

José Ignacio Goirigolzarri: “BBVA is emerging from the crisis as one of the strongest banks worldwide”

Merrill Lynch Banking & Insurance CEO Conference

- During the meeting with analysts hosted by Merrill Lynch in London, the BBVA President and COO, José Ignacio Goirigolzarri, stressed that “BBVA is emerging from the crisis as one of the strongest banks worldwide”.
- He stressed its “high recurrent income growth and low volatility”.
- And after highlighting its solvency and cutting edge, he pointed out that “BBVA is currently the best investment choice”.



During a meeting with analysts hosted by Merrill Lynch in London, the BBVA President and COO, José Ignacio Goirigolzarri, reviewed the Group's strengths with respect to its competitors in a complicated financial situation. He thus stressed that “BBVA is emerging from the crisis, with high recurrent income growth and low volatility”. Therefore, “it is currently the best investment choice,” he pointed out.

BBVA is currently the best investment choice thanks to four factors that are enabling it to stand out with respect to its competitors:

- Differential starting point thanks to its foresight and its resources
- Approach underpinned by retail banking and wholesale banking based on customer franchise
- A proven bank model that generates efficiency and profitability
- Strict risk control, fully transferred to market.

BBVA posted good results in the new banking scenario emerging from the international financial crisis:

- First-half profit of €3,109m (including one-offs), which places it third among its peer group of European competitors
- At the end of the first half, it was the most profitable bank among leading European banks, with an ROE of 26%
- In the middle of the crisis, the markets have begun to differentiate each case. The BBVA 5-year senior debt CDS (Credit Default Swaps) spread stands at 101.5 basic points, the third best level of European banking. That means that investors perceive a default risk infinitely much lower than that of its competitors.

José Ignacio Goirigolzarri pointed out that BBVA is appropriately addressing the three main current market concerns given the general situation of the sector: liquidity, asset quality and solvency.

As far as liquidity is concerned, BBVA enjoys a comfortable position, as it has a wide base of customer deposits (48.8% of its total balance sheet), its growth is based on more deposit-taking than on granting loans; it does not have a concentration of maturities in its financing on the markets and it has additional liquidity sources to the tune of €50 billion.

On the other hand, BBVA has superior credit quality than its peers on all its core markets, as there is less deterioration to the quality of its assets. The Group's non-performing loan (NPL) ratio was 1.15% in 2008, compared to the 2.67% average of European banks, and among the best coverage ratios in Europe. It also has better credit quality: in Spain, the NPL ratio of the resident sector came to 1.29% in June, compared to the 1.65% average for banks and savings banks.

The COO explained that this preferential position is the result of a more conservative approach during the upturn of the economic cycle. José Ignacio Goirigolzarri then focused on the business trend in Spain and Mexico, two core markets for the Group.

He described the situation of the mortgage business in Spain, where the average percentage of the value of the properties financed by the Bank (Loan to Value, LTV) is 52.9% and 96% of the mortgages are own-occupier mortgages. This portfolio has a NPL ratio of 0.96%, compared to 1.28% of the portfolio of the Spanish banks and saving banks. With regard to loans to developers, BBVA has a limited credit exposure with this sector, as it barely accounts for 8% of the Spain & Portugal lending portfolio.

In Mexico, BBVA Bancomer is following a commercial strategy that has allowed it to record the greatest growth in the Mexican banking sector in areas such as credit and consumer finance, mortgages and SME financing. BBVA Bancomer is ahead of the market with a provision methodology based on expected loss that allows the NPL rate and risk premium to remain stable.

The COO stressed that "BBVA is well covered against any potential worsening of the environment, by its NPL coverage rate (166% covered to the 60% average of European banks), and for the accumulated provisions on its balance sheet (€5,821m, nearly three times higher than the expected losses)":

Solvency

With respect to solvency, BBVA has a recurrent capacity to generate capital organically and has €2,700m of unrealised capital gains and €3,800m of excess provisions. Therefore, there are no expected additional capital consumptions. José Ignacio Goirigolzarri pointed out that "BBVA is one of the most solvent European banks in this crisis environment, with a core capital of 6.3%, a Tier 1 of 7.7% and a 6.8% cash dividend yield, according to the analysts' estimates".

Along with the differential position in liquidity, asset quality and solvency, Goirigolzarri summarized the current main strategic initiatives of the Group:

- Structural client growth based on low-cost fund gathering strategies, partly thanks to the spread of banking services among individuals and SMEs in Latin America.
- US franchise integration under the single BBVA Compass brand
- Technology-based efficiency