

**BBVA**

## *Focusing on Facts*

Manuel González Cid, CFO



Goldman Sachs - 16<sup>th</sup> Annual European Financials  
June 14<sup>th</sup>, 2012

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**BBVA**

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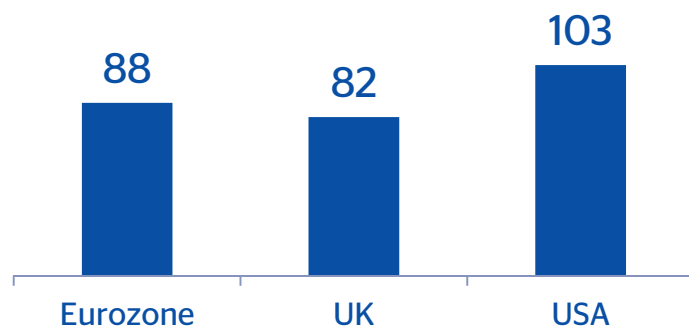
# **1 Europe and Spain: addressing imbalances**

## 2 BBVA: Delivering positive operating trends and strong fundamentals

# The Eurozone has room for maneuver...

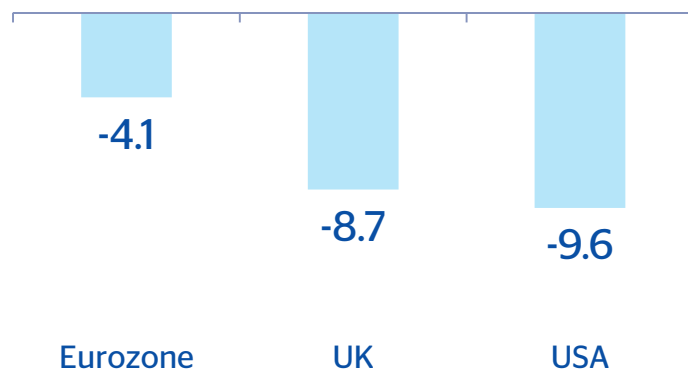
## 2011 Public debt (% GDP)

Source: IMF



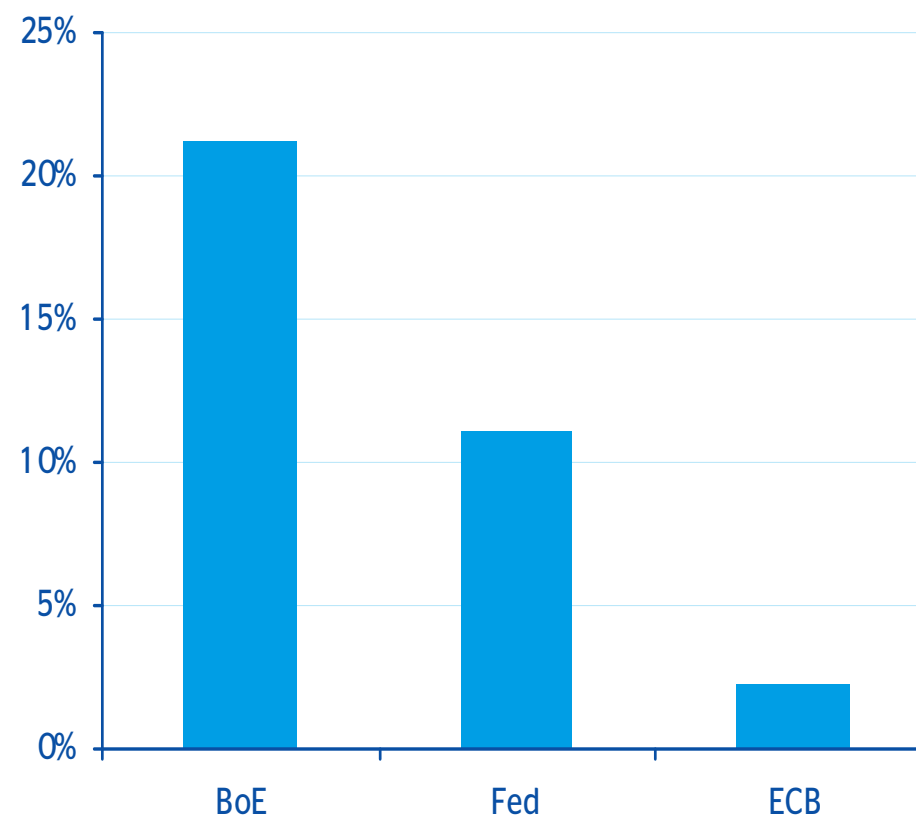
## 2011 Public deficit (% GDP)

Source: IMF



## Central bank public debt<sup>(1)</sup> purchases to GDP (%)

Source: National Central Banks and BBVA Research (Jun'12)



(1) Includes only purchases of government bonds, not private securities (e.g. MBS in the US).

...and is progressing towards a stronger monetary union

**Individual solutions  
for interconnected problems**

**Coordinated and  
global solutions**

Pending

**Macro  
Risk**

Uncoordinated  
fiscal stimulus

Austerity  
measures

Austerity vs.  
growth debate

Seeking growth

**Sovereign  
Risk**

Problem  
underestimation

Greece, Ireland and  
Portugal rescue  
plans  
EFSF

Fiscal compact  
ESM

Eurobonds  
Quantitative easing  
& ECB  
Subordination

**Banking  
Risk**

Heterogeneous  
and individual  
approach

EBA  
recapitalization

LTROs  
Direct  
recapitalization  
of banks

European Banking  
Union:  
•Deposits Insurance  
•Supervision  
•Resolution

Many measures taken by the Spanish Government in record time

**Political Stability**

- New Government with strong social mandate for the next 4 years

**Fiscal Consolidation**

- Measures already announced: 4.7% of GDP
- Mechanism to control Regions' accounts by Central Government

**Labour Market Reform**

- Potential positive effect on GDP: 0.2% in the medium term
- Estimated effect on employment: +4.4% increase in the medium term

**Financial Sector Reform**

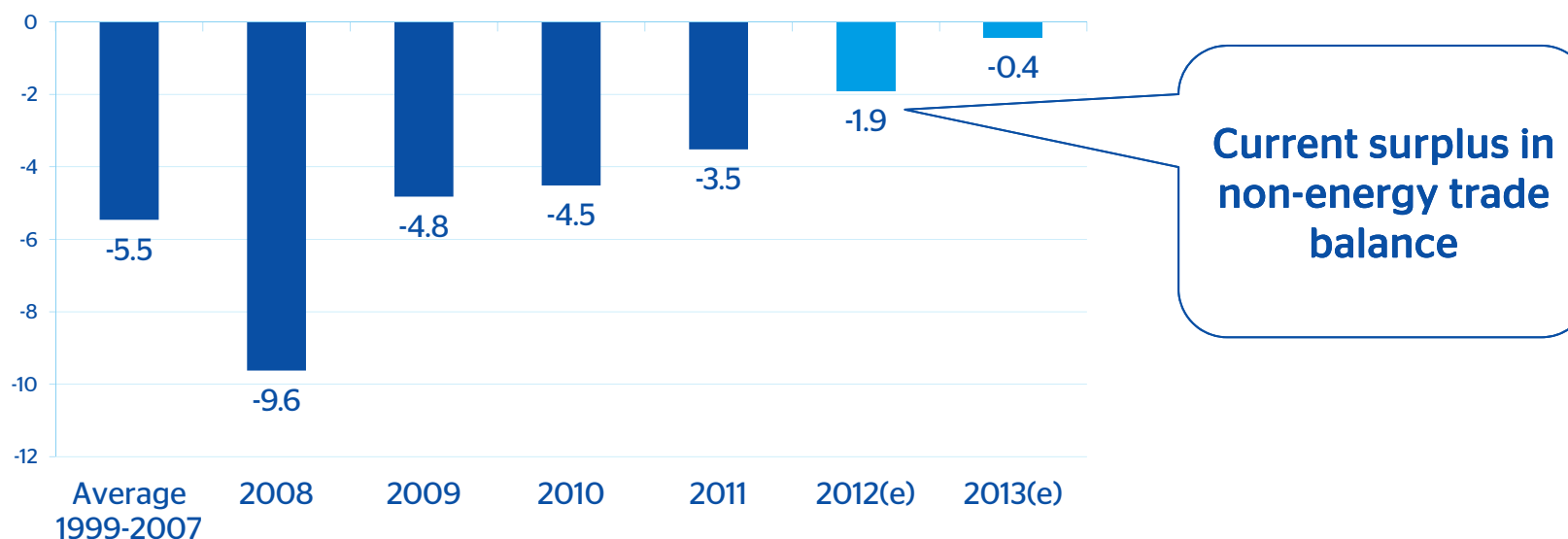
- FROB capital injections: €10.1 Bn (first stage) + €5 Bn (second stage)
- Additional provisions on RE assets (2 new Royal Decrees)
- System stress test of all portfolios with a €100Bn backstop

Time is needed to see the impact on the economy

# Strong adjustment in Spain's current account balance

## Current account balance as a percentage of GDP

Source: BBVA Research and IMF

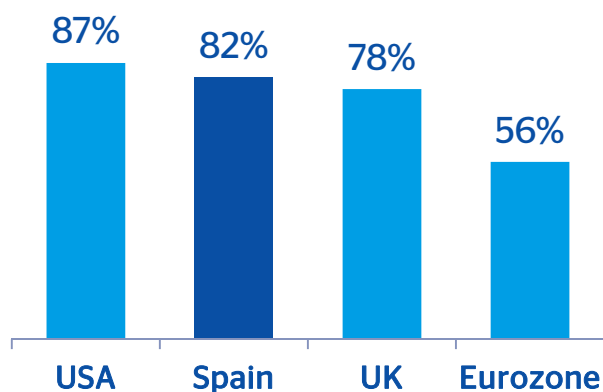


**Strong behaviour of exports**

Household debt: significant reduction during the crisis, reaching pre crisis levels

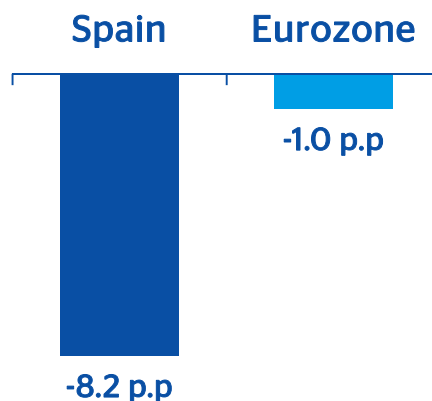
**2011 Households debt (loans to GDP)**

Source: BBVA Research based on national sources



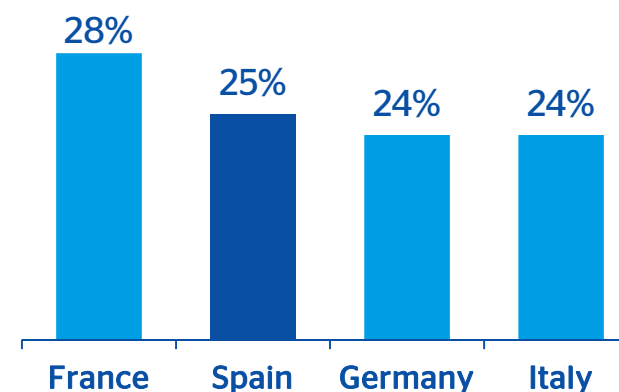
**Household debt to GDP reduction from peak (Nov-2009) to Mar-2012**

Source: ECB



**Financial effort (%) (Payments to disposable income)**

Source: BBVA Research. Data as of Dec-11

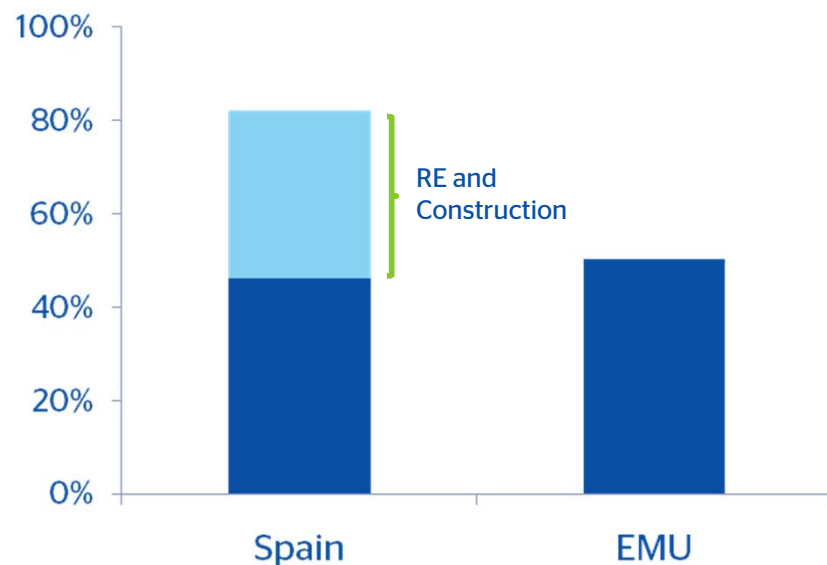


Spanish household debt is mainly represented by mortgages referenced to floating interest rates

# Corporate debt: two different realities

## Corporate debt (loans to GDP)

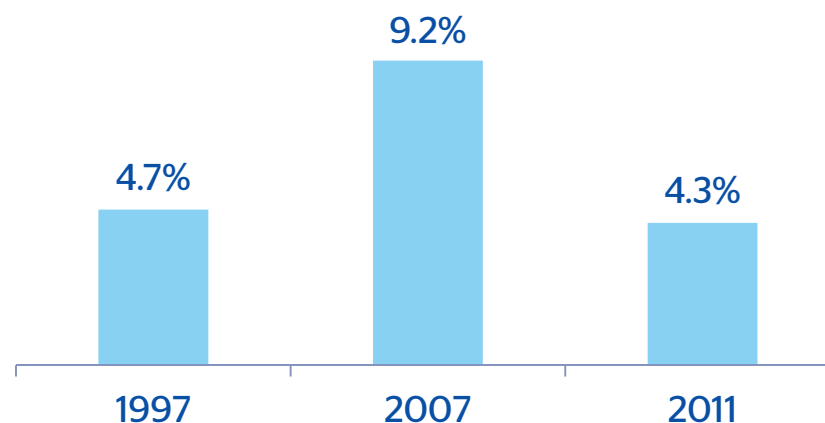
Data as of Dec2011. Source: BBVA Research based on national sources



## Relative size of Spanish construction sector

Residential investment to GDP

Source: Ministry of Public Works



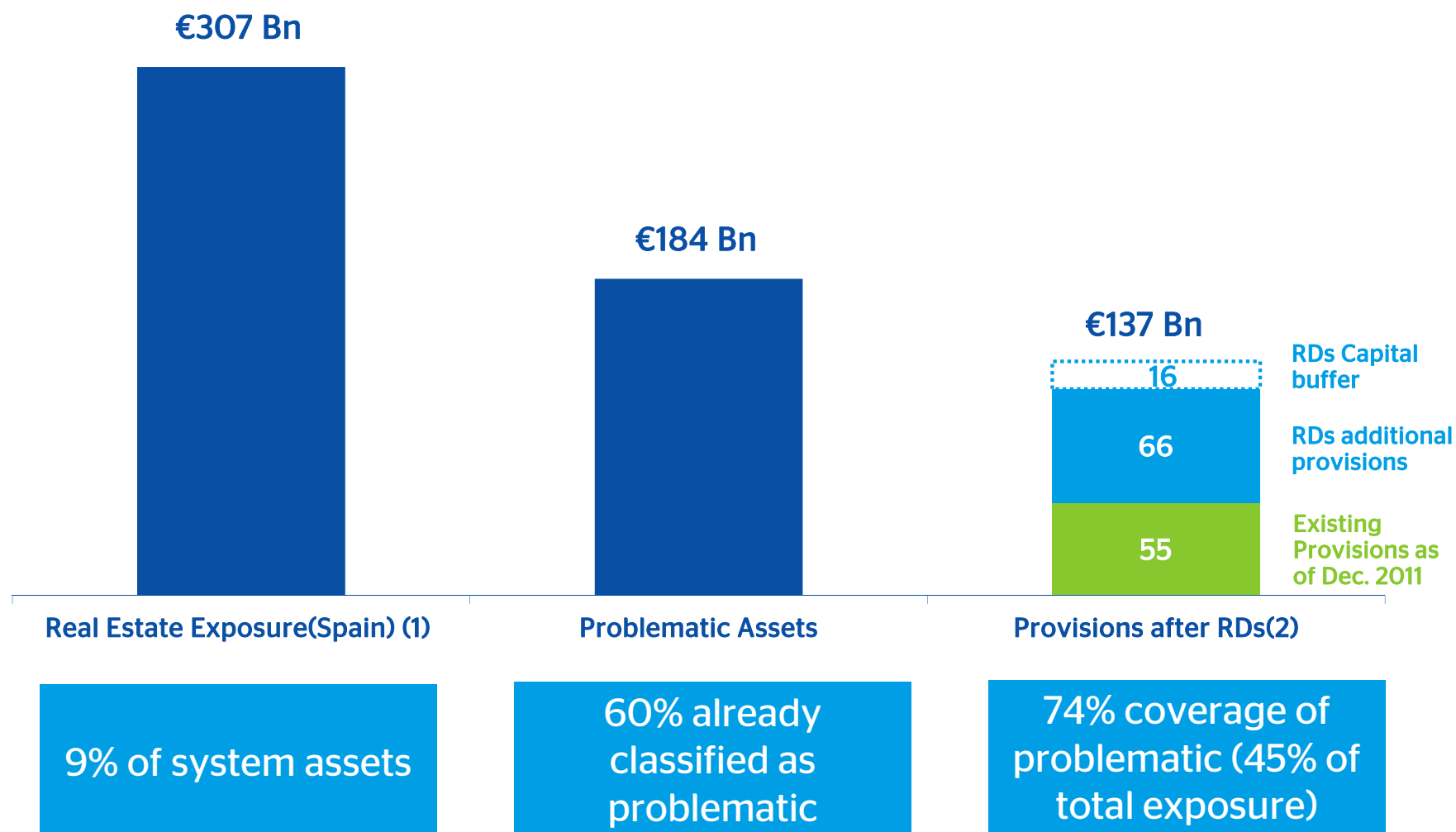
## Spanish GDP growth with and without investment in housing

Source: BBVA Research

	2009	2010	2011	2012e
GDP growth (%)	-3.7	-0.1	0.7	-1.3
GDP growth (%) (ex. Investment in housing)	-1.5	0.8	1.2	-0.9
Growth difference due to residential investment	-2.2	-0.9	-0.5	-0.4

**Residential construction back to pre boom levels**  
**Negative drag on GDP coming to an end**

# Addressing financial system exposure to real estate



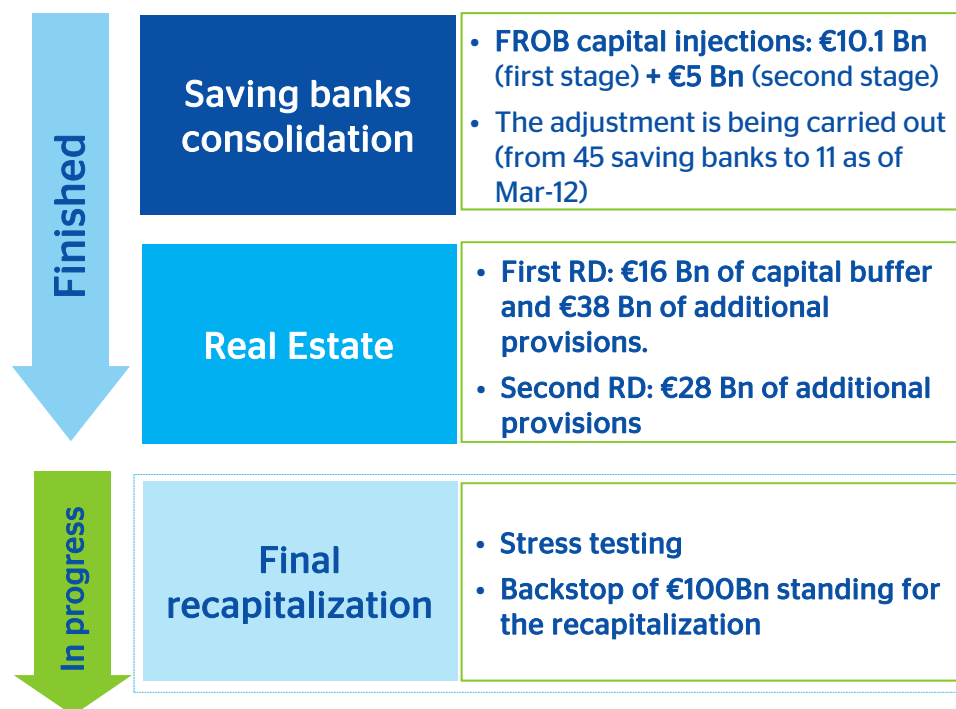
Real estate exposure and problematic assets as of December, 2011

(1) Real estate exposure includes loans to developers and foreclosures

(2) Includes both RD 02/2012 and RD 18/2012; coverage ratios include the capital buffer required by RD 02/2012 (€16 Bn)

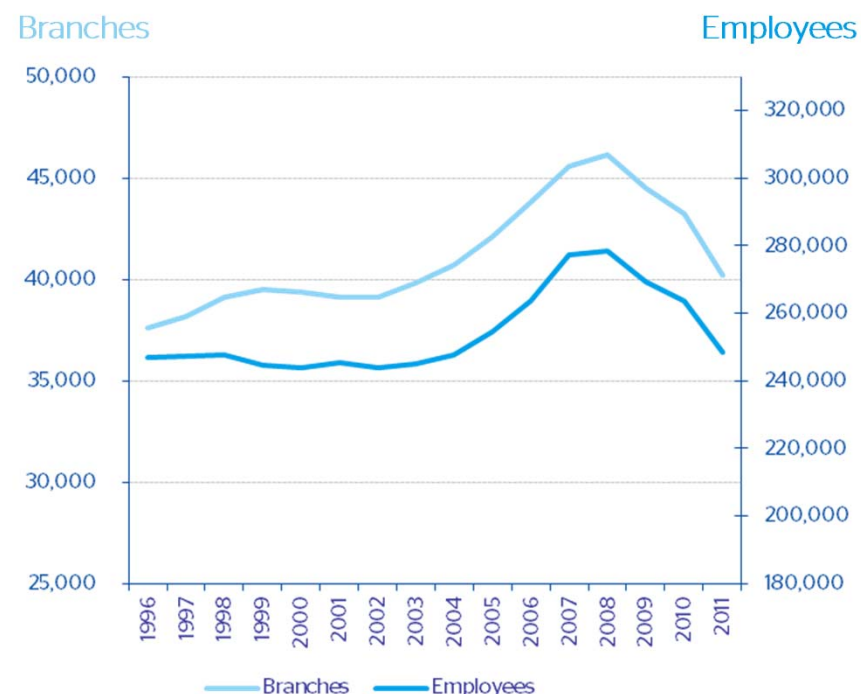
# Entering the final stage of the financial sector restructuring

## Phases



## Reduction of employees and branches in Spain

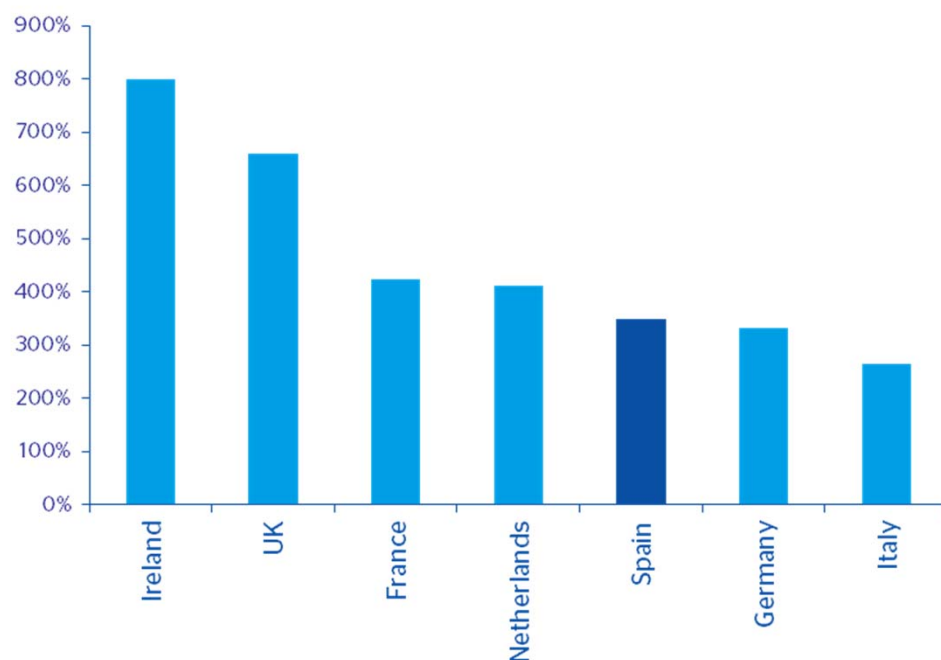
Source: BBVA Research based on Bank of Spain



# A small banking sector with a retail business model

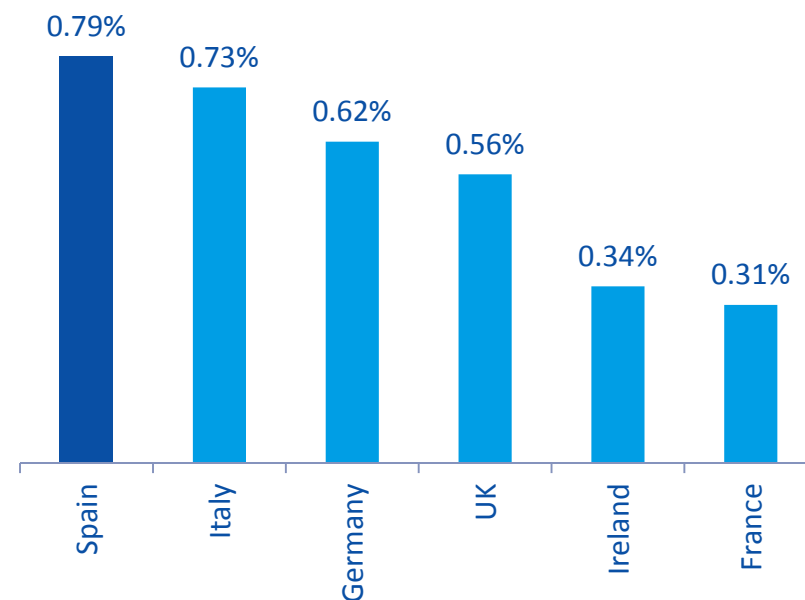
## Banking assets to GDP <sup>(1)</sup>

Source: BBVA Research based on ECB



## 2011 Pre-provision profit to total assets

Source: BBVA Research based on national sources  
Data as of Dec-2011 (%)



**High pre-provision profit adds capability  
to attend potential provision needs**

(1) Banking assets as of Mar 2012 over 2011 GDP

## In summary

**New provisioning requirements for RE of €66Bn and an additional capital buffer of €16Bn**

**EBA recapitalization added €26Bn to the system**

**Undergoing system stress test of all portfolios with a backstop of €100Bn from EU for the recapitalization**

**Recent IMF report confirms BBVA's strength under the stress scenario**



**BBVA**

Contents

1 Europe and Spain: addressing imbalances

**2 BBVA: Delivering positive operating trends  
and strong fundamentals**

## Delivering positive operating trends and strong fundamentals

**1**

Strong capital generation  
and solid liquidity position

**2**

Asset quality resilience and  
absorption of new regulation in Spain

**3**

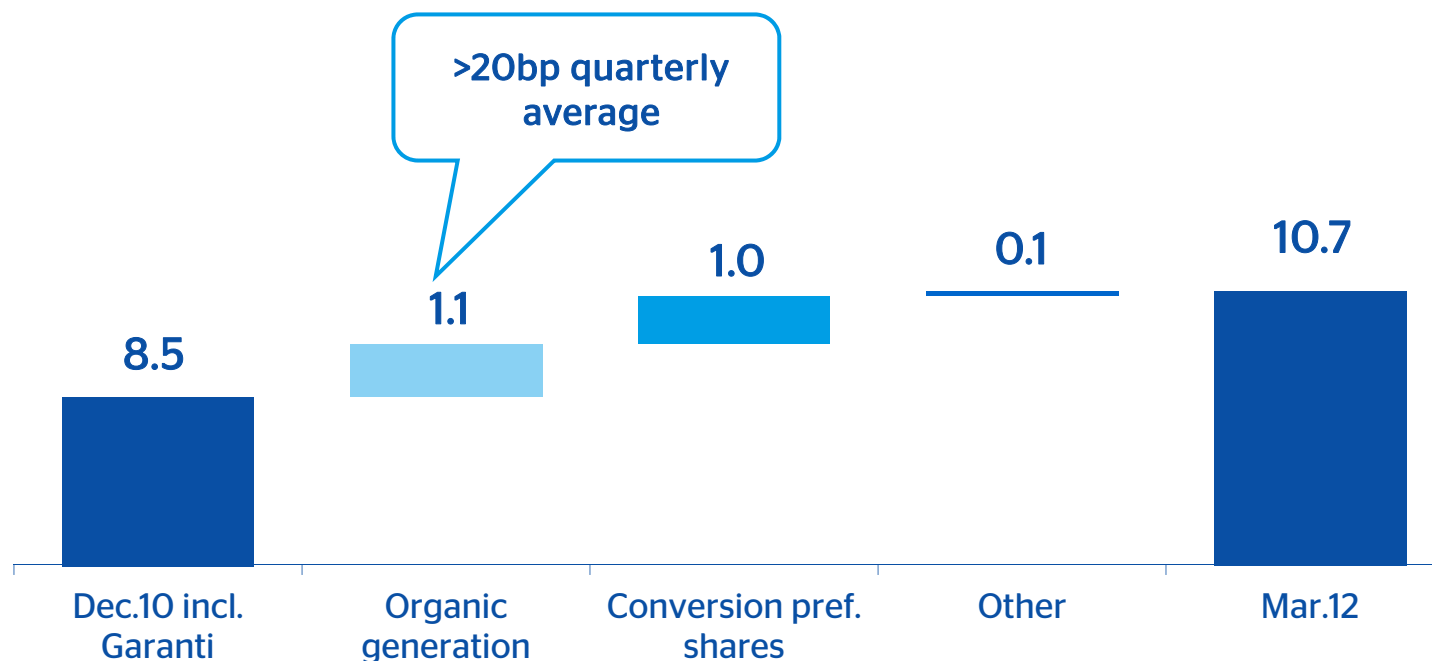
Investments in the franchise  
progressively stabilizing

**4**

Strong dynamism of core  
revenues in all geographies

# Capital: Substantial organic capital generation

Core capital ratio  
BBVA Group (Basel 2.5)  
(%)



Early compliance with EBA 9% requirement as of March 2012, maintaining dividend policy and without selling strategic assets

# Liquidity: Proactive management of the Euro Balance Sheet ...

**1** Lower funding needs

Improving Euro  
funding gap

**2** Strategic use of ECB LTRO to  
improve funding structure

< 5% total assets

**3** Lowest redemptions in 2012 amongst peer group (€11 bn) and  
2012-2013 redemptions already covered

**4** Proven access to wholesale markets

**5** Enough additional collateral to absorb any liquidity shocks

**Liquidity:** ... and in all other franchises thanks to BBVA's decentralized liquidity management

Independent ratings and liquidity management

Market discipline and proper incentives

Firewalls between subsidiaries and the parent company

Supervision and control by parent company

Proven resilience during the crisis

**BBVA Compass**

Loan to deposits (Mar-12)  
91%

**Mexico**

Loan to deposits (Mar-12)  
96%

**South America**

Loan to deposits (Mar-12)  
90%

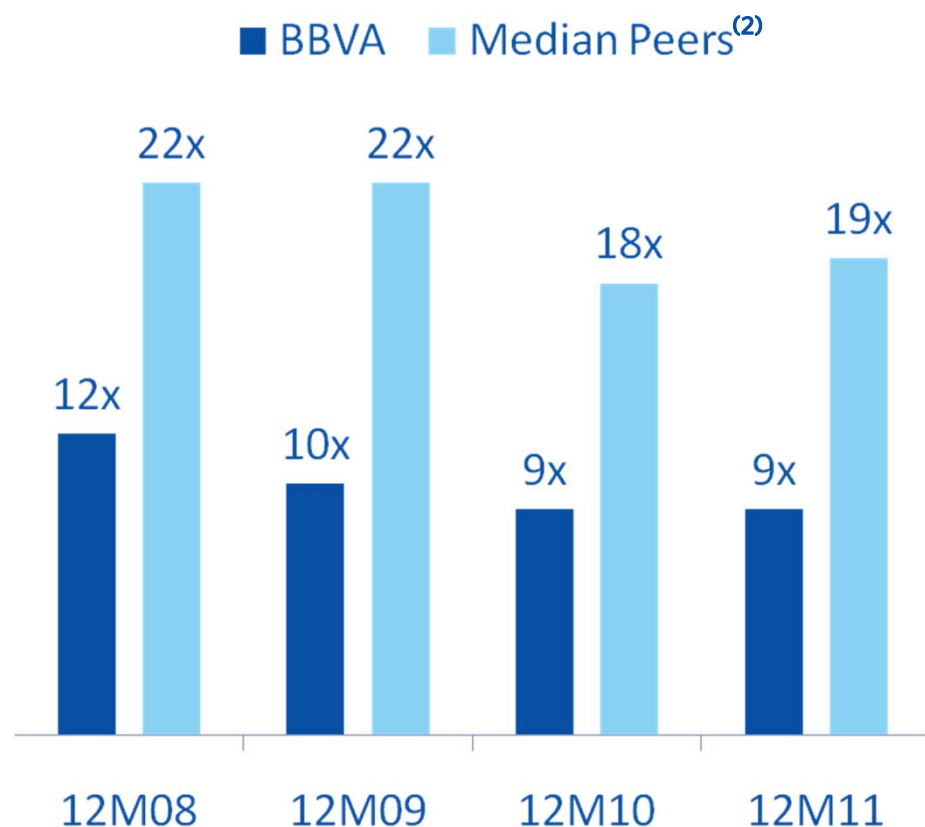
Rating downgrades are mainly linked to sovereign decisions

	Dec-10 Fitch: AA- / Moody's: Aa2 S&P: AA+	Dec-11 Fitch: A+ / Moody's: Aa3 S&P: A+	Mar-12 <sup>(4)</sup> Fitch: BBB+ / Moody's: A3 S&P: BBB+
	Dec-10	Dec-11	Mar-12
Total Assets	€553bn	€598bn	€601bn
Customer Dep.	€276bn	€286bn <sup>(2)</sup>	€283bn <sup>(2)</sup>
Net Att. profit	€4.6bn	€4.0bn <sup>(3)</sup>	€1.0bn
NPA ratio	4.1%	4.0%	4.0%
NPA Coverage	62%	61%	60%
ROA	0.9%	0.8% <sup>(3)</sup>	0.8%
Core capital	8.5% <sup>(1)</sup>	10.3%	10.7%

Despite the rating downgrades, BBVA continues to strengthen its balance sheet

## Lower leverage

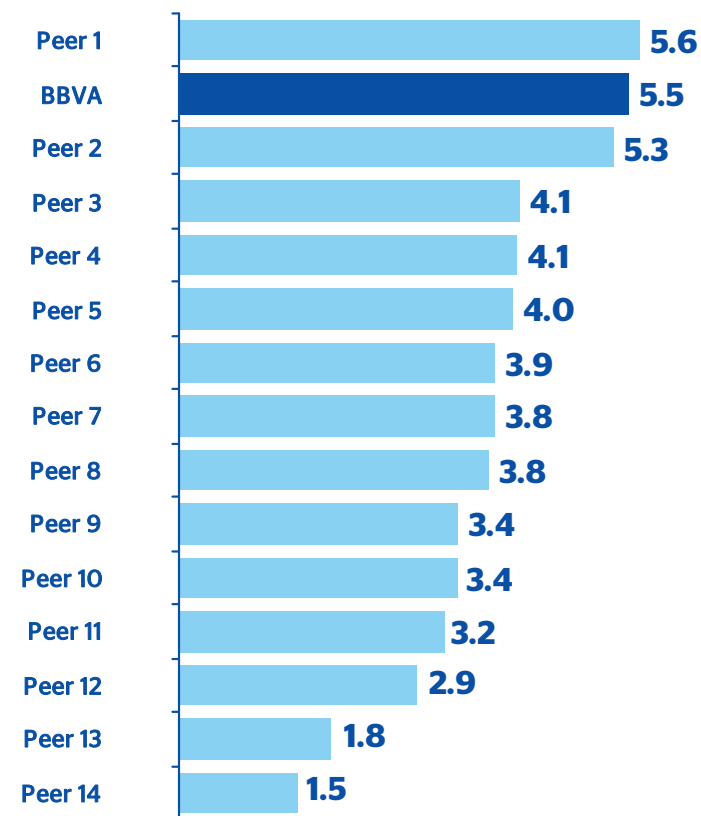
### Reported debt<sup>(1)</sup> to pre-provision profit (X times)



(1) Includes debt securities in issue and subordinated liabilities.

(2) Peer Group: BARCL, BNP, CASA, CMZ, CS, DB, HSBC, ISP, LLOYDS, RBS, SAN, SG, UBS and UCI.

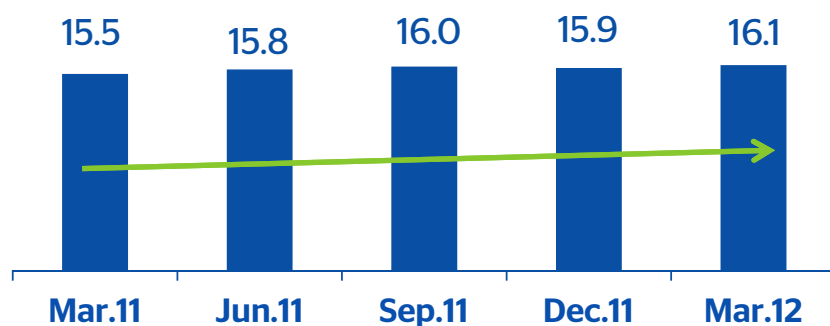
### Tangible equity to tangible assets BBVA group vs. peer group<sup>(2)</sup> (12M11, %)



# Group: Stable risk indicators

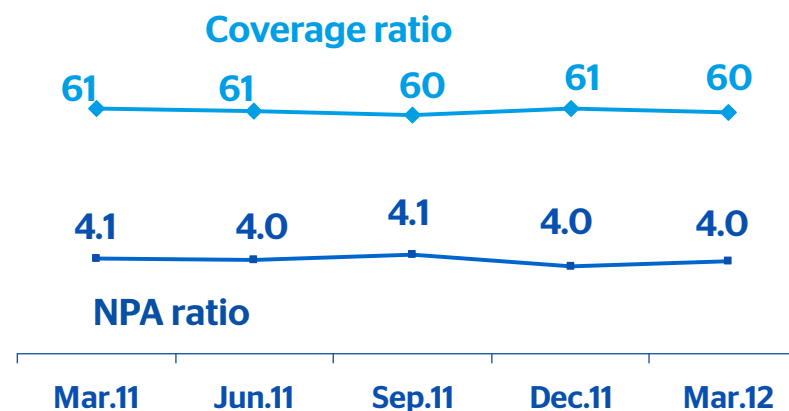
## NPAs – net balance

BBVA Group  
(€bn)



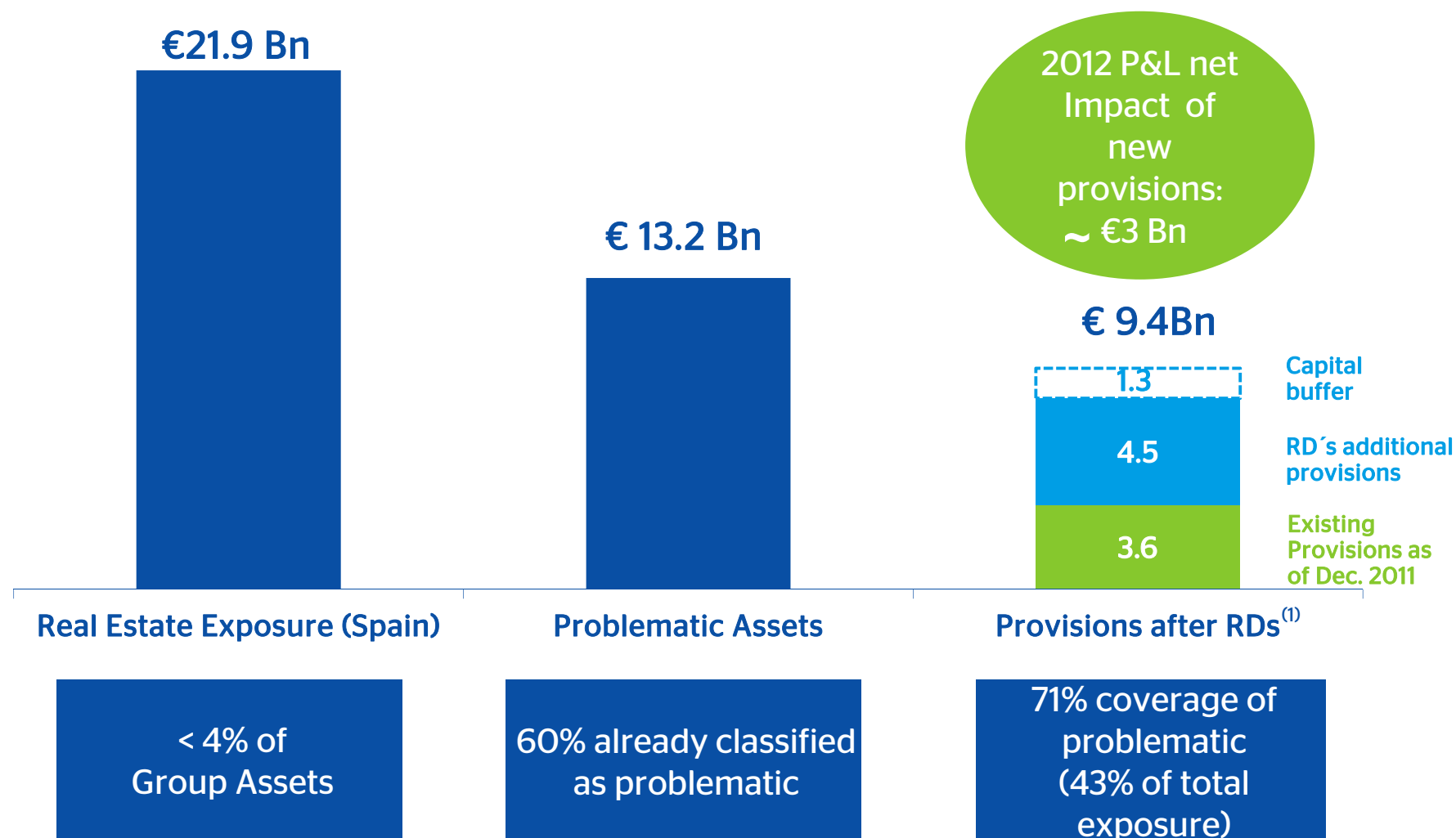
## NPA & coverage ratios

BBVA Group  
(%)



Good performance in all franchises compensating  
a weak environment in Spain

**Spain:** BBVA will absorb new RE provisions while coverage levels will significantly increase



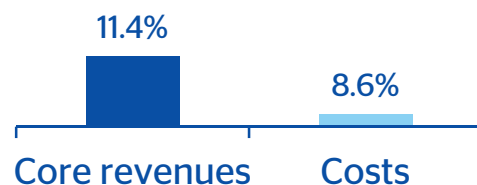
Real estate exposure and problematic assets as of December, 2011.

(1) Includes both RD 02/2012 and RD 18/2012 coverage ratios include the capital buffer required by RD 02/2012 (€1.3 Bn)

# Group: Costs growing at a lower pace than core revenues

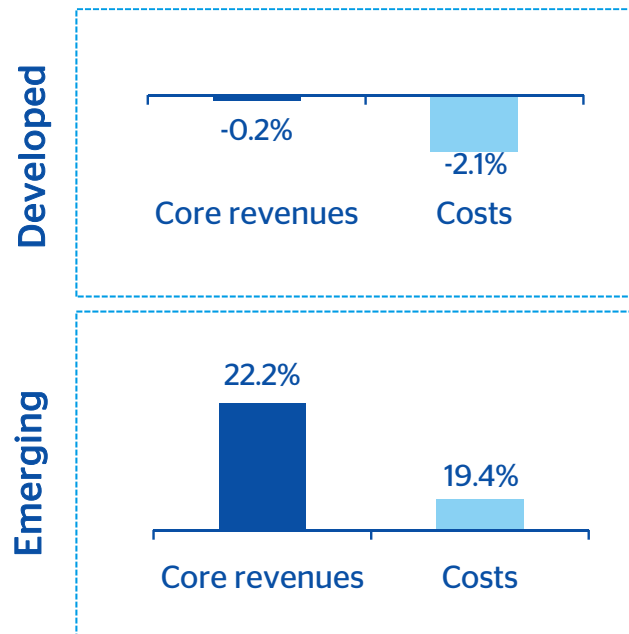
## Core revenues <sup>(1)</sup> vs. costs

BBVA Group  
Year-on-year change % (1Q11-1Q12)



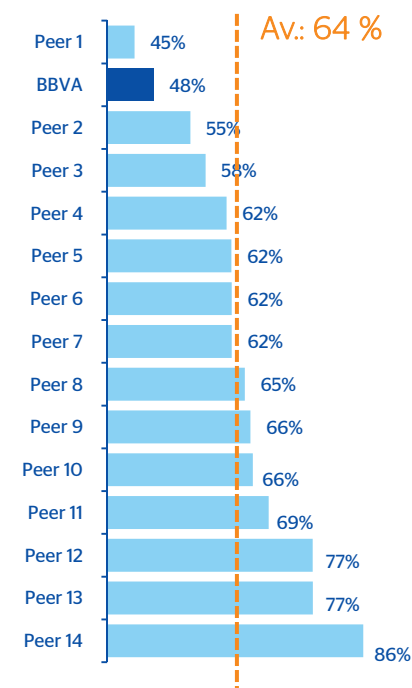
## Year-on-year change

(1Q11-1Q12)  
(Constant €)



## Cost-to-income ratio

BBVA Group vs. Peer Group <sup>(2)</sup>  
December 2011



**Costs to remain flat in developed economies  
and progressively stabilize in emerging economies**

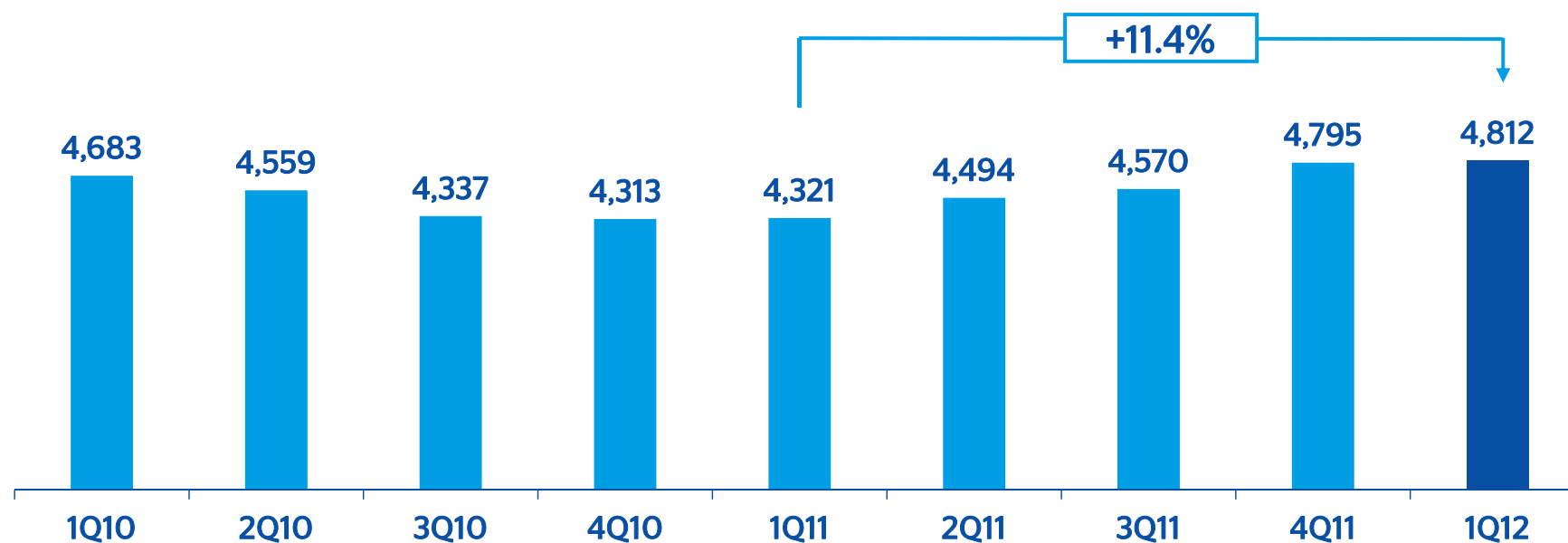
(1) Core revenues include: Net interest income and fee income.

(2) Peer Group: BARCL, BNP, CASA, CMZ, CS, DB, HSBC, ISP, LLOYDS, RBS, SAN, SG, UBS and UCI.

# Group: Recurrent core revenues continues to grow

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

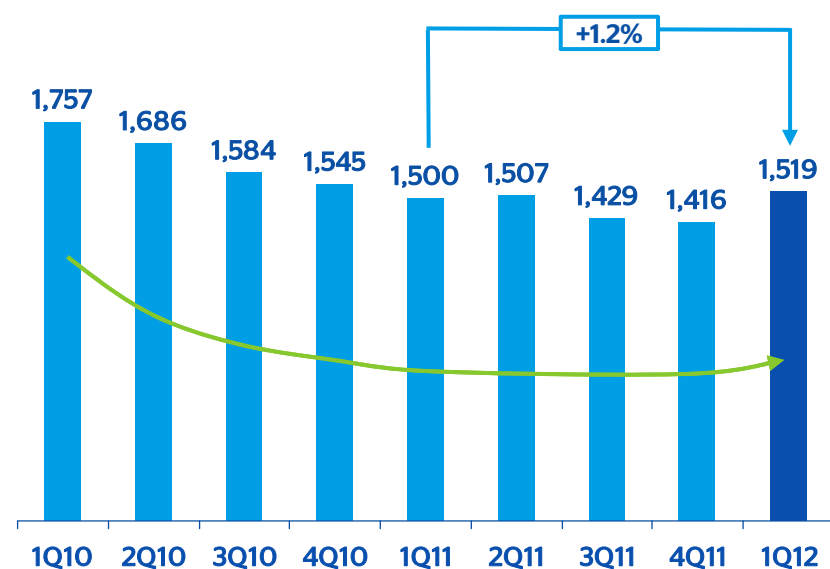
BBVA Group  
(Constant €m)



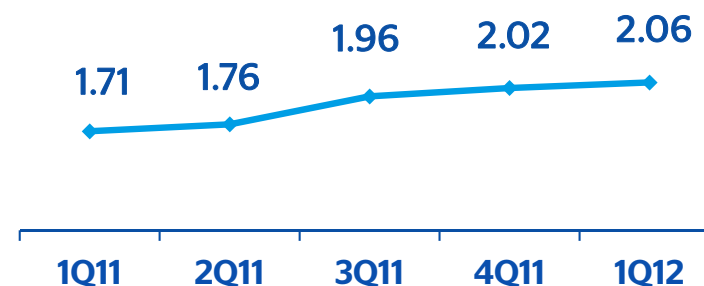
(1) Core revenues include: Net interest income and fee income.

# Spain: Net interest income stabilization due to the reduction of the cost of deposits

**Core revenues<sup>(1)</sup>**  
(Constant €m)



**Customer spread<sup>(2)</sup>**  
(%)

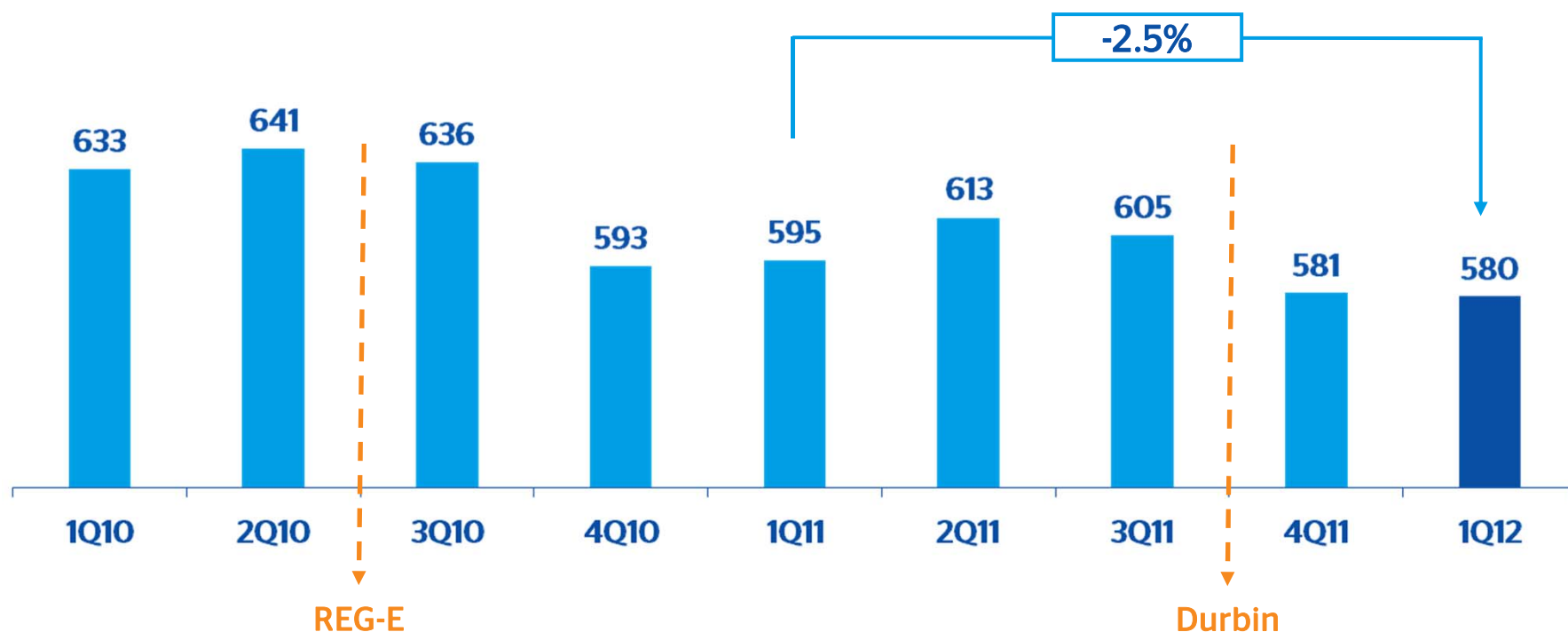


(1) Core revenues include: Net interest income and fee income.

(2) Includes Retail and Business banking in Spain and Global Clients division of C&IB in Spain.

# USA: Core revenues affected by the run-off from Guaranty portfolios and the new regulatory landscape

**Core revenues<sup>(1)</sup>**  
(Constant €m)

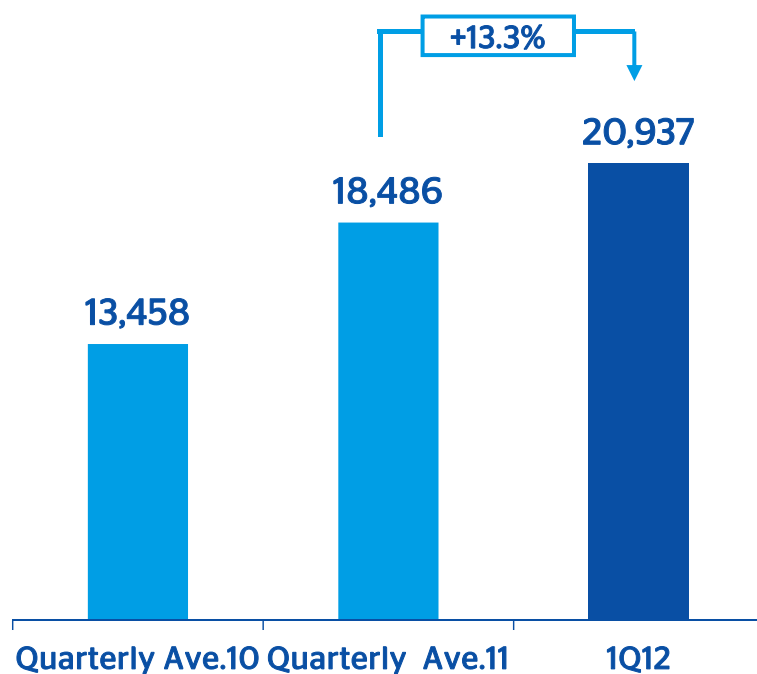


**Profitability will improve reflecting the transformation of the business mix / model and the economic recovery**

(1) Core revenues include: Net interest income and fee income.

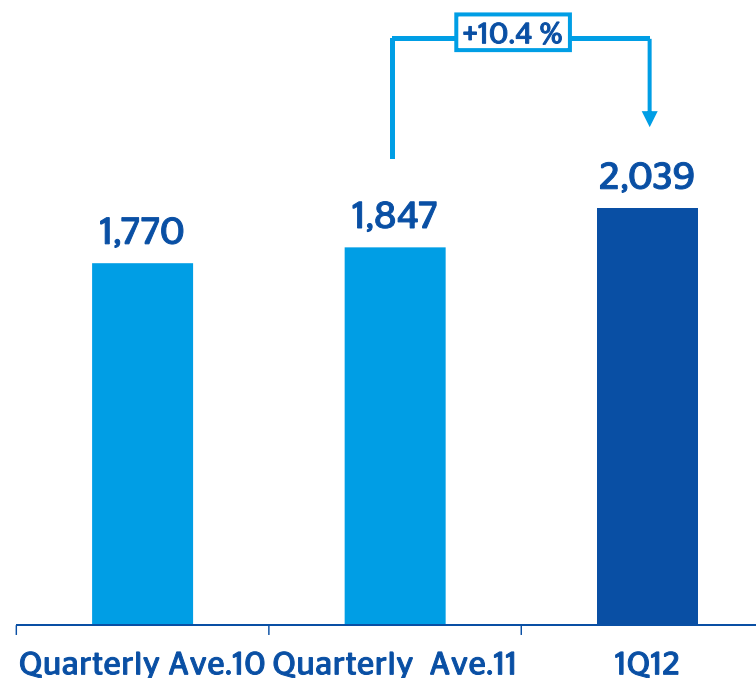
# Eurasia: Buoyant activity in all regions

**Citic core revenues<sup>(1)</sup>**  
(RMB million)



Source: CNBC public reporting

**Garanti core revenues<sup>(2)</sup>**  
(TRY million)



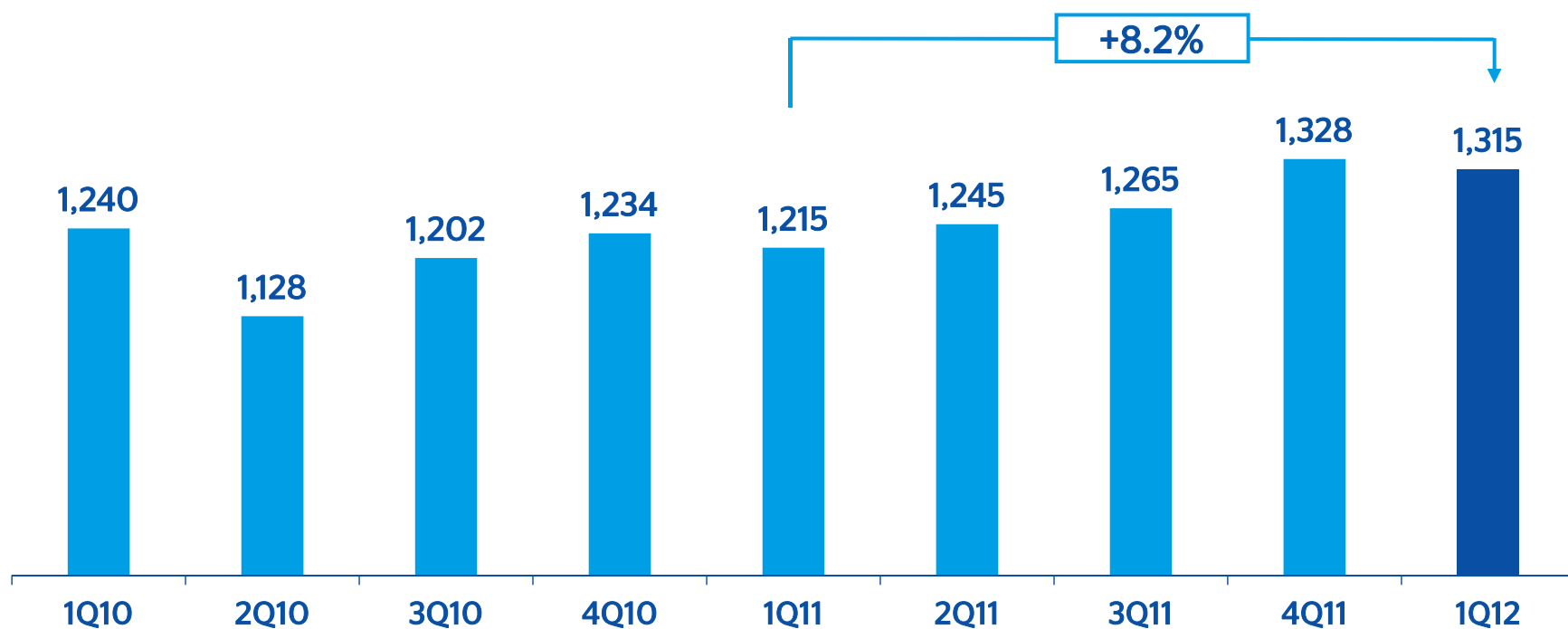
Source: BRSA Consolidated Garanti public reporting.

**Activity dynamism and growing core banking revenues**

(1) Core revenues include: Net interest income and fee income. (2). Core revenues include: Net interest income, income on Reserve Requirements and CPI linkers and net fees & commissions.

# **Mexico:** Core revenue growth thanks to the business dynamism and mix improvement

**Core revenues<sup>(1)</sup>**  
(Constant €m)

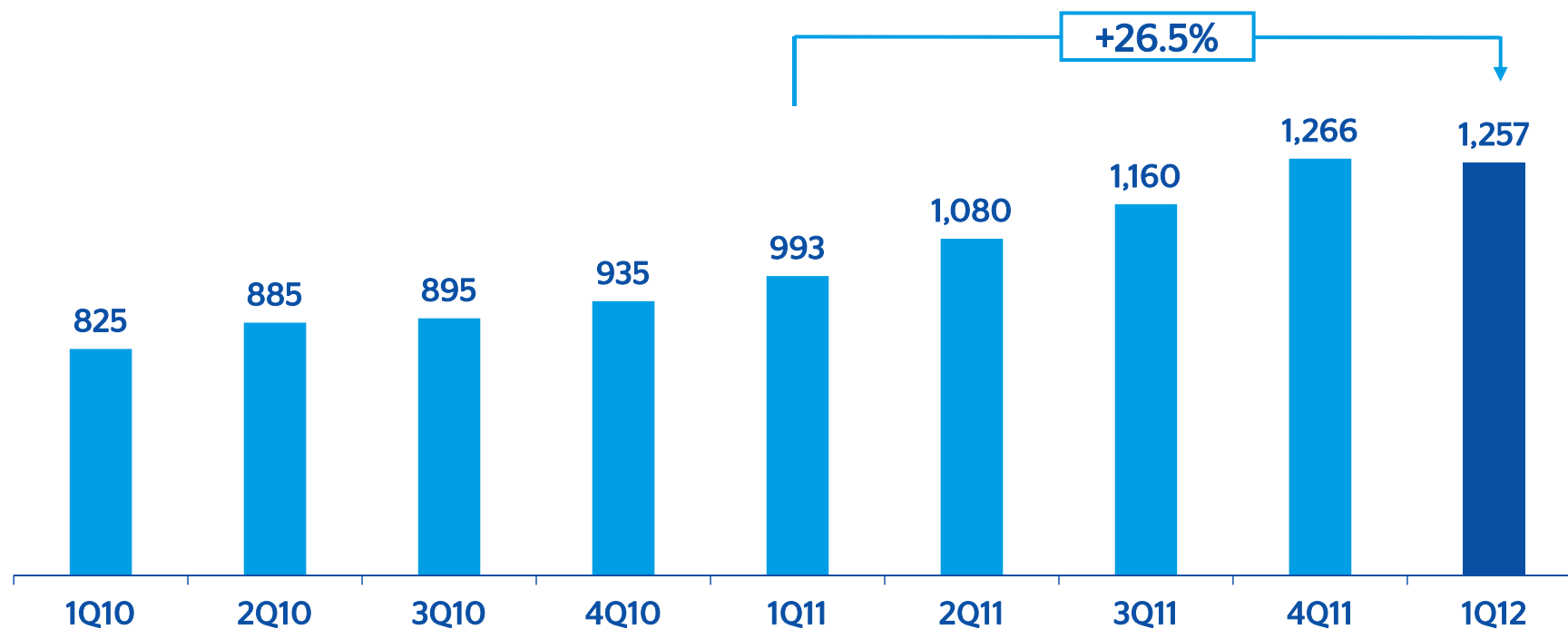


**High net interest income growth**  
**Impact of new regulation on fees and commissions absorbed in 2011**

(1) Core revenues include: Net Interest Income and fee Income.

**South America:** Diversified leadership in a fast growing region leading to higher revenues and profitability

**Core revenues<sup>(1)</sup>**  
(Constant €m)



**High growth of core revenues and profits**

(1) Core revenues include: Net interest income and fee income.

**Europe  
&  
Spain**

Europe is entering a new phase of building a real monetary union

In Spain:

- The Government has taken many strong measures regarding fiscal consolidation
- The adjustment in the private sector is happening
- Addressing key reforms: labour market and financial sector

**BBVA**

Despite rating downgrades related to the sovereign, fundamentals have been improving:

- Strong capital and liquidity
- Delivering positive operating trends

**BBVA**

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