Getting out of the Storm

Erik Schotkamp, Deputy CFO

CA Cheuvreux Autumn Conference, Paris
September 19th, 2012
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Distribution of this document in other jurisdictions may be prohibited, and recipients into whose possession this document comes shall be solely responsible for informing themselves about, and observing any such restrictions. By accepting this document you agree to be bound by the foregoing Restrictions.
1. Global uncertainties but clearer Eurozone framework

2. BBVA: key positives

3. BBVA: challenges and opportunities

4. Conclusions
Global uncertainties with Eurozone as the main focus of the market

Improvements in the European integration, but enough to settle debt crisis?

High financial stress in Europe, with credit restrictions’ risk

Expansionary monetary policy but heterogeneous among Fed, BoE and ECB

Slow, heterogeneous and vulnerable recovery

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>EMU</td>
<td>-0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>USA</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>BBVA emerging footprint</td>
<td>3.7</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Real GDP growth (% yoy)

Source: BBVA Research.

(1) Mexico, South America, China and Turkey weighted average real GDP growth, based on their contribution to BBVA Group’s operating income.
Recent progress in the architecture of Eurozone

New ECB Focus on financial stability

Banking union

Key elements to restore investors’ confidence and strengthen the European financial sector
New ECB focus on financial stability

**September 6th announcements**

1. Unlimited purchases of sovereign debt (OMT*)
2. No seniority over other debt holders
3. Focus on shorter part of the curve
4. Widening of the accepted collateral

- Anchoring risk premium expectations
- Tail risks diminishing
- Now it is time for countries to make a decision

Will Spain or Italy make a formal request?

(* OMT: Outright Monetary Transactions)
The Banking Union is a fundamental step to build a stronger and genuine EMU

<table>
<thead>
<tr>
<th>Four pillars</th>
<th>State-of-the-play</th>
<th>The banking union will provide ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Capital and Liquidity single rule book</td>
<td>Pending final approval Likely in October/November (Effective from January 1, 2013)</td>
<td>... more transparency and homogeneity</td>
</tr>
<tr>
<td>2 European Supervisor</td>
<td>Under discussion Draft proposal in mid-September</td>
<td>... a level-playing field</td>
</tr>
<tr>
<td>3 A common resolution framework</td>
<td>Under discussion Draft proposal presented in June 2012 (Expected Implementation 2015-2018)</td>
<td>... reducing systemic risk</td>
</tr>
</tbody>
</table>
Spain is addressing the fiscal consolidation and the final stage of the financial sector restructuring

**Fiscal Consolidation**

- **Spanish debt** is sustainable and deficit is being corrected
- **Measures** already announced > 6% of GDP
- Focus on fiscal consolidation effort (structural deficit) vs a specific target
- **Mechanism to control Regions’ accounts** by Central Government

**Financial Sector Reform**

- **Stage 1 - Consolidation:** reduction in the number of savings banks (from 45 to 11)
- **Stage 2 – RE clean-up:** 74% system coverage of problematic assets and 45% of total exposure
- **Final stage – Recapitalization & restructuring:**
  - €100Bn available from EU
  - Final recapitalization needs to be known by the 2nd half of September
  - A clear regulatory framework for intervention and resolution of financial institutions
  - Creation of a “Bad Bank”

- Spain is doing its homework and time is needed to see its impact
- Financial sector reform to be completed within 2012
A busy Fall to achieve a definitive Eurozone framework

September and October 2012

**EUROPE**

- Oct 4: ECB
- Oct 9: Ecofin
- **Oct 15**: Portugal program revision
- **Oct 18-19**: European Council meeting

**SPAIN**

**Recapitalisation process**
- **Sep 28**: Bottom-up analysis results
- **Oct**: First capital injections

**“Bad Bank”**
- Regulation approval

**ECB OMT request**
- ?
Global uncertainties but clearer Eurozone framework

BBVA: key positives

BBVA: challenges and opportunities

Conclusions
BBVA: key positives

1. Top line growth
2. RE clean-up
3. Active balance sheet management
4. Capital strength
Strong recurring gross income...

Recurring gross income (1)
BBVA Group
(€ Mn)

(1) Recurring gross income includes gross income net of net trading income and dividends.
... growing faster than costs

Gross income vs costs
BBVA Group
(Y-o-y change)

<table>
<thead>
<tr>
<th>Category</th>
<th>Developed mkts</th>
<th>Emerging mkts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring gross income</td>
<td>-0.6%</td>
<td>21.3%</td>
</tr>
<tr>
<td>Gross income</td>
<td>-2.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Costs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Efficiency improves – and leadership positions maintained vs. peer group
- Capitalizing on the investment plans of earlier quarters

(1) Recurring gross income includes gross income net of net trading income and dividends.
Solid operating income, remaining at high levels ...

Recurring operating income\(^{(1)}\)
BBVA Group
(€ Mn)

<table>
<thead>
<tr>
<th></th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
<th>1Q12</th>
<th>2Q12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Trading Income + Dividends</td>
<td>595</td>
<td>25</td>
<td>646</td>
<td>394</td>
<td>773</td>
</tr>
<tr>
<td>Operating income</td>
<td>2,088</td>
<td>2,141</td>
<td>2,217</td>
<td>2,468</td>
<td>2,499</td>
</tr>
</tbody>
</table>

\(\text{+19.7\%}\)

... the best buffer to absorb unexpected losses

\(^{(1)}\) Recurring operating income excludes net trading income and dividends.
Complete Spanish Real Estate clean-up in 2012 ...

Extraordinary effort in 2012 to address RE exposure (provisions ~ €3 Bn post-tax)

By year end 2012, coverage will reach 68% of RE problematic assets (45% of total exposure)

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(1) Includes both RD 02/2012 and RD 18/2012.
(2) Coverage ratios include the capital buffer required by RD 02/2012 (€1.3 Bn).
... without making use of extraordinary measures

Low relative RE exposure
BBVA vs peer group (1)
Data as of June 2012

Other financial institutions needed to receive public aid, merge or sell strategic assets

(1) Peer Group: Santander, Banesto, Bankinter, Caixabank, Unicaja, Sabadell, Popular+Pastor and BFA (Bankia).
Proactive balance sheet management

**Balance Sheet Management**
- Repurchase of €638 Mn ABS for €388 Mn (39% average discount)
- Maximization of capital gains (€250 Mn), minimizing cash outflows

**Portfolio Management**
- **Puerto Rico sale**: lack of critical mass to develop BBVA’s business model
- **Strategic review of LatAm pension business**:
  - Lack of synergies with BBVA’s core business in the region
  - Interest from potential buyers
- **Unnim acquisition**:
  - Improving balance sheet structure in Spain, doubling market share in Catalonia
  - Limited risks and marginal impact on capital

**CIB selective deleverage (1)**

- **Emerging markets** (2) 25%
- **Mature markets** (3) -13%

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(1) CIB excluding Markets Division - Gross loans evolution June 2010 – June 2012
(2) Emerging markets include Asia, Mexico and South America.
(3) Mature markets include Spain, rest of Europe and USA.
Compliance with EBA requirements thanks to BBVA’s strong organic generation of capital

Core capital ratio (EBA)
BBVA Group %

- Conversion Pref. Shares: +3.4 Bn
- Organic generation: +3.0 Bn
- Scrip dividend: +0.4 Bn
- Cash dividends: -1.1 Bn
- Internal Models Roll-out: +0.9 Bn
- USA Impairment and others: +0.2 Bn

Sept.2011: 25.9 Bn
Jun.2012: 32.7 Bn
Jun.2012 (without considering sovereign buffer): 30.4 Bn

Maintaining the dividend policy, without selling core assets
Fully-loaded Basel 3 impact pro-forma

- BIS 2.5 Core Capital Ratio Jun12: 10.82%
- Basel 3 core capital impact: ~-295 pb
- Basel 3 RWA impact: ~-50 pb
- Planned mitigants, organic generation and others: >170 pb
- BIS III Core Capital Ratio Dec13: >9%

(1) Others include the impact from Unnim acquisition.
Contents

1 Global uncertainties but clearer Eurozone framework
2 BBVA: key positives
3 **BBVA: challenges and opportunities**
4 Conclusions
BBVA’s challenges and opportunities

1. Asset quality in Spain
2. Balance sheet management
3. USA: improving profitability
4. Eurasia: growing revenues
5. South America: outstanding performance
6. Mexico: leadership in an increasingly attractive market
Slight uptick in NPAs and NPA ratio in Spain...

NPAs - net balance
(€ Bn)

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>11.2</td>
<td>11.3</td>
<td>11.2</td>
<td>11.3</td>
<td>11.8</td>
<td></td>
</tr>
</tbody>
</table>

NPA & coverage ratios
(%)

<table>
<thead>
<tr>
<th></th>
<th>Coverage ratio</th>
<th>NPA ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun.11</td>
<td>43</td>
<td>4.7</td>
</tr>
<tr>
<td>Sep.11</td>
<td>42</td>
<td>4.9</td>
</tr>
<tr>
<td>Dec.11</td>
<td>44</td>
<td>4.8</td>
</tr>
<tr>
<td>Mar.12</td>
<td>43</td>
<td>4.9</td>
</tr>
<tr>
<td>Jun.12</td>
<td>50</td>
<td>5.1</td>
</tr>
</tbody>
</table>
ASSET QUALITY IN SPAIN

... explained by developers and SMEs

<table>
<thead>
<tr>
<th></th>
<th>Jun. 12 Exposure (€ Mn)</th>
<th>NPA ratio</th>
<th>YTD NPA Flows (€ Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developers</td>
<td>13,874 (-7%)</td>
<td>34.2% (+613 bp)</td>
<td>+561 (+13%)</td>
</tr>
<tr>
<td>SMEs</td>
<td>24,781 (-5%)</td>
<td>6.9% (+123 bp)</td>
<td>+233 (+16%)</td>
</tr>
<tr>
<td>Retail (1)</td>
<td>95,814 (-3%)</td>
<td>3.8% (-10 bp)</td>
<td>-211 (-5%)</td>
</tr>
<tr>
<td>Other (2)</td>
<td>95,216 (+2%)</td>
<td>1.8% (+10 bp)</td>
<td>+48 (+3%)</td>
</tr>
</tbody>
</table>

RE developers well covered after extraordinary provisioning effort in 2012
Manageable deterioration in mid-sized enterprises
NPLs in the rest of segments remain stable

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(1) Retail includes residential mortgages, very small businesses managed through the retail network and consumer loans.
(2) Other includes loans to Corporates and Public Sector and CIB.
Exposure to European sovereign bonds

**Stability in BBVA’s exposure to Spanish sovereign bonds**

Data in €Mn

- **Dec-10**: 26,765
- **Dec-11**: 26,113
- **Jun-12**: 25,733

**Progress in Spain and increasing support from EU partners**

- Lower tail risk of Spanish sovereign debt

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*(1) EBA criteria, excluding the Group’s insurance companies’ exposure to sovereign bonds.*
BBVA maintains a sound liquidity position despite rating downgrades linked to the sovereign

Euro balance sheet

1. 2012/13 debt redemptions already covered
2. Funding gap improving at €2.5 Bn quarterly av. since Dec.2010
3. Ample collateral available: 1.9x liquidity buffer (1)
4. Opportunistic market access

Non-euro regions

1. Financially independent subsidiaries: no liquidity transfers
2. No structural wholesale funding needs
3. Increasingly active in capital markets:
   - Bancomer: 10Y, $1,000 Mn subordinated debt issuance (Jun-12)
   - BBVA Continental: 10Y, $500 Mn senior debt issuance (Aug-12)
   - Garanti: 2 tranches senior debt issuance: 1st 10Y, $750 Mn and 2nd 5Y, $600 Mn (Sep-12)

Thanks to BBVA’s retail business model and its prudent and anticipatory wholesale funding strategy

(1) Liquidity buffer: defined as the number of times that next 3 months’ unsecured funding maturities are covered by available collateral.
**BBVA Compass:** exiting the provisioning cycle and increasing the contribution of the unit...

Improving underlying operating income despite the challenging environment

---

(1) Excluding regulatory impact and Guaranty loan portfolio attrition.
... while profitability is reaching our peers average despite the strong investment in transformation and IT.

Return on average tangible assets\(^{(1)}\)

\[%\]

\[\text{BBVA Compass} \quad \text{Peers median}\(^{(2)}\)\]

\[
\begin{align*}
2009: & -0.6 \quad -0.5 \\
1H12: & 0.9 \quad 1.0
\end{align*}
\]

Return on average tangible equity\(^{(1)}\)

\[%\]

\[\text{BBVA Compass} \quad \text{Peers median}\(^{(2)}\)\]

\[
\begin{align*}
2009: & 9.9 \quad 10.9 \\
1H12: & -8.3 \quad -5.7
\end{align*}
\]

Source: Internal calculations using public information.

\(^{(1)}\) Excluding goodwill impairments.

\(^{(2)}\) BBVA Compass peers: CRF, ASBC, KEY, FHN, CMA, HBAN, RF, ZION, FITB, BBT, STI, PNC, SNV, USB, MTB.
**Eurasia**: growing revenues and already a significant contributor to the Group

- 10% of BBVA Group’s gross income as of June 2012
- €576 Mn net attributable profit YTD

(1) Garanti: proportional consolidation from March 22nd, 2011.
(2) Excluding Corporate Activities.
Garanti: BBVA’s strategic commitment with the best franchise in Turkey

Lending growth (2012 YTD)

Asset quality (June 2012)

Deposit mix

Selective lending growth focused on most profitable segments

Keeping good asset quality

Improving funding mix focusing on lower cost deposits

A differentiated business model leading to outstanding profitability: ROE 19%

Source: Garanti 1H2012 BRSA Financials (bank-only figures) and sector BRSA weekly data for commercial banks only.
**BBVA**

**South America:** High growth, with strict risk control

- **Business activity**
  - (Y-o-y growth of average balances)
    - **Lending:** +23.7%
    - **Balance sheet funds:** +23.7%
  - 1 million clients added last year

- **Market share**
  - (Y-o-y change)
    - **Loans to individuals:** +28 bp
    - **Total deposits:** +33 bp

- **NPA & coverage ratios**
  - (%)
  - **Coverage ratio**
    - Jun.11: 138
    - Sep.11: 140
    - Dec.11: 146
    - Mar.12: 141
    - Jun.12: 139
  - **NPA ratio**
    - Jun.11: 2.4
    - Sep.11: 2.3
    - Dec.11: 2.2
    - Mar.12: 2.3
    - Jun.12: 2.3

BBVA aims to maintain better risk indicators than the local peer average in each market it operates.
... that translates into high earnings growth

Net attributable profit  
(Constant € Mn)

<table>
<thead>
<tr>
<th></th>
<th>1H11</th>
<th>1H12</th>
</tr>
</thead>
<tbody>
<tr>
<td>565</td>
<td>703</td>
<td></td>
</tr>
</tbody>
</table>

Operating income  
(Constant € Mn)

<table>
<thead>
<tr>
<th></th>
<th>1H11</th>
<th>1H12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,269</td>
<td>1,622</td>
<td></td>
</tr>
</tbody>
</table>

+24.8%  
+27.8%

A very profitable and critical mass franchise

BBVA South America already reached BBVA Mexico’s scale

<table>
<thead>
<tr>
<th>Operating Income</th>
<th>Income before tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>€Mn, 1H2012</td>
<td></td>
</tr>
<tr>
<td>BBVA South America</td>
<td>BBVA Mexico</td>
</tr>
<tr>
<td>1.622</td>
<td>1.786</td>
</tr>
<tr>
<td>1.312</td>
<td>1.144</td>
</tr>
</tbody>
</table>
Bancomer: leader of an increasingly attractive market ...

Market shares
Bancomer vs. next competitor in each segment (%)

(1) Including Sofoles.
(2) Excluding duplicated funds.
... and strategically positioned in the most profitable segments

**Lending mix**
Bancomer vs peer group
(%, June 2012)

<table>
<thead>
<tr>
<th></th>
<th>Bancomer</th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3</th>
<th>Peer 4</th>
<th>Peer 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>16%</td>
<td>19%</td>
<td>19%</td>
<td>10%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>34%</td>
<td>12%</td>
<td>17%</td>
<td>15%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td>10%</td>
<td>23%</td>
<td>11%</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36%</td>
<td>40%</td>
<td>46%</td>
<td>53%</td>
<td>38%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Local accounting standards
Peer group: Banamex, Banorte+IXE, HSBC, Santander and Scotiabank.

**Deposit mix**
Bancomer vs peer group
(%, June 2012)

<table>
<thead>
<tr>
<th></th>
<th>Bancomer</th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3</th>
<th>Peer 4</th>
<th>Peer 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td></td>
<td>40%</td>
<td>20%</td>
<td>35%</td>
<td>17%</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>16%</td>
<td>14%</td>
<td>41%</td>
<td>25%</td>
<td>34%</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>52%</td>
<td>46%</td>
<td>39%</td>
<td>40%</td>
<td>49%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Local accounting standards
Peer group: Banamex, Banorte+IXE, HSBC, Santander and Scotiabank.
Sustained leadership, also in profitability

Recurring gross income
BBVA Mexico
(Constant € Mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Income</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H11</td>
<td>2,524</td>
<td>+9.1%</td>
</tr>
<tr>
<td>1H12</td>
<td>2,755</td>
<td></td>
</tr>
</tbody>
</table>

Gross income: +4.3%

Net attributable profit
BBVA Mexico
(Constant € Mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H11</td>
<td>844</td>
<td>+2.4%</td>
</tr>
<tr>
<td>1H12</td>
<td>865</td>
<td></td>
</tr>
</tbody>
</table>

Excluding trading income: +15.3%

5Y Average ROA
Bancomer vs peer group

<table>
<thead>
<tr>
<th>Year</th>
<th>Bancomer</th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3</th>
<th>Peer 4</th>
<th>Peer 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.05%</td>
<td>1.88%</td>
<td>1.71%</td>
<td>1.31%</td>
<td>1.14%</td>
<td>0.42%</td>
</tr>
</tbody>
</table>

(1) Recurring gross income includes gross income net of net trading income.
1 Global uncertainties but clearer Eurozone framework

2 BBVA: key positives

3 BBVA: challenges and opportunities

4 Conclusions
Conclusions

The Eurozone is progressing towards a genuine and stronger EMU.

Spain is addressing its problems and new ECB focus on financial stability will be key to anchor risk premium expectations.

BBVA continues to deliver top line growth while actively managing its balance sheet, having generated €7.1 Bn of capital in the last year.

Manageable deterioration of asset quality in Spain and extraordinary provisioning effort in 2012 to address RE exposure.

Solid performance of the rest of franchises:
- BBVA Compass is completing its turnaround, increasing its contribution to the Group;
- EurAsia: growing relevance within BBVA thanks to Garanti;
- South America: high growth and significant scale;
- Mexico: the leading bank in an increasingly attractive market.
Getting out of the Storm

Erik Schotkamp, Deputy CFO

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