1.50%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Unemployment rate	5.45%	5.37%	6.36%	5.73%	4.76%	4.97%	5.22%	5.15%	5.07%	5.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Ireland											
Nominal GDP growth	9.70%	8.94%	5.09%	13.93%	16.76%	8.11%	5.26%	4.17%	3.09%	2.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Real GDP growth	8.92%	7.99%	5.58%	11.23%	7.69%	0.83%	2.26%	1.68%	1.09%	0.49%	Source: Author estimations
Inflation	0.72%	0.88%	-0.46%	2.42%	8.42%	7.21%	2.93%	2.45%	1.98%	1.50%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Unemployment rate	5.58%	4.95%	5.80%	6.19%	4.69%	5.26%	5.13%	5.09%	5.04%	5.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Domestic Credit Growth	-6.14%	7.70%	1.45%	-9.28%	22.54%	-0.90%	6.90%	6.30%	3.90%	2.60%	Source: IMF (International Financial Statistics), The Economist Intelligence estimatios for 23-27
Portugal											
Nominal GDP growth	4.70%	4.48%	-6.46%	6.96%	12.37%	7.47%	4.10%	3.40%	2.70%	2.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Real GDP growth	2.85%	2.68%	-8.30%	5.48%	6.73%	1.03%	1.16%	1.25%	0.87%	0.49%	Source: Author estimations
Inflation	1.17%	0.30%	-0.12%	0.94%	8.28%	6.58%	2.43%	2.12%	1.81%	1.50%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Unemployment rate	7.19%	6.64%	6.97%	6.58%	6.09%	6.35%	6.24%	6.16%	6.08%	6.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)
Domestic Credit Growth	1.57%	-1.56%	4.84%	7.92%	-1.50%	-0.80%	2.30%	3.30%	2.70%	2.10%	Source: IMF (International Financial Statistics), The Economist Intelligence estimatios for 23-27
Gross Household Savings Rate	6.80%	7.20%	12.60%	10.90%	7.30%	5.10%	5.50%	7.33%	9.17%	11.00%	Source: OECD, Author estimations for 25-27 (See Investment Risk)

Appendix 10: Scenario Analysis (Investment Risks)

Country	Scenario	Nominal GDP growth 2027F	Unemployment rate 2027F	Inflation 2027F
Spain	Basis	2.0%	11.0%	1.50%
	Pessimistic	1.0%	13.0%	2.50%
	Optimistic	3.0%	10.0%	1.00%
Ireland	Basis	2.0%	5.0%	1.50%
	Pessimistic	1.0%	6.0%	2.50%
	Optimistic	3.0%	4.0%	1.00%
Luxembourg	Basis	2.0%	5.0%	1.50%
	Pessimistic	1.0%	6.0%	2.50%
	Optimistic	3.0%	4.0%	1.00%
Portugal	Basis	2.0%	6.0%	1.50%
	Pessimistic	1.0%	7.5%	2.50%
	Optimistic	3.0%	5.0%	1.00%

Will the company keep the same market share in deposits (0= Increase 50 bps ; 1= Increase 100 bps; -1= Decrease 100 bps)	0
Will the company keep the same risk structure (0= Yes; 1= It will become more risky; -1= It will become less risky)	1
Will the company keep the same market share in loans (0= Increase 50 bps ; 1= Increase 100 bps; -1= Decrease 100 bps)	0
Scenario (0= Basis; 1= Optimistic; -1= Pessimistic)	0

- Grey-sky scenario: risk structure equal to 1, everything else equal to -1

- Basis scenario: risk structure equal to 1, everything else equal to 0

- Blue-sky scenario: Everything equal to 1

Scenario	EURIBOR 12M 2027F	Persistance Factor	Growth abv Mkt.
Basis	1.00%	0.80	0.005
Pessimistic	0.00%	0.70	-0.01
Optimistic	2.00%	0.80	0.01

Appendix 11: Residual Income method

Reported (k€)	2022	2023 F	2024 F	2025 F	2026 F	2027 F	TV
Net Income	**560,203**	**669,646**	**738,654**	**784,484**	**830,696**	**859,257**	
Equity Charge	617,977	690,006	751,337	803,013	858,270	917,679	
Excess Equity Return	-57,774	-20,360	-12,683	-18,530	-27,574	-58,422	-179,214
Cumulated Cost of Equity			1.00	1.13	1.27	1.43	1.43
Present Value of Equity Excess Return			-12,683	-16,456	-21,749	-40,924	-125,536
Accumulated Present Value of Equity Excess Return			**-12,683**	**-29,139**	**-50,888**	**-91,811**	**-217,347**
Beginning BV of Equity	**4,904,972**	**5,476,676**	**5,963,467**	**6,373,627**	**6,812,209**	**7,283,743**	
Cost of Equity	12.60%	12.60%	12.60%	12.60%	12.60%	12.60%	
Equity Cost	**617,977**	**690,006**	**751,337**	**803,013**	**858,270**	**917,679**	

Price Target	
Equity Invested (in k)	5,963.47 €
PV of Equity Excess Return + Terminal Value (in k)	-217.35 €
Equity Value (in k)	5,746.12 €
# Shares (in k)	898,866
Target Price	6.39 €
Current Price	5.34 €
Potential	19.71%

Persistence factor: **0.8**

Appendix 12: FTE and DDM methods

Reported (k€)	2018	2019	2020	2021	2022	2023 F	2024 F	2025 F	2026 F	2027 F	TV
RWAs	32,800,807	33,769,813	33,954,487	35,303,115	36,174,282	37,328,679	39,301,973	40,913,611	42,088,998	43,241,538	
RWAs / Total Assets	0.00%	42.88%	40.33%	35.28%	32.81%	33.65%	34.15%	34.65%	35.15%	35.65%	
Regulatory Capital	3,837,694	3,951,068	3,972,675	4,130,464	4,264,948	4,475,709	4,790,911	5,069,196	5,299,005	5,530,593	
Net Income	**526,398**	**550,665**	**317,123**	**1,333,108**	**560,203**	**669,646**	**738,654**	**784,484**	**830,696**	**859,257**	
Target Capital Ratio	11.70%	11.70%	11.70%	11.70%	11.79%	11.99%	12.19%	12.39%	12.59%	12.79%	
Changes in Regulatory Capital		113,374	21,607	157,789	134,483	210,761	315,202	278,286	229,808	231,588	
Capital Raise	0	0	0	0	0	0	0	0	0	0	
0 means that the capital requirements are always met.											
Free Cash Flow to Equity								**506,198**	**600,888**	**627,669**	**5,797,904**
Discount Factor								0.89	0.79	0.70	0.70
Dividends								**392,242**	**415,348**	**429,628**	**6,408,997**
Discount Factor								0.89	0.79	0.70	0.70

Equity in YE24	
5,424,490,810	
Number of Shares	
898,866,154	
Value using FTE	**Upside Potential**
6.03	13.01%
Value using DDM	**Upside Potential**
6.08	13.88%

Appendix 13: Peer Group

	Historic P/E (FY0)	Historic Price/Bk, Tot	Net Income Before Extraordinary Items FY0	FY-1	FY-2	FY-3	FY-4	Beta 5 Year Monthly	ROE	Dividend Payout Ratio,
BKT.MC	10.28	1.15	560,203,000	397,433,000	174,126,000	448,917,000	526,398,000	1.15	10.95	50.0%
CABK.MC	9.96	0.80	3,143,000,000	5,224,000,000	1,381,000,000	1,705,000,000	2,039,266,000	1.20	7.76	60.0%
SABE.MC	6.58	0.38	858,642,000	530,238,000	2,002,000	767,822,000	328,102,000	1.45	7.57	15.0%
BBVA.MC	5.71	0.72	6,420,000,000	4,373,000,000	3,034,000,000	4,270,000,000	5,398,000,000	1.83	14.06	42.4%
SAN.MC	4.92	0.52	9,605,000,000	8,124,000,000	-8,771,000,000	6,515,000,000	7,810,000,000	1.61	9.83	20.3%
UNI.MC	10.53	0.42	259,677,000	1,113,202,000	77,831,000	172,281,000	152,550,000	1.15	1.76	49.5%
BCP.LS	11.01	0.43	202,000,000	67,201,000	167,492,000	288,591,000	302,383,000	1.74	3.55	0.0%

Appendix 14: P/BV regression

First Regression

	P/BV	ROE	Beta 5 Year
BKT.MC	1.1484	10.9522	1.1537
CABK.MC	0.8040	7.7555	1.1997
SABE.MC	0.3755	7.5668	1.4546
BBVA.MC	0.7223	14.0551	1.8266
SAN.MC	0.5206	9.8314	1.6127
UNI.MC	0.4234	1.7585	1.1473
BCP.LS	0.4306	3.5512	1.7360

P/BV	0.967313559
Price	6.417577223

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.829406337
R Square	0.687914873
Adjusted R Squar	0.531872309
Standard Error	0.190805835
Observations	7

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	0.320999919	0.160499959	4.408508	0.097397127
Residual	4	0.145627467	0.036406867		
Total	6	0.466627386			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	1.100958235	0.400614727	2.748172152	0.051471	-0.01132656	2.213243031	-0.01132656	2.21324303
ROE	0.051808818	0.019454293	2.663104618	0.056208	-0.00220496	0.105822594	-0.00220496	0.10582259
Beta 5 Year	-0.607646718	0.287800044	-2.111350335	0.102335	-1.40670774	0.191414304	-1.40670774	0.1914143

Appendix 15: P/E regression

Second Regression

	P/E	g EPS or NI 5Y	Payout	Beta 5 Year
BKT.MC	10.28	0.0157	50.00%	1.1537
CABK.MC	9.96	0.1142	59.97%	1.1997
SABE.MC	6.58	0.2719	15.03%	1.4546
BBVA.MC	5.71	0.0443	42.42%	1.8266
SAN.MC	4.92	0.0531	20.30%	1.6127
UNI.MC	10.53	0.1422	49.51%	1.1473
BCP.LS	11.01	-0.0959	0.00%	1.7360

P/E	11.3423857
Price	9.320746292

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.816352809
R Square	0.666431909
Adjusted R Square	0.332863817
Standard Error	2.108300915
Observations	7

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	26.64144227	8.880481	1.997888665	0.292073239
Residual	3	13.33479824	4.444933		
Total	6	39.97624051			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	23.35592363	7.551054842	3.093068	0.053584961	-0.674902952	47.3867502	-0.674903	47.3867502
g EPS or NI 5Y	-14.03891751	8.138847424	-1.72493	0.183004704	-39.94036243	11.8625274	-39.940362	11.8625274
Payout	-3.324084274	5.129061477	-0.64809	0.56310874	-19.64704702	12.9988785	-19.647047	12.9988785
Beta 5 Year	-8.7813074	4.199393833	-2.09109	0.12764431	-22.14565279	4.58303799	-22.145653	4.58303799

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Abbreviations

%	Percentage
€	Euro
€ … B	Billion Euros
€ … K	Thousand Euros
€ … M	Million Euros
BKT	Bankinter, S.A.
bps	Basis Points
c.	Circa (Latin Word for Approximately)
CCoB	Capital Conservation Buffer
CCyB	Countercyclical Buffer
CEO	Chief Executive Officer
CET1	Common-Equity Tier 1
CI	Credit Institutions
CNVM	Comisión Nacional del Mercado de Valores
DDM	Dividend Discounted Model
EU	European Union
FCFE	Free Cash Flow to Equity
FY	Fiscal Year
g	Terminal Growth
G-SIB	Global Systemically Important Banks
IPO	Initial Public Offering
LTD	Loans-to-Deposits
M&A	Mergers and Acquisitions
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRP	Market Risk Premium
NII	Net Interest Income
P/BV	Price to Book Value
P/E	Price to Earnings
PIPS	Payment Initiation Service Provider
PSD2	Payment Services Directive 2
PV	Present Value
ROA	Return on Assets
ROE	Return on Equity
S.A.	Sociedad Anónima
SGPS	Sociedade Gestora de Patricipações Sociais (Holding)
SME	Small and Medium Enterprises
TBTF	Too-Big-To-Fail
TCR	Total Capital Ratio
PT	Price Target
YE	Year End
Δ	Variation

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%