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

Manuel Gonzalez Cid, CFO
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1 Transitioning to the new normal

2 What makes BBVA a winner in the new normal of the financial industry?

3 Conclusions
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
52%

-10 p.p.

Jun-11
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: Debt Issuance evolution (€ Bn)

- Senior
- Covered
- Hybrid
- Government-guaranteed bonds

European banks have funded less than ½ Vs 2006
Little appetite for senior debt
Increasing regulatory pressures: overlapping and complexity

- Capital
- Counter-cyclical Buffer
- SIFIS
- Basel 2.5
- Capital Needs
- Bail-in / Cocos
- Counter-cyclical provisions
- Resolution Fund / Tax
- Liquidity Ratios
- Solvency 2

New investment base?

- TOO COMPLEX TO BE EFFECTIVE?
- OVERLAP?
- OVERLAP?
- UNBALANCED DOMESTIC AND GLOBAL COMPETITIVE ENVIRONMENT?
Increasing regulatory pressures: fragmentation

Example: Capital ratios

BIS III

FSB

G-20

19% capital ratio

CRD4?

A real commitment?

What about RWAs?

17-20% capital ratio depending on the business model

Risk of losing global regulatory consistency - domestic issues may prevail
Lack of sufficient deleveraging among European banks

Equity to Assets (%)

European Peer Group

<table>
<thead>
<tr>
<th>Year</th>
<th>Peer</th>
<th>Equity</th>
<th>Europe</th>
<th>BBVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Peer 1</td>
<td>3.2%</td>
<td>4.5%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2010</td>
<td>Peer 2</td>
<td>4.5%</td>
<td>6.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td></td>
<td>BBVA</td>
<td>6.6%</td>
<td>6.6%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Assets variation 2010 vs. 2007
BBVA Group vs. Peer Group
(CAGR, %)

<table>
<thead>
<tr>
<th>Peer</th>
<th>2007</th>
<th>2010</th>
<th>BBVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer 1</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Peer 2</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Peer 3</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Peer 4</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Peer 5</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Peer 6</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Peer 7</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Peer 8</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>BBVA</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Peer 9</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Peer 10</td>
<td>-2%</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Peer 11</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
</tr>
<tr>
<td>Peer 12</td>
<td>-7%</td>
<td>-7%</td>
<td>-7%</td>
</tr>
<tr>
<td>Peer 13</td>
<td>-8%</td>
<td>-8%</td>
<td>-8%</td>
</tr>
<tr>
<td>Peer 14</td>
<td>-14%</td>
<td>-14%</td>
<td>-14%</td>
</tr>
</tbody>
</table>

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.
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) |
|---------------------|---------------------|
| Peer 1              | Peer 2              | Peer 3              | Peer 4              | Peer 5              | Peer 6              | Peer 7              | Peer 8              | Peer 9              | Peer 10             | Peer 11             | Peer 12             | Peer 13             | Peer 14             |
| 51                  | 91                  | 56                  | 63                  | 41                  | 43                  | 37                  | 30                  | 34                  | 27                  | 28                  | 22                  | 23                  | 26                  |
| 256                 | 174                 | 198                 | 153                 | 166                 | 148                 | 134                 | 131                 | 126                 | 127                 | 123                 | 124                 | 93                  | 88                  |
| 308                 | 265                 | 254                 | 217                 | 208                 | 191                 | 170                 | 161                 | 160                 | 154                 | 151                 | 146                 | 116                 | 114                 |

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
Consistent organic capital generation ...

Core capital BBVA Group

Dec.07 Capital Generation +3.1 Capital Increase +1.5 Garanti -1.1 Other effects -0.4 Jun.11 9.0

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

<table>
<thead>
<tr>
<th>RWAs / Total Assets (%)</th>
<th>Tangible equity / Tangible Assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBVA 56</td>
<td>BBVA 5,5</td>
</tr>
<tr>
<td>Peer 1 50</td>
<td>Peer 1 5,2</td>
</tr>
<tr>
<td>Peer 2 48</td>
<td>Peer 2 4,7</td>
</tr>
<tr>
<td>Peer 3 47</td>
<td>Peer 3 4,4</td>
</tr>
<tr>
<td>Peer 4 43</td>
<td>Peer 4 4,1</td>
</tr>
<tr>
<td>Peer 5 39</td>
<td>Peer 5 4,1</td>
</tr>
<tr>
<td>Peer 6 35</td>
<td>Peer 6 4,0</td>
</tr>
<tr>
<td>Peer 7 31</td>
<td>Peer 7 4,0</td>
</tr>
<tr>
<td>Peer 8 30</td>
<td>Peer 8 3,8</td>
</tr>
<tr>
<td>Peer 9 29</td>
<td>Peer 9 3,8</td>
</tr>
<tr>
<td>Peer 10 26</td>
<td>Peer 10 3,4</td>
</tr>
<tr>
<td>Peer 11 23</td>
<td>Peer 11 3,3</td>
</tr>
<tr>
<td>Peer 12 21</td>
<td>Peer 12 2,8</td>
</tr>
<tr>
<td>Peer 13 17</td>
<td>Peer 13 2,1</td>
</tr>
<tr>
<td>Peer 14 1,7</td>
<td>Peer 14 1,7</td>
</tr>
</tbody>
</table>

Peer Group: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS, SAN, SG, UBS, & UCI.
The most solvent institution among large European banks under stressed scenarios

EBA Core Tier I
Adverse scenario 2012 (%)

BBVA Peer 1 Peer 2 Peer 3 Peer 4 Peer 5 Peer 6 Peer 7 Peer 8 Peer 9 Peer 10 Peer 11 Peer 12
8.9 8.5 8.5 8.4 7.9 7.7 7.3 6.7 6.6 6.5 6.4 6.3

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>€1Bn preferred shares issuance</td>
</tr>
<tr>
<td>2009</td>
<td>€0.8 Bn sale and lease-back retail network. €2Bn Convertible Bond Issuance Dividend payout reduction (30%).</td>
</tr>
<tr>
<td>2010</td>
<td>€5Bn capital increase (Garanti)</td>
</tr>
<tr>
<td>2011</td>
<td>Scrip dividend option Early conversion of convertible bond</td>
</tr>
</tbody>
</table>

Decisive actions in a very orderly sequence
Leaving other sources of capital untouched
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
Good performance in emerging economies offsets decline in developed markets
NPA & coverage ratios
BBVA Group (%)

Coverage ratio

NPA ratio

Jun.10  Sep.10  Dec.10  Mar.11  Jun.11

Cumulative risk premium
BBVA Group (%)

Strong asset quality

HIGH AND RECURRENT PROFITABILITY

HIGH AND RECURRENT PROFITABILITY

Strong asset quality
Sustainable profitability even under stressed scenarios

**ROE** ranking

Baseline and adverse scenario in 2012 (%)

<table>
<thead>
<tr>
<th></th>
<th>Adverse scenario</th>
<th>Baseline scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBVA</td>
<td>10.3</td>
<td>16.5</td>
</tr>
<tr>
<td>Peer1</td>
<td>7.4</td>
<td>16.1</td>
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<tr>
<td>Peer2</td>
<td>4.5</td>
<td>12.2</td>
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<tr>
<td>Peer3</td>
<td>4.4</td>
<td>11.4</td>
</tr>
<tr>
<td>Peer4</td>
<td>4.3</td>
<td>9.8</td>
</tr>
<tr>
<td>Peer5</td>
<td>2.0</td>
<td>7.3</td>
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<tr>
<td>Peer6</td>
<td>1.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Peer7</td>
<td>1.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Peer8</td>
<td>-1.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Peer9</td>
<td>-1.6</td>
<td>10.7</td>
</tr>
<tr>
<td>Peer10</td>
<td>-3.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Peer11</td>
<td>-3.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Peer12</td>
<td>-10.2</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

* % 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

ATTRAUTOIVE 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

<table>
<thead>
<tr>
<th>Market</th>
<th>Loans</th>
<th>Deposits</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>12%</td>
<td>10%</td>
<td>2nd</td>
</tr>
<tr>
<td>Mexico</td>
<td>27%</td>
<td>24%</td>
<td>1st</td>
</tr>
<tr>
<td>South America</td>
<td>10%</td>
<td>10%</td>
<td>2nd</td>
</tr>
<tr>
<td>USA (Sunbelt)</td>
<td>--</td>
<td>7%</td>
<td>4th</td>
</tr>
<tr>
<td>Eurasia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China (Citic Bank)</td>
<td>15% stake (7th)</td>
<td>25% stake (1st)</td>
<td></td>
</tr>
<tr>
<td>Turkey (Garanti Bank)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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. Mexico: 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

ATTRACTION BUSINESS MODEL

Universal banking model, retail DNA

SCALE IS KEY

Large client base

IT intensive

Operational Efficiency

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
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
1H11: resilience and commercial improvements

Market share gains...

- **Spain**
  - Lending: +50bps
  - Cust. Deposits: +169bps

- **USA**
  - Lending: +18bps

...best price management...

- **Spain**
  - Customer spread*: +16bp

- **USA**

...risk is stable

- **Spain**
  - NPA ratio: 4.7% (-19 bp)

- **USA**
  - NPA ratio: 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...

- Mexico: +1,659,640 customers
- South Amer.: +954,890 customers

...thriving business...

- Mexico: Lending* +10.5%, Cust. Funds* +10.5%
- South Amer.: +27.8% (+14.8%)

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

- Mexico: NPA ratio 3.4% (-39 bp)
- South Amer.: 2.4% (-22 bp)

...and excellent earnings

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

* Average balances. Year-on-year change
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- 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?

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

BBVA, an investable choice
BBVA, a winner in the new normal of the financial industry

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