

150
years

adelante



BBVA making the difference



adelante.

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“At the head of a growing business”

Latin America: earnings and outlook to 2050

BBVA making the difference



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- Current state of the pension business in Latin America
- Forecasts of basic parameters
- Second generation reforms of pension systems
- BBVA's positioning and strategy
- Conclusions



Why do we need pension systems?

Historically, society has noticed the necessity of creating institutions that cater for the following needs of the population:

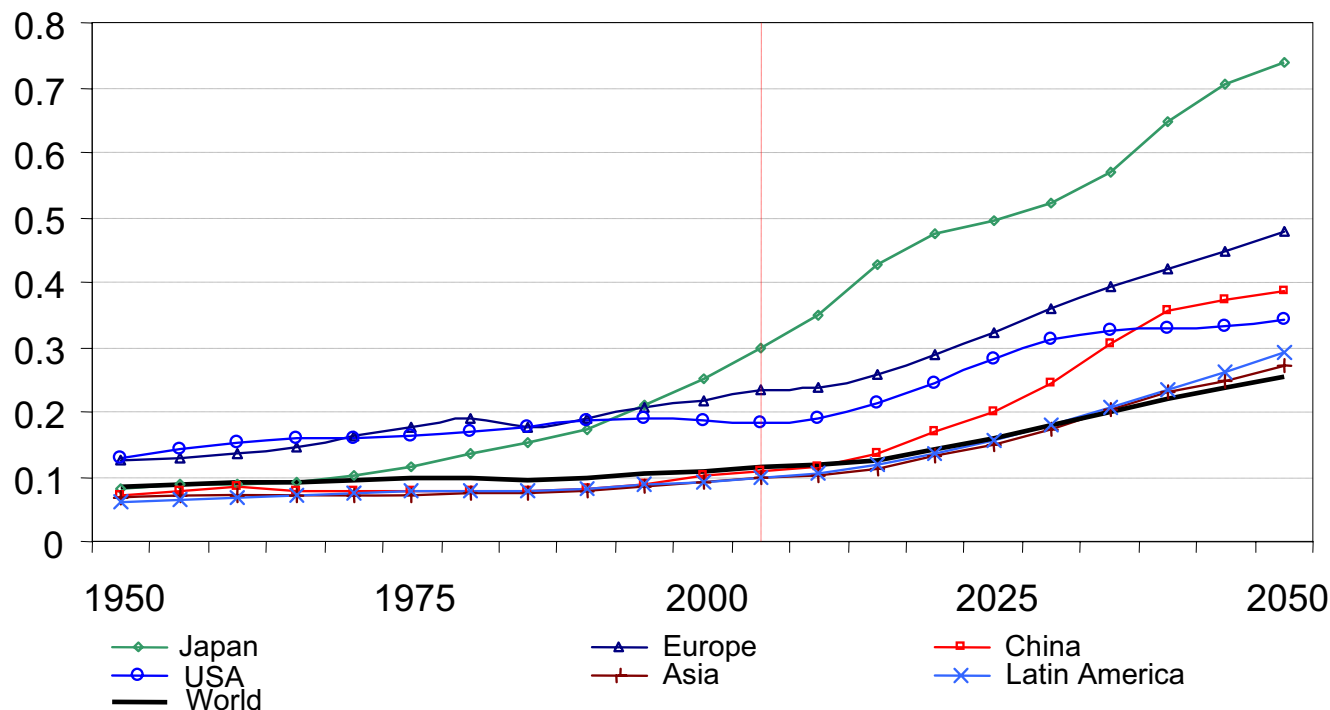
To replace the income that people cease to receive due to:

- Retirement
- Accidents
- Death



And the pension industry will play a more significant role in the future

Old-Age Dependency Ratio



Source: United Nations and BBVA.

BBVA is ready to tackle this challenge. It implies the creation of banking and pension units to service an increasingly important segment of the population.



Naturally, this applied to Latin America but something was lacking...

The region went through a deep economic crisis at the beginning of the 80s and this made it clear that regional governments were not able to meet their commitments to pensioners. It was necessary to make a change in the system and the two options were:

MODIFICATION

Handle the crisis by changing only some parameters of the Distribution System (increasing the retirement age, increasing contributions, discouraging early retirements, etc).

or

STRUCTURAL CHANGE

Complete reform of the pension system, replacing the Distribution Model with individual savings and capital via obligatory pension funds.



In the last 25 years, Latin America has reformed its pension systems

25 years ago

Distribution system

Government-run / no competition

Rigid

Multiple special systems /
discretionary

No accumulation of funds or
good management

The state's role: manager /
supervisor

Today

⇒ Individual account system

⇒ Privately managed / competition

⇒ Individual freedom

⇒ Uniform

⇒ Accumulation of funds / trustee obligation /
intangible nature

⇒ The state's role: supervisor /
subsidiary

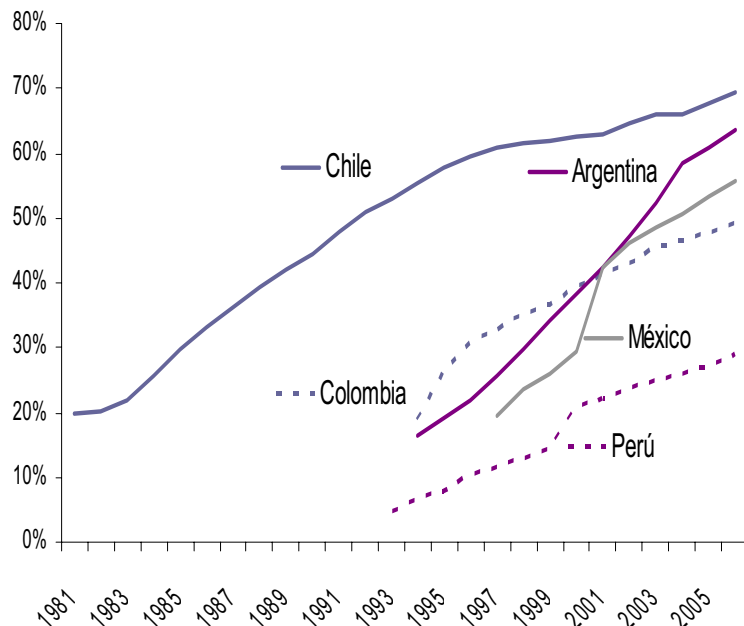
Each country implemented the reform in accordance with its possibilities and preferences (demographics, budget and degree of social concern)



Rapid growth of participants and assets under management

Penetration

Participants / Pop 14-64

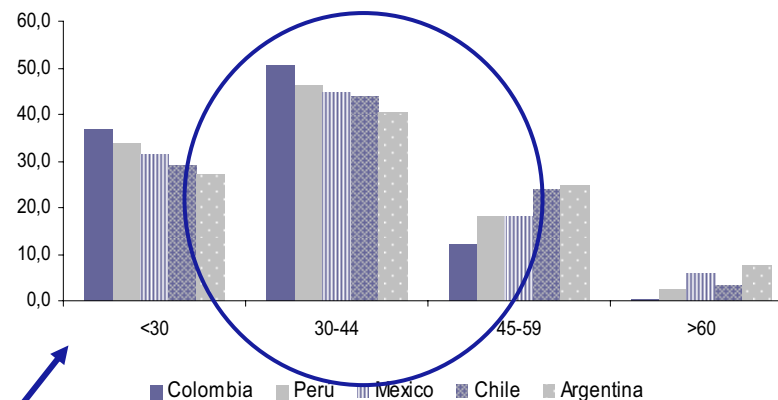


Especially in the younger segments of the population

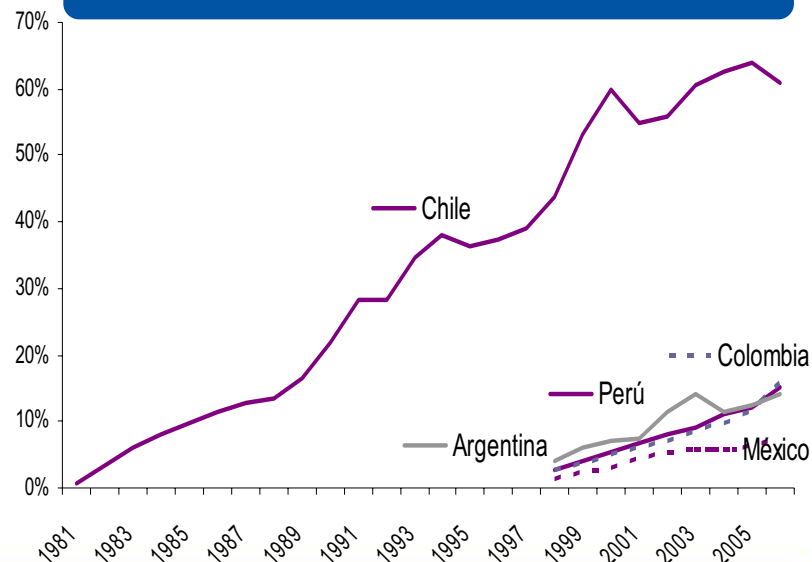
With a sustained increase in pension assets

Source: BBVA, FIAP, AIOS

Breakdown of participants by age



Pension Assets: % of GDP



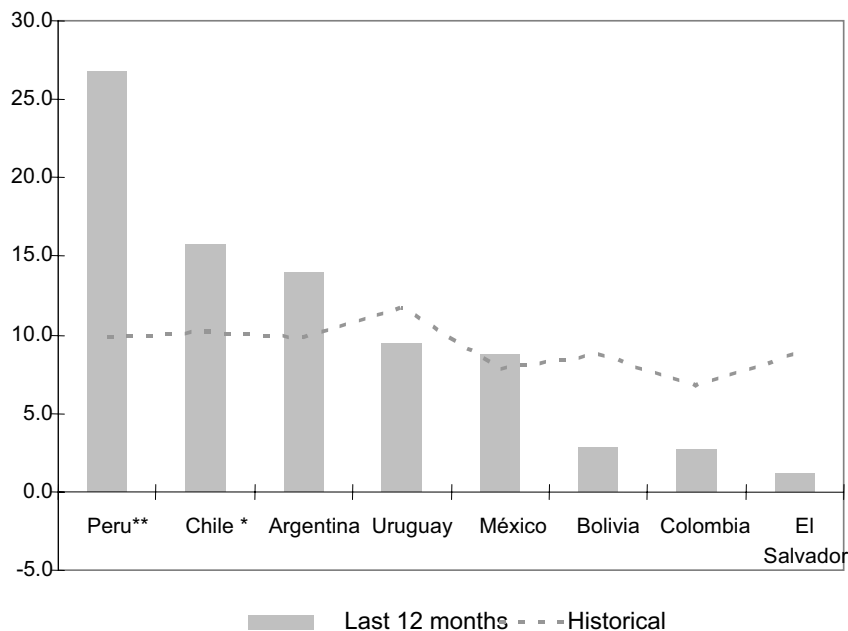


Development of capital markets

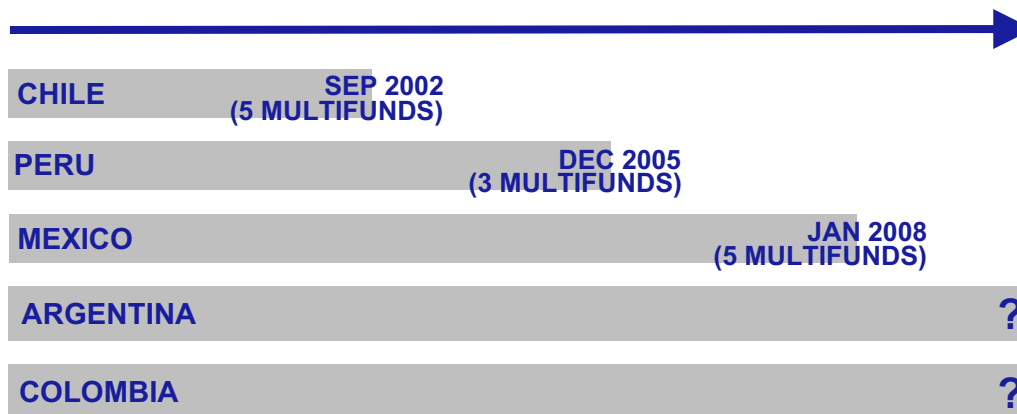
Business opportunity for
the private sector to
generate value

Portfolio management moving
towards multifunds

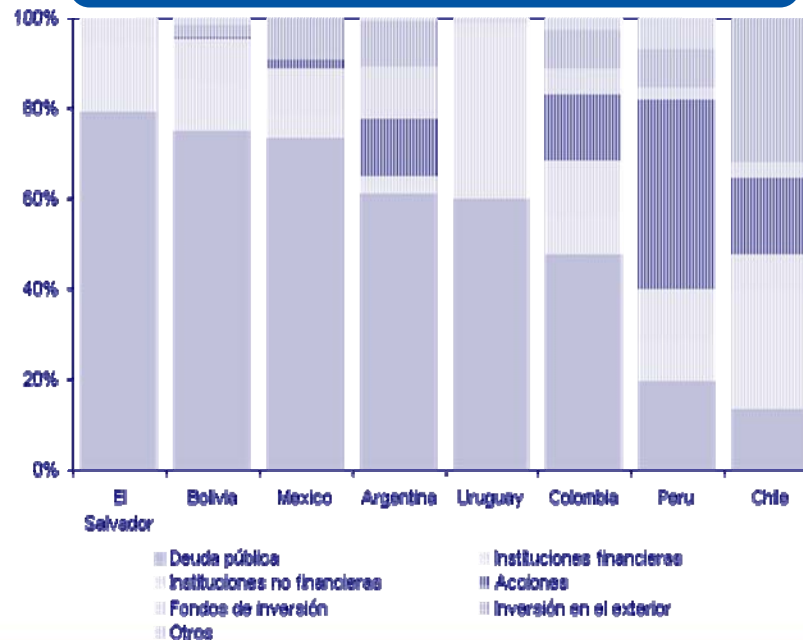
Real return in 2006 (%)



Source: AIOS



Diversification of the
portfolio in 2006 (%)

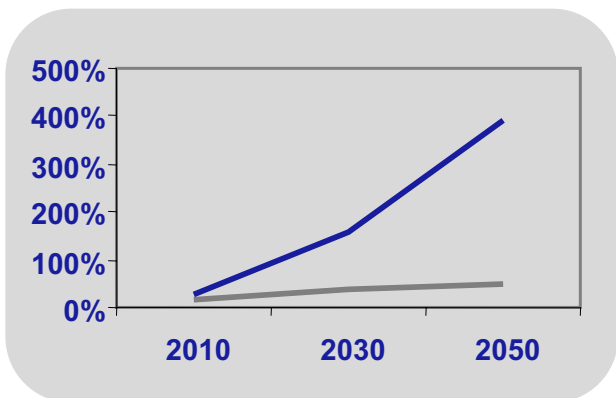




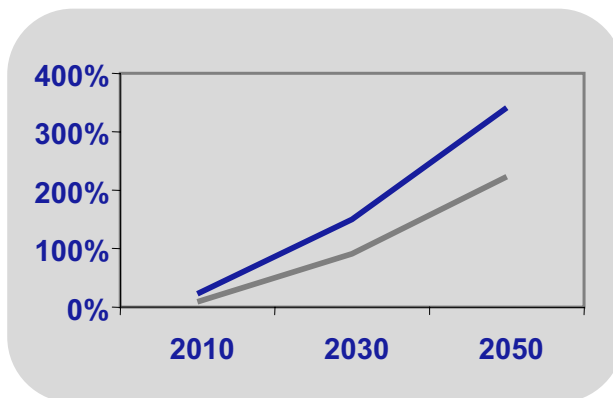
Greater sustainability and a boost for the economy

Estimated pension deficit with and without reform, as a % of GDP

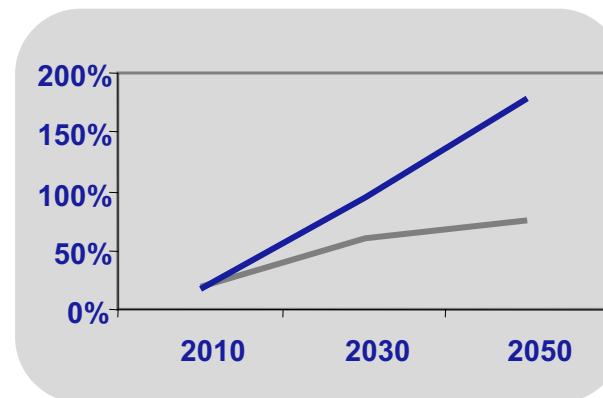
Bolivia



Colombia



Chile



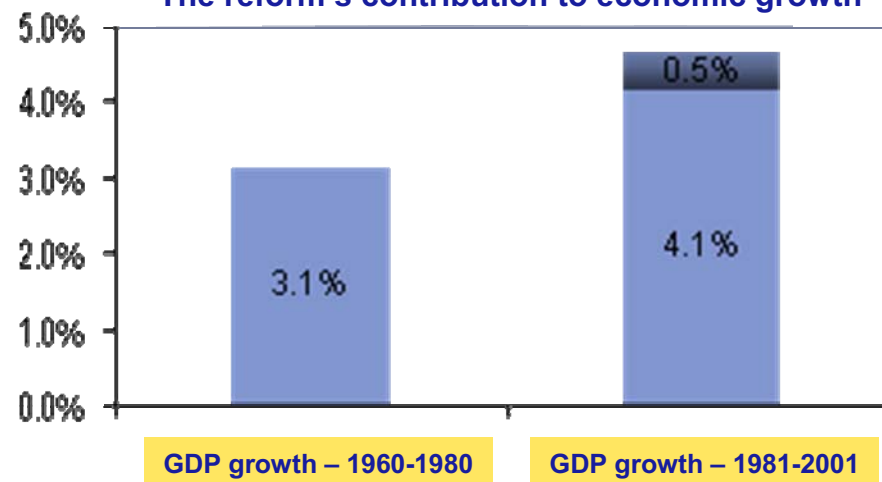
— With reform — Without reform

* Explicit and implicit (cumulative)
Source: Zviniene & Packard 2004

The reforms significantly reduced the pension deficit in several countries. The amount depends on the models used and on other reforms implemented (Zviniene & Packard 2004).

Corbo & Schmidh estimated that pension reform in Chile added 0.5% to 2001 GDP.

The reform's contribution to economic growth





Short-term achievements

- A significant proportion of employees in the standard job market are covered by the new pension systems
- The pension systems acquired greater long-term balance
- Pension funds have grown rapidly and play an important role in the local capital markets
- They generated important domestic savings which were invested locally, boosting economic growth and financing projects
- Political risk linked to pensions diminished

Economic development has been stimulated and the social security system is now financially viable



Can we do more?

Although short-term results are encouraging, there is still room to improve

- Penetration

Penetration is still low in most countries

Reasons: Level of development, confidence in the system, job market, etc.

- Pensions

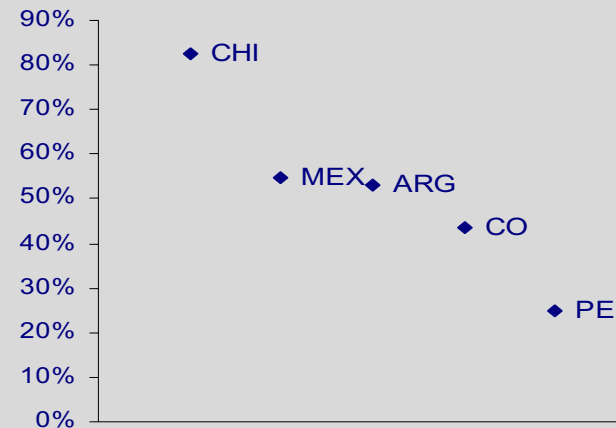
Pensions will be good for employees if they make regular contributions. Those who make infrequent payments will be less lucky and those with low incomes are a cause for concern

Rather than a problem, BBVA sees this as an opportunity

Source: BBVA

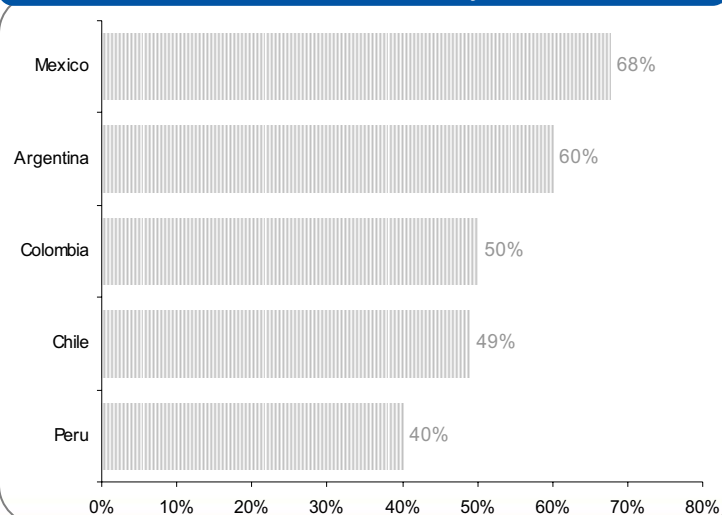
Penetration - 2006

Participants / Pop 14-64



Pension levels - 2006

Pension / Salary





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Scorecard of pension system performance

Measures and Conclusions

- **The implementation of reforms has been adequate**
- **But these reforms can be improved**
- **They must be complemented from various angles**
 - Improvements in the pension system: penetration and salary replacement level
 - Economic subsystems: capital markets and job markets. Fiscal management

A basis for successful future reform

- **A public sector / private sector compromise is needed**
- **The public and private systems must complement each other**
 - A single and comprehensive approach
- **The new industry needs the know-how and a broader range of skills**

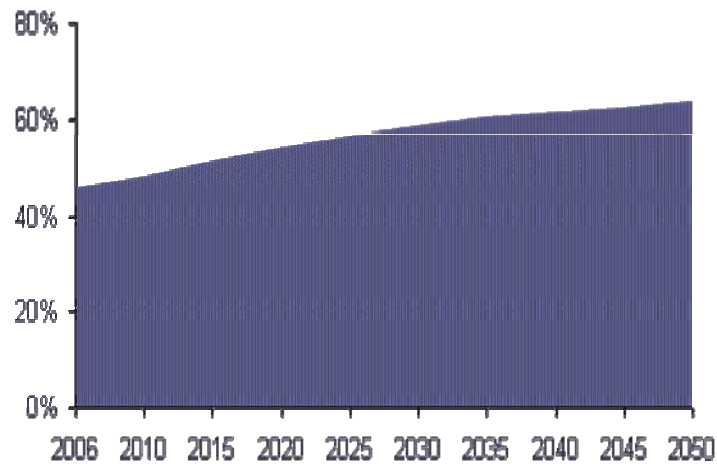


Penetration of the work force: On average, coverage will extend to 64% of the work force

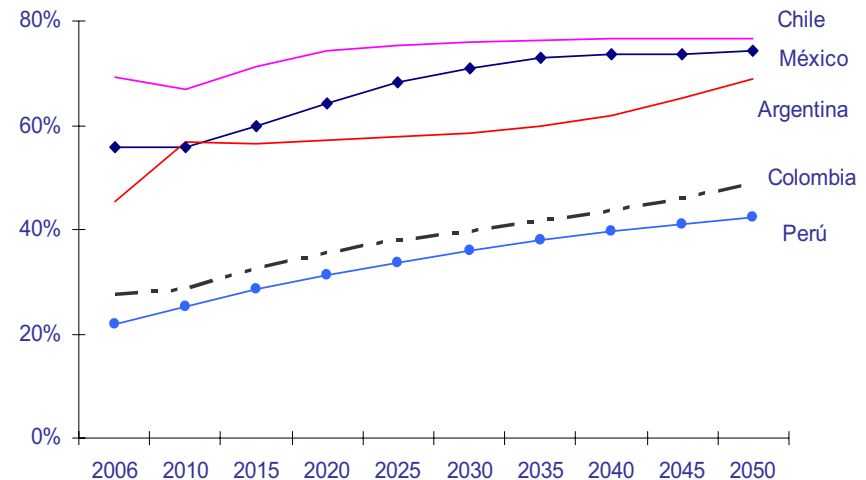
Penetration will continue

Participants / Pop 14-64

LatAm Average



By Country



But the situation will vary by country. Whereas in Chile and Mexico up to 80% of the work force will participate, countries such as Peru and Colombia have a long way to go.

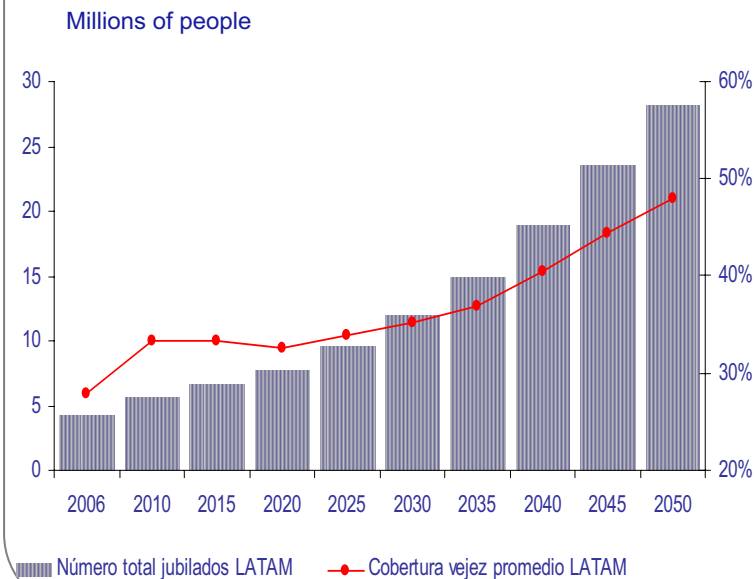
Source: BBVA



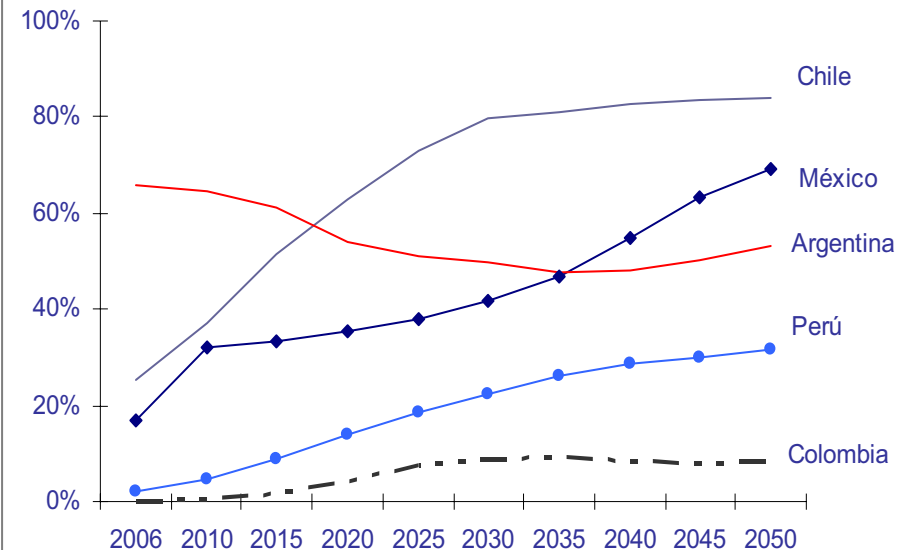
Old-age coverage: On average, 50% of retirees will have old-age coverage

Old-age pensions Participants / Pop > 64

LatAm Average



By Country



There are different trends in each country. In Chile and Mexico more than 70% of retirees will have a pension, but in countries such as Colombia and Peru the figure will be less than 50%.

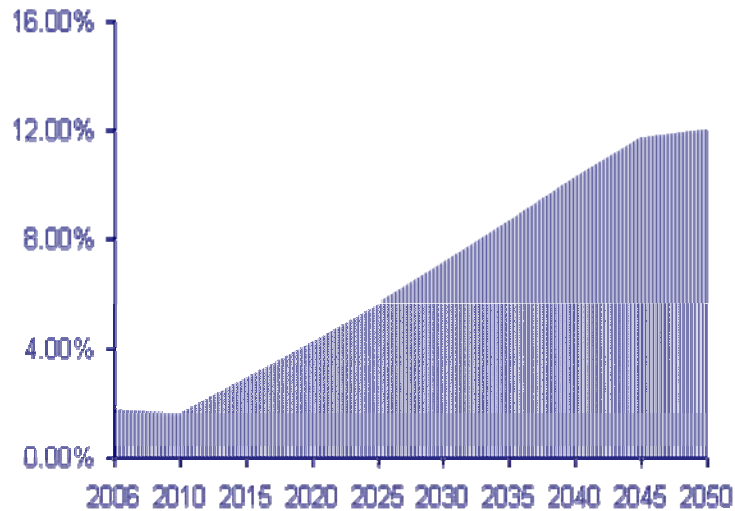
Source: BBVA



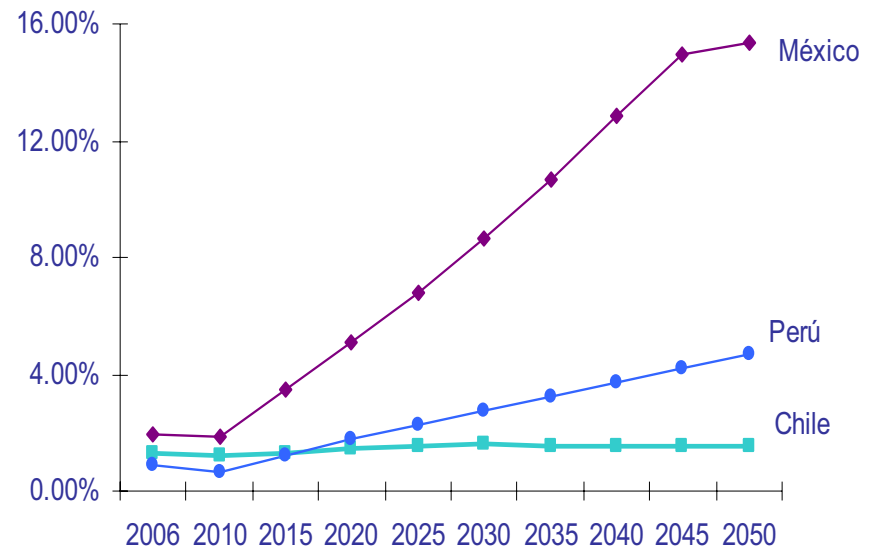
Long-term disability and surviving spouse pensions: the number of participants with this type of coverage will

Disability and surviving spouse coverage (disab + ss) / participants

LatAm Average



By Country

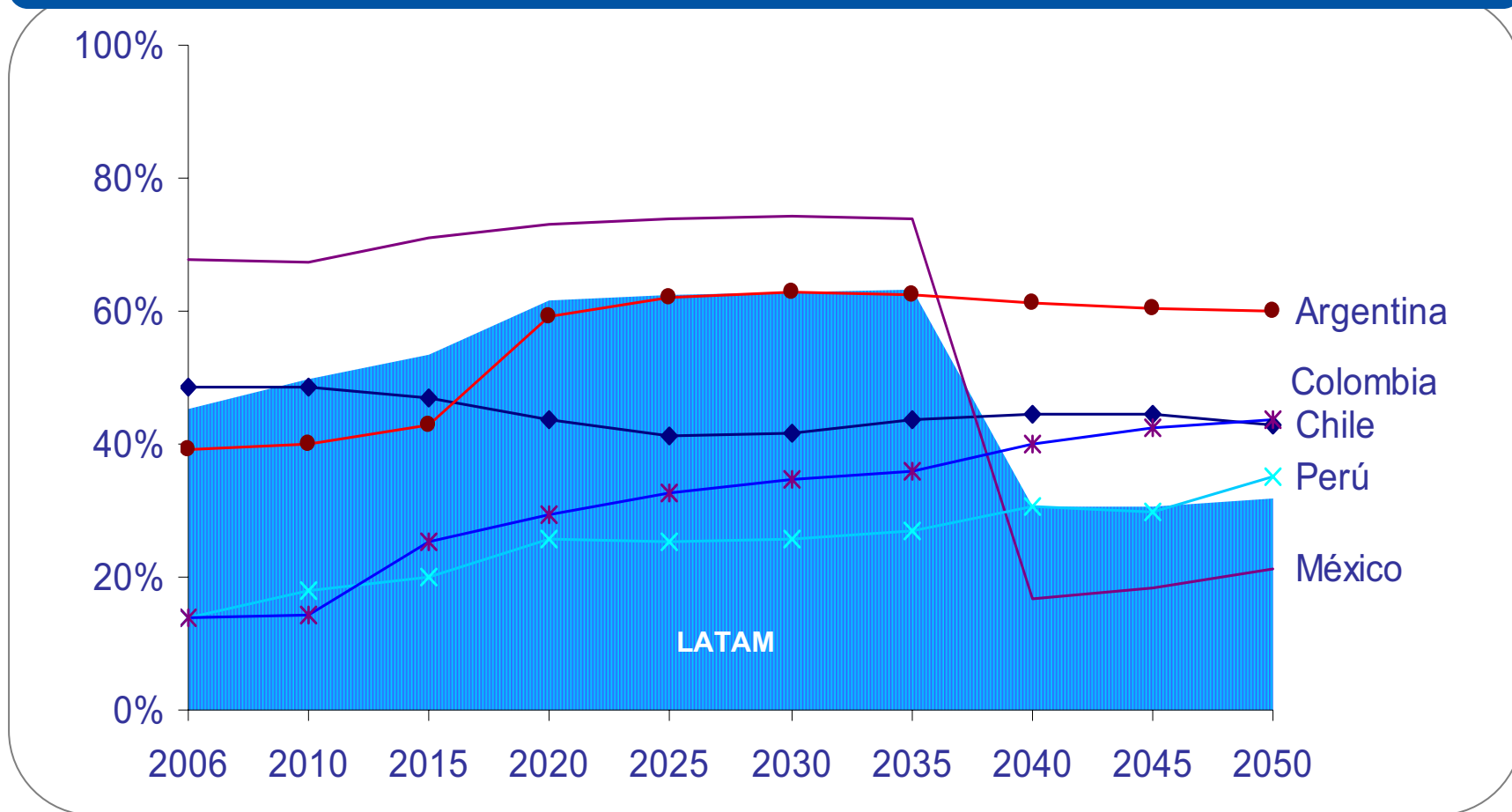


Source: BBVA



Retirement pensions: the level of salary replacement will depend on the rules implemented in each country, which we expect to be reasonable

Replacement levels in LATAM*



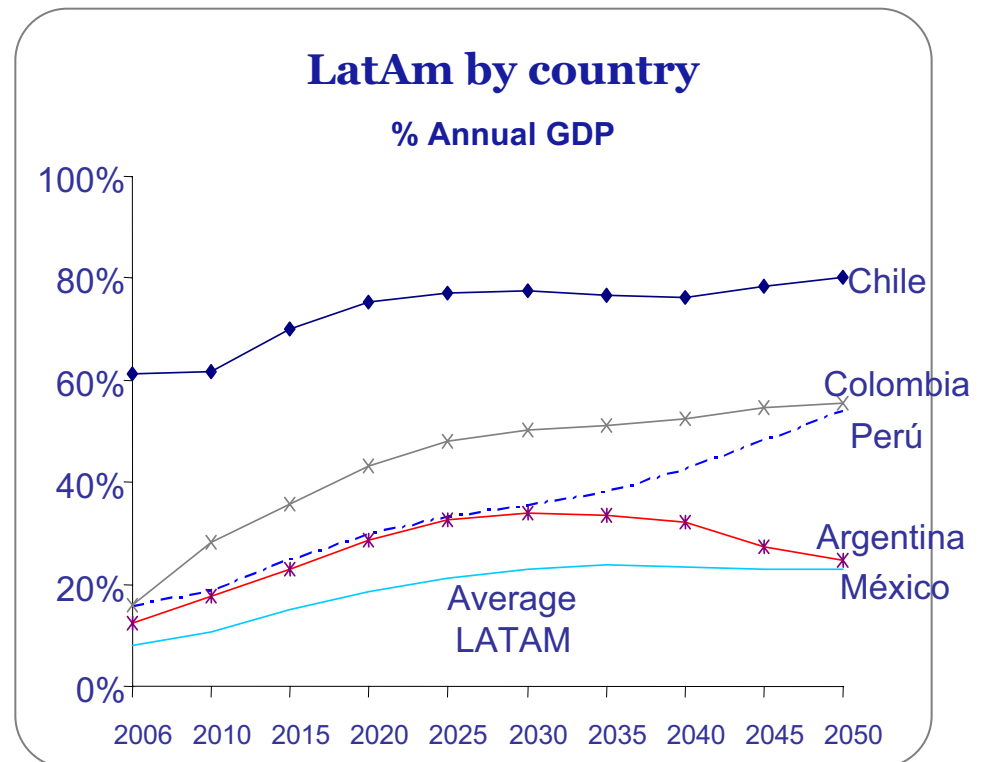
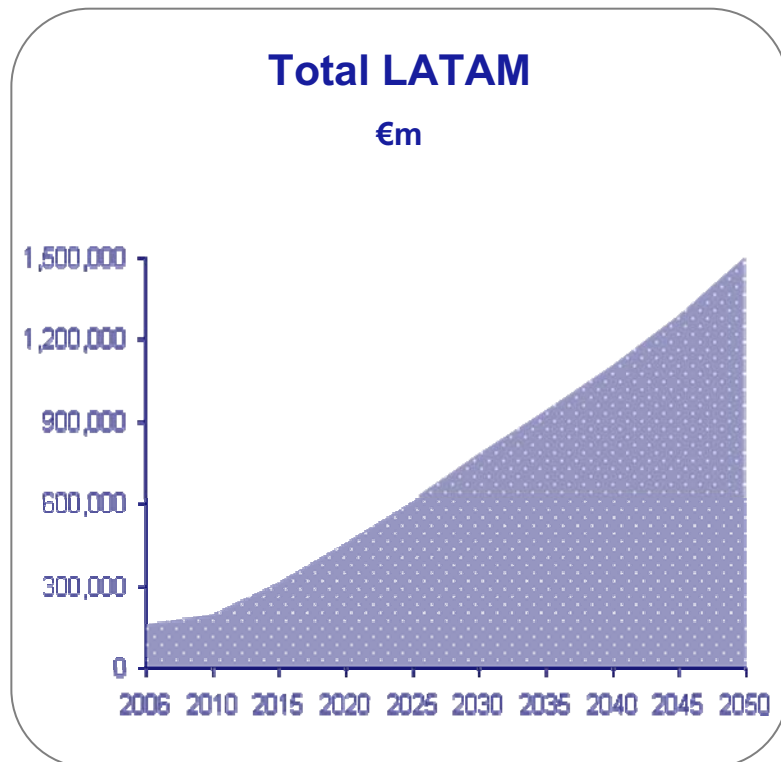
Source: BBVA

* pension / avg. salary over last 10 years



Assets: growth will be more than double that of GDP, confirming the industry's importance

Evolution of Assets



Source: BBVA



- 1 The system's coverage will continue to increase.
- 2 Countries are seeking ways (mutual support between public and private sectors) to increase coverage faster in countries with low levels of enrollment. We see this as a great opportunity.
- 3 Pension expectations are also becoming more realistic.
- 4 Disability and surviving spouse coverage will become increasingly important, increasing from 2% to 12% of total participants.
- 5 Assets will continue to grow, increasing from about 20% of annual GDP to 47%.
- 6 In summary, the pension industry is already a promising one and we are working on reforms to increase its potential.



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Second generation reforms so far in Latin America

The main measures on pension reform are:

- 1 Schemes to foster participation in sectors where coverage is low, using attractive financial vehicles in conjunction with tightly focused government support.
- 2 Customising pension programmes and access for each segment of the labor market.
- 3 Incentives to encourage contributions throughout the employment life cycle.
- 4 Generate realistic pension schemes (realistic pension levels).
- 5 Development of financial instruments that allow higher returns for the system.
- 6 Ensuring that the measures help to maintain fiscal stability.



In view of the latest reforms, BBVA has assessed the impact of various scenarios

Chile

Penetration

- Improve incentives for the self-employed, according to type. Tax incentives, health, credit, etc.

Pensions

- Extension of minimum pensions to the entire system with access according to years of contribution.
- Increase female retirement age to 65.

Government costs

- These costs start to fall in 2025. Therefore welfare benefits can commence at that point

Others

- Frequency of contribution: the self-employed could pay in more than the obligatory 1%
- Investments: improve the possibility of investment in pension funds
- Increase the limits on investments in foreign markets.

Mexico

Penetration

- Government to match voluntary payments by self-employed
- Establish a national pension system.

Pensions

- Increase obligatory contributions from 6.5% to 11.3% gradually.
- Focus public resources: double the 'social' contribution for people on the lower scale and remove it for those with higher incomes.
- Relax requirements for the minimum pension (19 yrs to achieve 50% on a sliding scale)
- Transfer housing balance to retirement assets before retirement age.

Government costs

- Close benefit schemes that have a deficit.
- Use the welcome bonus to cut costs and reform the state welfare system.

Others

- Strengthen risk-return options for pension fund managers.
- Allow new asset types.
- Remove country bias in investment and allow new investment vehicles.

Peru

Penetration

- Two incentive programmes for fixed contributions of S/30 and S/50 per month for irregular workers and self-employed with low incomes.
- Obligatory membership for self-employed with high incomes.

Pensions

- Extend minimum pension, making requirements more flexible for those with low SPP incomes.
- Accelerate the decline in replacement levels and bring higher SNP pensions into line with contributions.

Government costs

- These costs start to fall in 2035.
- At that point steps can be taken to improve coverage and social benefits.
- Use complementary grants to finance these measures or social contributions to finance the minimum SPP pension.

Others

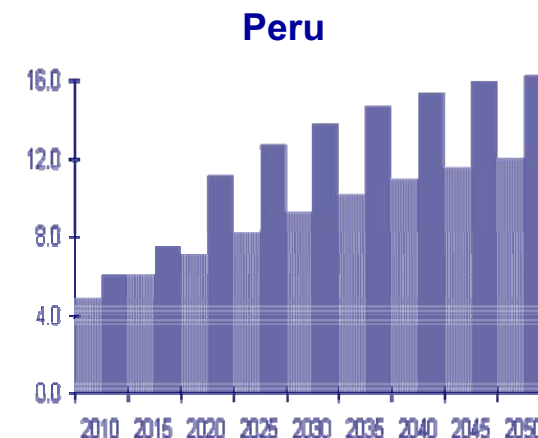
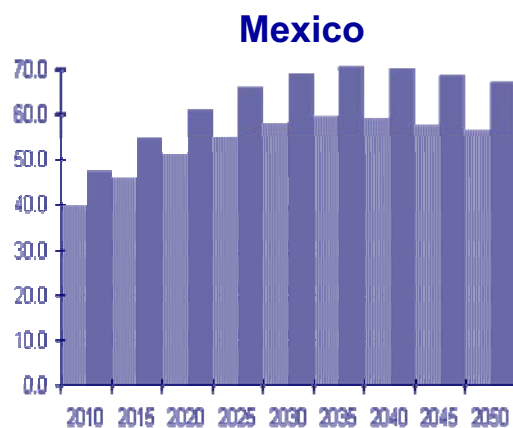
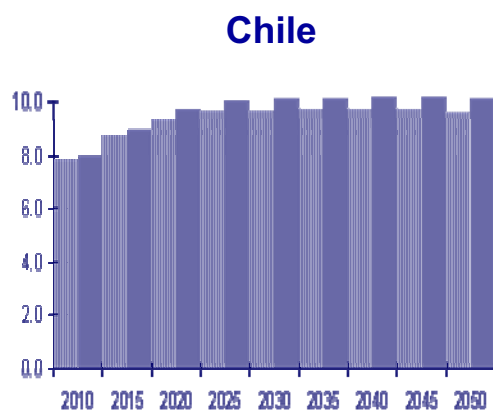
- Privatise management of the state pension fund (FCR).
- Gradually raise the benchmark used to calculate public-sector pensions from 60 to 240 months



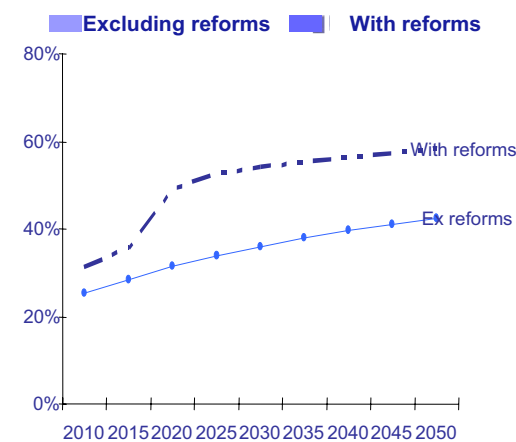
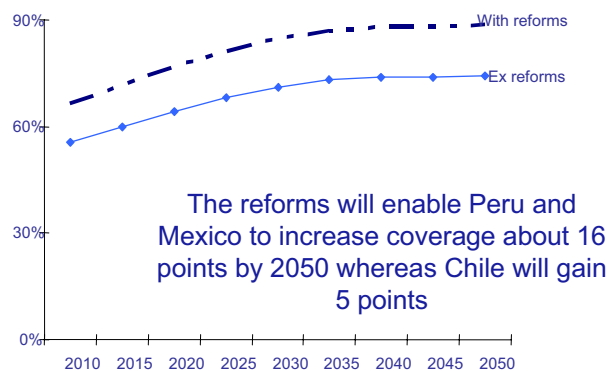
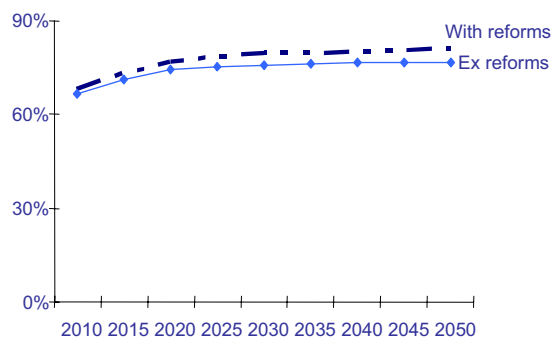
Penetration of the work force following reforms

The Chilean system is mature and so the effect of extending coverage will be much less than in countries such as Peru and Mexico. Furthermore the sharp impact in the Peruvian case is due to the low cost of the proposed contribution programmes (less than €10) and the subsidised pensions guaranteed under these programmes.

Forecast of participants (million)



Penetration Participants / Pop 14-64

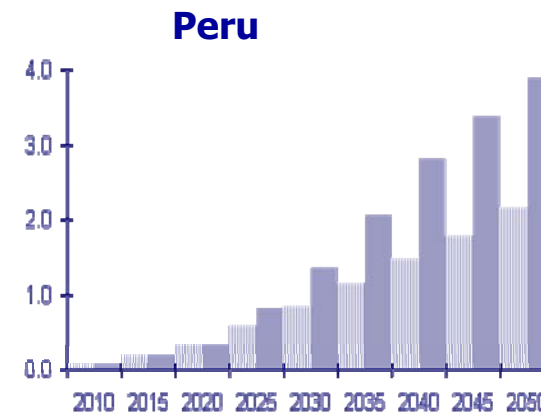
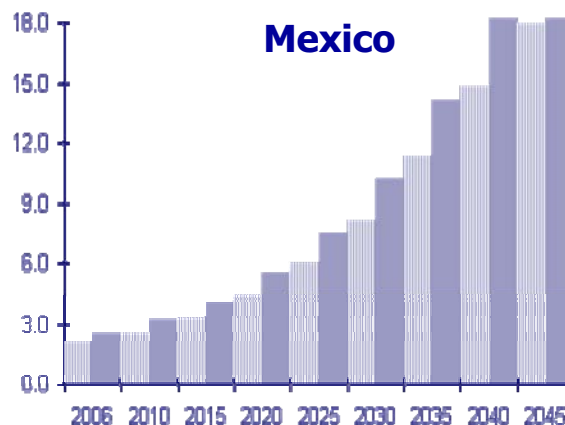
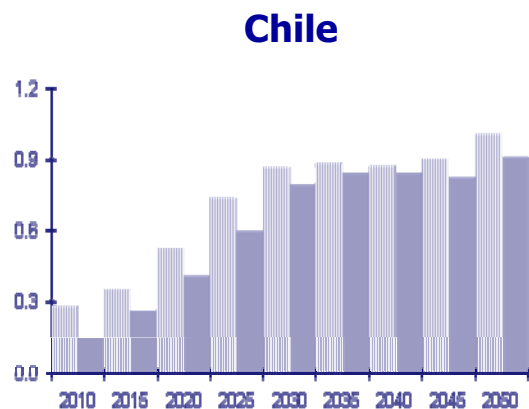


Source: BBVA



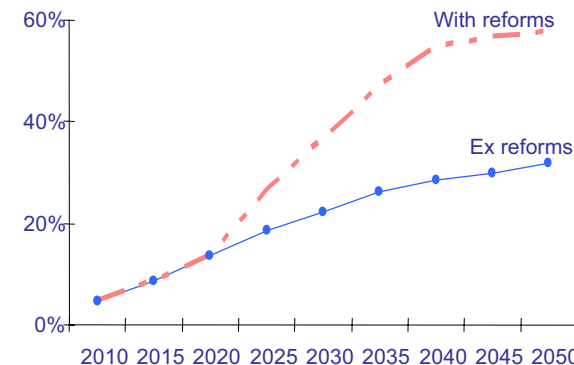
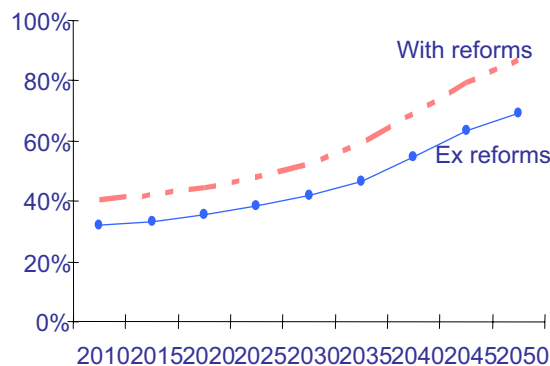
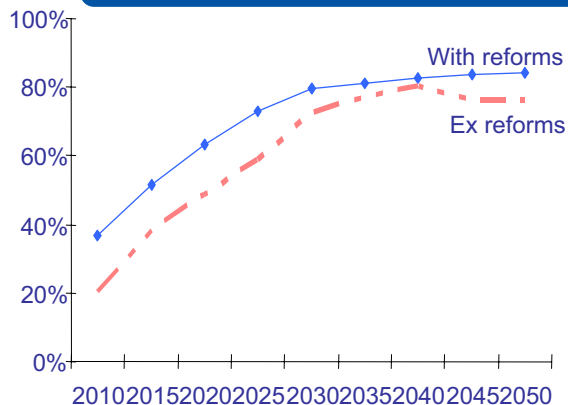
Retirement coverage after reforms: As the Chilean system is more mature, the effect of the proposed reforms will be greater in Peru and Mexico

Forecast number of retirees



Excluding reforms With reforms

Old-age coverage Retirees / Pop > 64



Source: BBVA

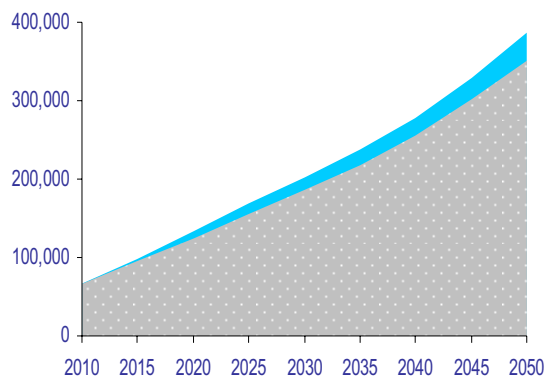
In Chile coverage will decrease slightly due to the higher retirement age for women.



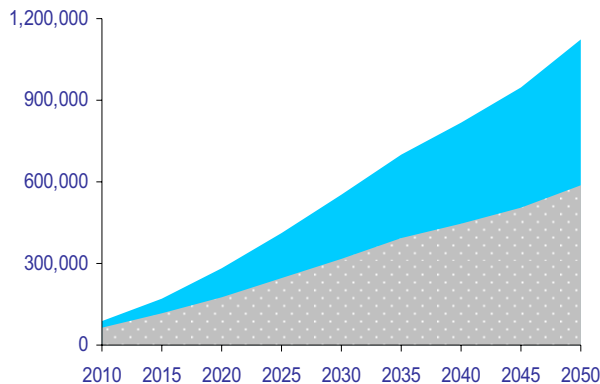
Assets under management following reforms

Assets €m

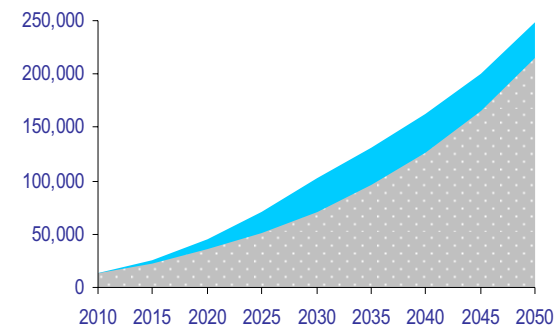
Chile



Mexico

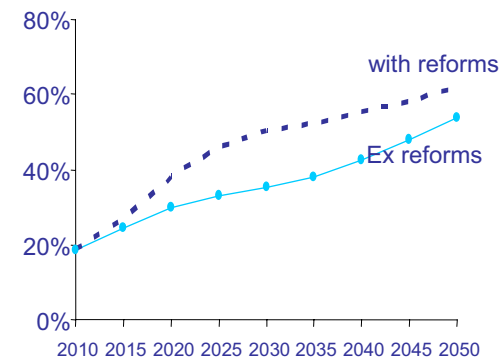
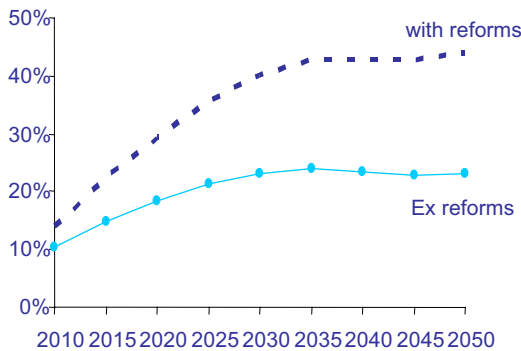
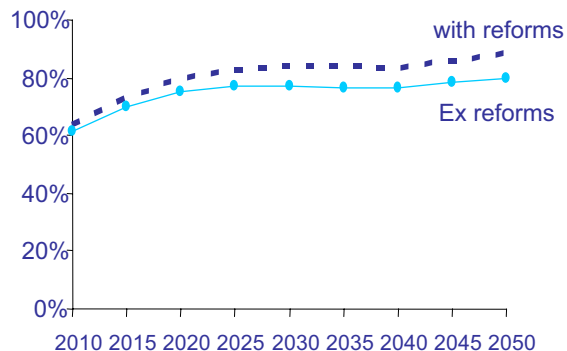


Peru



■ Assets with reforms ■ Assets excluding reforms

% GDP



Source: BBVA



The reforms will increase penetration, pension levels and assets managed in the region

1. Pension funds could grow an additional 25% compared to the base scenario.
2. Penetration could increase a further 20% over the base scenario.
3. Comparative pension levels could increase about 22%.
4. Government costs are contained at 0.2% to 0.5% of GDP



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Regional Leader

<i>As of Sep 2007</i>	Pensions	Insurance	Total Pen + Ins	% s/ BBVA South America	% s/ BBVA Group
Customers (million)	5,363 ⁽¹⁾	7,034	NA	18.9% ⁽²⁾	15.2% ⁽²⁾
Employees	9,935	3,291	13,246	20.0%	13.4%
Assets Under Management	60,972	2,062	57,083	23.7%	10.7%
	43,002	2,715	45,463		
Attributable Profit	165.6	189.6	355.2	Incl. Mé xico 41.4%	6.0%
	131.9	151.0	282.9	ex Mé xico 21.4%	

■ \$m
■ €m

1€ = 0,705268 USD

- (1) Figures correspond to the groups contribution (figure for all affiliates is 12.4 million)
 (2) % calculated based on Pension Clients

Gaining size and experience

Source: BBVA proprietary management and inance reporting.



With a focus on a complimentary business

BBVA's Pensions and Insurance Business

Pensions

- ❑ Administration of Pension Funds
- ❑ Disability and Life Insurance
- ❑ Pension Income

Insurance

- ❑ Life:
Risk
 - Death
 - Disability
 - Accidents
- ❑ Non-life
 - Autos
 - Damages
 - Health
 - Job related risks



The strategy for our Insurance business is also defined

- In Latin America the reforms in the Social Security System have created a strong specialty in the insurance business
- We still can develop a profitable business in insurance
- Most of BBVA's insurance products sales are done through its network
- Insurance banking concept is developing in the financial sector, being integrated with pensions, banking businesses and asset management

Future success of big sales of financial services in Latin America will depend on efficient integration of banking business, pensions and insurance: the so called "financial triangle"



Banc assurance Business: Vision and Strategy

Initial Model

Undeveloped Business Model

Integrated Model

- Low product sophistication
- few products
 - specialization in Life Insurance
 - poor quality service

Transformation Model

From a distribution capacity with few products to a more ample offering, through branches and other channels.

Developed Model

Banc assurance Development Model

Option I

- evolve the sophistication of the product offering.
- development of service quality
- maximize network

Option II

- moving to distribution agreements for complementary products

The level of evolution and the model selected can explain the disparity in the composition of each group's income.



Banc assurance Business: Vision and Strategy

Moving toward a developed integrated model, considering the critical mass of the market and participation

Fundamentals

advances in the integrated model are realized

the structure of competition in distinct markets

It's possible to transfer synergies to other countries

complementary to the pensions business

our significant presence in the banking industry

the classic model is insufficient and will not reach the objective market

opportunity for market share growth and risk diversification

As a complementary, some businesses will adopt the distribution model

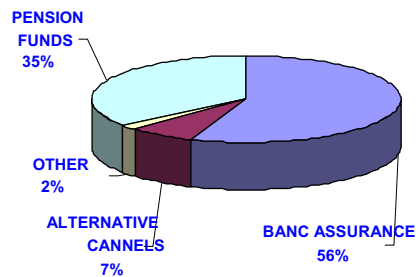


Insurance Business: Vision and Strategy

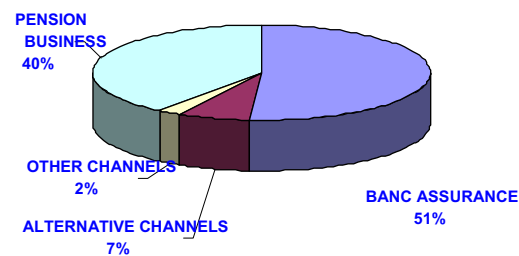
This strategy has allowed us to take advantage of our distribution channels and diversify risk

Evolution of Distribution Channels

Premiums 2006

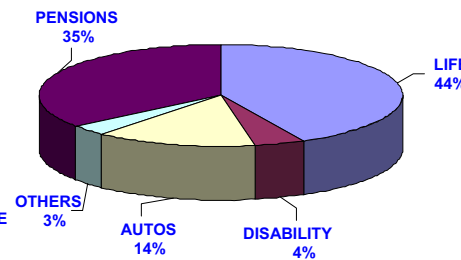


Premiums 2007

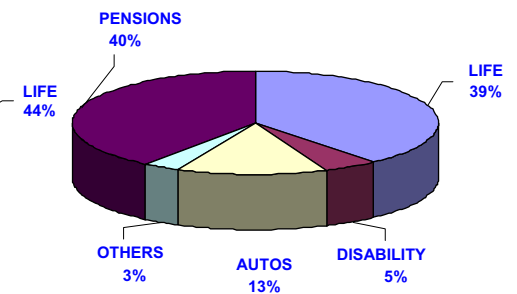


Product Composition

Premiums 2006



Premiums 2007

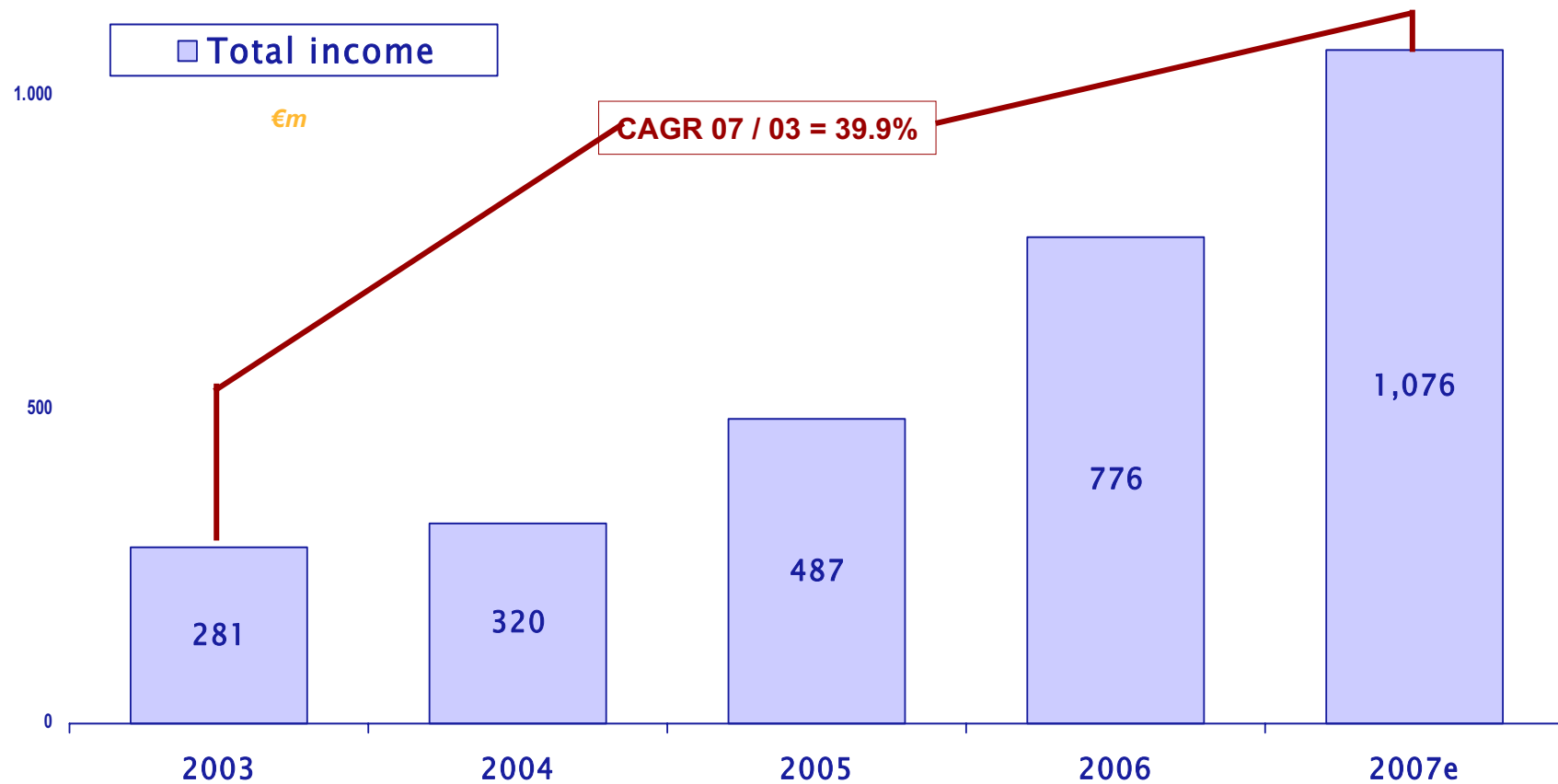


Growth of revenue and income based on the accessibility of channels to the customer and product capability.



In the Pension business, the level of growth is major:

Total business income (non-pension)

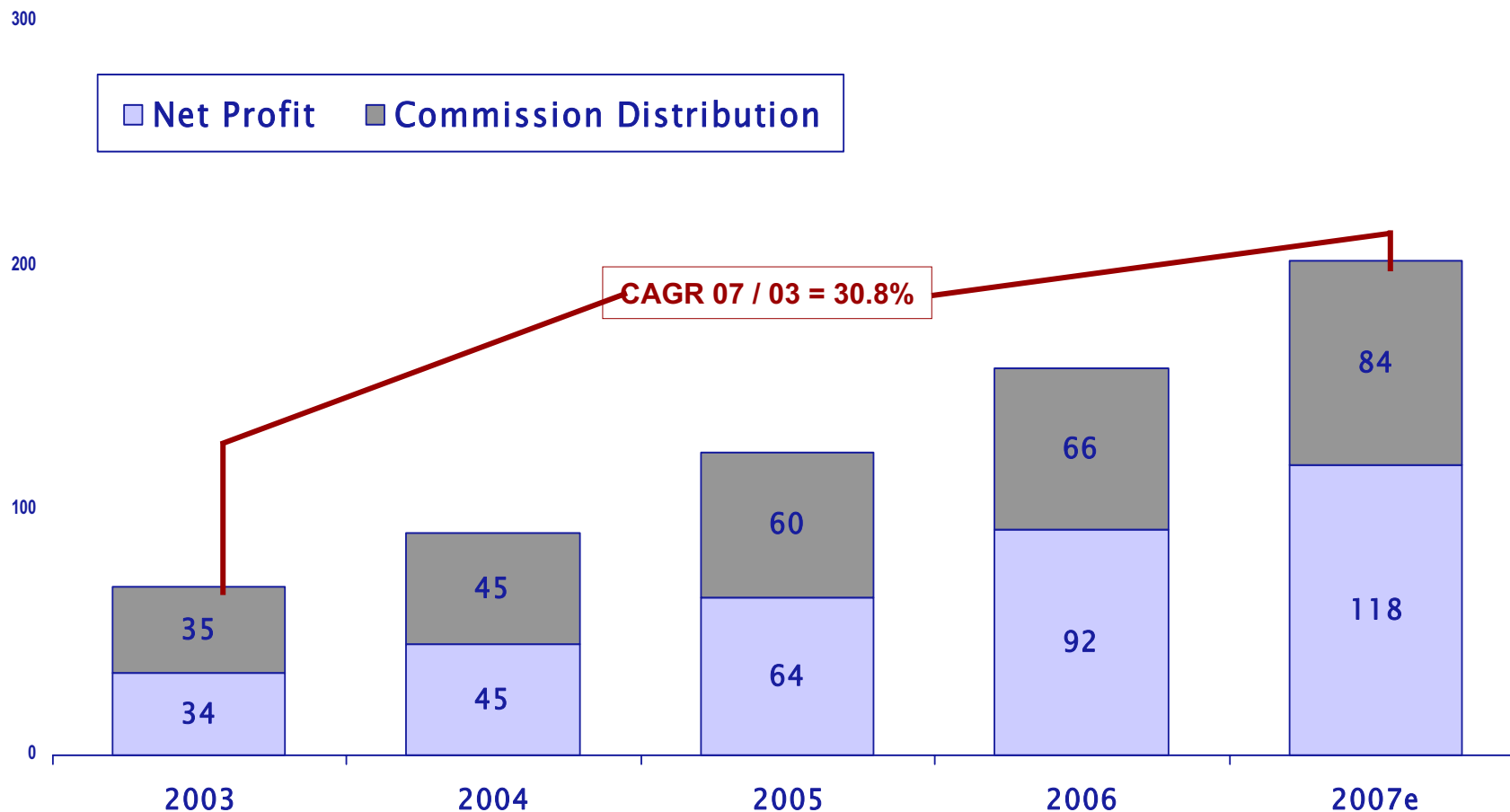


Includes the Bancomer Insurance business in Mexico



A proven track record

Evolution of net profit (non-pension)



Includes the Bancomer Insurance Business in Mexico

Includes Mexico's pension business

* Aggregate: Argentina, Chile, Colombia, Mexico, Peru, Bolivia and Dominican Rep. (constant Euros)



Business related to obligatory pensions: Vision and Strategy

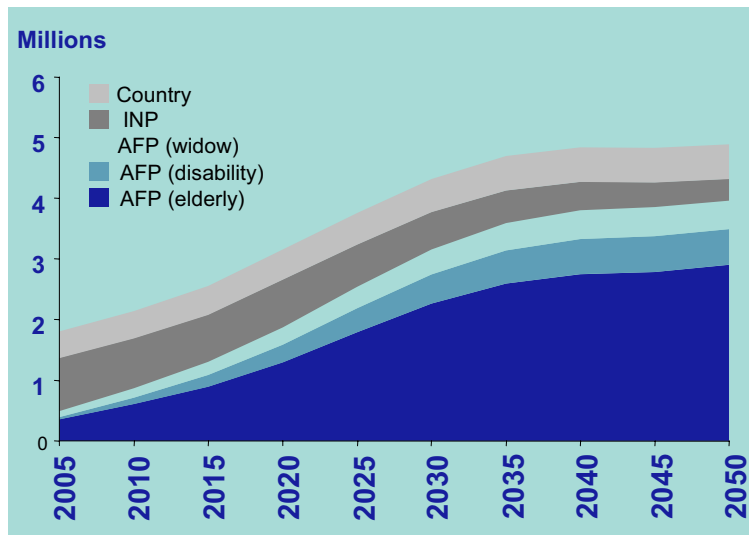
Pension reform is leading to financial systems in which banking, insurance and pension businesses must strike a new balance, modifying their structure and relative importance.

Based on this premise, BBVA is building a new strategy to strengthen its leadership as the top global supplier of financial services in Latin America

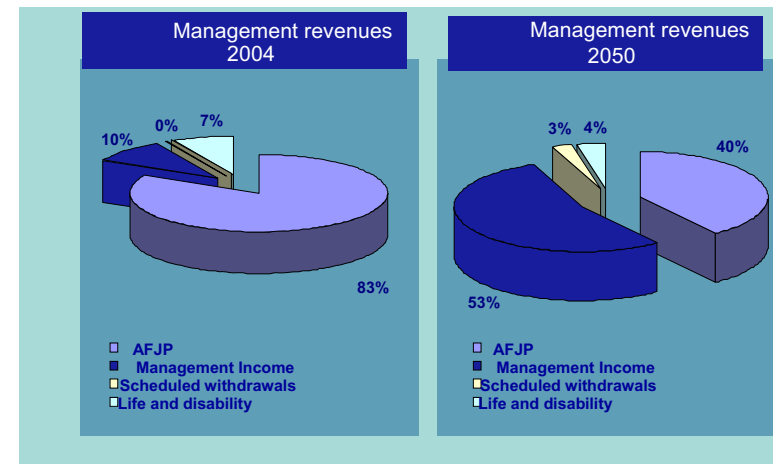


.... this means we must adapt our internal systems to handle the impact of social security reforms on cash flow and investments

Pension Coverage Chile



Structure of the pension industry's earnings.



From a model of accumulation to a model of disbursement and coverage on contingencies



Business related to obligatory pensions: Vision and Strategy

The five basic principles of this strategy:

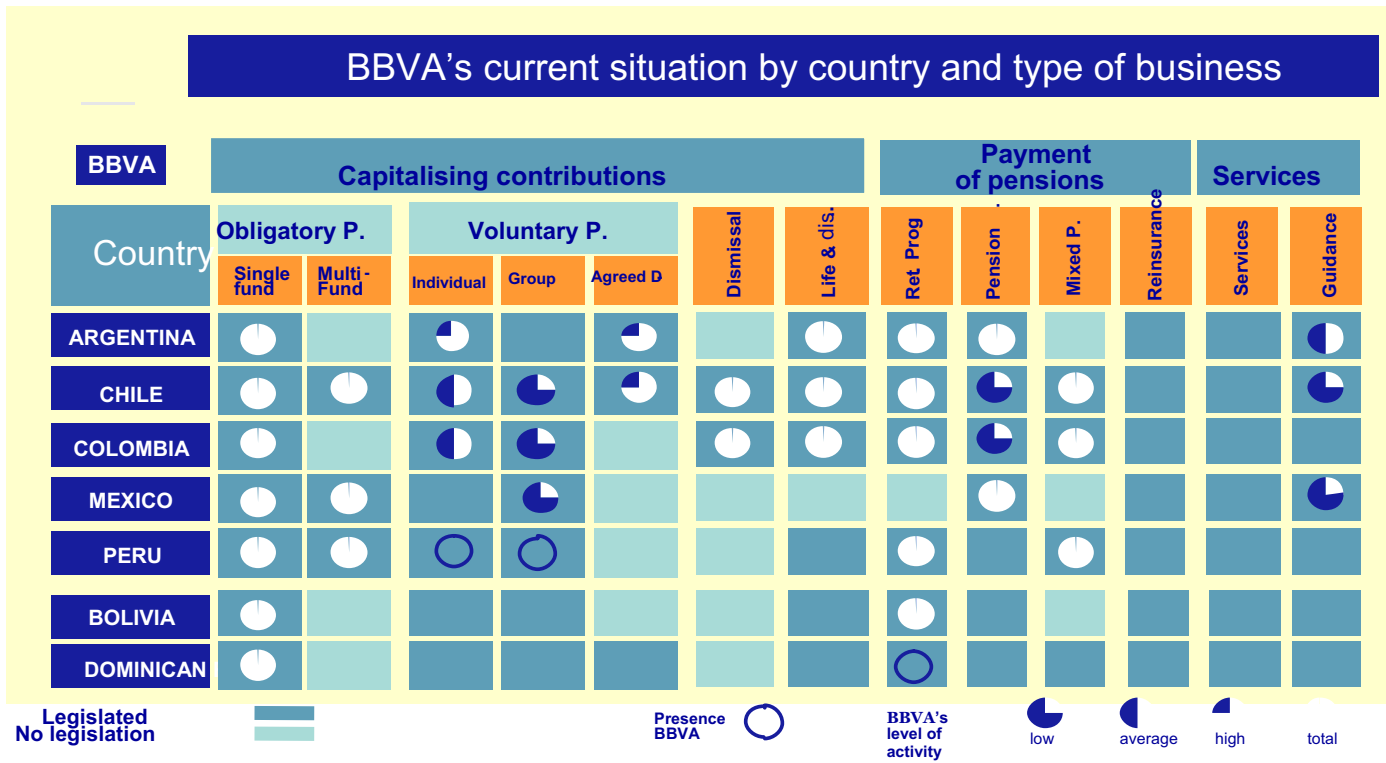
EARNINGS	Growing of profits and RAROC improvement
MULTI-PRODUCT BUSINESS STRUCTURE	Development of management revenues Development of voluntary-pension business
DEVELOPMENT OF RISK-MGT CAPACITY	Development of BBVA's skills related to management of biometric, trustee and political risks
A NEW GROUP PROJECT	Develop synergy schemes based on changes in procedure and co-operation with other banks
MANAGEMENT OF PENSION SYSTEMS	Co-operate with the competition to improve the industry. Co-operate with the authorities and multinational organisations to develop the systems



This strategy means BBVA must modify the way it adds value in the pension market and widen its product range

We can sum up both aspects via six growth and transformation projects

Vision and Strategy Main lines of action





No. 1 in pensions

<i>Figures for September 2007</i>	Assets (\$m)	Participants (m)	Contributors (m)	Contributions (\$m)	Ranking		LatAm Presence
					Asset	Part.	
BBVA	61,021	12.4	5.3	3,107	1st	1st	AR, BO, CL, CO, EC, MX, PE
CITI	46,024	10.0	4.4	2.520	2nd	2nd	CL, CO, MX, PA, PE, UR
ING (AETNA)	43,819	9.2	3.5	2.178	3rd	3rd	CL, PE, MX, CO
SCH	5,942	2.3	0.8	419	4th	4th	AR, UR

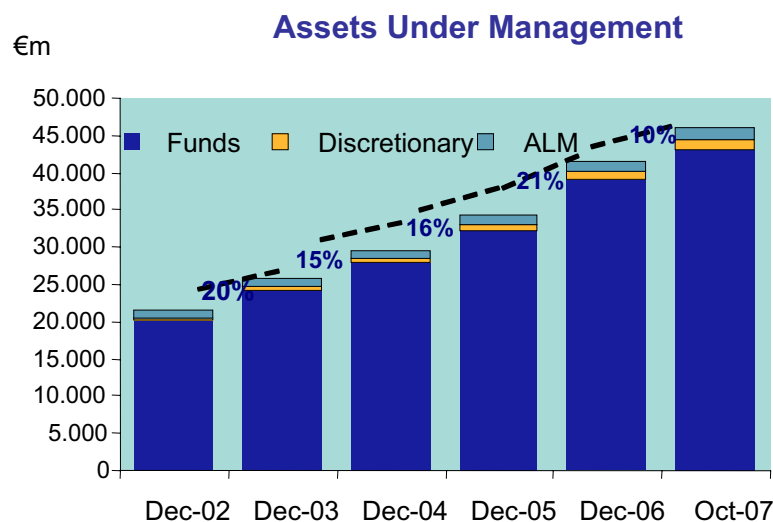
BBVA manages 23.7% of the \$260.4 billion in the pension funds and it has 17.8% of the 69.9 million participants in Latin America

Source: BBVA based on information from FIAP and local authority bulletins



In this business, asset management is the center of activity and as a result the portfolios are significant

ASSETS UNDER MANAGEMENT

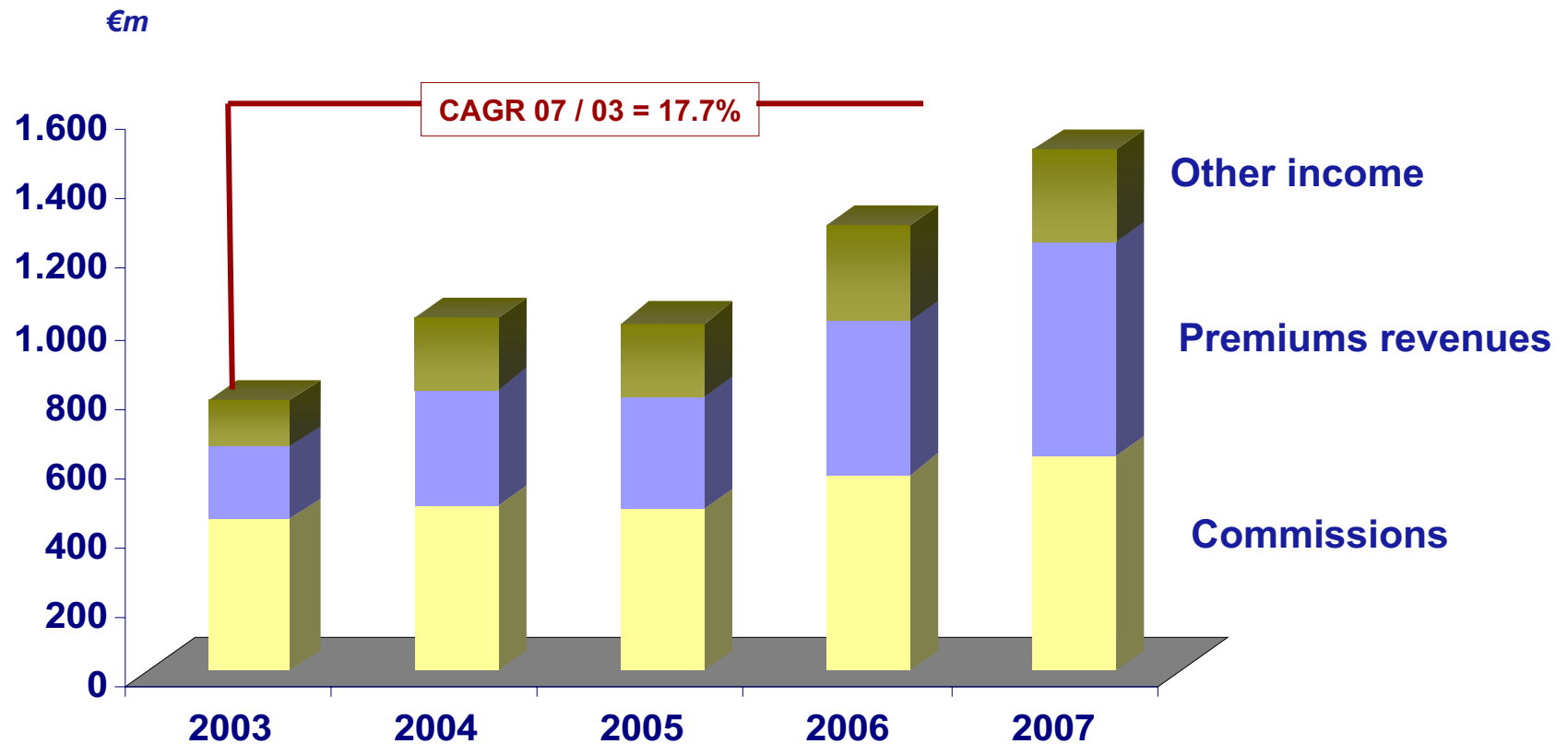


Our unit manages €46 billion of which €42 billion is pension funds. The assets we manage have a significant effect on domestic economies. In Chile they account for 20% of GDP.



A business with strong revenue growth, generated by the Multi-Product Strategy

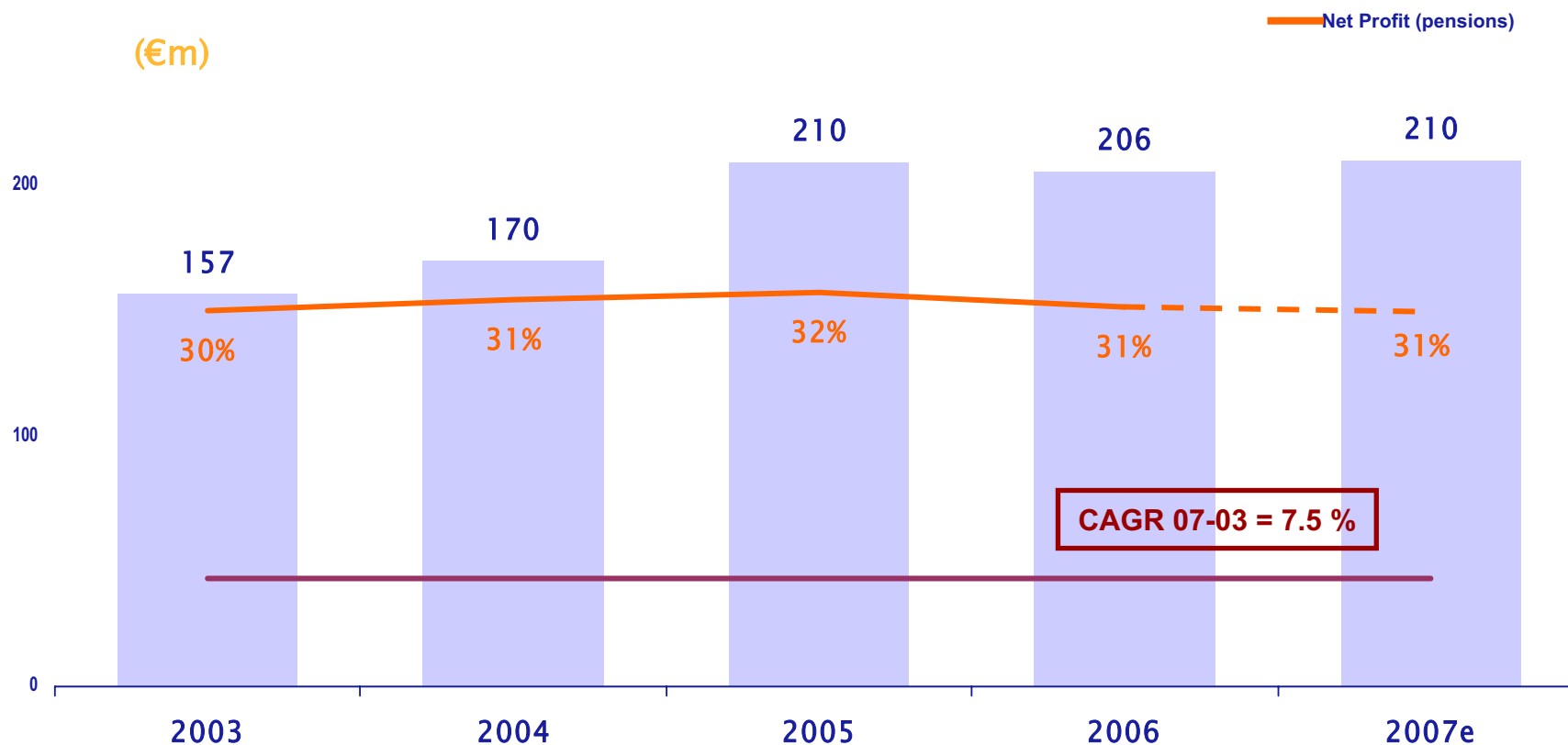
TOTAL REVENUES AND STRUCTURE OF THE PENSION BUSINESS





Taking us to higher earnings growth potential, which in the pension business is very relevant:

Evolution of Net profit (pensions)



Higher market share in profits than in collections and revenues

Includes Mexico's pension business

* Aggregate: Argentina, Chile, Colombia, Mexico, Peru, Bolivia and Dominican Rep. (constant Euros)



- Current state of the pension business in Latin America
- Forecasts of basic parameters
- Second generation reforms of pension systems
- BBVA's positioning and strategy
- **Conclusions**



1. Pensions are a strategic part of BBVA's activities. They play a fundamental role in linking the population to financial services.
2. The track record of the pension systems confirms our view that this is **a growing industry with an important future**.
3. Reform of the pension systems has been a success. It will have a significant effect on the future development of these countries.
4. The results so far are substandard. Naturally, there is room for improvement and further development.
5. Our models indicate we can define proposals which, if they are coordinated with other parties, will lead to important gains for the industry and the countries in question, without affecting their respective governments. BBVA is working closely with government agenda related to economic policies.

150
years

adelante



BBVA making the difference