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# *BBVA, a winner in the new normal of the financial industry*

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Banking & Insurance CEO Conference – Bank of America Merrill Lynch
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# Contents

# A bumpy transition to the new normal of the financial industry

**Lower funding from capital markets**

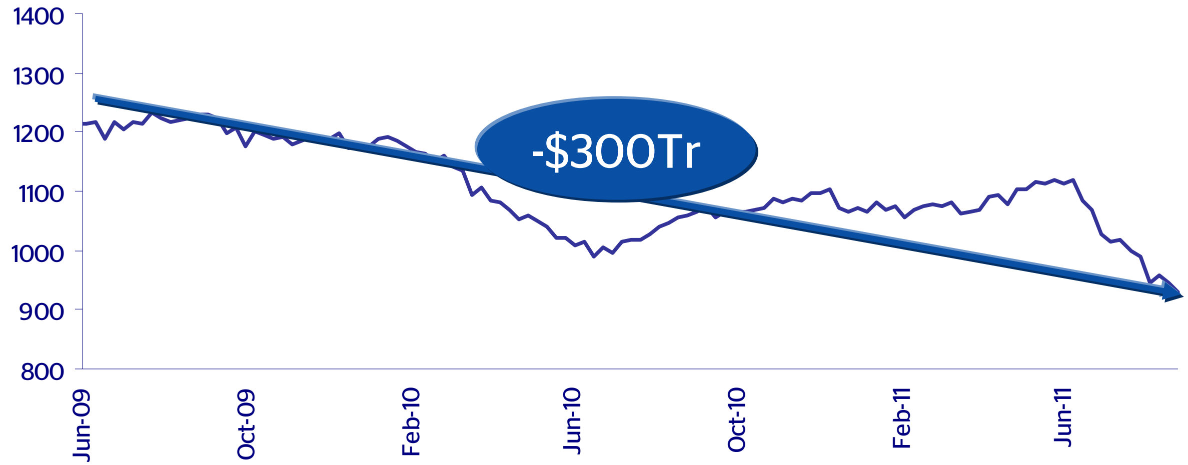
**Regulatory pressures**

**Deleveraging**

Exacerbated by the economic cycle

# Significant reduction of short term funding

US Money Market funds – Non-US Government AUM ($ Tr)

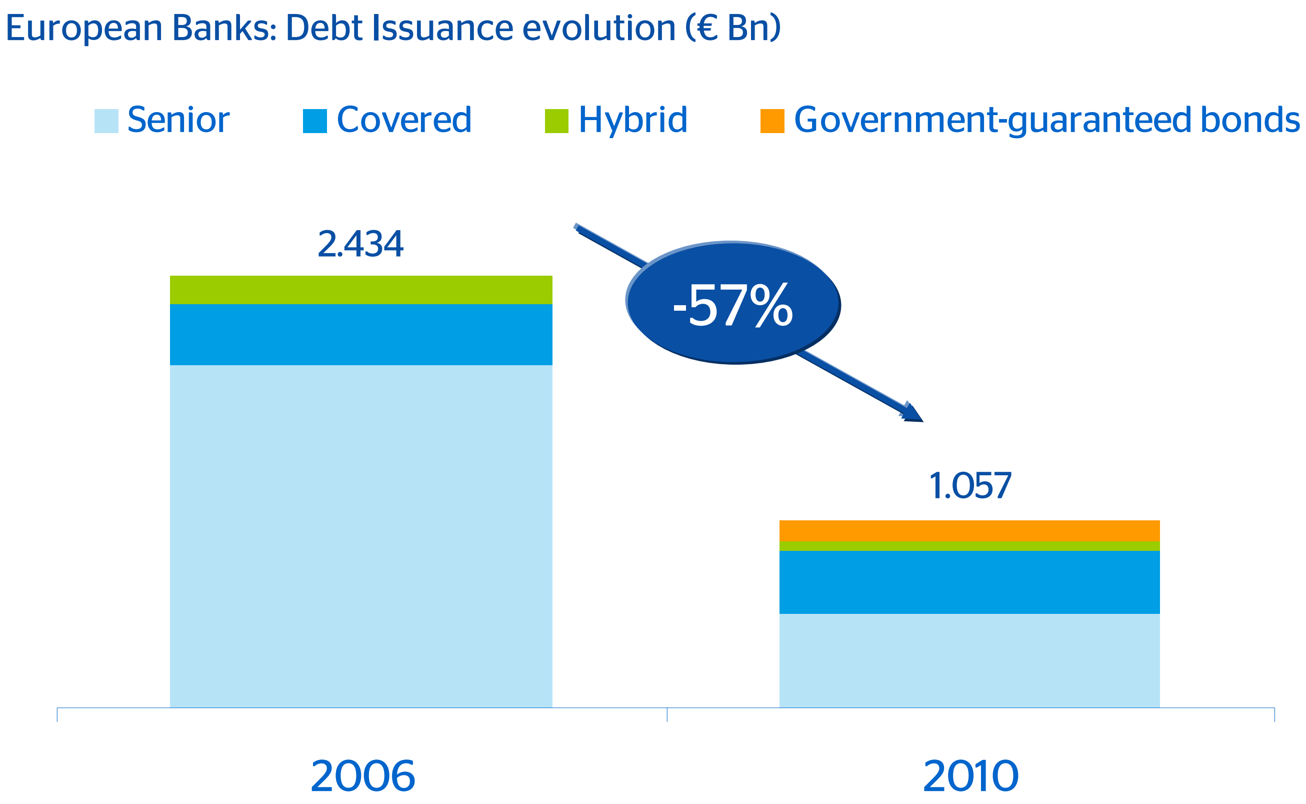



| % AUM to European Financials | Jun-09 | | Jun-11 |
|---|---|---|---|
| | 52% | -10 p.p. | 42% |

**European banks with large USD C&IB asset base, the most affected**

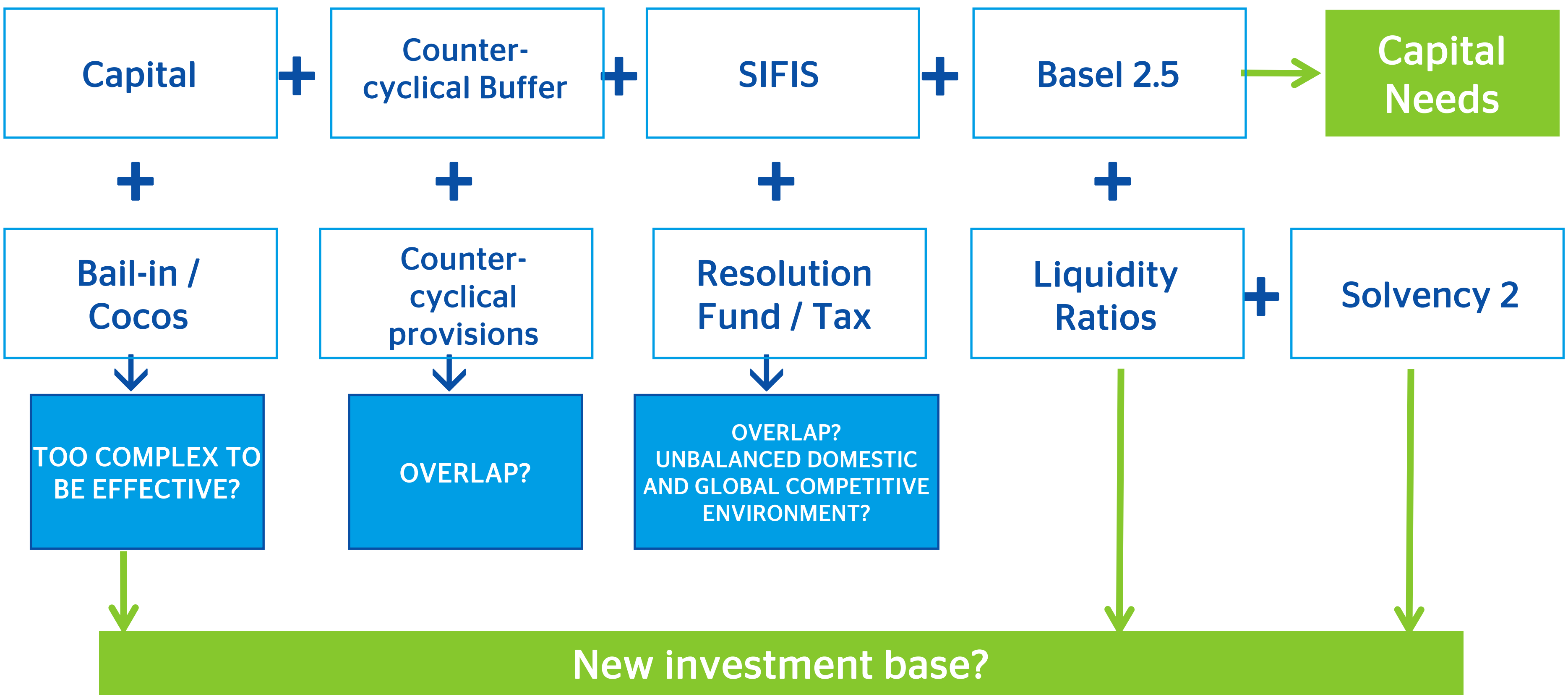
Source: Fitch and FED

# Significant reduction of long term funding




**European banks have funded less than ½ Vs 2006**
**Little appetite for senior debt**

# Increasing regulatory pressures: overlapping and complexity



# Increasing regulatory pressures: fragmentation

**Example: Capital ratios**

BIS III

19% capital ratio

What about RWAs?

CRD4?

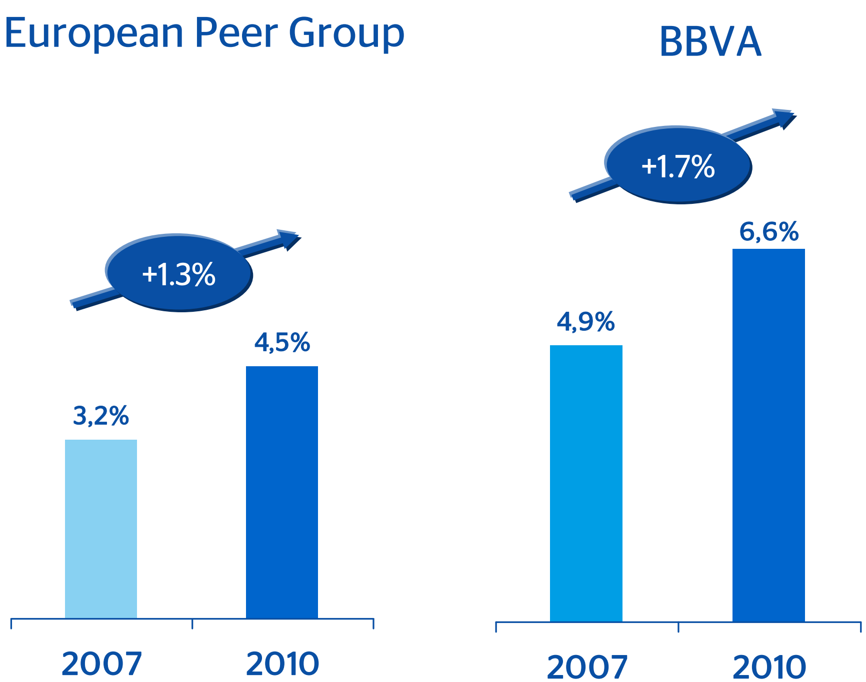
A real commitment?

17-20% capital ratio depending on the business model

**Risk of loosing global regulatory consistency – domestic issues may prevail**

# Lack of sufficient deleveraging among European banks

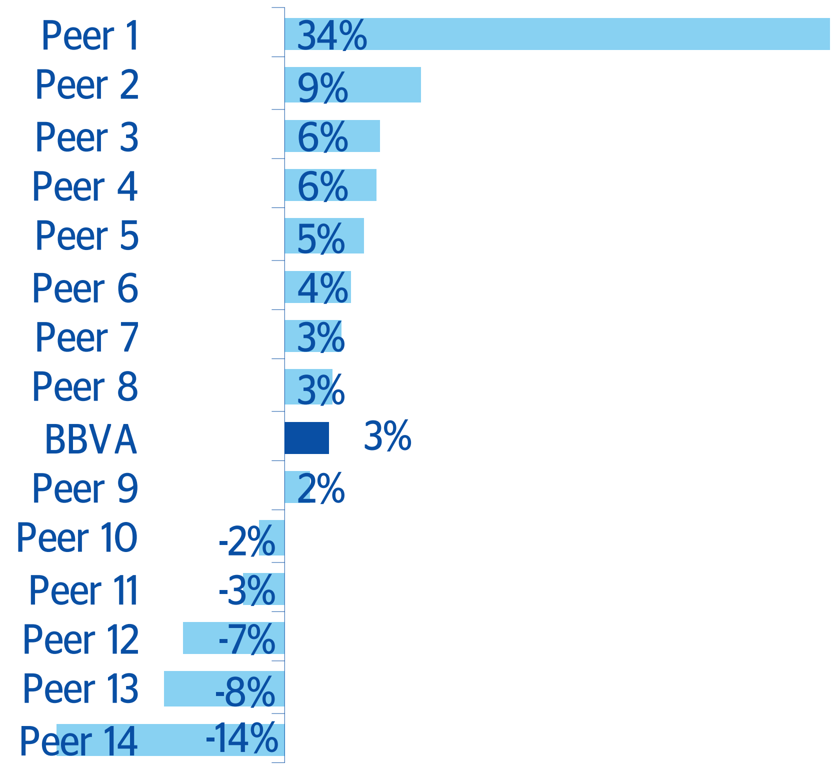
## Equity to Assets (%)




## Assets variation 2010 vs. 2007

BBVA Group vs. Peer Group

(CAGR, %)




**Liquidity constraints exacerbate the need to deleverage**

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

# In this environment the banking industry faces significant challenges

## Transitioning to the new normal

- **Excessive balance sheet size**
- **Liquidity/funding constrains**
- **Regulatory changes**
- **Higher capital requirements**
- **Pressures on profitability**
- **Questioning the viability of certain business models**
- **Lack of growth**

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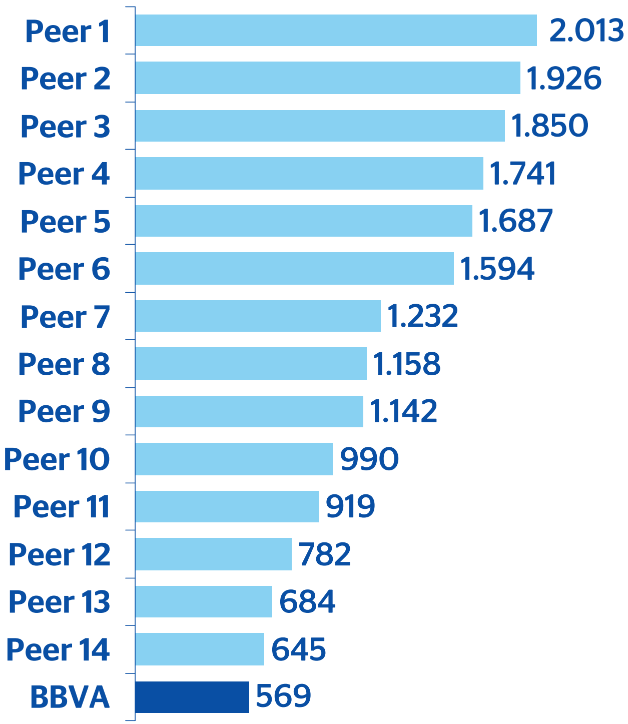
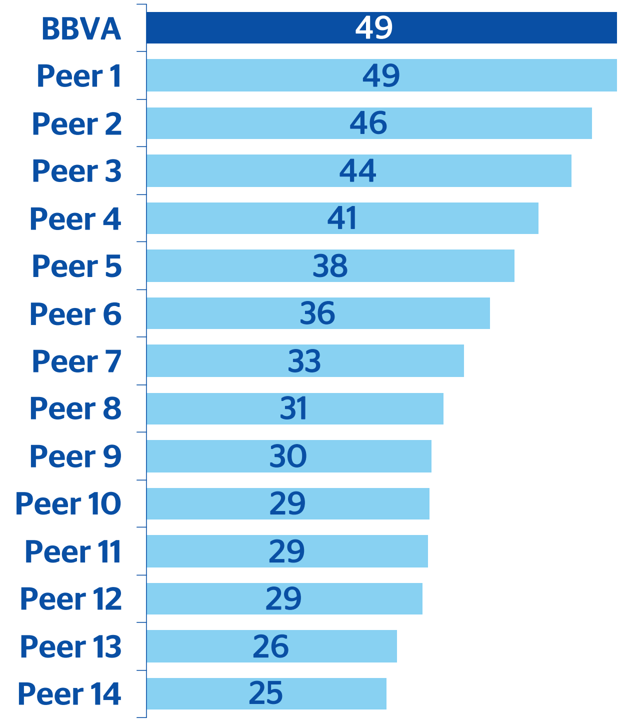
# Small balance sheet with the largest deposit base …

## Total Assets
BBVA Group vs. Peer Group
(1H2011, € bn)




## Customer deposits / Total Assets
BBVA Group vs. Peer Group
(1H2011, %)




**In the transition to the new normal, size matters: the smaller the better**

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

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COMFORTABLE FUNDING POSITON

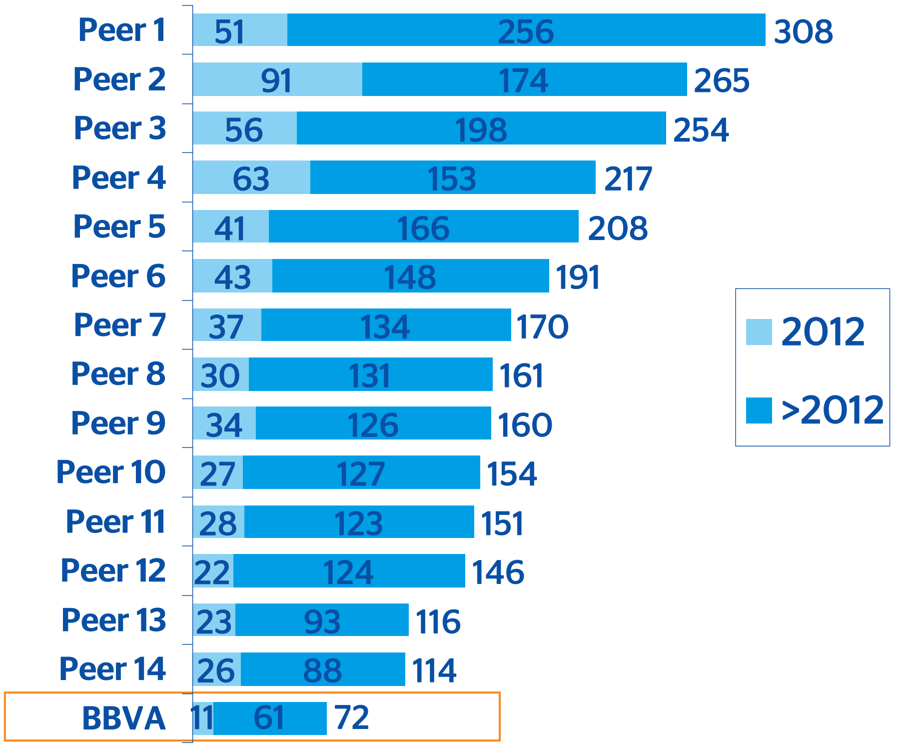
# Low wholesale funding dependence

- 2011 funding needs covered
- Euro funding gap improving
  - €19 bn year-on-year
  - €2 bn in the last quarter
- Not dependent on ECB
- Not dependent on US short term funding
- Available collateral €60bn

## Maturities of term wholesale funding

BBVA Group vs. Peer Group

(€bn)

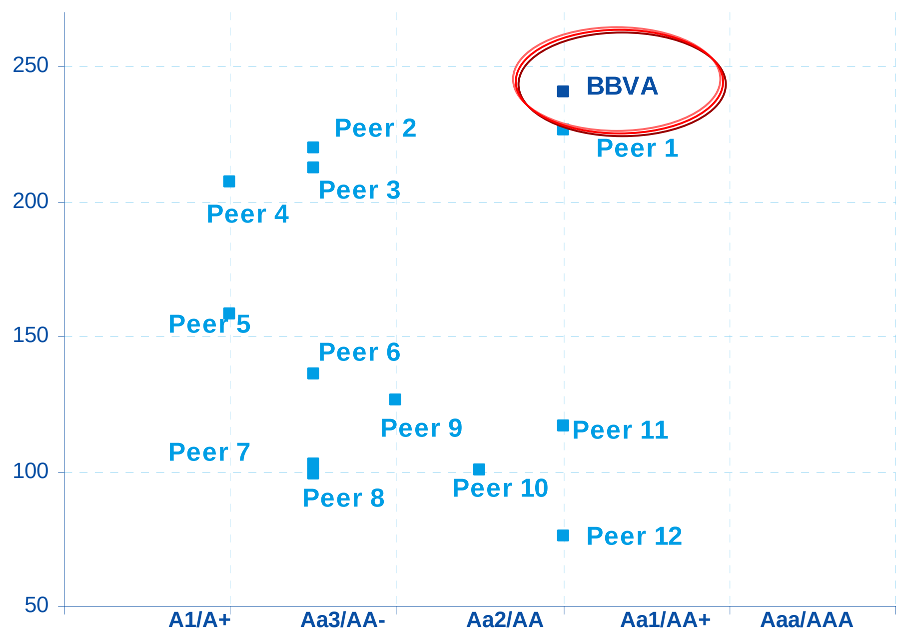



Source: Bloomberg as of Jul 20th, 2011
Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS , SAN, SG, UBS and UCI.

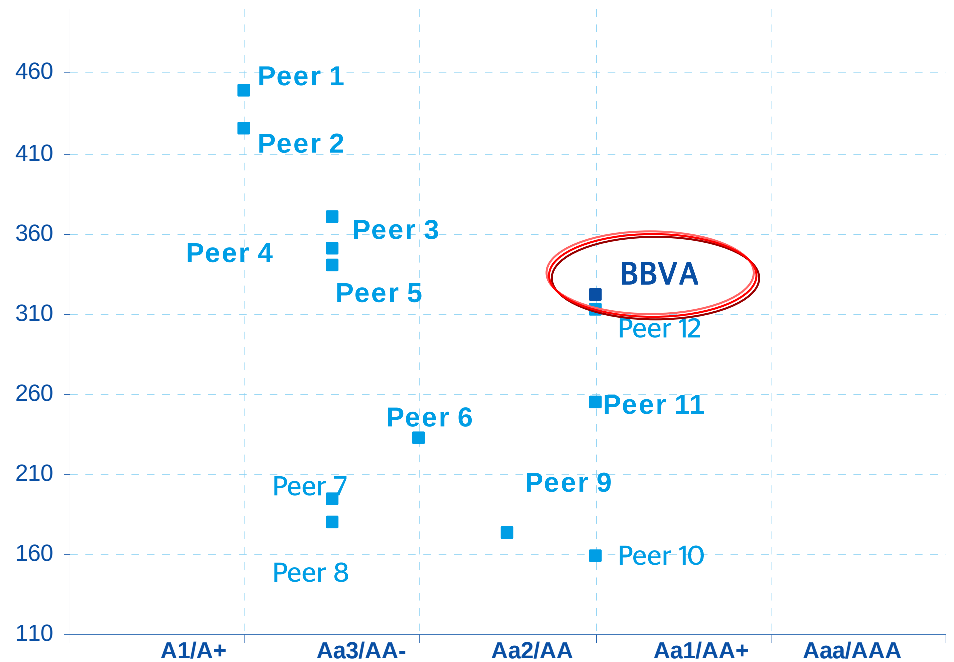
# The market is starting to reassess perceived credit risk

## CDS (bp) vs. Ratings

**30th June 2011**

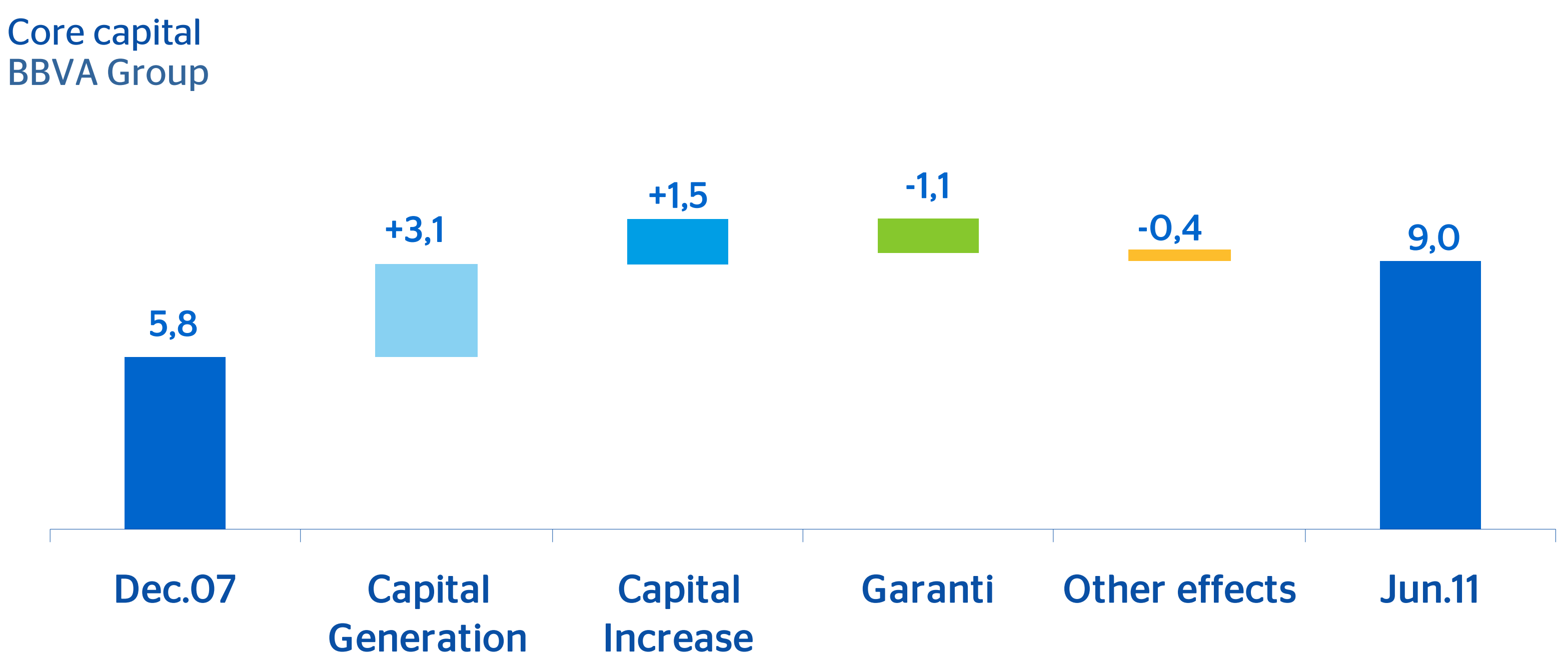



**30th September 2011**



HIGH QUALITY CAPITAL

# Consistent organic capital generation …



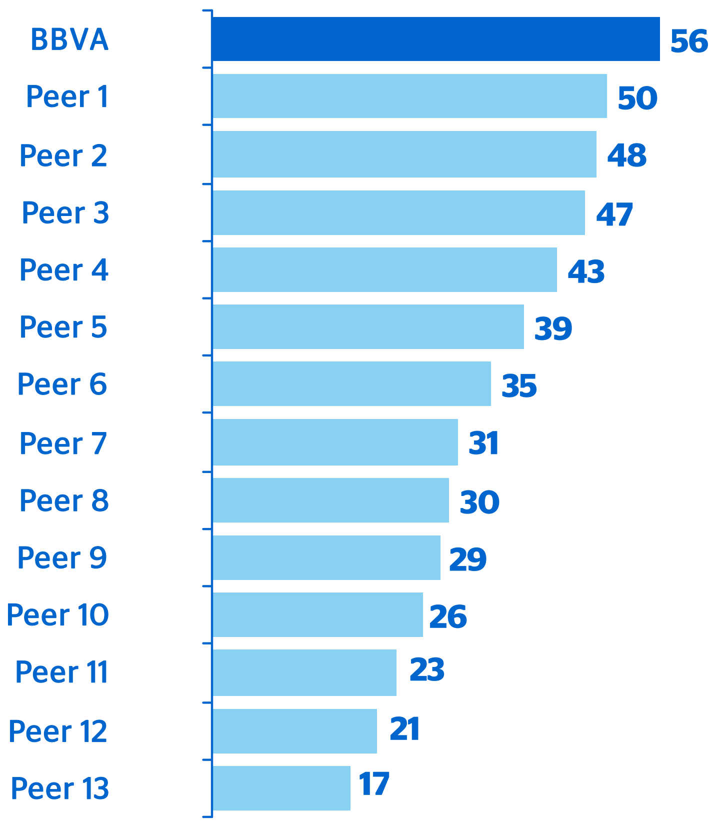

**Organic capital generation: 15-20 bp per quarter**
**Sustainable dividend policy: €0.42 DPS remains the floor (€0.94 EPS 2011e*)**



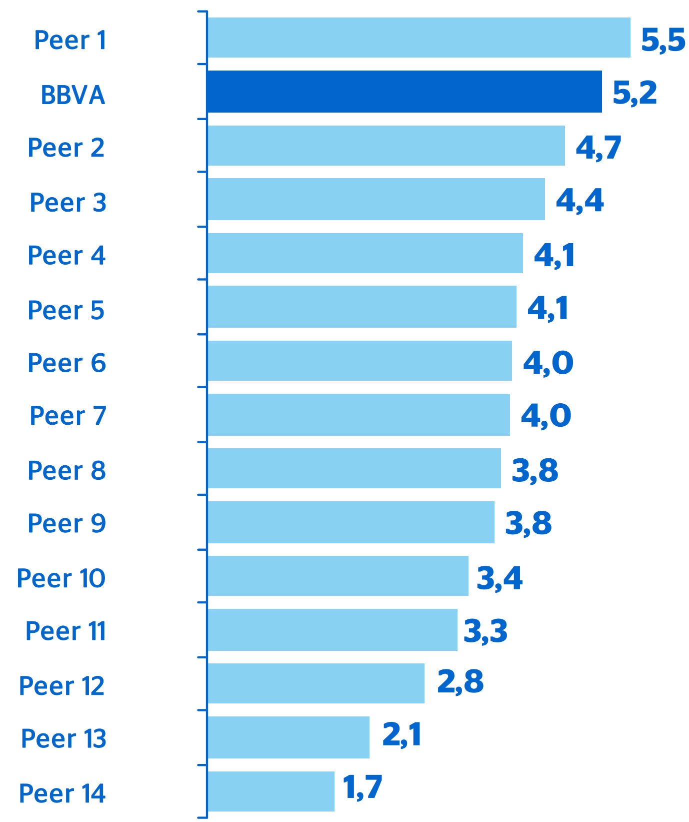
* Source: Bloomberg consensus

# High quality capital with low leverage

## RWAs / Total Assets
(%, 1H11)




## Tangible equity / Tangible Assets
(%, 1H11)

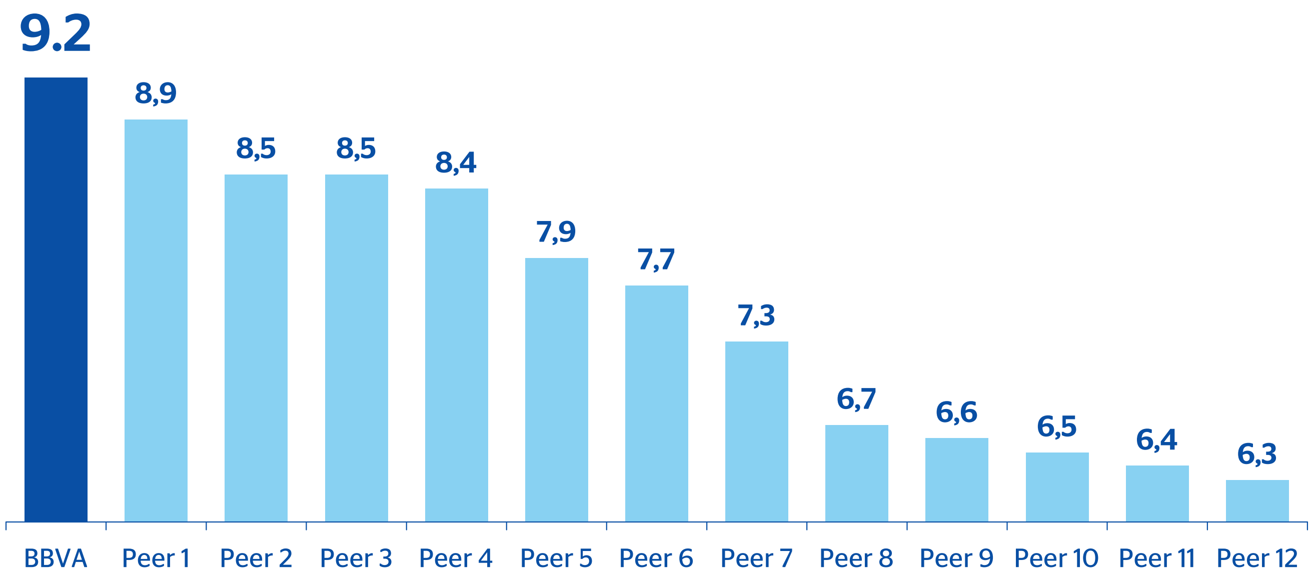



Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS , SAN, SG, UBS & UCI.

HIGH QUALITY CAPITAL

# The most solvent institution among large European banks under stressed scenarios

EBA Core Tier I
Adverse scenario 2012
(%)




**€2 billion generated by converting bonds in July not included (+0.6 pp EBA Core Tier 1)**

Peers: BARCL, BNPP, CASA, CMZ, DB, HSBC, ISP, LBG, RBS , SAN, SG and UCI

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# A successful track record of capital management: anticipation is key

**2008**

€1Bn preferred shares issuance

**2009**

€0.8 Bn sale and lease-back retail network.

€2Bn Convertible Bond Issuance

Dividend payout reduction (30%).

**2010**

€5Bn capital increase (Garanti)

**2011**

Scrip dividend option

Early conversion of convertible bond

**Decisive actions in a very orderly sequence**
**Leaving other sources of capital untouched**

MODEST REGULATORY IMPACT

# BBVA is ready for the regulatory challenge

Simpler, Retail focused business model

Decentralized management of liquidity and capital

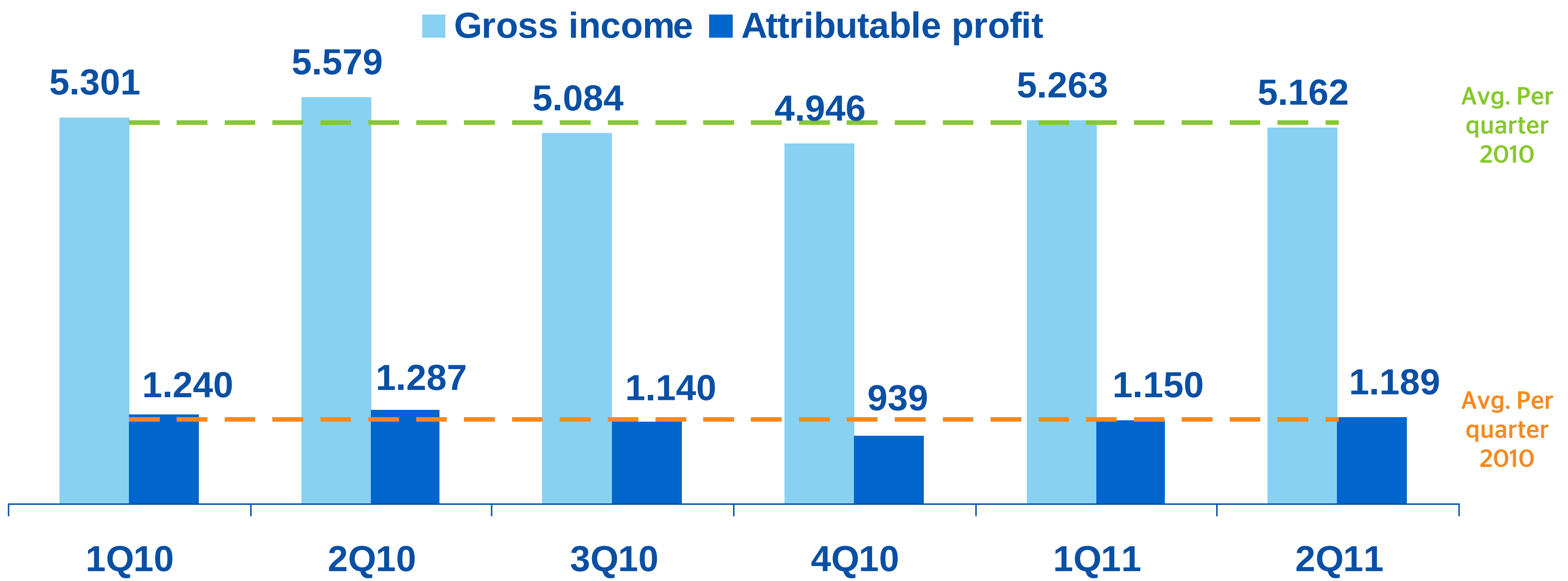
Conservative risk culture

Proven track record in capital and liquidity management

Estimated modest impact from upcoming Regulation

# High and recurrent profitability

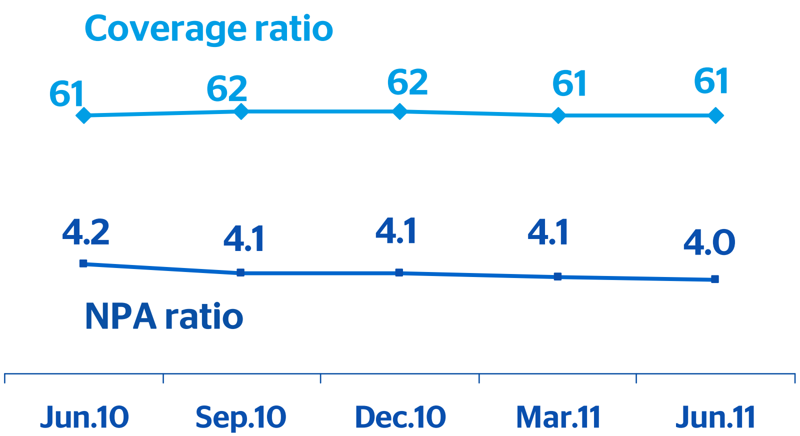
## Gross income and attributable profit
BBVA Group
(€m)



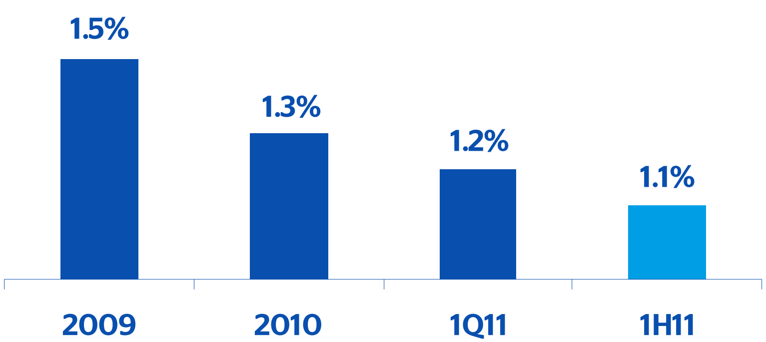

**Good performance in emerging economies offsets decline in developed markets**

# Strong asset quality

## NPA & coverage ratios
BBVA Group
(%)



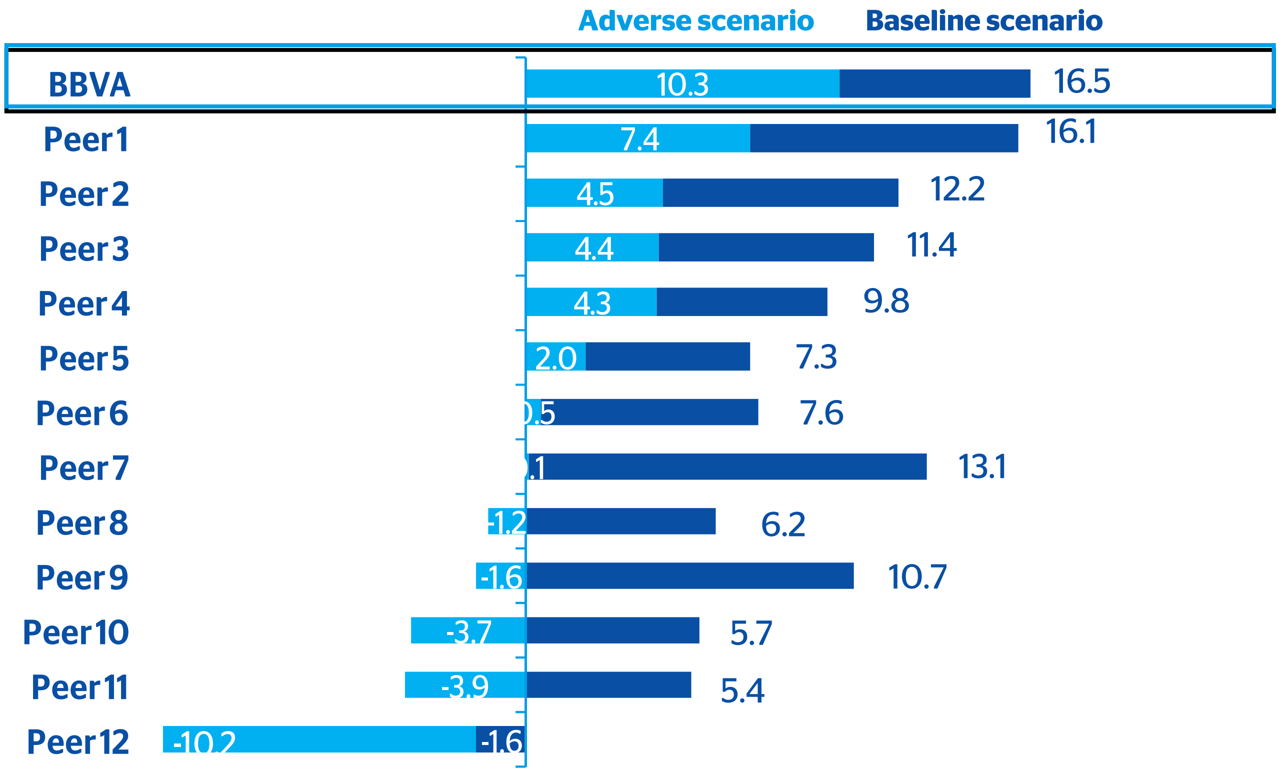

## Cumulative risk premium
BBVA Group
(%)



# HIGH AND RECURRENT PROFITABILITY

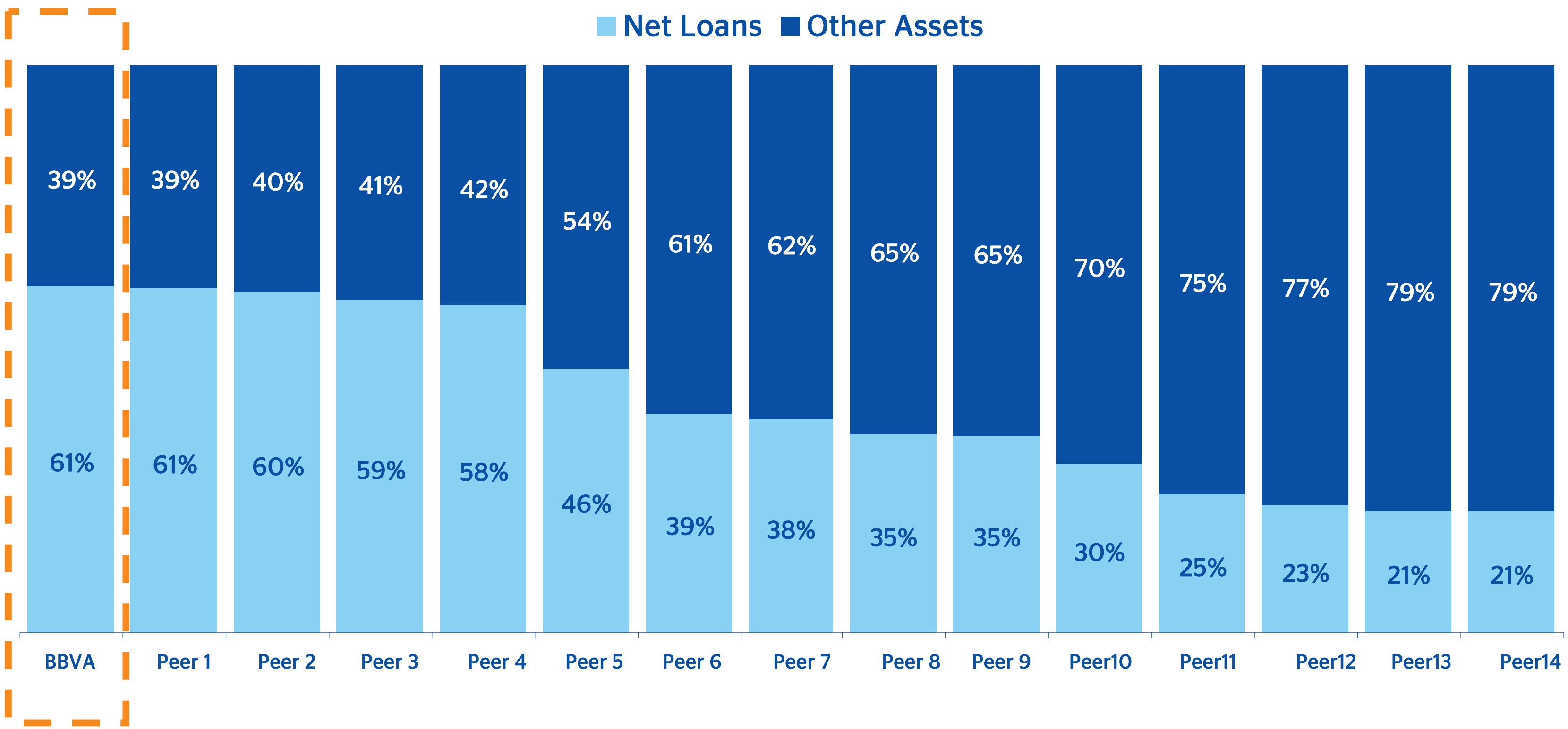
# Sustainable profitability even under stressed scenarios

## ROE* ranking
## Baseline and adverse scenario in 2012
(%)




* **% of core Tier 1, excluding mitigating factors. Peer Group:** BARCL, BNP, CASA, CMZ, DB, HSBC, ISP, LLOYDS, RBS, SAN, SG, UCI. Ranking according to adverse scenario

# A customer – centric, retail business model




**A client-driven business that ensures low volatility of earnings**

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

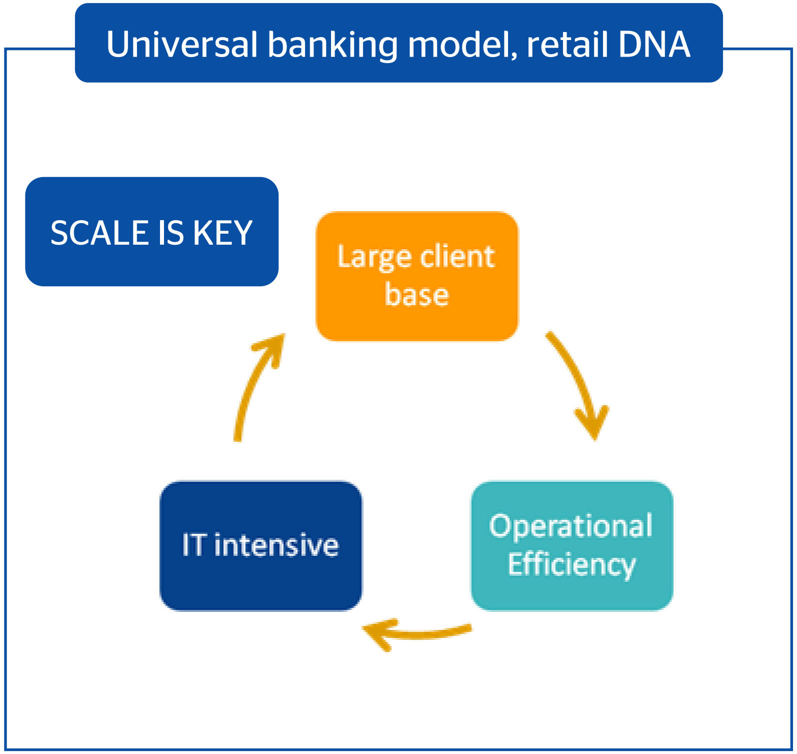
# Leading franchises in each market

| | Loans | Deposits | Ranking |
|---|---|---|---|
| Spain | 12% | 10% | 2nd |
| Mexico | 27% | 24% | 1st |
| South America | 10% | 10% | 2nd |
| USA (Sunbelt) | -- | 7% | 4th |
| Eurasia | | | |
| China (Citic Bank) | 15 % stake (7th) | | |
| Turkey (Garanti Bank) | 25 % stake (1st) | | |

**In retail banking it is crucial to have critical mass in sizeable markets**

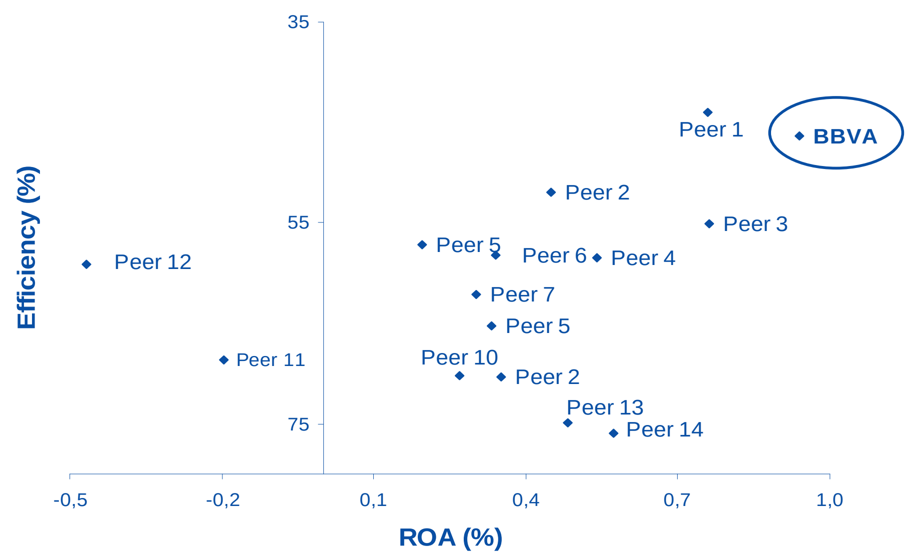
Ranking by deposits (except for China, by assets and for Turkey, by deposits); **Spain**: Data as of November 2010; **México**: Data as of December 2010; **South America**: Data as of September 2010, countries considered: Argentina, Chile, Colombia, Panama, Paraguay, Peru, Uruguay and Venezuela; **USA**: Data as of June, 2010, market share and ranking considering only Texas and Alabama; **China and Turkey**: data as of December 31, 2010.

# Highly profitable and efficient operations




## ROA vs Efficiency

BBVA Group vs Peer Group
(1H2011,%)




ROA: 0.9% ROE: 12.9%

**Relying on technology as a key sustainable competitive advantage**

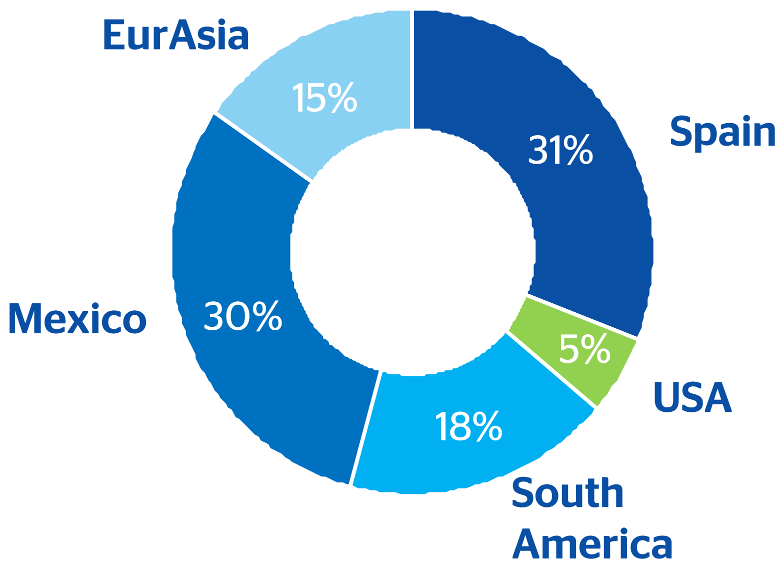
Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS , SAN, SG, UBS & UCI

# Diversified business mix

## Net attributable profit by region [1]

BBVA Group

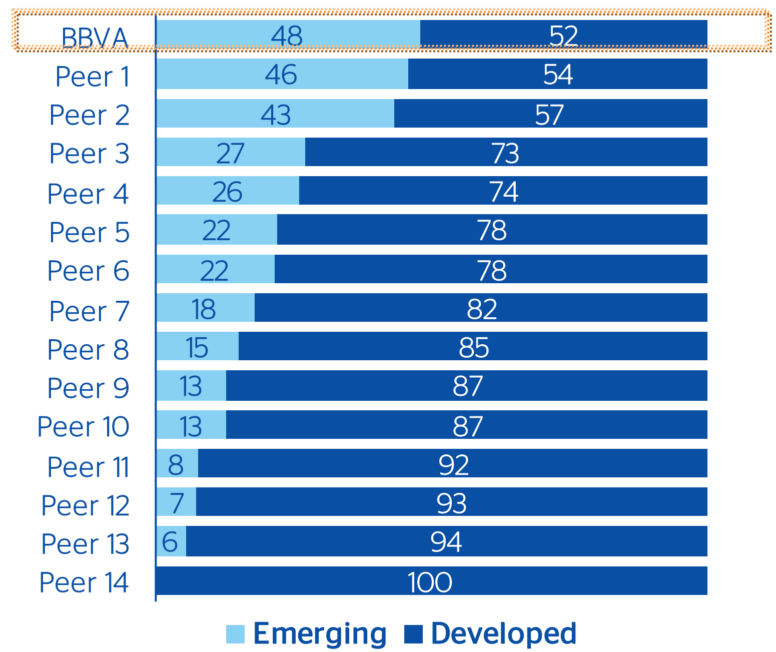
(%) 2Q 2011




## Geographic diversification of revenue [2]

BBVA Group vs Peer Group

(%) 2010

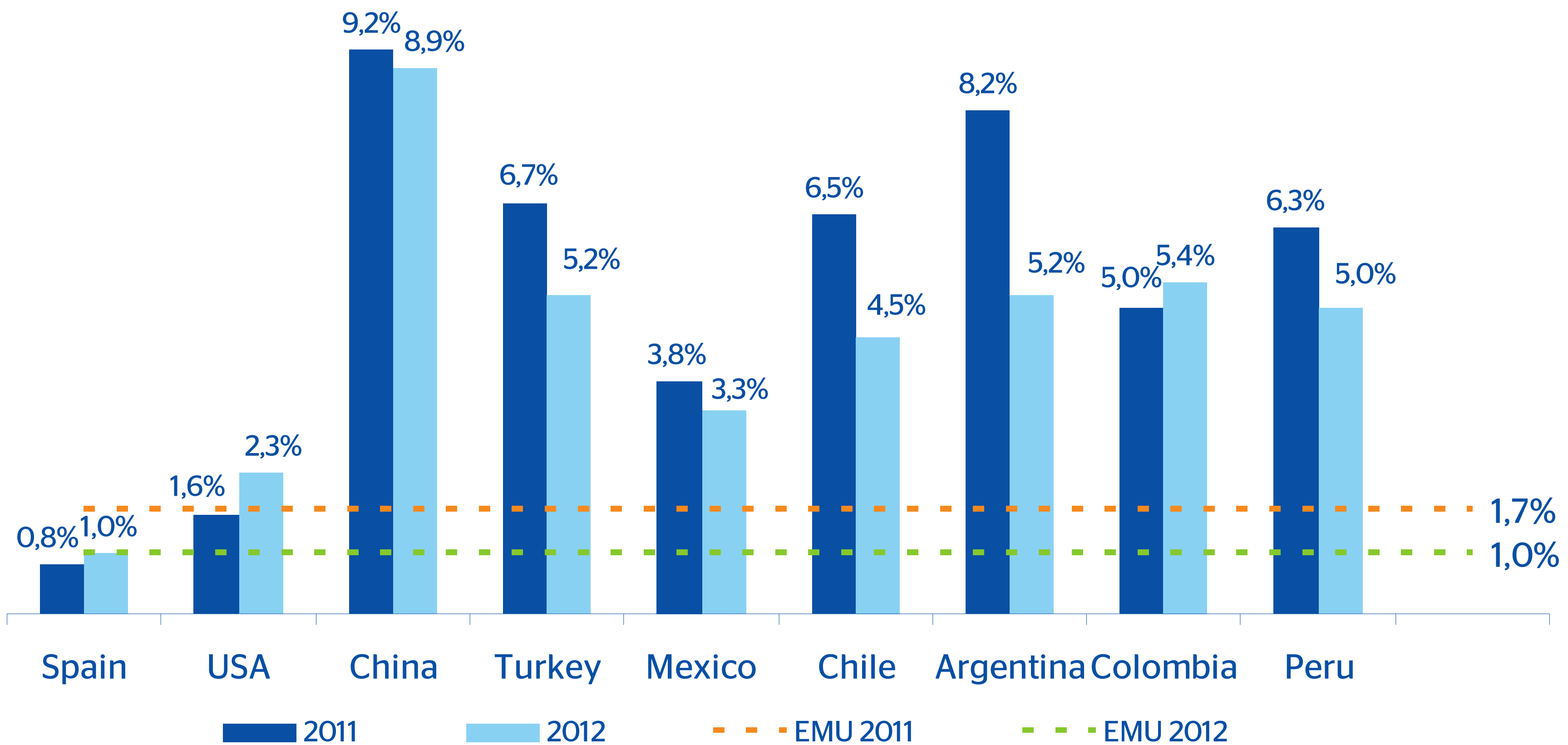



With **Garanti**, emerging market revenue contribution > 50%

(1): Ex holding; (2) In-house preparation using available data as of January, 2011.
Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS , SAN, SG, UBS and UCI.

# Biased to high growth markets

## Estimated real GDP growth
(yoy %)




Source: BBVA Research

# Opportunities in mature markets …

## SPAIN

- Margin normalization
- Market share gains
- Industry consolidation

## USA

- Asset quality improvement
- Efficiency gains
- Market share gains

**Improving profitability**

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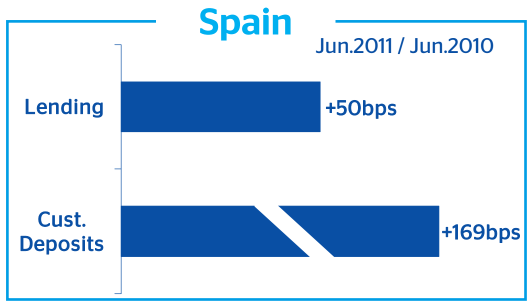
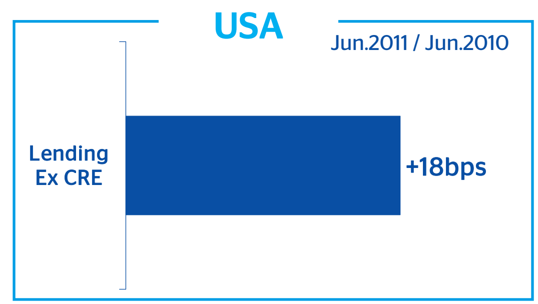
SUSTAINABLE GROWTH

# 1H11: resilience and commercial improvements

## Market share gains . . .

Mkt share gain (Bas.points)




## . . . best price management . . .

| Customer spread* (Jun.2011 vs Dec.2010) | Customer spread (Jun,2011 vs Dec.2010) |
|---|---|
| Spain +16bp | USA + 2 bp |

## . . . risk is stable

NPA ratio and year-on-year change

| Spain | USA |
|---|---|
| 4.7% (-19 bp) | 4.2% (-13 bp) |

* Excluding markets. Note: Market gains calculated according to the latest available information

# Opportunities in high growth markets

## Mexico & South America

- High and sustainable credit demand
- Increase in banking penetration
- Business mix improvement

## Eurasia

- Asia: increase presence in the region and JVs in China with local partner (CITIC)
- Turkey, a new market for BBVA (Garanti)

**Superior growth prospects**

# 1H11: strong growth confirmed

## Customers growing . . .

May.2011 vs May.2010

| Mexico | S. Amer. |
|---|---|
| **+1,659,640 customers** | **+954,890 customers** |

## . . . thriving business . . .

| | Mexico | S. Amer. |
|---|---|---|
| Lending* | **+10.5%** | **+27.8%** |
| Cust. Funds* | **+10.5%** | **+14.8%** |

* Average balances.Year-on-year change

## . . . with the lowest risk in the Group . . .

NPA ratio and year-on-year change

| Mexico | S. Amer. |
|---|---|
| **3.4%** (-39 bp) | **2.4%** (-22 bp) |

## . . . and excellent earnings

Attrib. profit. Year-on-year change

| Mexico | S. Amer. | Asia + Turkey |
|---|---|---|
| **€885m** (+10.1%) | **€529m** (+19.0%) | **€319m** (n/a) |

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# In this environment the banking industry faces significant challenges

## Transitioning to the new normal

- **Excessive balance sheet size**
- **Liquidity/funding constrains**
- **Regulatory changes**
- **Higher capital requirements**
- **Pressures on profitability**
- **Questioning the viability of certain business models**
- **Lack of growth**

BBVA is already where the industry aims to be in the future

# What makes BBVA a winner in the new normal?

| | |
|---|---|
| High and recurrent profitability | • Highly profitable and efficient operations<br>• With a strong asset quality |
| Strong Balance Sheet and Capital | • Track record in capital and liquidity management<br>• Comfortable funding position - small balance sheet<br>• High quality capital even under stressed scenarios |
| Diversified retail business model | • Customer centric retail bank<br>• Leading franchises in each market<br>• Geographically diversified business mix |
| Attractive business outlook | • In mature markets<br>• In high growth markets |

**BBVA, an investable choice**

# *BBVA, a winner in the new normal of the financial industry*

Manuel Gonzalez Cid, CFO

Banking & Insurance CEO Conference – Bank of America Merrill Lynch

London, October 5th 2011