

# ***BBVA Spain in the new growth cycle***

Cristina de Parias, Head of Spain and Portugal



**BBVA**

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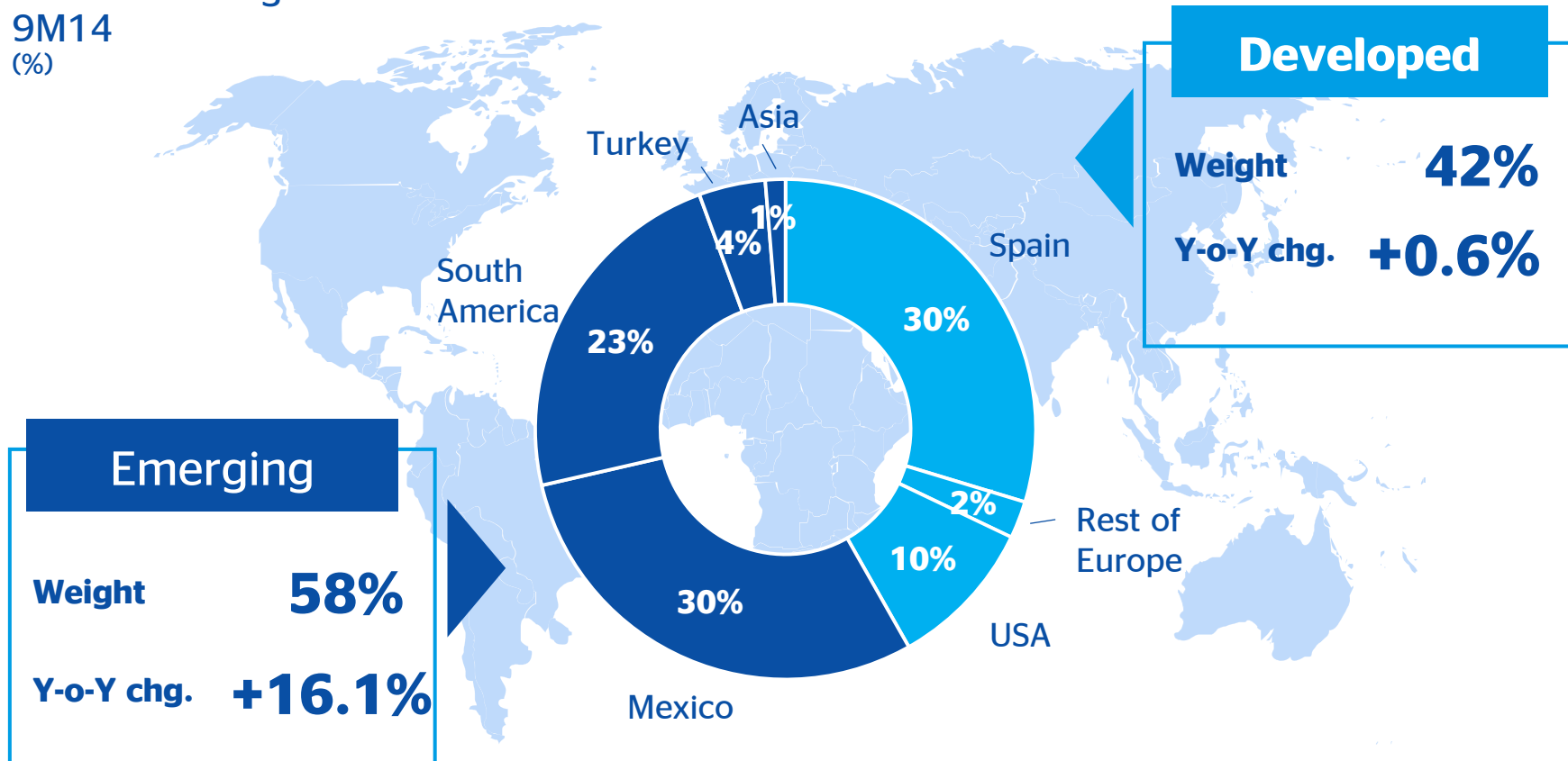
Contents

- 1 BBVA Group: Strong fundamentals**
- 2 BBVA Spain: Key management priorities
- 3 Conclusions

# BBVA

BBVA, an international retail bank with an attractive geographical footprint

Breakdown of gross income<sup>(1)</sup>  
9M14  
(%)



(1) Excluding Corporate Activities.  
NOTE: YoY change in constant €.

## Positive P&amp;L dynamics

**Core revenues <sup>(1)</sup> at record levels****€ 14 Bn** in 9M14  
(+11.4% vs 9M13)**Regionally-adapted cost strategy****Cost Control (Developed): -3.5%** vs 9M13  
**Investment (Emerging): +14.1%** vs 9M13**Improving operating jaws****Gross Income: +6.6%** vs 9M13  
**Operating Expenses: +4.1%** vs 9M13**Reduction in loan-loss and RE provisions****€ 1.2 Bn** 2014 quarterly average  
vs **€ 2.4 Bn** in 2012**Strong improvement of recurring profit<sup>(2)</sup>****€ 2.3 Bn** in 9M14  
(2x 9M13)

NOTE: YoY change in constant €.

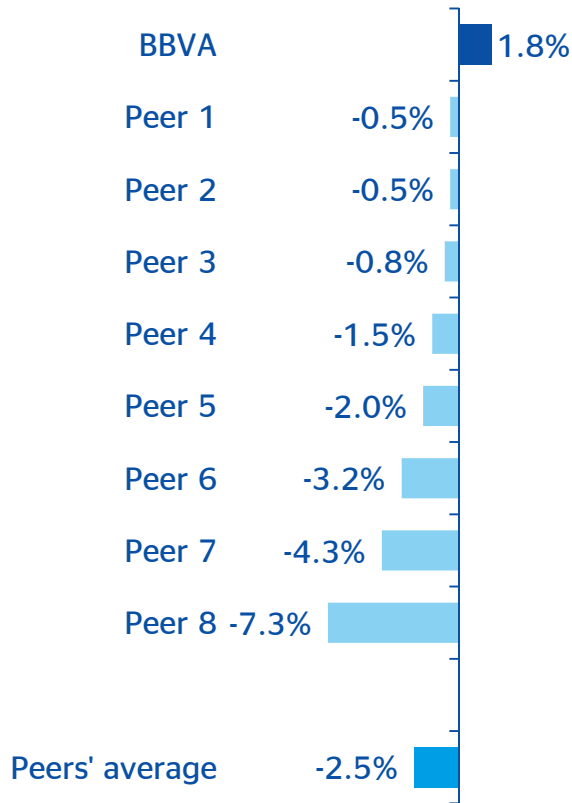
(1) NII + fees and commissions. (2) Net income from ongoing operations.



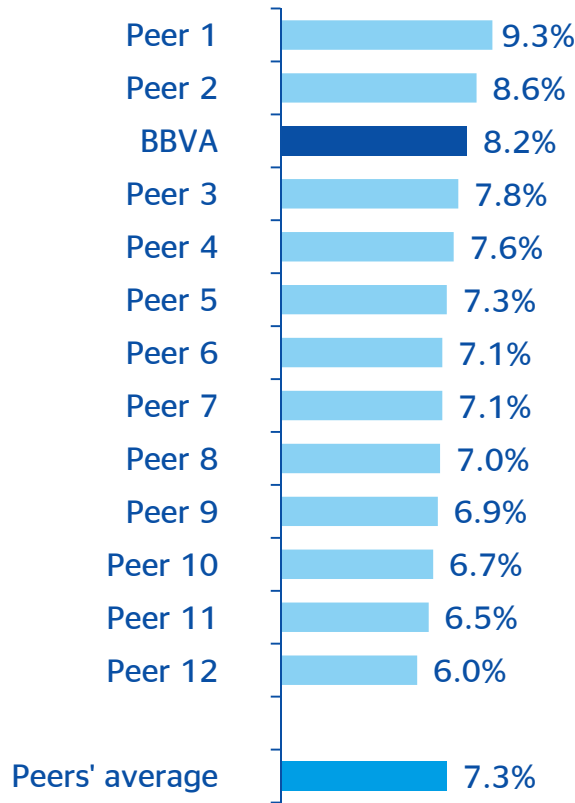
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# Strong fundamentals confirmed by the Comprehensive Assessment

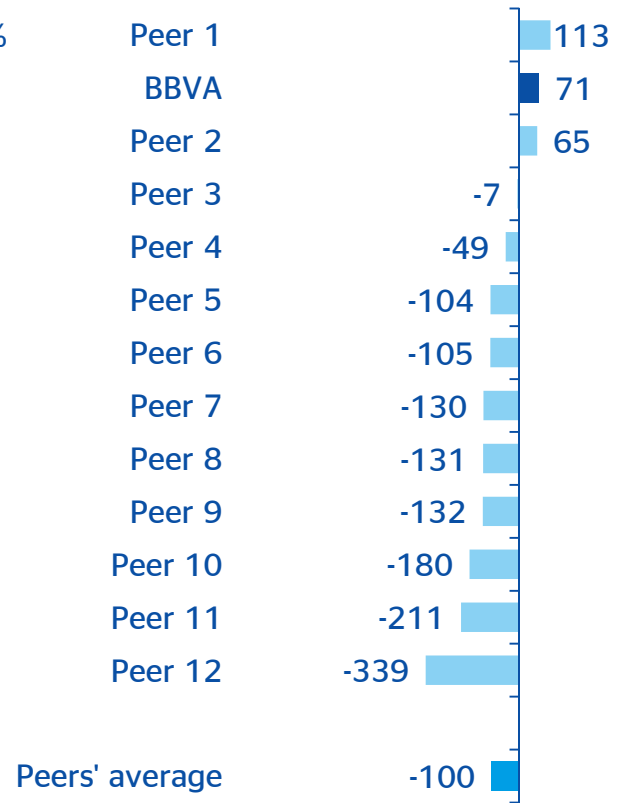
Excess NPA coverage in the analyzed portfolios in the AQR (%)



CET1 fully-loaded 2016 Adverse scenario (%)



Earnings generation Cumulative figure 2014-2016 Adverse scenario (bps)



Peers included: BARC, BNPP, CASA, CMZ, DB, HSBC, ISP, LBG, RBS, SAN, SG and UCI (UK banks not included in the AQR exercise). Source: EBA and ECB.



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Contents

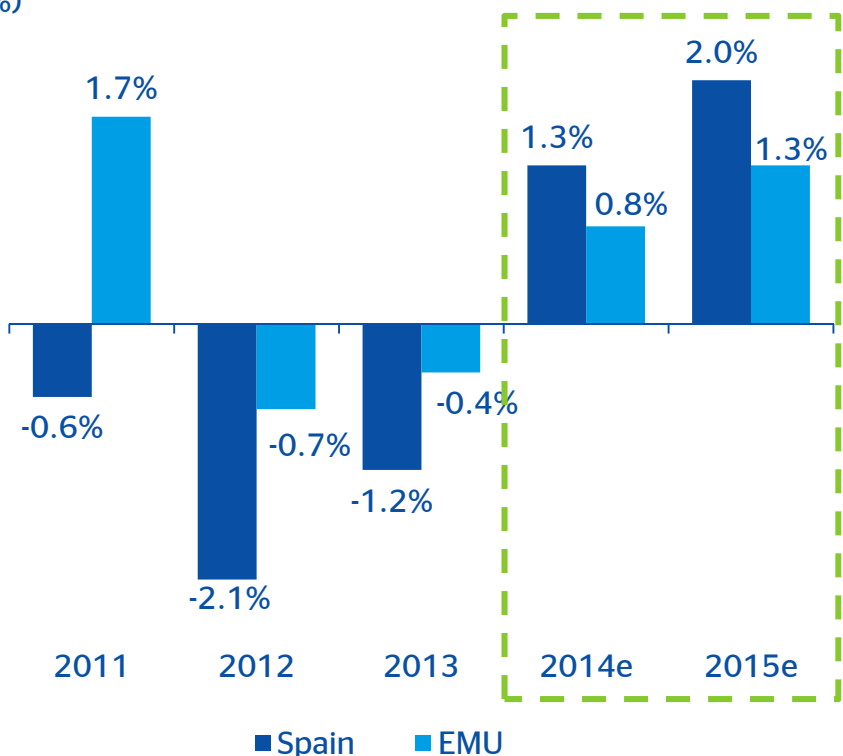
1 BBVA Group: Strong fundamentals

**2 BBVA Spain: Key management priorities**

3 Conclusions

# Spain is growing faster than the EMU

Real GDP growth (%)



**Strong export growth** to continue (>5% 2015), but net exports flattening as imports grow

**Investment in machinery and equipment** continues to grow (>6% in 2014 and 2015)

A more expansionary monetary policy

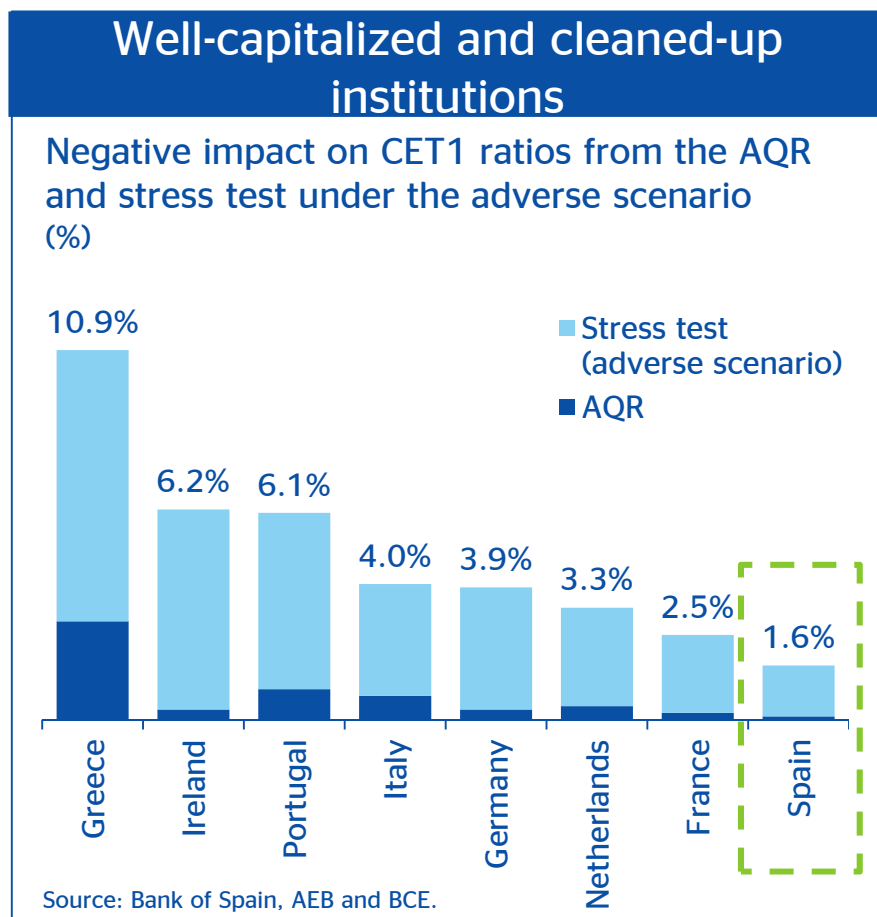
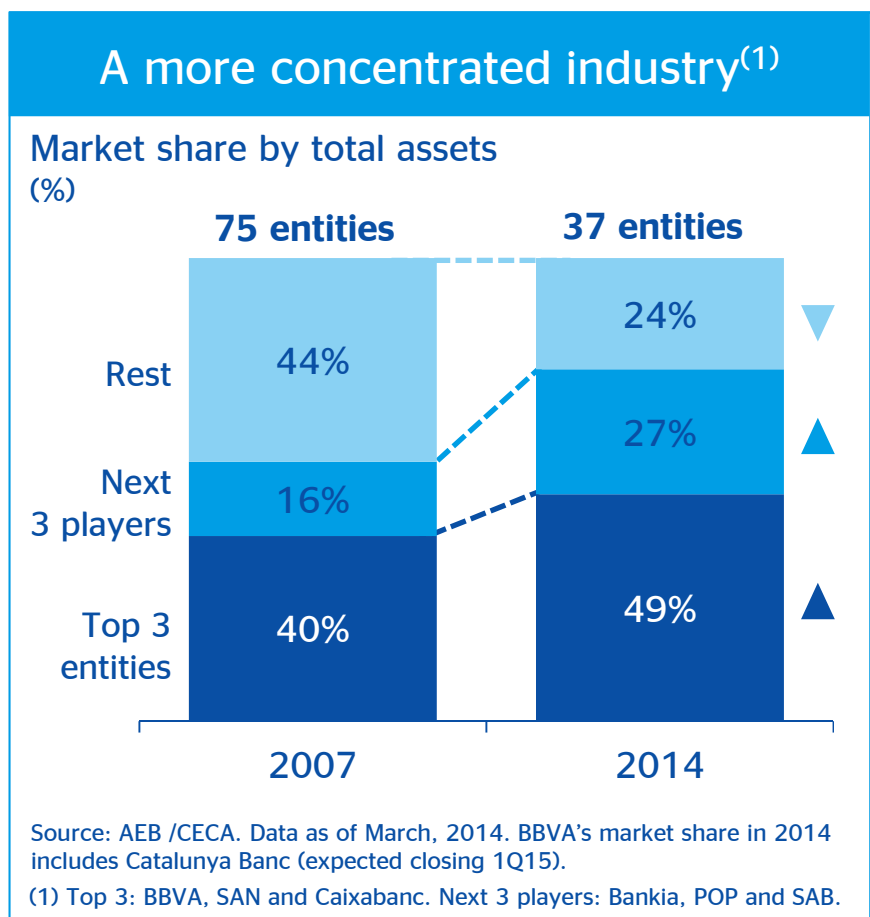
A fiscal reform that will **boost domestic demand** (0.2 pp additional contribution)

**Recovery in internal demand is the determining factor for new loan production growth**

Source: BBVA Research.



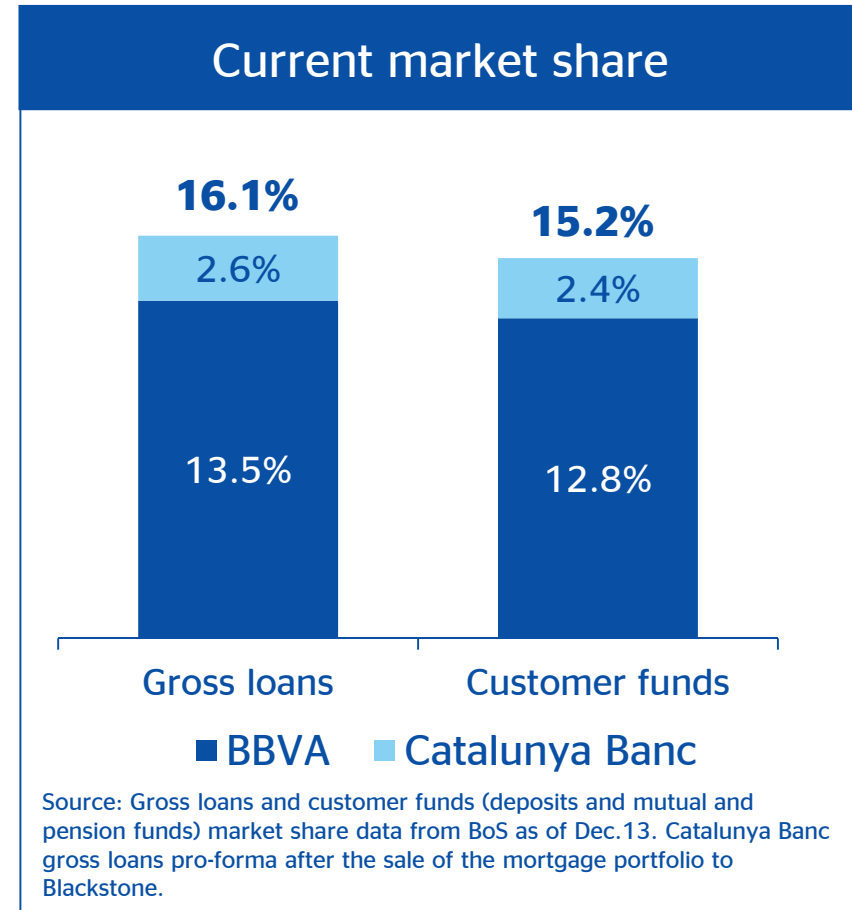
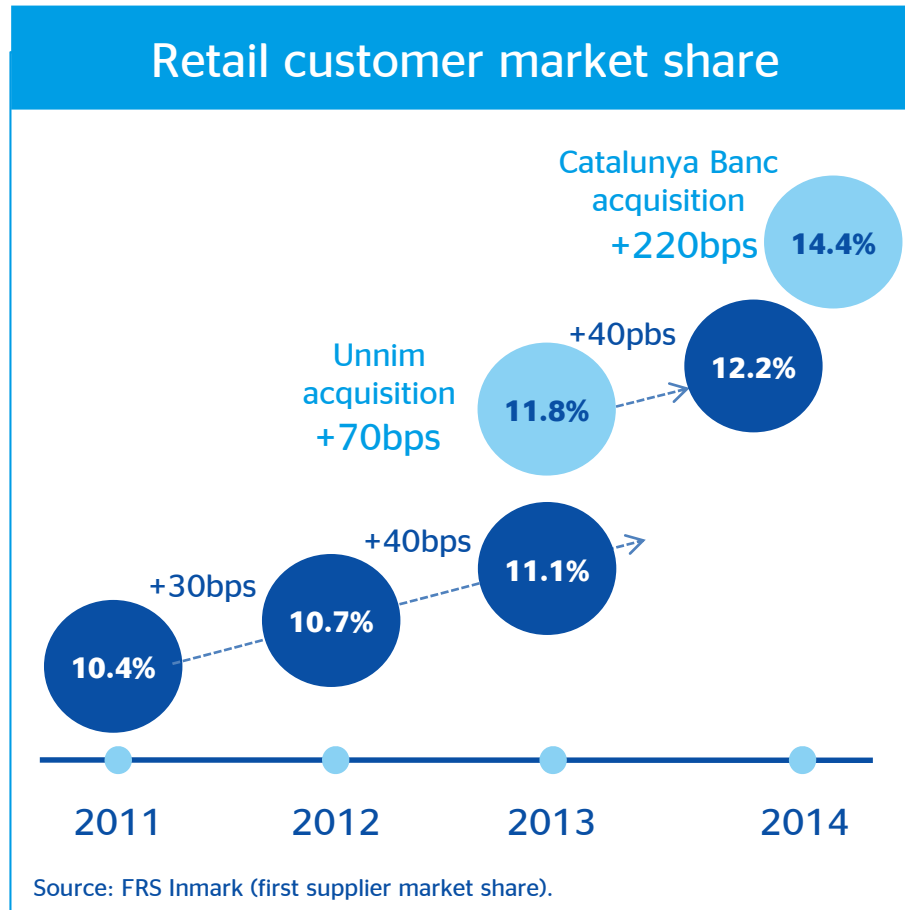
## The restructuring of the Spanish banking system has been accomplished



A more rational competition with a common focus on profitability

# BBVA

BBVA has gained market share organically and through acquisitions



To be profitable in this environment, banks need higher market share

# Catalunya Banc: a profitable and low risk acquisition

### Key transaction terms

- ✓ Acquisition of a **cleaned-up institution** with a **strong customer franchise**
- ✓ Doubling market share in Catalonia (to 26.1% in terms of customers<sup>(1)</sup>) and improving market share in Spain
- ✓ **Attractive returns with manageable capital impacts:**
  - € 300 Mn average annual contribution to net attributable profit from 2018 (15% ROIC)
  - Capital impact of 55 bps (BIS 3 phased-in)

### Catalunya Banc key data

	Data as of December, 2013	BBVA's market share in Catalonia post acquisition <sup>(3)</sup>
<b>Gross Loans<sup>(2)</sup></b>	€ 28.2 Bn	24.4%
<b>Customer Deposits</b>	€ 25.6 Bn	22.8% <sup>(4)</sup>
<b>Branches</b>	773 branches 94% in Catalonia	27.2%

(2) Gross loans exclude the € 6.4 Bn mortgage portfolio sold to Blackstone.  
 (3) Pro-forma market share as of Dec.13. Source: Bank of Spain.  
 (4) Customer funds market share.

**Gaining 1.5 million customers at the turning point of the cycle**

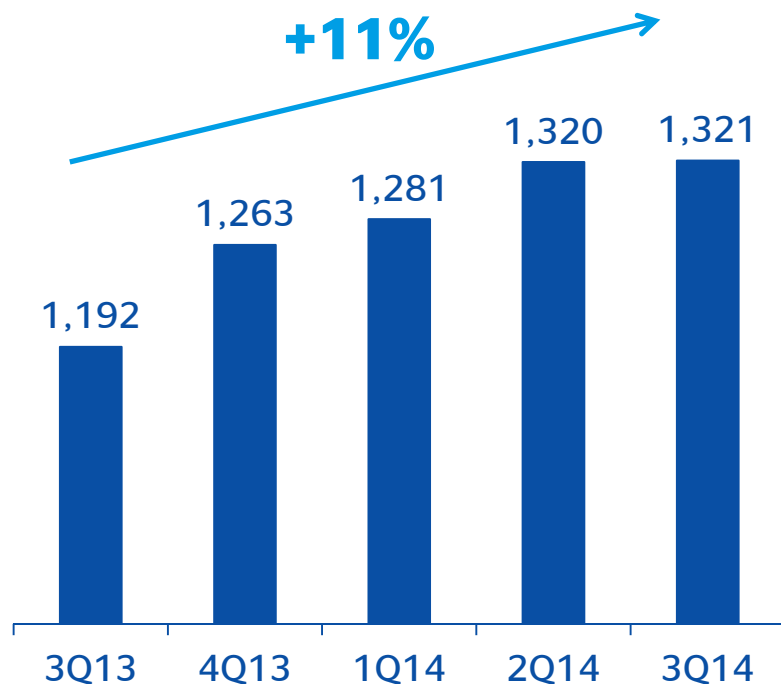
(1) Customer market share according to FRS Inmark.

# BBVA Spain: key management priorities



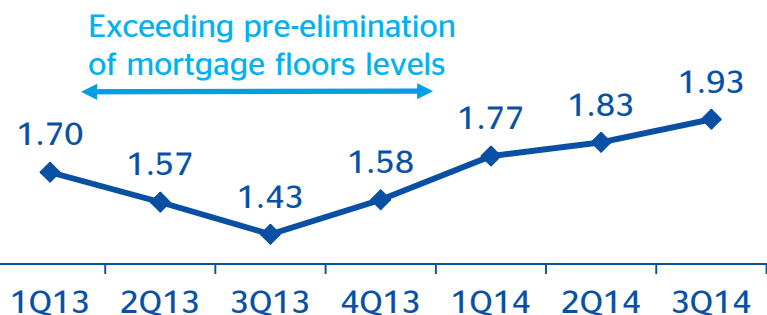
### Core revenues evolution

Net Interest Income + Net Fees and Commissions  
(€ Mn)

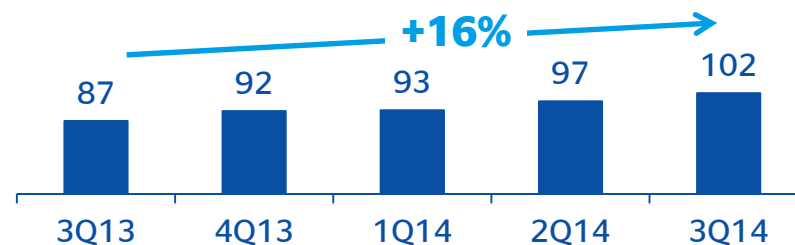


### Towards a more profitable Balance Sheet

Customer spread evolution  
(Banking activity ex-Global Markets, %)

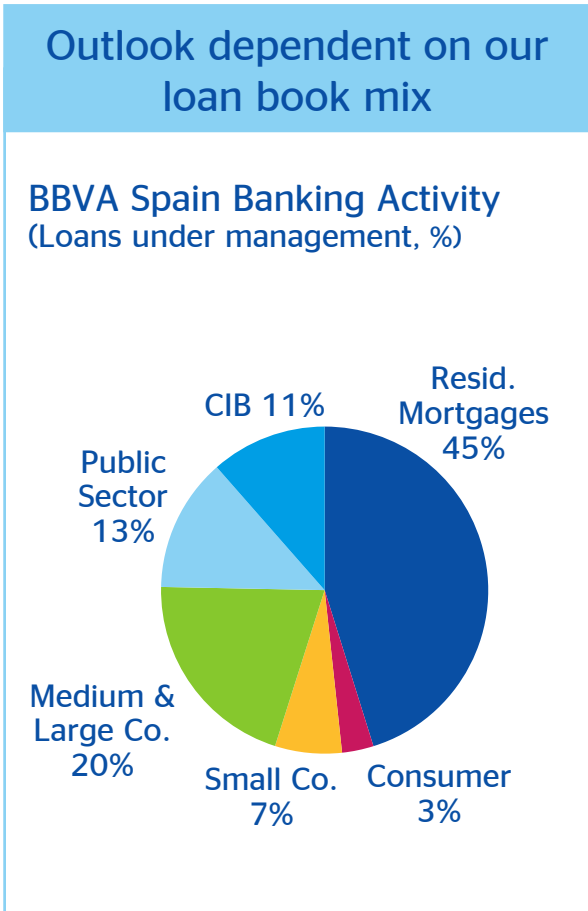
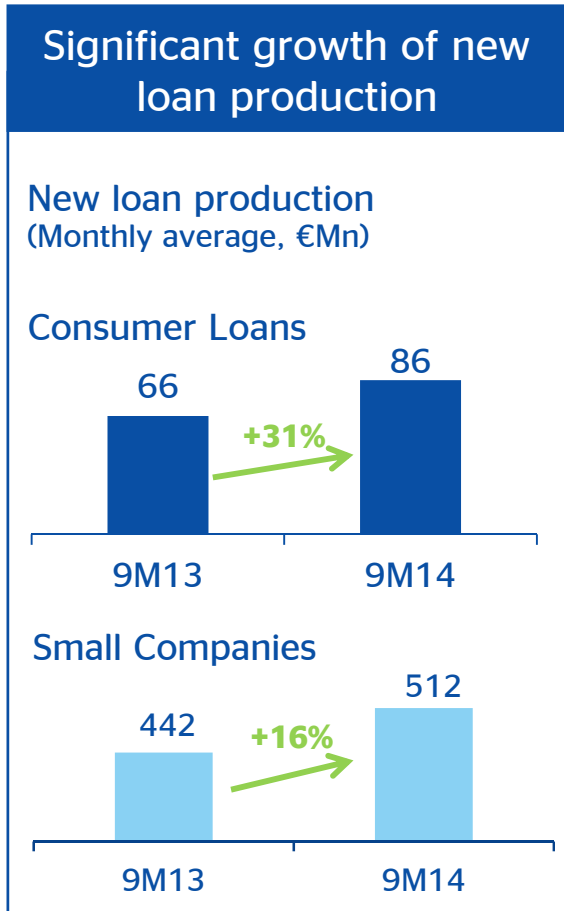


Net Fees and Commissions from Funds<sup>(1)</sup>  
(€ Mn)



(1) Mutual and pension funds.

# Signs of recovery in new loan production

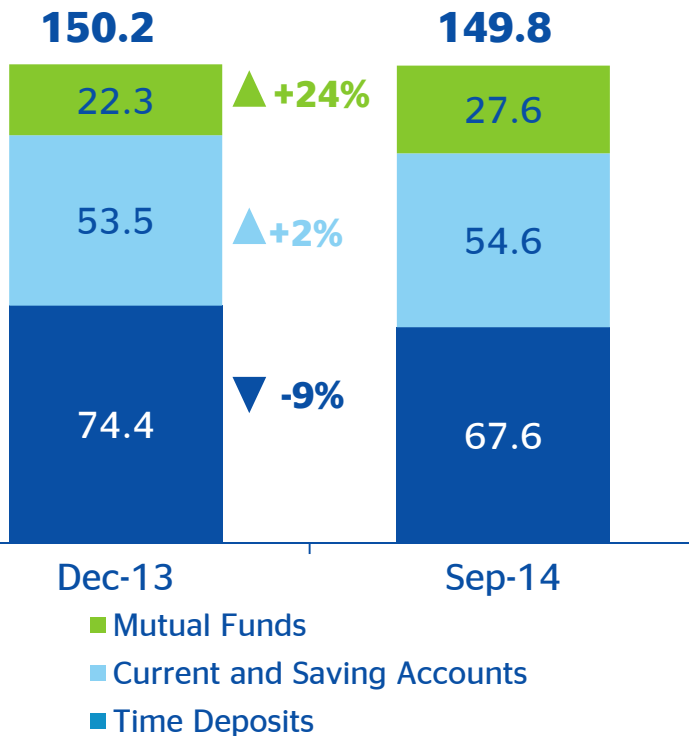


**BBVA loan balances to remain flattish in 2015 and growing in 2016**

The reduction in the cost of deposits will continue to be the main driver of the customer spread

Customer funds evolution

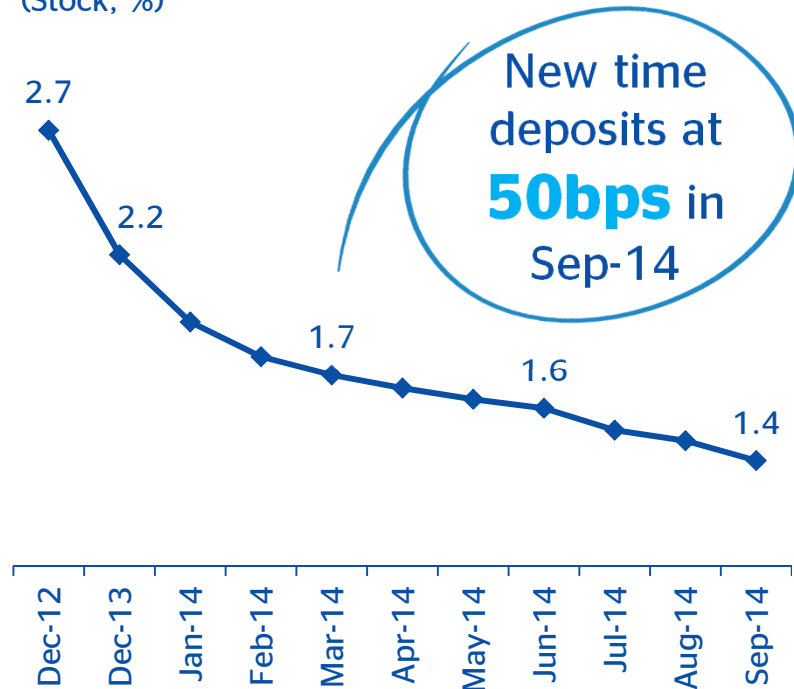
(€ Bn)



A more profitable mix

Cost of time deposits and promissory notes

(Stock, %)

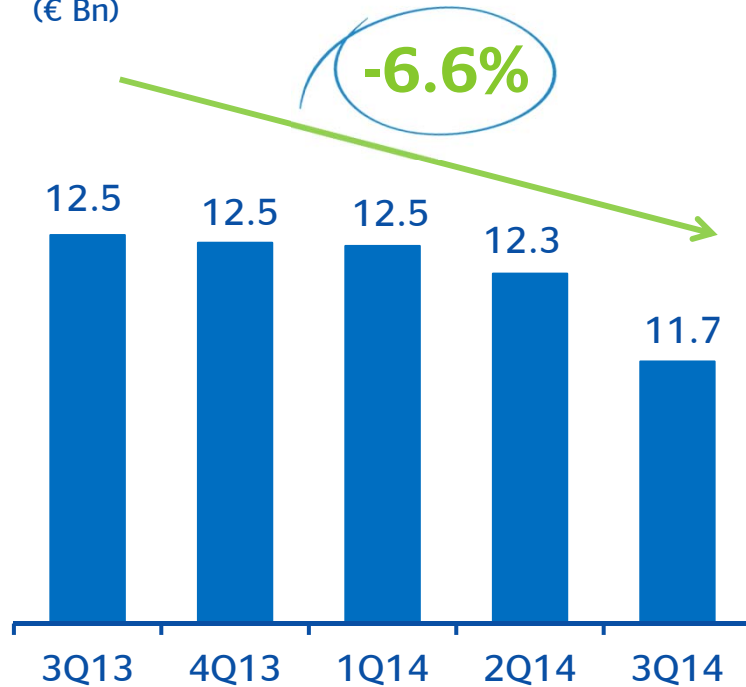


Positive trend to continue in 2015

# Risk indicators continue to evolve favorably

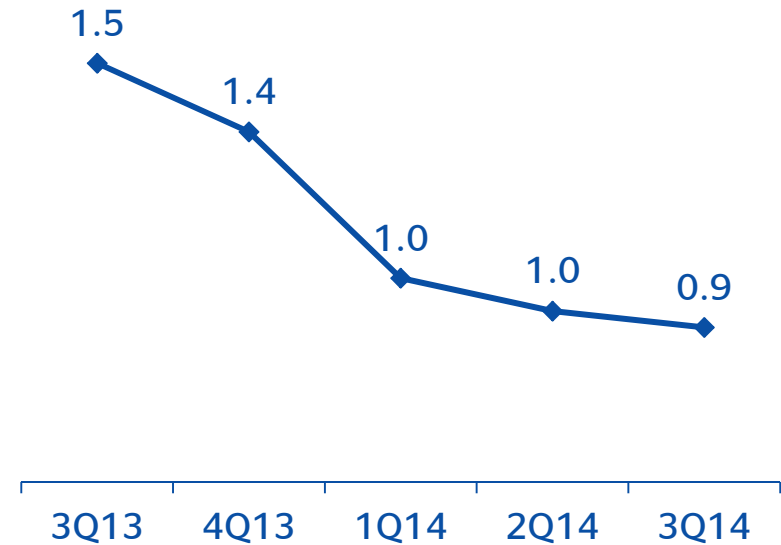
## NPAs

Banking Activity in Spain  
(€ Bn)



## Cost of risk

Banking Activity in Spain  
(Cumulative, %)



Cost of risk normalization on track

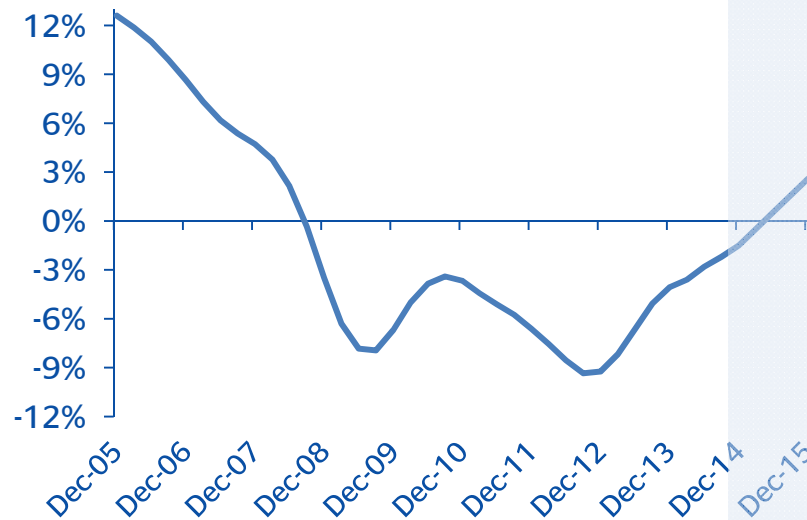


# Turnaround of the Spanish Real Estate market

## Prices have bottomed-out

### Price evolution

(Residential home prices. YoY %)

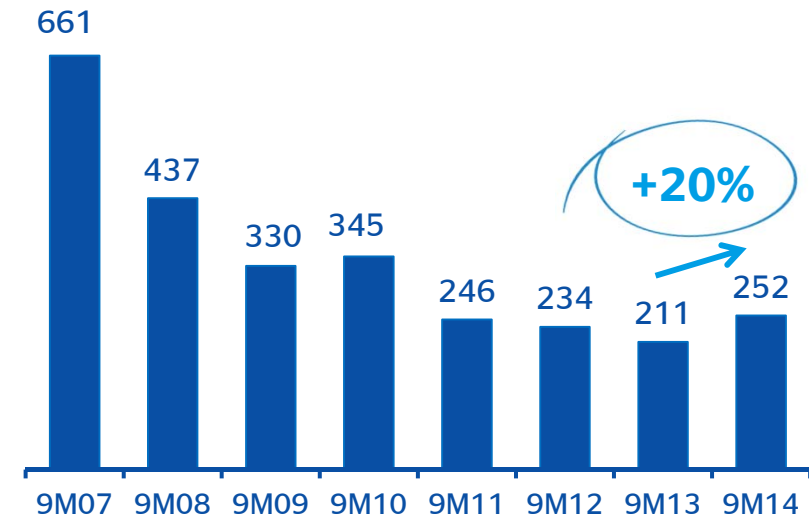


Source: BBVA estimates based on Ministry of Public Works and Transport data.

## Demand growing in 2014, from very low levels

### Transactions of residential homes

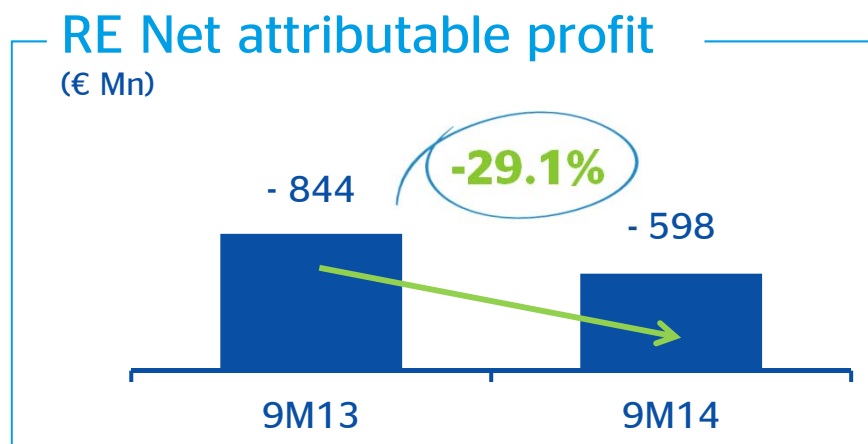
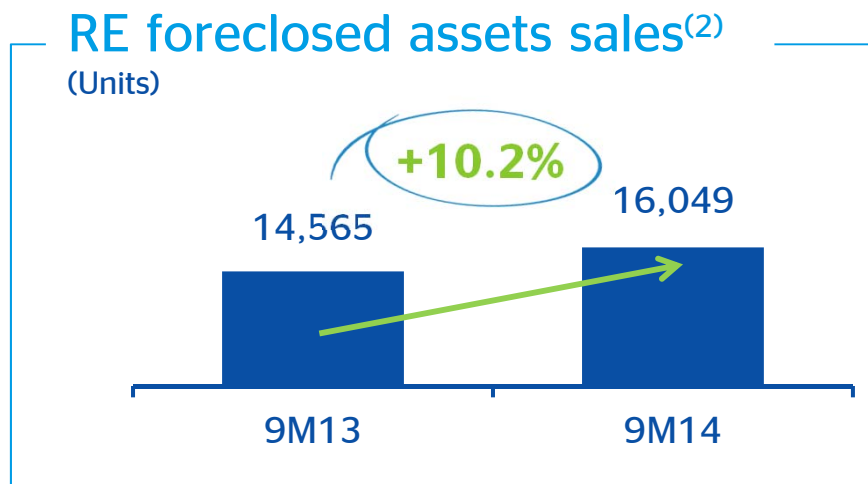
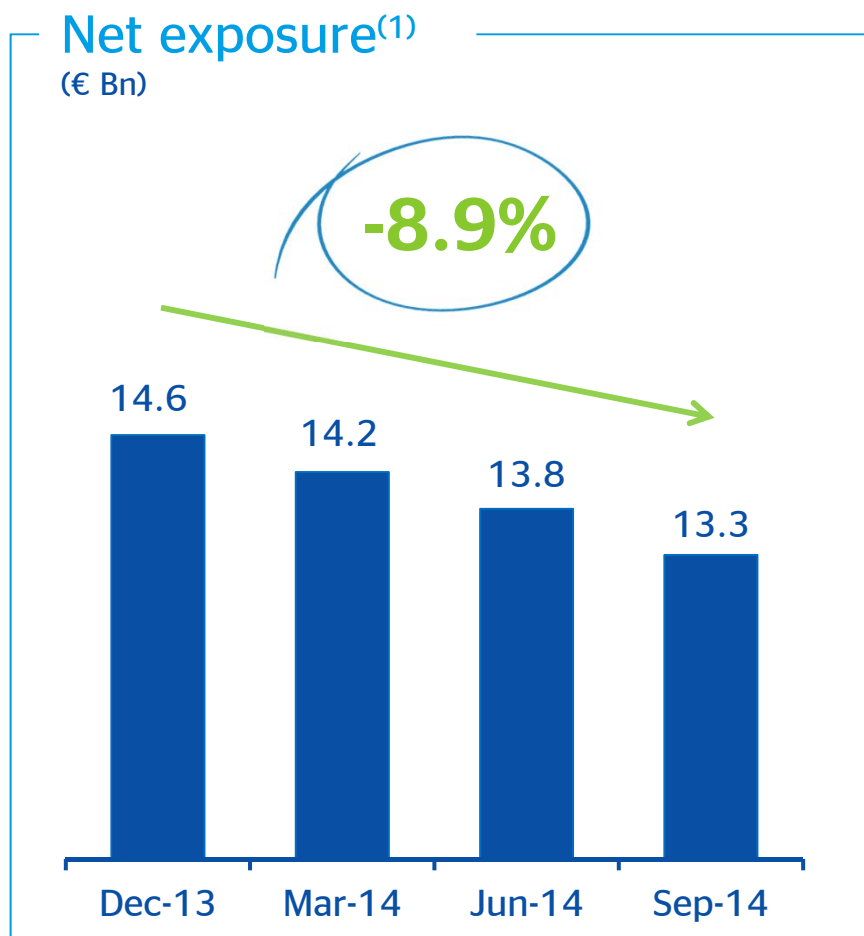
Cumulative transactions to September (Thousand units)



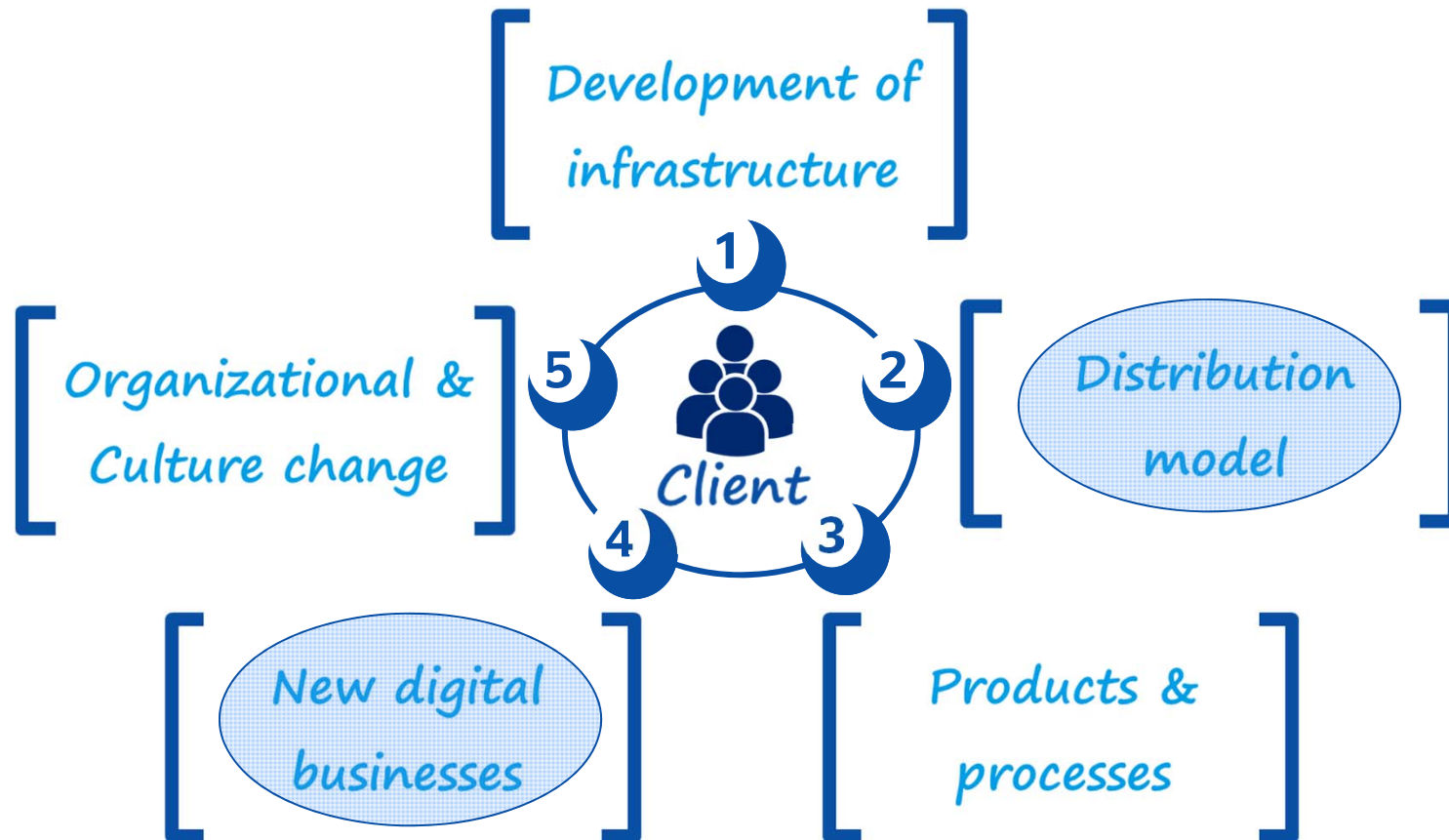
Source: BBVA and Public Notary data.

Reduction of unsold stock thanks to a recovery of demand in the absence of new home building

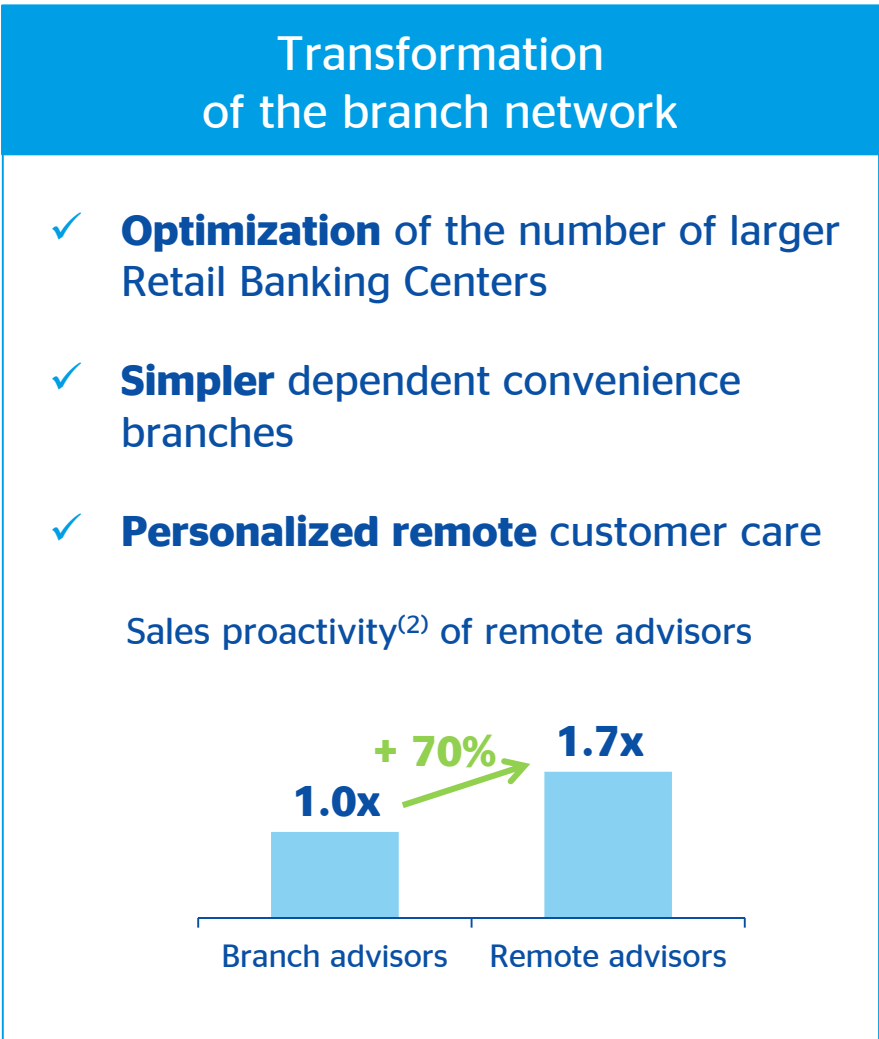
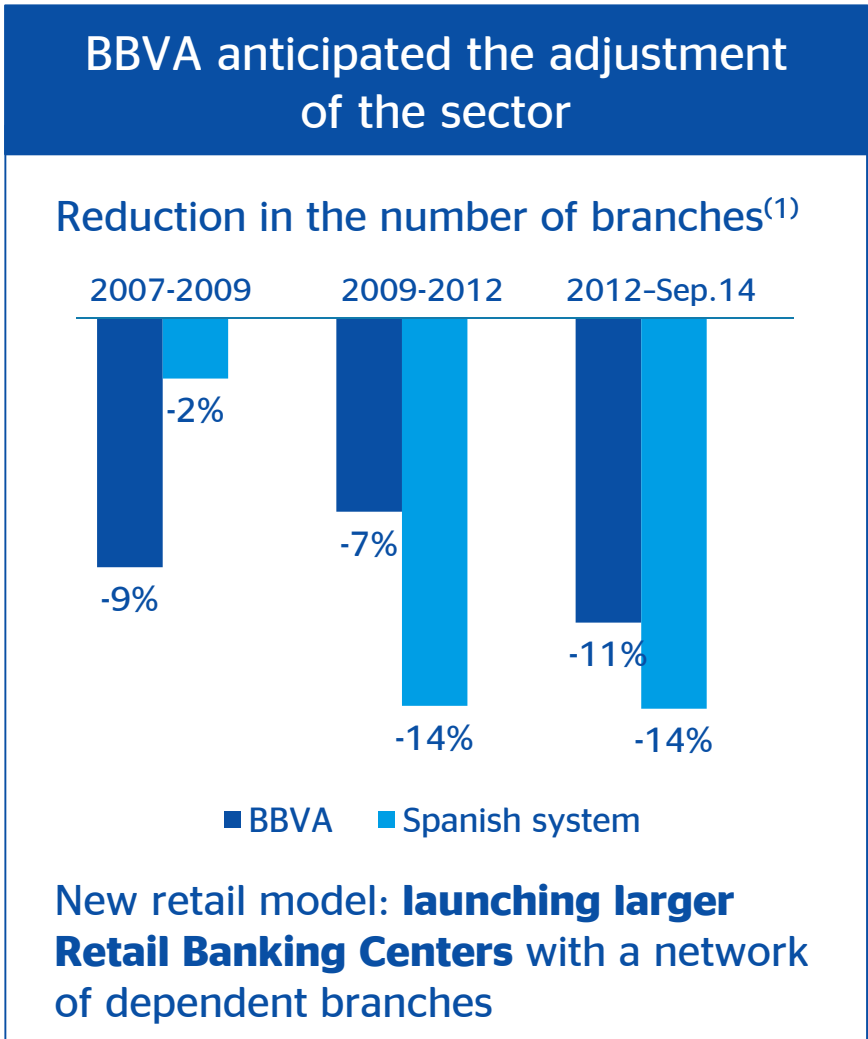
# Decreasing exposure to Real Estate



(1) Net exposure according to Bank of Spain's "RE transparency scope" (Circular 5-2011). Includes RE developer loans and RE foreclosed assets.  
 (2) Sales volume includes also the sales of units owned by developers.



# BBVA continues to lead the transformation of the branch network ...

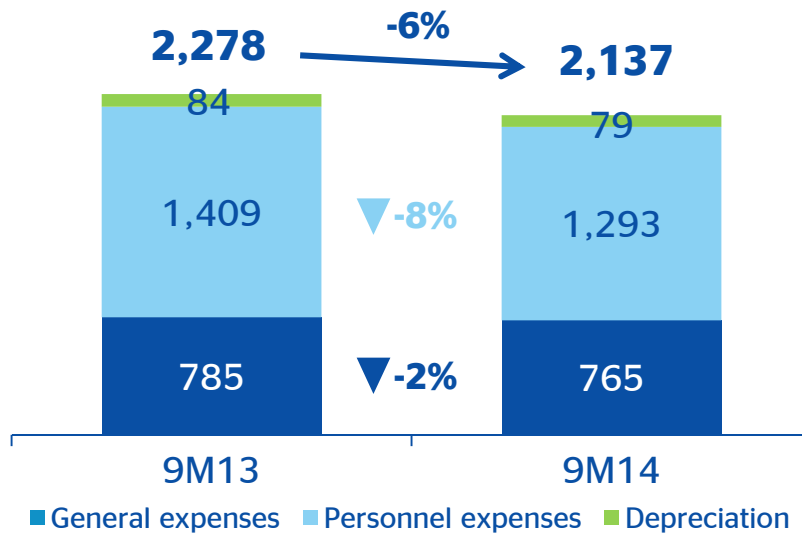


(1) Source: Bank of Spain. BBVA includes the closing of 358 Branches coming from Unnim (out of 561 branches in 2012). (2) Proactivity in terms of number of interactions with customers

... towards a more profitable network with a clear focus on efficiency

### Ongoing business

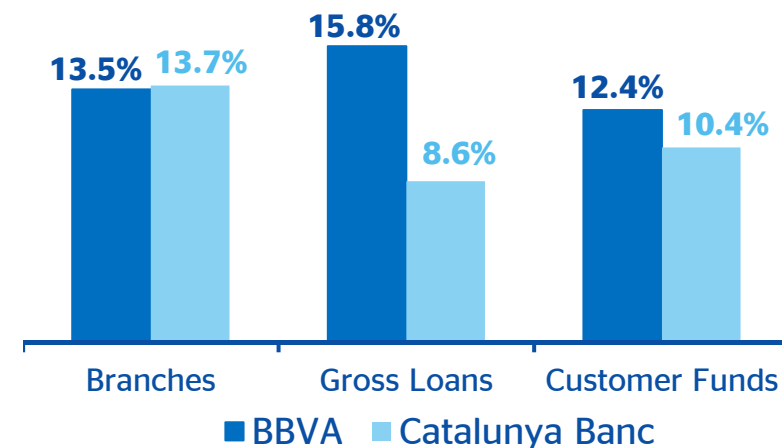
Banking activity in Spain  
(Operating expenses, € Mn)



- ✓ Reducing the cost base in Spain by 5% in 2014
- ✓ Additional annual cost savings of €160-180Mn in 2015

### Catalunya Banc integration: significant synergy potential

Market Share in Catalonia  
(%)



- ✓ Estimated cost synergies up to 40% of Catalunya Banc cost base, fully achievable in 2018
- ✓ Synergies NPV > €1.2 Bn (90% from costs)

# Digital transformation generating additional value

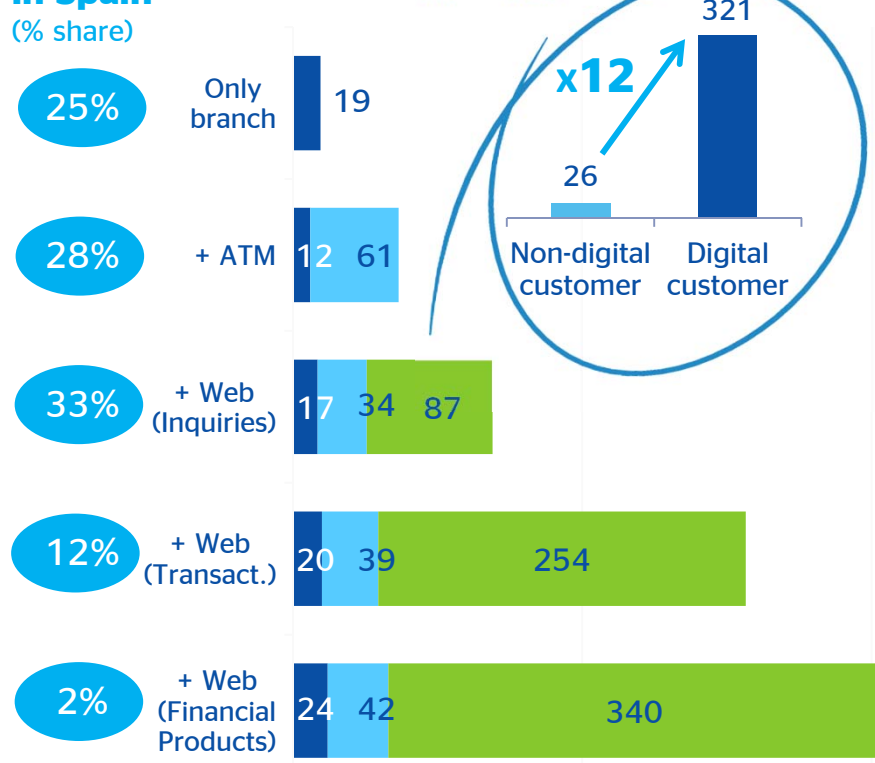
## Transactions by type of relationship

Average number of annual transactions per customer

### Core Clients in Spain

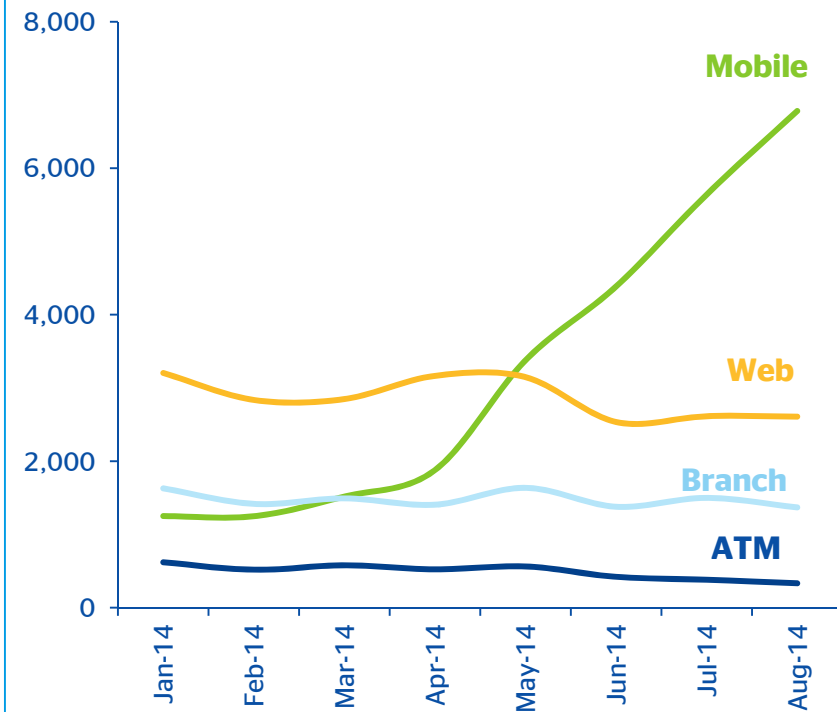
(% share)

■ Branch ■ ATM ■ Web



## Credit Card Consumer Financing

Number of transactions



NOTE: Non-digital customers are those that only use branches and ATMs.



**BBVA**

Contents

1 BBVA Group: Strong fundamentals

2 BBVA Spain: Key management priorities

**3 Conclusions**

### Macro

- ✓ **Spain will continue to grow faster than the EMU.** Internal demand growing by 2% in 2015.
- ✓ In the real estate market, prices have bottomed-out and demand is recovering.

### Spanish Banking Sector

- ✓ Restructuring has led to **a more concentrated industry and a more rational competitive environment.**
- ✓ Taking advantage of this, **BBVA has gained market share** organically, and acquisitions have enhanced our leadership.

### BBVA Spain

- ✓ **Core revenues growth:** reduction of deposits costs as the main driver of customer spread and signs of recovery in new loan production.
- ✓ **Cost of risk normalization on track.**
- ✓ Leading the **digital transformation process towards a more profitable and efficient network.**



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