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Spanish Financial System Reform

Preliminary impacts of the 02/2012 Royal Decree on BBVA

Manuel González Cid, CFO

February 7th 2012

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Contents

1 **Reform highlights**

2 Impact on BBVA

3 Conclusions

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Main goals of the Reform

1. **To improve confidence and access to capital markets by the Spanish banking sector**
2. **To reactivate real estate market and credit supply to the economy**
3. **To trigger the final round of Spanish system consolidation**

Likely to improve Spanish system risk premium and normalize funding costs

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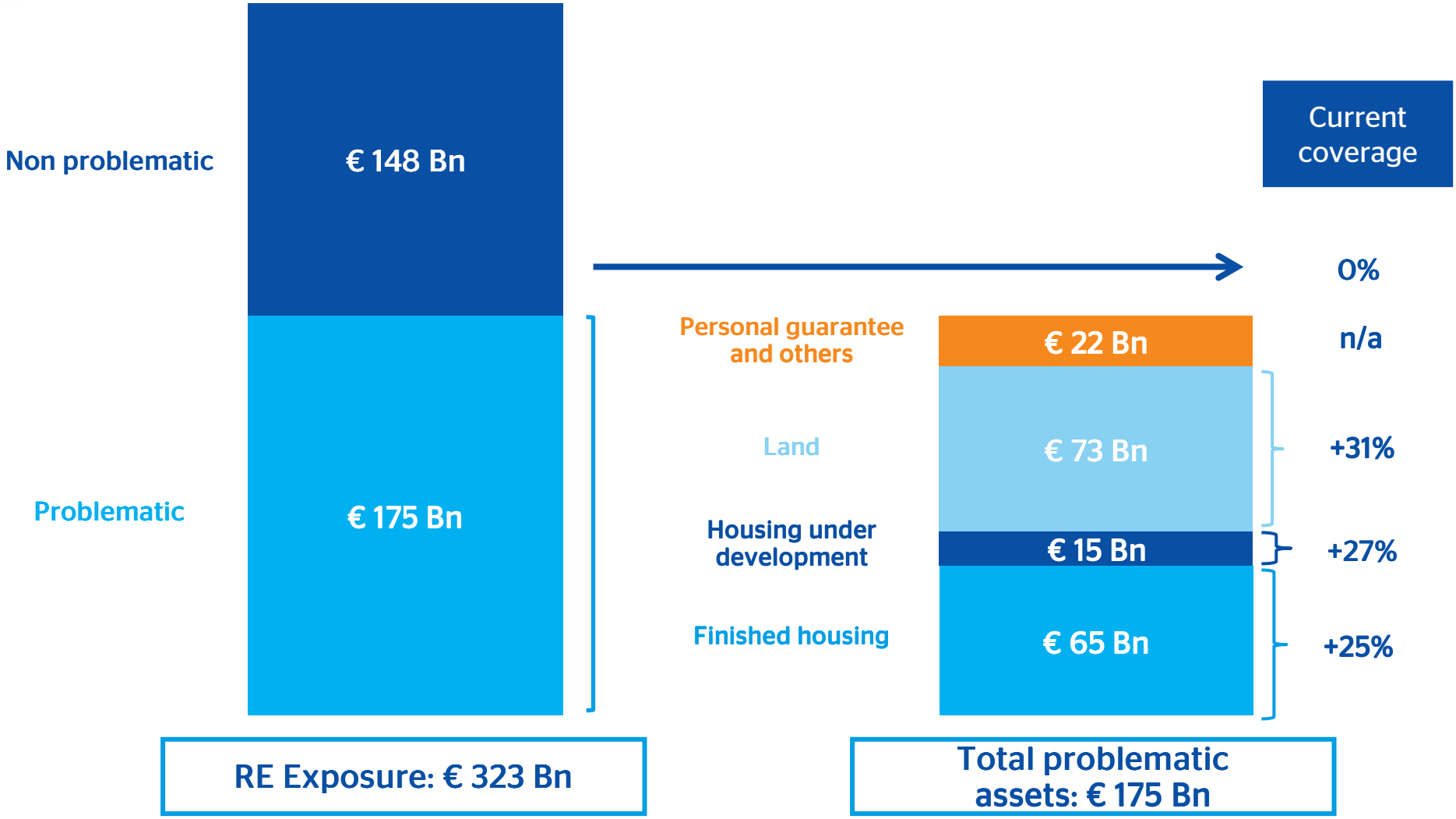
Main measures of the Reform

- Provisions and capital buffer on real estate exposures
- Incentives to accelerate system consolidation
- Mechanisms to financially support institutions
- Tight deadlines

BBVA welcomes these measures that will be very positive for the financial system and for the country

Spanish Banking System: real estate exposure and current coverage



Figures as of June 2011, Source: Presentation "Reforma del Sistema Financiero Español" (Ministry of Economy, February 2nd, 2012)

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Contents

1 Reform highlights

2 Impact on BBVA

3 Conclusions

BBVA

BBVA real estate exposure as of December 31st, 2011

	Land	Housing under development	Finished housing	Others and with personal guarantee	TOTAL Exposure
TOTAL REAL ESTATE (€ Bn)	**6,8**	**2,8**	**10,1**	**1,5**	**21,2**
Performing Real Estate developers	**1,6**	**1,6**	**4,6**	**0,6**	**8,4**
Problematic Loans and Assets	**5,2**	**1,2**	**5,5**	**0,9**	**12,8**
Doubtful	*1,4*	*0,6*	*1,4*	*0,4*	***3,7***
Substandard	*0,8*	*0,3*	*0,9*	*0,1*	***2,1***
Foreclosures	*3,0*	*0,4*	*3,2*	*0,4*	***7,0***

BBVA exposure to real estate amounts to 9% of total domestic lending vs. our 12% average market share.

Note: Finished housing foreclosures include foreclosed housing from households.

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BBVA current coverage and new coverage

	Current coverage				
	P&L				
	Land	Housing under development	Finished housing	Others and with personal guarantee	TOTAL Exposure
Performing Real Estate developers	-	-	-	-	-
Problematic loans and assets	31%	28%	23%	42%	28%

	New Royal Decree Coverage					
	P&L				Capital	
	Land	Housing under development	Finished housing	Others and with personal guarantee	Land	Housing under development
Performing Real Estate Developers	7%	7%	7%	7%	-	-
Problematic loans and assets						
Doubtful	*60%*	*50%*	*25%*	*24%*	*20%*	*15%* (2)
Substandard		*24%-50%*	*20%*			
Foreclosures		*50%*	*10%-50%* (1)			

(1): Finished housing foreclosures include foreclosed housing from households.
(2) Except on-going housing under development classified as substandard.

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Estimated impact of new provision requirements on 2012 P&L

(€ Bn)	P&L Impact 31.12.2012
ADDITIONAL PROVISIONS (31.12.11 stock)	
New generic provision	-0,59
Additional provisions (problematic assets)	-2,22
Tax effect	0,84
TOTAL net amount	**-1,96**
P&L MITIGANTS	
2011 Generic provisions release	0,46
Tax effect	-0,14
IMPACT NET OF TAXES (31.12.2011 stock)	**-1,64**
EVOLUTION IN 2012	
New provisions (gross of taxes and net of 7% generic)	-0,30
2012 budgeted problematic assets provisions	0,70
Tax effect	-0,12
Final Impact on 2012 P&L	**-1,36**

Full impact to be absorbed by December 2012

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No changes in our plan to comply with EBA requirements under all scenarios

	SCENARIO 1: 100% RD P&L IMPACT ON 1H12	SCENARIO 2: RD P&L IMPACT ON 3 QUARTERS (from Q2)
	€ Bn	€ Bn
EBA Capital Buffer as of Dec. 2011	**-1.0**	**-1.0**
RD P&L impact on 1H12	-1.6	-0.5
Organic capital generation (1H12)	1.5	1.5
Roll out and other RWA measures	0.6	0.6
Reduction in capital requirements due to higher provisions	0.6	0.2
EBA Capital Buffer as of June 2012	**0.1**	**0.8**

BBVA will comfortably achieve EBA requirements under all scenarios maintaining the sovereign buffer and without any additional measures on assets

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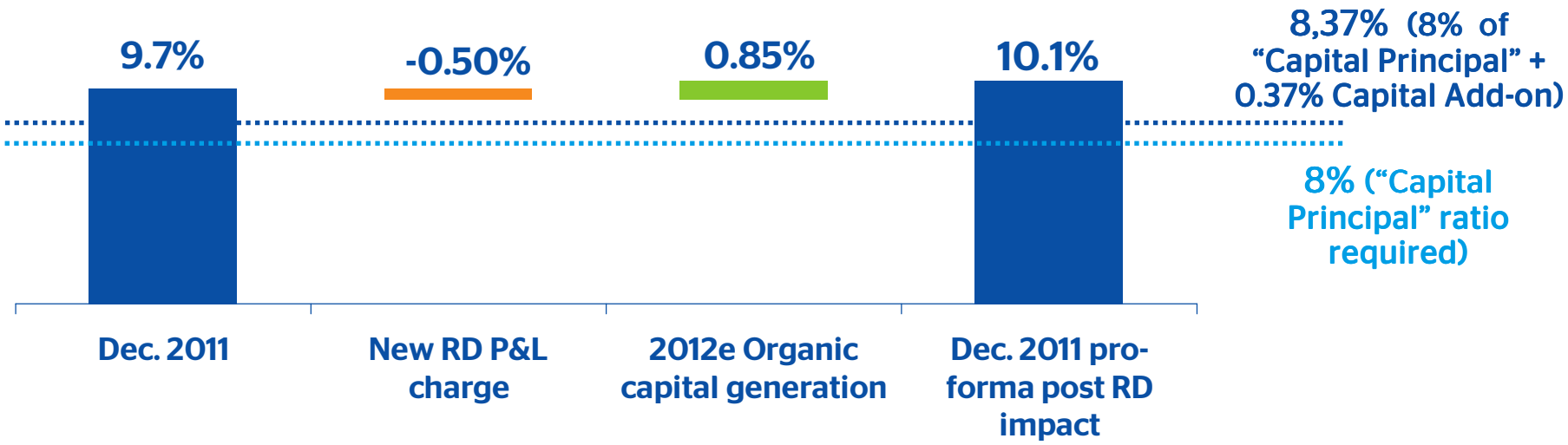
Surplus according to BoS "Capital Principal" even after new Royal Decree P&L and capital charges

BoS proforma "Capital Principal" ratio
BBVA Group
(%)



- Significant capital surplus according to BoS "capital principal" even without considering organic capital generation during the year
- Timing of the capital add-on (€ -1.2 Bn) likely to be 4Q12

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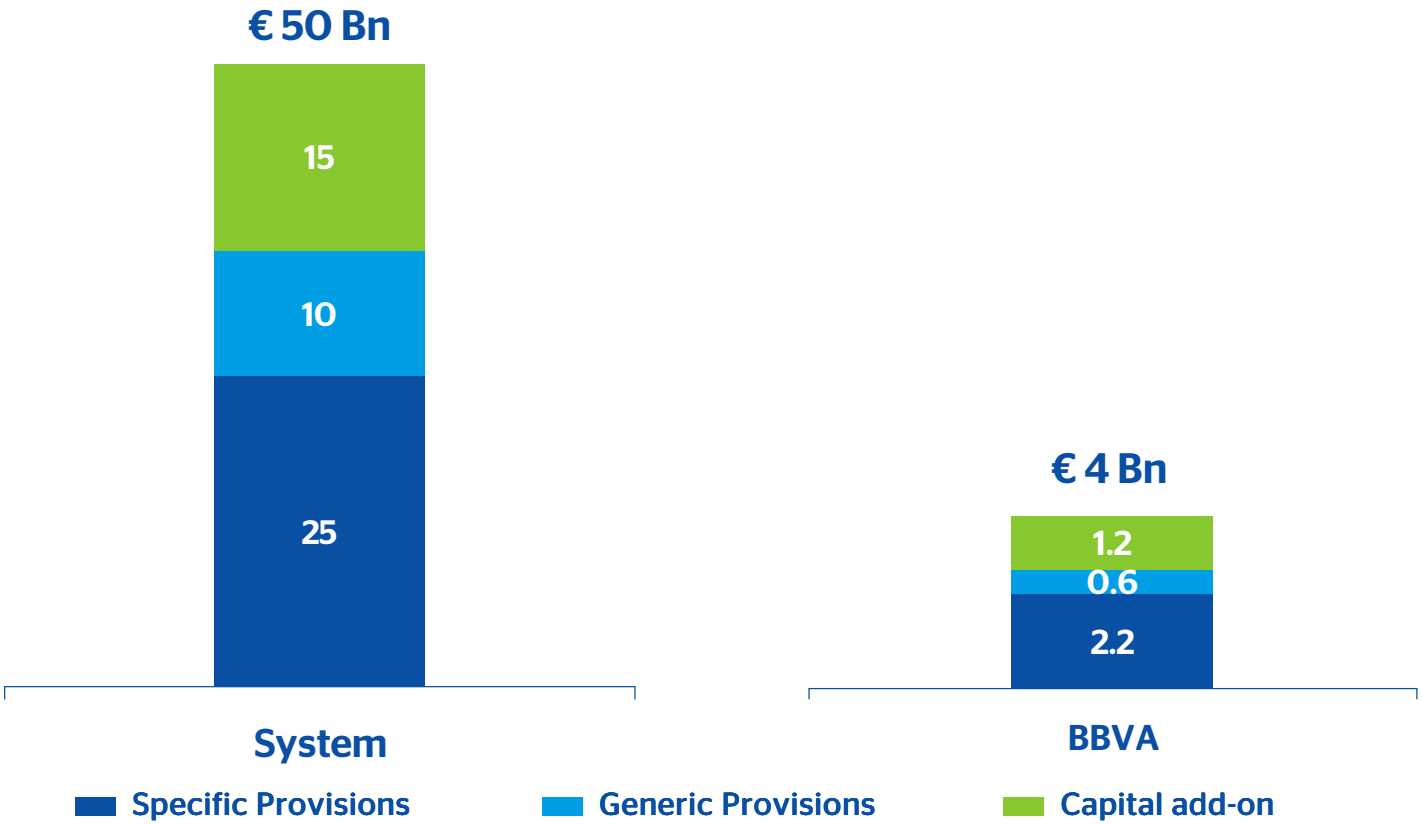
BBVA, less impacted than our peers by new measures...

Impact of new measures contained in the 02/2012 RD



Impact for BBVA represents 8% of total impact for the system, vs. BBVA's 12% average market share

Note: Figures gross of taxes. System figures as of June 2011. BBVA figures as of December 2011

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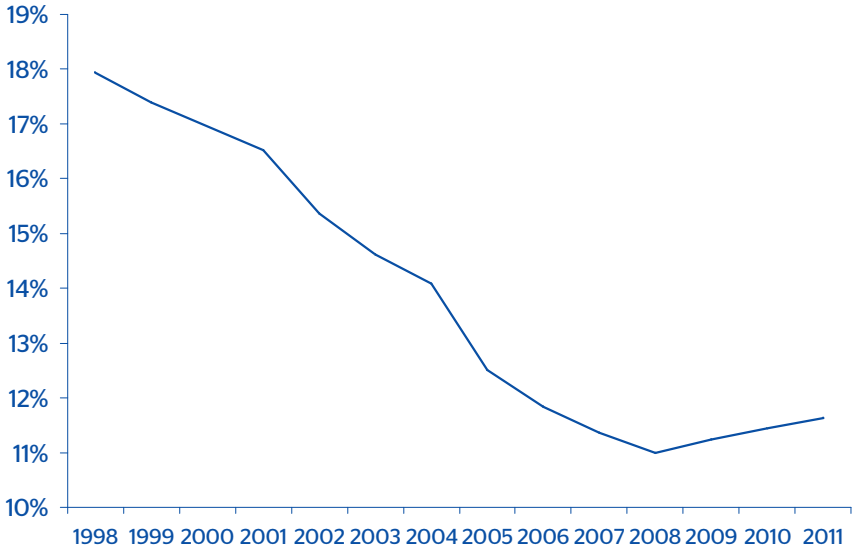
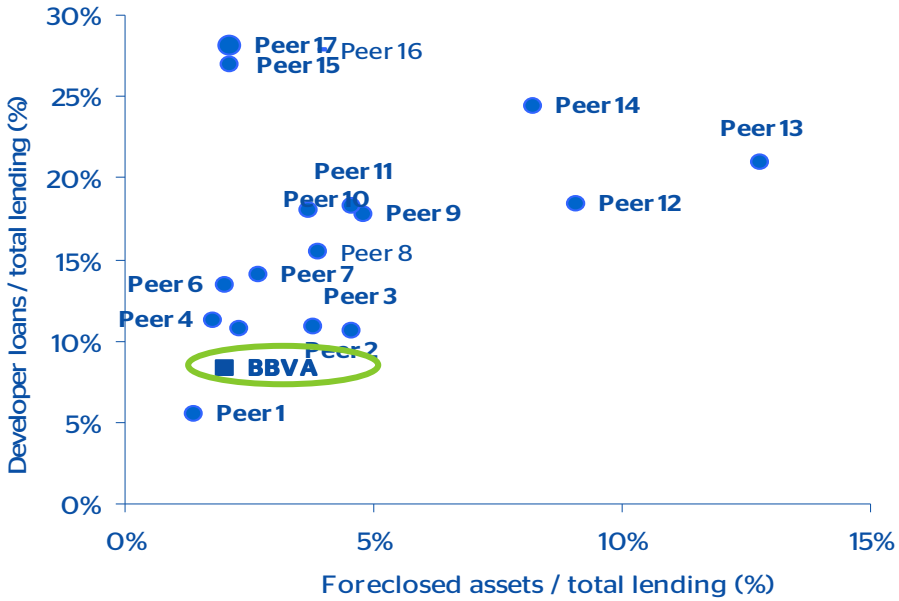
... due to our anticipation strategy

BBVA domestic lending market share evolution



Exposure to problematic real estate assets

BBVA Group vs. financial sector
(figures at June 2011)



BBVA lost nearly 7 p.p. of domestic lending market share during the credit boom years

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Contents

1 Reform highlights

2 Impact on BBVA

3 Conclusions

BBVA

Conclusions

1. **BBVA welcomes the new RD as it addresses the main problem of the Spanish Financial system, representing a decisive step to reduce uncertainties**

2. **Combined with the liquidity measures of the ECB and the structural reforms announced by the Spanish government, credit supply could be restored and margins normalized**

3. **Thanks to its lower exposure to RE and recurrent earnings, BBVA will comfortably absorb the impact of the new regulation, maintaining the dividend policy and without additional measures on assets**

4. **New RD charges won't impact our plans to meet EBA and BoS capital requirements, that will be comfortably achieved under all scenarios**

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