

BBVA

BBVA: well positioned for the challenges of the financial industry

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From AQR to Recovery. Key Debates in European Financials - London, March 26th, 2014



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Challenges ahead for the financial institutions

Growth	<ul style="list-style-type: none">✓ Slow recovery of developed economies✓ Emerging markets temporary slowdown	Profitability
Regulation	<ul style="list-style-type: none">✓ Capital, RWA and leverage✓ Banking Union and loss absorption	
Changing customer expectations	<ul style="list-style-type: none">✓ Digitalization✓ Responsible banking	

BBVA has a distinct position to face these challenges



BBVA

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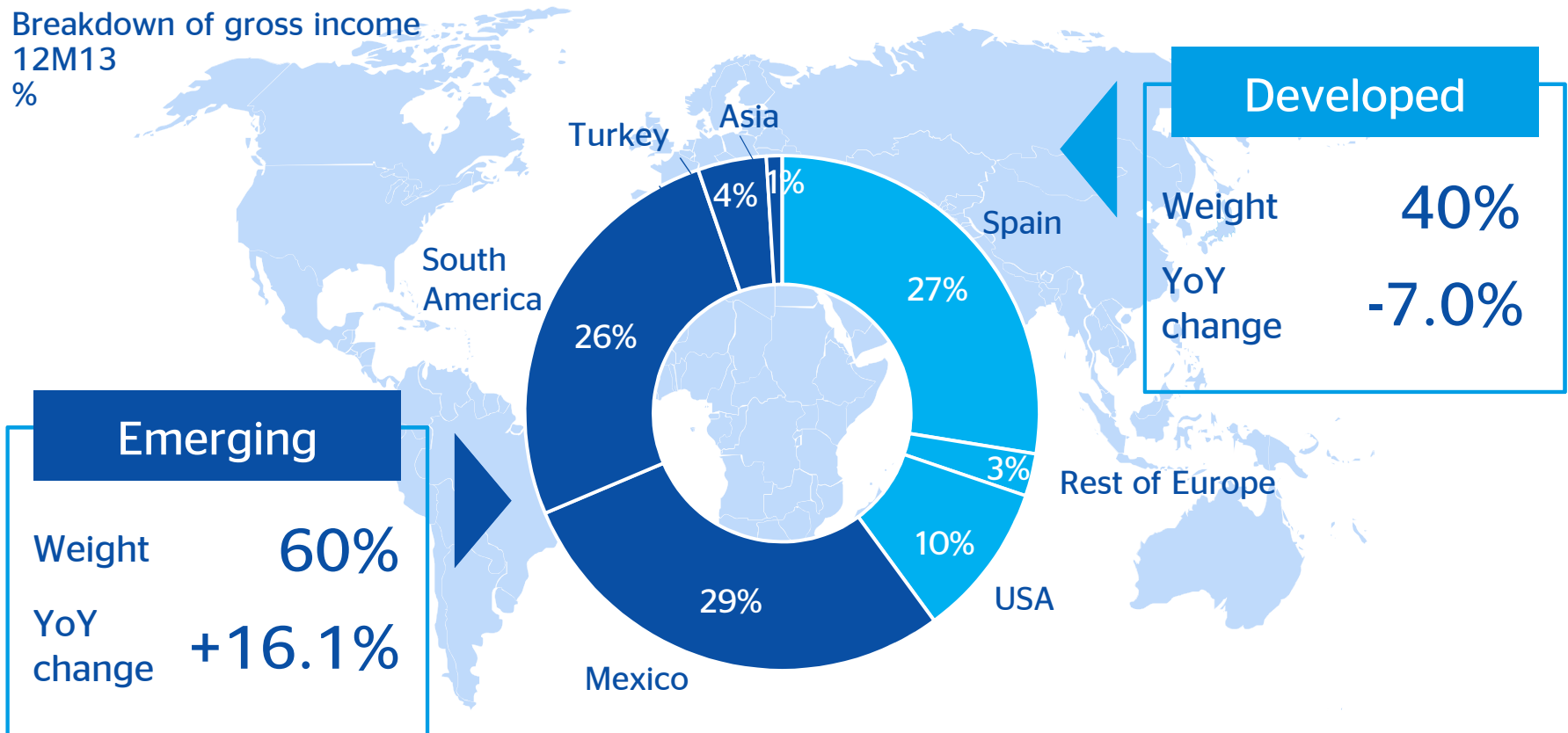
1 Growth

2 Regulation

3 Changing customer expectations

Attractive footprint in Developed and Emerging Markets

Breakdown of gross income
12M13
%



Recovering developed markets and resilient and high potential emerging markets

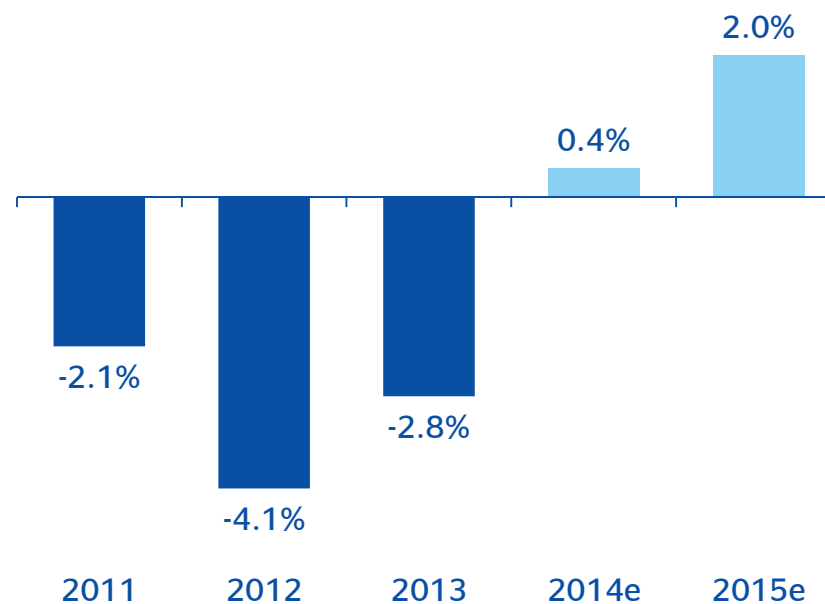
Note: excludes Holding. Year-on-year variation in constant €.

Spain: Recovery process on track and upside risks for the first time since the start of the crisis

Main levers

- **Exports** to remain as a **key driver of the recovery...**
- ... but **internal demand will start to contribute positively** in 2014

Domestic demand: contribution to GDP growth (%)

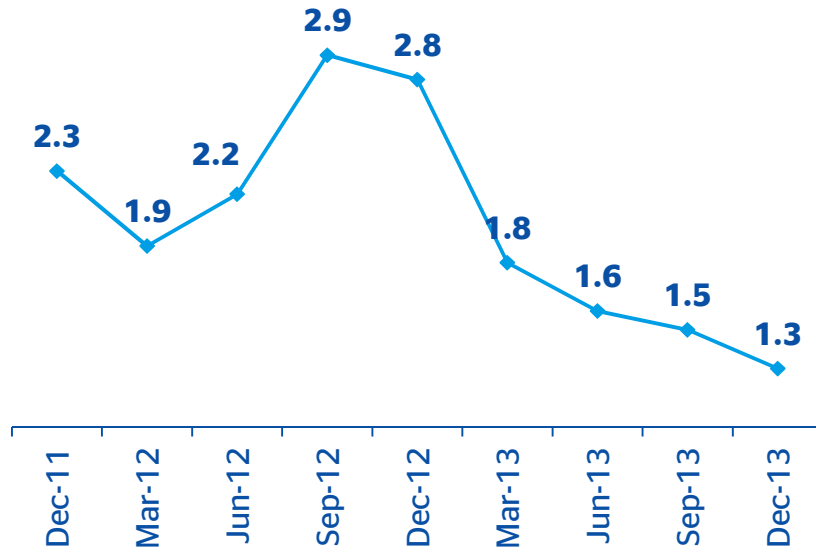


Recovery in internal demand is the determining factor for new loan production growth

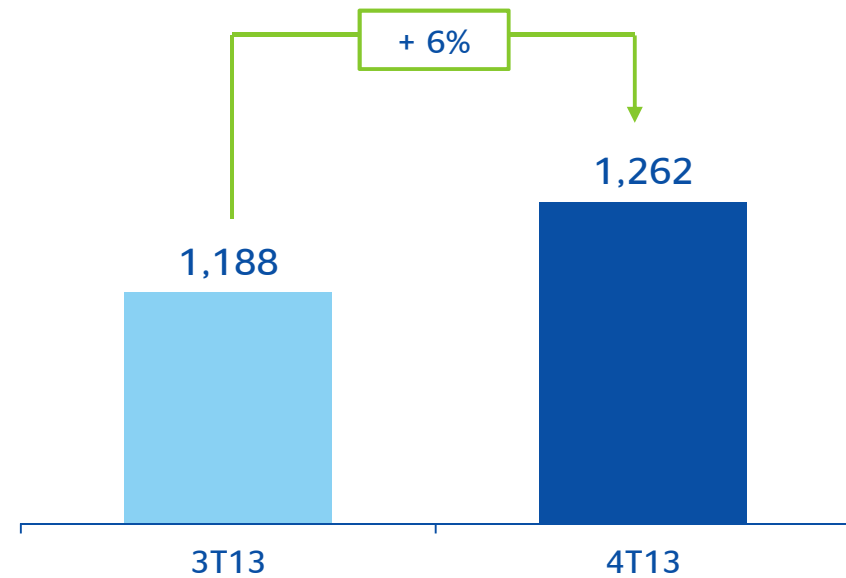
Source: BBVA Research. Estimates as of February, 2014.

Spain: Lower time deposits costs will continue to drive NII in the short term

Cost of time deposits and promissory notes
New production - BBVA Spain
(%)



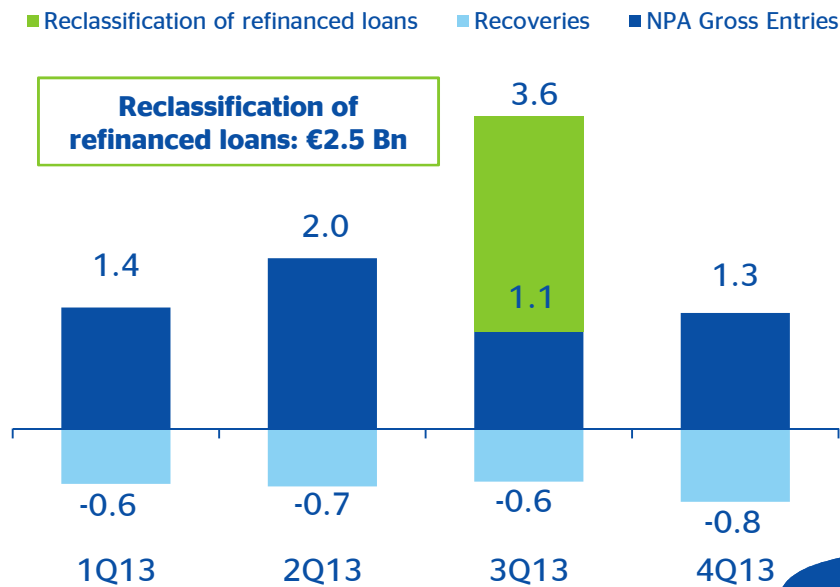
Net Interest Income + Fees evolution
BBVA Spain - Banking Activities
(€ Mn)



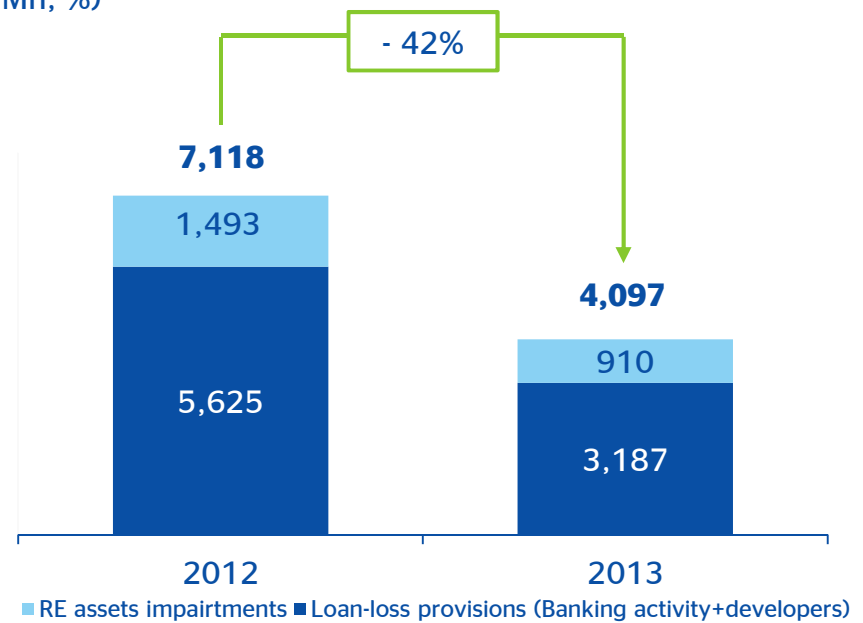
NII has bottomed out in 3Q13

Spain: NPAs balance has already peaked and should decrease in 2014

NPAs gross entries and recoveries
BBVA Spain - Banking activities
(€ Bn)



Evolution of total provisions and RE assets impairments and cost of risk
(€ Mn, %)



The reduction of provisions will be the main P&L driver for Spain and the Group in the short term

USA: Outstanding commercial performance, impacted by the interest rate environment

Business activity to remain solid

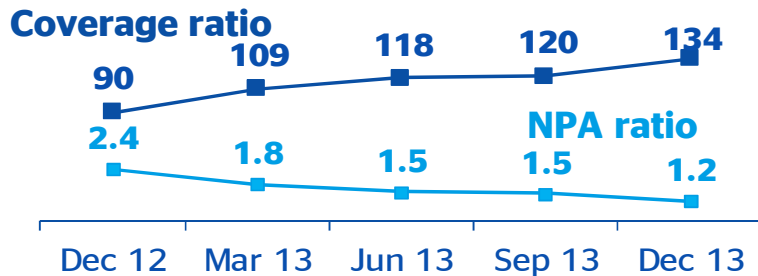
YoY change as of Dec 2013
Constant euros



Focus on new Business

- Strong Commercial & Industrial performance
- New loan production offices
- Simple acquisition

Superior Credit Quality



Solid Capital Ratios

Tier 1 Common Capital Ratio as of Dec 2013⁽¹⁾
(%)

11.4%

Tier 1 Common Capital Ratio of 8.5% after the Dodd-Frank Act Stress Test (DFAST).

The challenge is to accelerate revenue growth in a low rate environment

(1) BBVA Compass Bancshares Local Capital Ratio

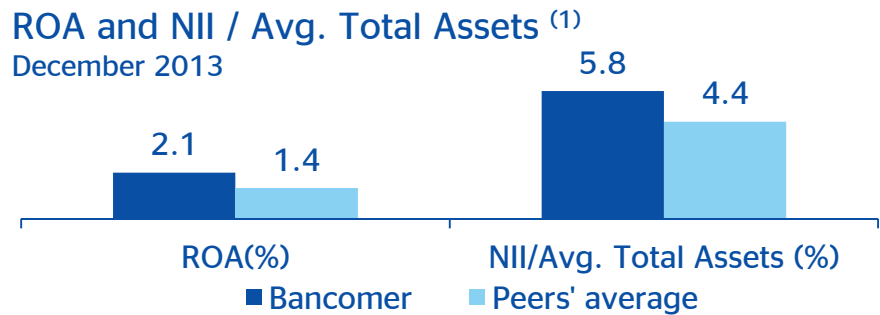
Mexico: significant and recurrent contributor to Group's earnings

BBVA Bancomer: an even better outlook for 2014

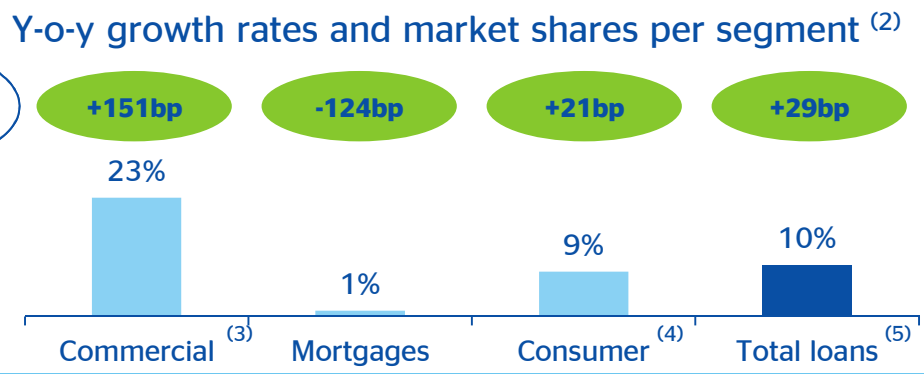
- **Positive macro environment with upside risk**
- **Double digit loan book growth**, driven by commercial & consumer
- **Stable asset quality** and risk premium
- **Strong investment effort** to improve network and segmentation

Market share var. Sep-Dec 2013

Higher profitability than peers ...



... and accelerating lending growth

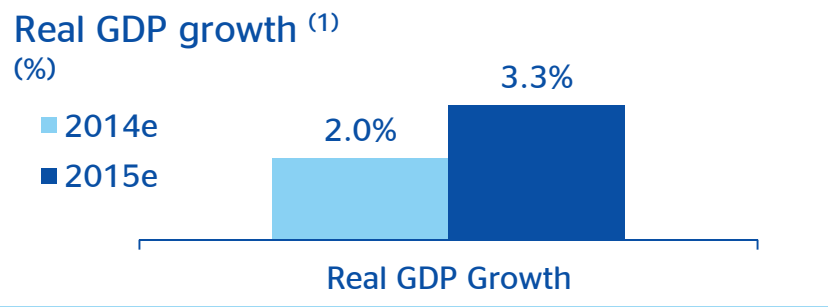


Bottom-line to continue to grow in 2014

(1) Data according to local accounting. Consolidated financial groups. Peers included: Banamex, Banorte, HSBC and Santander.
 (2) Source: CNBV. Data as of December, 2013. (3) Excluding homebuilders. (4) Including credit cards. (5) Total performing loans.

South America: diversified footprint in a high growth market...

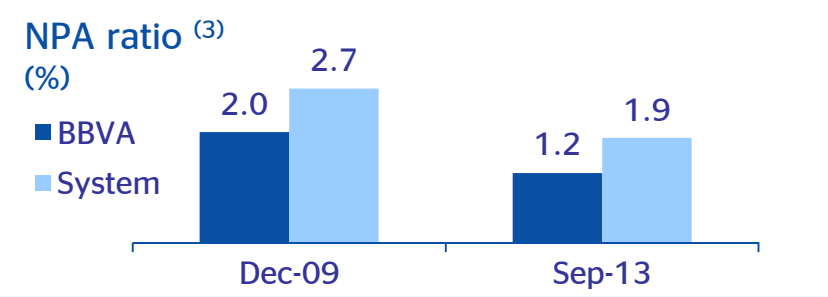
Strong growth area especially in the Andean region



Maintenance of good activity dynamism at local level

	2010-2012 CAGR ⁽²⁾	2013 y-o-y
Performing Loans	+25%	+22%
Customer Deposits	+23%	+29%

Solid credit quality indicators



Strong profitability ⁽⁴⁾

2.5% ROA

6.3% NII / Avg. Total Assets

Allowing major investment plans to capture high growth potential

... with different management priorities across countries

(1) Source: BBVA Research. Estimates as of March, 2014. S.America includes BBVA's footprint in the region: Argentina, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela. (2) Bank-only data, average balances, constant €. (3) Data according to local accounting criteria (excluding Panama in both dates). (4) Consolidated data, December, 2013. Annual Net Income (for ROA) and annual Net Interest Income (for NIM) over Average Total Assets.

Turkey: resilient performance in a complex environment

Garanti Bank: A Challenging Year Ahead

- **Loans growing at a lower rate** driven by commercial & SMEs
- **Margin pressure** mainly due to higher average cost of funding...
- ...Partially mitigated by a **higher contribution from the securities portfolio**

A market with high growth potential

- ✓ **Critical mass** (population of c.75 mn)
- ✓ **High potential GDP growth** (estimates ~4.5%)
- ✓ **Favorable demographics** (~60% population <35 years, population growth ~15% until 2025e)
- ✓ **Low banking penetration** (loans/GDP, 52%)

Contribution to BBVA

2013 Net Income of
€ 267 Mn

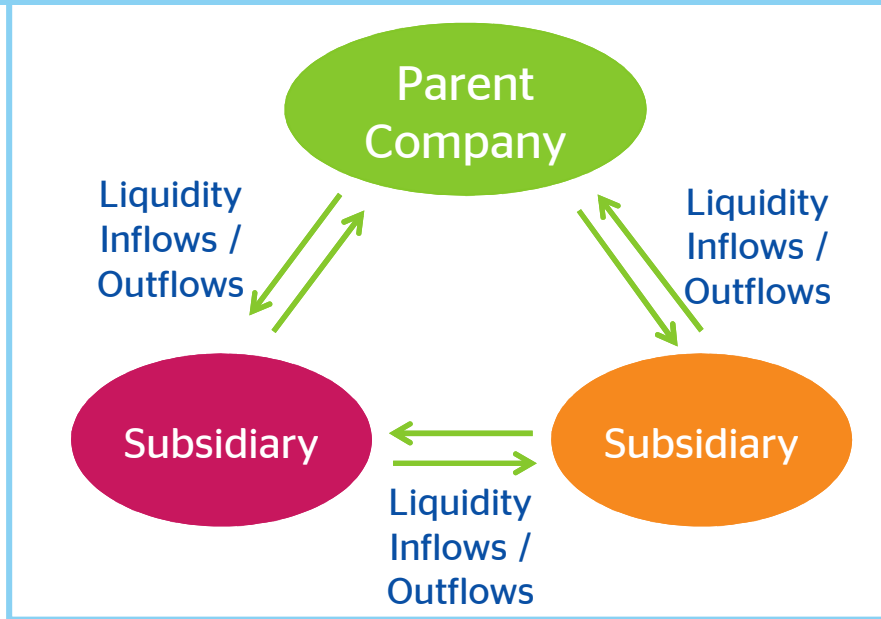
Garanti, best franchise in a high potential market

Note: Turkey's economic data as of end 2012. Estimates by BBVA Research.

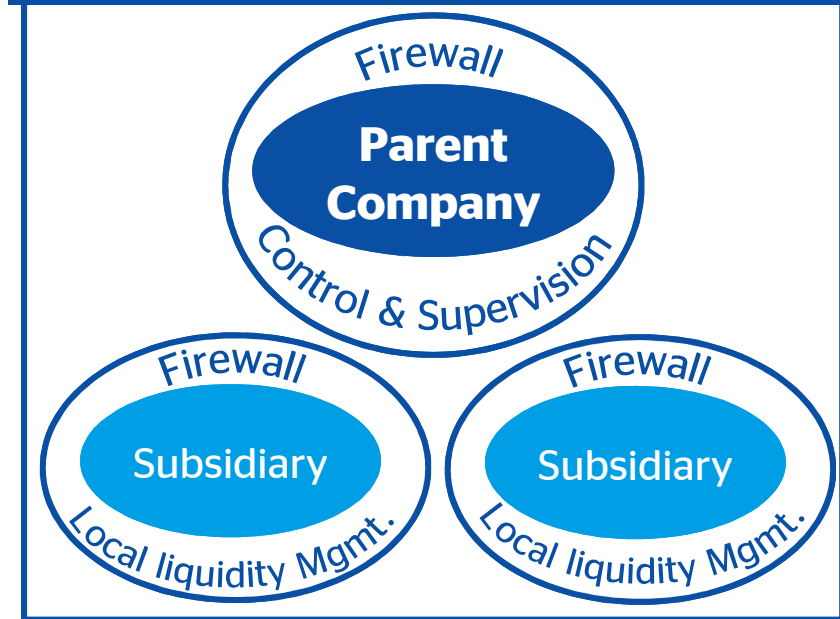
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BBVA's decentralized management model serves as a backstop to manage FX contagion risk

While other business models allowed contagion within units...



...BBVA's model ring-fences risks within subsidiaries



Active FX hedging policy to minimize core capital ratio volatility and P&L impact



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Banking Union first developments: focus turning from core capital to leverage and loss absorption capacity

from

to

**Capital
Adequacy**

**Risk-based
capital ratios**

**Combination of
risk-based and
leverage**

**Credit
Worthiness**

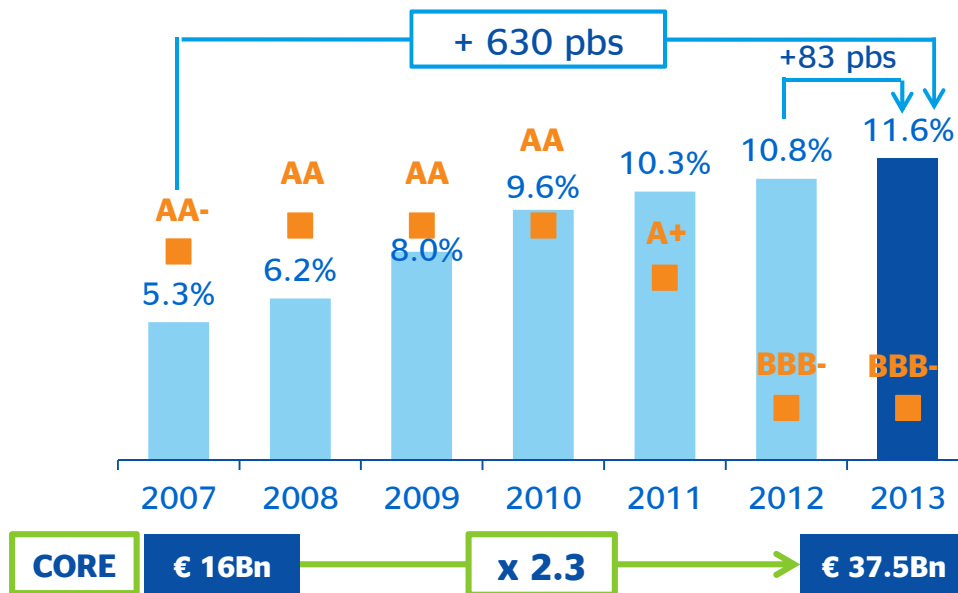
**Sovereign
support**

**Loss absorption
capacity**

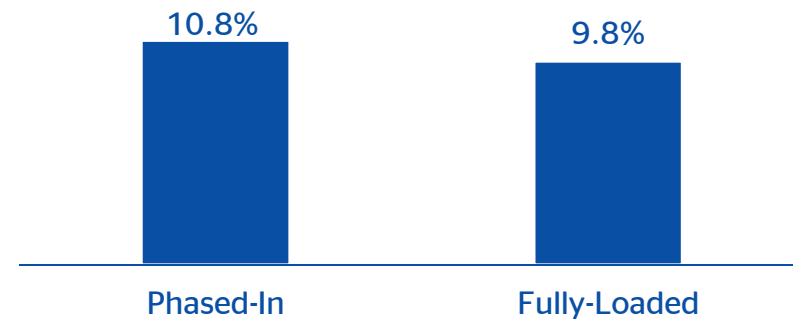
Regulation is challenging certain business models

Strong track record of capital generation

BIS II Core capital ratio and S&P Rating
BBVA Group



BIS III Core Capital ratios (%)
BBVA Group
Dec 2013



1 Since 2007, BBVA has more than doubled its BIS II Core Capital base

105bps average capital generation per year in the period 2007-2013

2 Transitional BIS III CET1 level expected to be >10% through the phase - in period

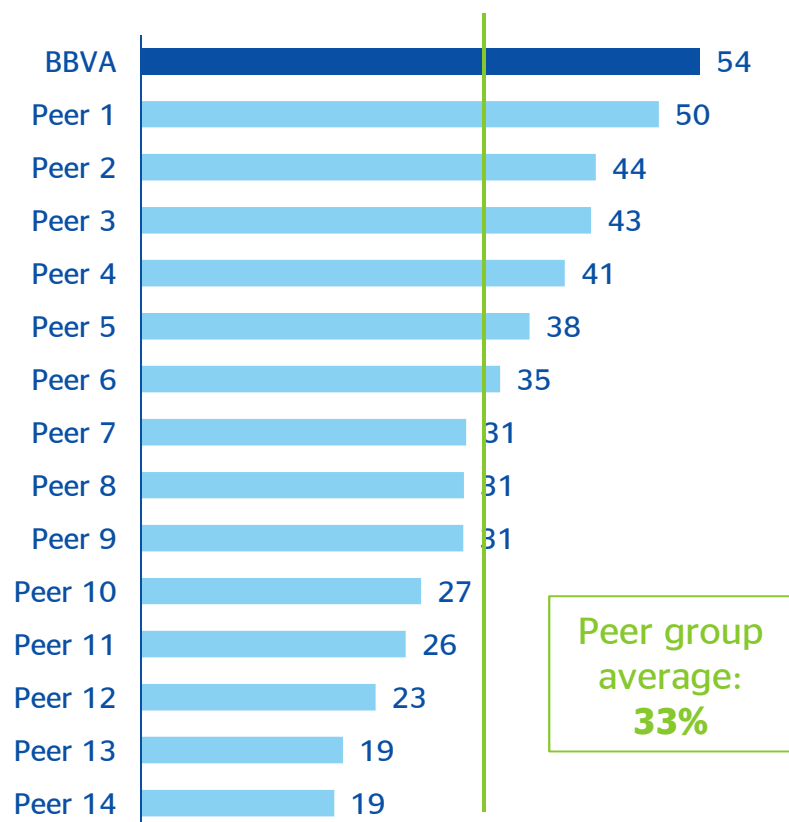
Expected BIS III phase-in impact through the transition period: 25 bps/year

BBVA stands out for the quality of its capital and its low leverage

RWAs / Total Assets (%)

BBVA Group vs. European Peer Group ⁽¹⁾

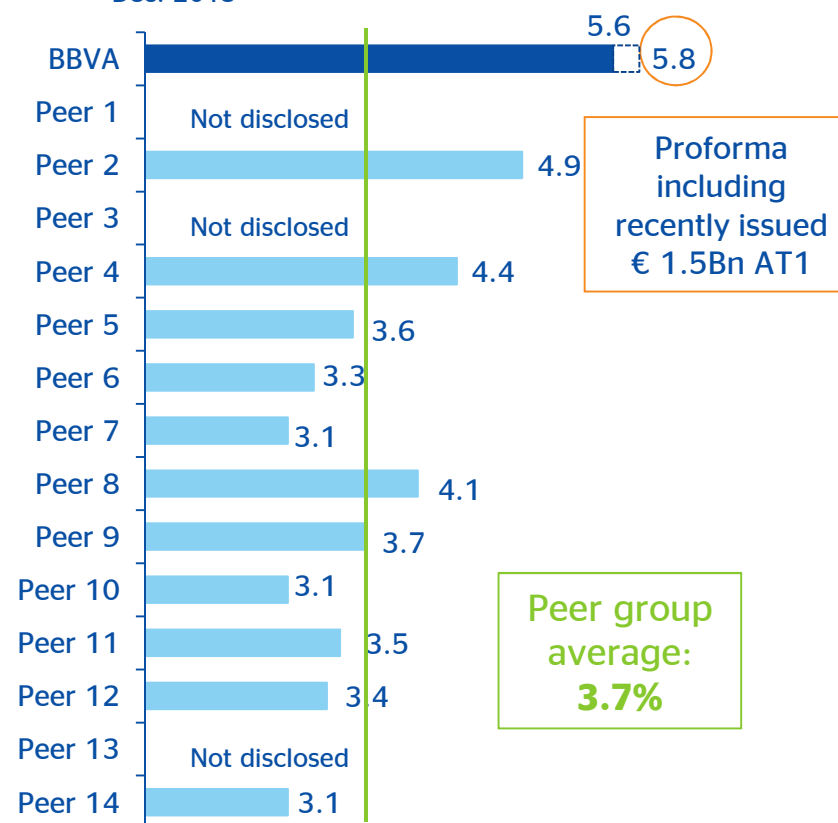
Dec. 2013 ⁽²⁾



CRD IV fully loaded Leverage ratio

BBVA Group vs. Peer Group ⁽¹⁾

Dec. 2013 ⁽²⁾



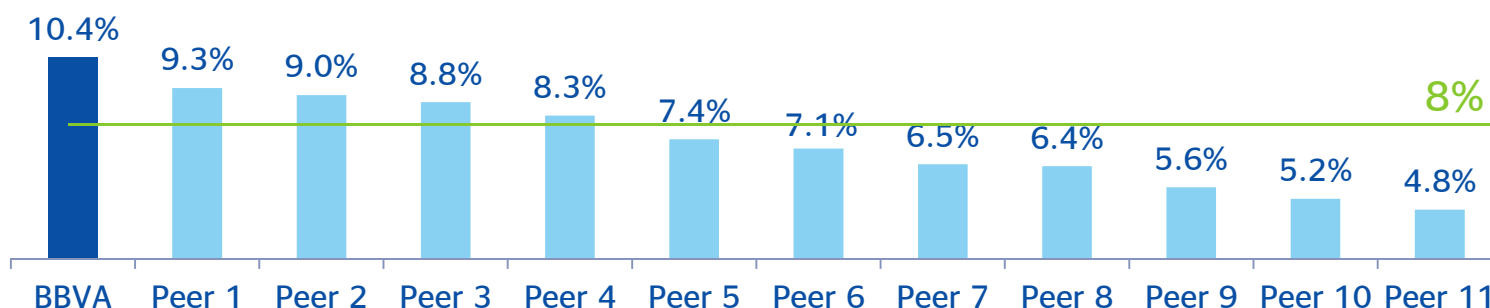
(1) European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS

(2) Except for UCI (Data as of September 2013)

Loss Absorption Capacity: EU's Recovery and Resolution Directive proposal

- 1 The Recovery and Resolution Directive proposal provides a common loss absorption framework
- 2 The Directive proposal is an important milestone to break the sovereign-banking link (8% bail-in + 5% resolution fund)
- 3 BBVA has one of the highest percentages of capital and loss absorption instruments over total liabilities

(Equity + Subordinated liabilities) / (Total Liabilities +/- Net Derivative Positions) ⁽¹⁾

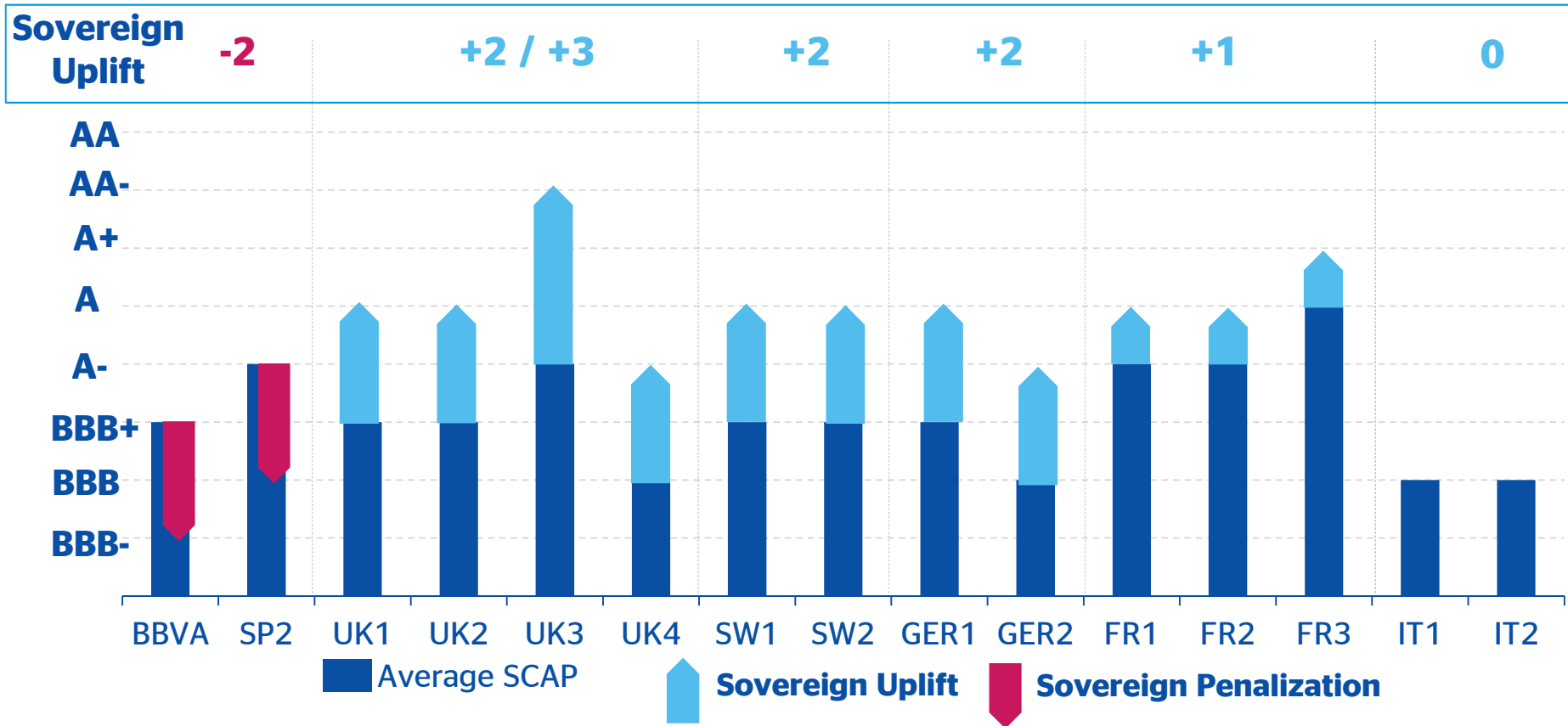


The RRD is an important milestone to break the sovereign - banking link

(1) Data as of June, 2013, except for BBVA as of December, 2013. Consolidated figures
 (2) European Peer Group: BARCL, BNPP, CASA, CMZ, DB, ISP, HSBC, LBG, SAN, SG and UCI

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BBVA's rating does not properly reflect its capital adequacy and credit worthiness



Bank's fundamentals will become more relevant under the Banking Union

Note: Rating according to S&P



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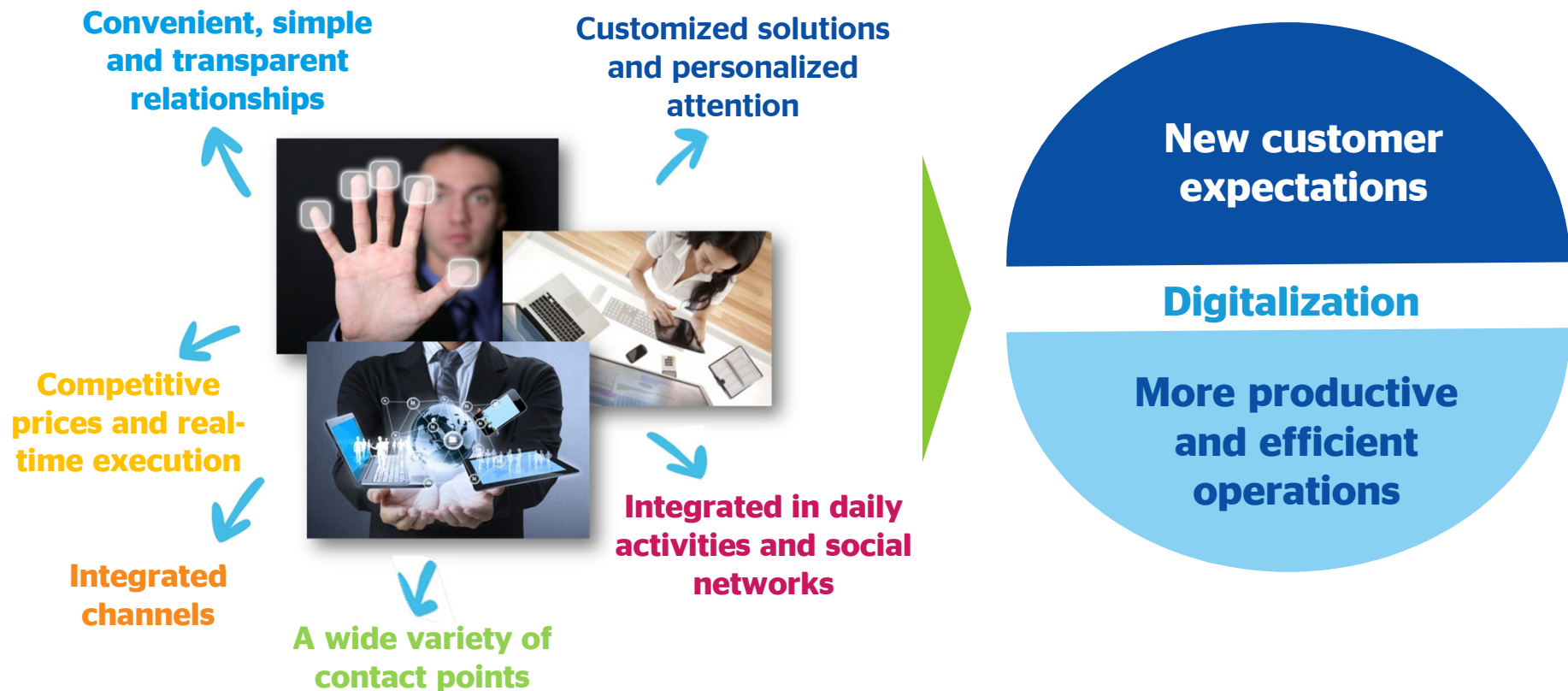
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In traditional retail banking, the rules of the game have changed



Banks unable to adapt fast enough will lose competitiveness and customer's appeal


Traditional banks need to transform their business model, a multi-year effort

Technological Platform



**Products/
Contents**

**Customer
experience**

- 
- ✓ **Major IT investments**
 - ✓ **Process reengineering**
 - ✓ **Adapt corporate culture**
 - ✓ **Change working habits**
 - ✓ **Organizational structure**

Banks have vast information about their clients, a competitive advantage and a real opportunity

BBVA is well ahead in its business model transformation

The most complex and costly element - the IT platform - almost completed

BBVA's transformation progress by region



Technological Platform



Operating Model

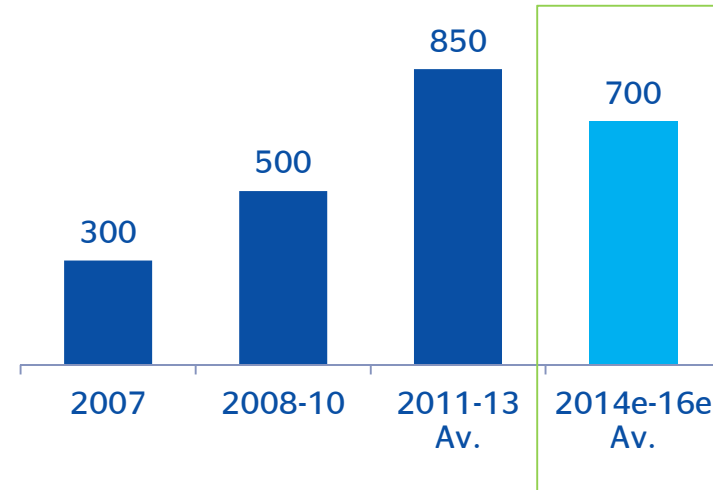


Distribution Model



Lower expected investment needs

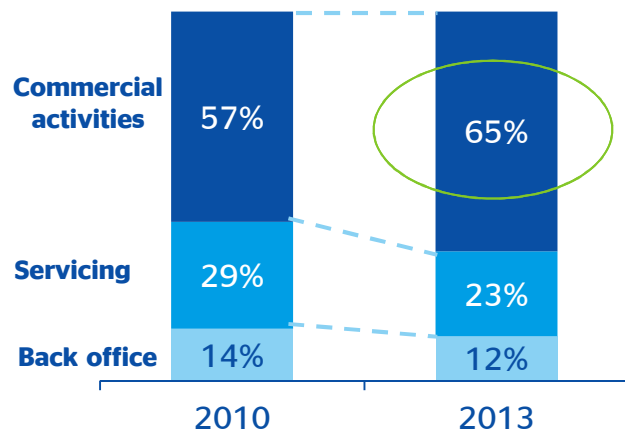
Technology and operations investments evolution (€Mn)



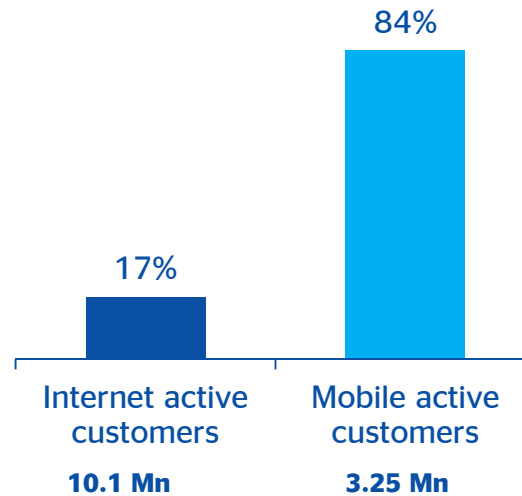
State of the art platforms after 6 years of investments, currently focused on the omnichannel distribution model

BBVA is already benefiting from this investments

BBVA Group Branch activity breakdown
% of hours



BBVA Group YTD growth of internet and mobile active customers ⁽¹⁾
(%) Dec. 12 - Dec. 13



N° of active customers as of Dec-13 (Millions)

A more efficient and sales-oriented network

BBVA Group's Business Market Share:

1.4 times ⁽¹⁾

Branches market share

Our clients are becoming increasingly digital

(1) Group average

Already developing our digital offer



BBVA Wallet

‘All your cards in your smartphone’



BBVA link

‘P2P payments through Facebook’



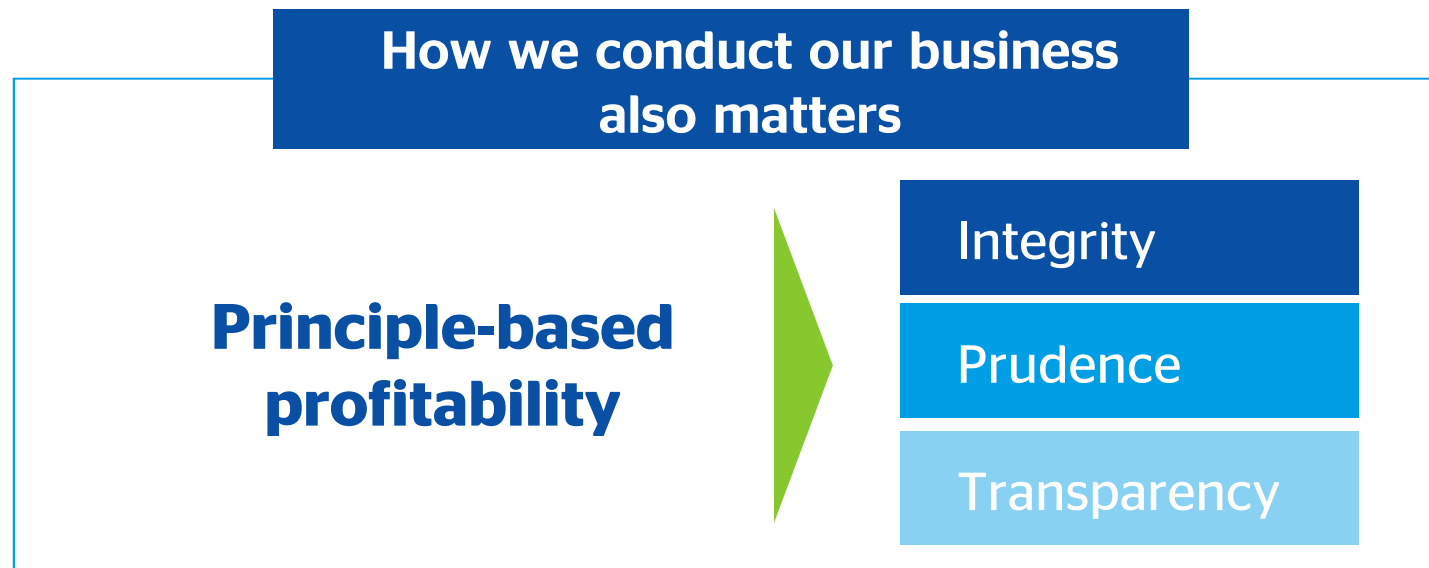
Wizzo

‘P2P payments network targeted to ‘unbanked’ teenagers’

Responsible Banking: The industry is paying the consequences of past excesses

Close to **€100Bn⁽¹⁾** in fines in the last 2 years with reputational implications.

Clients and regulators will require higher standards from banks



**BBVA has avoided any relevant issues
Key to maintain a loyal and high value customer franchise**

(1) Source company filings. Figures as of December 2013. Includes fines to our European & US peers including, among others charges related to EURIBOR and LIBOR manipulation, Misleading Hedges, PPI and Mortgage related charges in the US. European & US Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI, UBS, BOA, JPM, CITI and WFC.



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In sum, BBVA has a distinct position to face future challenges

Growth

- ✓ **High growth potential emerging economies**
- ✓ **Recovering developed economies**

Regulation

- ✓ **Strong capital generation with low leverage**
- ✓ **High loss absorption capacity**

Customer expectations

- ✓ **Well ahead in the bank's digitalization process**
- ✓ **Principle-based profitability**

Ready to deliver sustainable profit growth

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