

**BBVA**

# *Strengths and Opportunities*

Manuel González Cid, CFO



BoAML 17<sup>th</sup> Annual Banking & Insurance CEO Conference  
September 26<sup>th</sup>, 2012

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**BBVA**

Contents

- 1 Towards a clearer Eurozone framework**
- 2 BBVA: key positives
- 3 BBVA: challenges and opportunities
- 4 Conclusions

# Recent progress in the architecture of Eurozone

**New ECB  
focus on  
financial  
stability**

## Sept. 6<sup>th</sup> announcements

- Unlimited purchases of sovereign debt
- No seniority over other debt holders
- Focus on shorter part of the curve

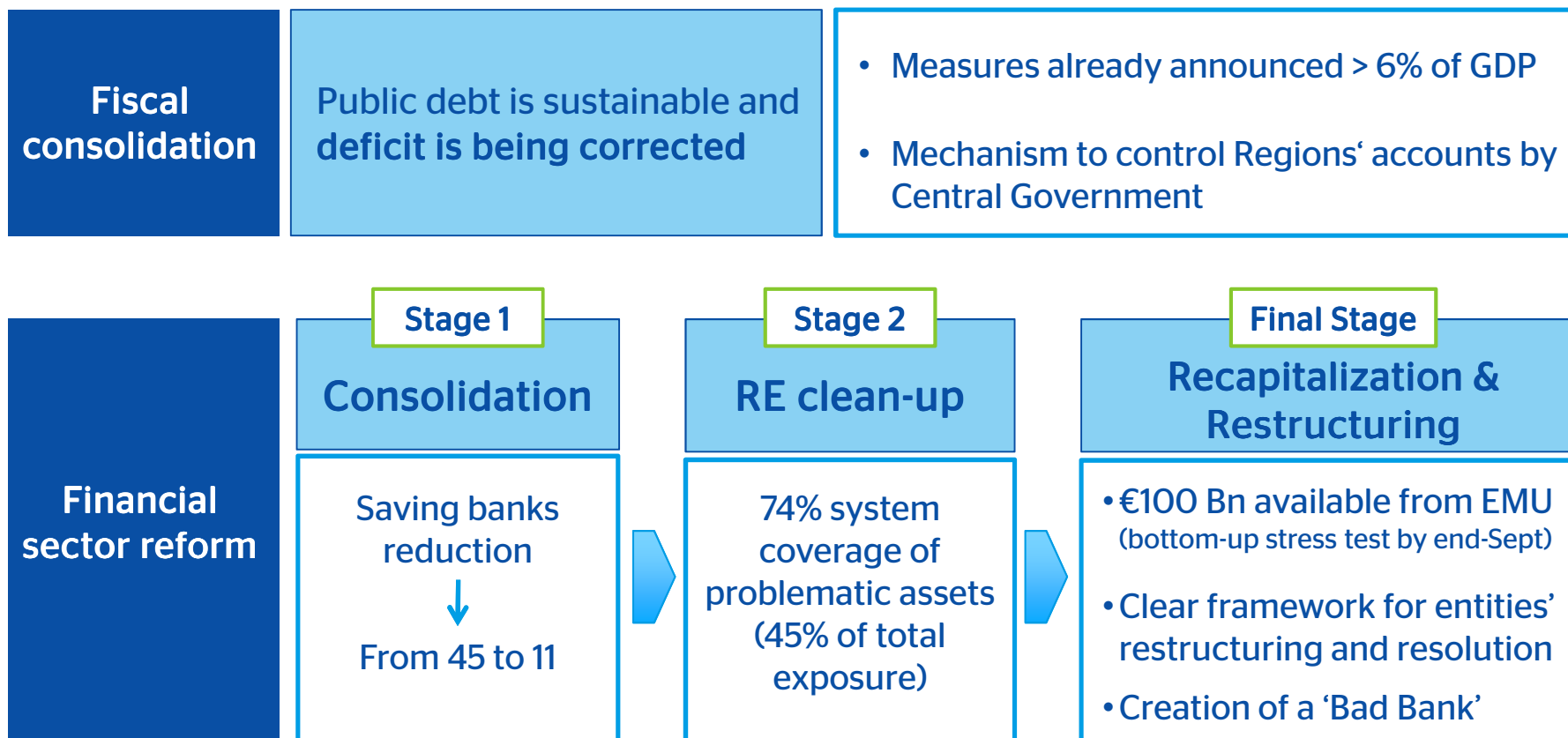
**Towards a  
banking union**

## Main Pillars

- Capital and liquidity single rule book
- European Supervisor
- A common resolution framework and deposit guarantee scheme

- Anchoring risk premium expectations
- Tail risk diminishing

# Spain is addressing the fiscal consolidation and the final stage of the financial sector restructuring





**BBVA**

Contents

1 Towards a clearer Eurozone framework

**2 BBVA: key positives**

3 BBVA: challenges and opportunities

4 Conclusions

**1** Top line growth

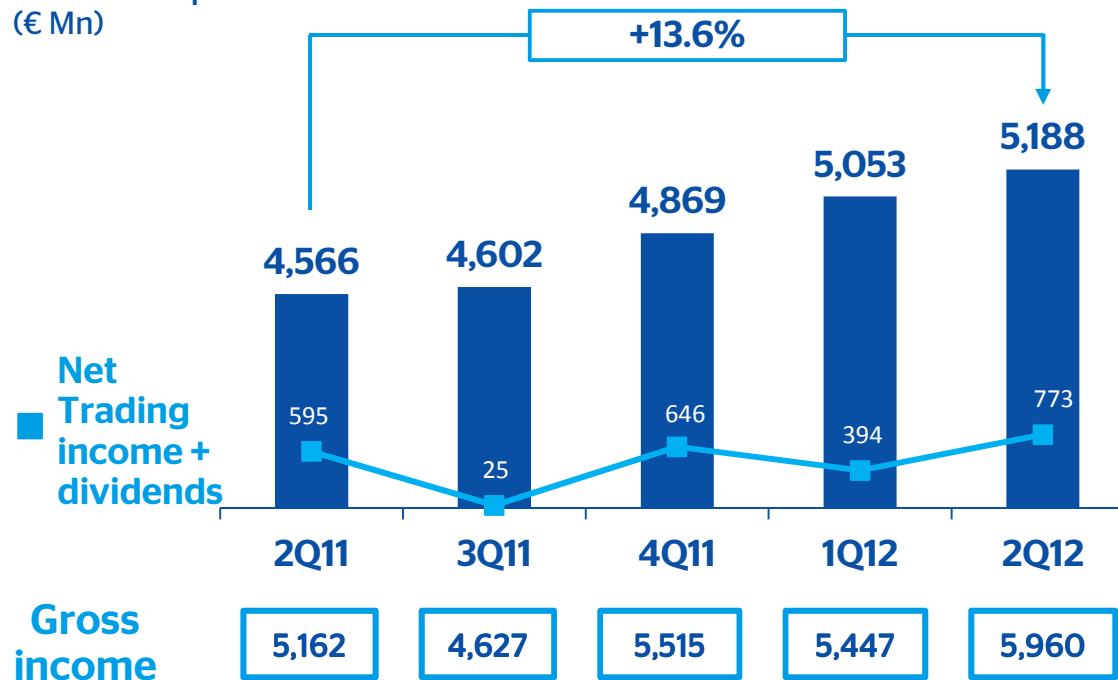
**2** RE clean-up

**3** Significant reinforcement of Euro Balance Sheet

**4** Capital strength

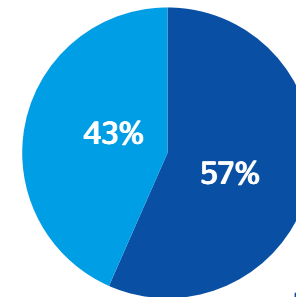
# Strong recurring gross income, leveraged by diversification ...

Recurring gross income <sup>(1)</sup>  
BBVA Group  
(€ Mn)



Recurring gross income <sup>(1)</sup>  
BBVA Group  
(1H12 breakdown by market type) <sup>(2)</sup>

Developed



Emerging

(1) Recurring gross income includes gross income net of net trading income and dividends.

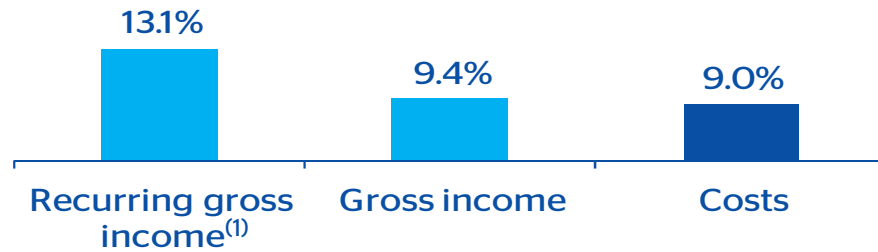
(2) Excluding Corporate Activities.



... and growing faster than costs

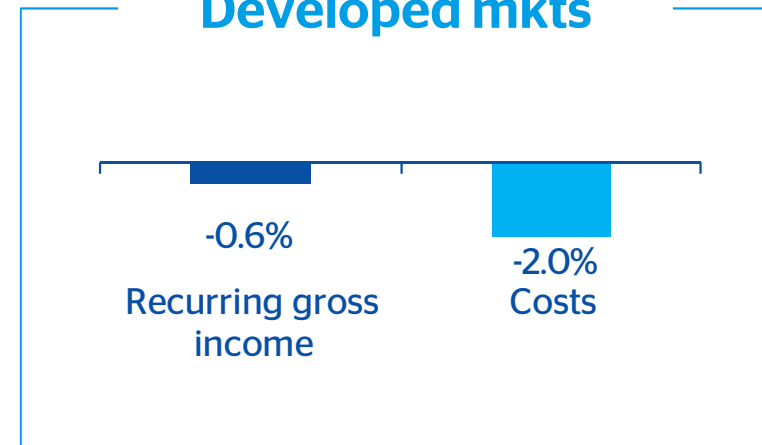
Gross income vs costs

BBVA Group  
(Y-o-y change)

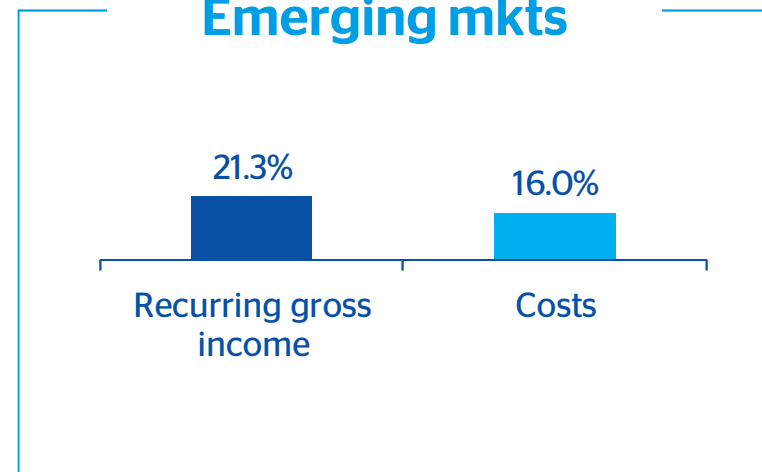


- Efficiency improves - and leadership positions maintained vs. peer group
- Capitalizing on the investment plans of earlier quarters

Developed mkts



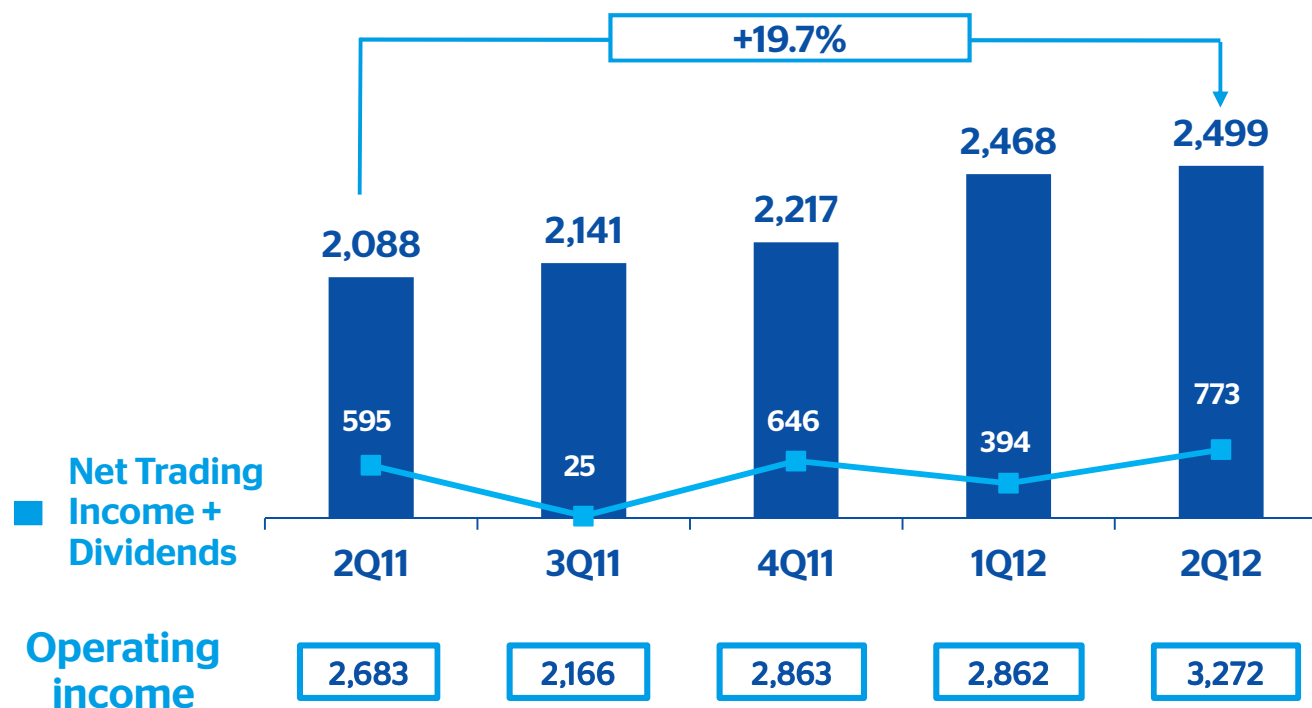
Emerging mkts



(1) Recurring gross income includes gross income net of net trading income and dividends.

# Solid operating income, remaining at high levels ...

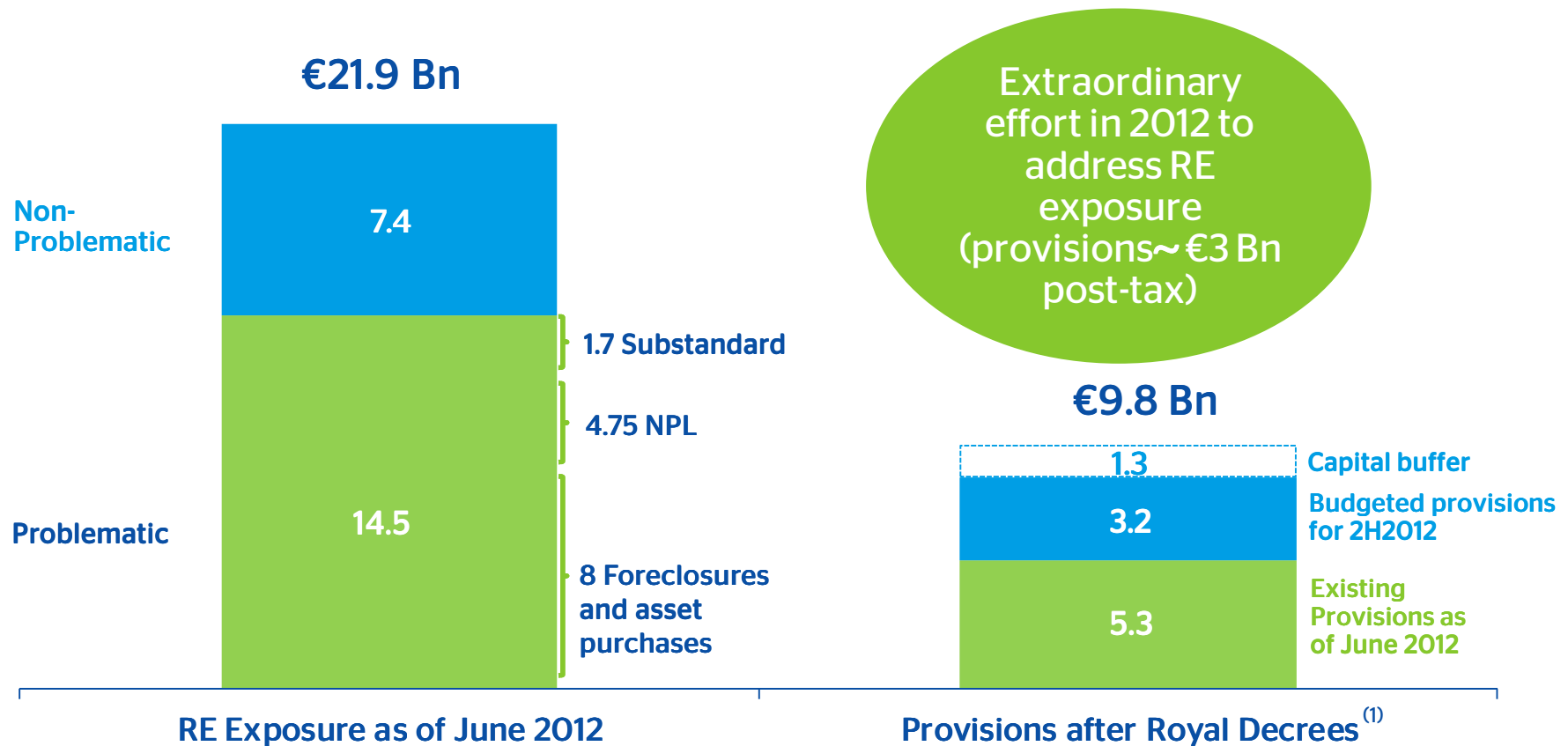
Recurring operating income <sup>(1)</sup>  
 BBVA Group  
 (€ Mn)



... 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 ...



**By the end of 2012, coverage will reach 68% of RE problematic assets (45% of total exposure) (2)**

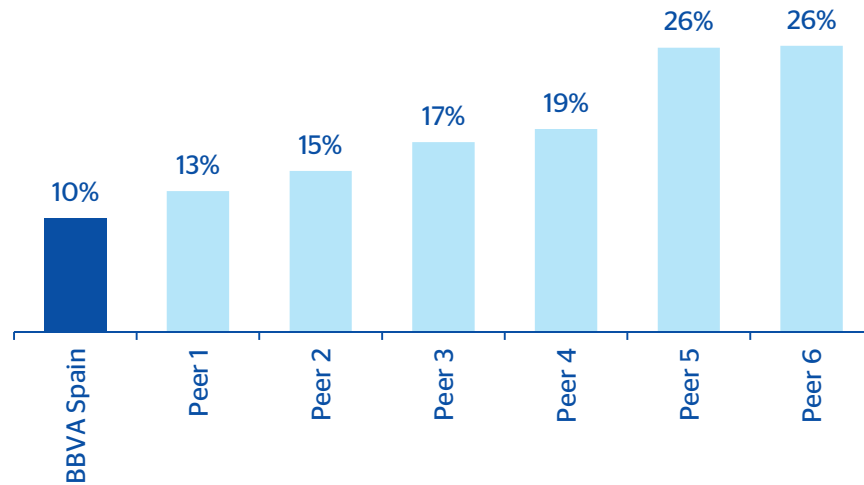
(1) Includes both RD 02/2012 and RD 18/2012.

(2) Coverage ratios include the capital buffer required by RD 02/2012 (€1.3 Bn).

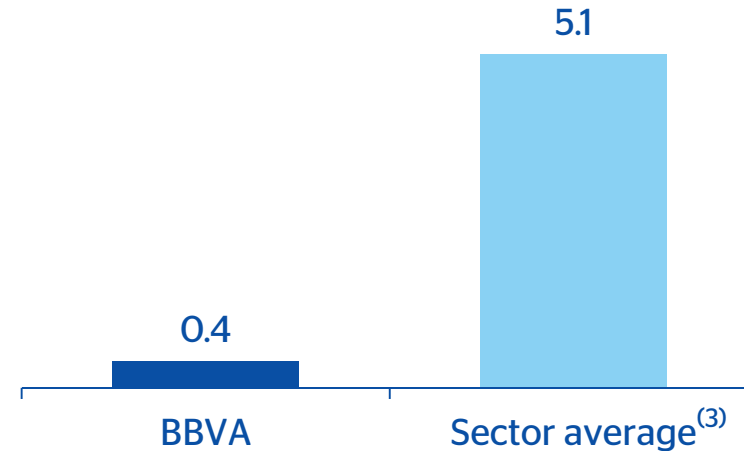
# ... without making use of extraordinary measures

## Low relative RE exposure <sup>(1)</sup>

Foreclosed+Developers over domestic lending  
Data as of June 2012



## Number of years needed to absorb Royal Decrees provisions <sup>(2)</sup>



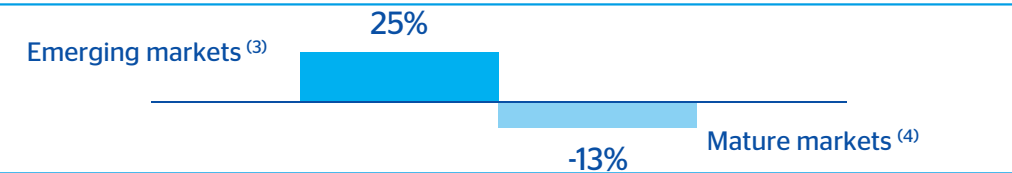
**Other financial institutions needed to receive public aid, merge or sell strategic assets**

(1) Peer Group considered: Banesto, BFA (Bankia), Caixabank, Popular+Pastor, Sabadell and Santander Spain.

(2) Considering RD 02/2012 and RD 18/2012 and total operating profit 2011.

(3) Sector includes: Banco de Valencia, Bankinter, BFA, BMN, Caixa+Banca Cívica, Cajamar, CatalunyaCaixa, Ibercaja+Caja3, Kutxabank, Liberbank, NovaCaixaGalicia, Sabadell+CAM, Santander and Unicaja+Caja España+Caja Duero.

# Significant reinforcement of Euro Balance sheet

<p><b>1</b> Strong capital generation</p>	<p>€7.1 Bn of core capital generated since June 2011</p>
<p><b>2</b> Significant increase in provisions</p>	<p>~ €7 Bn of provisioning effort in 2012 regarding exposure to Spain</p>
<p><b>3</b> Enhancement of liquidity position of Spanish retail &amp; commercial business</p>	<p>Improvement of the Spanish retail and commercial business liquidity gap: €8.4 Bn YTD <sup>(1)</sup></p>
<p><b>4</b> CIB selective deleverage <sup>(2)</sup></p>	 <p>Emerging markets <sup>(3)</sup> 25% Mature markets <sup>(4)</sup> -13%</p>
<p><b>5</b> Sovereign exposure under control</p>	<p>Stability in BBVA's exposure to Spanish sovereign bonds</p>

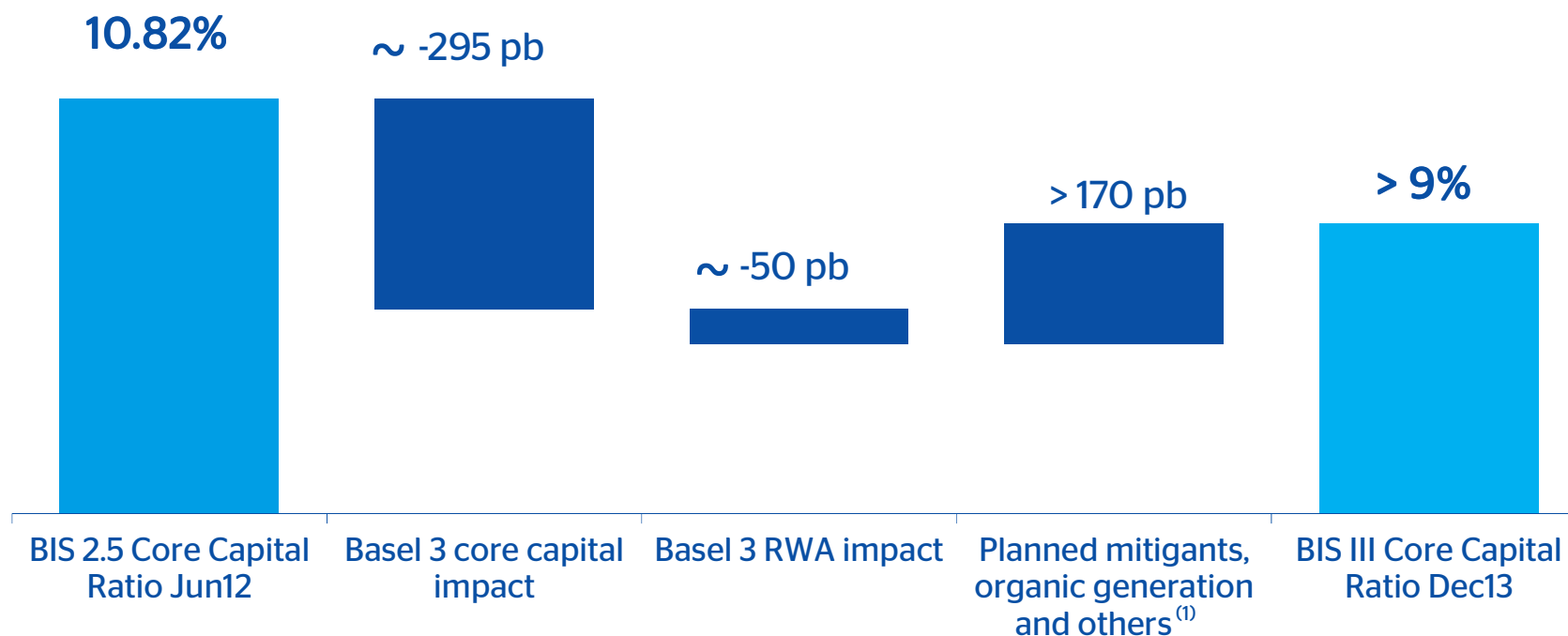
(1) As of August, 2012.

(2) CIB excluding Markets Division - Gross loans evolution June 2010 - June 2012.

(3) Emerging markets include Asia, Mexico and South America.

(4) Mature markets include Spain, rest of Europe and USA.

# Fully-loaded Basel 3 impact pro-forma



- Compliance with EBA requirements as of June 2012
- Limited pending dilution from convertible bond (2/3 already converted)
- Maintaining the dividend policy, including cash and scrip dividends

(1) Others include the impact from Unnim acquisition.



**BBVA**

Contents

1 Towards a clearer Eurozone framework

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**3 BBVA: challenges and opportunities**

4 Conclusions

## BBVA's challenges and opportunities

**1** Balance sheet management

**2** Spain: best positioned to benefit from sector restructuring

**3** Eurasia: growing revenues

**4** USA: improving profitability

**5** South America: outstanding performance

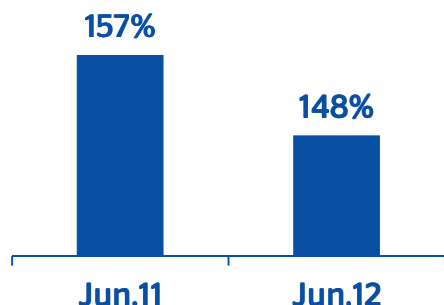
**6** Mexico: leadership in an increasingly attractive market



# Sound liquidity position in Euro Balance Sheet

**1 LTD ratio improvement**

BBVA Euro Balance Sheet LTD ratio evolution <sup>(1)</sup>



LTD ratio around 120% in 2 years time, driven by the normal deleverage of the economy

Loans completely funded considering both deposits + wholesale funding (50% of which are covered bonds)

**2 2012/13 debt redemptions already covered**

**3 Ample collateral available: 1.9x liquidity buffer <sup>(2)</sup>**

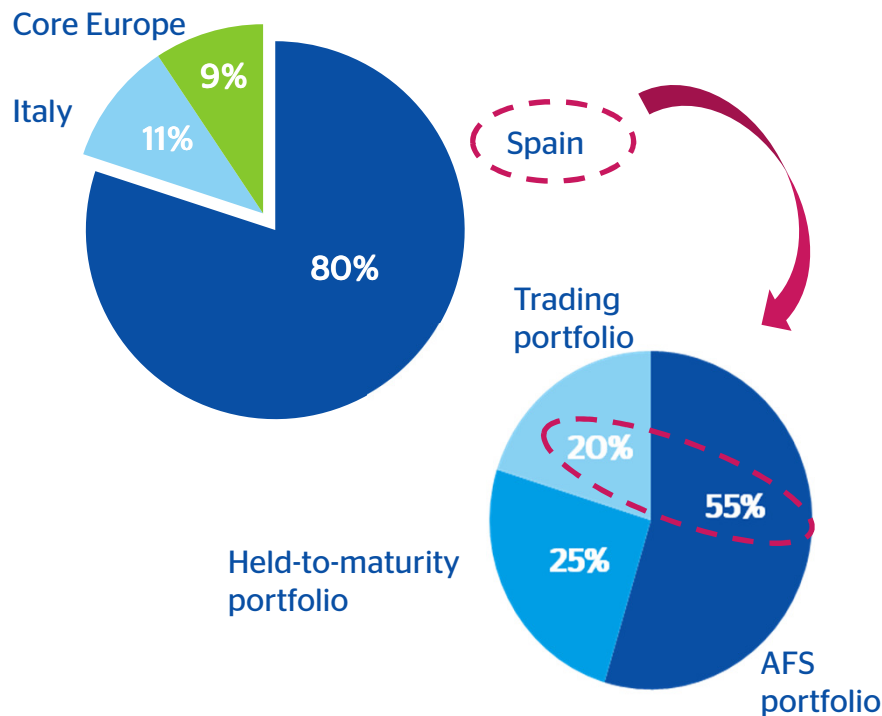
**4 Proven market access**

**No liquidity transfer from subsidiaries, as they are financially independent**

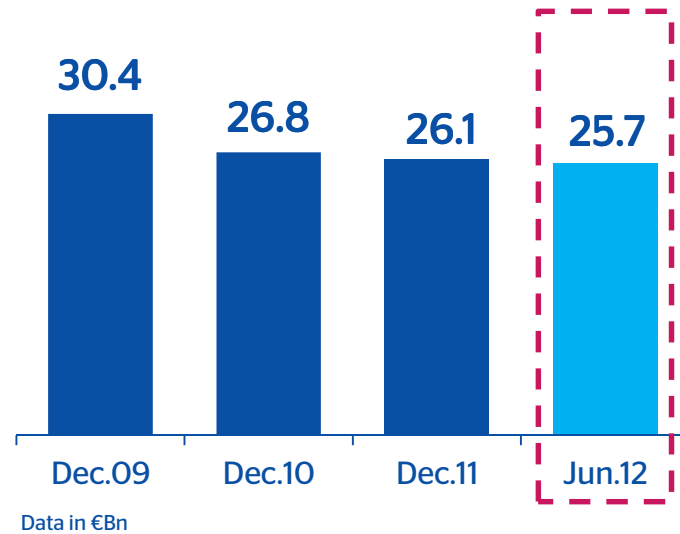
<sup>(1)</sup> Domestic loans including public sector and excluding securitizations, repos and guarantees; and domestic deposits including public sector and promissory notes and excluding repos.  
<sup>(2)</sup> Liquidity buffer: defined as the number of times that next 3 months' unsecured funding maturities are covered by available collateral.

# Exposure to European sovereign bonds

**75% of BBVA exposure to Spanish sovereign bonds<sup>(1)</sup> already at market value (June 2012)**



**Stability in BBVA's exposure to Spanish sovereign bonds<sup>(1)</sup>**

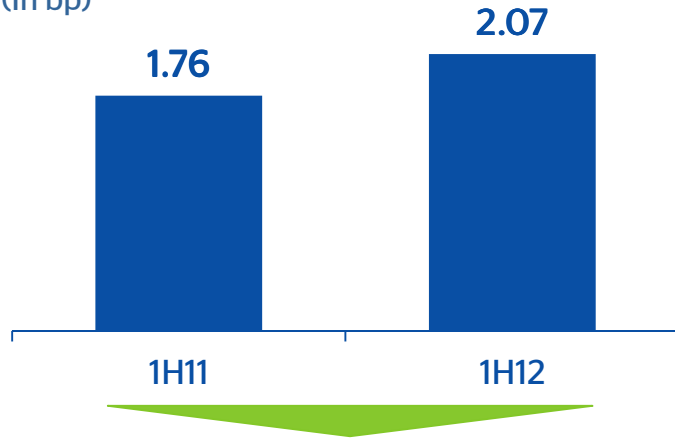


**Progress in Spain and increasing support from EU partners  
lower tail risk of Spanish sovereign debt**

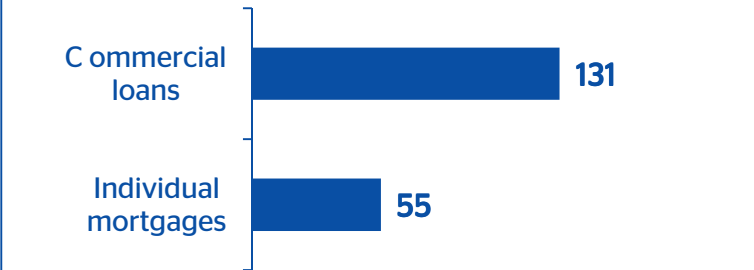
<sup>(1)</sup> EBA criteria, excluding the Group's insurance companies' exposure to sovereign bonds.

# Positive trend of customer spread ...

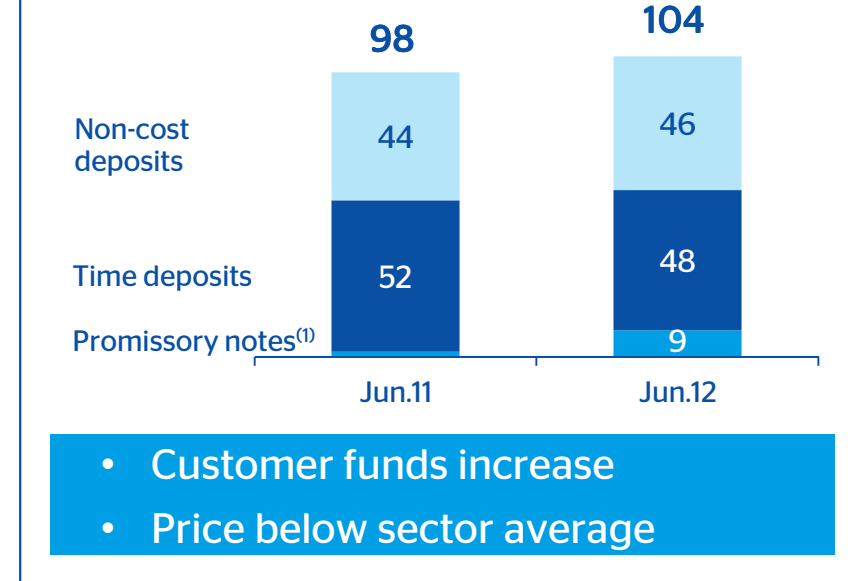
Customer spread (excluding markets)  
(In bp)



New production spread change  
(Jun-12 vs Jun-11 in bp)



On-balance sheet private sector  
customer funds (€Bn)

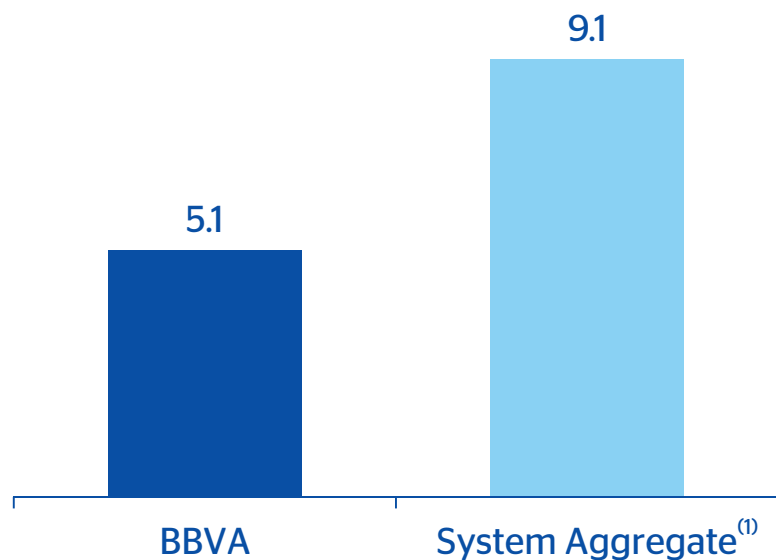


... that will continue to be the main driver of NII, favoured by the activation of mortgage floors

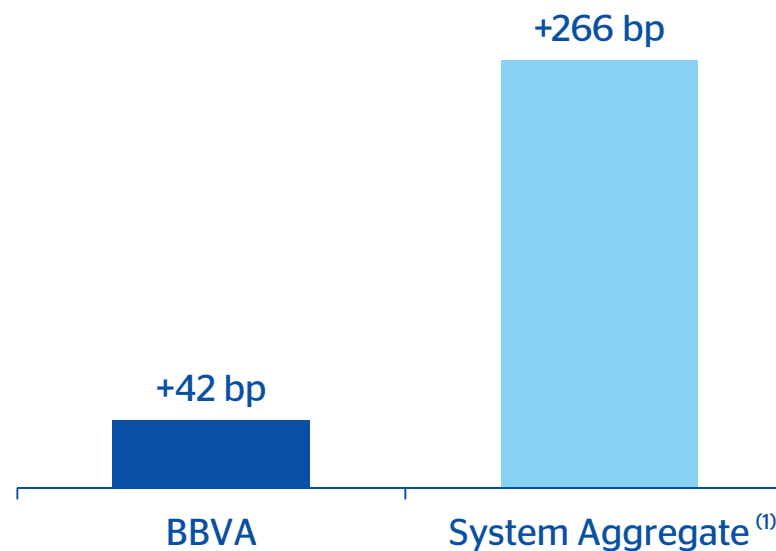
(1) Total promissory notes, including the ones sold by the retail network and those sold to corporations.

# Better asset quality than system aggregate ...

**NPA Ratio**  
BBVA Spain vs. Domestic Sector System Aggregate  
(June 2012, %)



**NPA Ratio evolution**  
BBVA Spain vs. Domestic Sector System Aggregate  
(June 12 vs. June 11 change)



... thanks to BBVA prudent risk management and anticipation strategy

(1) Source: Bank of Spain. Including other domestic sector and public sector.

# Slight uptick in NPA ratio in Spain, explained by developers and SMEs

	Jun. 12 Change Jun.12 vs. Dec.11	Exposure (€ Mn)	NPA ratio	YTD NPA Flows (€ Mn)
<b>Developers</b>		<b>13,874</b> (-7%)	<b>34.2%</b> (+613 bp)	<b>+561</b> (+13%)
<b>SMEs</b>		<b>24,781</b> (-5%)	<b>6.9%</b> (+123 bp)	<b>+233</b> (+16%)
<b>Retail <sup>(1)</sup></b>		<b>95,814</b> (-3%)	<b>3.8%</b> (-10 bp)	<b>-211</b> (-5%)
<b>Other <sup>(2)</sup></b>		<b>95,216</b> (+2%)	<b>1.8%</b> (+10 bp)	<b>+48</b> (+3%)

RE developers well covered after extraordinary provisioning effort in 2012

Manageable deterioration in mid-sized enterprises

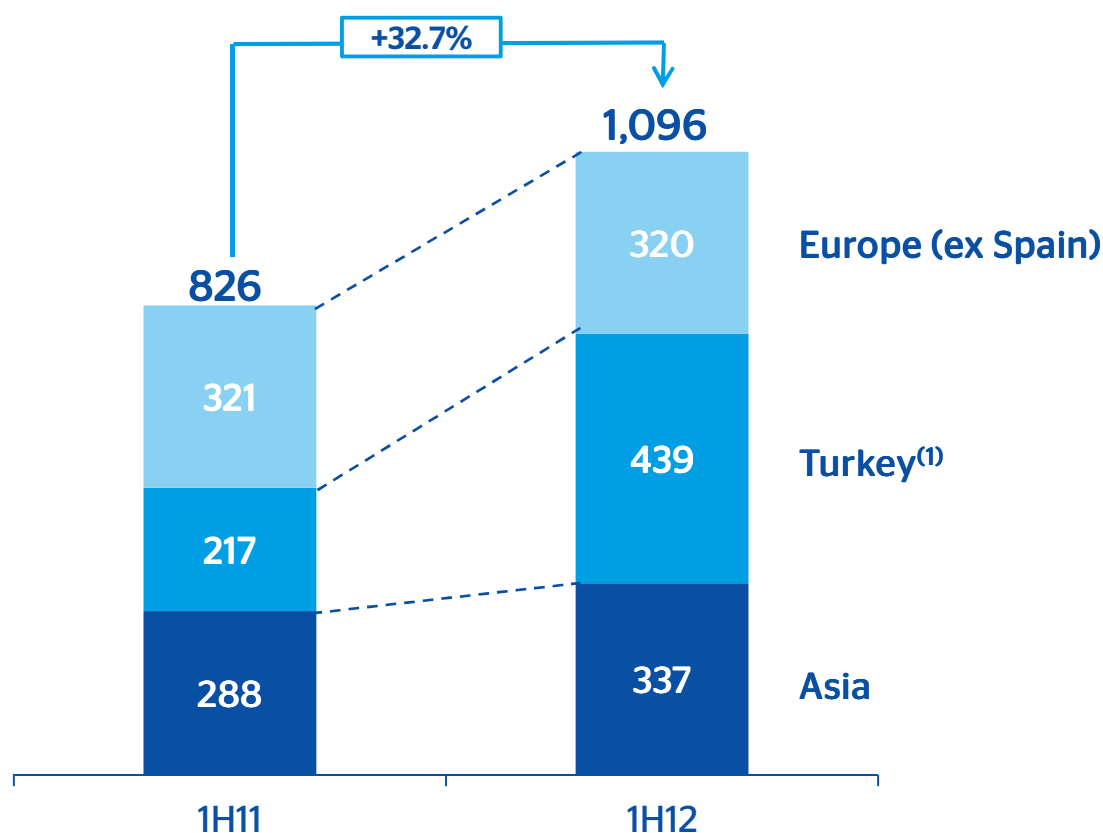
NPLs in the rest of segments remain stable

(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.

# Eurasia: growing revenues and already a significant contributor to the Group

Gross income  
(€ Mn)



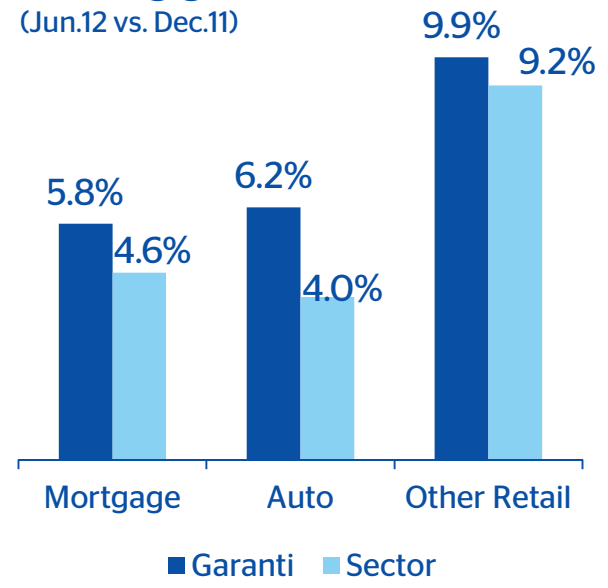
- 10% of BBVA Group's gross income as of June 2012 <sup>(2)</sup>
- € 576 Mn net attributable profit in 1H2012

(1) Garanti: proportional consolidation from March 22nd, 2011.

(2) Excluding Corporate Activities.

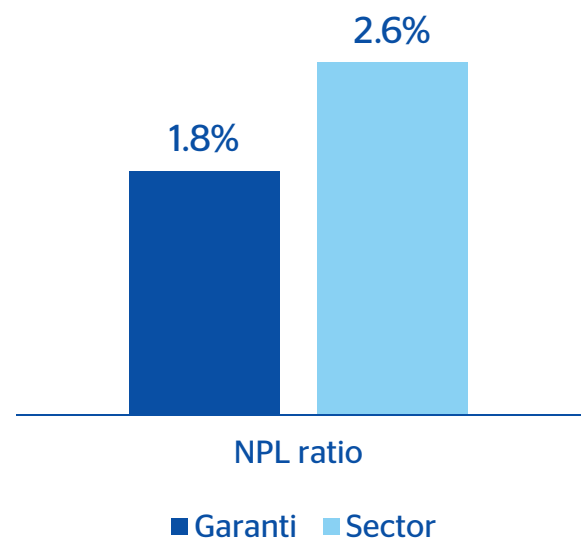
# Garanti: BBVA's strategic commitment with the best franchise in Turkey

**Lending growth**  
(Jun.12 vs. Dec.11)



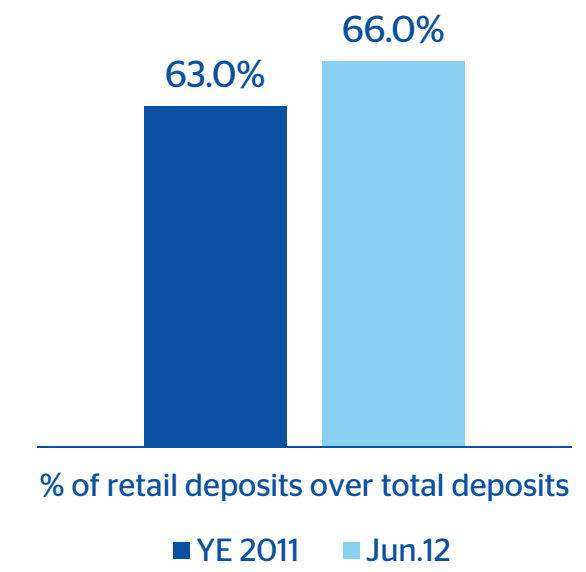
Selective lending growth focused on most profitable segments

**Asset quality**  
(June 2012)



Keeping good asset quality

**Deposit mix**



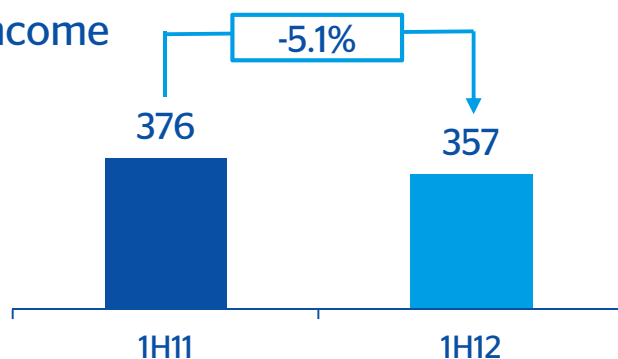
Improving funding mix focusing on lower cost deposits

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.

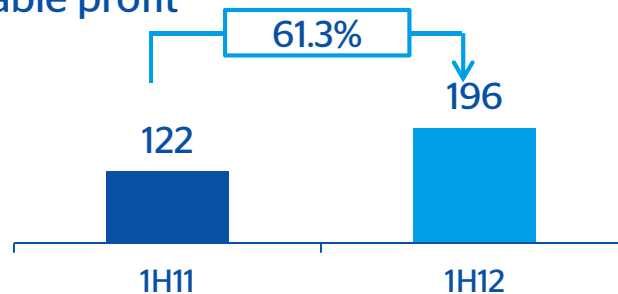
# BBVA Compass: improving underlying operating income despite the challenging environment ...

Operating income  
(Constant € Mn)



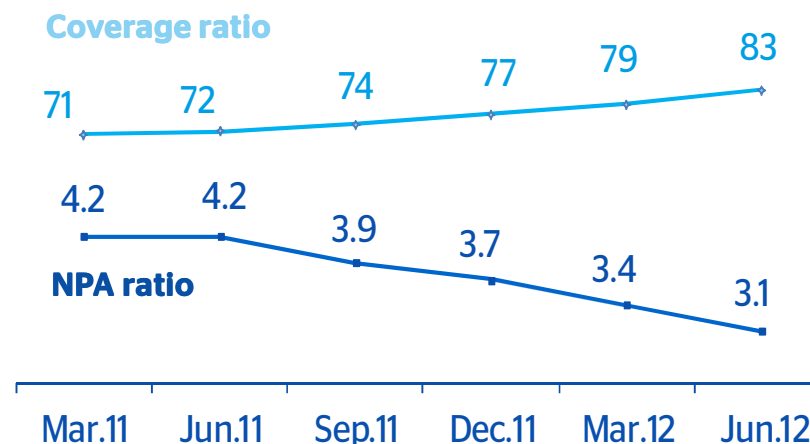
Excluding one-offs<sup>(1)</sup>: +18.4%

Net attributable profit  
(Constant € Mn)



BBVA Compass: 80% of BBVA USA

NPA & coverage ratios  
(%)



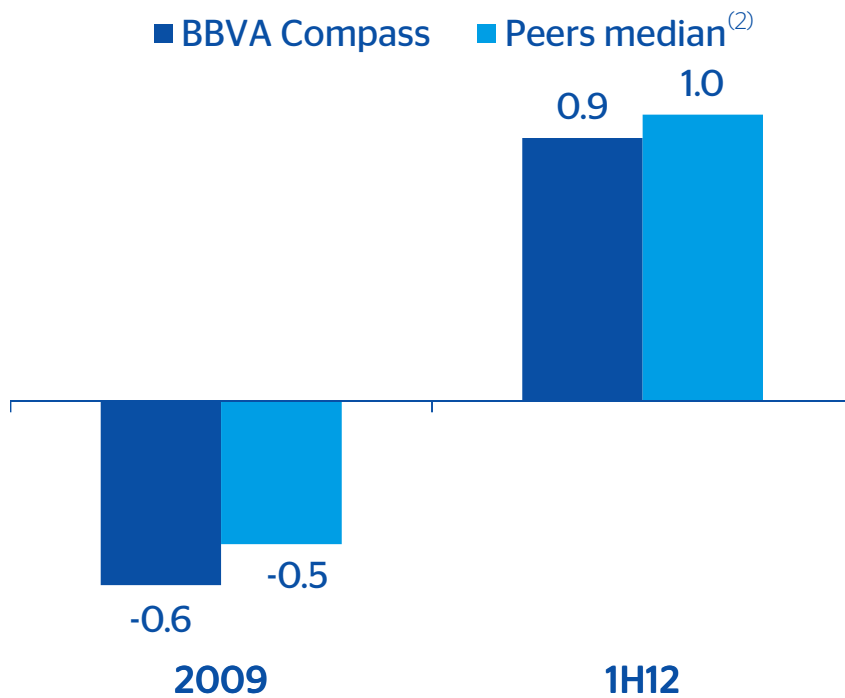
Exiting the provisioning cycle and increasing the contribution to the unit

(1) Excluding regulatory impact and Guaranty loan portfolio attrition.

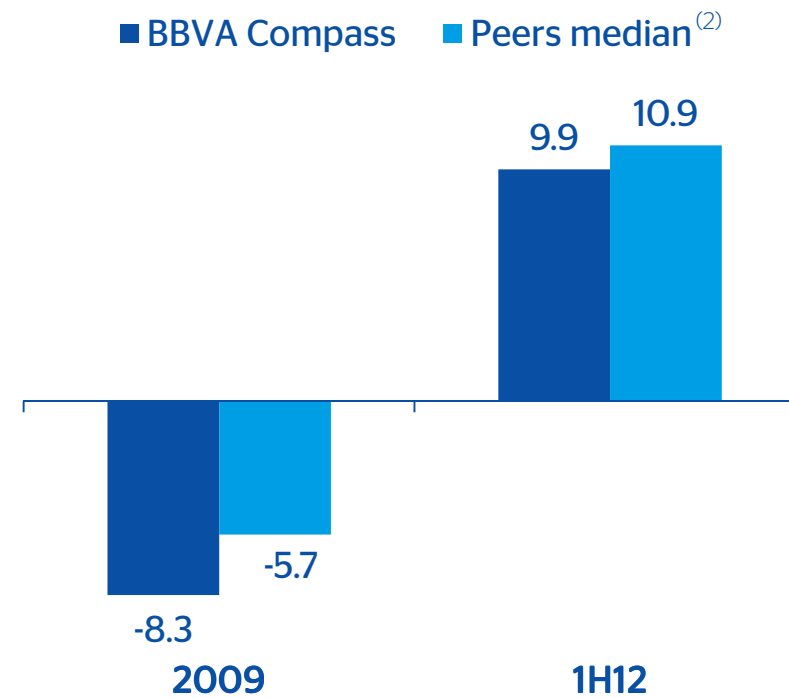


... while profitability is reaching our peers average despite the strong investment in transformation and IT

Return on tangible assets<sup>(1)</sup>  
(%)



Return on tangible equity<sup>(1)</sup>  
(%)



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.

# 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<sup>(1)</sup>)

**Loans to individuals** **+28 bp**

**Total deposits** **+33 bp**

**Current market share**  
**11.8%**  
**10.4%**

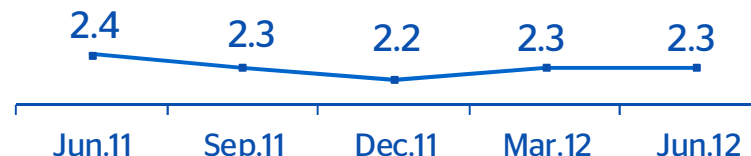
## NPA & coverage ratios

(%)

### Coverage ratio



### NPA ratio

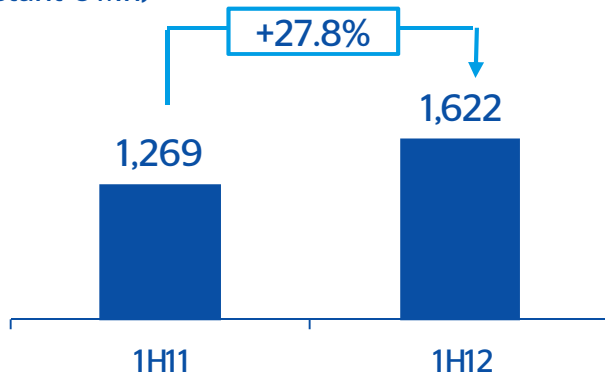


**BBVA aims to maintain better risk indicators than the local peer average in each market it operates**

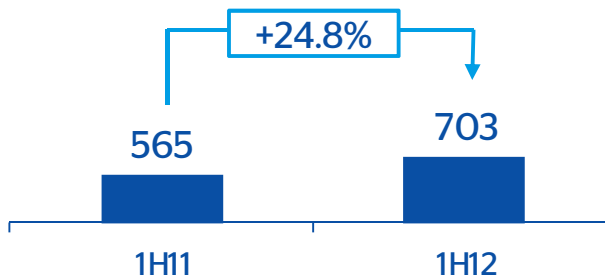
(1) Y-o-y change: May 2012 vs May 2011. Market share as of May 2012. Countries considered: Argentina, Chile, Colombia, Peru and Venezuela.

... that translates into high earnings growth

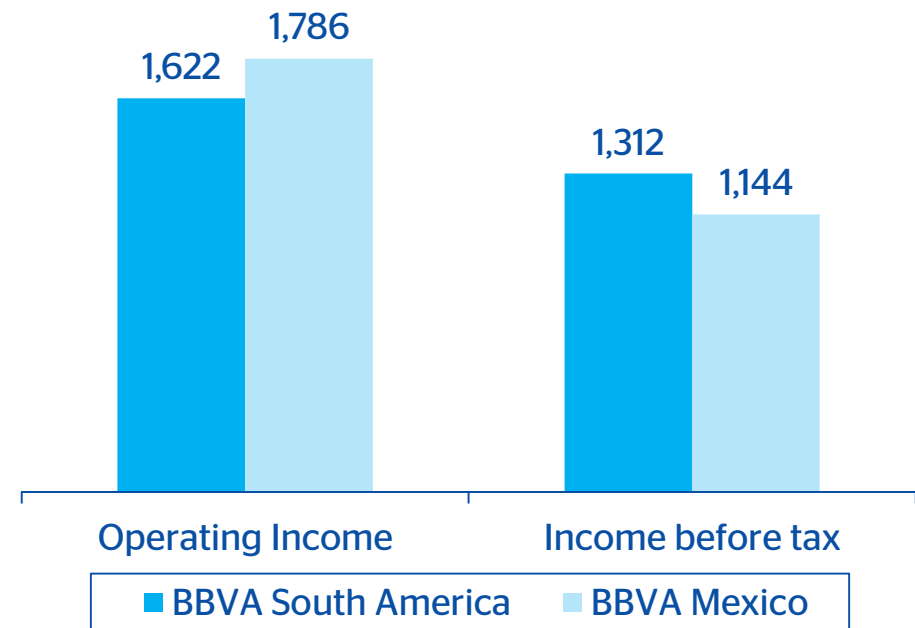
Operating income  
(Constant € Mn)



Net attributable profit  
(Constant € Mn)



**BBVA South America already reached BBVA Mexico's scale**



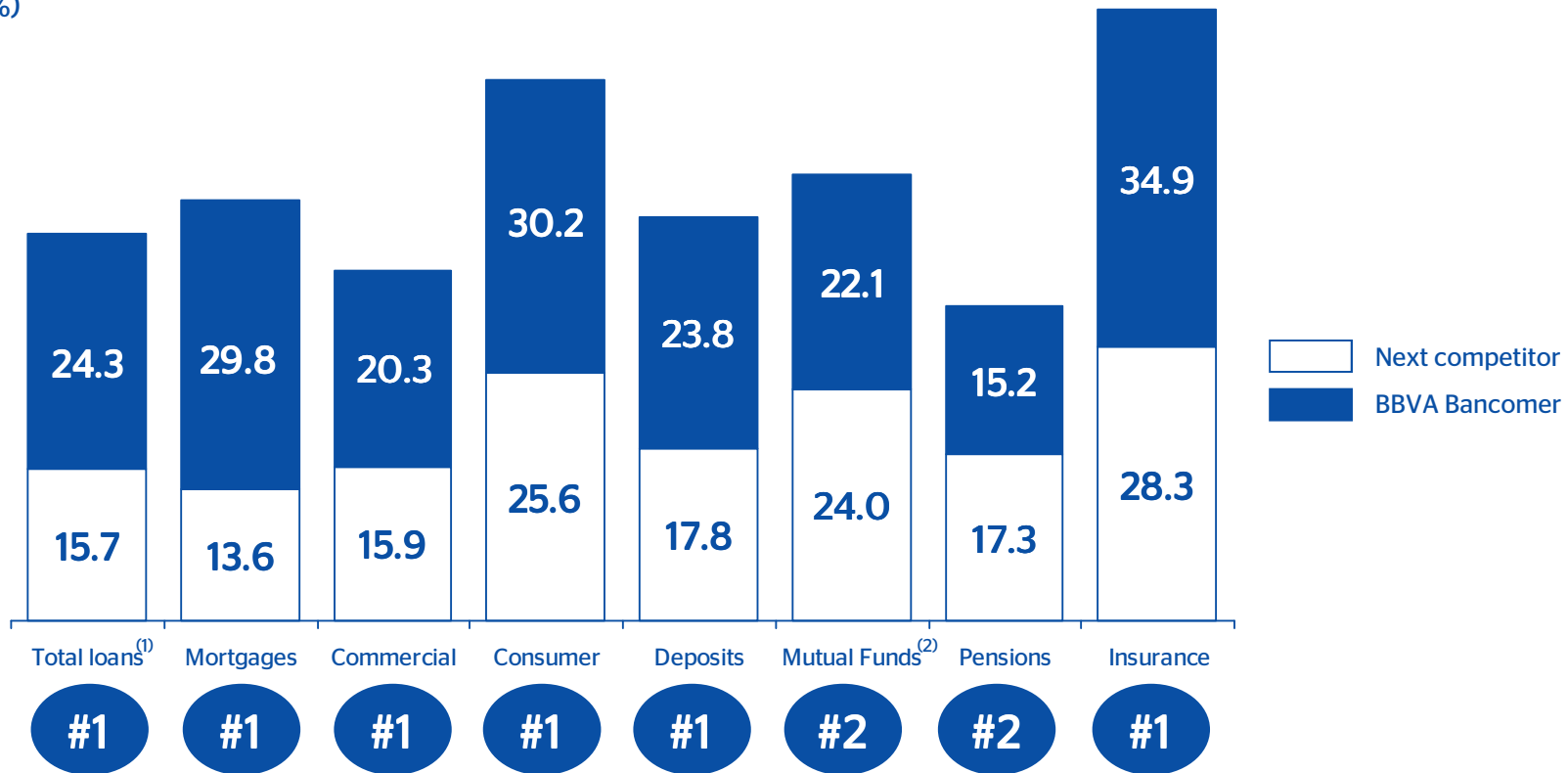
(€Mn, 1H2012)

**A very profitable and critical mass franchise**

# Bancomer: leader of an increasingly attractive market ...

## Market shares

Bancomer vs. next competitor in each segment (%)



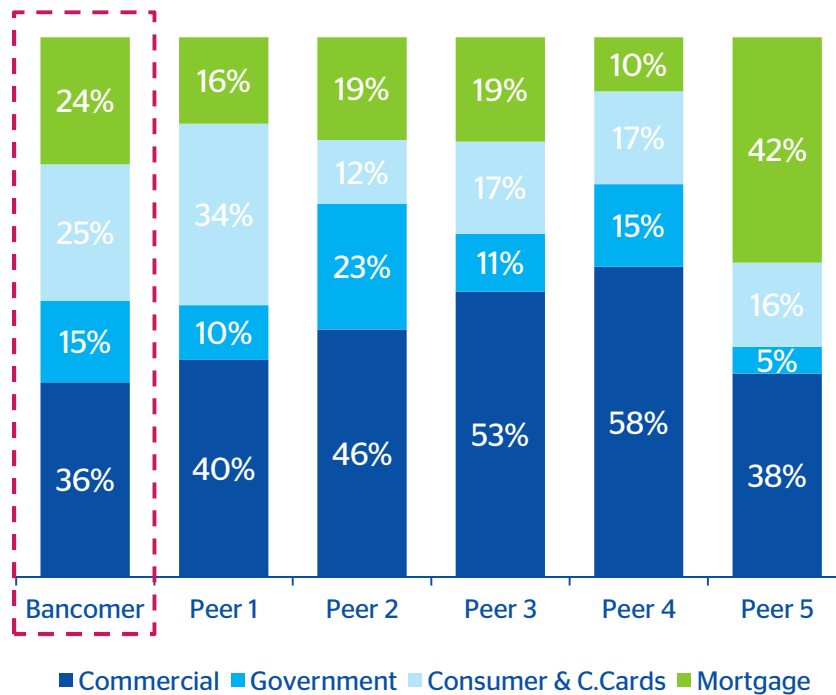
Note: Data as of June 2012, except for Insurance, as of March 2012. Source: CNBV, SHF (local accounting standards). Pensions: measured by assets under management. Insurance: measured by number of insurance premiums. Figures excluding subsidiaries.

(1) Including Sofoles.

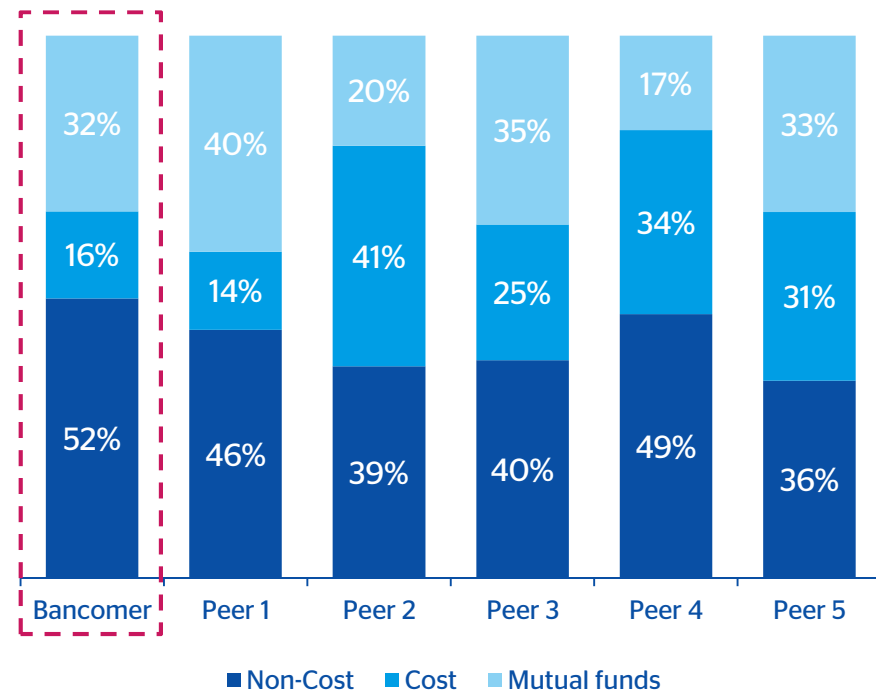
(2) Excluding duplicated funds.

... and strategically positioned in the most profitable segments

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



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

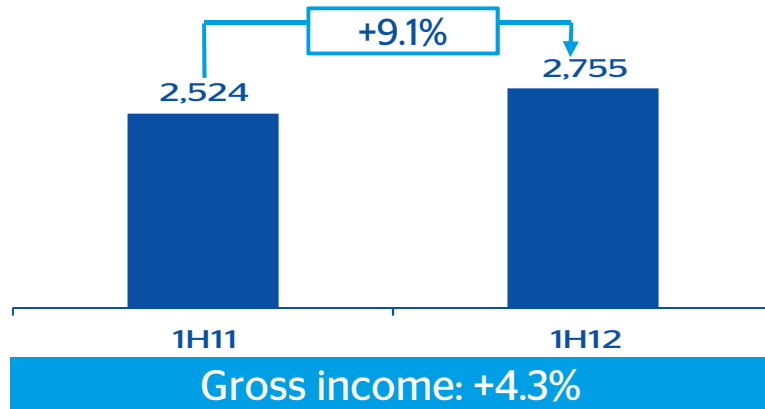


Local accounting standards.  
Peer group: Banamex, Banorte+IXE, HSBC, Santander and Scotiabank.

# Sustained leadership, also in profitability

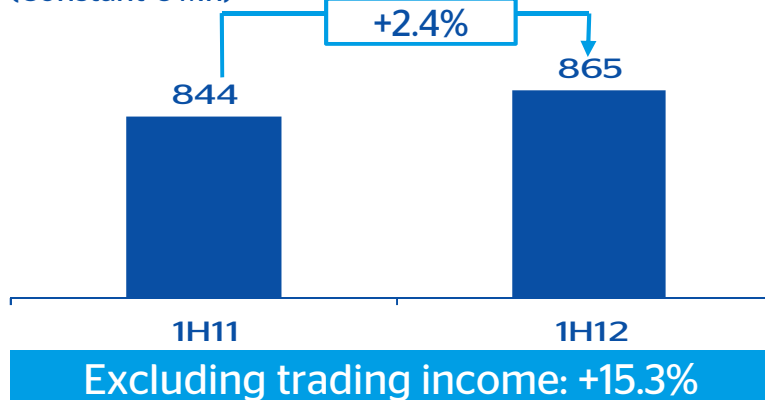
## Recurring gross income

BBVA Mexico  
(Constant € Mn)



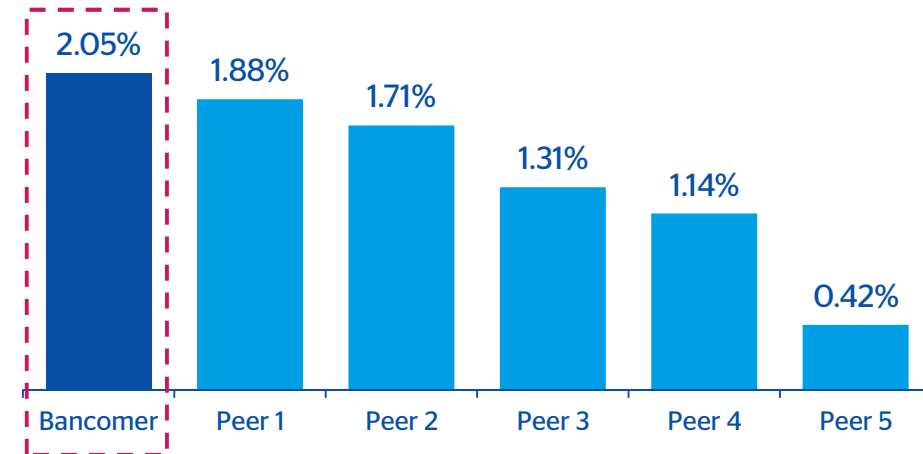
## Net attributable profit

BBVA Mexico  
(Constant € Mn)



## 5Y Average ROA

Bancomer vs peer group<sup>(1)</sup>  
(%)



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

(1) Recurring gross income includes gross income net of net trading income.



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1 Towards a clearer Eurozone framework

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**1**

The Eurozone is progressing towards a genuine and stronger EMU.

**2**

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

**3**

BBVA continues to deliver **top line growth**, while **reinforcing the Euro balance sheet**.

**4**

**In Spain:**

- **Customer spread** still the main driver of NII;
- **Better asset quality than system average** and extraordinary provisioning effort in 2012 to address RE exposure.

**5**

**Solid performance of the rest of franchises:**

- **Eurasia:** growing relevance within BBVA thanks to Garanti;
- **BBVA Compass** is completing its turnaround, increasing its contribution to the Group;
- **South America:** high growth and significant scale;
- **Mexico:** the leading bank in an increasingly attractive market.



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