

**BBVA**

# BBVA DCM DAY

Erik Schotkamp



London, March 4<sup>th</sup>, 2014

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**BBVA**

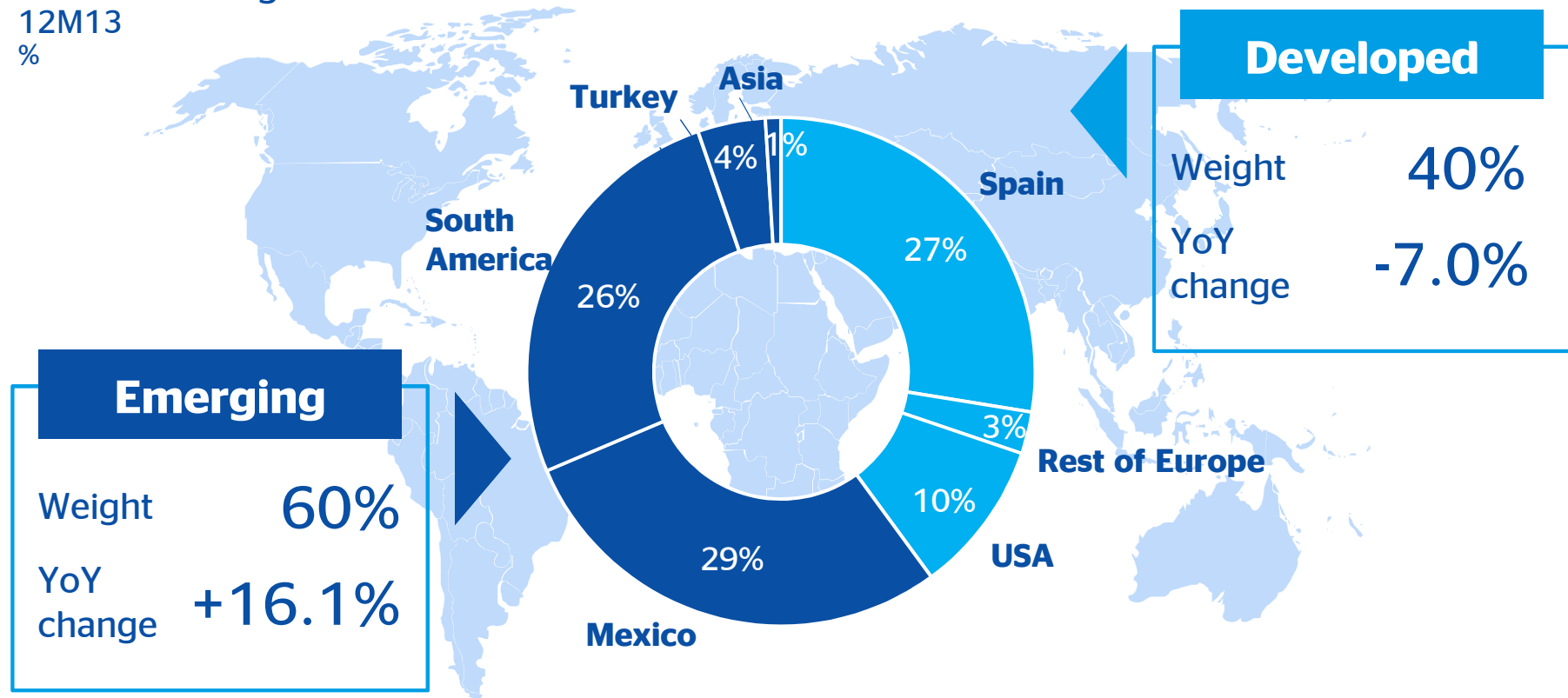
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**1 Strong operating performance**

2 Ready for upcoming regulation

## BBVA has a well diversified revenue base

Breakdown of gross income  
12M13  
%

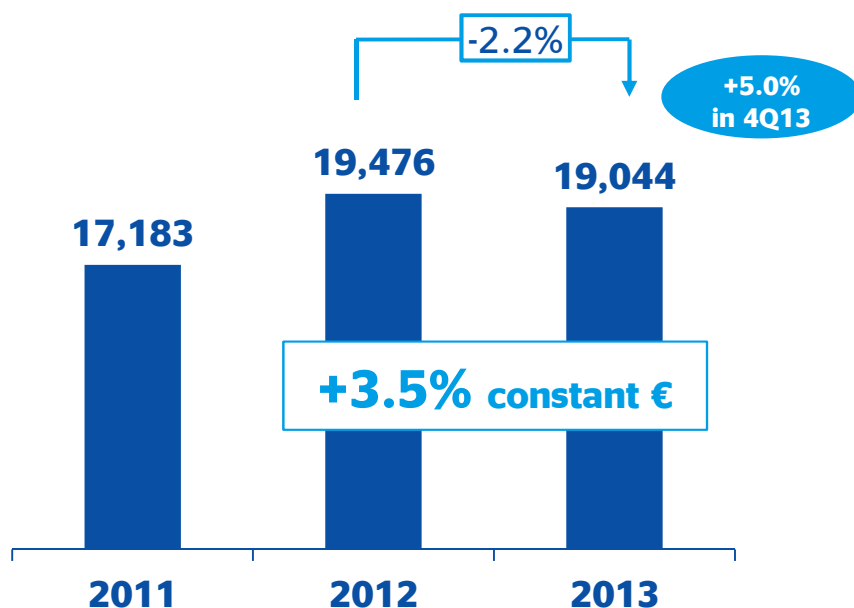


**BBVA has a unique exposure to recovering developed markets and resilient and high potential emerging markets**

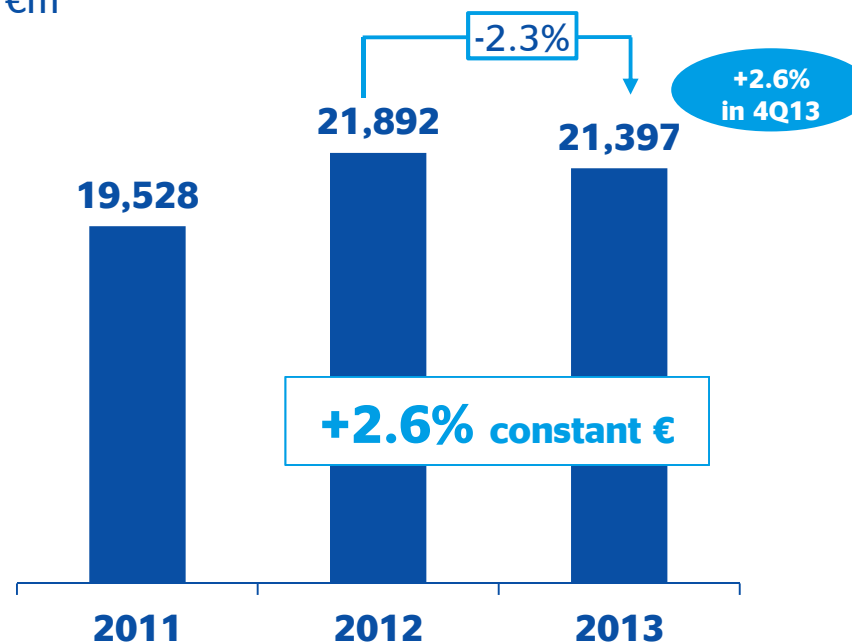
Note: excludes Holding. YoY variation in constant €

This diversification allows us to have recurring revenues, even during the crisis

Net interest income + fees  
€m



Gross income<sup>(1)</sup>  
€m

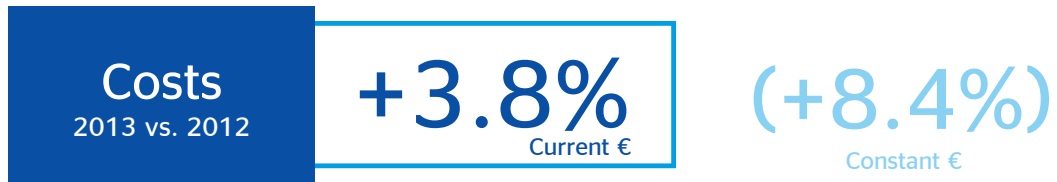
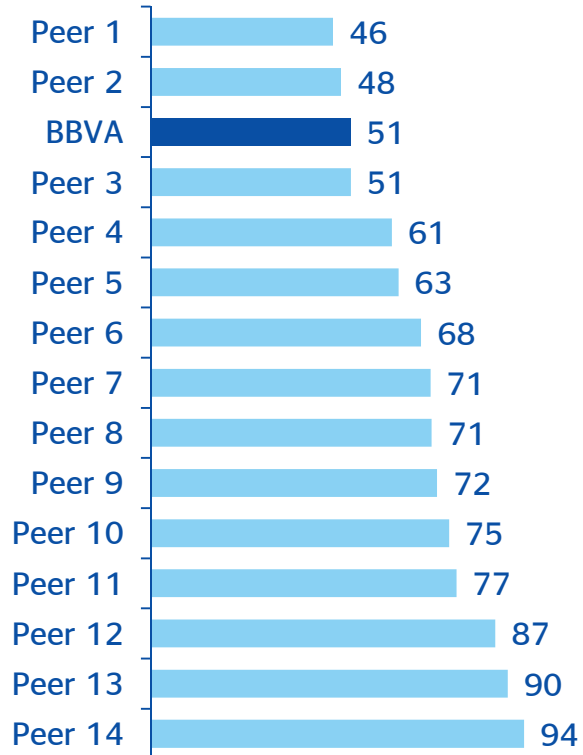


Top line growth accelerating in 4Q13

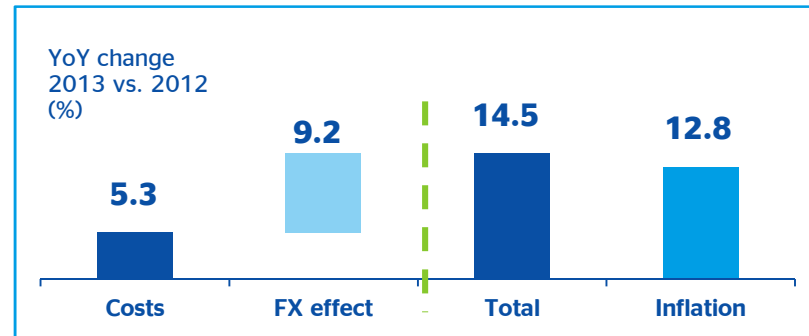
(1) 2011 and 2012 data adjusted according to 2013 P&L reclassification of corporate transactions

## A cost management approach adapted to each region

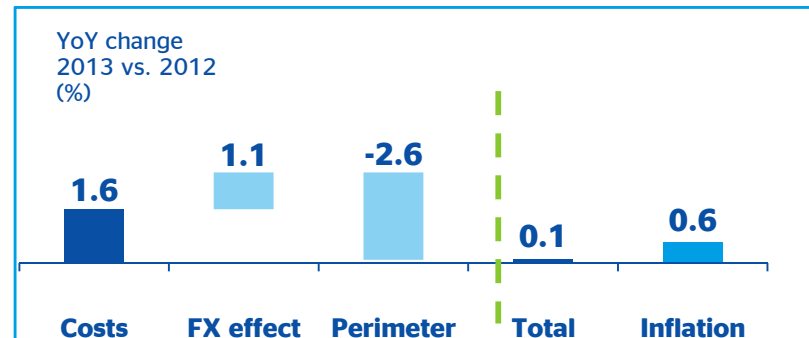
Efficiency Ratio 9M13 <sup>(1)</sup>  
(%)



Emerging



Developed



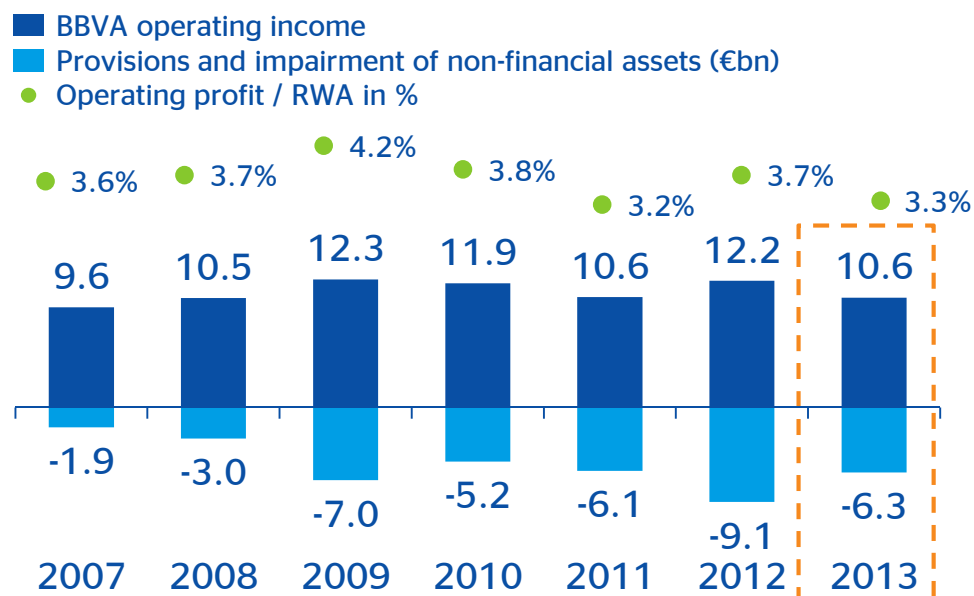
**Efficiency as a competitive advantage**

Note: excludes Corporate Center

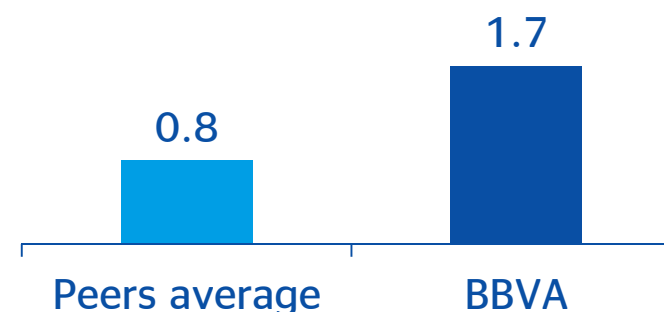
(1) European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS

# High and recurring operating income: the best buffer to absorb losses

BBVA operating income<sup>(1)</sup> vs. provisions and impairment of non-financial assets  
(€ Bn)



Operating income/ATAs  
BBVA vs. European peer group<sup>(2)</sup> 9M13  
(%)

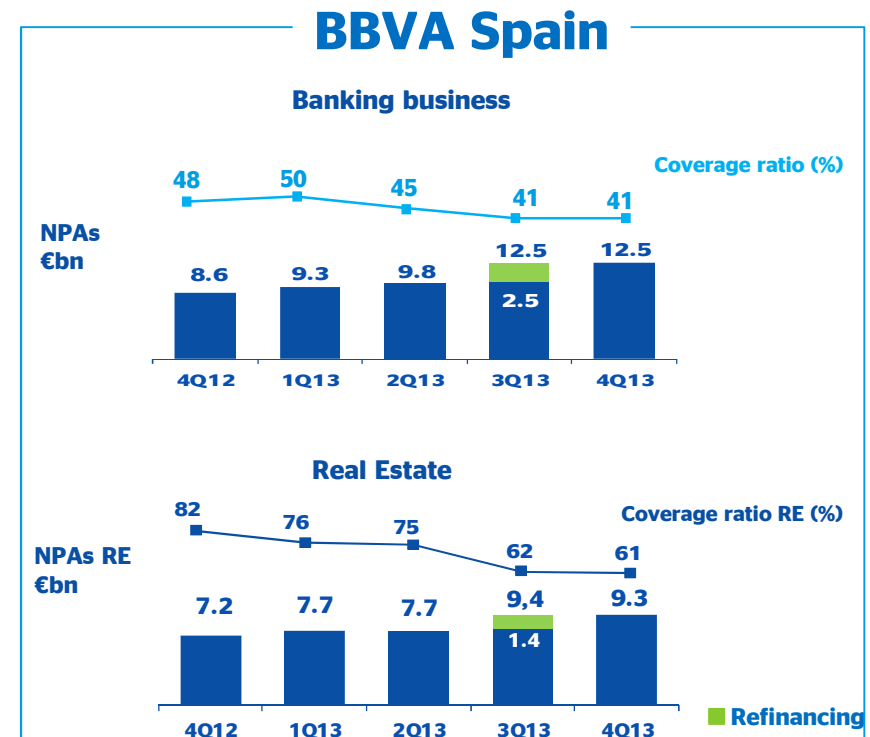
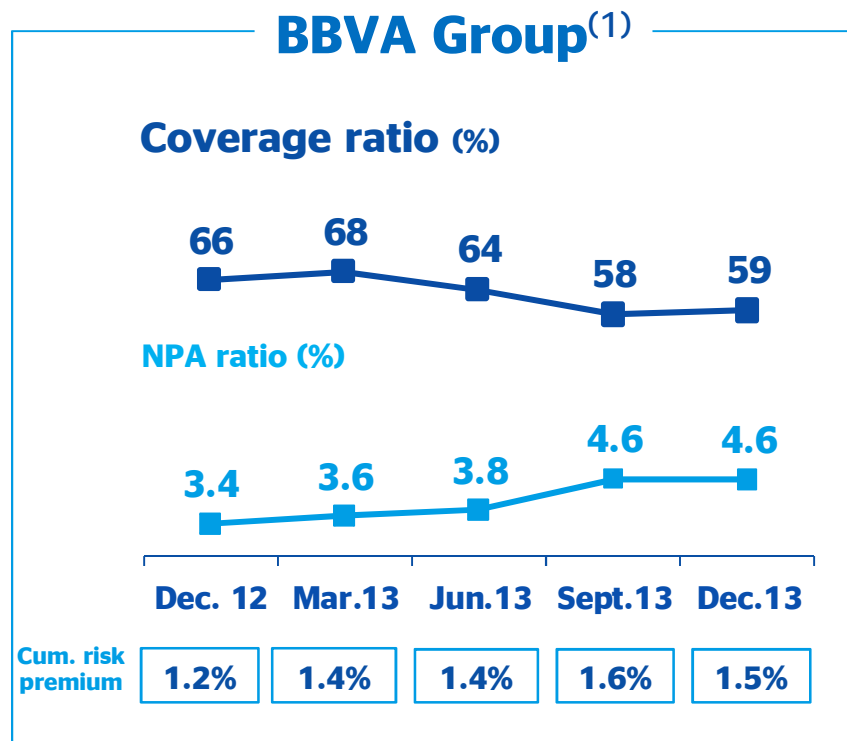


**Facing a new earnings growth cycle  
as provisions progressively normalize from 2012's peak**

(1) 2012 adjusted by income from discontinued operations. 2013 also adjusted by the income from the equity method and dividends coming from Citic  
(2) European peer group includes: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS, SAN, SG, UBS and UCI.

# BBVA

## Risk: Spain as the driver of improving credit quality



In Spain we have seen the worst. NPAs will progressively come down during 2014 and provisions will continue to normalize

(1) Risk figures exclude real estate activities.



## 2013: the beginning of a new earnings growth cycle

€m

| BBVA Group                  | Accum. | Growth      |       | % constant |
|-----------------------------|--------|-------------|-------|------------|
|                             |        | 12M13/12M12 |       |            |
|                             | 12M13  | Abs.        | %     |            |
| Net Interest Income         | 14,613 | - 509       | -3.4  | 2.7        |
| Gross Income                | 21,397 | -495        | -2.3  | 2.6        |
| Operating Income            | 10,196 | - 910       | -8.2  | -3.0       |
| Income Before Tax           | 2,750  | + 2,002     | n.s.  | n.s.       |
| Corporate Operations Income | 823    | - 480       | -36.8 | -36.2      |
| Net Attributable Profit     | 2,228  | + 552       | 32.9  | 55.1       |

Limited impact from FX volatility thanks to active hedging policy



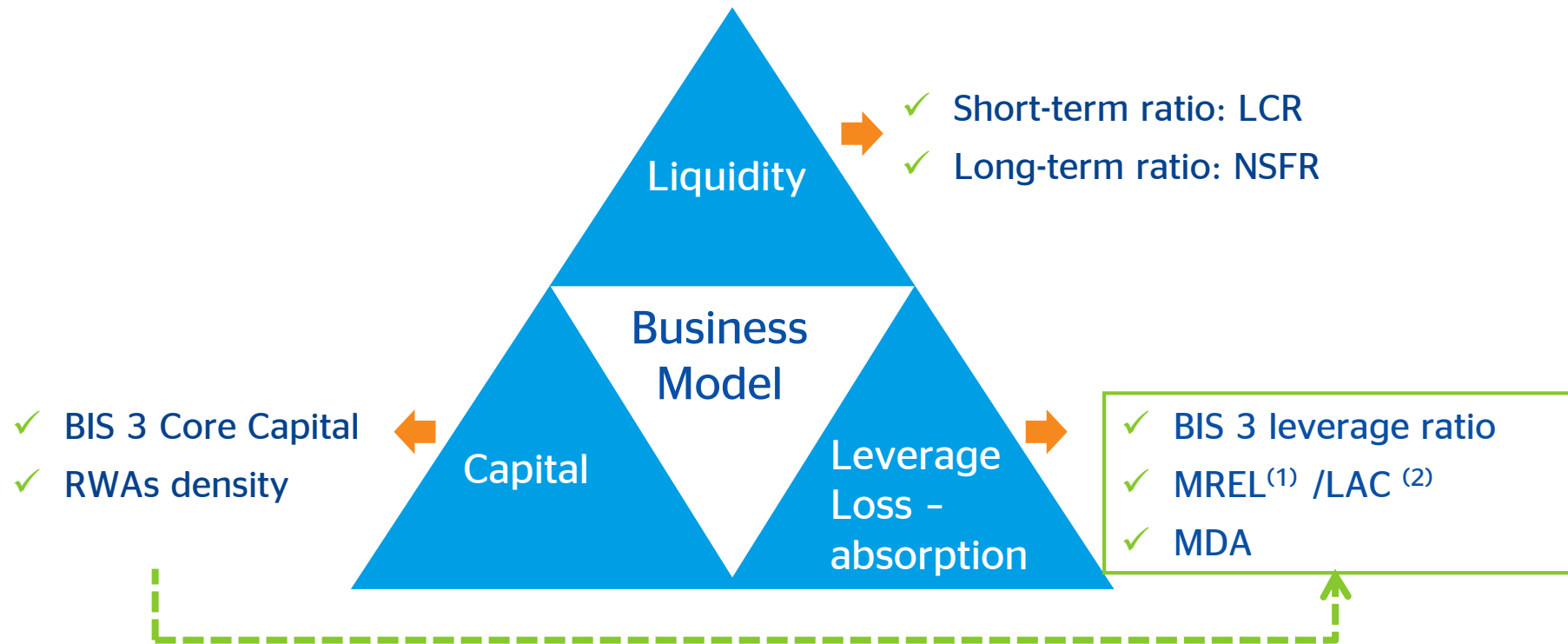
**BBVA**

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# Regulatory challenges: from core capital to leverage and loss absorption capacity



**BBVA comfortably accomplish LCR and NSFR ratios**

(1) Minimum Requirements for Own Funds and Eligible Liabilities  
(2) Loss Absorption Capacity

## Solid position of the Euro balance sheet

Reduced financing requirements

**Liquidity gap reduced €33bn**

(€ balance sheet, 12M13)

**LTD ratio 124%**

(99% with covered bonds)

Change in funding mix

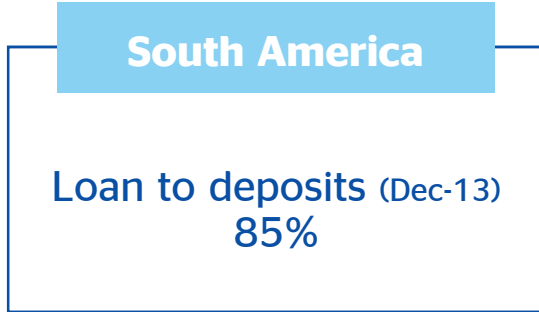
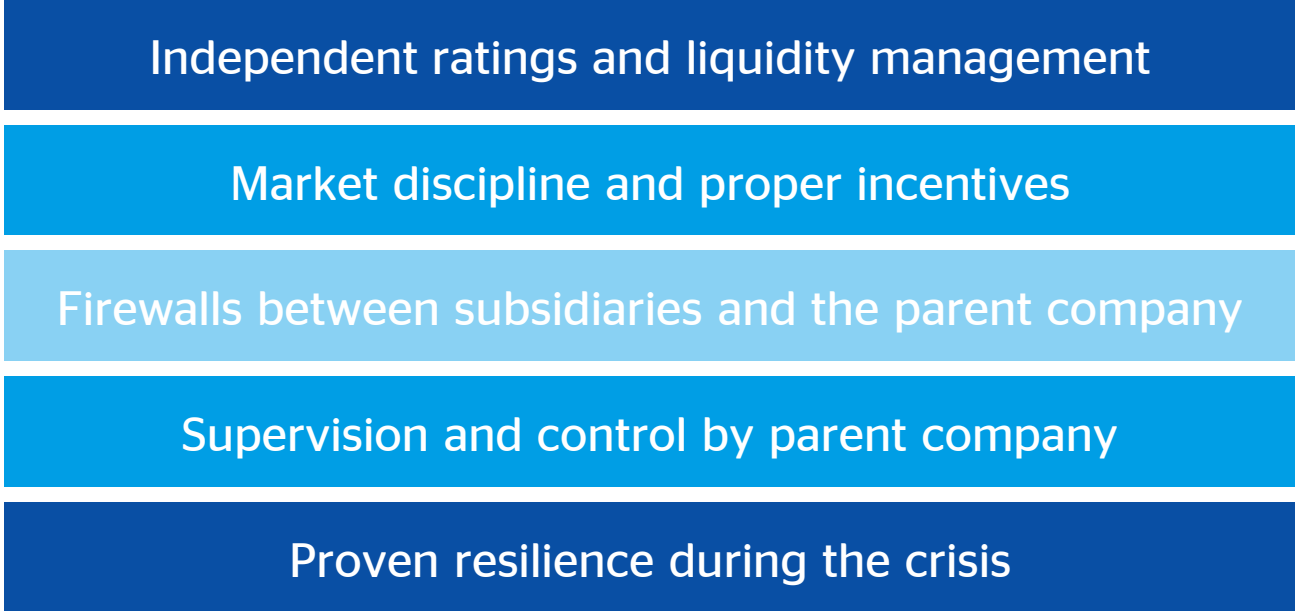
- **Higher proportion of cust. funds +€8.3bn**
- **Reduction of LTRO -€20bn**

Issuance activity

- **Issues with longer maturities and lower cost**
- **Pioneers in AT1 issue under BIS III**

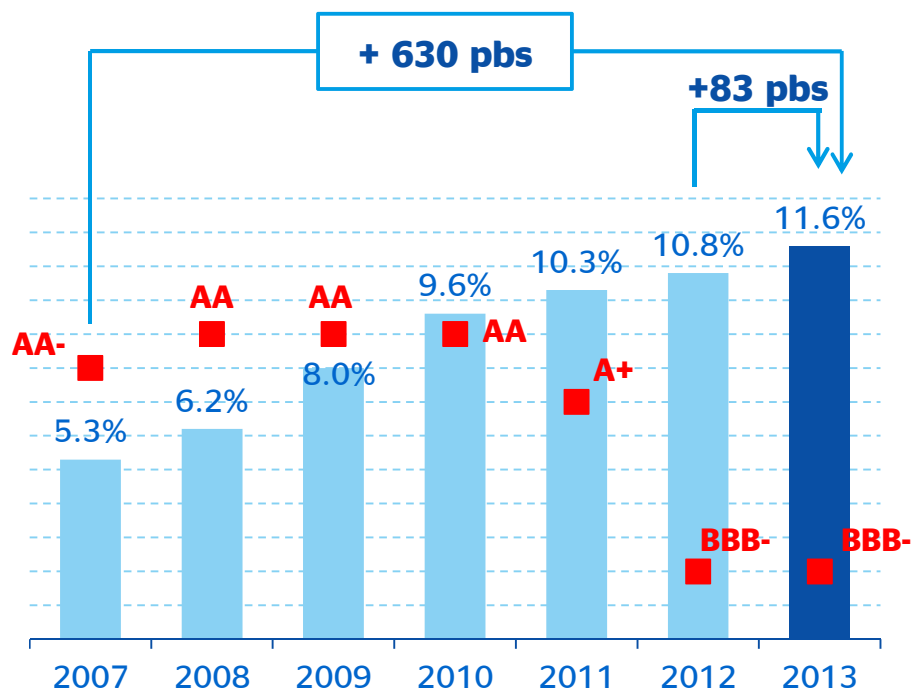
Improved balance sheet structure

Sound liquidity position in all other franchises thanks to BBVA's decentralized management model



## Capital: strong capital generation

Core capital ratio (BIS II) and S&P Rating



And ...

✓ **Strong capital ratios under BIS III fully loaded<sup>(1)</sup>:**

Core Capital: **9.8%**

Leverage: **5.6%**

✓ **Transactions closed in 2013 & 2014 YTD:**

AT1 Issuances: USD **1.5bn** + EUR **1.5bn**

Non core business sales <sup>(2)</sup>: +145bp

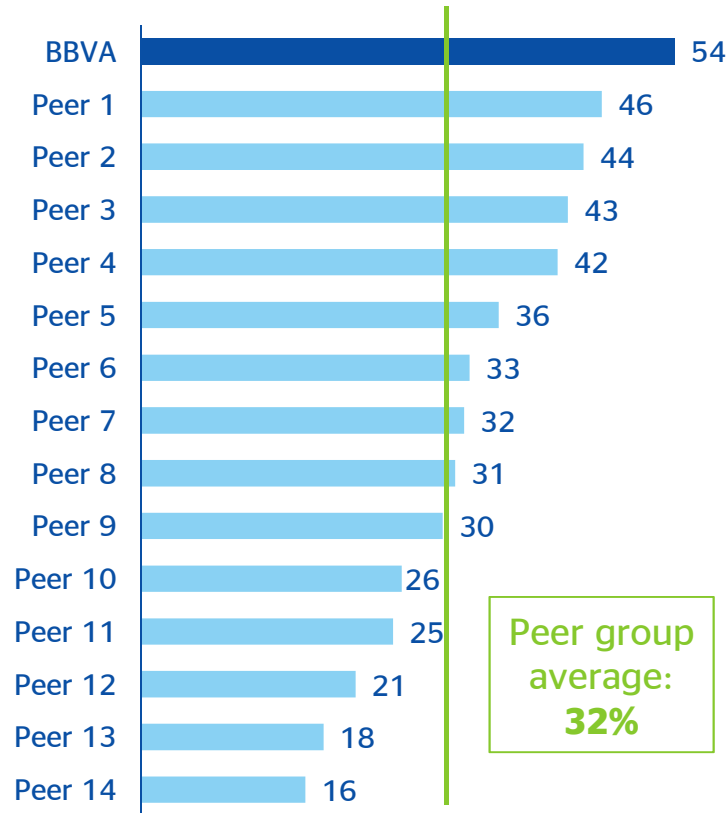
Since 2007, BBVA has more than doubled its Core Capital and increased by more than 600 bps its Core Capital ratio

(1) Ratios as of Dec.13 including DTAs and the sale of 5.1% of CNCB; (2) 145bp capital generation under BIS III: +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 stands out for the quality of its capital and its low leverage

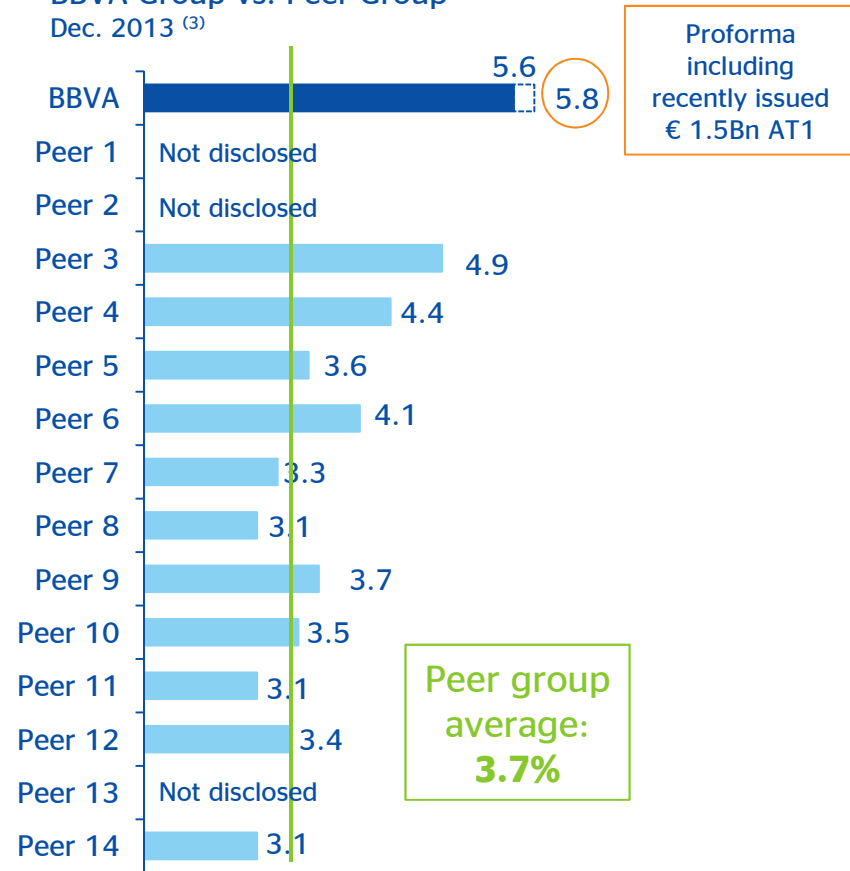
## RWAs / Total Assets (%)

BBVA Group vs. European Peer Group <sup>(1)</sup>  
Sep. 2013



## CRD IV fully loaded Leverage ratio <sup>(2)</sup>

BBVA Group vs. Peer Group <sup>(1)</sup>  
Dec. 2013 <sup>(3)</sup>



(1) European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS

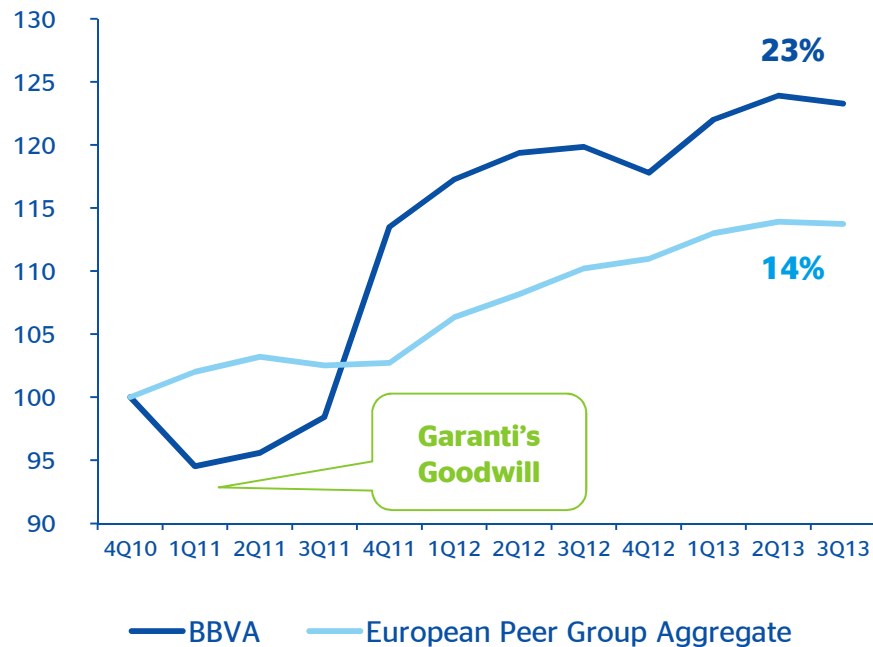
(2) SAN does not specify if the Leverage ratio is fully loaded or phased in. UBS leverage ratio reported under Swiss regulation

(3) Except for RBS (Data as of September 2013)

# Generation of organic capital absorbing RWAs growth

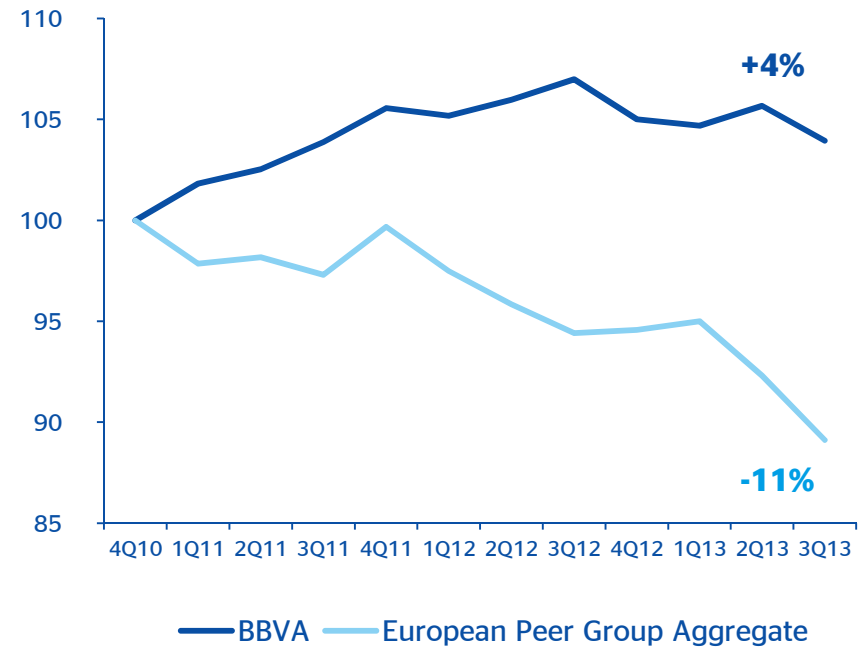
## Δ BIS II Core Capital (€)

BBVA Group vs. European Peer Group Aggregate  
Dec.10 - Sep.13



## Δ BIS II RWAs (€)

BBVA Group vs. European Peer Group Aggregate  
Dec.10 - Sep.13



**BBVA has increased its RWAs in line with the business cycle**

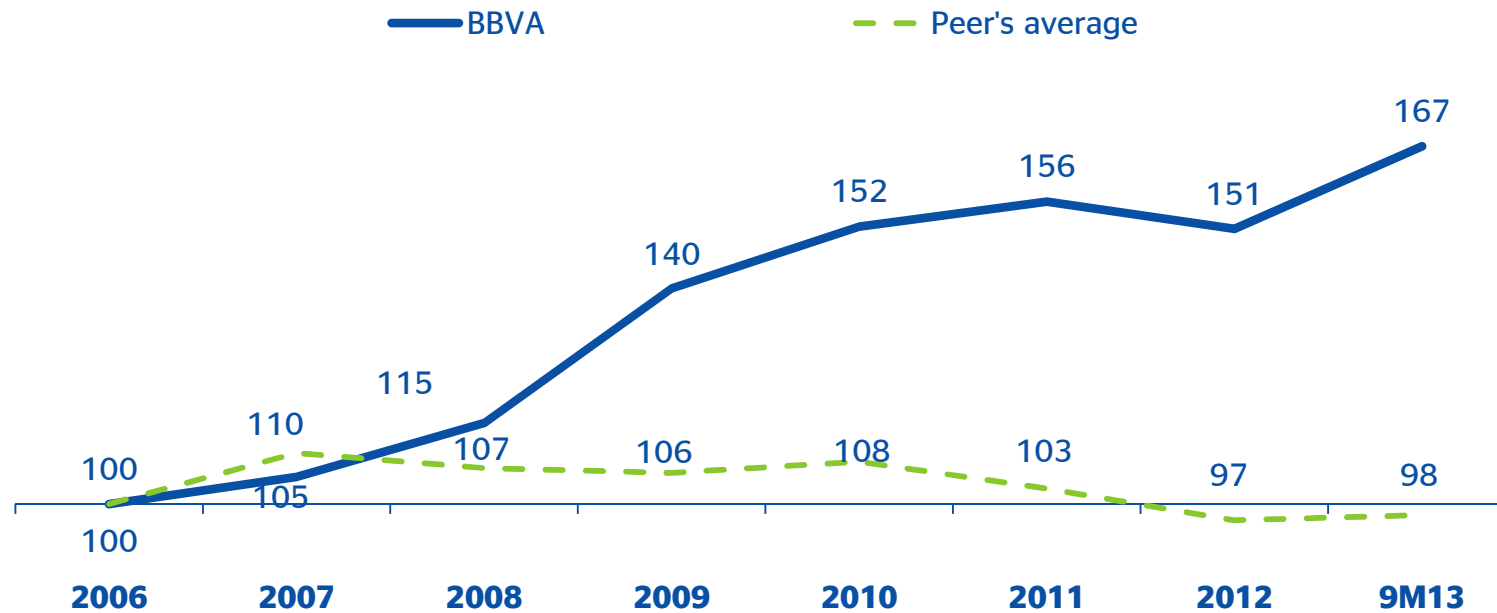
European Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, ISP, HSBC, LBG, RBS, SAN, SG, UCI and UBS.





# High quality of capital reflected in the evolution of its TBV per share

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



Effective from Nov-2014

Effective from Jan-2015, except for bail-in (in 2016)

Likely to be effective in 2016

Pending



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



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

- Assessment of **asset valuations**, classification of **non-performing exposures**
- Main **input** of the Stress Test

- Loss absorption capacity
- Joint exercise: **EBA and ECB**

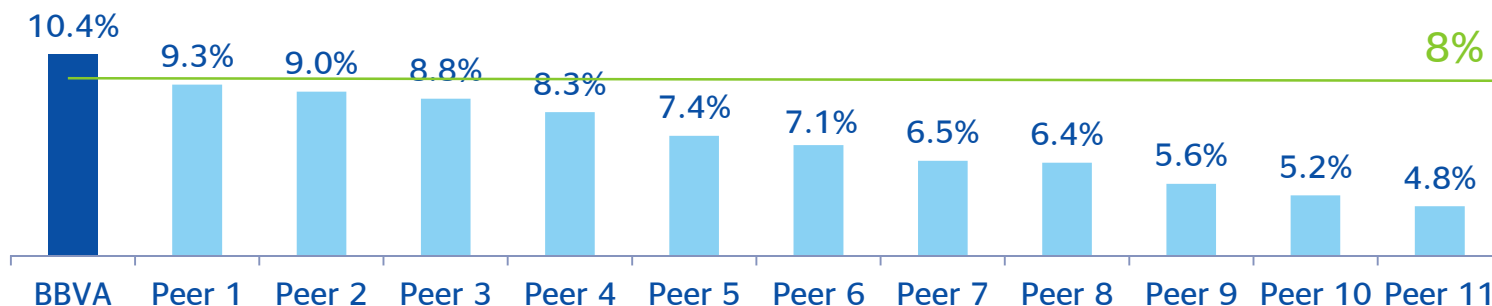


**BBVA has a comfortable capital buffer to face the upcoming stress tests**

# In Europe we already have a Recovery and Resolution Directive proposal

- 1 The Recovery and Resolution Directive proposal provides a common loss absorption framework
- 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

(Equity + Subordinated liabilities) / (Total Liabilities - Derivatives) <sup>(1), (2)</sup>

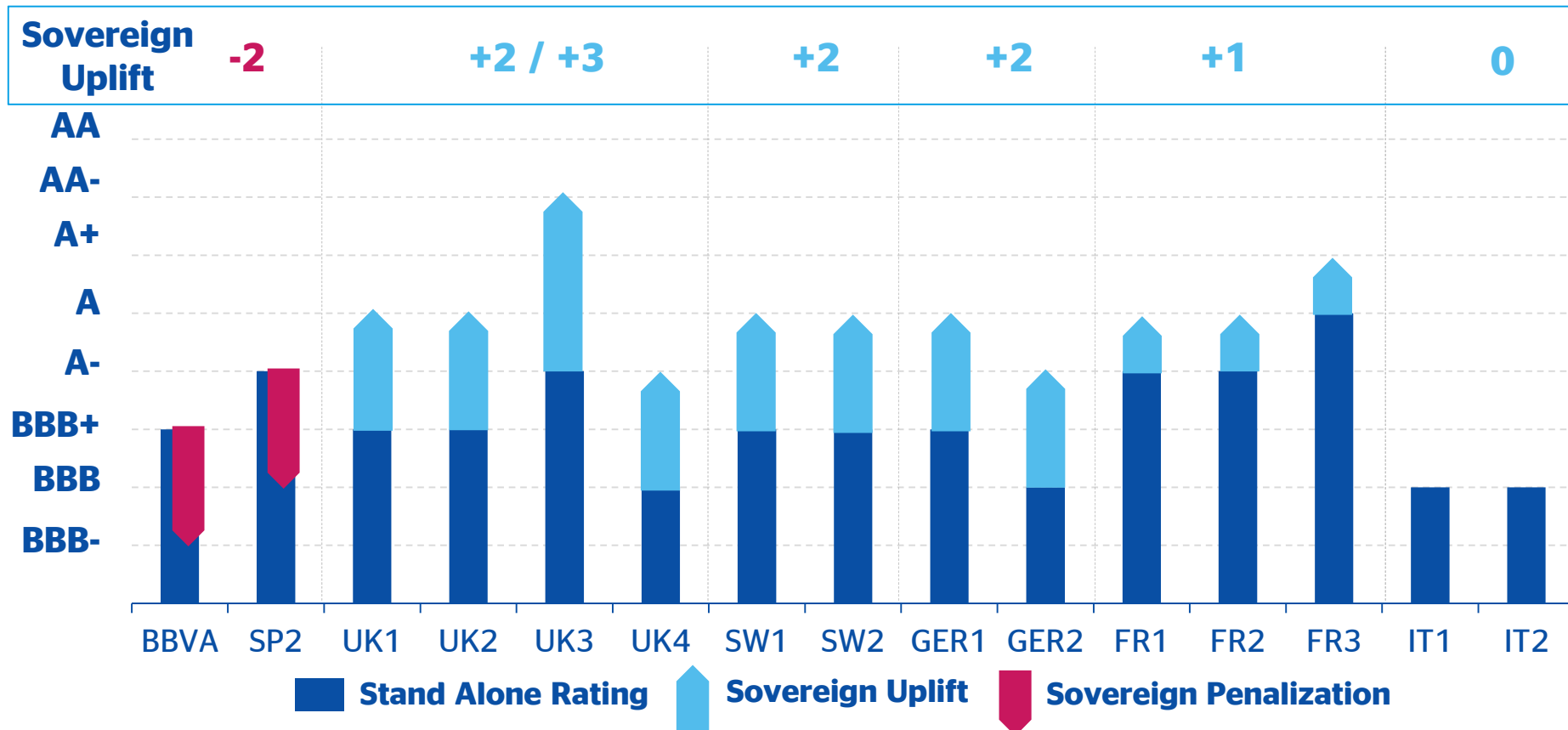


**The RRD is an important milestone to break the sovereign - banking link**

(1) Data as of June, 2013, except for BBVA as of December, 2013. Consolidated figures  
 (2) European Peer Group: BARCL, BNPP, CASA, CMZ, DB, ISP, HSBC, LBG, SAN, SG and UCI.

# BBVA

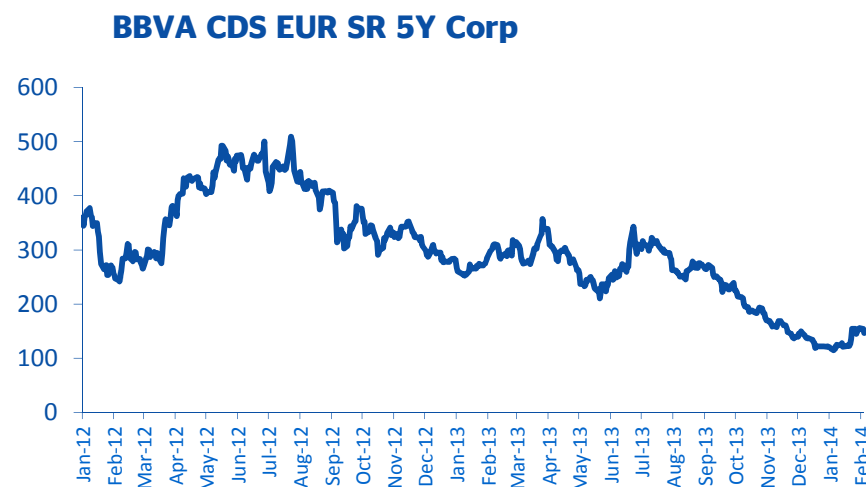
BBVA's rating does not properly reflect its capital adequacy and credit worthiness



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

# However credit investors do recognise BBVA's strengths

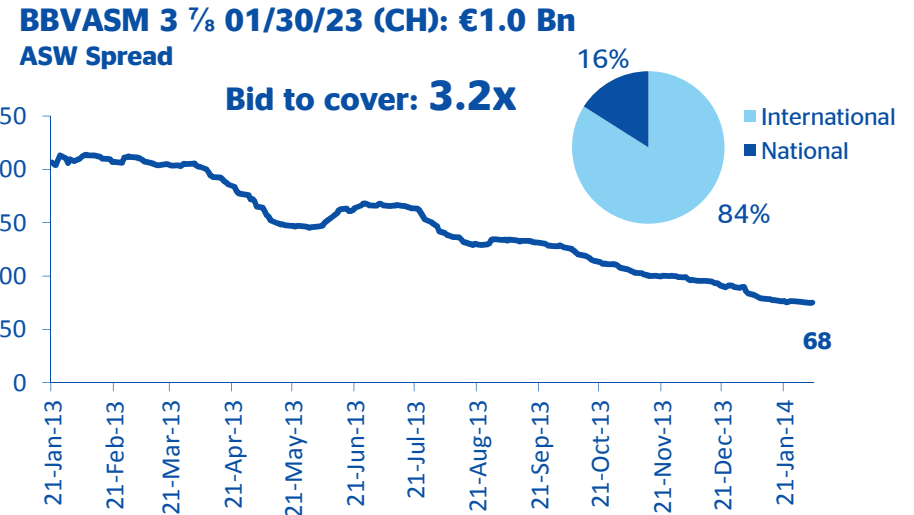
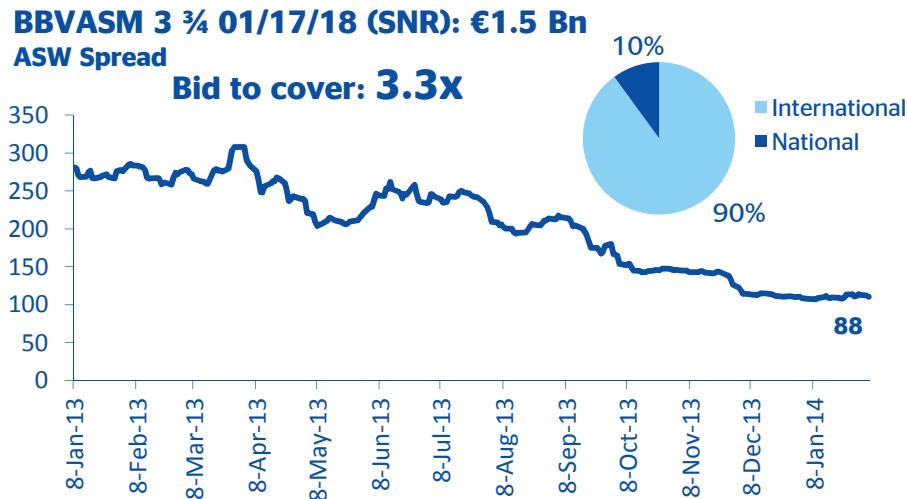
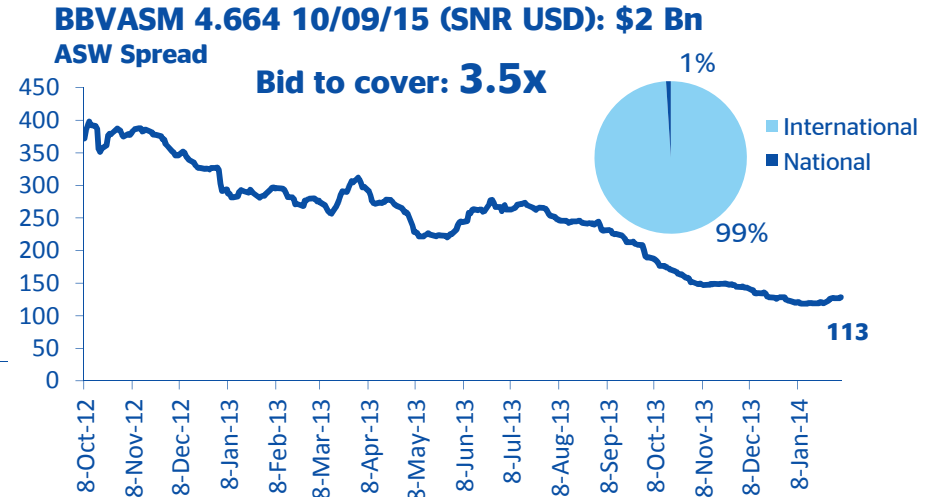
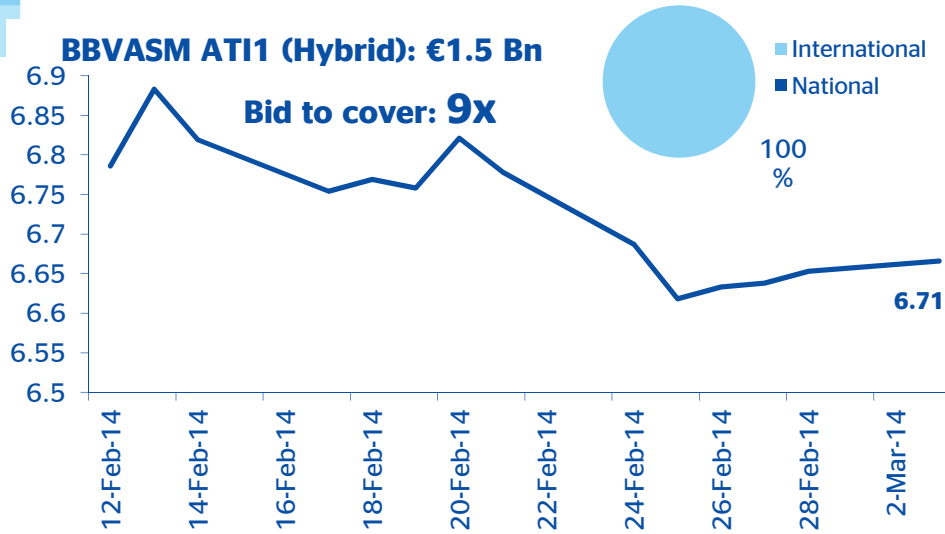
| AT1 issuances BBVA vs European Peers |             |          |          |        |       |        |         |
|--------------------------------------|-------------|----------|----------|--------|-------|--------|---------|
| Issuer                               | Amount (Bn) | Currency | Maturity | Coupon | YTC   | Dif    | Price   |
| BBVA                                 | 1,5         | EUR      | PerpNC5  | 7%     | 6,78% | -0,22% | 100.9%  |
| BBVA                                 | 1,5         | USD      | PerpNC5  | 9%     | 6,91% | -2,09% | 107.49% |
| Credit Agricole                      | 1,75        | USD      | PerpNC10 | 7,875% | 6,93% | -0,95% | 106.76% |
| Societe Generale                     | 1,75        | USD      | PerpNC10 | 7,875% | 7,08% | -0,80% | 105.49% |
| Credit Suisse                        | 2,25        | USD      | PerpNC10 | 7,5%   | 6,19% | -1,31% | 109.45% |
| Barclays                             | 2           | USD      | PerpNC5  | 8,25%  | 6,76% | -1,49% | 106.02% |
| Barclays                             | 1           | EUR      | PerpNC7  | 8,00%  | 6,90% | -1,10% | 105.89% |
| Popular                              | 0,5         | EUR      | PerpNC5  | 11,50% | 8,13% | -3,37% | 112.81% |



| Differences BBVA CDS 5Y Vs European Peers |          |          |      |
|---|----------|----------|------|
| CDS 5Y                                    | 1-jun-12 | 3-feb-14 | Dif. |
| Banco Santander                           | 44       | 4        | -40  |
| Barclays                                  | 224      | 41       | -183 |
| Lloyds                                    | 117      | 54       | -63  |
| RBS                                       | 115      | 19       | -96  |
| UBS                                       | 269      | 69       | -200 |
| Credit Suisse                             | 274      | 62       | -212 |
| Deutsche Bank                             | 275      | 46       | -229 |
| Commerzbank                               | 175      | 26       | -149 |
| Credit Agricole                           | 86       | 47       | -39  |
| Societe Generale                          | 94       | 44       | -50  |
| BNP                                       | 178      | 57       | -121 |
| Intesa                                    | -49      | -1       | 48   |
| Unicredit                                 | -103     | -21      | 83   |

Since June 2012, BBVA's CDS has shown one of the best performance vs. European CDS

... proving that BBVA's credit is perceived as strong



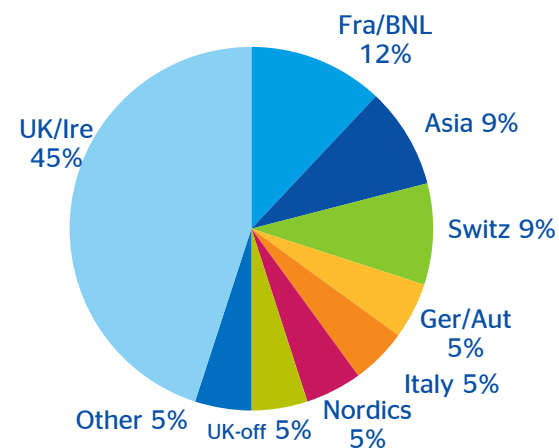
Investor's decisions are based on credit fundamentals, not on credit ratings

# BBVA

€ 1.5 Bn AT1 Issue: BBVA second new style AT1 transaction after inaugurating the market in May 2013

| Size             | Coupon                           | Type  | Final Order Book    | Current yield <sup>(1)</sup> |
|------------------|----------------------------------|---|---------------------|------------------------------|
| <b>EUR 1.5bn</b> | <b>7%</b><br><i>(MS+615.5pb)</i> | Equity conversion with single 5.125% CET1 trigger | <b>&gt;EUR 14bn</b> | <b>6.71%</b>                 |

- ✓ Highly diversified international demand involving > 650 investors
- ✓ The largest ever EUR CRR/CRDIV AT1 orderbook in volume and in number of investors participating
- ✓ The lowest coupon in any CRR/CRDIV AT1 transaction.



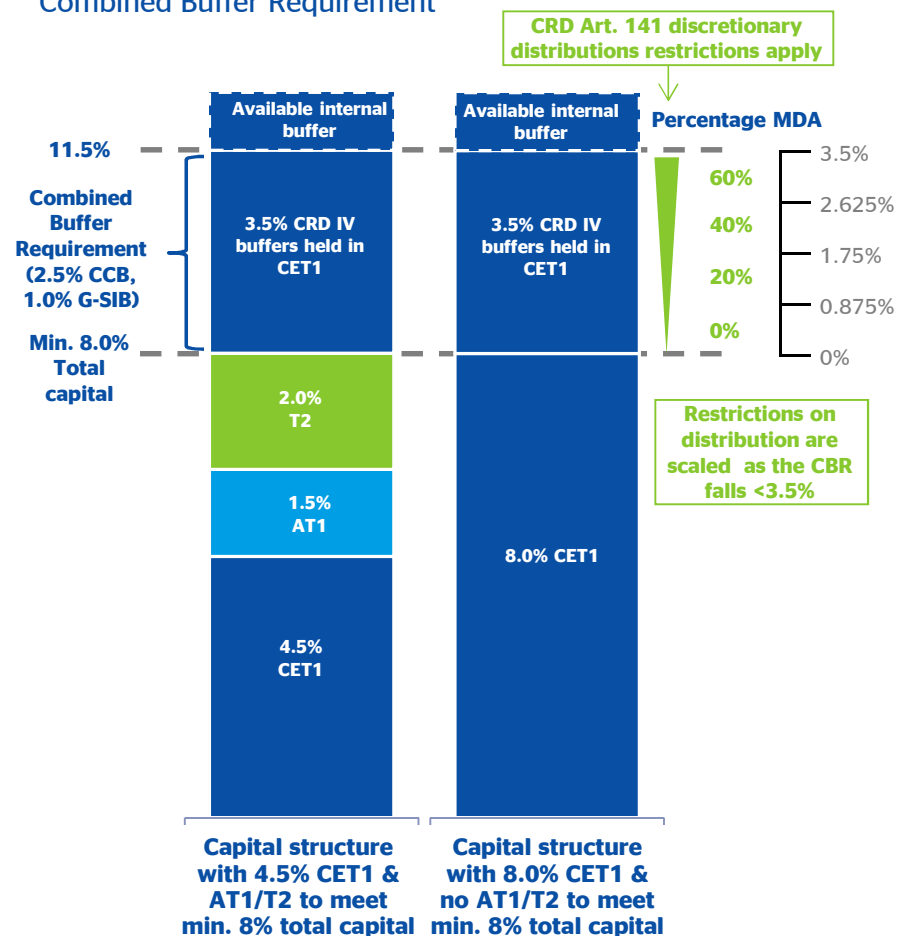
**Investors have shown their confidence on BBVA's capital position highly demanding the product**

(1) Source: Bloomberg Data as of March 3, 2014.

# Rational for the issuance; the Value of AT1 under CRD IV

## Calibrating the optimal T1 capital composition

Example of a fully-phased capital structure with a 3.5% Combined Buffer Requirement



- **AT1 contributes to release CET1 counting for the Combined Buffer Requirement <sup>(1)</sup>:**
  - If no AT1 capital is held, the 1.5% AT1 minimum regulatory requirement must be met with CET1 before calculating the CBR
- **And as a result, inclusion of 1.5% RWAs in AT1 in an end state capital structure mitigates the risk of mandatory restrictions on discretionary distributions under Art. 141 of CRD IV:**
  - In the absence of AT1 or T2 capital, a bank with 11.5% of CET1 and a 3.5% CBR will therefore be operating at the margins of mandatory distribution restrictions
  - Fully applicable / phased-in capital requirements from 2019
- **Concluding: in an efficient capital structure, holding 1.5% of AT1 makes a valuable contribution to organic capital generation:**
  - Below cost of equity
  - Non-dilutive <sup>(2)</sup>
  - Tax deductible distributions under Spanish regulation

(1) BBVA's CBR is currently expected to consist of 2.5% Capital Conservation Buffer (CCB) at both levels and of 1.0% G-SIB Buffer at Group level only  
 (2) Except upon contingent conversion events





# BBVA

In sum, BBVA has a distinct position to face future challenges

## Earnings

- ✓ **High growth potential emerging economies, recovering developed economies**
- ✓ **Improving profitability and asset quality**

## Regulation

- ✓ **Strong capital generation with low leverage**
- ✓ **High loss absorption capacity**
- ✓ **Leadership in new regulation of loss absorption new instruments**

## Customer expectations

- ✓ **Well ahead in the bank's digitalization process**
- ✓ **Principle-based profitability**

Ready to deliver sustainable profit growth

**BBVA**

# BBVA DCM DAY

Erik Schotkamp



London, March 4<sup>th</sup>, 2014