

Stress testing: BBVA Experience

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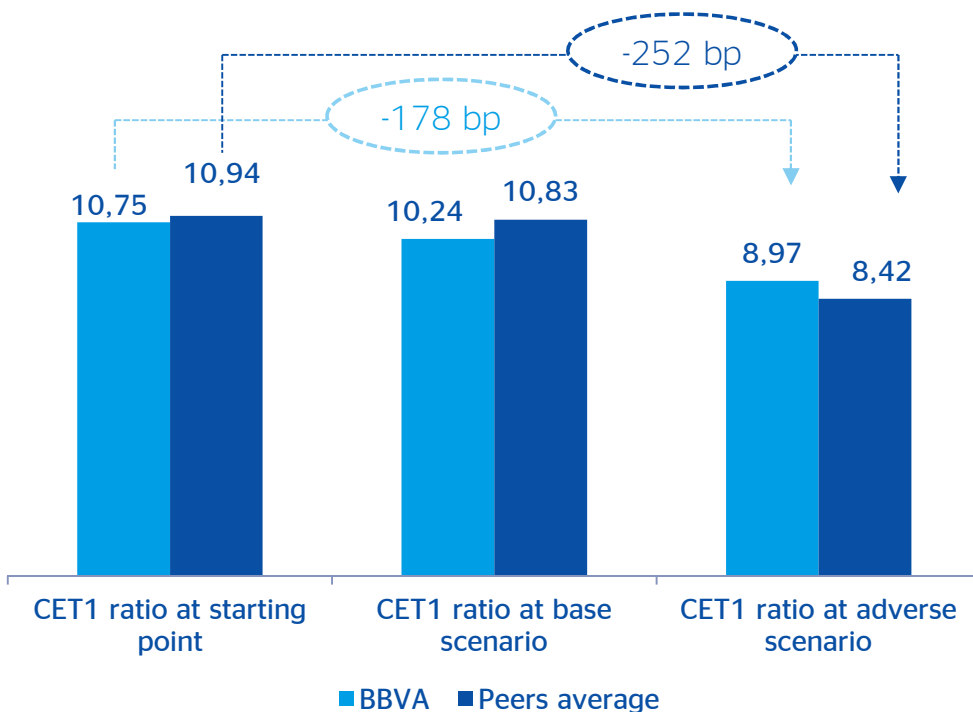
CRO. BBVA Group

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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

BBVA
Valoración de los resultados para **BBVA:**
Quotes de los analistas

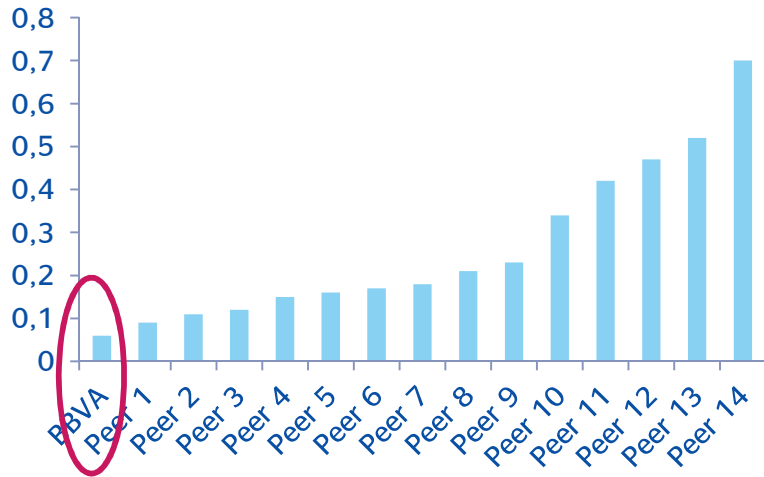
- "We expect BBVA to be a year ahead of Santander when it comes to resuming higher cash dividends" (Autonomous)
- "We reiterate BBVA (and Bankia) as our top picks (Spanish banks)" (UBS)
- "BBVA comes out the highest (CET1 B3 ratio) of the Spanish banks on the adverse scenario on transitional as well as fully loaded" (RBC)
- "We are surprised that even under an adverse scenario companies like BBVA (...) will report profits in 2016, according to EBA" (Exane)
- "BBVA sale perdiendo relativamente (déficit de provisión en c.€1bn no material pero más alto de lo esperado)" (Macquarie)
- "BBVA stands out relative to European peers in terms of capital generation" (N+1)
- "BBVA has shown specific resilience in an adverse scenario" (Kepler Cheuvreux)

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

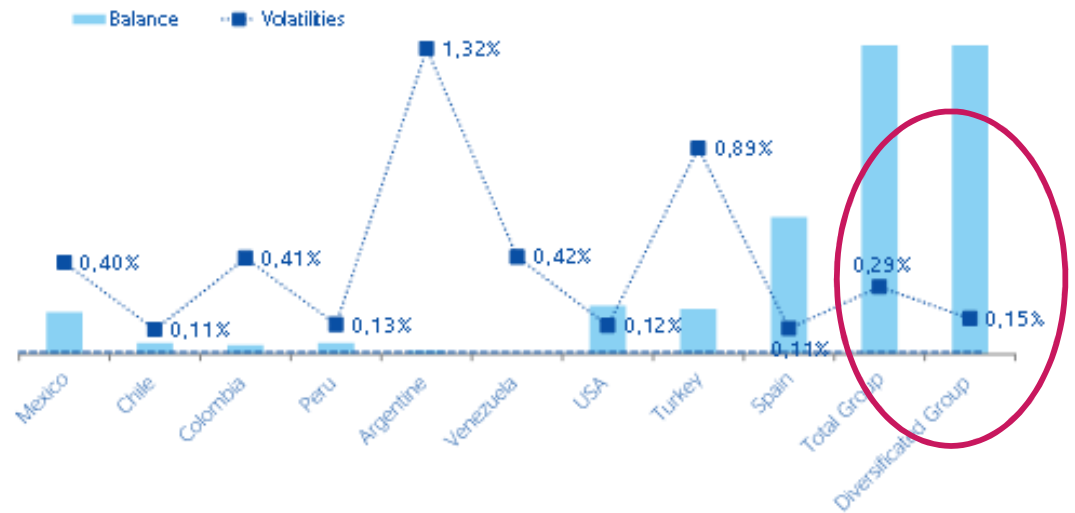
In a Bank as BBVA, geographical diversification is a key value factor

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)

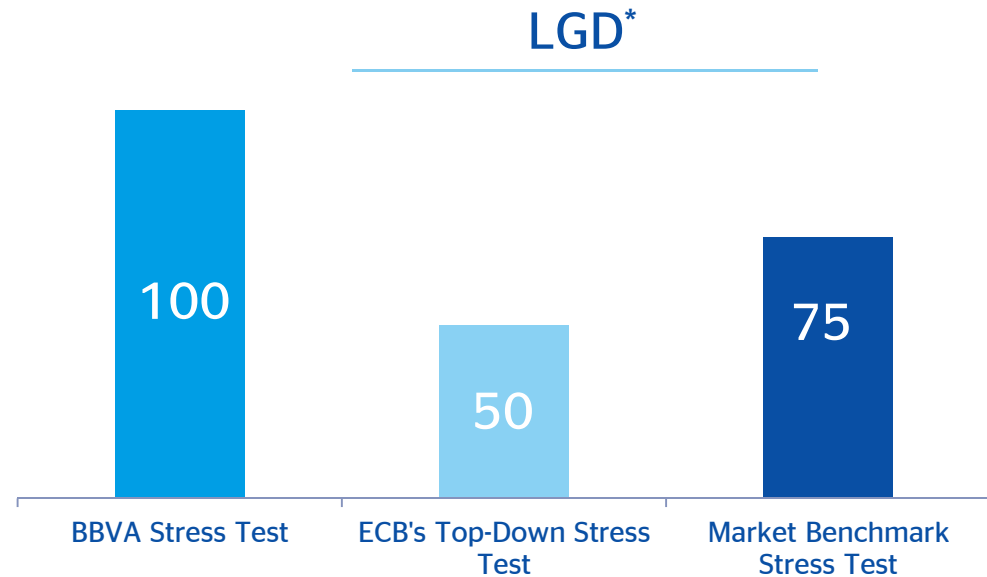


Quarterly BBVA Provisions volatility (2000-2014)



Are we really stressing portfolios with these exercises?

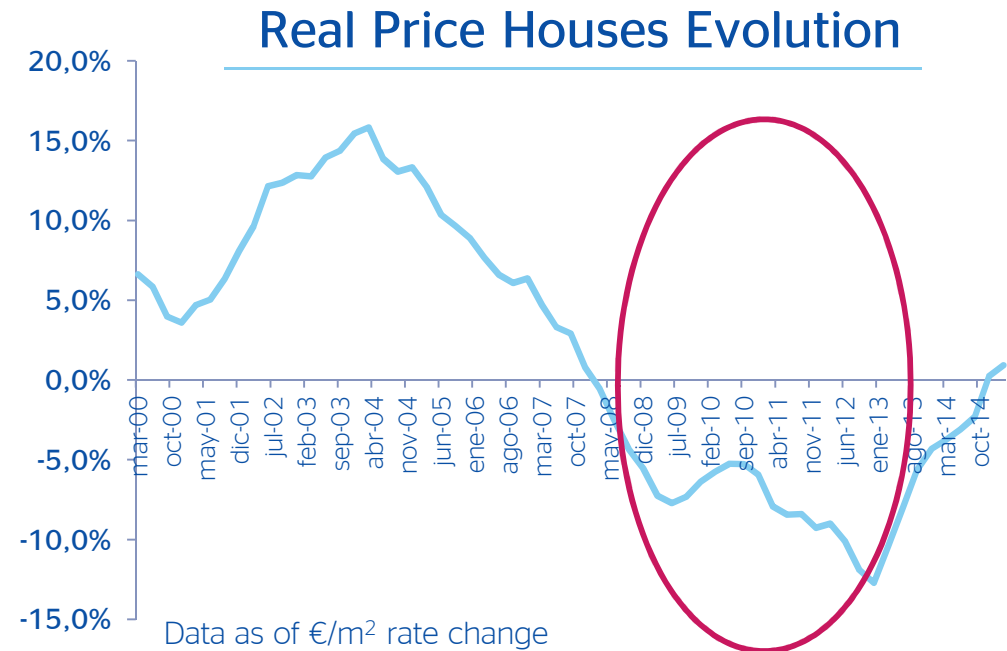
Let's look at the mortgages portfolio at Spanish market during the recent crisis and the results of stress test exercises ...



* LGD expressed at base 100 for comparison purposes

Market participants underestimated Loss Given Default?. Why?

1. Houses prices evolution is affected by our actions

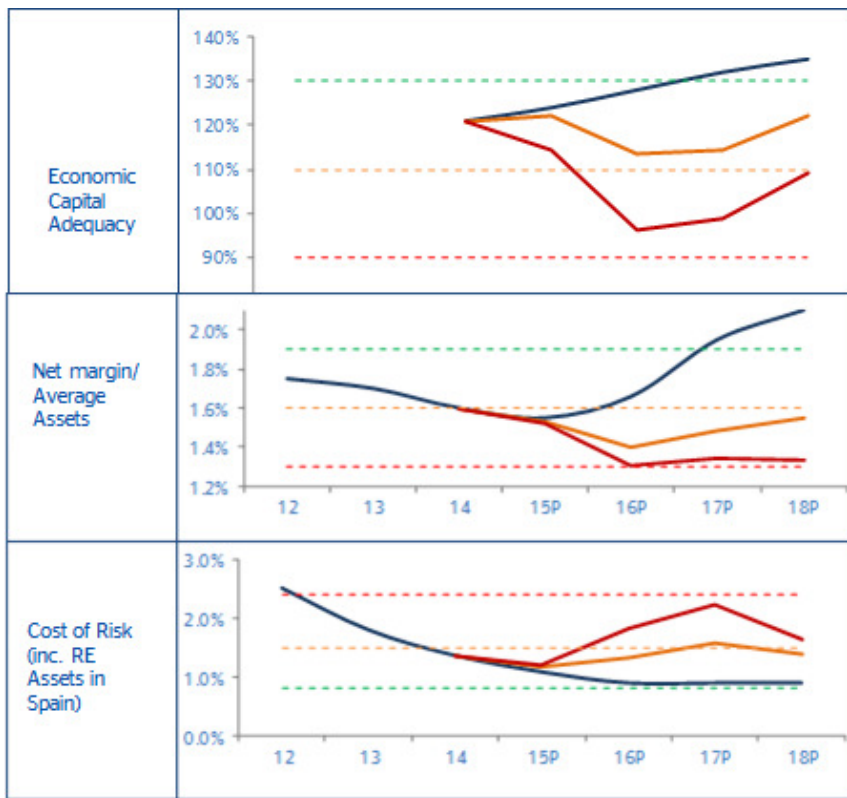


2. Annual houses maintenance costs remain stable but ...

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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