

***BBVA Spain: Management Priorities in the
New Environment***

Ángel Reglero, BBVA Spain Chief Financial Officer

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- 1 BBVA Group: Strengths in the new environment**
- 2 BBVA Spain: Management priorities
- 3 Takeaways



BBVA

BBVA, ready to take advantage of the new industry environment

Industry themes

1
Global growth

2
Regulation

3
Banking industry transformation

BBVA's strengths

A **well-diversified** footprint with **leading** franchises

Ability to **generate capital organically**

Leading the change

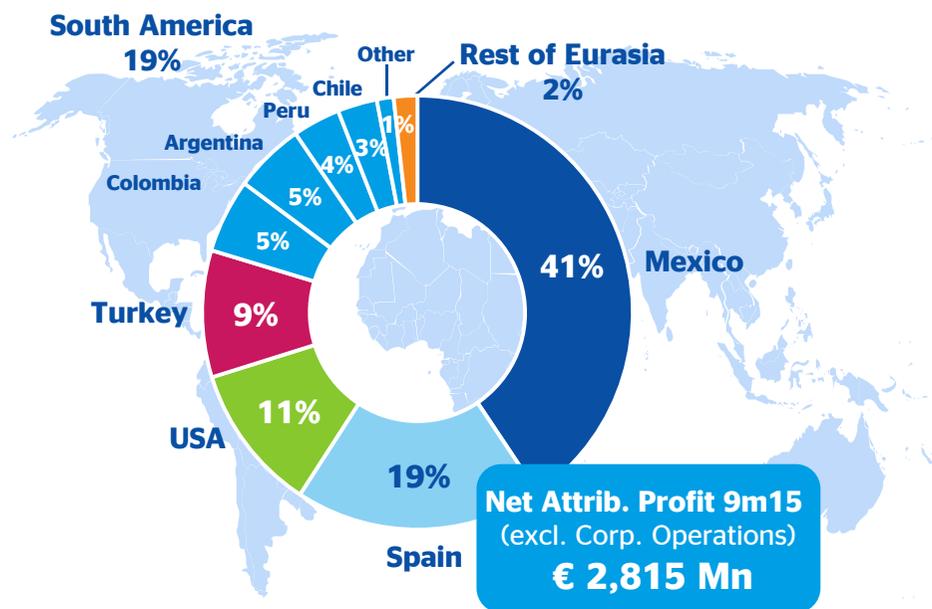
BBVA has a well-diversified footprint supported by dominant and quality franchises ...

BBVA Group's 9m15 Net attributable profit

Breakdown by country ⁽¹⁾

Market share and ranking by loans

Detail by country ⁽²⁾



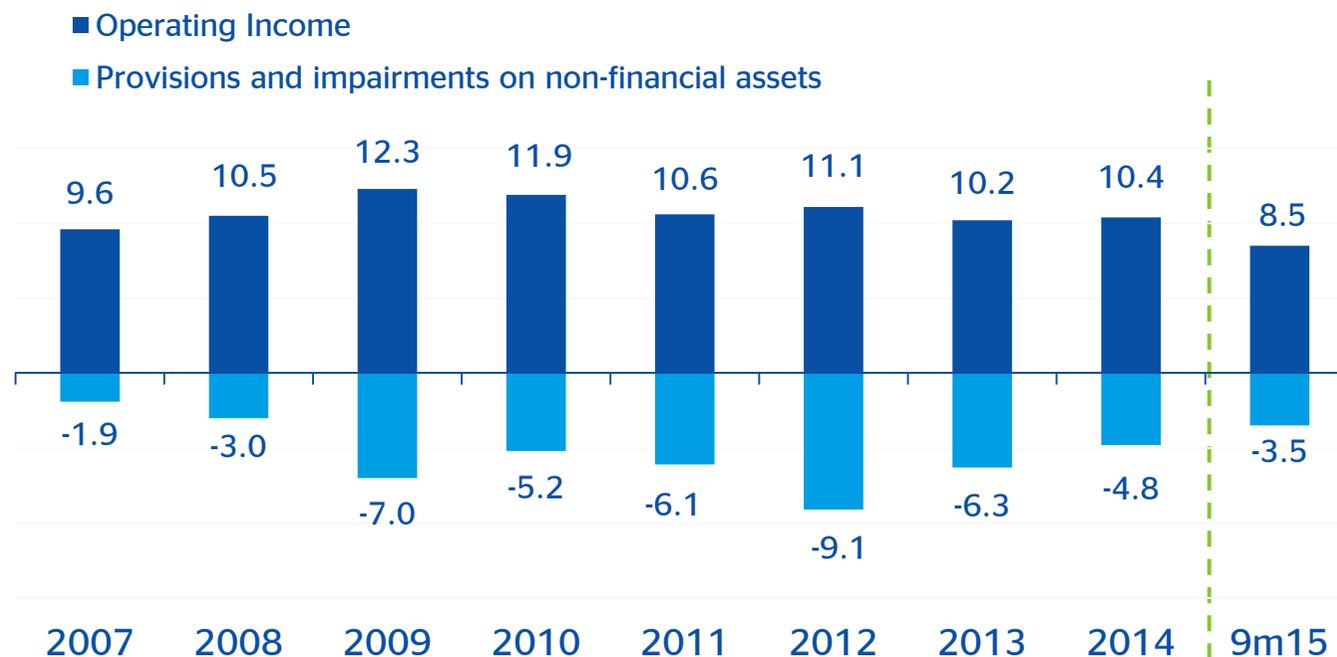
	Market share (%)	Ranking (#)
Mexico	24.1%	1 st
Spain	14.7%	2 nd
Turkey	11.9%	2 nd
South America (ex Brazil)	10.4%	1 st
USA (Sunbelt)	6.3%	4 th

> 90% of net attributable profit coming from investment grade countries ⁽³⁾, mainly from Mexico and Spain

(1) Pro-forma calculation including a 39.9% stake in Garanti. Figures exclude Corporate Centre. (2) Spain: Other domestic sector + Public sector data as of June, 2015 (BBVA+ Catalunya Banc (CX)); Mexico: data as of July, 2015; South America: data as of June, 2015; ranking considering only our main peers in each country; USA: as of June, 2015 considering only Texas and Alabama; Turkey: BRSA data for commercial banks as of September 2015. (3) Investment grade countries: Spain, USA, Mexico, Chile, Colombia, Peru, Uruguay, China, Turkey (except by S&P) and rest of Europe; Non-investment grade countries: Portugal, Argentina, Paraguay and Venezuela.

... allowing BBVA to maintain resilient profits ...

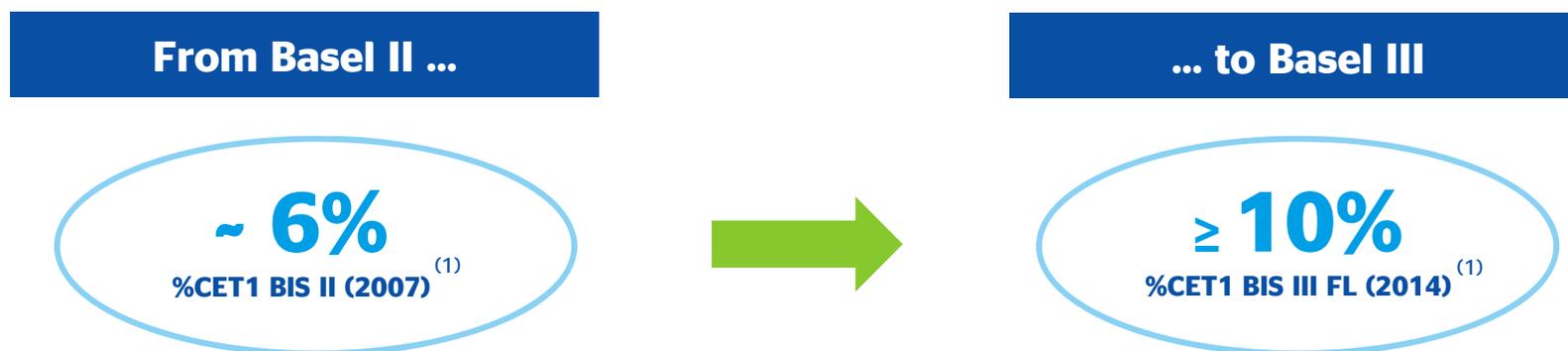
BBVA's operating income vs. provisions and impairment on non-financial assets
(€ Bn)



... even under stressed scenarios

Regulatory environment: despite considerable increase in capital levels in recent years ...

- ✓ Since 2007, banks have increased their capital ratios in a significant manner



- ✓ The focus is now on harmonization (CET1, RWAs), resolution and taxpayer protection



... still unclear impact of the implementation of new proposals

BBVA has a proven ability to generate capital organically

Solvency

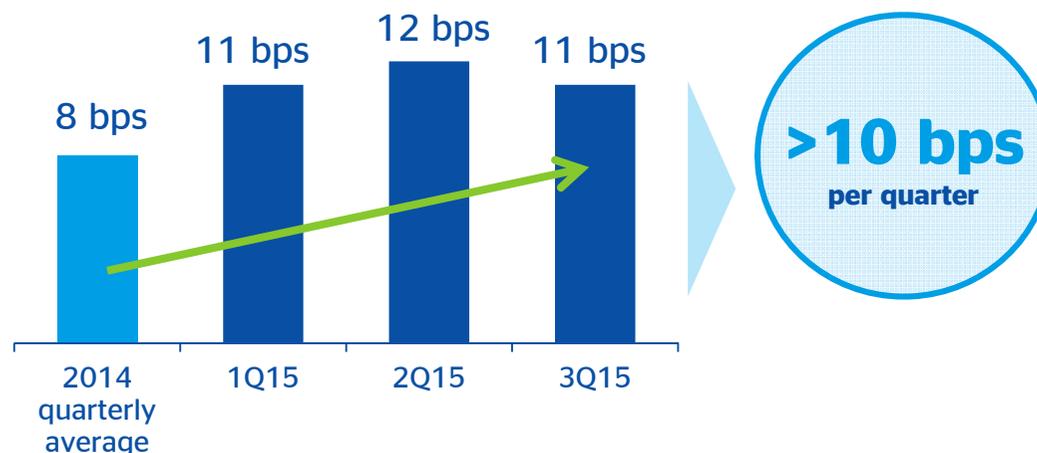
BBVA Group (Sept.15)

CET1 capital ratios

Fully-loaded	Phased-in
9.8%	11.7%

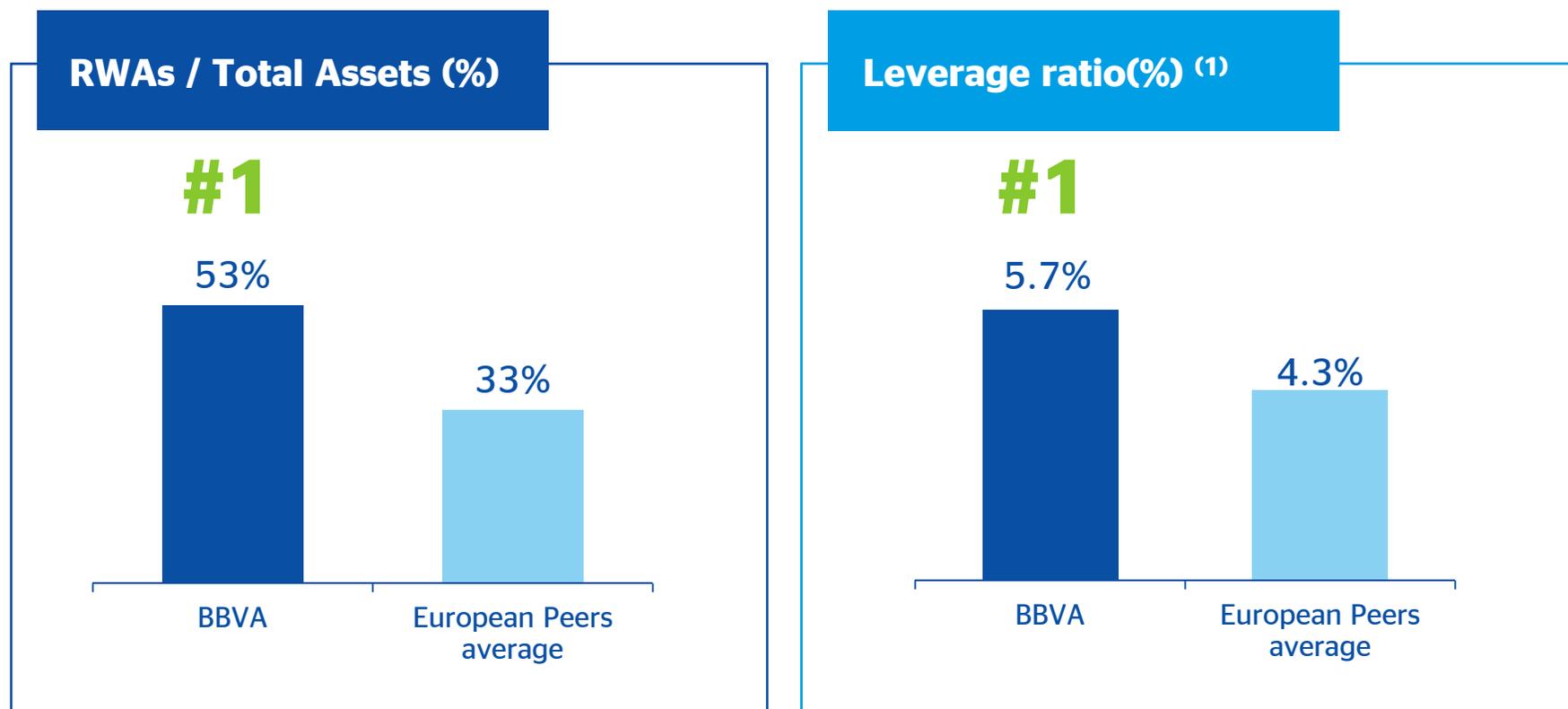
Leverage Ratio

Fully-loaded
5.7%

Organic capital generation**CET1 capital ratio fully-loaded**
BBVA Group

Disciplined capital management as a key priority

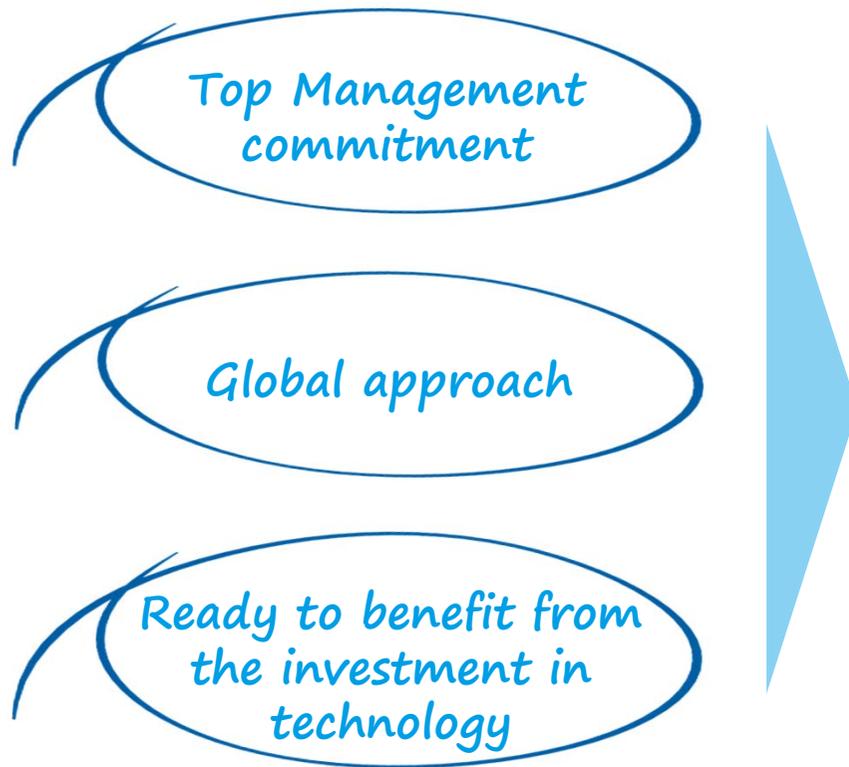
BBVA stands out among its peers for the quality of its capital



Well prepared for the harmonization process

(1) CRDIV fully-loaded. Within the European Peers average for the leverage ratio, CASA e ISP do not publish their leverage ratio. European peer group: BARC, BNPP, CASA, CS, CMZ, DB, HSBC, ISP, LBG, RBS, SAN, SG, UBS and UCG. European peer data as of Jun.15 vs. BBVA as of Sept.15

BBVA ahead of its peers in the industry transformation process



Strategic Priorities:

- | | | |
|---|-----------------------------------|-------------------------------------|
| 1
New standard in customer experience | 2
Drive digital sales | 3
New business models |
| 4
Optimize capital allocation | 5
Unrivalled efficiency | 6
A first class workforce |

Customer at the center of all strategic decisions



BBVA

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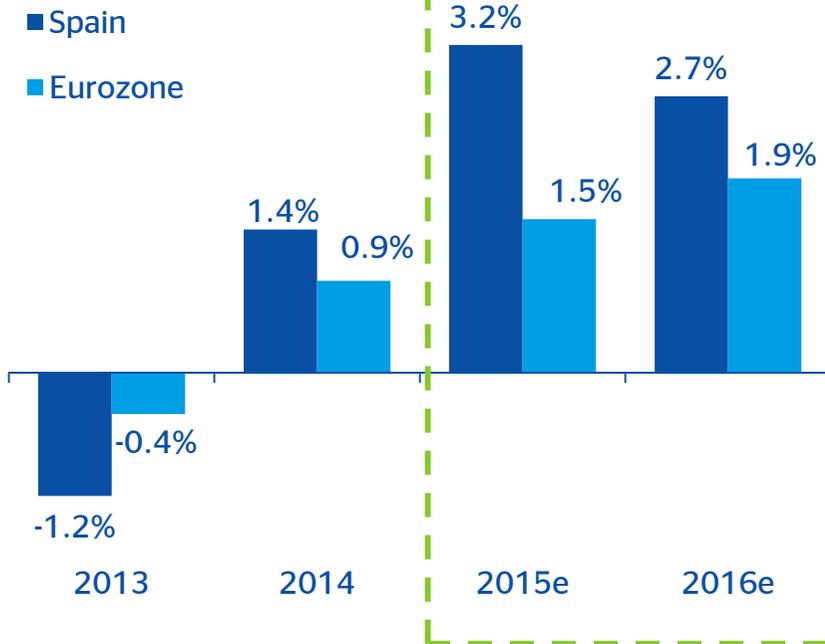
1 BBVA Group: Strengths in the new environment

2 BBVA Spain: Management priorities

3 Takeaways

Economic growth: Spain will continue growing more than Eurozone

GDP Growth (%)



Source: BBVA Research

Strong contribution of internal demand, highlighting the recovery of investment in machinery and equipment

Expansionary **monetary and fiscal policies,** and **low oil prices** support Spanish recovery

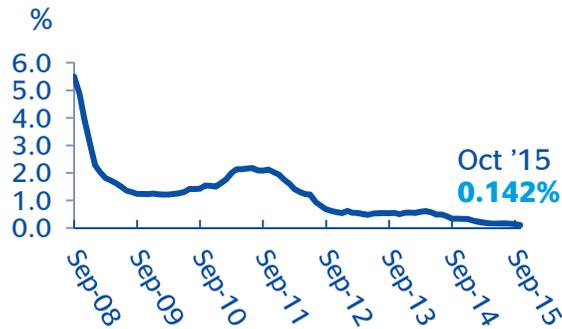
EUR/USD depreciation benefits exports

The recovery of domestic demand key for new loan production growth

Challenges and opportunities in the new banking business environment

Historically low Interest rates

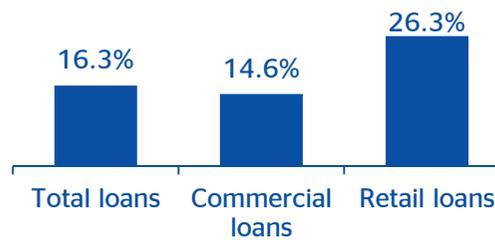
Euribor 12 month rate



Source: Bloomberg

Early signs of demand recovery

New loan production in Spain
9M15 vs 9M14



Source: Bank of Spain

Competitive landscape

- ✓ Banks' focus on capturing solvent demand impacting **customer spreads**

Regulation

- ✓ Impact on **future profitability** still unclear

New customer expectations and behaviours

- ✓ **Mobile & internet** transforming society



New competitors with new value propositions

- ✓ **Fintech start-ups** disaggregating the value chain

- ✓ **Digital players**



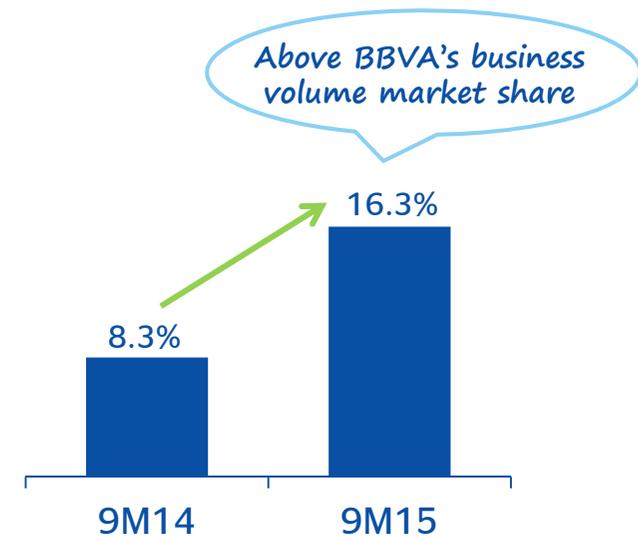
BBVA Spain well positioned to benefit from the new environment

BBVA Spain management priorities

- 1 Profitable growth
- 2 Risk management
- 3 Transformation

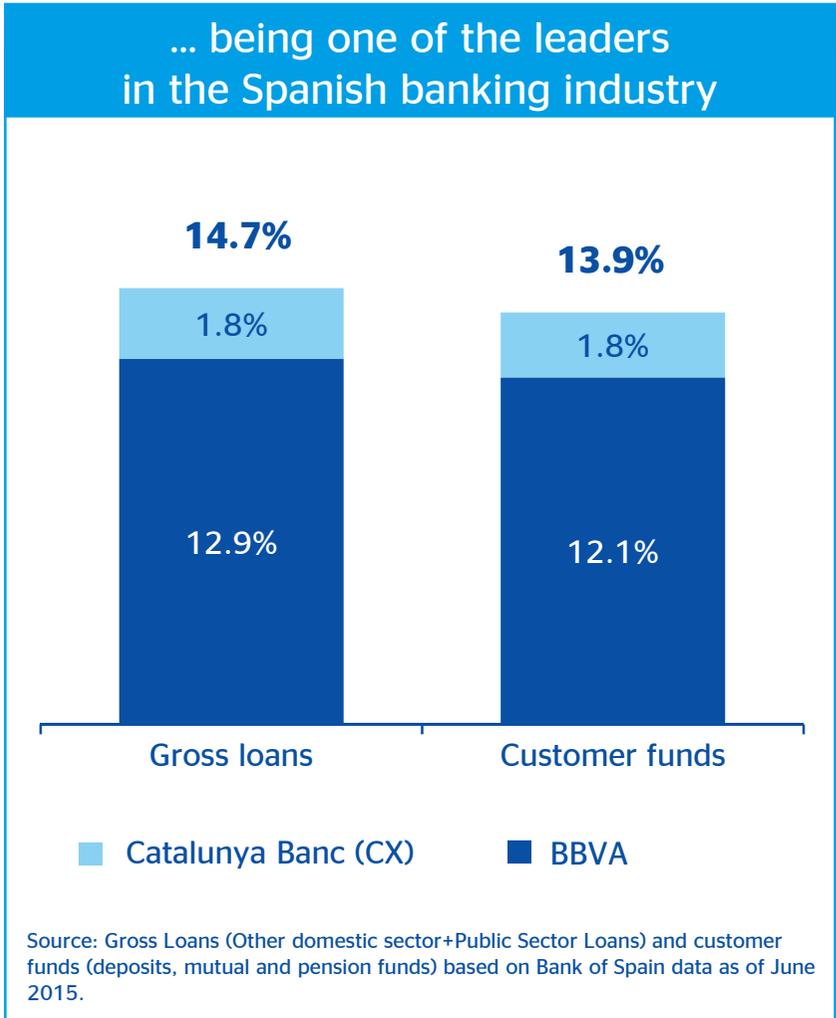
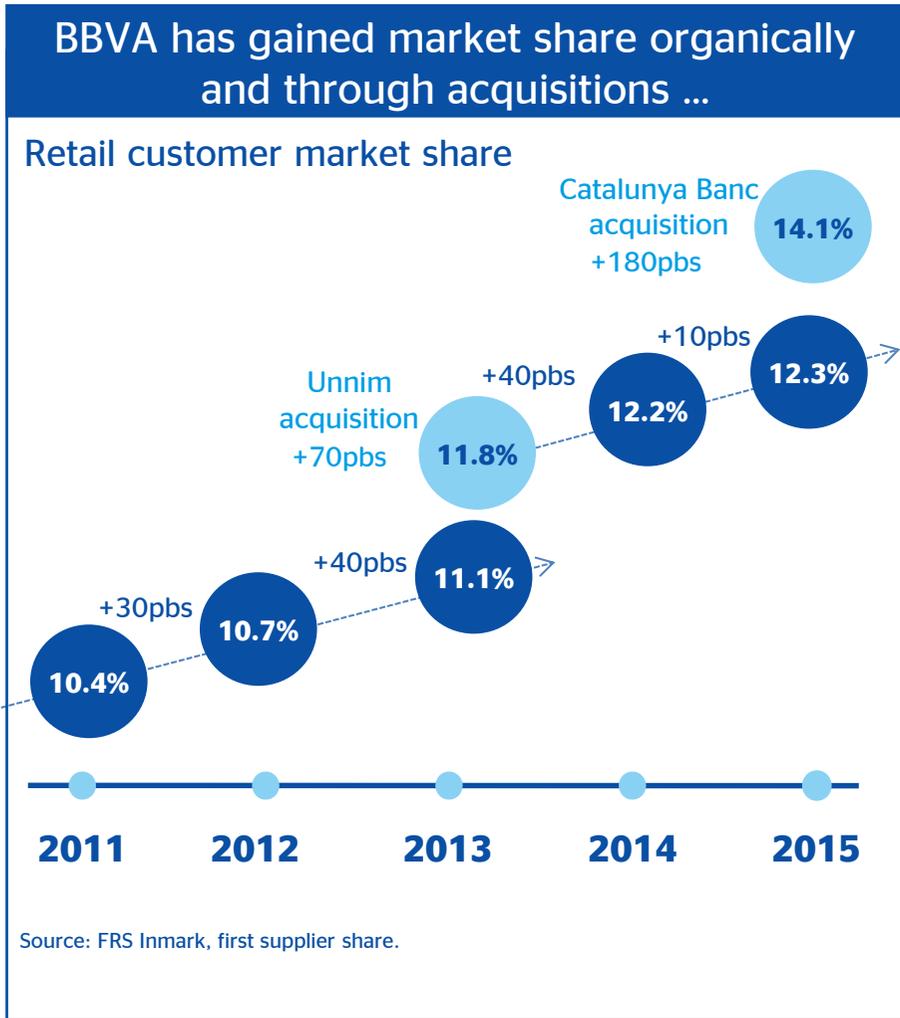
Net attributable profit market share ⁽¹⁾

BBVA Spain Banking Activities + Real Estate

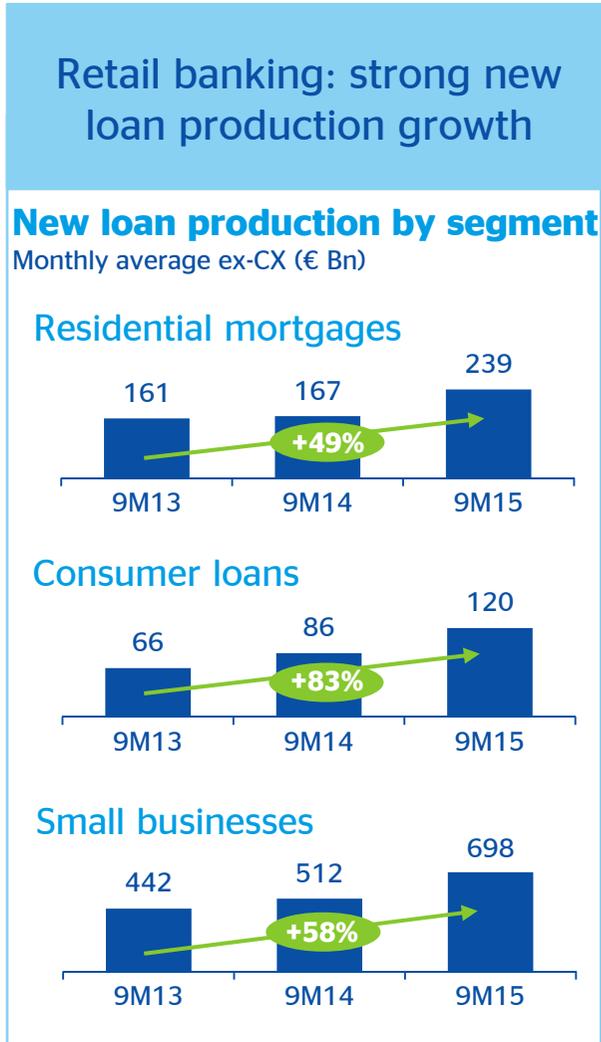
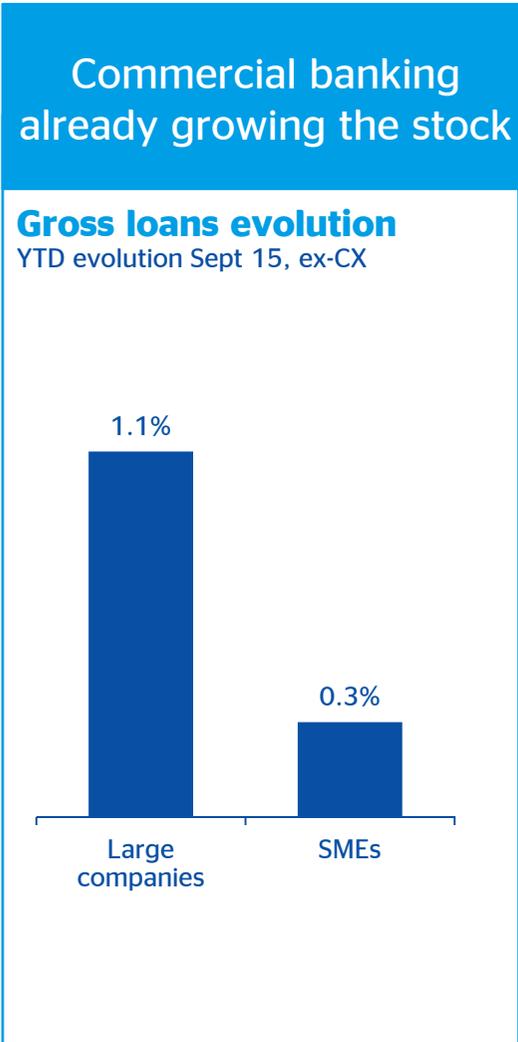
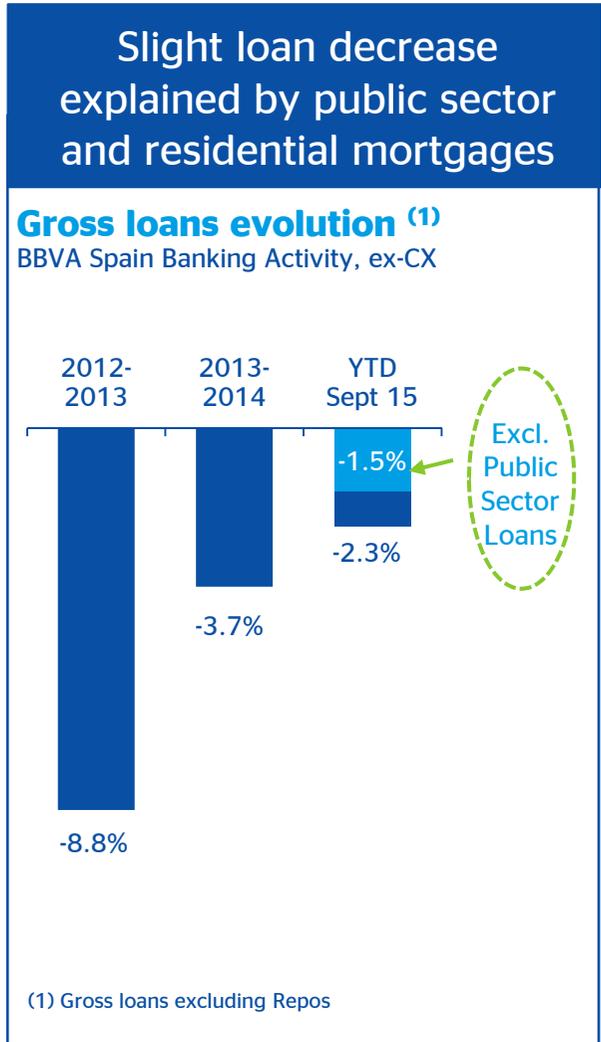


(1) Market share considering the following peers: CABK, SAN (Spain + RE), SAB, POP, BKIA and BKT

In the new environment, banks need higher market share to be profitable



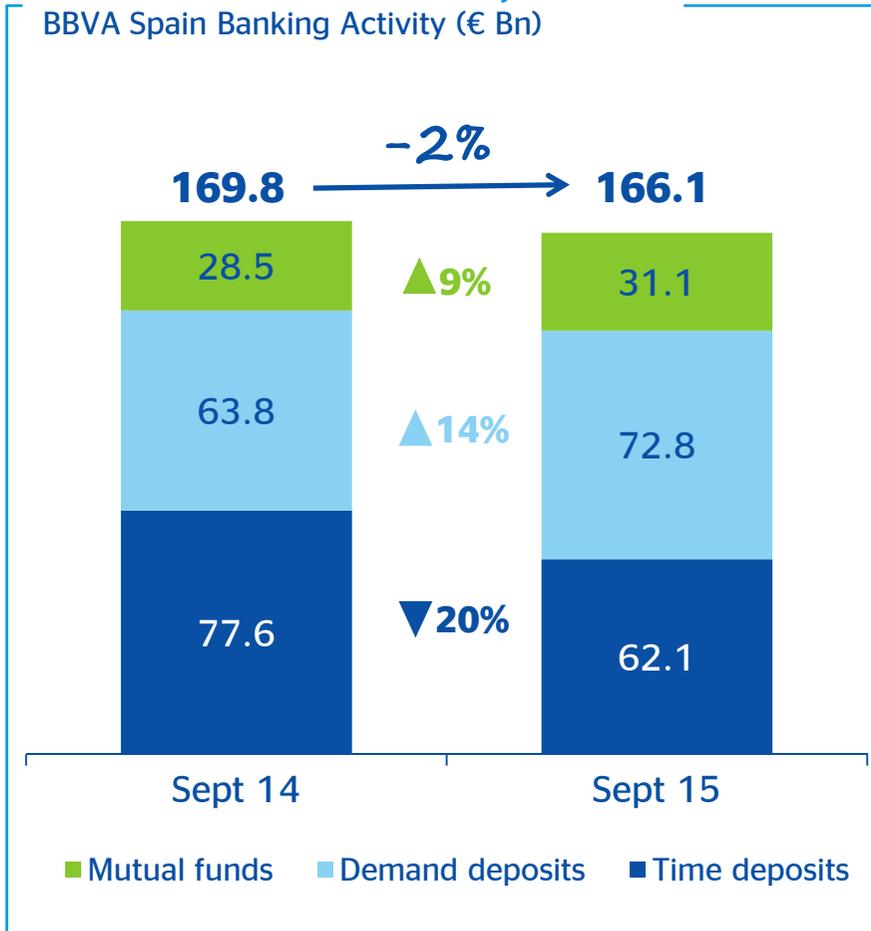
Deleveraging process coming to an end



A more profitable mix of customer funds

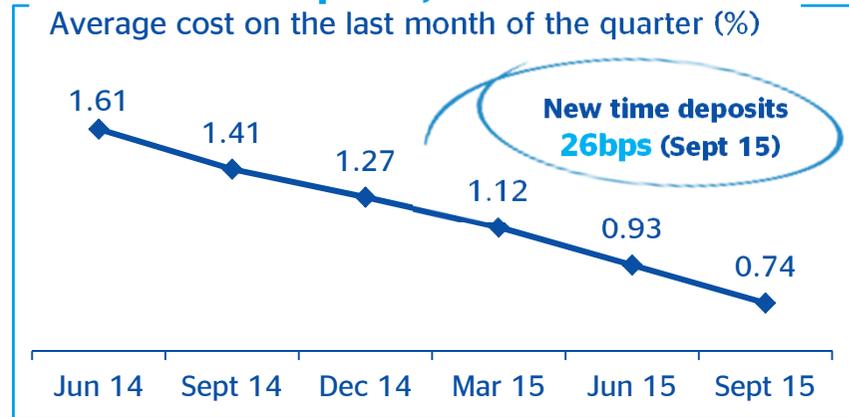
Customer funds evolution, ex-CX

BBVA Spain Banking Activity (€ Bn)



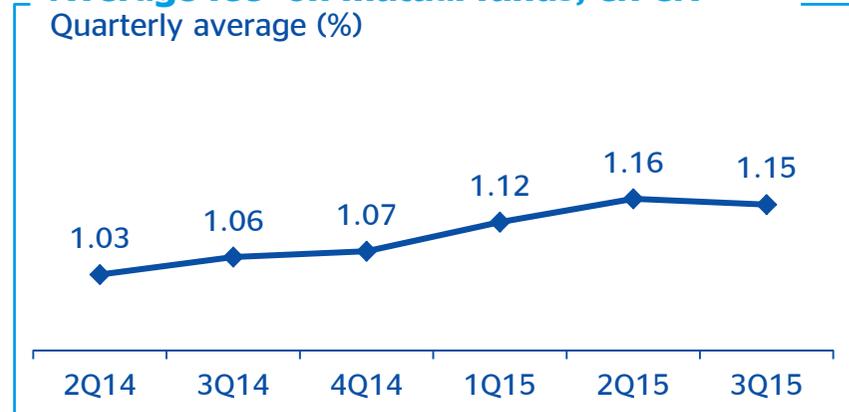
Cost of time deposits, ex-CX

Average cost on the last month of the quarter (%)



Average fee on mutual funds, ex-CX

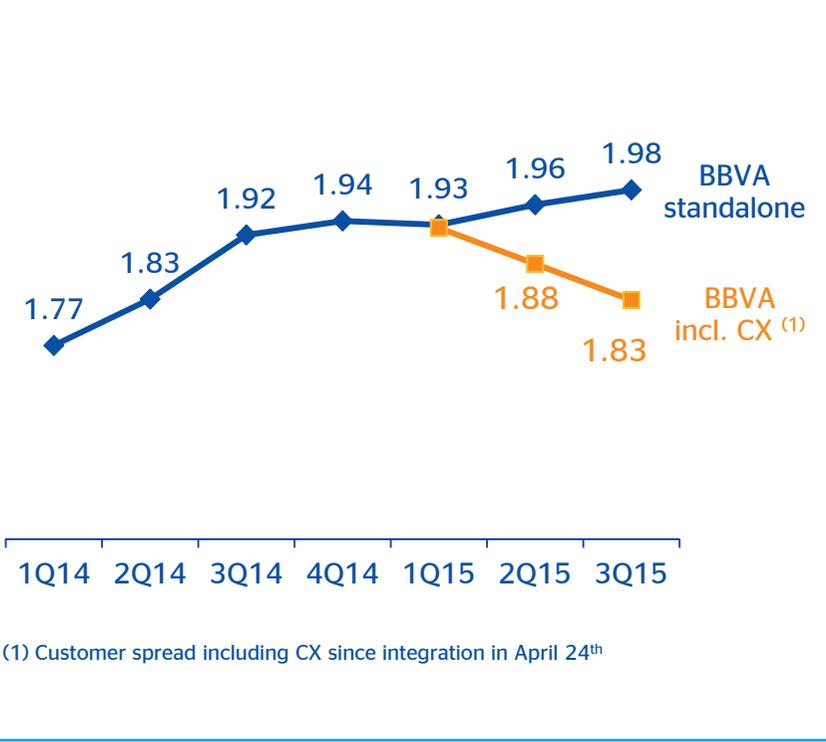
Quarterly average (%)



Net interest income growth driven by improvement in customer spread ...

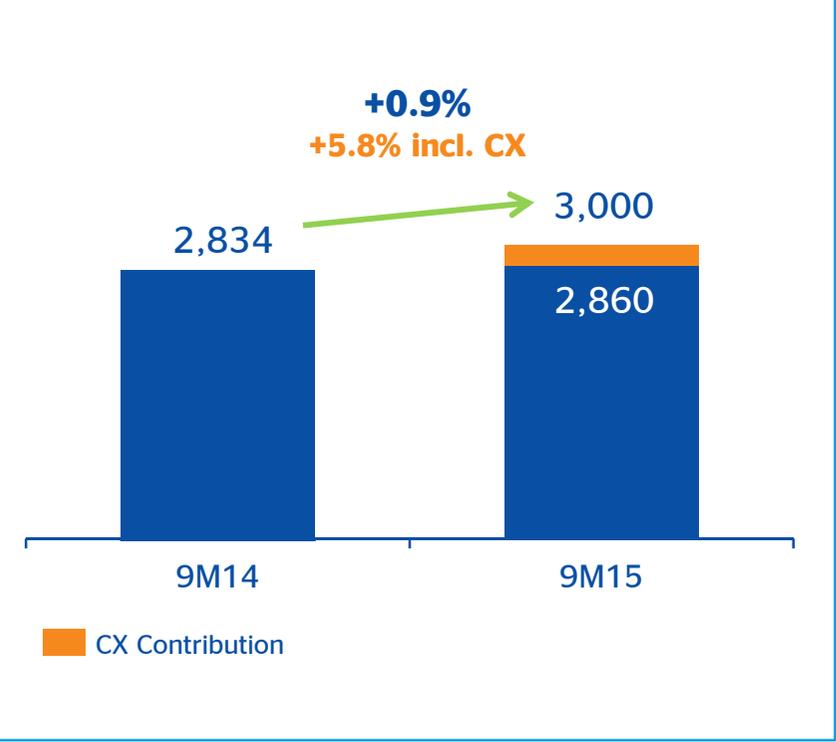
Customer spread evolution

BBVA Spain Banking Activity (in %)



Net Interest Income evolution

BBVA Spain Banking Activity (€ Bn)

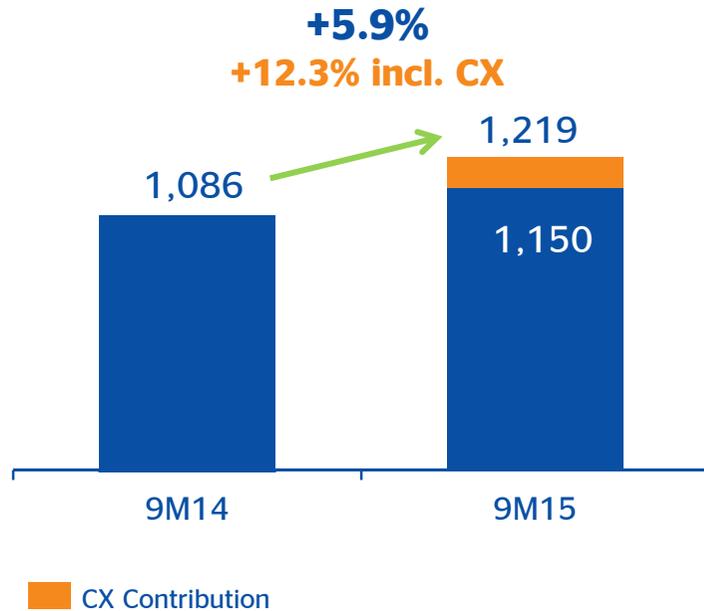


... loan demand recovery as the next key variable

Revenue diversification in a low interest rate environment

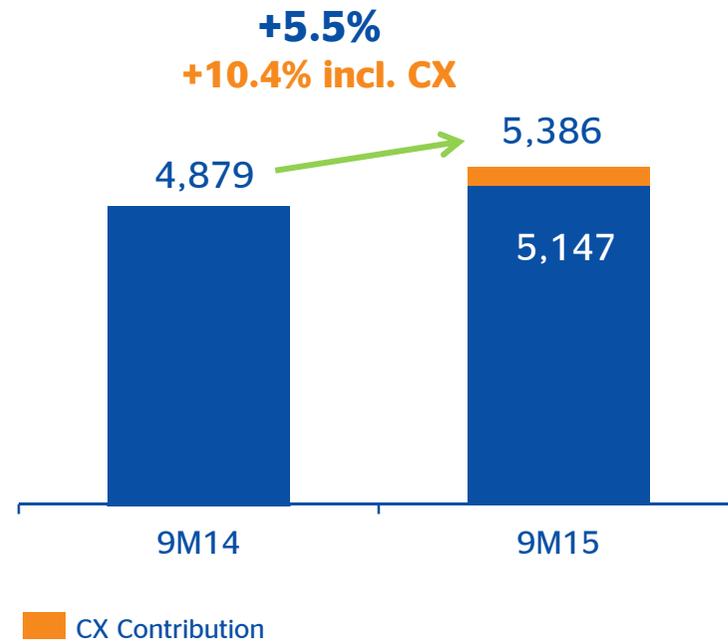
Net Fees and Commissions

BBVA Spain Banking Activity (€ Bn)



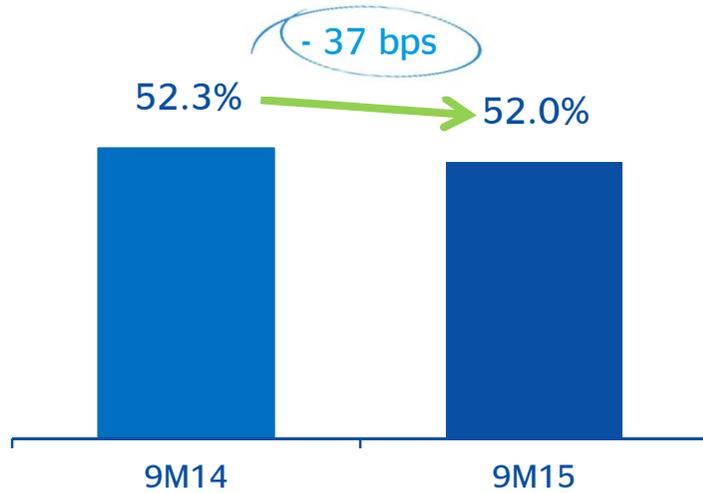
Gross Income

BBVA Spain Banking Activity (€ Bn)



Ongoing cost control improvement

Efficiency ratio excluding Net Trading Income
BBVA Spain Banking Activity (%)



Efficiency improvement despite:

Catalunya Banc consolidation in 2015

Reallocation of expenses from the Corporate Center to Spain in 2015

CX integration allows for additional cost savings

Risk indicators continue to evolve favorably

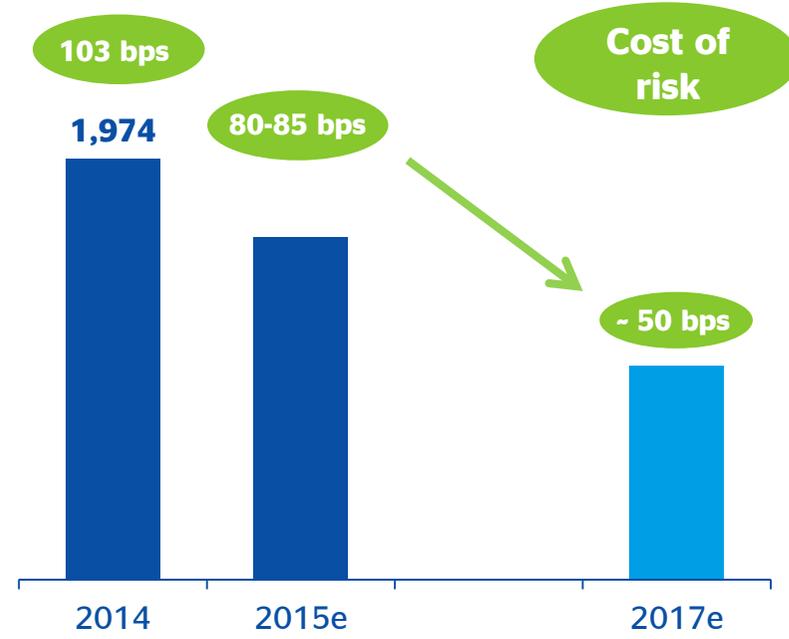
NPLs

Spain Banking Activity + RE (€ Bn, ex-CX)



Loan Loss Provisions and Cost of Risk

Spain Banking Activity + RE (€ Bn, ex-CX)

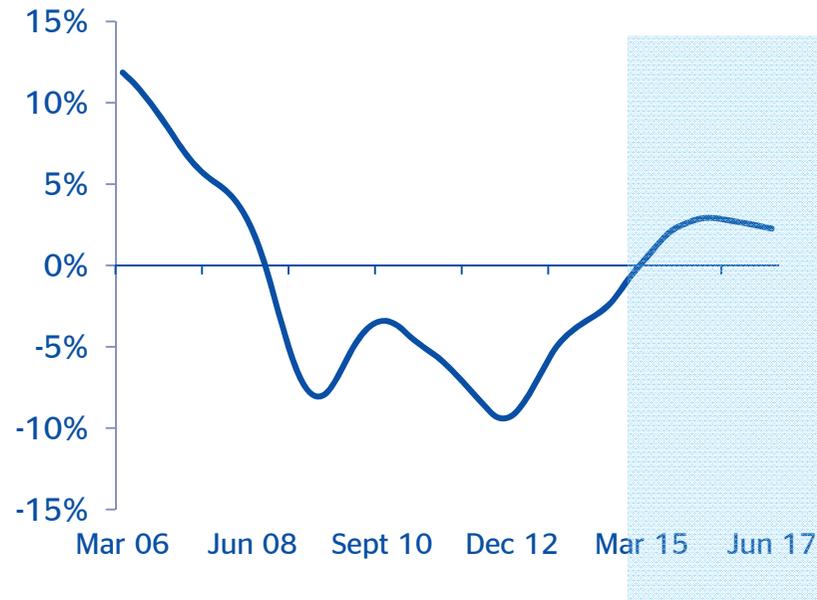


Cost of risk normalization as the key P&L driver

Improving dynamics in the Spanish Real Estate market

Housing prices have bottomed-out

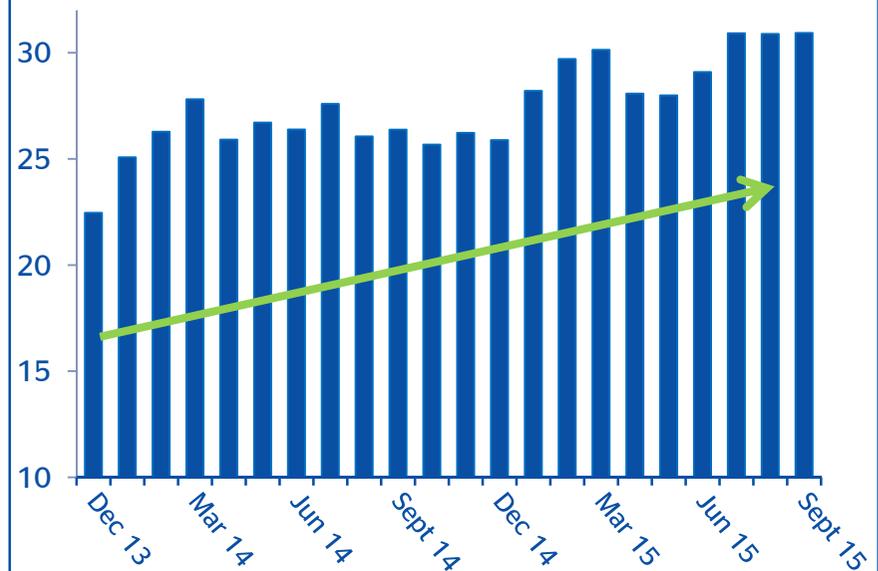
House price evolution YoY (%)



Source: BBVA estimates based on Ministry of Public Works and Transport data.

Demand is growing from very low levels

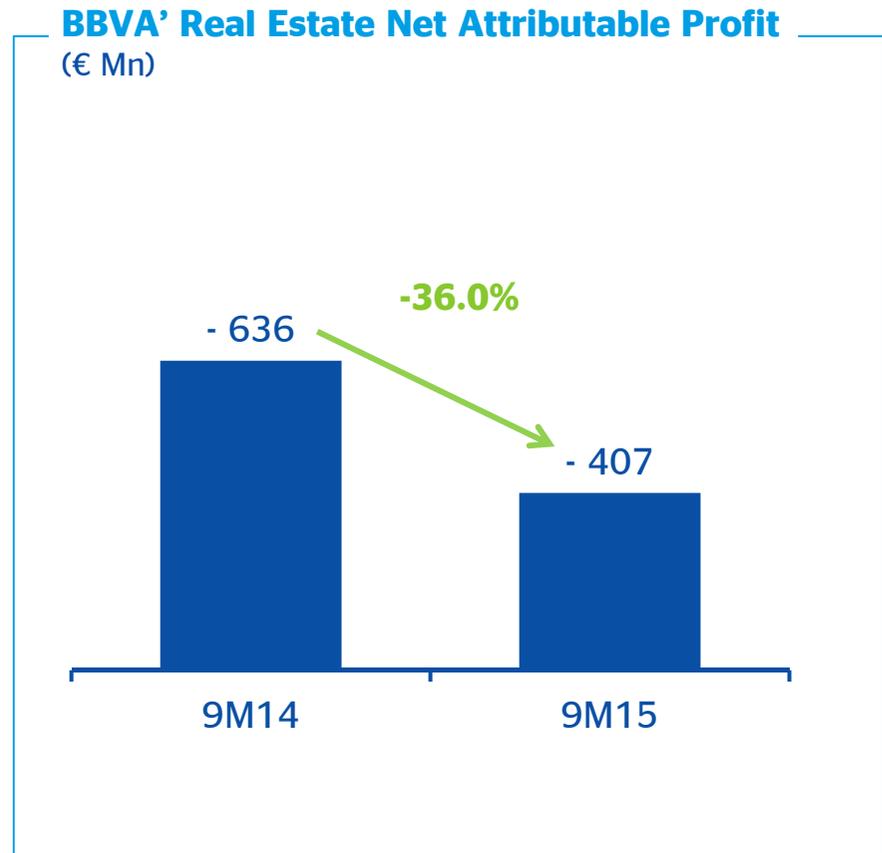
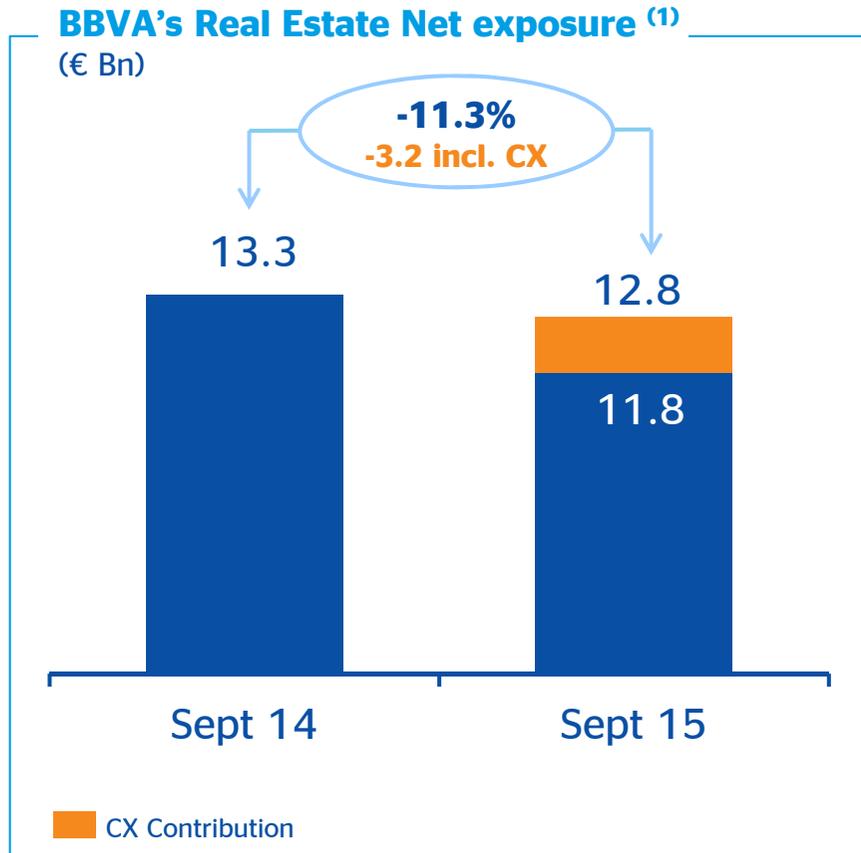
Residential homes sales Quarterly moving average (in thousands of units)



Source: BBVA and INE.

Reduction of unsold stock continues thanks to demand recovery in the absence of new home building

BBVA gradually decreasing its Real Estate exposure ...



... while significantly improving the P&L contribution

(1) Net of provisions exposure based on Bank of Spain transparency criteria (Circular 5-2011). Data include developer loans and foreclosed assets.

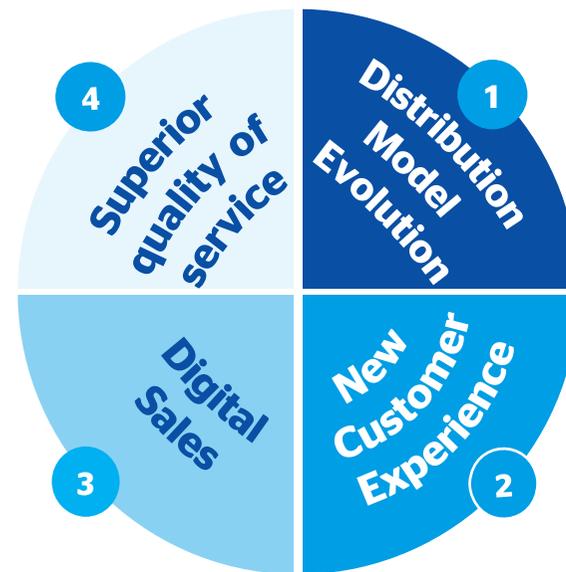
BBVA Spain: improving P&L dynamics

BBVA Spain Banking Activity	9M15 € mn	Growth	
		9M15 vs 9M14	
		Abs.	%
Net Interest Income	3,000	+ 165	5.8%
Gross Income	5,386	+ 507	10.4%
Costs	-2,375	- 238	11.1%
Operating Income	3,010	+ 269	9.8%
Income Before Tax	1,565	+ 383	32.4%
Net Attributable Profit Spain Banking Activity	1,101	+ 267	32.0%
Net Attributable Profit Spain Real Estate	-407	+ 229	-36.0%
Net Attributable Profit SPAIN Banking Activity + RE	694	+ 496	250.5%

Banks must adapt to the new landscape



BBVA's transformation plan based on 4 pillars:



BBVA moving ahead in the transformation of its distribution model

New distribution model

- ✓ Ongoing transformation of **branch network**: Hub & Spoke model
- ✓ RBCs managing the **new relationship model**: integrating face-to-face, remote advisors and digital sales
- ✓ RBCs manager responsible for the **customer flow management**: improving convenience and efficiency

RBCs: larger branches with higher critical mass and more functionalities

BBVA Spain: Number of Retail Banking Centers

Date	Number of RBCs
Dec 13	344
Sept 15	280

Change: -19%

BBVA Spain: % of Retail Banking Centers with >5 branches under its influence

Date	% of RBCs
Dec 13	31%
Sept 15	79%

Note: Retail Banking Centers in urban areas

New customer experience: mobile as the key relationship device

From a face-to-face approach to an *Omnichannel vision*

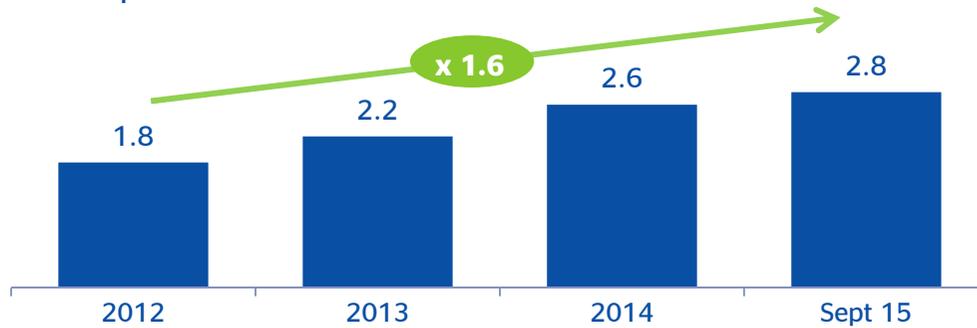
Transformation of the added value offer:
Increasing the catalogue of non face-to-face products and solutions



Client digitalization, driver of digital sales growth

Increase the number of digital clients

Digital Customers
BBVA Spain - in millions



Mobile Customers
BBVA Spain - in millions



Digitize current **existing customers** through Retail Banking Centers



Boost **client acquisition** through digital channels

Digital sales as an additional source of business

Consumer loans

% of new loans through digital channels
(in number of loans)



Contributions to mutual funds

% of contributions through digital channels
(in number of contributions)



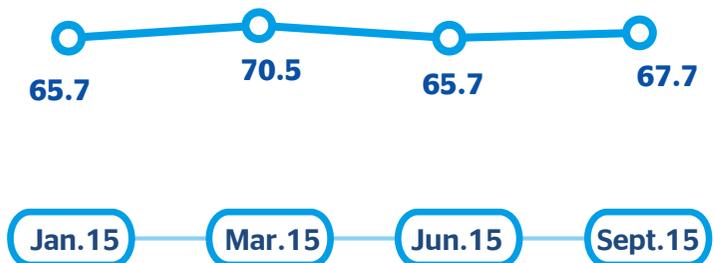
Contributions to pension funds

% contributions through digital channels
(in number of contributions)



Purchase and sale of domestic equities ⁽¹⁾

% of operations through digital channels
(in number of operations)



(1) Include equities, warrants, and ETFs

Outstanding customer satisfaction



(1) Source: FRS Inmark Report 2015. Reference group: BKIA, CABK, POP, SAB, SAN.

(2) General Satisfaction Index as the average of customer interviews ranking their satisfaction from 0 to 10.

(3) Source: Bank of Spain. 2014 report. Peers include: SAN, CABK, BKIA, POP, SAB, CX, Unicaja, Marenostrum and Caja España

Note: All data in this page refer to BBVA excluding Catalunya Banc.



BBVA Index

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BBVA

BBVA has built a sustainable competitive advantage, not easily replicated

- ✓ **Resilient growth** thanks to a well-diversified footprint with leading franchises
- ✓ **High quality capital** and sustainable **organic generation**
- ✓ **Leading** the industry **transformation**, placing **customers at the center** of our strategy
- ✓ **BBVA Spain**, increasing contribution to the Group's P&L
 - ✓ Deleveraging process coming to an end
 - ✓ Cost of Risk normalization as the main P&L driver
 - ✓ Transformation of the distribution model to offer the best customer experience

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