BBVA: well positioned for the challenges of the financial industry

Manuel Gonzalez, Chief Financial Officer
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Challenges ahead for the financial institutions

Growth
- Slow recovery and limited growth outlook
- Low interest rate environment
- Accommodative Monetary Policy

Regulation
- Capital, RWA and leverage
- Banking Union and loss absorption

Changing customer expectations
- Digitalization
- Responsible banking

BBVA has a distinct position to face these challenges
1 Growth

2 Regulation

3 Changing customer expectations
BBVA is well-positioned with an attractive footprint in Developed and Emerging Markets

Breakdown of gross income 9M13

Developed
- Spain: 29%
- Rest of Europe: 24%
- USA: 28%

Emerging
- Turkey: 24%
- South America: 22%
- Rest of Europe: 10%
- Mexico: 29%
- Asia: 4%
- USA: 3%

YoY chg.
- Developed: -5.3%
- Emerging: +11.1%

Recovering DMs - Resilient and high potential EMs

Note: excludes Holding. Year-on-year variation in constant €
Spain: The economy has started its recovery

Spain: Positive macro momentum

**Economic recovery:**
- GDP expected to grow in 2014 0.9%\(^{(1)}\)
- Recent economic data beating expectations

**Lower risk:**
- Fiscal adjustment progress
- Much more favorable funding conditions
- RE price adjustment starting to stabilize

Financial System: main industry trends

**Challenges:**
- Low interest rate environment
- Deleveraging process
- Increased regulatory requirements

**Opportunities:**
- Peers re-sizing offering an unprecedented client shifting
- More rational competition

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\(^{(1)}\) Source: BBVA Research
A unique opportunity for BBVA Spain in this context: profitable and sustainable client growth...

**Targeted customer base growth**
- BBVA’s domestic customer funds market share evolution (%)
  - Sep 2011: 10.5
  - Sep 2013: 12.6 (Unnim’s acquisition)

**Price management strategy focused on profitability**
- Cost of time deposits and promissory notes
  - New production (%)
    - Dec-11: 2.3
    - Mar-12: 1.9
    - Jun-12: 2.9
    - Sep-12: 2.0
    - Dec-12: 1.8
    - Mar-13: 1.5

**Diversifying revenue sources**
**Growth of Net Fees and Commissions**
- (9M13 vs. 9M12)
  - Credit cards: +9%
  - Insurance: +8%
  - Mutual and Pension Funds: +9%
... and improving asset quality indicators

**Risk indicators performance in line with forecast**

BBVA Spain (Banking Activities)

<table>
<thead>
<tr>
<th>NPA ratio (%)</th>
<th>Dec 12</th>
<th>Mar 13</th>
<th>Jun 13</th>
<th>Sep 13</th>
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</thead>
<tbody>
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<td>4.1</td>
<td>4.4</td>
<td>4.7</td>
<td>5.0</td>
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</tbody>
</table>

Including reclass. of refinanced loans: 6.2%

**NPAs balance to decrease in 2014**

NPA gross entries (excl. reclas. of refinanced loans) (€ bn)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>3Q13</th>
<th>1Q12 to 2Q13</th>
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<tbody>
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<td></td>
<td>1.1</td>
<td>1.5</td>
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Quarterly average from 1Q12 to 2Q13

**Cost of risk normalization: a key P&L driver**

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

<table>
<thead>
<tr>
<th>9M12</th>
<th>9M13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan-loss provisions (Banking activity+developers)</td>
<td>1,285</td>
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<tr>
<td>RE assets impairments</td>
<td>3,685</td>
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</table>

Cost of risk (RE assets impairments not included)

The challenge is to accelerate the normalization of profits
USA: Outstanding commercial performance, impacted by the interest rate environment

**Business activity to remain solid**

<table>
<thead>
<tr>
<th>YoY change, average balances, Sept 2013</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Constant euros (1)</td>
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<tr>
<td>Lending</td>
<td>10.0%</td>
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<tr>
<td>Deposits</td>
<td>6.4%</td>
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</table>

**Superior Credit Quality**

<table>
<thead>
<tr>
<th>Coverage ratio</th>
<th>NPA ratio</th>
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<tbody>
<tr>
<td>Sep 12</td>
<td>2.4</td>
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<tr>
<td>Dec 12</td>
<td>2.4</td>
</tr>
<tr>
<td>Mar 13</td>
<td>1.8</td>
</tr>
<tr>
<td>Jun 13</td>
<td>1.5</td>
</tr>
<tr>
<td>Sep 13</td>
<td>1.5</td>
</tr>
</tbody>
</table>

**Focus on new business**

- Launching **new products**
- Opening new **loan production offices**
- Enhanced **online and mobile banking capabilities**

**P&L**

- High interest rate sensitivity
- Costs under control
- Low risk premium

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

(1) BBVA Compass in local figures.
Mexico: commercial dynamism to improve thanks to a better economic environment

Recovery of GDP growth in 2014
- Improvement of macro outlook in USA
- Implementation of the reform agenda
- Recovery of government expenditure

Focused on profitability

<table>
<thead>
<tr>
<th>ROA(%)</th>
<th>NIM (%)</th>
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<tbody>
<tr>
<td>Bancomer</td>
<td>Peers' average</td>
</tr>
<tr>
<td>2.0</td>
<td>5.8</td>
</tr>
<tr>
<td>1.5</td>
<td>4.5</td>
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</tbody>
</table>

(1) Data according to local accounting. Consolidated financial groups. Peers included: Banamex, Banorte, HSBC and Santander.

• Improvement of macro outlook in USA
• Implementation of the reform agenda
• Recovery of government expenditure

• Loan book growing at +/- 10%, driven by Commercial and SMEs
• Stable asset quality and risk premium
• Strong investment effort to continue: branch network remodelling

P&L to recover its dynamism
**South America:** Well-diversified footprint in a high growth market

**Growth stabilizing at a sustainable level**

<table>
<thead>
<tr>
<th>2010-2012 CAGR (1)</th>
<th>Sept. 2013 y-o-y</th>
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</thead>
<tbody>
<tr>
<td>Performing Loans</td>
<td>+25%</td>
</tr>
<tr>
<td>Customer Deposits</td>
<td>+23%</td>
</tr>
<tr>
<td>(+17%)</td>
<td>+27%</td>
</tr>
</tbody>
</table>

**Solid credit quality indicators**

<table>
<thead>
<tr>
<th>NPA ratio (2) (%)</th>
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<tbody>
<tr>
<td>Dec-09</td>
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<tr>
<td>BBVA</td>
</tr>
<tr>
<td>1.9</td>
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<tr>
<td>2.6</td>
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</table>

**High revenue growth**

<table>
<thead>
<tr>
<th>Gross Income (Constant €m)</th>
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<tr>
<td>9M12</td>
</tr>
<tr>
<td>3,348</td>
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<tr>
<td>+20.4%</td>
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</table>

**Strong profitability (3)**

- **2.3% ROA**
- **5.9% NIM**

Allowing major investment plans to capture high growth potential

**Focusing on gaining market share in retail customer lending and gathering transactional customer funds**

(1) Banks only, based on average balances, constant €. (2) Local Accounting (3) Consolidated data, Sept ’13. Annualized Net Income (for ROA) and annualized Net Interest Income (for NIM) over Average Total Assets.
Garanti: A well-managed bank in a challenging environment

Selective lending growth
- Growth in High Yielding Retail Loans
  (Dec. 12 - Sep. 13)
- Mortgages: 25%
- General Purpose Loans: 21%
- Credit Cards: 24%

Resilient NIM
- Quarterly NIM
  - 3Q12: 3.3%
  - 3Q13: 3.5%

Sound asset quality
- NPL Ratio Evolution (%)
- 2009: 4.3%
- 2010: 2.9%
- 2011: 1.8%
- 2012: 2.6%
- 2Q12: 2.3%
- 1Q13: 2.3%
- 2Q13: 2.7%
- 3Q13: 2.0%

Challenging landscape
- More volatile environment
- Measures to curb private consumption
- Increasing funding costs

Core banking activity outperforming peers
Contents

1  Growth

2  Regulation

3  Changing customer expectations
Regulatory challenges: from core capital to leverage and loss absorption capacity

- Short-term ratio: LCR
- Long-term ratio: NSFR
- BIS 3 leverage ratio
- MREL (1) / LAC (2)

Regulation is having an impact on business models

(1) Minimum Requirements for Own Funds and Eligible Liabilities
(2) Loss Absorption Capacity
BBVA has a strong track record of capital generation

Since 2007, BBVA has more than doubled its Core Capital and increased by more than 600 bps its Core Capital ratio

Core capital ratio (BIS II)

2007: 5.3%
3Q13: 11.4%

And ...

- Strong capital ratios under BIS III fully loaded\(^{(1)}\):
  - Core Capital: >9.5% and Leverage: >5%

- Transactions closed in 2013:
  - USD 1.5bn of AT1 Issue
  - Non core business sales \(^{(2)}\): +145bp

\(^{(1)}\) Estimated ratios as of Dec. 13 including DTAs and the sale of 5.1% in CNCB; \(^{(2)}\) +71 bp from 5.1% CNCB stake sale, +55 bp from Latam pension businesses, +6 bp from BBVA Panama and +13bp from the transaction on the life insurance portfolio in Spain.
BBVA has increased its RWAs in line with the business cycle

European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS.
BBVA stands out for the quality of its capital and its low leverage

RWAs / Total Assets (%)
BBVA Group vs. European Peer Group (1)
Sep. 2013

<table>
<thead>
<tr>
<th></th>
<th>BBVA</th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3</th>
<th>Peer 4</th>
<th>Peer 5</th>
<th>Peer 6</th>
<th>Peer 7</th>
<th>Peer 8</th>
<th>Peer 9</th>
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<td>44</td>
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<td>26</td>
<td>25</td>
<td>21</td>
<td>18</td>
<td>16</td>
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Peer group average: **32%**

CRD IV fully loaded Leverage ratio (2)
BBVA Group vs. Peer Group (1)
Sep. 2013

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<th>BBVA</th>
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<td>BBVA Group</td>
<td>4.8</td>
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<td>Peer 10</td>
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<td>Peer 14</td>
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Peer group average: **3.3%**

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(1) European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS.
(2) UBS leverage ratio reported under Swiss regulation.
(3) Estimated ratio as of Dec.13 including Citic’s and DTA’s impacts.
High quality of capital reflected in the evolution of its TBV

Tangible Book Value per share
BBVA Group vs. European Peer Group average
(Base 100 = 2006)

European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS.
EU progress towards a real Banking Union

**Single Supervisory Mechanism (SSM)**
Effective from Nov-2014

**Bank Recovery and Resolution Directive (BRRD)**
Effective from Jan-2015, except for bail-in (in 2016)

**Single Resolution Mechanism (SRM)**
Likely to be effective in 2016

**Common Deposit Guarantee Scheme**
Pending

**Comprehensive Assessment: A decisive step for the Banking Union**

**Risk Assessment (RAS)**
- Assessment of key risk factors (liquidity, funding and leverage)

**Balance Sheet Assessment (BSA)**
- Assessment of asset valuations, classification of non-performing exposures
- Main input of the Stress Test

**Stress test (Led by EBA)**
- Loss absorption capacity
- Joint exercise: EBA and ECB

In progress

Joint publication by November 2014

BBVA has a comfortable capital buffer to face the upcoming stress tests
In Europe we already have a Recovery and Resolution Directive proposal


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.

Data as of June 2013 RATIO = (Equity + Subordinated liabilities) / (Total Liabilities – Derivatives).

European Peer Group: BARCL, BNPP, CASA, CMZ, DB, ISP, HSBC, LBG, SAN, SG and UCI.

The RRD is an important milestone to break the sovereign - banking link.
BBVA’s rating does not properly reflect its capital adequacy and credit worthiness

<table>
<thead>
<tr>
<th>Sovereign Uplift</th>
<th>-2</th>
<th>+2 / +3</th>
<th>+2</th>
<th>+2</th>
<th>+1</th>
<th>0</th>
</tr>
</thead>
</table>

- **BBVA**
- **SP2**
- **UK1**
- **UK2**
- **UK3**
- **UK4**
- **SW1**
- **SW2**
- **GER1**
- **GER2**
- **FR1**
- **FR2**
- **FR3**
- **IT1**
- **IT2**

**Stand Alone Rating**

**Sovereign Uplift**

**Sovereign Penalization**

Each bank’s fundamentals and liability structures (LAC) will become more relevant under the new resolution regimes

Credit Rating according to S&P; European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI, and UBS
Contents

1 Growth

2 Regulation

3 Changing customer expectations
Changing customer expectations: in traditional retail banking, the rules of the game have changed.

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

- Convenient, simple and transparent relationships
- Customized solutions and personalized attention
- Integrated channels
- A wide variety of contact points
- Competitive prices and real-time execution
- Integrated in daily activities and social networks

New customer expectations

Digitalization

More productive and efficient operations
BBVA started its transformation in 2007: a multiyear effort that requires major IT investments.

The IT platform is ready to provide the digital services that customers demand, the focus now is on the omnichannel distribution model.
A more efficient and sales-oriented network

BBVA Group Branch activity breakdown
% of hours

- Commercial activities: 38% in 2009, 51% in Sep. 2013
- Servicing: 41% in 2009, 37% in Sep. 2013
- Back office: 21% in 2009, 12% in Sep. 2013

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

- Internet active customers: 15% growth from 9.8 Mn to 11.7 Mn
- Mobile active customers: 64% growth from 2.9 Mn to 4.8 Mn

Our clients are becoming increasingly digital

(1) Group average
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

**How we conduct our business also matters**

**Principle-based profitability**

- Integrity
- Prudence
- Transparency

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

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(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.
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
BBVA: well positioned for the challenges of the financial industry

Manuel Gonzalez, Chief Financial Officer

Exane BNP Paribas, Spain Investors Day
Madrid, January 15th, 2014