

2. 2. Business areas

2. 2. 1. Banking activity in Spain



- █ Decline in lending, but good performance of the more liquid deposits and off-balance sheet funds.
- █ Weaker revenues due to environment.
- █ Good evolution in costs and impairments.
- █ Impact of mortgage floor clauses.
- █ Risk indicators continue to improve.

Definition of the area

This business area includes the Commercial Banking, Consumer Finance, Corporate and Business Banking (CBB), Corporate & Investment Banking (CIB), BBVA Seguros and Asset Management units. It also includes the portfolios, finance and structural interest-rate positions of the euro balance sheet. In addition, in September 2016 the merger of Catalunya Bank (CX) was successfully completed with the integration of the CX business in the BBVA systems.

Management priorities

Development of the strategic roadmap for the area

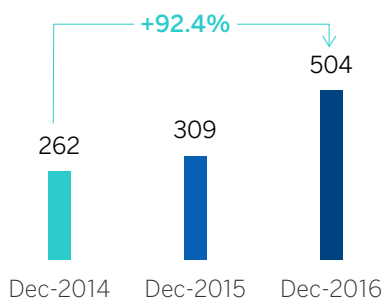
In line with the six Strategic Priorities defined by the Group, this area established a **Growth Plan** a year ago, whose priority objectives are to improve customer experience, boost digital sales, optimize capital consumption and increase efficiency continuously as key levers to drive business profitability.

In line with this Plan, the area has advanced along its strategic roadmap based on four core **elements**: transformation and development of the distribution model, development of a new value proposition for customers, adaptation of the ways of acting and working to the new environment, and leadership in customer experience.

A. Transformation and development of the distribution model

For **individual customers**, the new distribution model is focused on Retail Banking Hubs (CBC); in other words, centers offering specialized advice, with the capacity for remote management (the *BBVA Contigo* manager) as a core element of the model. These centers have managers specializing in segmented customer service and advice, boosting customer relations with the Bank through the channel that is most suitable and convenient for them. In this model, the CBC manager is responsible for the overall management of the customers in the Bank, regardless of the relationship channel.

Active remote clients⁽¹⁾ (Banking activity in Spain. Thousands)



Retail Banking

Experts in managing customers across all channels: face-to-face, remote and digital



Boosting each sale through the most suitable channel for the customer

Digital ambassador specializing in digital culture

¹ Attended through remote advisors.

In the world of **small companies** work is being done on the development of a distribution model based on high-value advice and extreme specialization, which is levered on the new "1+9" model: a relationship manager, responsible for the overall customer relations with the Bank, supported by a team of nine product specialists (insurance, renting, foreign trade -Comex-, payment channels, investment banking, etc.) based on improvements in customer service. It is particularly focused on the flexibility and speed of response, thanks to the new tools boosting manager mobility, the redesign of processes and improvement of response times by support areas.

B. New value proposition for customers

Digital disruption and easy access to information has generated changes in our customers' needs and behavior. Customers' demands for more immediacy and customization have led us to drive **digital sales** through a new value offering with three key lines:

New value proposition

- ✓ **Convenience**

Mobile as the key relationship device
- ✓ **Simplicity**

Transparent and reliable

Simple products

Very simple buying processes
- ✓ **Advice**

Advice supported by the innovative tools (Commerce 360. BBVA Valora...)

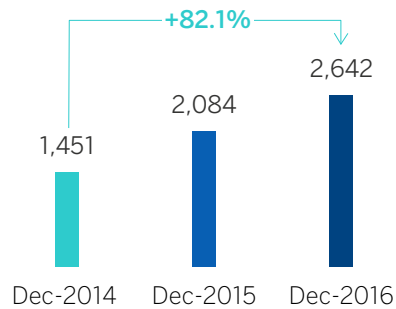
- a. A more comfortable and appropriate, in other words, convenient **channel**, through the development of multiple new mobile applications already in the hands of our customers, under the umbrella of the well-known "Revolution of small things" campaign. By way of example: Immediate registration (allows people to open an account and become customers 100% online by mobile phone), remote signature, my conversations, push notifications, ability to request appointments by mobile phone, reservation of turn at

teller and consultation of waiting times in branches, etc.

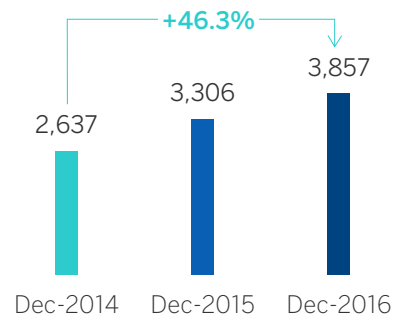
Convenience: the revolution of small things

- ✓ **Website and smart phone registration "Alta inmediata"** Become a customer is very simple
- ✓ **Advanced digital servicing (Bizum, on-off, notifications)** All servicing in my app
- ✓ **Call logged and contextualized** My remote manager on my smartphone
- ✓ **My conversations**
- ✓ **Prior appointment**
- ✓ **Turn at teller and query: saturation of branch teller** No waiting in the branch
- ✓ **Prioritization**

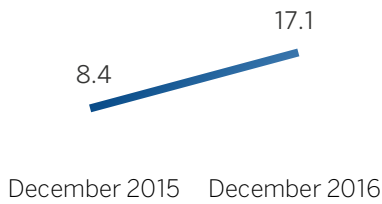
Customers through mobile (Banking activity in Spain. Thousands)



Digital customers (Banking activity in Spain. Thousands)



Digital sales (Banking activity in Spain. Percentage of total sales YTD, number of transactions)



- b. Simple, transparent and straightforward **offering**: in other words, make simple and transparent products and services available for customers in person, online and via mobile devices and simplifying the digital application process and timing as much as possible.

Simple & transparent

- ✓ **Transparent, Clear & Responsible communication**
- ✓ **Things to stop doing (10 out of 12 measures implemented)**
- ✓ **73% of products contracted via web and 53% of products via smartphone (October)**

Transparent

Very simple paperwork

- c. **Advice**, a key that clearly differentiates BBVA in quality and immediacy in comparison with its peers. By way of example: *Mi día a día* is an application to control the household economy that categorizes and predicts income and expenses, creates budgets or helps users save, by setting "savings targets" with notifications and intermediate objectives; and *BBVA Valora*, a website and pioneering application in the sector, which in six months has achieved a million searches and that advises on the buying and selling of properties, gives information and allows exploration of the chosen neighborhood, values the home and offers advice and a prior simulation of finance.

Advisory

- ✓ **Personal Financial Management** Control my day-to-day-life
- ✓ **Budgets** Helps me to save
- ✓ **Accounts goals (October)** Helps me with important decisions
- ✓ **BBVA Valora**
- ✓ **360 Commerce**

C. **Adaptation of the ways of acting and working to the new environment**

The process of digital transformation underway in the area involves undertaking changes in our productive model, processes and ways of acting to achieve progress in efficiency and productivity that are compatible with operational excellence and improvement of customer experience.

- a. **Ways of working**: the teams that head up digital transformation work with the agile methodology, by which multidisciplinary teams are organized in scrums to achieve a clear objective that in turn is divided into quarterly deliverables.

At the same time the area has a new organizational model, with flatter and more flexible structures.

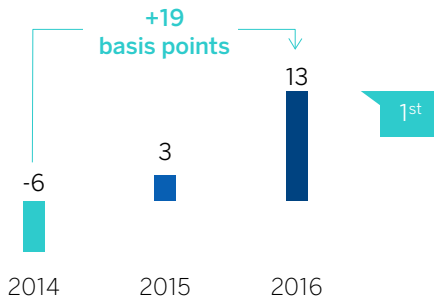
- b. **The Process Plan and new IT model** represents the redesign of the main operations and processes with the aim of optimizing response times and reducing the number of incidents to zero.

D. **Leadership in customer experience**

In 2016 the area has consolidated its leading position among traditional banking institutions² in terms of recommendations by individual customers (**Net Promoter Score** index). This leading position is based on the strategy developed over recent years, which puts the customer at the heart of the business and which is focused on minimizing the aspects that generate customer complaints and on improving on-site and remote attention and the quality of service offered. All this has also allowed a very significant reduction in the customer attrition rate.

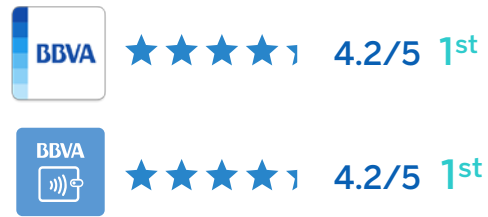
² Santander, Caixabank, Bankia, Sabadell and Popular.

Net Promoter Score (NPS) ⁽¹⁾ (Banking activity in Spain. Percentage)



⁽¹⁾ Entities: Santander, Caixabank, Bankia, Sabadell and Popular.

Digital customer rating (Play Store Android) (Spain)

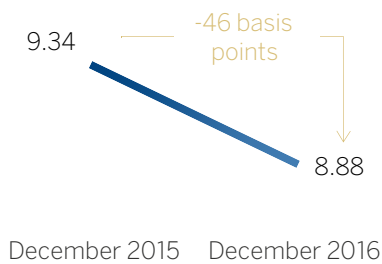


In the coming years, as part of the area's Transformation Plan, the aim will be to achieve a new standard of customer experience for both individuals and companies.

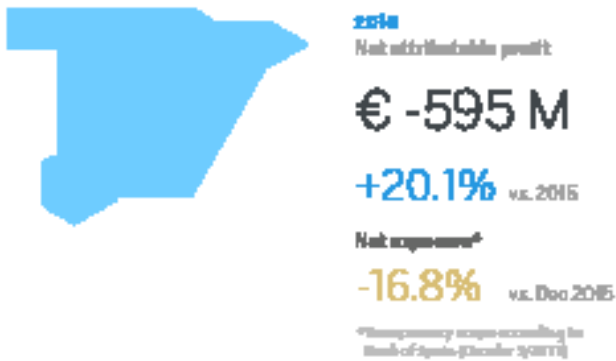
Overall, Banking Activity in Spain, through its strategic roadmap and the four core elements that sustain it, represents a firm commitment to the construction of a long-term competitive advantage: a new standard of customer experience as a lever for **growth, retention and the increased loyalty** of our customer base on which to create lasting relations of trust with them, which is a fundamental pillar of the future profitability of our business.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

Attrition Rate (Retail customers) (Spain. Percentage)



2. 2. 2. Real-estate activity in Spain



- Better market dynamics.
- Further reduction in net exposure and NPLs.
- Increased coverage for real-estate assets.

Definition of the area

This area provides specialized management of the Group’s real-estate assets, including foreclosed real-estate assets from both residential and developer mortgages, the developer loan business and other related assets. Management of properties for BBVA’s own use is excluded from its scope.

Management priorities

Real-estate activity in Spain has as its main **objective** to steer and accelerate the reduction of the BBVA Group’s real-estate

exposure, preserving the economic value of its assets. To that end, its management aims to:

- a. Boost the sale of retail and wholesale assets.
- b. Make progress in management based on economic rather than accounting values or criteria.
- c. Continuously adapt the structures, procedures and management schemes to achieve set targets, paying particular attention to setting up controls and maintaining high internal governance standards.

In **2016** various initiatives were launched aimed at expediting this process, most notably the Metrovacesa restructuring plan, which included splitting off the real-estate promotion business as the company Metrovacesa Suelo y Promoción, while keeping equity-related assets within Metrovacesa (with additional asset contributions from partners). In October 2016, the tertiary equity business was merged with Merlin Properties, SOCIMI, S.A. Land development agreements were also reached with significant developers through their allocation to joint ventures and other partnership formulas for short and medium-term land sale.

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