Time to return to fundamentals

Manuel González Cid, CFO

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Contents

1 From external factors to earnings power

2 Time to return to fundamentals

3 Conclusions
Since the beginning of the crisis banks have faced significant challenges...

- Scarce and expensive funding
- Regulatory changes
- Increasing capital requirements
- Deleveraging
- Sale of core assets

- Revenue reduction
- Earnings contraction
- EPS dilution
- Lower ROEs
- Dividend cuts

BBVA has been able to adapt quickly and successfully to this changing environment.
... under these extreme circumstances BBVA has proven to be very resilient

BBVA sought to minimize the potential impact on earnings, profitability and dilution, maintaining dividends and without selling core assets

However, rating agencies and analysts continue to associate banking risk with sovereign risk.

**REGULATORY TRENDS**

- Higher and more strict capital requirements (EBA, Basel III, G-SIFI buffer, ...)
- Creation of loss-absorption instruments (CoCos, bail-in debt, ...)
- Living wills

**IMPACT ON BANKS**

- Full loss absorption by shareholders and debt holders
- Elimination of implicit sovereign support

Equity investors should focus on earnings power and franchise value, which also backs a bank’s creditworthiness for debt investors.
Contents

1 From external factors to earnings power

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3 Conclusions
Time to return to fundamentals: BBVA’s main levers

1. Strong dynamism of core revenues in all geographies
2. Investments in the franchise progressively stabilizing
3. Asset quality resilience and absorption of new regulation
4. Strong capital generation and solid liquidity position
Time to return to fundamentals

Strong dynamism of core revenues in all geographies
Group: Resilient lending growth with favourable mix change

Positive growth and favourable mix change: high growth in emerging markets to offset weaker performance in developed markets

### Gross Lending

<table>
<thead>
<tr>
<th>BBVA Group</th>
<th>Year-on-year change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>-2%</td>
</tr>
<tr>
<td>Eurasia</td>
<td>47%</td>
</tr>
<tr>
<td>Mexico</td>
<td>8%</td>
</tr>
<tr>
<td>South America</td>
<td>27%</td>
</tr>
<tr>
<td>USA</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Lending (Constant €)

<table>
<thead>
<tr>
<th>Year</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4.8%</td>
</tr>
<tr>
<td>2011</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Deleveraging and market share gains
Perimeter effect
Growth in more profitable portfolios
Strong growth
Derisking and selective growth

Trends
Group: Recurrent core revenues starting to grow

Core revenues\(^{(1)}\)
BBVA Group
(Constant €m)

<table>
<thead>
<tr>
<th></th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4,521</td>
<td>4,518</td>
<td>4,234</td>
<td>4,208</td>
<td>4,214</td>
<td>4,381</td>
<td>4,452</td>
<td>4,673</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| NII to increase in all geographies and stabilize in Spain
Fee Income to return to positive growth in all geographies

\(^{(1)}\) Core revenues include: Net interest income and fee income.
Price normalization will be the main driver of net interest income stabilization of fee income.

Spain: Net interest income stabilization due to the reduction of the cost of deposits

Core Revenues

<table>
<thead>
<tr>
<th>Quarter</th>
<th>BBVA 1Q10</th>
<th>BBVA 2Q10</th>
<th>BBVA 3Q10</th>
<th>BBVA 4Q10</th>
<th>BBVA 1Q11</th>
<th>BBVA 2Q11</th>
<th>BBVA 3Q11</th>
<th>BBVA 4Q11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,746</td>
<td>1,681</td>
<td>1,580</td>
<td>1,542</td>
<td>1,501</td>
<td>1,510</td>
<td>1,432</td>
<td>1,424</td>
</tr>
</tbody>
</table>

Cost of deposits (households and corporates)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>BBVA</th>
<th>Spanish Financial System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 10</td>
<td>1.57</td>
<td>2.40</td>
</tr>
<tr>
<td>Feb 11</td>
<td>1.65</td>
<td>2.43</td>
</tr>
<tr>
<td>Apr 11</td>
<td>2.25</td>
<td>2.66</td>
</tr>
<tr>
<td>Jun 11</td>
<td>2.15</td>
<td>2.50</td>
</tr>
<tr>
<td>Ago 11</td>
<td>1.88</td>
<td>2.47</td>
</tr>
<tr>
<td>Oct 11</td>
<td>1.77</td>
<td>2.43</td>
</tr>
</tbody>
</table>

Source: Bank of Spain and internal data

(1) Core revenues include: Net interest income and fee income.
USA: BBVA has successfully performed a business mix transformation ...

**Lending mix (%)**
- **Commercial**: 41% (2008) → 49% (2011)
- **Other loans to individuals**: 23% (2008) → 16% (2011)
- **Mortgages**: 14% (2008) → 26% (2011)
- **Construction**: 22% (2008) → 9% (2011)

**Deposit mix (%)**
- **Time deposits**: 38% (2008) → 26% (2011)
- **Transaction Accounts**: 62% (2008) → 74% (2011)

**Trends**
- Prioritizing non-RE commercial & retail mortgages
- Derisking and asset quality will continue to improve
- Reduced deposit cost driving customer spread
USA: ... and a business model transformation

**From**

- **BUSINESS MODEL**
  - Selling products to people

- **IT PLATFORM**
  - Informational silos
  - No real time
  - Manual processes

- **RISK MANAGEMENT**
  - Admission and monitoring

**To**

- **BUSINESS MODEL**
  - Delivering the right solutions to customers

- **IT PLATFORM**
  - Full customer view
  - Real time
  - Process automation

- **RISK MANAGEMENT**
  - Proactivity and anticipation

Transformation towards BBVA’s industrialized customer centric business model on track (about 2/3 completed)
USA: Core revenues affected by the run-off from Guaranty portfolios and the new regulatory landscape

Core Revenues\(^{(1)}\)
(Constant €m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>REG-E</th>
<th>Durbin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2,343</td>
<td>594</td>
</tr>
<tr>
<td>2011</td>
<td>2,222</td>
<td>539</td>
</tr>
</tbody>
</table>

Profitability will improve reflecting the transformation of the business model and the economic recovery

\(^{(1)}\) Core revenues include: Net interest income and fee income.
Eurasia: Buoyant activity in all regions

Citic Core revenues\(^{(1)}\)
Quarter-on-quarter (RMB million)

- 1Q10: 11,851
- 2Q10: 13,041
- 3Q10: 14,041
- 4Q10: 14,898
- 1Q11: 16,194
- 2Q11: 17,510
- 3Q11: 19,466

\(+11.2\%\)

Source: CNBC public reporting

Garanti Core revenues\(^{(2)}\)
Quarter-on-quarter (TRY million)

- 1Q10: 1,968
- 2Q10: 1,784
- 3Q10: 1,474
- 4Q10: 1,854
- 1Q11: 1,688
- 2Q11: 1,723
- 3Q11: 1,753
- 4Q11: 2,223

\(+26.8\%\)

Source: BRSA Consolidated Garanti public reporting.

Activity dynamism and growing core banking revenues

\(^{(1)}\) Core revenues include: Net interest income and fee income. \(^{(2)}\) Core revenues include: Net interest income, income on RR and CPI linkers and net fees & commissions.
**Mexico: Business dynamism and mix improvement**

**Lending mix (%)**
- **Mortgages**: 26% (2009), 25% (2010), 24% (2011) with a CAGR of 10%
- **Consumer & C. Cards**: 21% (2009), 21% (2010), 24% (2011) with a CAGR of 19%
- **Commercial**: 53% (2009), 54% (2010), 52% (2011) with a CAGR of 9%

**Deposit mix (%)**
- **Non Cost**: 69% (2009), 73% (2010), 76% (2011) with a CAGR of 11%
- **Cost**: 31% (2009), 27% (2010), 24% (2011) with a CAGR of 7%

**Trends**
- Growth biased to more profitable segments
Mexico: ... with a positive impact on revenues ...

Core revenues\(^{(1)}\)
(Constant €m)

<table>
<thead>
<tr>
<th></th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,164</td>
<td>1,181</td>
<td>1,193</td>
<td>1,226</td>
<td>1,208</td>
<td>1,237</td>
<td>1,256</td>
<td>1,320</td>
</tr>
<tr>
<td>2011</td>
<td>4,764</td>
<td>5,021</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

High net interest income growth
Impact of new regulation on fees and commissions absorbed in 2011

\(^{(1)}\) Core revenues include: Net Interest Income and Fee Income.
**Mexico: ... and huge growth opportunities going forward, being the market leader**

### Low banking penetration

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic Credit to Private Sector (% of GDP, 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>98%</td>
</tr>
<tr>
<td>Brazil</td>
<td>54%</td>
</tr>
<tr>
<td>Colombia</td>
<td>30%</td>
</tr>
<tr>
<td>Peru</td>
<td>24%</td>
</tr>
<tr>
<td>Mexico</td>
<td>23%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>22%</td>
</tr>
<tr>
<td>Argentina</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: BBVA Research with WB data

### Under penetrated market

(Data per 100,000 inhabitants, 2008)

<table>
<thead>
<tr>
<th>Country</th>
<th>Branches</th>
<th>ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>Chile</td>
<td>14</td>
<td>56</td>
</tr>
<tr>
<td>Brazil</td>
<td>15</td>
<td>110</td>
</tr>
<tr>
<td>Spain</td>
<td>40</td>
<td>157</td>
</tr>
</tbody>
</table>

Source: McKinsey

### Banked population

(Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>Chile</th>
<th>Brazil</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>25</td>
<td>56</td>
<td>110</td>
<td>157</td>
</tr>
<tr>
<td>2007</td>
<td>35</td>
<td>15</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>2010</td>
<td>43</td>
<td>56</td>
<td>110</td>
<td>157</td>
</tr>
<tr>
<td>2015e</td>
<td>55</td>
<td>+12 MM</td>
<td>+8 MM</td>
<td>+10 MM</td>
</tr>
</tbody>
</table>

Source: BBVA Bancomer

**Opportunities in an under penetrated financial system to be exploited through innovation in the distribution model**
### South America: Diversified leadership in a fast growing region

- **8 Banks**
- **5 AFPs (Pension Funds Managers)**
- **4 Insurance Companies**

<table>
<thead>
<tr>
<th>Country</th>
<th>Banks</th>
<th>Insurance</th>
<th>AFPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Bolivia</td>
<td></td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Chile</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Colombia</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Ecuador</td>
<td></td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Panama</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paraguay</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Uruguay</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>●</td>
<td></td>
<td>●</td>
</tr>
</tbody>
</table>

* Panama, Paraguay, Uruguay, Bolivia and Ecuador.

**Net attributable profit breakdown**
December, 2011 (%)

- **Chile**: 11%
- **Colombia**: 20%
- **Argentina**: 19%
- **Peru**: 18%
- **Venezuela**: 14%
- **Other countries (*)**: 13%

**Total net attributable profit**
€ 1 Bn (+16% vs 2010)

**Core Revenues Dynamism**
BBVA

South America: ... leading to higher revenues and profitability

Core revenues$^{(1)}$ (Constant €m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>777</td>
<td>834</td>
<td>844</td>
<td>881</td>
<td>937</td>
<td>1,018</td>
<td>1,093</td>
<td>1,193</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

+9.1%  
+27.2%

High growth of core revenues and profits

$^{(1)}$ Core revenues include: Net interest income and fee income.
Time to return to fundamentals

Investments in the franchise progressively stabilizing
**Group:** Costs growing to reinforce our competitive position

**AHEAD IN EFFICIENCY**

- Peer 1: 45%
- BBVA: 48%
- Peer 2: 50%
- Peer 3: 54%
- Peer 4: 58%
- Peer 5: 60%
- Peer 6: 61%
- Peer 7: 62%
- Peer 8: 64%
- Peer 9: 66%
- Peer 10: 70%
- Peer 11: 78%
- Peer 12: 80%
- Peer 13: 81%
- Peer 14: 89%

**OPPORTUNITIES**

- **Growth in emerging economies**
- **Technological transformation**

**2011 COST GROWTH**

- **Perimeter**
  - +4.2%
- **Technology**
  - +1.6%
- **Growth**
  - +1.3%
- **Recurrent business**
  - +3.9%
  - +11.0%

**Costs to remain flat in developed economies and progressively stabilize in emerging economies**

Time to return to fundamentals

3 Asset quality resilience and absorption of new regulation
Group: Stable risk indicators for the 8th quarter running

NPAs - net balance
BBVA Group
(€bn)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>NPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q10</td>
<td>15.7</td>
</tr>
<tr>
<td>1Q11</td>
<td>15.5</td>
</tr>
<tr>
<td>2Q11</td>
<td>15.8</td>
</tr>
<tr>
<td>3Q11</td>
<td>16.0</td>
</tr>
<tr>
<td>4Q11</td>
<td>15.9</td>
</tr>
</tbody>
</table>

NPA & coverage ratios
BBVA Group
(％)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>NPA ratio</th>
<th>Coverage ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q10</td>
<td>4.0</td>
<td>62</td>
</tr>
<tr>
<td>1Q11</td>
<td>4.1</td>
<td>61</td>
</tr>
<tr>
<td>2Q11</td>
<td>4.1</td>
<td>61</td>
</tr>
<tr>
<td>3Q11</td>
<td>4.0</td>
<td>60</td>
</tr>
<tr>
<td>4Q11</td>
<td>4.0</td>
<td>61</td>
</tr>
</tbody>
</table>

Trends
Risk indicators to remain stable at the Group level
Spain: RE developers and SMEs represented >60% of NPL formation during the crisis vs. <30% of the book.

NPL gross entries 2009-2011
Breakdown by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>% NPL gross entries 09-11</th>
<th>% of portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual mortgages</td>
<td>37%</td>
<td>18%</td>
</tr>
<tr>
<td>Corporates</td>
<td>25%</td>
<td>3%</td>
</tr>
<tr>
<td>SMEs</td>
<td>33%</td>
<td>20%</td>
</tr>
<tr>
<td>Developers</td>
<td>28%</td>
<td>7%</td>
</tr>
<tr>
<td>Consumer</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>7%</td>
<td>5%</td>
</tr>
</tbody>
</table>

NPL ratio by segment
December 2011

<table>
<thead>
<tr>
<th>Segment</th>
<th>% of portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developers</td>
<td>26%</td>
</tr>
<tr>
<td>SMEs</td>
<td>9%</td>
</tr>
<tr>
<td>Consumer</td>
<td>7%</td>
</tr>
<tr>
<td>Individual mortgages</td>
<td>3%</td>
</tr>
<tr>
<td>Corporates</td>
<td>1%</td>
</tr>
</tbody>
</table>

New entries to marginally increase in 2012 driven by SMEs due to a worse than expected economic situation.

Note: Data from local businesses in Spain, excluding C&IB.
**Spain:** Provisions will peak in 2012 due to new RE requirements and SMEs NPL formation

**NPL and Coverage breakdown**

2011

- With collateral: 6.6%, 4.7%
- Without collateral: 23%, 60%

**Coverage ratio RE Problematic Assets**

Pre and post new Royal Decree

- Dic-2011 Coverage
- New Royal Decree Coverage

- 50% coverage for problematic assets

Non collateralized NPLs are 100% covered within a year

Coverage to substantially improve

New RE provision requirements (€1.5 Bn after tax) to be absorbed in 2012

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1. Local business in Spain excluding C&IB. “With collateral” includes individual mortgages and developer loans and “without collateral” includes corporates, SMEs and consumer loans.
2. Problematic assets include doubtful and substandard developers’ loans and foreclosed assets from households and developers. 50% coverage does not include the capital add-on required.
Rest of areas: Asset quality evolution reflecting change in mix

USA

NPA ratio (%)

2010: 4.4
2011: 3.6

Coverage ratio (%)

2010: 61
2011: 73

Mexico

NPA ratio (%)

2010: 3.2
2011: 3.5

Coverage ratio (%)

2010: 152
2011: 120

South America

NPA ratio (%)

2010: 2.5
2011: 2.2

Coverage ratio (%)

2010: 130
2011: 146

Stable asset quality in all geographies
Time to return to fundamentals

Strong capital generation and solid liquidity position
Core capital ratio
BBVA Group (Basel 2.5) (%)

BBVA will comfortably achieve EBA’s requirements even after new RE provisions. Sustainable dividend policy: €0.42 DPS remains the floor.
# Liquidity: Improving position of the Euro Balance Sheet...

1. **Lower funding needs**
   - €24bn since May 10
   - €4bn in 4Q11

2. **Strategic use of ECB LTRO**
   - < 5% total assets

3. **Proven access to wholesale markets**

4. **Lowest redemptions in 2012 amongst peer group**
   - €11bn

5. **Enough additional collateral to absorb any liquidity shocks**

---

**Trends**

Funding costs continue to improve
Liquidity: ... and in all other franchises thanks to BBVA’s decentralized liquidity management

- Independent ratings and liquidity management
- Market discipline and proper incentives
- Firewalls between subsidiaries and the parent company
- Supervision and control by parent company
- Proven resilience during the crisis

<table>
<thead>
<tr>
<th>Region</th>
<th>Loan to deposits (Dec-11)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBVA Compass</td>
<td></td>
<td>95%</td>
</tr>
<tr>
<td>Mexico</td>
<td>Loan to deposits (Dec-11)</td>
<td>100%</td>
</tr>
<tr>
<td>South America</td>
<td>Loan to deposits (Dec-11)</td>
<td>94%</td>
</tr>
</tbody>
</table>
1  From external factors to earnings power

2  Time to return to fundamentals

3  Conclusions
In a “loss-absorption world”...

Equity investors should focus on earnings power and franchise value...

...which also backs a bank’s creditworthiness
Market attention should turn to the evolution of fundamentals

**Earnings power and franchise value**
- Resilient and growing core revenues in all geographies
- Investments in the franchise progressively stabilizing
- Stable asset quality absorbing the worst year in Spain

**Capital and liquidity**
- Successfully adapted to the new challenging environment
- Strong capital and liquidity generation
- Minimizing impact on profitability and shareholders dilution

**BBVA continues to improve its earnings potential and franchise value**
Time to return to fundamentals

Manuel González Cid, CFO