BBVA Global Risk Management

Rafael Salinas, Chief Risk Officer

UBS European Conference 2015
London, November 10th, 2015
1. Global Risk Management Model

2. Sound Risk Indicators

3. Conclusions
The risk management model provides **strength** and **stability** to the Group, according to its management and strategy.
**Corporate Governance**

1. Board & Executive Committee of Directors
2. Risk Committee of the Board
3. Global Risk Management Committee (GRMC)

**Global Risk Management Organization**

- Corporate Units:
  - Global Portfolio Management
  - Credit Risk Management
  - Risk Analytics
  - Innovation and Tech
  - Internal Risk Control & Operational Risk
  - RDO\(^{(1)}\) Monitoring & Reporting
  - Risk Strategy & Development

- Business Units:
  - GRM Spain
  - GRM Mexico
  - GRM Turkey
  - GRM USA
  - GRM South America
  - GRM Global Business

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\(^{(1)}\) RDO: Risk Data Office
Risk appetite principles

- A moderate risk profile at a Group level
- A universal banking business model
- Diversification in geographies, asset classes, portfolios and clients
- Medium/low risk profile in each country
- Sustainable growth

All business units have their own Risk Appetite Framework
Decision making and processes... 

... leveraged on ...

1. **Internal policies & procedures**
   - Policies
   - Rules
   - Procedures

2. **During the entire risk lifecycle**
   - Risk planning
   - Risk assessment & underwriting
   - Risk taking process
   - Monitoring & Reporting
   - Active portfolio management

...through a Global and Integrated approach

- Risk Statement
- Core Metrics
- Asset Allocation
- ICAAP/ILAAP & Stress Test
- Fixing Limits
- Optimizing Capital
**Dynamic and anticipatory approach** of the risk management

**Steps of Asset, Monitoring and Reporting process:**

- **Identify** risk factors
- **Evaluate** the impact
- **Reaction** to adverse scenarios
- **Monitoring** of the risk profile
- **Reporting**
Relying on our **professionals and technological resources** to put in place an effective **risk supervision and management**

**Human resources**
- Adequate size
- Talented
- Seniority

**Risk Analytics, Innovation & Technology**
- Models
- Risk Parameters

**444 Credit Risk Tools**
- 62% Retail Scorings
- 38% Scorings Commercial & Corp.
- 80% of scorings < 2 years
- 90% of ratings < 2 years
1. Global Risk Management Model

2. Sound Risk Indicators

3. Conclusions
BBVA: a client driven business in a well-diversified footprint

**BBVA Group Total Assets structure**
Sept. 15

**Gross loans: breakdown by country** (1)
Sept. 15

(1) Excluding Corporate Center.
BBVA Group: Risk indicators continue to improve thanks to Spain’s recovery

- **NPLs (€ Bn)**
  - Sept.13: 26.5
  - Sept.14: 24.4
  - Sept.15: 26.4

- **Cost of Risk (%)** (1)
  - Sept.13: 167
  - Sept.14: 125
  - Sept.15: 110

- **% NPL and % Coverage**
  - Coverage Ratio (%)
    - Sept.13: 60
    - Sept.14: 63
    - Sept.15: 74
  - NPL Ratio (%)
    - Sept.13: 6.7
    - Sept.14: 6.1
    - Sept.15: 5.6

(1) Cumulative data for the first nine months of the year.
Spain (including Real Estate): cost of risk normalization as the main P&L driver

A portfolio mix biased to residential mortgages

Performing loans (1)
Sept.15

Improving risk indicators

NPLs (€ Bn)

<table>
<thead>
<tr>
<th></th>
<th>Sept.13</th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBVA</td>
<td>21.9</td>
<td>19.8</td>
<td>21.1</td>
</tr>
<tr>
<td>CX</td>
<td></td>
<td></td>
<td>3.8</td>
</tr>
</tbody>
</table>

Coverage Ratio (%)

<table>
<thead>
<tr>
<th></th>
<th>Sept.13</th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>with CX</td>
<td>49.8</td>
<td>50.8</td>
<td>62.2</td>
</tr>
<tr>
<td>with CX</td>
<td>10.0</td>
<td>9.4</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Cost of Risk (bps) (2)

<table>
<thead>
<tr>
<th></th>
<th>Sept.13</th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>with CX</td>
<td>155</td>
<td>103</td>
<td>91</td>
</tr>
</tbody>
</table>

Positive future trends

Loan-loss provisions (ex-CX) (2)
Banking activity + RE (€Mn)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015e</th>
<th>2017e</th>
</tr>
</thead>
<tbody>
<tr>
<td>155 bps</td>
<td>3,187</td>
<td>1974</td>
<td>80-85 bps</td>
<td>- 50 bps</td>
</tr>
</tbody>
</table>

3,187
103
80-85
- 50

Total Loans: € 177.4 Bn

(1) Excluding Repos. (2) Cumulative data for the first nine months of the year.
USA: Risk indicators at historically low levels

Growth biased to the commercial portfolio

Performing loans (1)
Sept.15

- Public sector 7%
- Mortgages 22%
- Developers and CRE 16%
- Mid-Size and large corporates 36%
- Consumer 12%
- Small Business 7%

Total Loans: € 57.5 Bn

Group’s best risk indicators

NPLs (€ Mn)

- Sept.14: 452
- Sept.15: 545

Coverage Ratio (%)

- Sept.14: 0.9%
- Sept.15: 0.9%

Cost of Risk (bps) (2)

- Sept.14: 17
- Sept.15: 21

Comparing favorably to its peers

Asset quality indicators
Local criteria data (June 15)

NPL Ratio (%)

- BBVA Compass: 0.7%
- Peers Median: 0.9%

Coverage Ratio (%)

- BBVA Compass: 173%
- Peers Median: 146%

Cost of Risk (bps) (2)

- BBVA Compass: 30
- Peers Median: 20

(1) Excluding Repos. (2) Cumulative data for the first nine months of the year.
BBVA Bancomer: change in mix leading to an improvement in asset quality

Mix change: growth biased to the commercial portfolio

Performing loans (1)
Sept. 15

Sound and improving risk indicators

<table>
<thead>
<tr>
<th>NPLs (€ Mn)</th>
<th>Sept. 14</th>
<th>Sept. 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,525</td>
<td></td>
<td>1,263</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coverage Ratio (%)</th>
<th>Sept. 14</th>
<th>Sept. 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>121</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of Risk (bps) (2)</th>
<th>Sept. 14</th>
<th>Sept. 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>356</td>
<td></td>
<td>340</td>
</tr>
</tbody>
</table>

Maintaining a better asset quality than peers

Asset quality indicators
Local criteria data (Aug. 15)

<table>
<thead>
<tr>
<th>NPL Ratio (%)</th>
<th>BBVA Bancomer</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.6</td>
<td>3.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coverage Ratio (%)</th>
<th>BBVA Bancomer</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>122</td>
<td>136</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of Risk (bps) (2)</th>
<th>BBVA Bancomer</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>340</td>
<td>365</td>
</tr>
</tbody>
</table>

(1) Excluding Repos. (2) Cumulative data for the first nine months of the year.
**BBVA**

**South America:** sound asset quality despite slight deterioration due to lower GDP growth

A loan portfolio biased to the Andean region and commercial segments

### Performing loans by country (1)

<table>
<thead>
<tr>
<th>Country</th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Argentina</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Peru</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Chile</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Colombia</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Rest of Countries</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Performing loans by segment (1)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-Size and large corporates</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Consumer</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>SMEs</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Public sector</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Total Loans:** € 43.2 Bn

### Maintaining sound risk indicators

#### NPLs (€ Mn)

<table>
<thead>
<tr>
<th></th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>963</td>
<td>1,104</td>
</tr>
</tbody>
</table>

#### Coverage Ratio (%)

<table>
<thead>
<tr>
<th></th>
<th>Sept.14</th>
<th>Sept.15</th>
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<tbody>
<tr>
<td></td>
<td>127</td>
<td>123</td>
</tr>
</tbody>
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#### NPL Ratio (%)

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<thead>
<tr>
<th></th>
<th>Sept.14</th>
<th>Sept.15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.2</td>
<td>2.3</td>
</tr>
</tbody>
</table>

#### Cost of Risk (bps) (2)

<table>
<thead>
<tr>
<th></th>
<th>Sept.14</th>
<th>Sep.15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>125</td>
<td>129</td>
</tr>
</tbody>
</table>

### Better asset quality than peers’ average in every country

#### Asset quality indicators

Local criteria data (Jun.15)

<table>
<thead>
<tr>
<th></th>
<th>BBVA</th>
<th>System</th>
</tr>
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<tbody>
<tr>
<td>NPL Ratio (%)</td>
<td>1.6</td>
<td>2.1</td>
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#### Coverage Ratio (%)

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<tr>
<th></th>
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<th>System</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>174</td>
<td>154</td>
</tr>
</tbody>
</table>

#### Cost of Risk (bps) (2)

<table>
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<tr>
<th></th>
<th>BBVA</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>124</td>
<td>163</td>
</tr>
</tbody>
</table>

Note: Risk indicators exclude Venezuela. (1) Excluding Repos. (2) Cumulative data for the first nine months of the year.
Garanti: well-positioned to cope with short-term volatility

Selective lending strategy

Performing loans(1)
Sept. 15

- Mortgages 11%
- Other 6%
- Consumer 25%
- Commercial 58%

Total Loans: € 52.6 Bn

YoY Performing loan growth
Sept. 15

Asset quality resilient to volatility

NPLs (€ Mn)
- Sept. 14: 429
- Sept. 15: 1,345

Coverage Ratio (%)
- Sept. 14: 115
- Sept. 15: 119

NPL Ratio (%)
- Sept. 14: 2.6
- Sept. 15: 2.6

Cost of Risk (bps) (2)
- Sept. 14: 110
- Sept. 15: 103

Maintaining a better asset quality than peers

Asset quality indicators
Local criteria data (Sept. 15)

NPL Ratio (%)
- Garanti: 2.3
- System: 2.9

Coverage Ratio (%)
- Garanti: 81
- System: 75

Cost of Risk (bps) (2)
- Garanti: 135
- System: 153

(1) Excluding Repos. (2) Cumulative data for the first nine months of the year.
1. Global Risk Management Model

2. Sound Risk Indicators

3. Conclusions
Wrapping up

1. **Well-established and fully integrated** Risk Management model

2. A **client driven** business in a **well-diversified** footprint

3. **Medium-low risk profile**

4. **Sound risk indicators** in all franchises