

150
years

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BBVA making the difference



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“Best among peers: top investment choice”

BBVA making the difference



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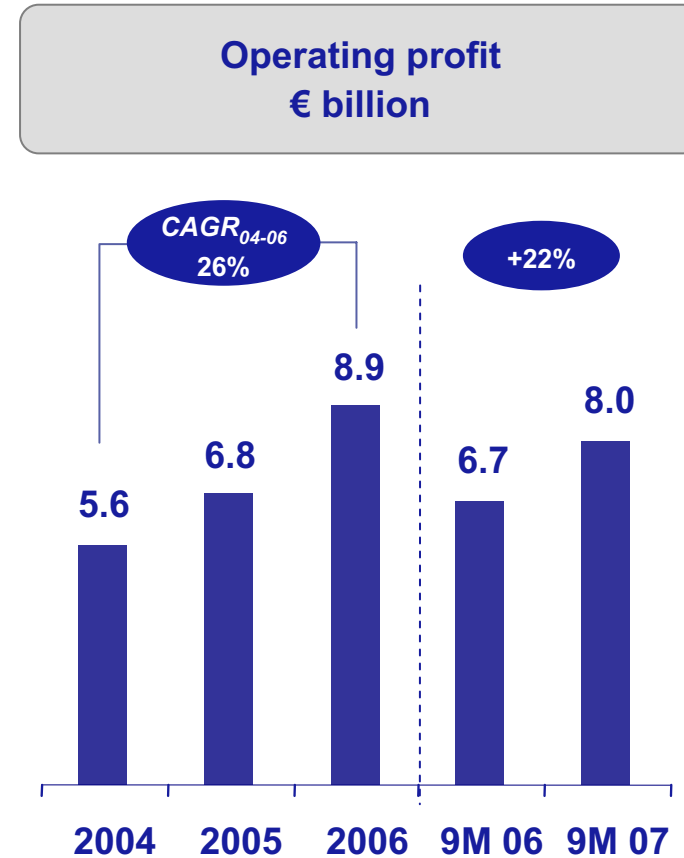
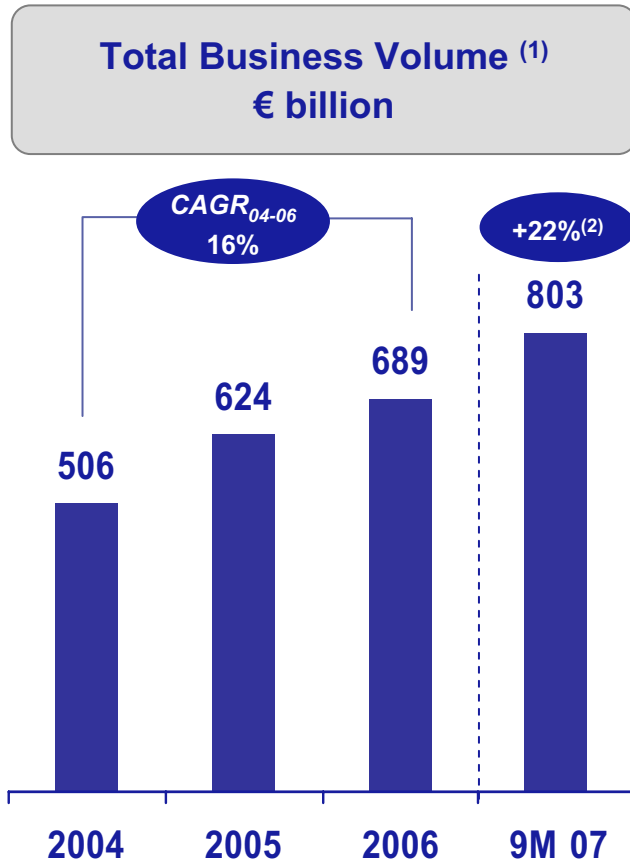
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- **Where are we coming from?. The starting point**
- **Active Balance Sheet management: paying off in the new environment**
- **Best among peers: top investment choice**



BBVA has delivered an excellent growth track record of business volumes and operating income



With consistent growth in all business areas

(1) Loans and customer funds

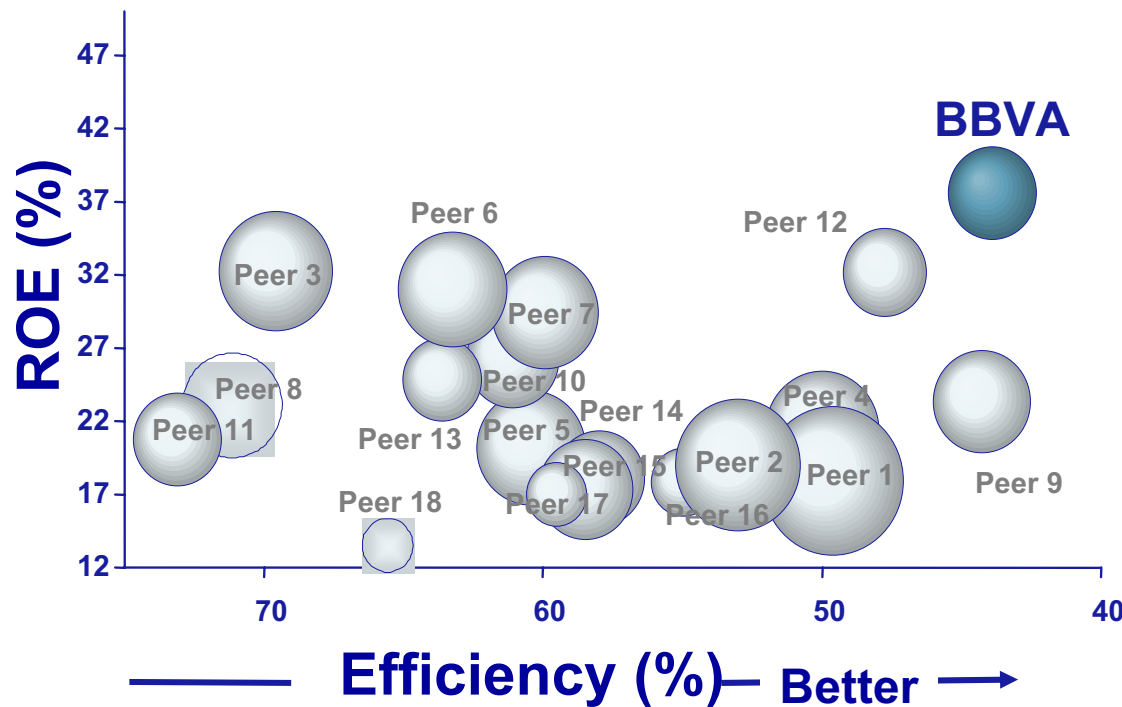
(2) YoY growth



BBVA has outperformed its peer group in terms of profitability, efficiency and operating profit growth

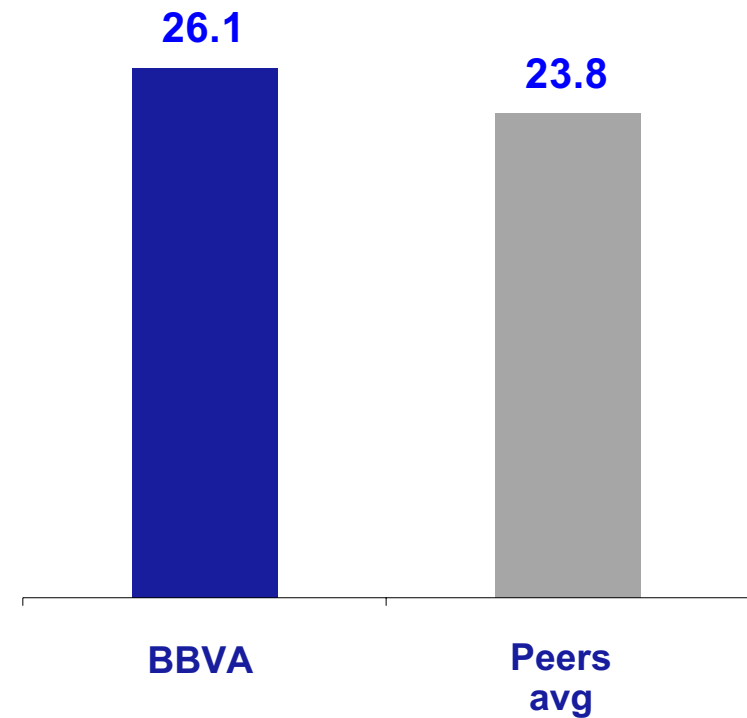
ROE, Efficiency & Attributable profit

Bubble's size: Attributable profit
European banks 2006



Operating profit

Δ CAGR 2006 / 2004 (%)





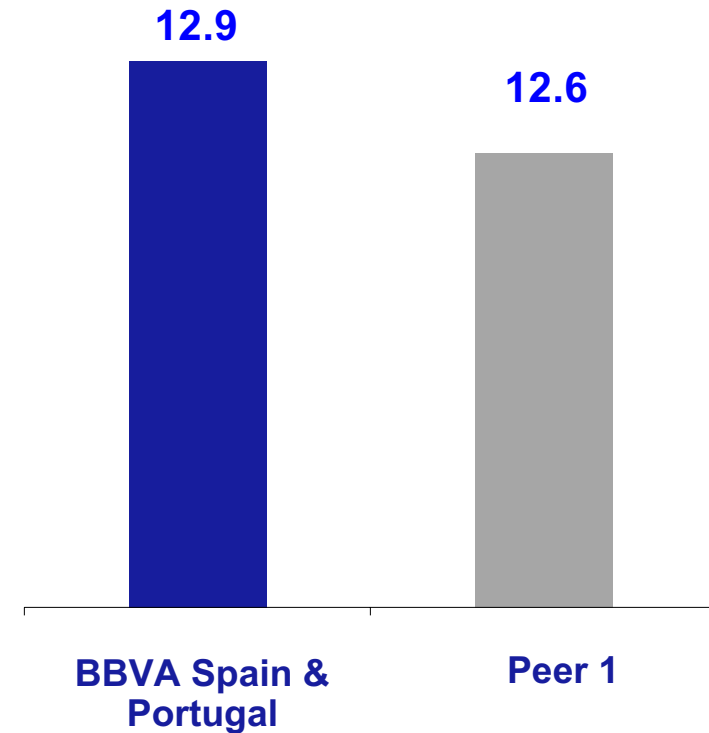
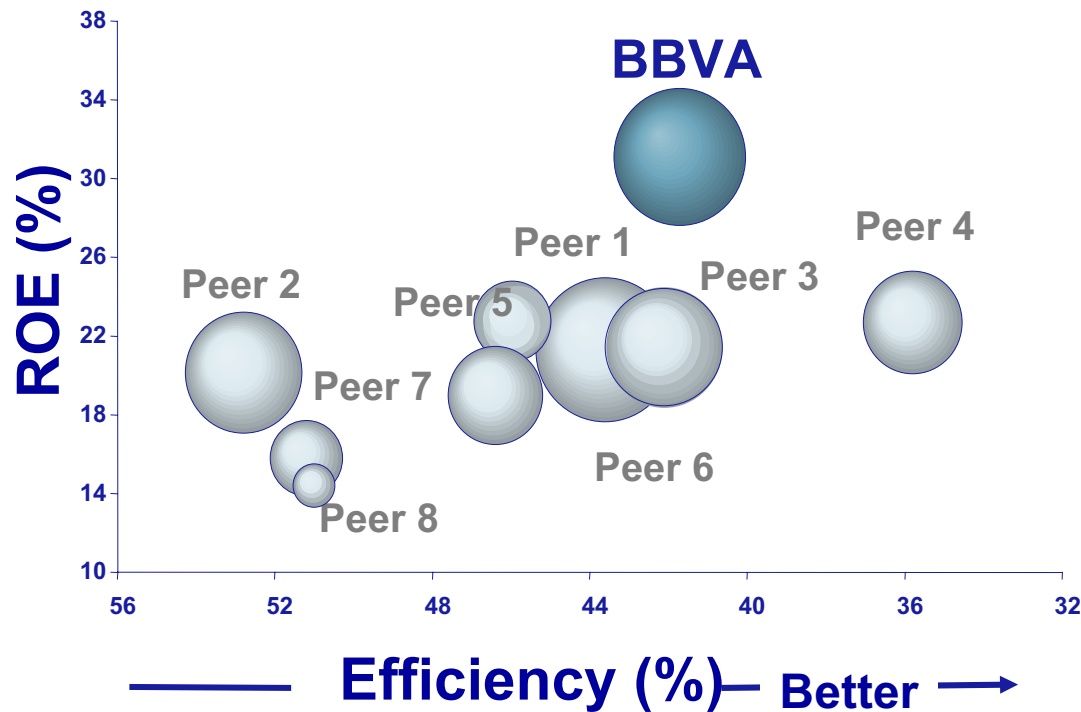
Particularly in its main home markets: Spain and Portugal

ROE, Efficiency & Attributable profit

Bubble's size: Attributable profit
Spanish banks 2006
(excluding the one-offs operations)

Operating profit

Δ CAGR 2006 / 2004 (%)

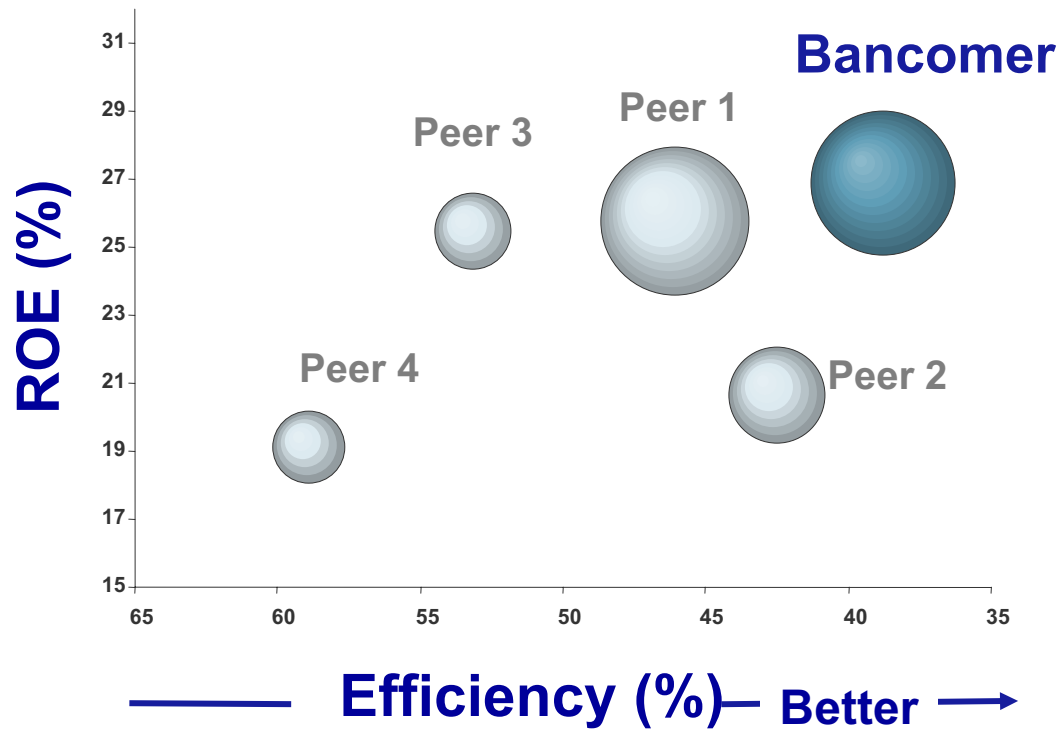




As well as in Mexico

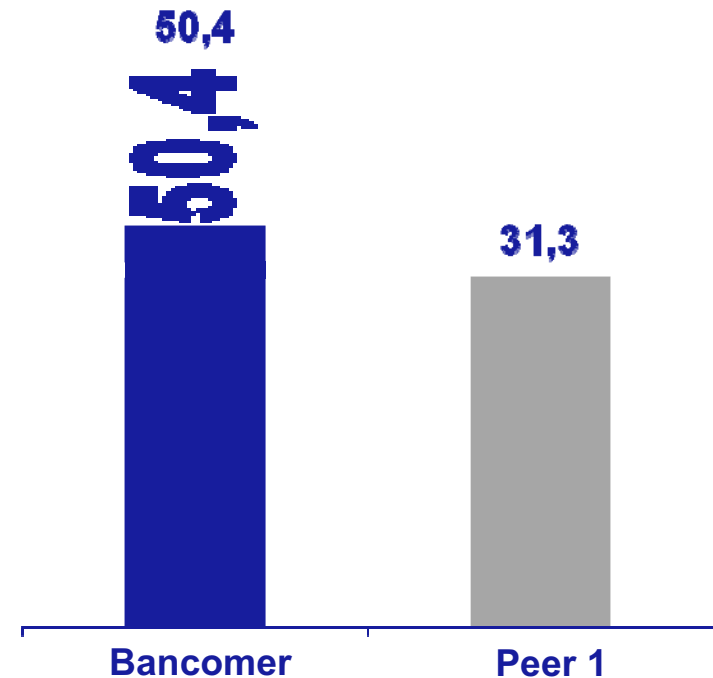
ROE, Efficiency & Attributable profit 2006

Bubble's size: Attributable profit
Mexican banks 2006



Operating profit

Δ CAGR 2006 / 2004 (%)

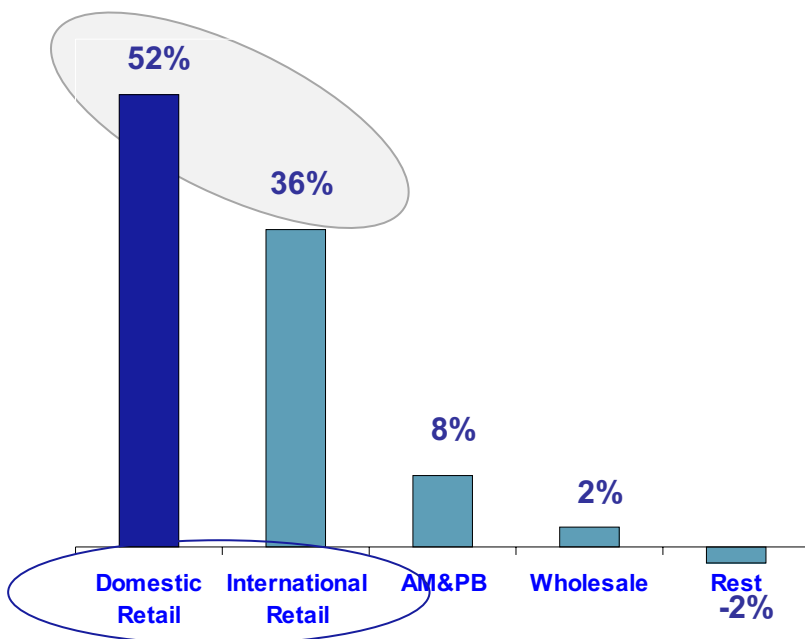




BBVA's growth profile is based on recurrent profits coming from multi-local retail operations

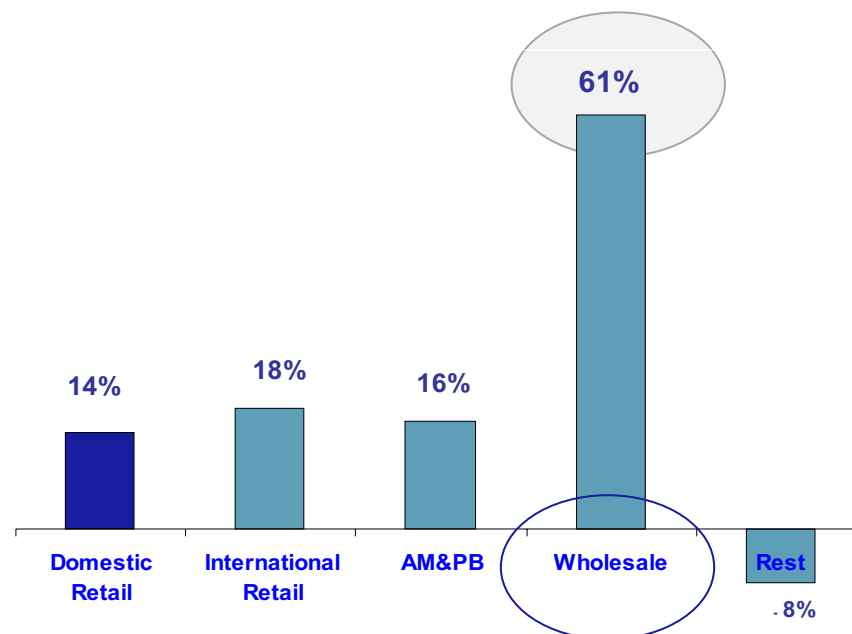
Units contribution to net profit increase 1H07/1H06 (%)

BBVA



More than 75% of BBVA's value⁽¹⁾ is coming from multi-local retail operations

European Average

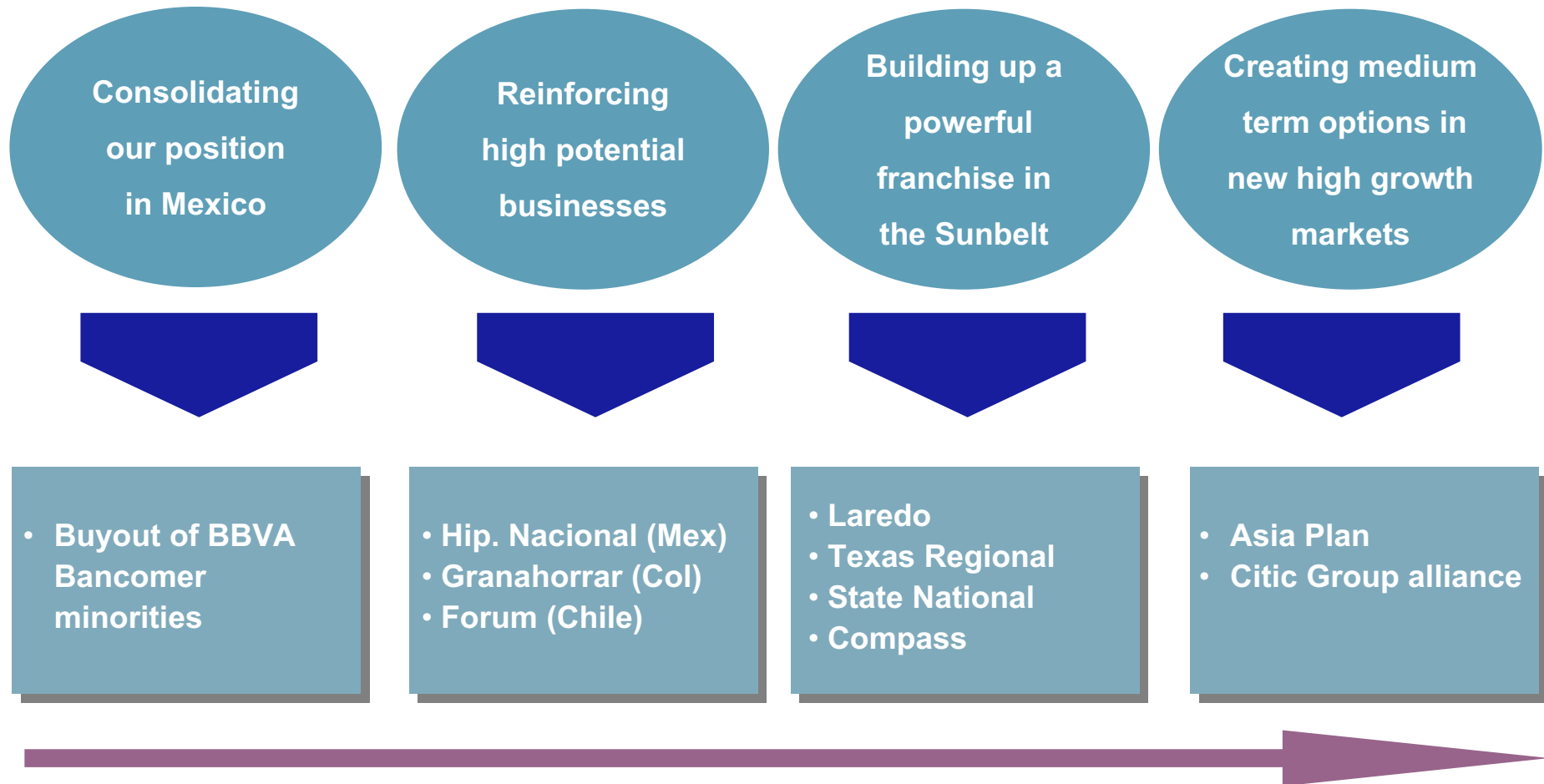


Our average European peer, in turn, has the larger part of its value placed in wholesale and global businesses

Note: Estimated from the information of each Group. BBVA's data has been prepared for comparative effects.
(1) Analysts consensus as of Sept. 07

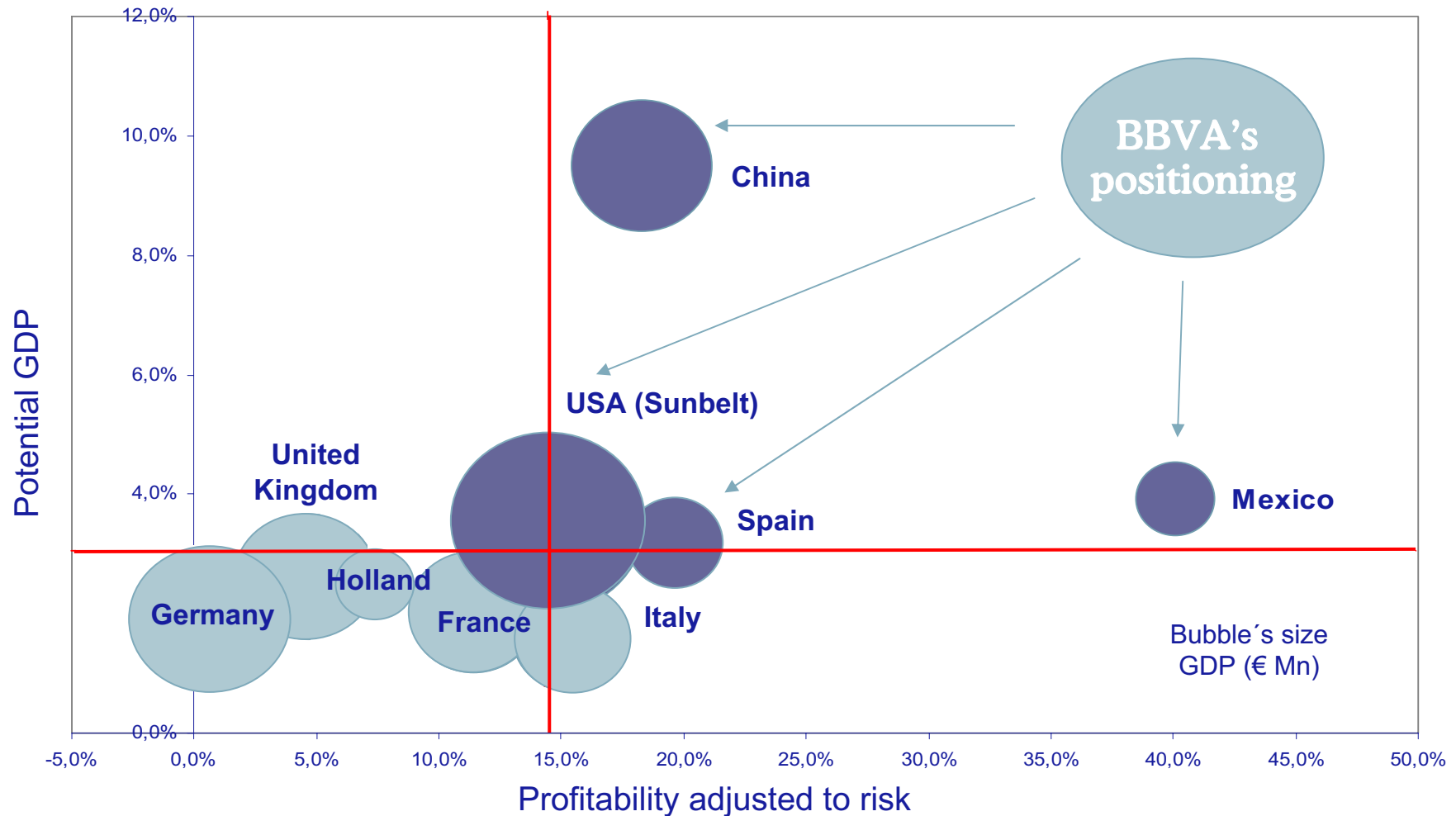


Additionally, in its non organic expansion, BBVA has executed profitable options of growth





which have positioned BBVA in countries with higher potential growth & profitability



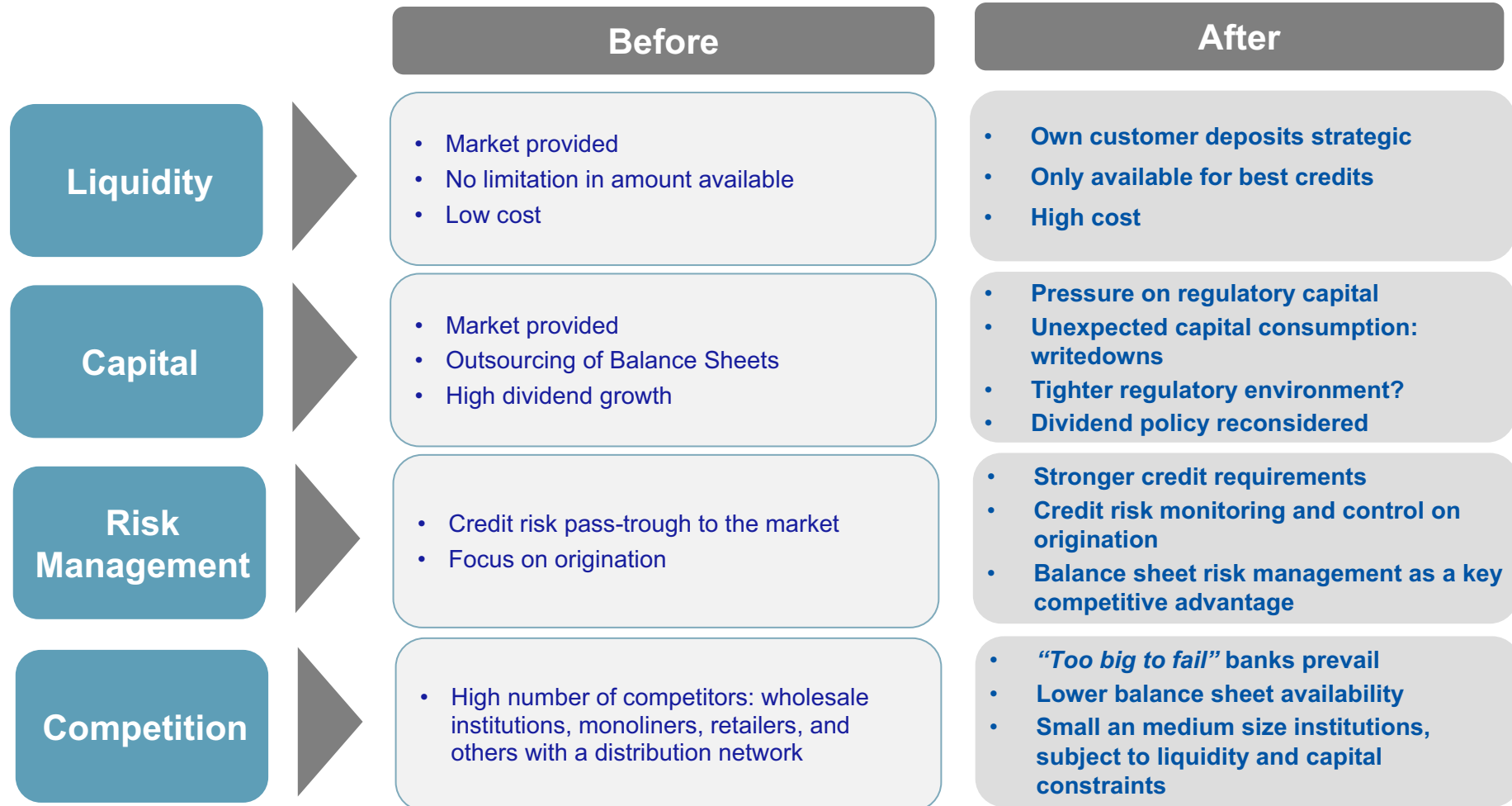


But the world out there has changed

- Current situation points towards a lower growth environment
- Monetary policy should be adapted, despite short term inflation risks
- Emerging markets, decoupling from developed economies
- New environment challenging Capital, Liquidity and Balance Sheet management in the financial sector



A new world: Financial Sector



Higher barriers to access retail banking operations
STRONG OPPORTUNITY FOR BBVA



- Where are we coming from?. The starting point
- **Active Balance Sheet management: paying off in the new environment**
“Strength of BBVA in Capital, Liquidity and other Balance Sheet structural risks”
- Best among peers: top investment choice



Balance sheet Management: strategy

Interest rate

Liquidity

To preserve current and future income from the business lines, while maximizing shareholder value and meeting the Company's objectives for growth

Currency Risk

Capital Base

Retail commercial banking focus of our business, not trading



Liquidity crisis - relative positioning

Vulnerability of financial institutions

	<u>Wholesale banks</u>	<u>BBVA</u>
• Subprime + structured credit	YES	NO
• Leverage Finance exposure	YES	NO
• Hedge Funds Prime Brokerage	YES	NO
• Liquidity lines for Conduits & SIV	YES	NO
• Monoline business without deposit base	YES	NO
• Rating actions	Likely	Two positive outlooks

BBVA, not vulnerable in the new environment of liquidity shortage

Go retail when liquidity is tight



Liquidity risk active management (In 2006 / 2007)

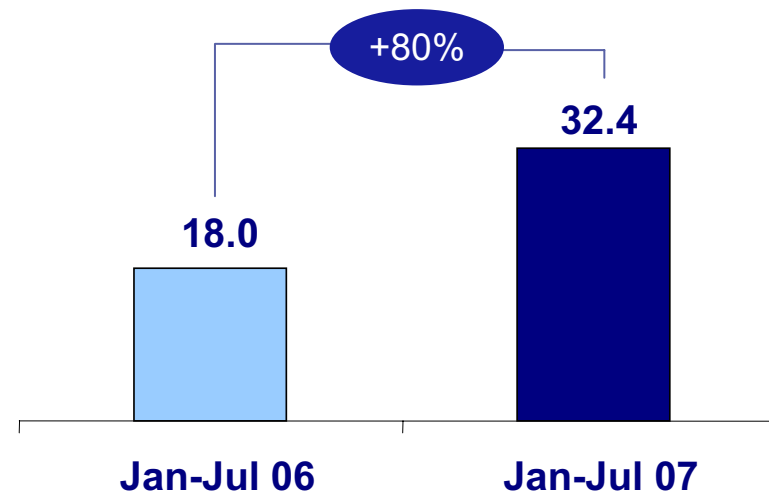
Others were:

- Disregarding liquidity risk
- Leveraging capital base to the limit
- Developing strong monoline businesses

BBVA was actively:

- Managing liquidity profile
- Lowering credit exposure
- Maximizing deposit base
- Reinforcing capital structure

Wholesale funding (€ Bn)

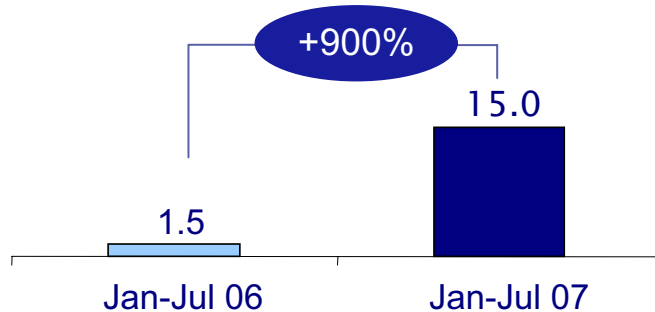


€ 32,4 Bn of medium and long term funding from January to July 07

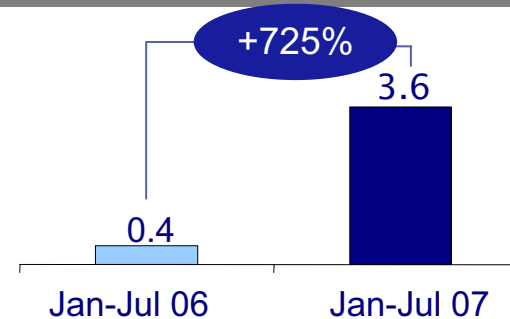


Liquidity risk active management (In 2006 / 2007)

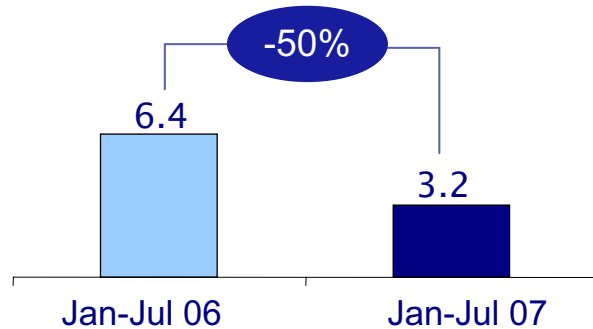
Securitization (€ Bn)



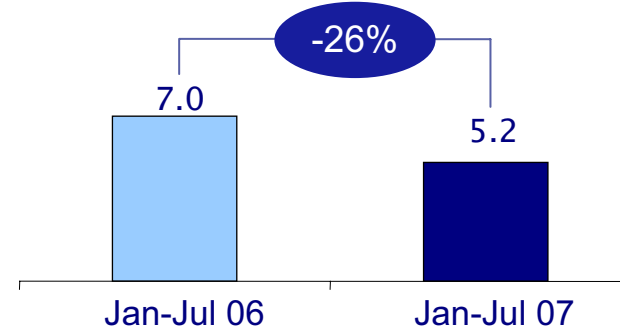
Preferred shares & Sub debt* (€ Bn)



Covered Bonds (€ Bn)



Short term commercial paper (€ Bn)



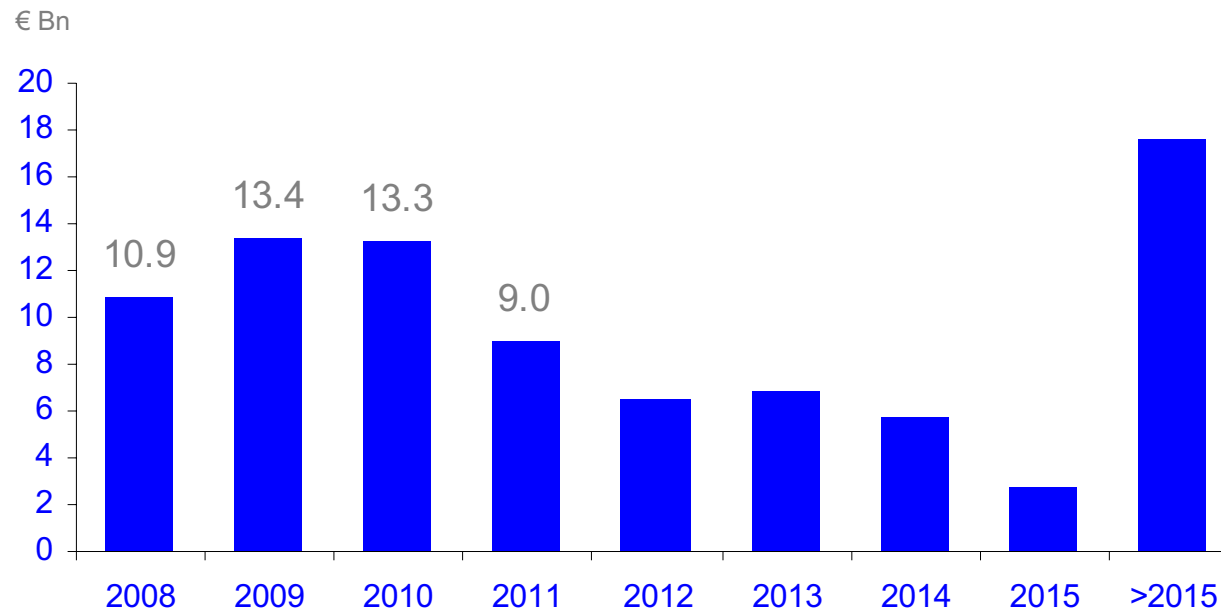
**And accelerating term customer deposit base (+39% 9m06/07
in Spain and Portugal)**

* Bancomer € 950 mn included



Improved maturity profile

Without any high concentration of maturities



***No significant maturities until 2Q08
BBVA is prepared to remain outside the market well into 2009 if
needed***

Subordinated debt, at first call date. Preference shares considered in >2015

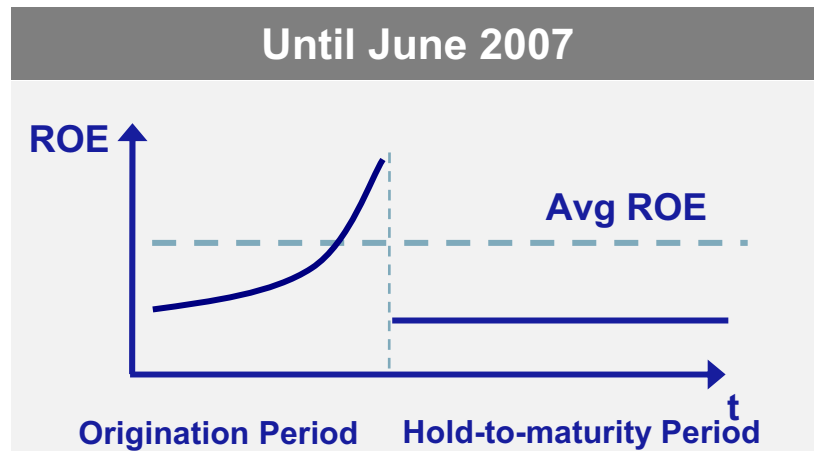


Active Management of Capital

Since 2004 BBVA has implemented an active policy aiming to maximize the return on equity through the different stages of the life of each asset:

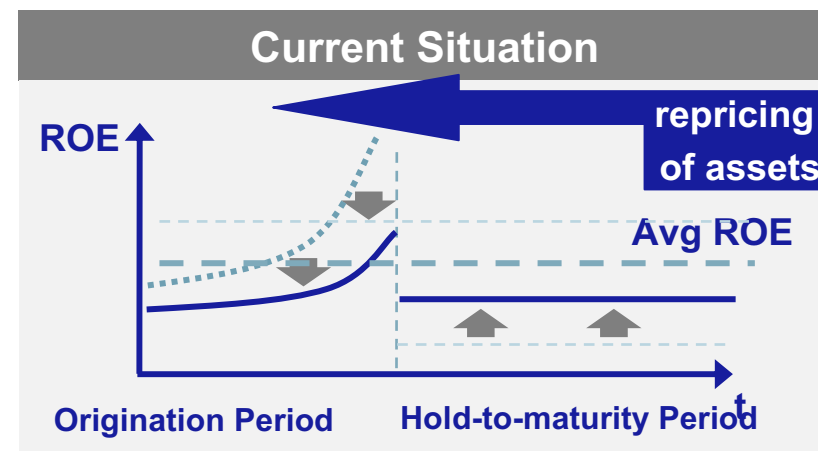
Asset Rotation vs. Asset Accumulation

- After origination and full documentation of the loan, it is available for sale in the open market.
- At each point in time and for each asset class, the “keep or sell decision” is made depending on potential ROE enhancement through available alternatives.



Competition

- Distribution networks with IT & structuring capabilities.



Competition

- Regulatory Capital needed
 - Liquidity is key
- } Big commercial banks

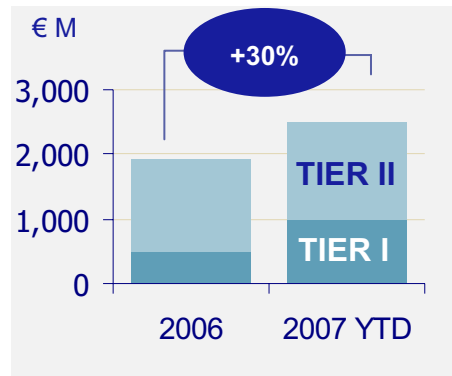


Active Management of Capital II

2006 and 2007 have resulted in significant activity at the Group's level

Tier I
true perpetual,
new currencies (\$, £)
Sub debt.
public & private
placements

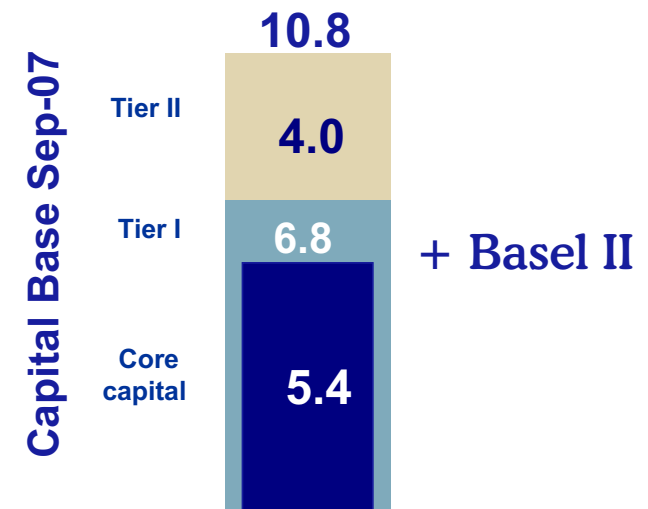
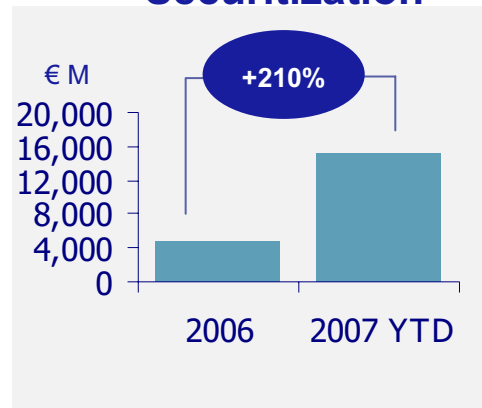
Capital Markets



- Capital increase Nov-06
- Compass acquisition financing:
 - 51% cash
 - 49% equity

New asset classes
RMBS
Leasing
Biggest € RMBS
BBVA RMBS 2
€ 5.000 Mn

Securitization

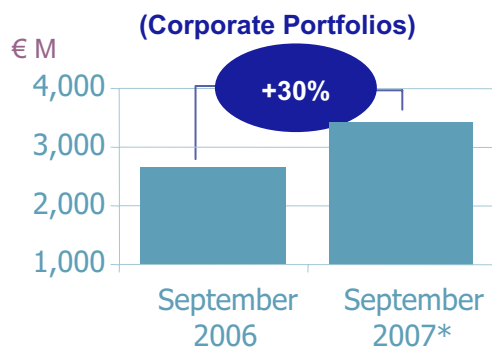




Active Management of Capital III

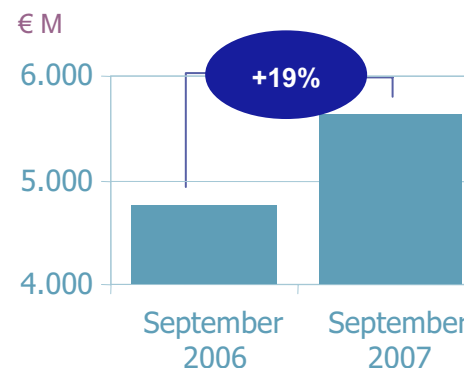
BBVA additional internal sources of Capital

Gross Capital Gains Available for sale



* After Sale of Iberdrola (€847 Mn result)

Generic Loan Loss Provisions



Active management of the business portfolio

Assets disposals 2003-YTD*

€ 8.5 Bn

Acquisitions 2003-YTD*

€ 14.5 Bn

* Most relevant transactions



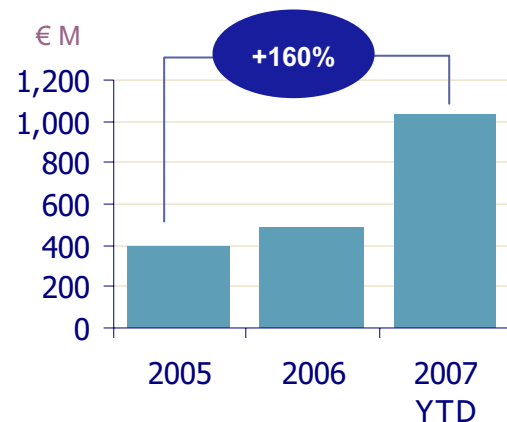
Active Management of Capital IV

Subsidiaries level

Leveraging the capital base structure

- Optimization of the cost of capital
- Increasing dividend flow from subsidiaries to parent
- Reduction of FX exposure of the shareholders capital

Subsidiaries TIER I & II Issues



- Significant new issuance from subsidiaries in Bancomer, Peru, Chile, Venezuela, Colombia, Puerto Rico:
 - ✓ € 1,335 M
- Implementation of the capital management model through securitizations
 - ✓ Transactions to come in 4Q07 in Bancomer, Perú, Colombia



Active interest rate risk management

Three main exposures: Euro, Mexico, USA

Euro

- Very limited interest rate risk: NII sensitivity +0.5%
- Government bonds as hedge of DDA
- Mortgage portfolio (Eur 12 months) vs wholesale funding (Eur 3 months) → positive impact 2008 vs 2007 (repricing lag in mortgages)

Mexico

- NII sensitivity +100 bp: +1%
- Government bond as hedge of non-sensible liabilities
- Growth in fixed assets is reducing the risk

USA

- Very limited NII sensitivity year 1
- Convexity increases NII sensitivity year 2 (active management of prepayment risk)

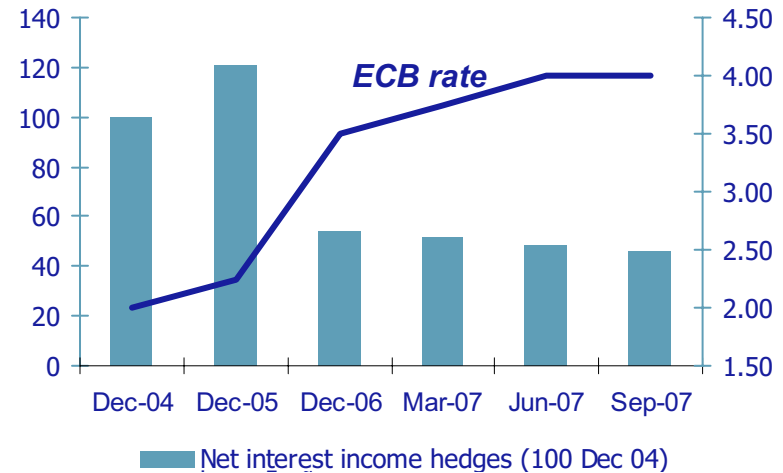
- ✓ Interest rate risk management → focus in hedging customer exposure not in P&L contribution
- ✓ Investment portfolio → management tool, not P&L tool



Interest rate hedges evolution

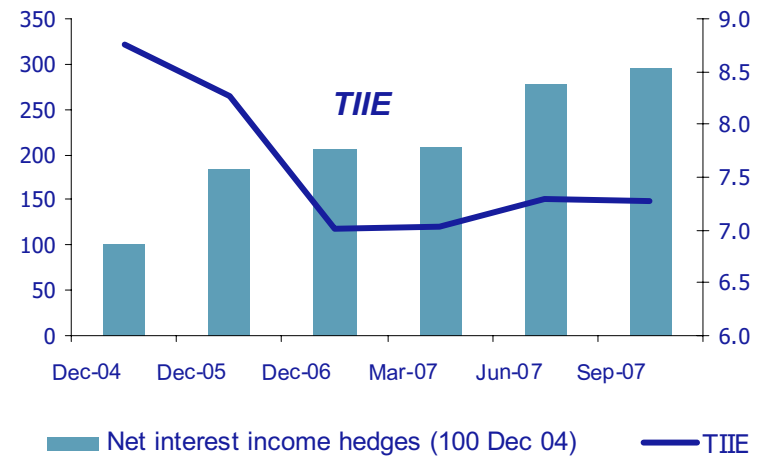
Euro

Significant decrease in Net Interest Income hedges since 2005, anticipating ECB rates hikes



MXN

Significant increase in Net Interest Income hedges since 2005, anticipating Banxico rates decrease





Main Objectives

- Foreign Capital Investment: stability in Capital Ratios
- Subsidiaries P&L: to guarantee the growth at Group level

Management of Capital Investment

- FX hedge at portfolio level: 50% (100% \$ exposure)
- Hedging of FX stress scenarios (Mexico)
- Minimum effects in Core Capital Ratio (\$/€ 1,50: 4 pb; ·\$/€ 1,60: 7 pb)

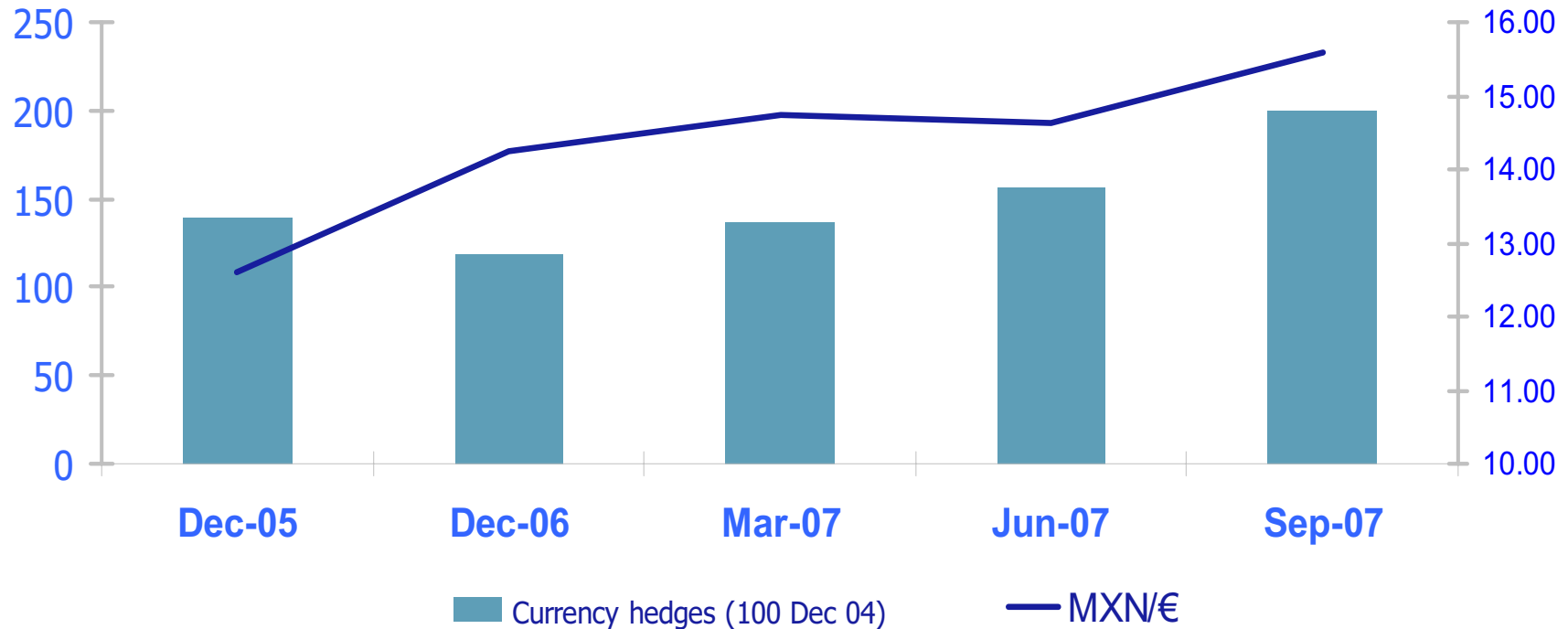
Management of Subsidiaries P&L

- 2 Year hedging horizon
- Hedge with 1st class banks
- No “carry hedges”: only FX risks.
- Ready for stress scenarios \$/€

We aren't FX traders. Target is minimizing earnings / capital ratios volatility



FX hedging evolution



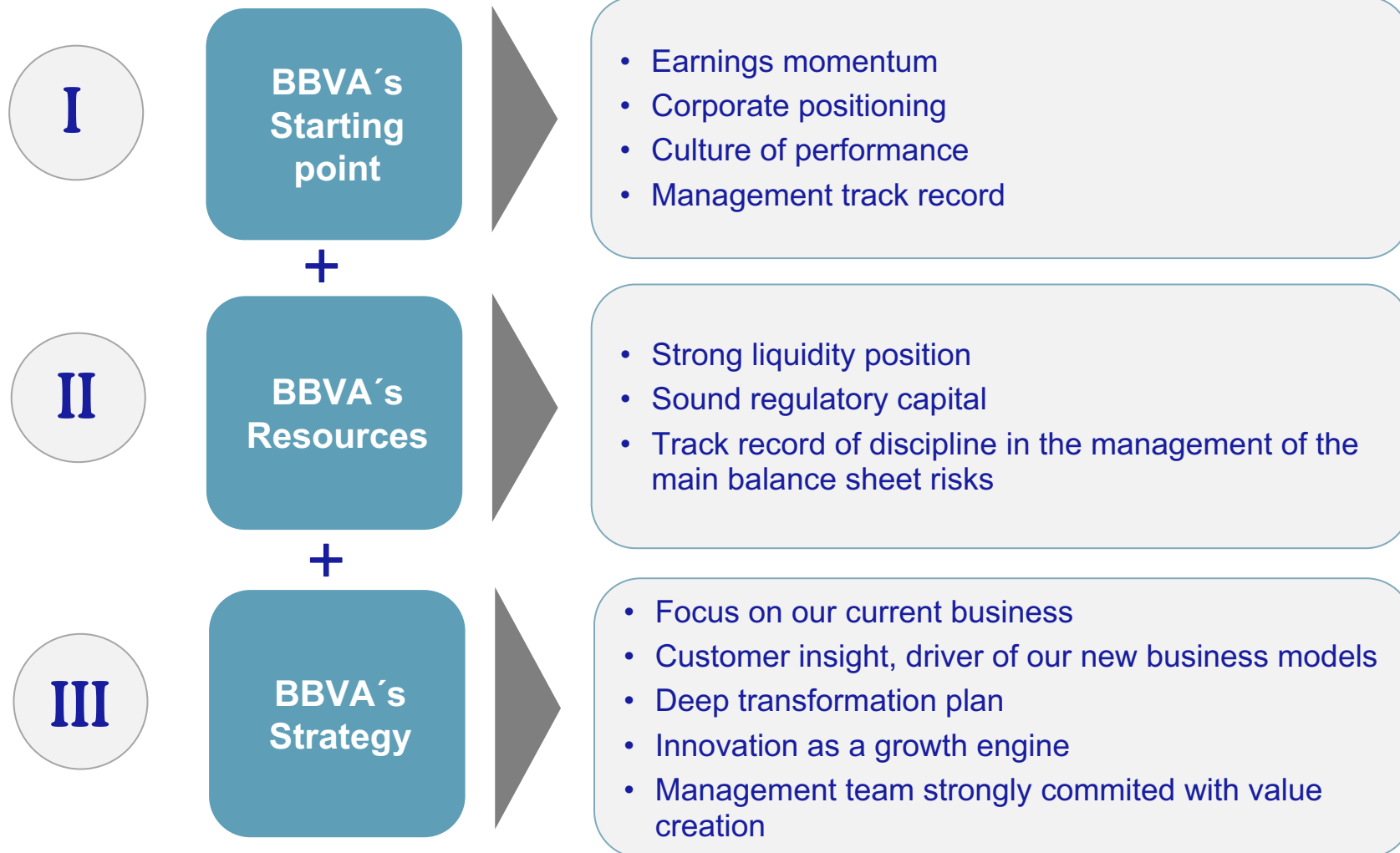
100% increase in FX hedges during the last 3 years, anticipating currency depreciation



- **Where are we coming from?. The starting point**
- **Active Balance Sheet management: paying off in the new environment**
- **Best among peers: top investment choice**



Best among Peers: top investment choice





Best among Peers: top investment choice

Revenues

Costs

Risk Premium

Balance Sheet



Best among Peers: top investment choice

Revenues

BBVA

- Retail and customer oriented business
- Higher growth in home markets: Spain, Mexico, Latam, Texas, Sunbelt
- Strength and critical mass of the different franchises
- New set of business models, segments and products through innovation
- Capability of repricing and gaining of market share
- Mortgages only means 9.5% of total ordinary revenues in Spain&Portugal (9M07)

Lower beta with higher alpha generation

Peer Group

- Strong weight of wholesale business
- Lower growth in home markets
- Lack of scale in international retail business and complexity
- Monoliners business lines
- Constraints on Balance Sheet availability
- Pressure of monoline businesses in liquidity and asset quality

Higher beta in peer group



Best among Peers: top investment choice

Costs

BBVA

- **Track record of efficiency management and anticipation**
- **Critical transformation project to take efficiency levels to 35% Group level, at one year and half under execution**
- **Higher productivity gains and in depth reengineering of our distribution, commercial and operational structure**
- **Very limited expansion plans of physical networks in the last few years**

**Technology and reengineering,
driven efficiency gains**

Peer Group

- **Lack of sufficient investments in IT platforms over the last few years**
- **Restructuring in most affected business lines that will consume time and additional capital**
- **Lack of critical mass in some business lines puts under pressure IT costs**
- **Very aggressive expansion plans in physical networks**

**Only consolidation can deliver
efficiency gains**



Best among Peers: top investment choice

Risk premium

BBVA

- No extraordinary writedowns needed
- €5.5 Bn generic available provisions as an important buffer to compensate any deterioration of asset quality
- Integrated risk model from admission to administration recovery, also in the securitized portfolio

Stable risk premium

Peer Group

- Writedowns of credit portfolio increasingly common
- Substantial increases of risk premiums from very low current level on asset quality deterioration
- Non integrated risk function, not to be rebuilt easily

Writedowns: risk premium up



Best among Peers: top investment choice

Balance Sheet

BBVA

- **Strong liquidity and capital position**
- **Organic growth to be our key driver**

Full availability of Balance Sheet

Peer Group

- Liquidity and regulatory capital under pressure and limiting growth
- Need for additional consolidation and M&A to survive?
- Asset disposals

Constraint of resources, limiting growth



Best among Peers: top investment choice



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