GLOBAL RISK MANAGEMENT

Stress testing: BBVA Experience

Rafael Salinas

CRO. BBVA Group

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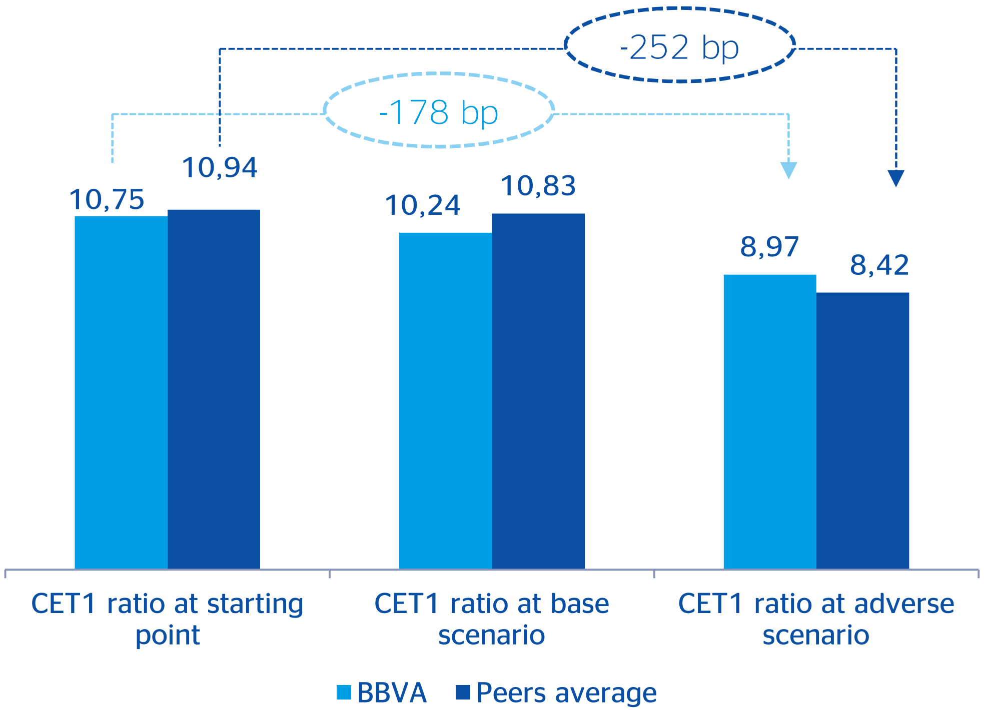
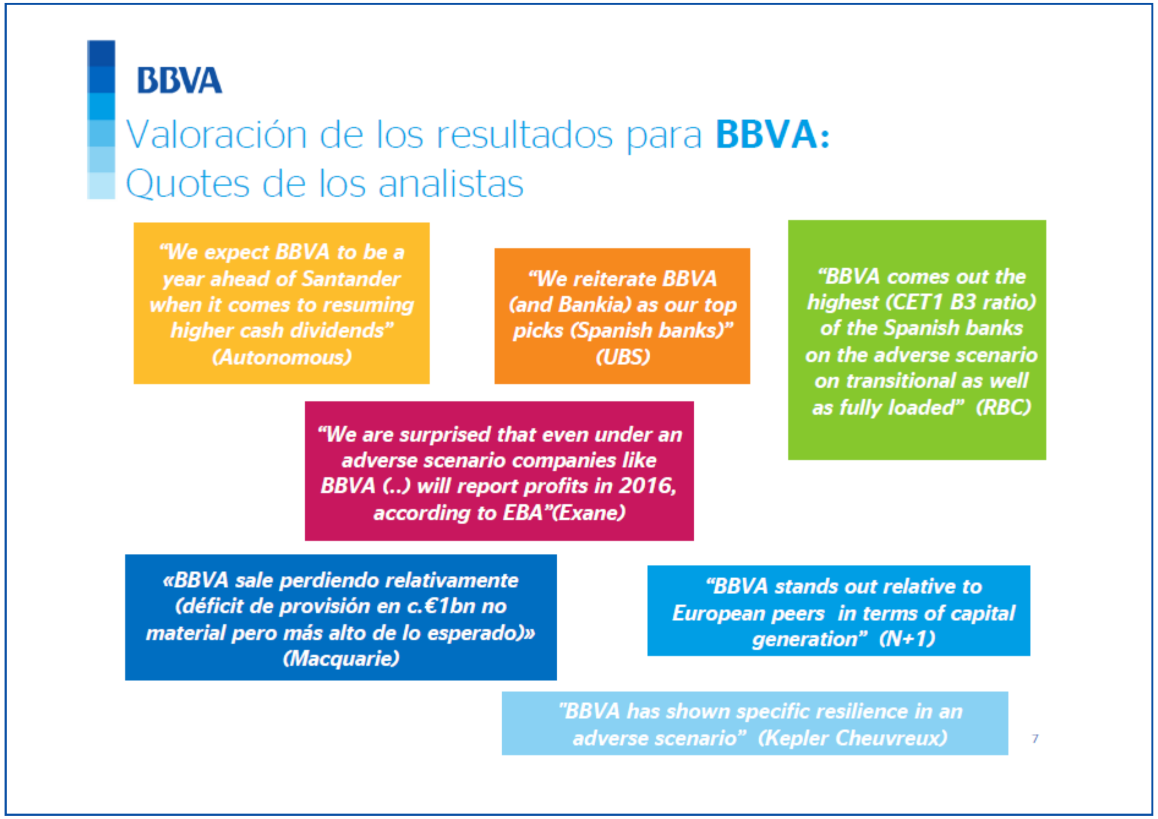
BBVA and the latest regulatory stress tests

EUR- EBA Stress Test 2014



Source: Results of of 2014 EU-wide stress test



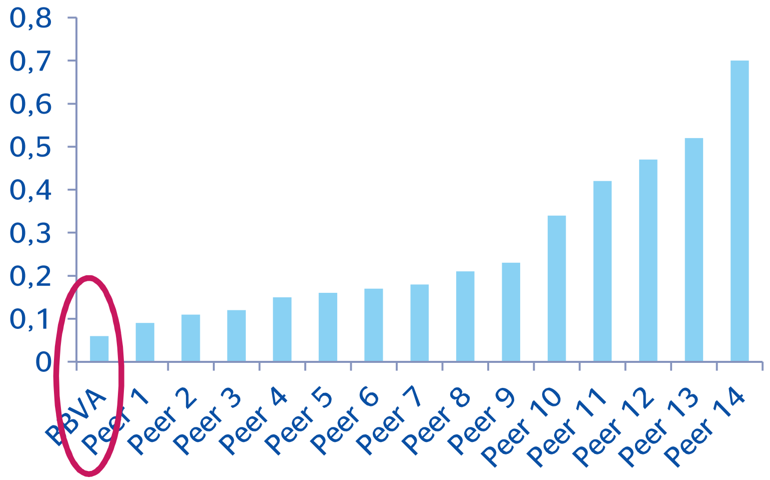
Despite the positive results of the assessment, internally we keep open questions on regulatory stress test exercises.

GLOBAL RISK MANAGEMENT

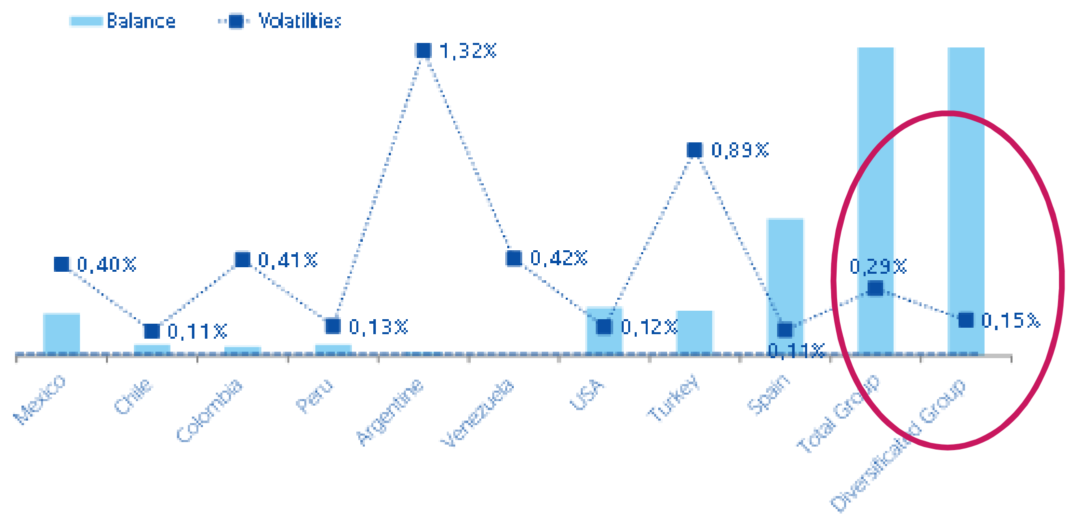
In a Bank as BBVA, geographical diversification is a key value factor

Asset and P&L Volatility of the BBVA Group as a whole is lower than the volatility of its franchises

Quarterly gross margin volatility (2012-2015)

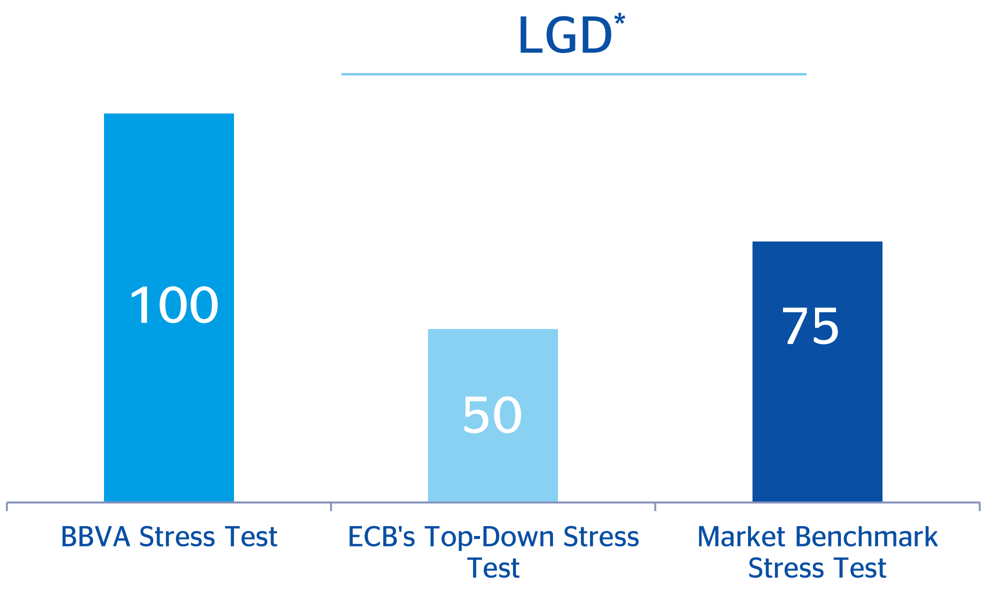


Quarterly BBVA Provisions volatility (2000-2014)



Are we really stressing portfolios with these exercises?

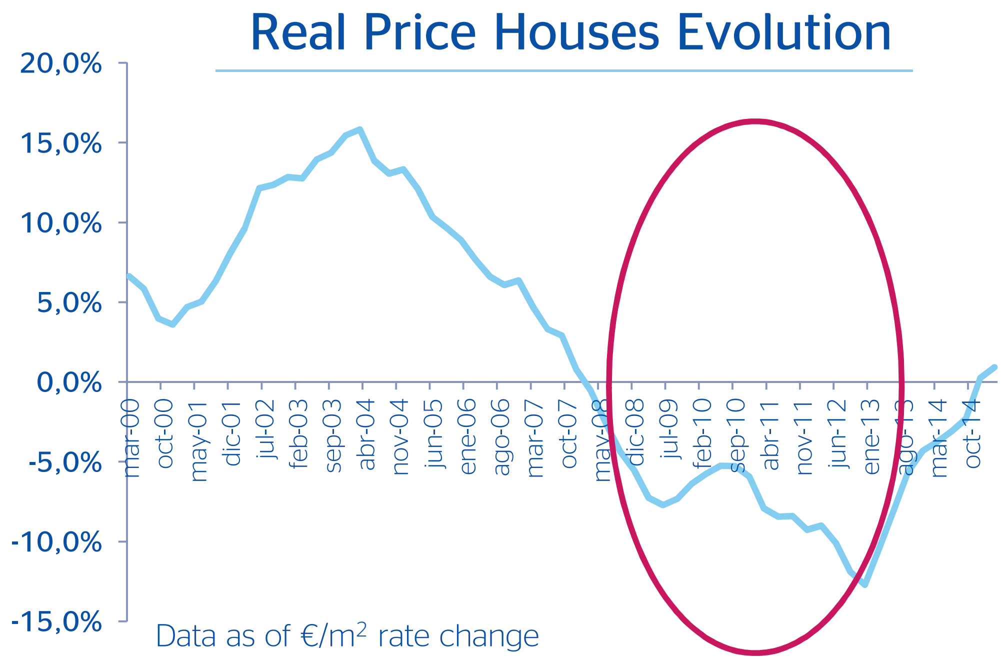
*Let´s look at the **mortgages portfolio at Spanish market** during the recent crisis and the results of stress test exercises ...*



* LGD expressed at base 100 for comparison purposes

Market participants underestimated Loss Given Default?. Why?

1. **Houses prices** evolution is affected by our actions

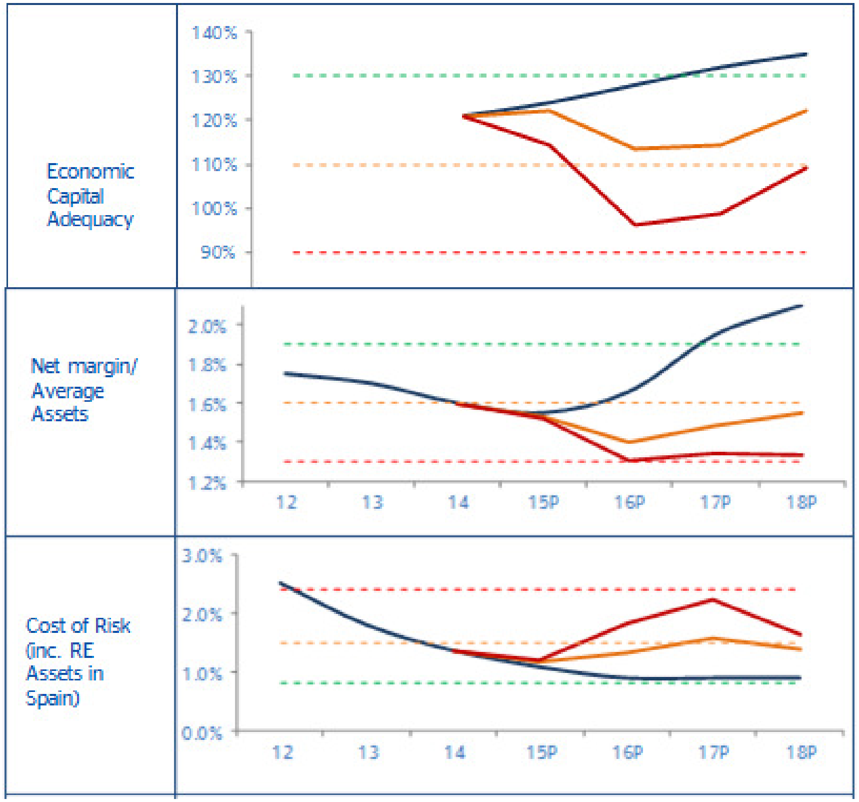


2. **Annual** houses **maintenance costs** remain stable but …

3. **Average foreclosure and selling period** multiplies by 4, so the **total cost is four times higher**

Given the implementation costs, can we make stress tests useful for management purposes?

Core Metrics at BBVA Group



Combining Risk Appetite Framework of the Group with the risk assessment exercise implied by stress test we define

Risk Management Limits (by type of risk)

Capital Allocation (by business line and portfolio)

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