Stress testing: BBVA Experience

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Future of Finance 2015 Conference
BBVA and the latest regulatory stress tests

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

BBVA and the latest regulatory stress tests

EUR- EBA Stress Test 2014

<table>
<thead>
<tr>
<th>BCE ratio at starting point</th>
<th>BCE ratio at base scenario</th>
<th>BCE ratio at adverse scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBVA</td>
<td>Peers average</td>
<td></td>
</tr>
<tr>
<td>10.75</td>
<td>10.94</td>
<td>10.24</td>
</tr>
<tr>
<td>10.24</td>
<td>10.83</td>
<td>8.97</td>
</tr>
<tr>
<td>8.97</td>
<td>8.42</td>
<td>8.42</td>
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</tbody>
</table>

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.
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 ...

<table>
<thead>
<tr>
<th></th>
<th>BBVA Stress Test</th>
<th>ECB’s Top-Down Stress Test</th>
<th>Market Benchmark Stress Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGD*</td>
<td>100</td>
<td>50</td>
<td>75</td>
</tr>
</tbody>
</table>

* 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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