

# *“Delivering in the Old and in the New Normal”*

## **BBVA Group**

Banking & Insurance CEO Conference 2009 – Merrill Lynch  
Manuel Gonzalez Cid, CFO

London, 30<sup>th</sup> September 2009



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***BBVA, delivering in the old and in the new normal:***

**BBVA**

**1**

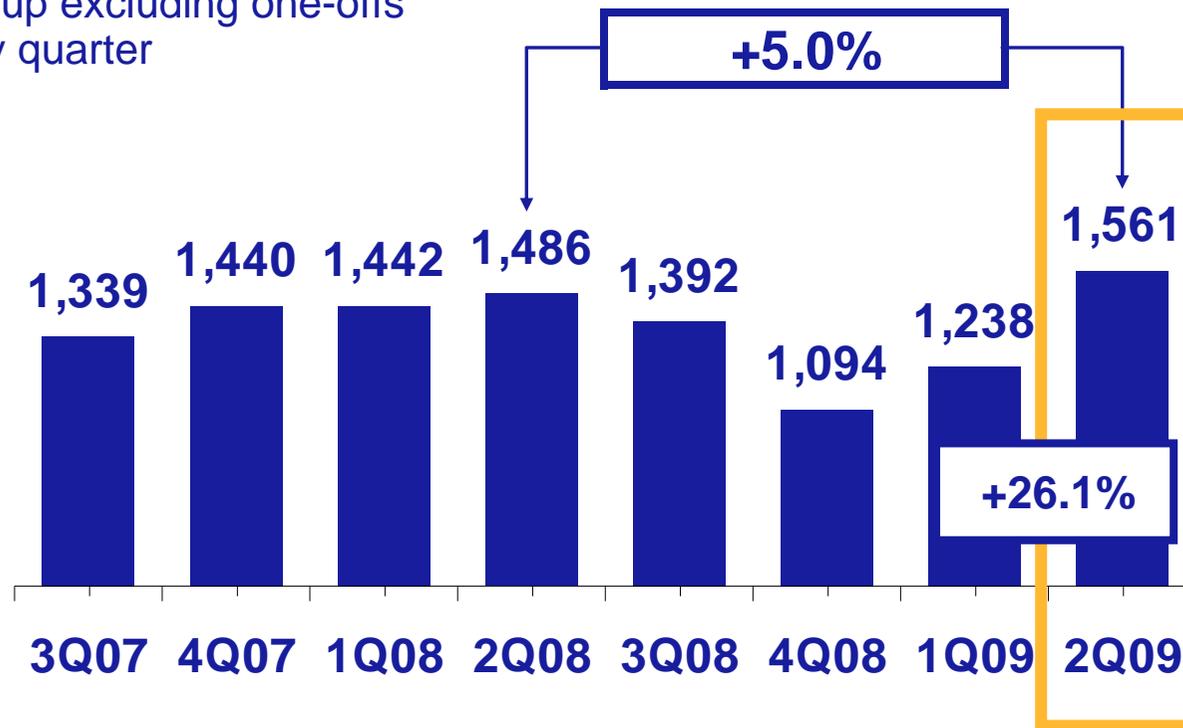
**High structural  
profitability:  
Earnings to date**

**2**

**Superior growth  
prospects:  
Earnings to come**

# BBVA's business model generates strong profits even in the most challenging environment

**Net attrib. profit**  
 BBVA Group excluding one-offs  
 Quarter by quarter  
 (€m)



**Looking ahead, a low volume, low interest rate environment is the industry's biggest challenge**

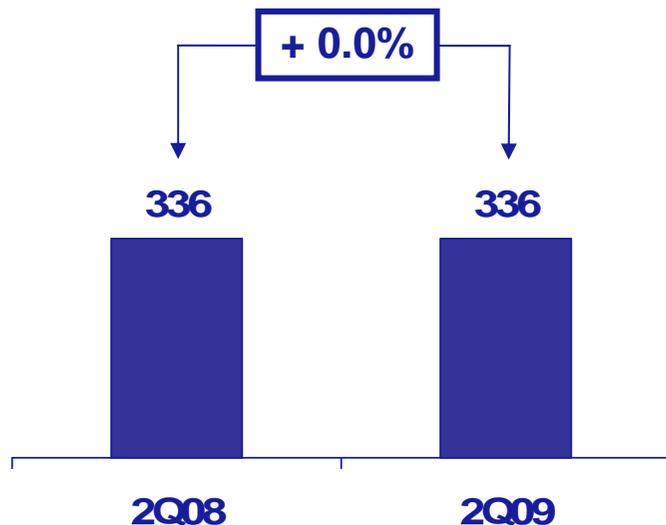
**These challenges are effectively managed through ...**

- A** **Price management**
- B** **Quality revenues**
- C** **Cost control**
- D** **Low provisioning burden**

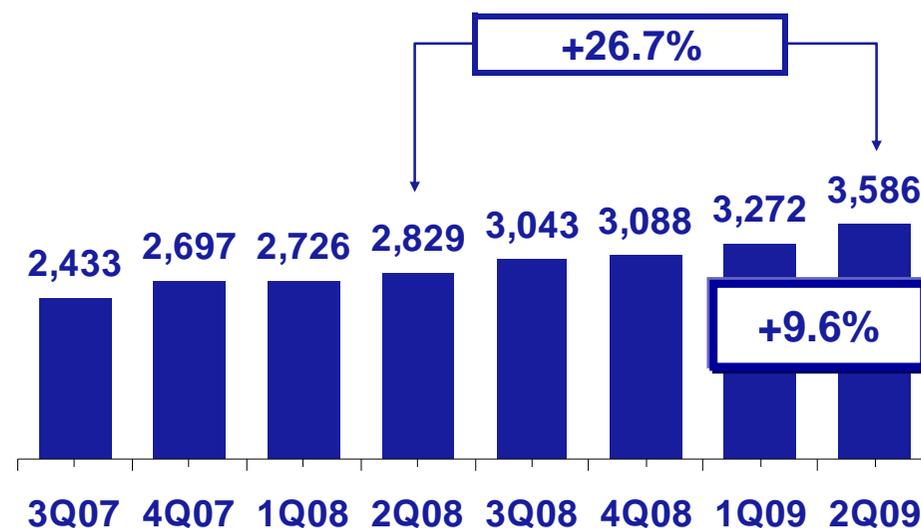
**A**

# Price management is critical in a low volume environment

**Total gross lending**  
BBVA Group  
(€Bn)



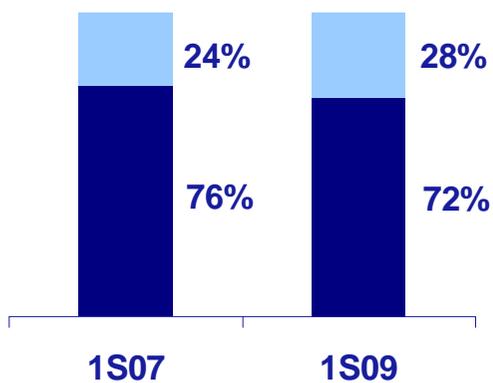
**Net interest income**  
BBVA Group  
Quarter by quarter  
(€m)



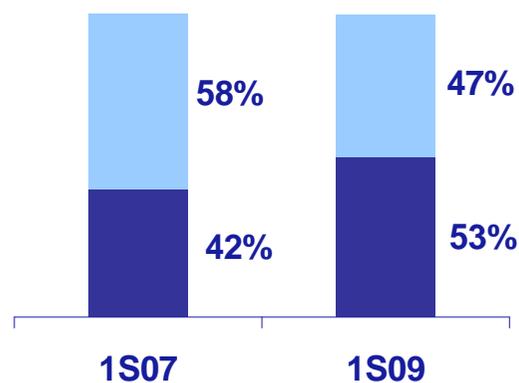
**Management has taken several measures to protect NII growth in anticipation of the current environment**

**B** A stable revenue mix

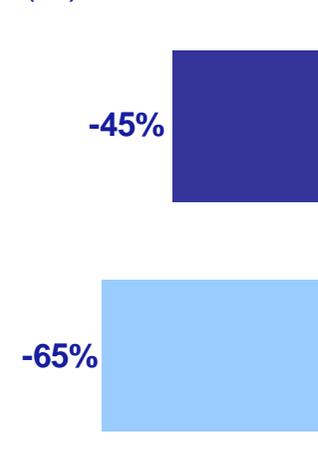
**BBVA**  
Net profit mix  
(%)



**Peer group ex-BBVA**  
Net profit mix  
(%)



**Change in net profit**  
Peer group ex-BBVA  
June 07 / June 09  
(%)



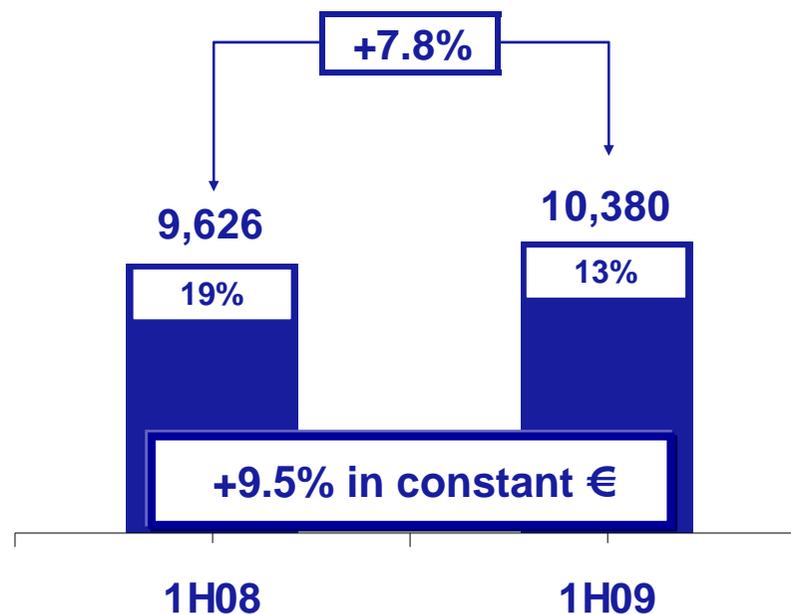
Wholesale Retail

**A profitable retail client franchise**

# And higher quality of revenues

**Breakdown of gross income**  
BBVA Group  
(€m)

- Net interest income + fees & commissions
- Net trading income + other income

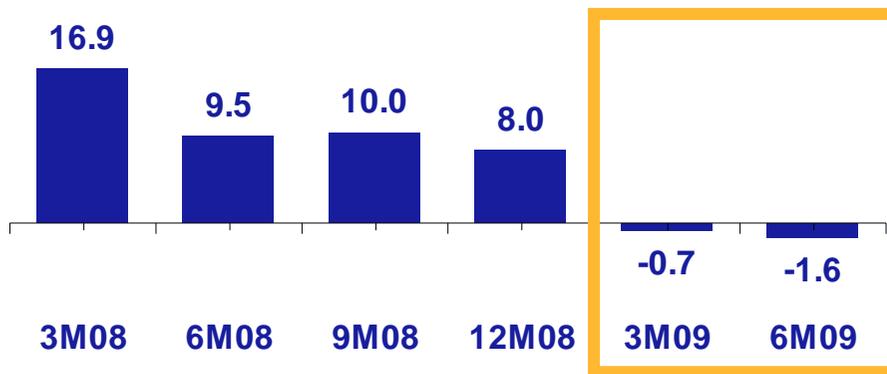


**One of the lowest trading income contribution to gross income of the peer group**

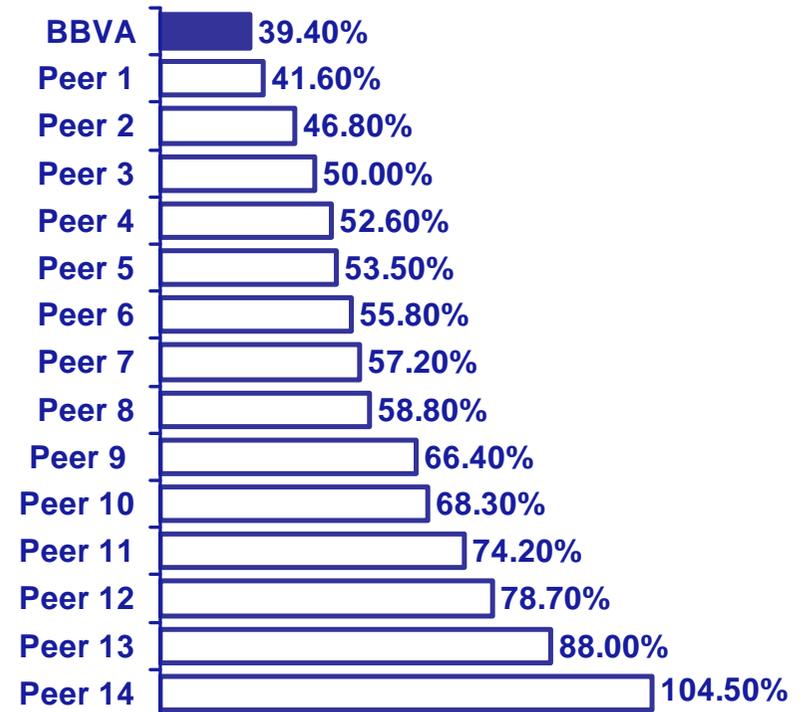
# C

## Permanent cost control culture

**Total costs**  
BBVA Group  
Year-on-year growth  
(%)



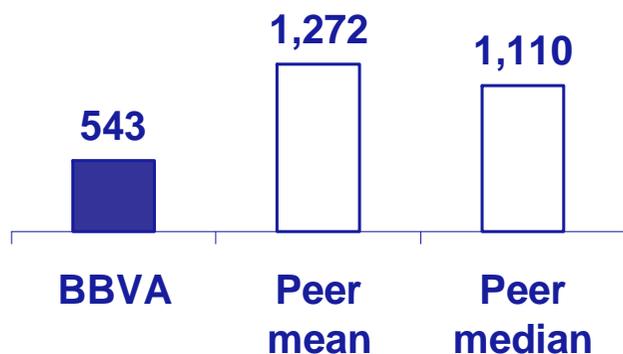
**Cost to income**  
Peer Group  
(€m, Jun.09)



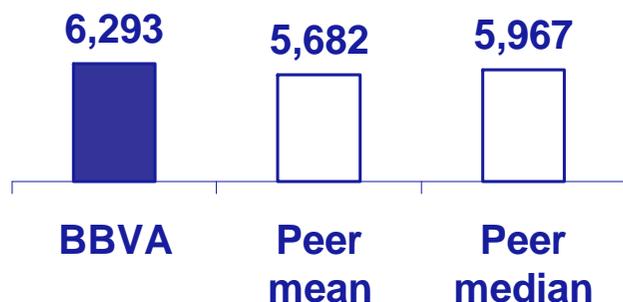
**Cost leadership is a key competitive advantage, particularly for a high scale - mass market business model**

# Which results in the highest relative operating income of our peer group

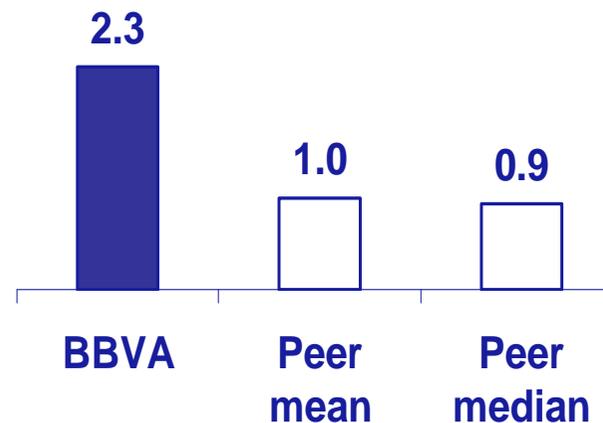
**Total assets**  
Peer Group  
(€bn, Jun.09)



**Operating Income**  
Peer Group  
(€m, Jun.09)

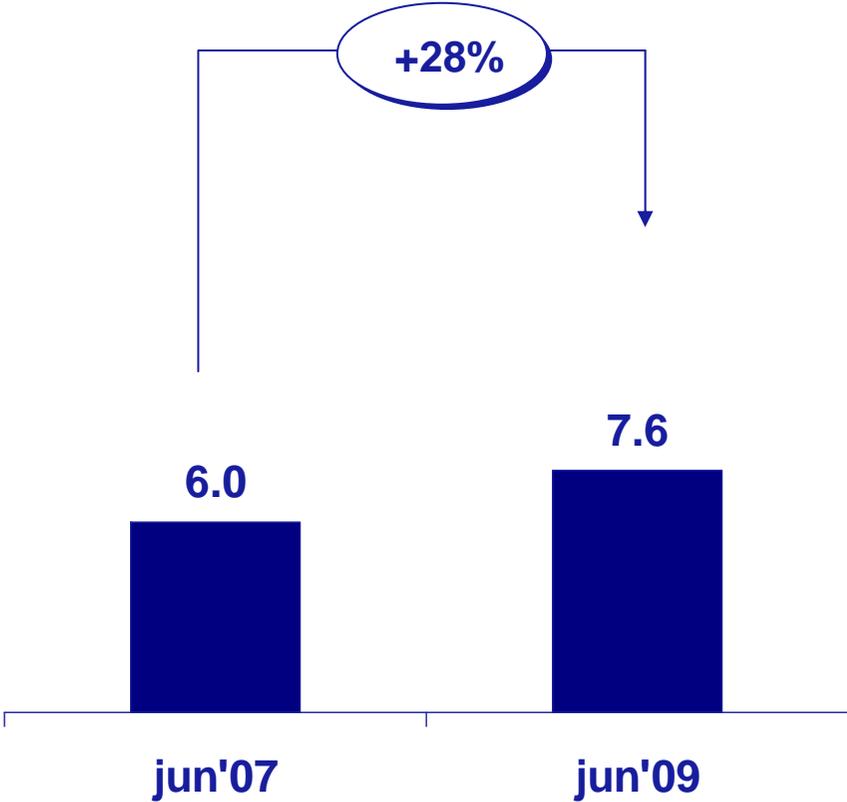


**Operating income/ Total assets**  
Peer Group  
(%, Jun.09)

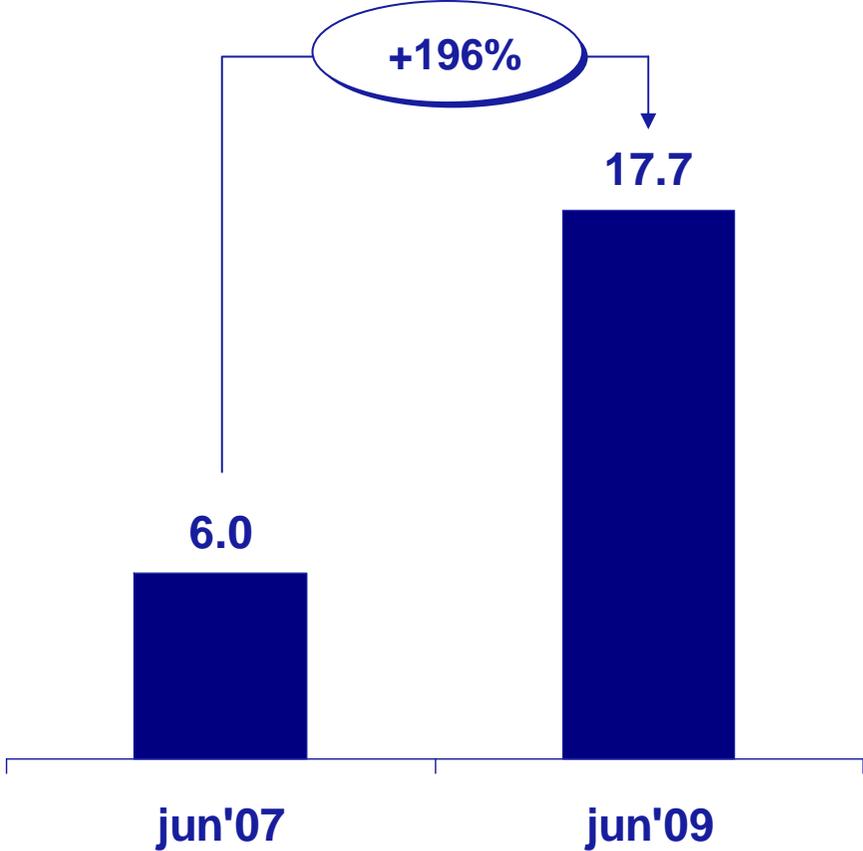


# Gaining “profit” share Vs peers

Peer group operating income  
Gross  
BBVA’s share (%)



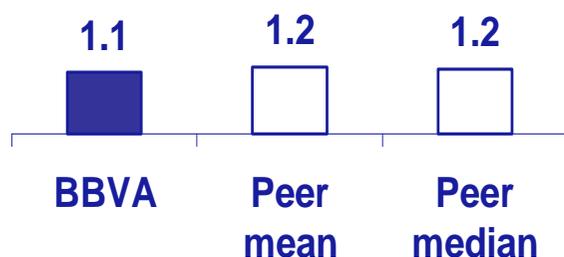
Peer group operating income  
Net of loan loss charges  
BBVA’s share (%)



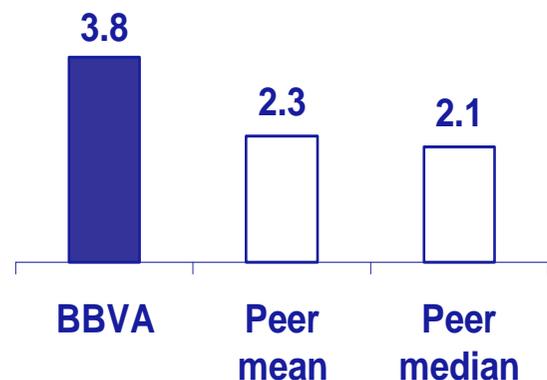
Peers: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS, SAN, SG, UCI & UBS

# An operating income that has the highest risk premium absorption capacity

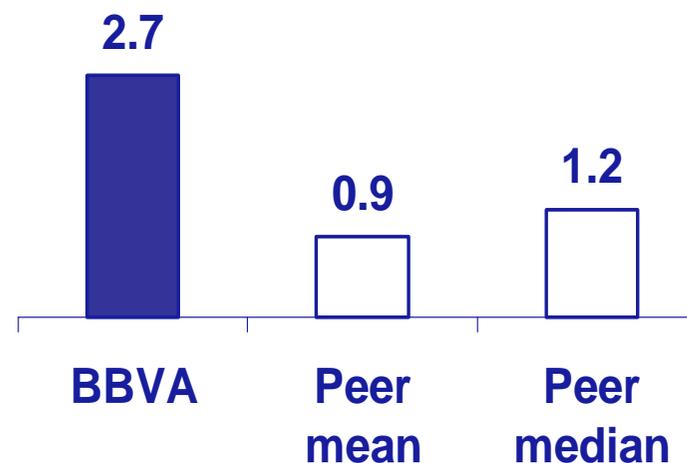
**Cost of risk<sup>(1)</sup>**  
Peer Group  
(%, Jun.09)



**Operating income as a maximum cost of risk<sup>(2)</sup>**  
Peer Group  
(%, Jun.09)



**Additional cost of risk supported by the operating income<sup>(3)</sup>**  
Peer Group  
(%, Jun.09)



Peers: BARCL, BBVA, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS, SAN, SG, UBS & UCI.

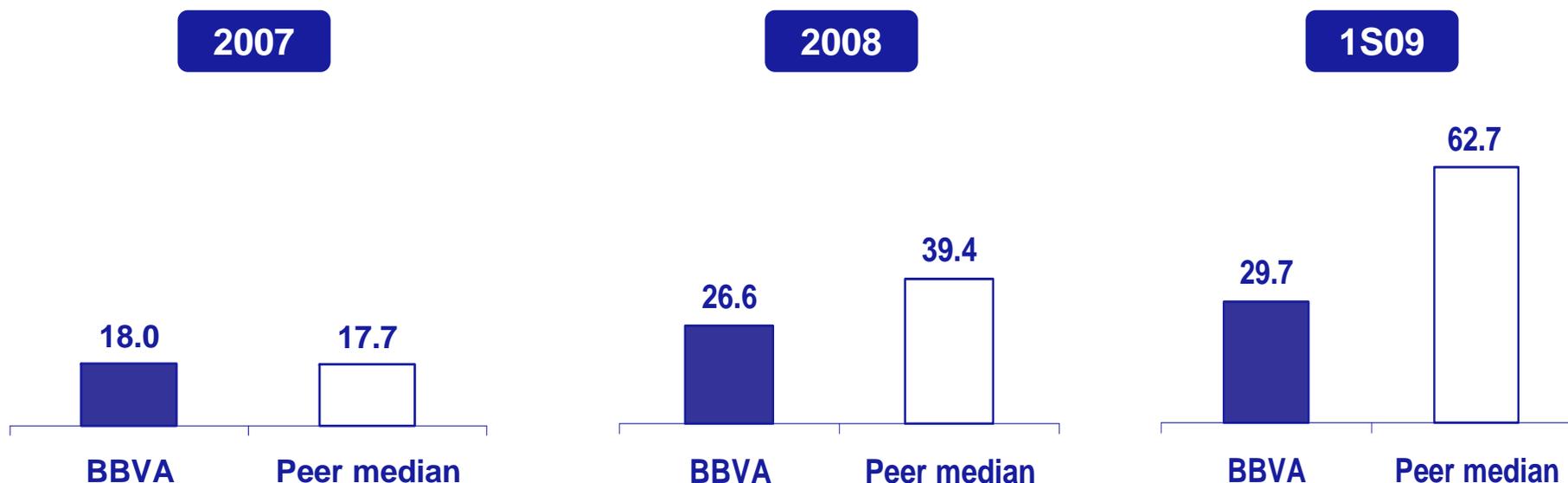
(1) UK bank figures latest available.

(2) Maximum cost of risk supported by the operating income without generating losses. Operating income linearly annualized. UK bank figures latest available.

(3) Maximum cost of risk – current cost of risk. UK bank figures latest available.

# D Low provisioning burden

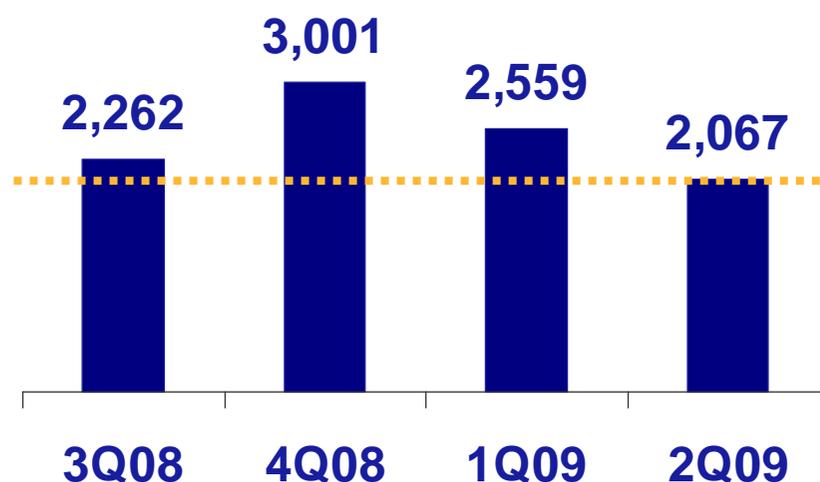
**Percentage of operating income applied to provisioning**  
 BBVA Group  
 (%)



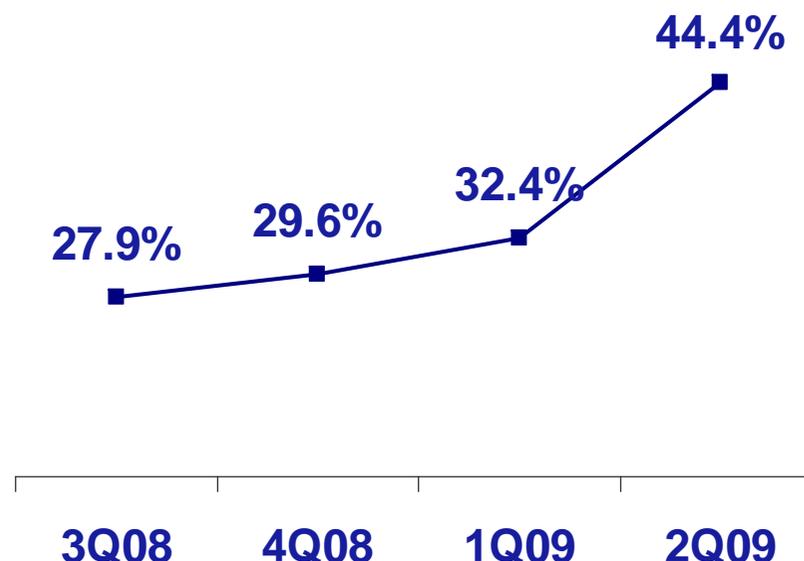
**A product of Bank of Spain’s anti-cyclical provisioning system, the stabilization of the asset quality deterioration and BBVA’s NPL mix**

# A result of the stabilization of the asset quality deterioration

**Net additions to NPA**  
BBVA Group  
Quarter by quarter  
(€m)



**Recoveries / entries to NPA**  
BBVA Group  
Quarter by quarter  
(%)

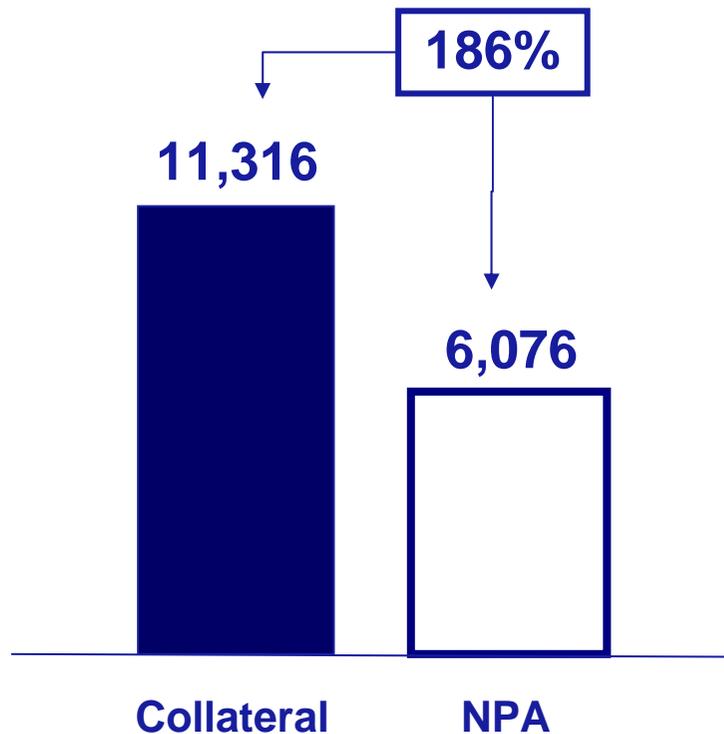


**Net entries to NPA down 19% in quarter, gross entries peaked in 4Q08**

# A highly collateralized non-performing loan mix, which requires lower coverage

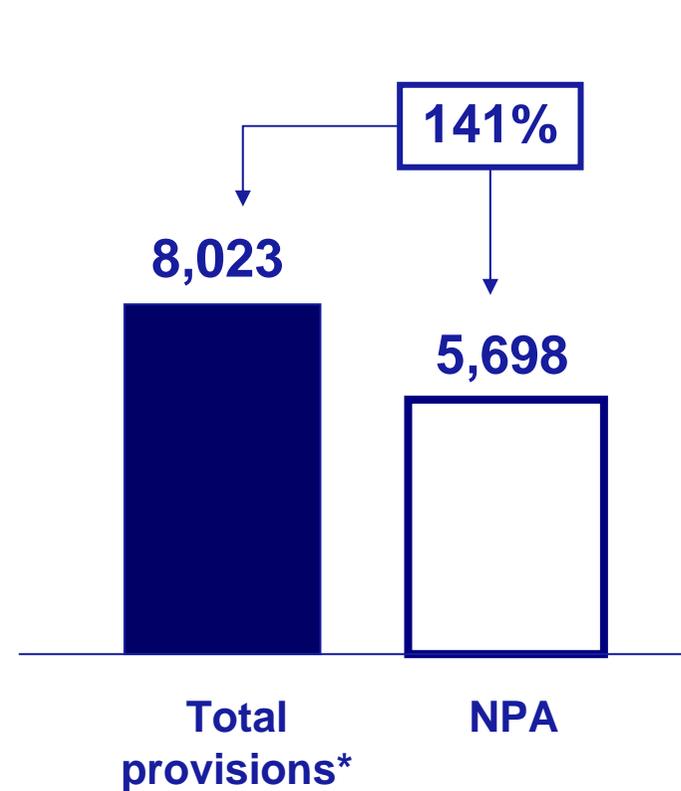
**With collateral**

BBVA Group  
(€m)



**Without collateral**

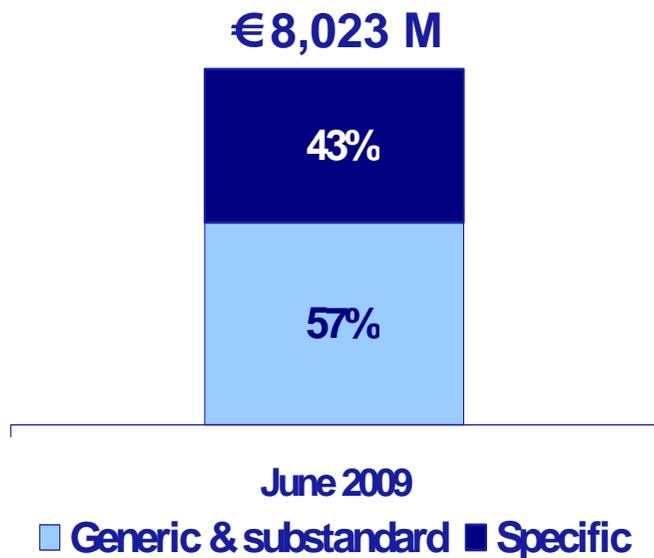
BBVA Group  
(€m)



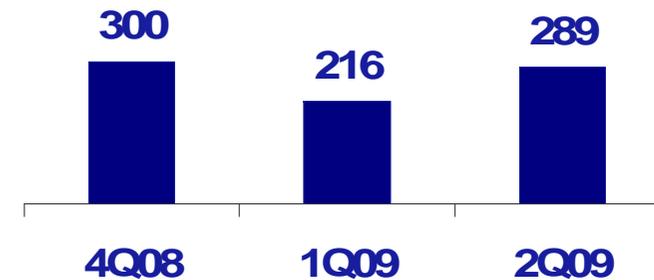
\* Specific+Generic+Standard

# And a generic buffer has been proven to be an effective tool to protect profits in downturns

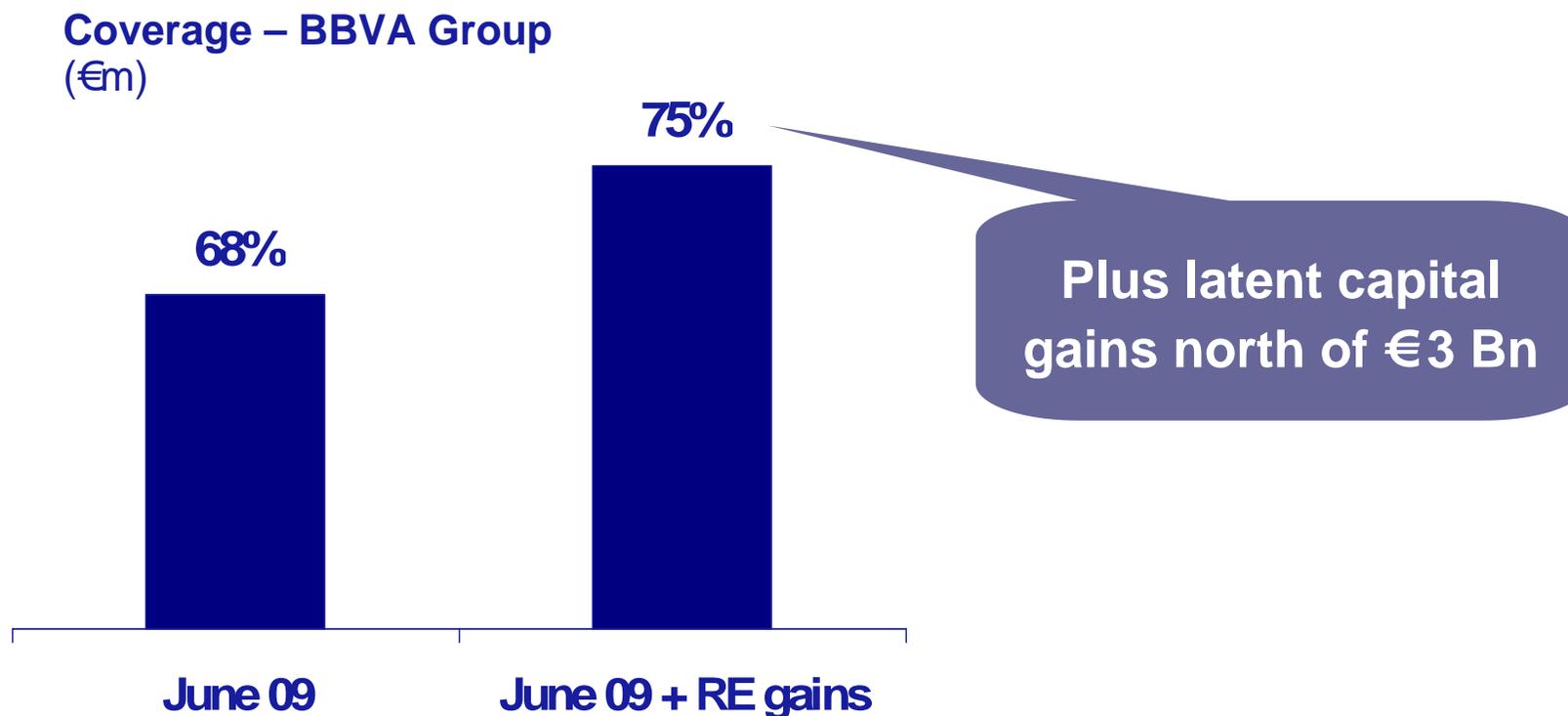
**Loan loss reserves – BBVA Group**  
(€m)



**Release of generic provisions**  
BBVA Group  
Quarter by quarter  
(€m)

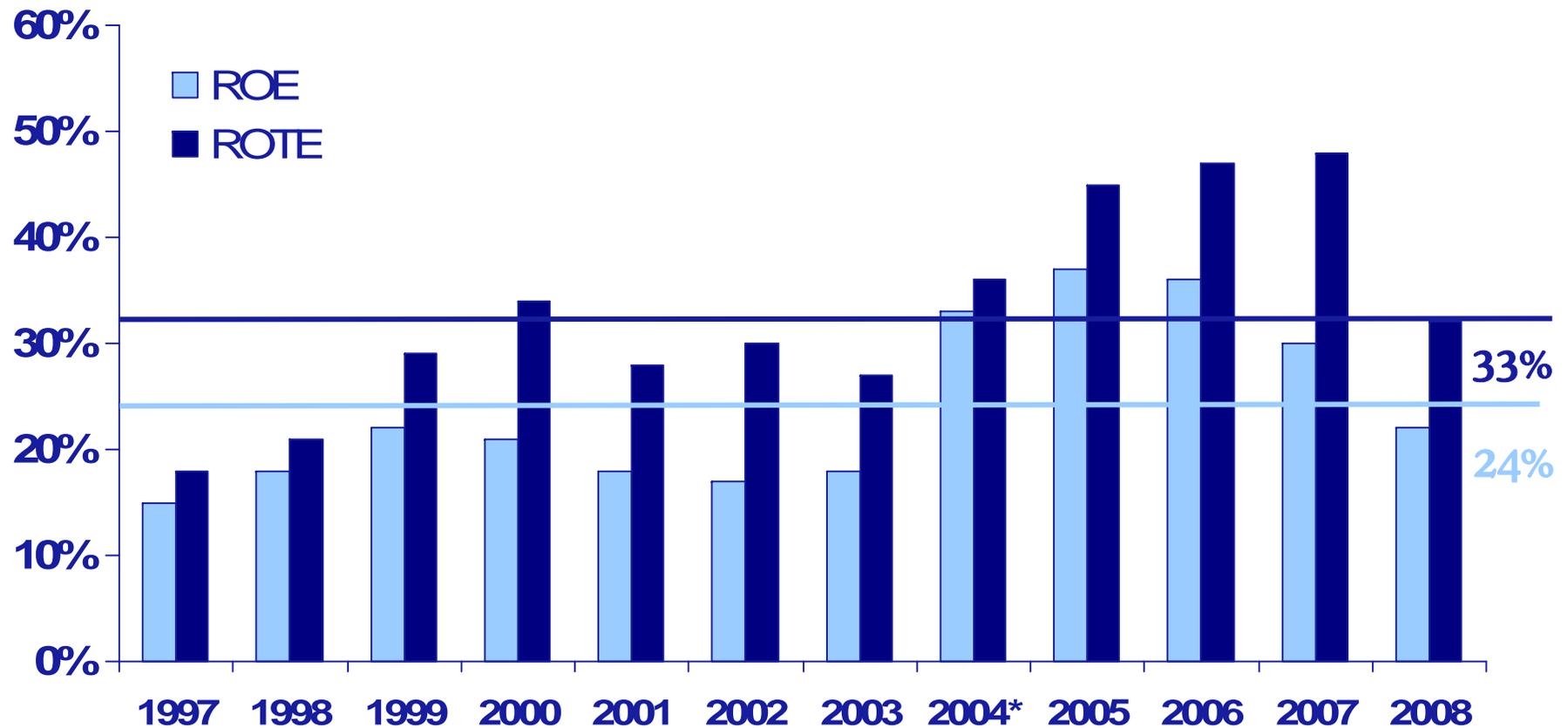


# A buffer that has been increased in the current quarter



**Proceeds from the sale of part of our retail branch network to increase the generic reserve by €830 M.**

# BBVA has managed to maintain very strong profitability levels, even in downturns



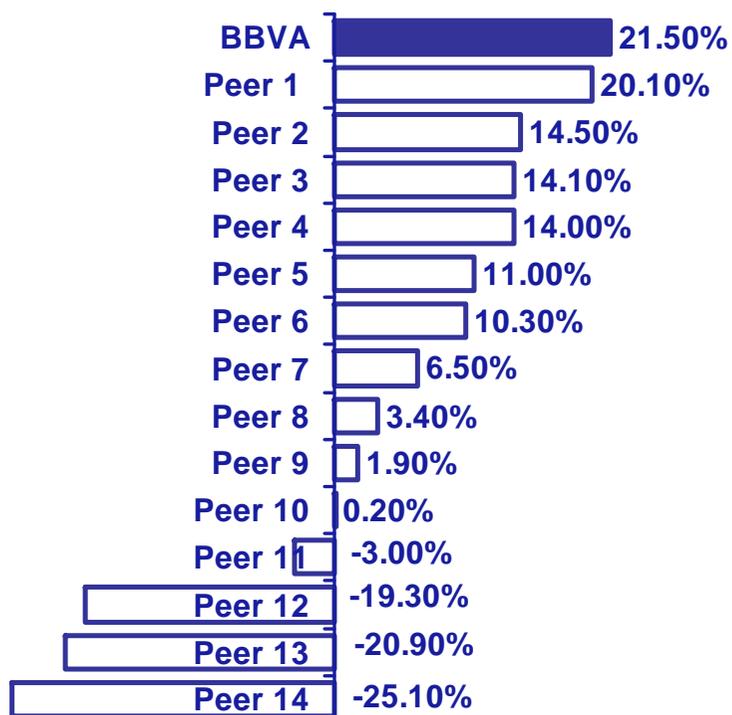
\* Implementation of IAS

# Clearly, the industry's profitability leader



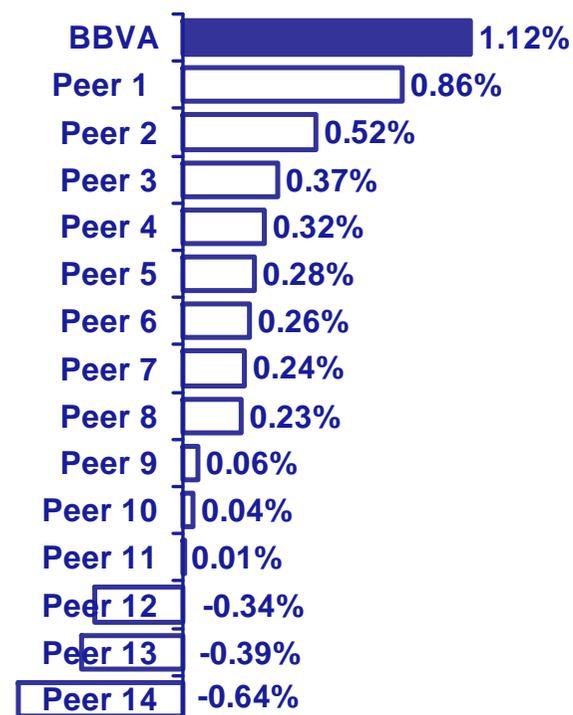
## ROE

June 2009  
(%)

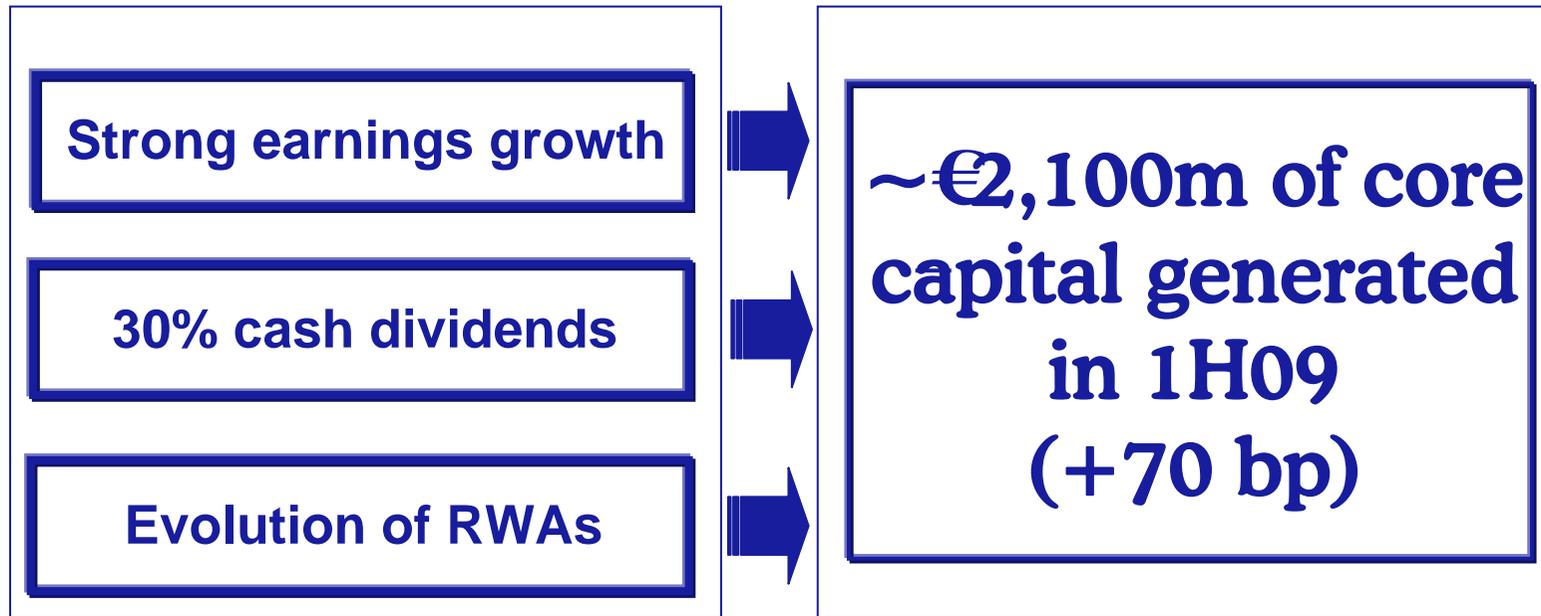


## ROA

June 2009  
(%)



# With strong organic capital generation



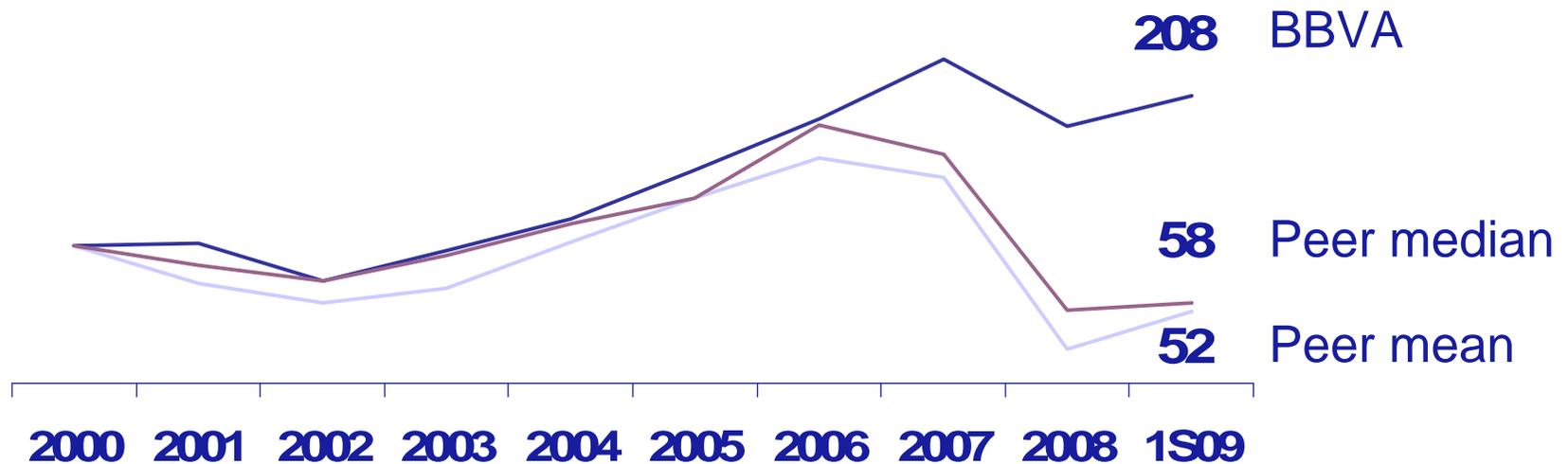
**Core Capital:  
7.1%**

**Tier 1:  
8.2%**

**Plus an additional €2 Bn of contingent core capital already deployed, exercisable at our discretion in one year and during the following four years.**

# A high structural profitability that flows all the way down to EPS growth

**Earnings per share**  
Peer Group  
(%, 2000-1S09)



***BBVA, delivering in the old and in the new  
normal:***

**1**

**High structural  
profitability:  
Earnings to date**

**2**

**Superior growth  
Prospects:  
Earnings to come**

## Earnings to come, from:

**A**

**Spain: a strong network ready to benefit from improving competitive landscape**

**B**

**Mexico: the clear leader in a sizeable market with huge growth potential**

**C**

**USA: building a solid franchise a very attractive region for retail banking**

**D**

**South America: An additional Bancomer**

**E**

**Alliance with CITIC and a profitable wholesale franchise**

A

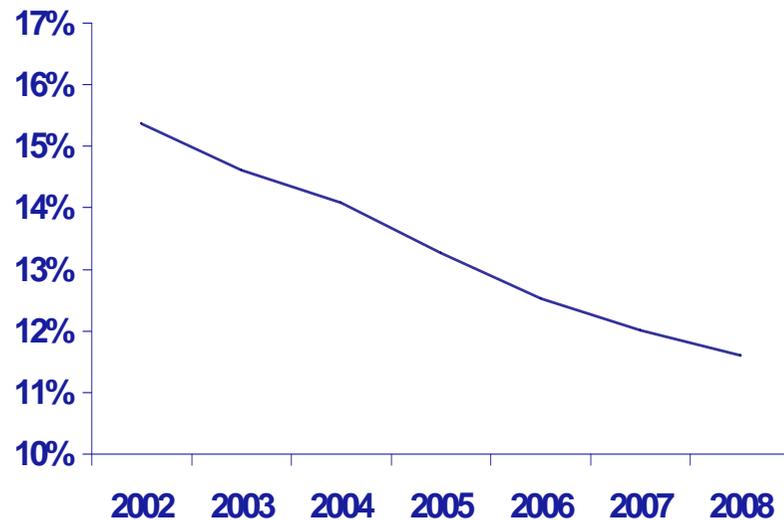
# BBVA has grown less during the boom years in Spain, but today it is stronger

**BBVA**

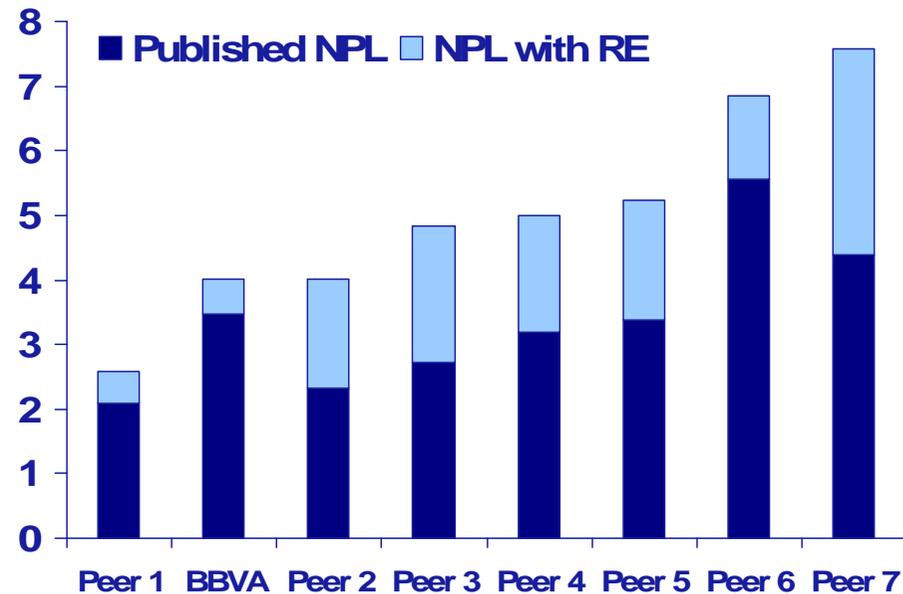
Saving banks and new entrants have grown aggressively during the economic boom years

Differences in commercial practices and business mix are gradually being exposed

BBVA's lending share in Spain (%)



Asset quality – Quoted banks + largest saving banks June 2009 (%)



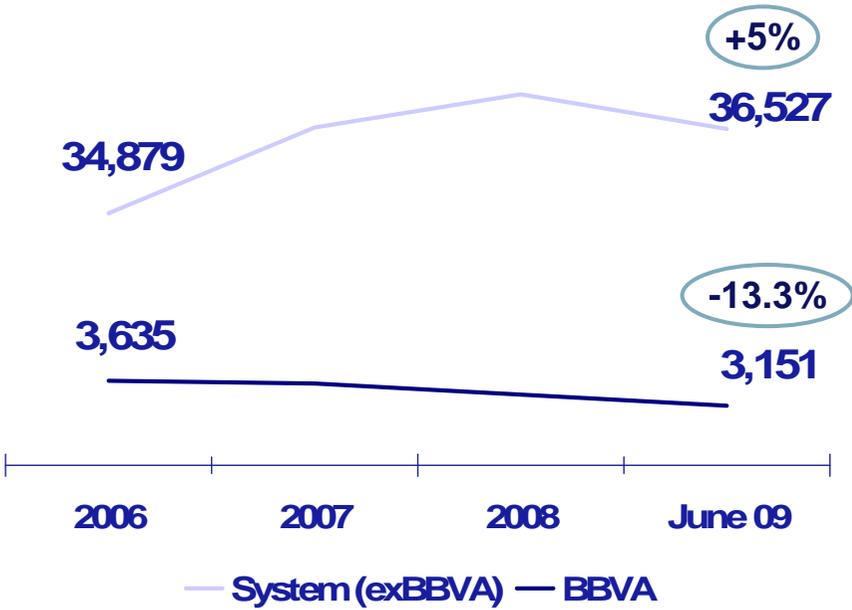
1 – Source: BBVA and Bank of Spain. Prior to 2000, pro-forma adding BBV and Argentaria figures.

2 – Source: CNMV quarterly reporting. Peers: Banesto, Bankinter, Caja Madrid, La Caixa, Popular, Sabadel, and Santander Spain. RE assets include foreclosed asset and asset purchases.

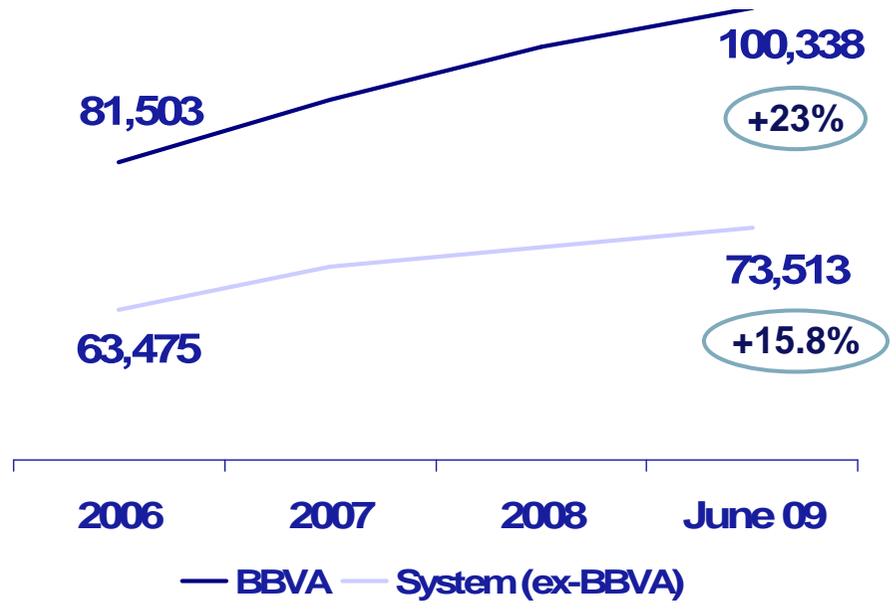
Anticipating the end of the credit boom era, BBVA launched its Transformation plan, resulting in a much leaner distribution network



Branch network evolution in Spain



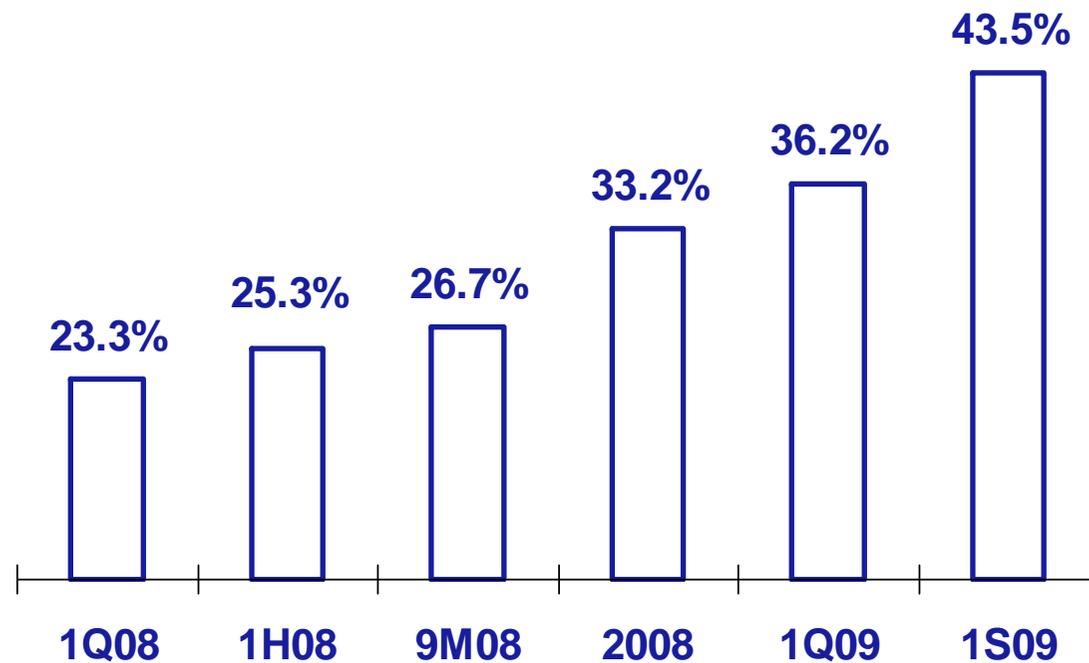
Business volume per branch (€'000)



Transforming our operation from a loan originating network, to a network able to provide high value added services.

# BBVA is already profiting from its position of relative strength

**BBVA Spain's mkt share of recurrent operating income net of provisions**  
Quoted banks + largest saving banks (%)



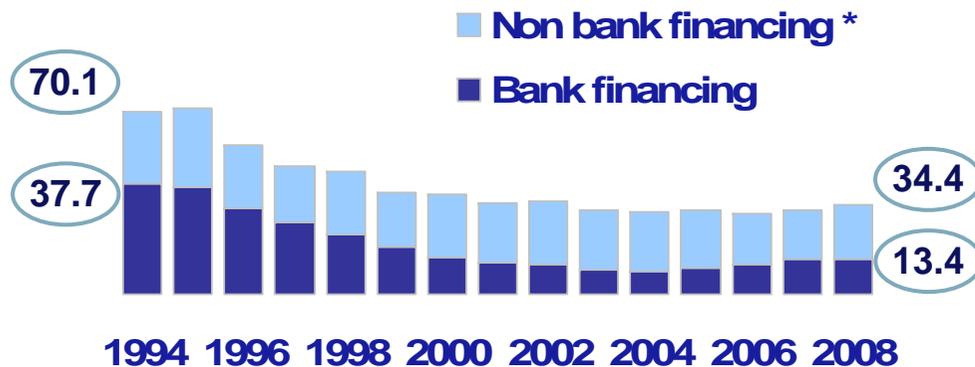
**BBVA Spain's operating income excl. dividends and NTI, and net of provisions**

**B**

# The Mexican financial system continues to have an exceptionally low penetration

**BBVA**

**Loans to the private sector  
% of GDP**

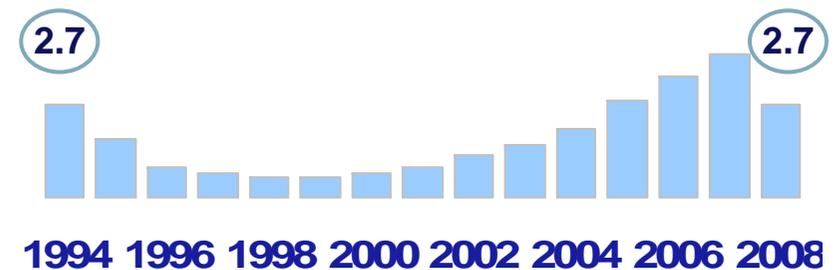


\* Includes external financing, Mexican non-bank institutions, suppliers, local debt issuances, and Infonavit

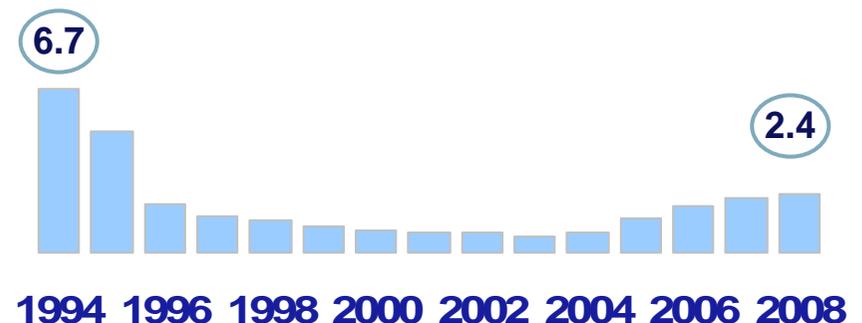
**In an economy as large  
as Spain or Texas**

Source Banxico and INEGI

**Total consumer loans  
% of GDP**

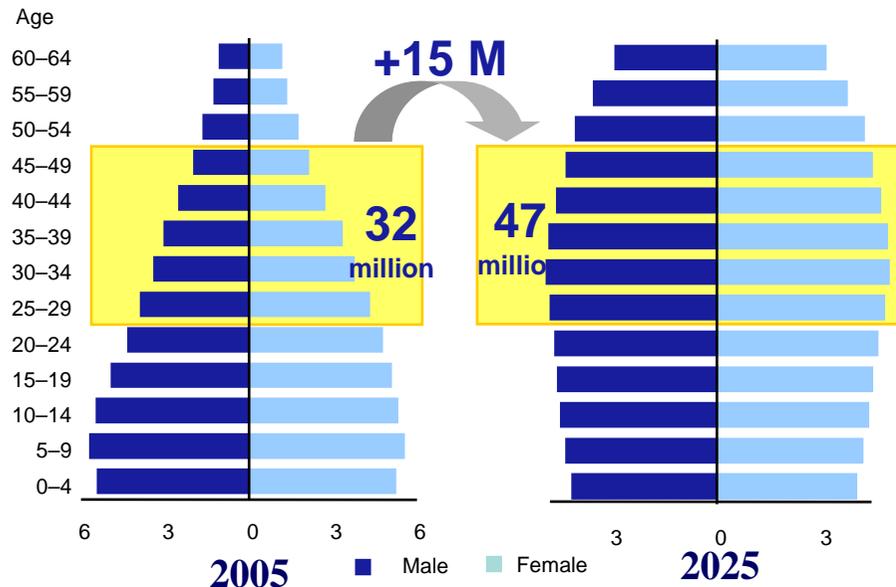


**Total mortgage loans  
% of GDP**

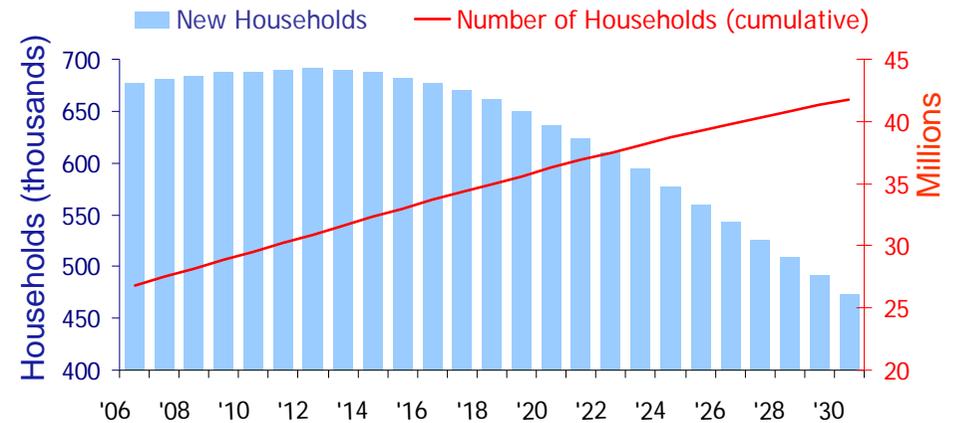


# Mexico's demographics are the best for continuous long term retail banking growth

## Expected population growth



## Household creation (cumulative data and flows)

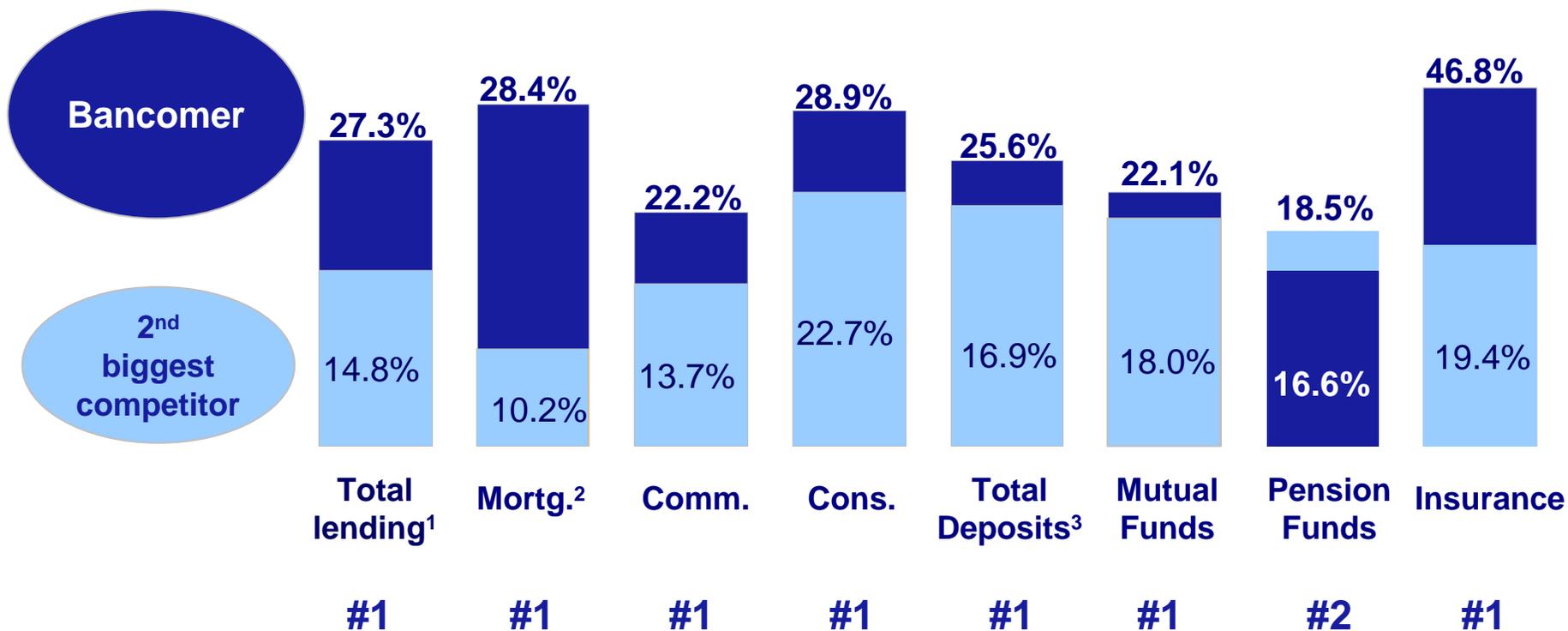


**New households = potential demand for mortgages**

**750,000 people entering the labor market per year**  
**Close to 700,000 households created per year**

# In a market in which Bancomer is the clear market leader

## Market Share (%)



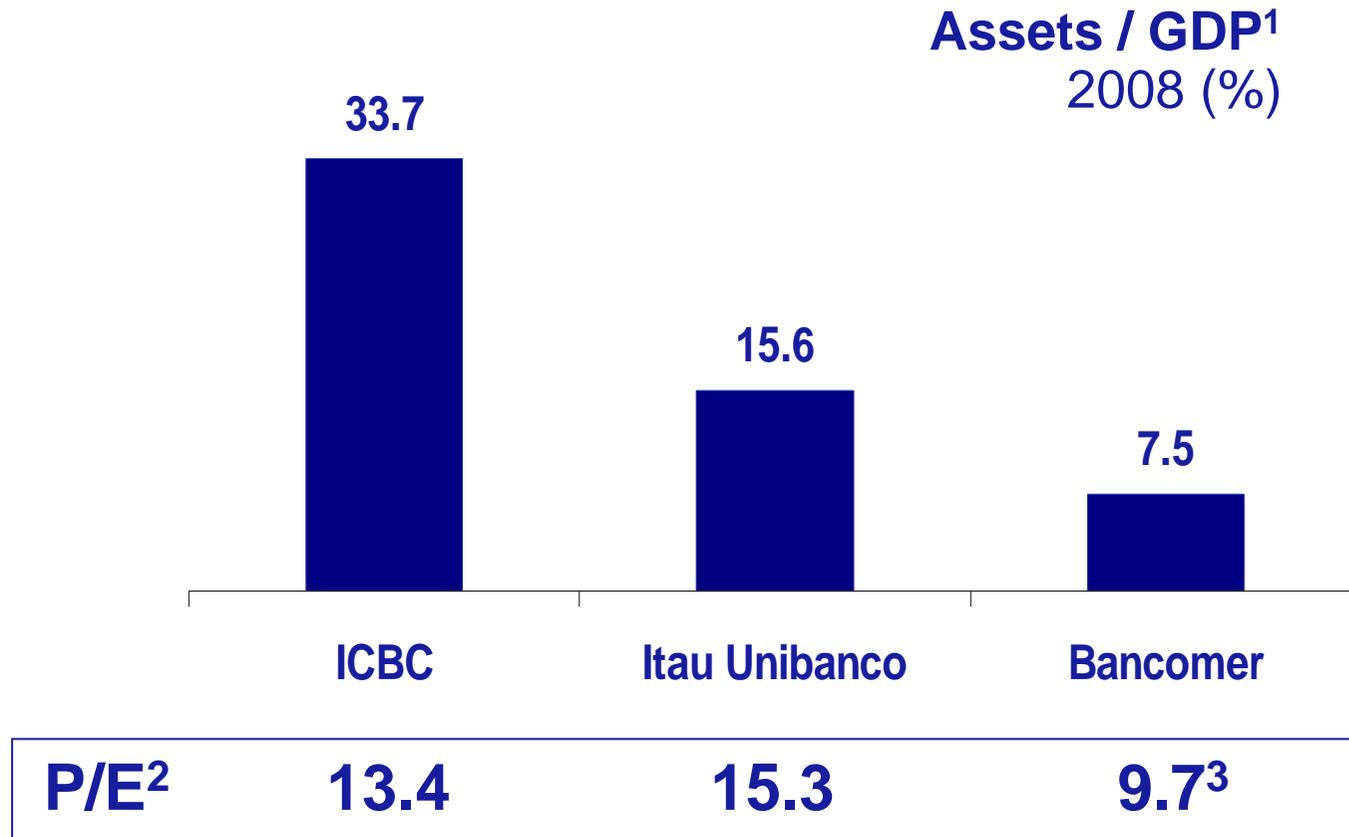
Source: CNBV, SHF, CONSAR, AMIS y AMIB. Data as of June 2009

<sup>1</sup> Including government loans and non banking financial entities

<sup>2</sup> Without UDI Trusts. Includes loans to developers and Sofoles

<sup>3</sup> Including repos

# Bancomer seems to be low valued given its leadership position in a high-growth market



1 – Source: Citi Investment Research & Analysis (8/5/09).

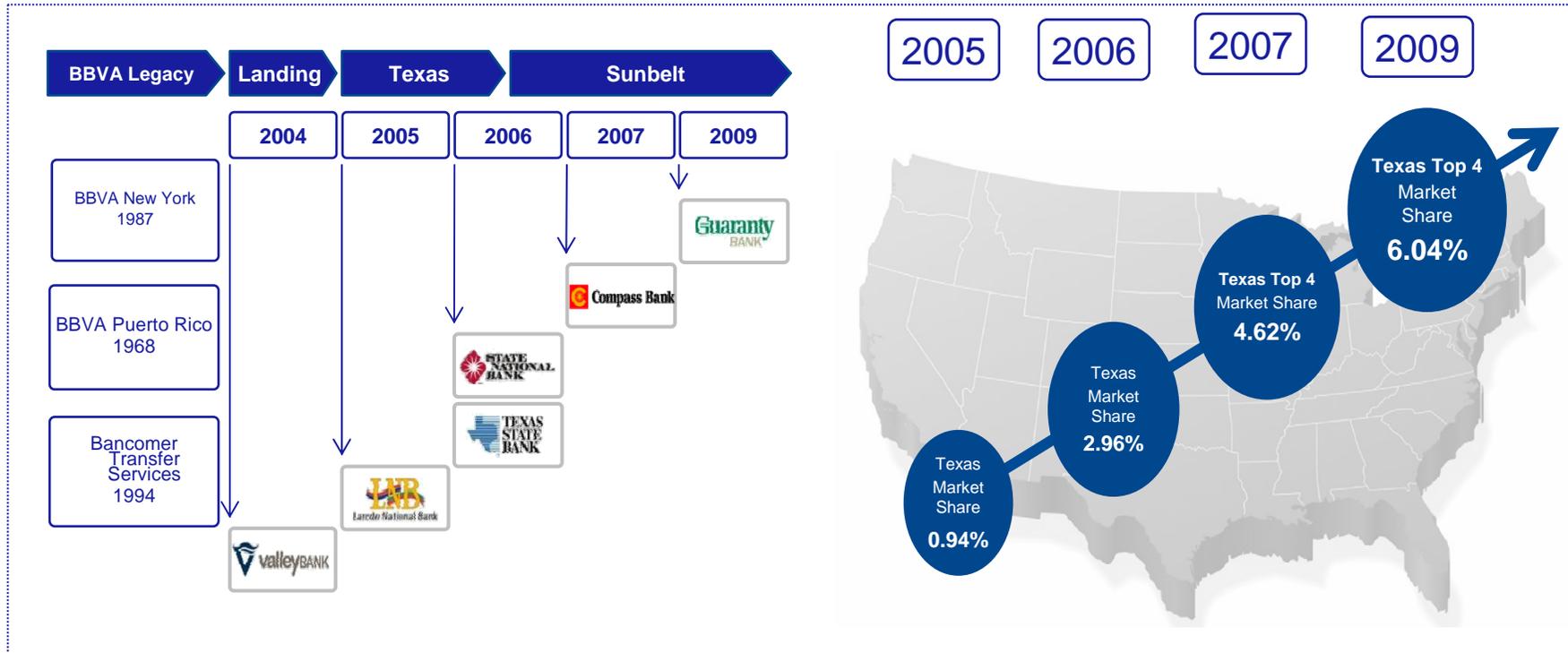
2 – Source: Bloomberg, on 2009 consensus earnings, ICBC HK shares.

3 – Based on analysts' consensus valuation for Bancomer, and 1S09 annualized results.

C

# USA, building a solid franchise in a very attractive region for retail banking

**BBVA**



**BBVA is taking firm and focused steps in building its US franchise**

# BBVA USA has the necessary critical mass to take advantage of opportunities

## Hispanic Footprint

## Repositioning to General Market

## Leadership in the Sunbelt

April 2005

November 2006

January 2007

September 2007

August 2009

Today



Million Dollars

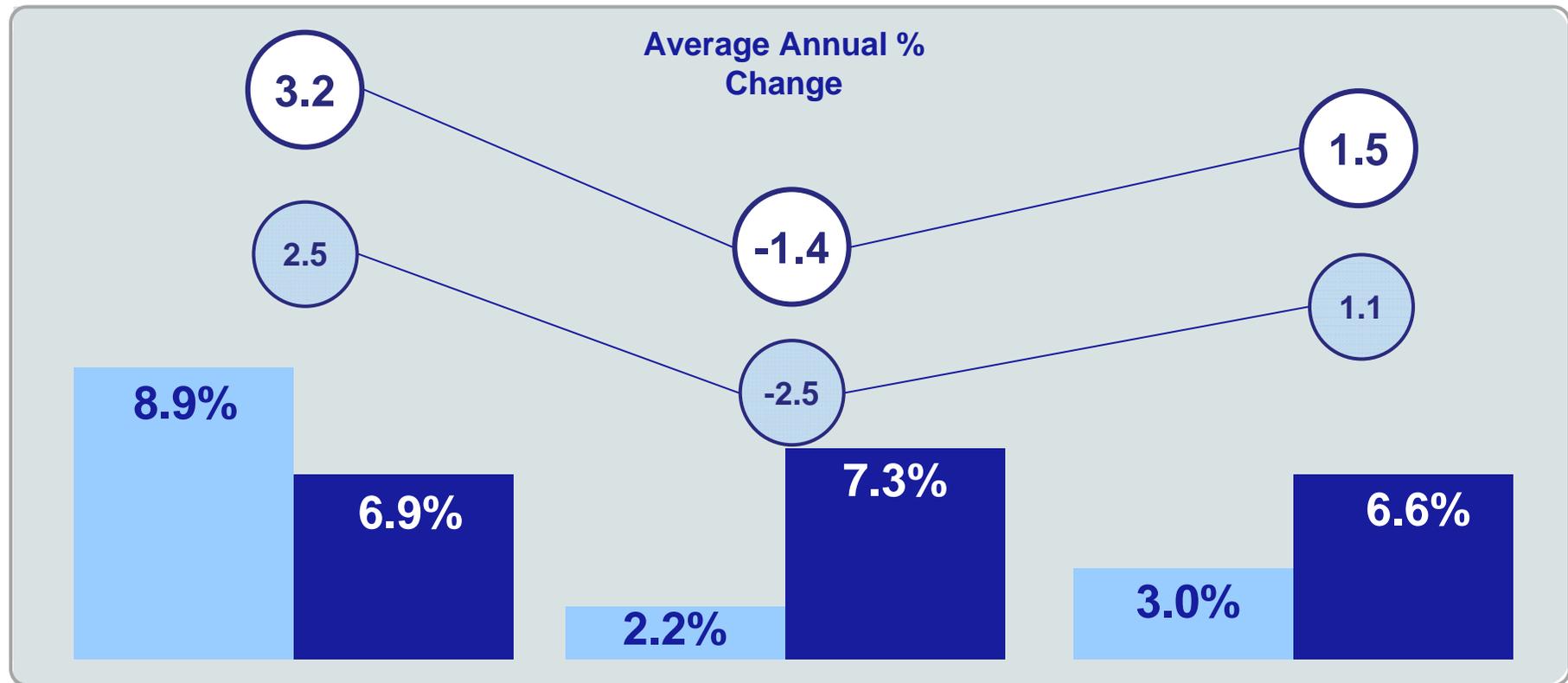
	April 2005	November 2006	January 2007	September 2007	August 2009	Today
<b>Assets</b>	<b>2,838</b>	<b>6,943</b>	<b>1,716</b>	<b>34,863</b>	<b>14,382</b>	<b>72,179</b>
<b>Loans</b>	<b>1,658</b>	<b>4,335</b>	<b>1,178</b>	<b>25,486</b>	<b>10,439</b>	<b>48,049</b>
<b>Deposits</b>	<b>2,362</b>	<b>5,732</b>	<b>1,365</b>	<b>23,955</b>	<b>11,716</b>	<b>47,732</b>
<b>Branches</b>	<b>32</b>	<b>80</b>	<b>44</b>	<b>422</b>	<b>164</b>	<b>743</b>
<b>Employees</b>	<b>1,678</b>	<b>1,975</b>	<b>562</b>	<b>8,329</b>	<b>1,761</b>	<b>12,302</b>

LNB: Mar 2005. TSB: Sep 2006. SNB: Dec 2006. Compass Bank: Sep 2007. Guaranty acquisition terms

(1) Compass= BBVA Compass data as of June 30, 2009 + Guaranty acquisition pro forma data

# In the most attractive region of the USA

## Sunbelt (1)



Change in GDP Sunbelt
  Change in GDP US average
  Lending to Private Sector Growth
  Deposits Growth

(1) Loans and Deposits only Texas and Alabama

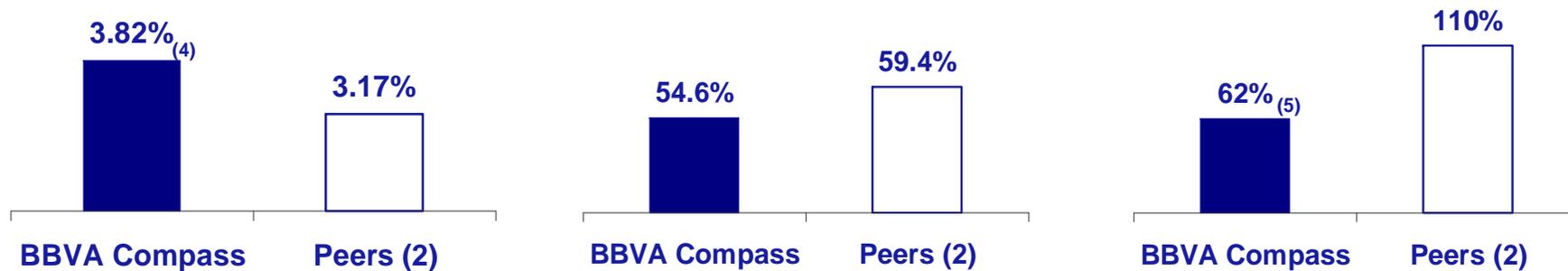
Source: BBVA Economic Research

# BBVA USA is already delivering an outstanding performance

**NIM (Net interest margin)**  
 BBVA Compass 2Q09 <sup>1</sup>  
 (%)

**Efficiency <sup>3</sup>**  
 BBVA Compass 2Q09 <sup>1</sup>  
 (%)

**Provisions / operating income**  
 BBVA Compass 2Q09 <sup>1</sup>  
 (%)



**The only profitable European-owned bank**

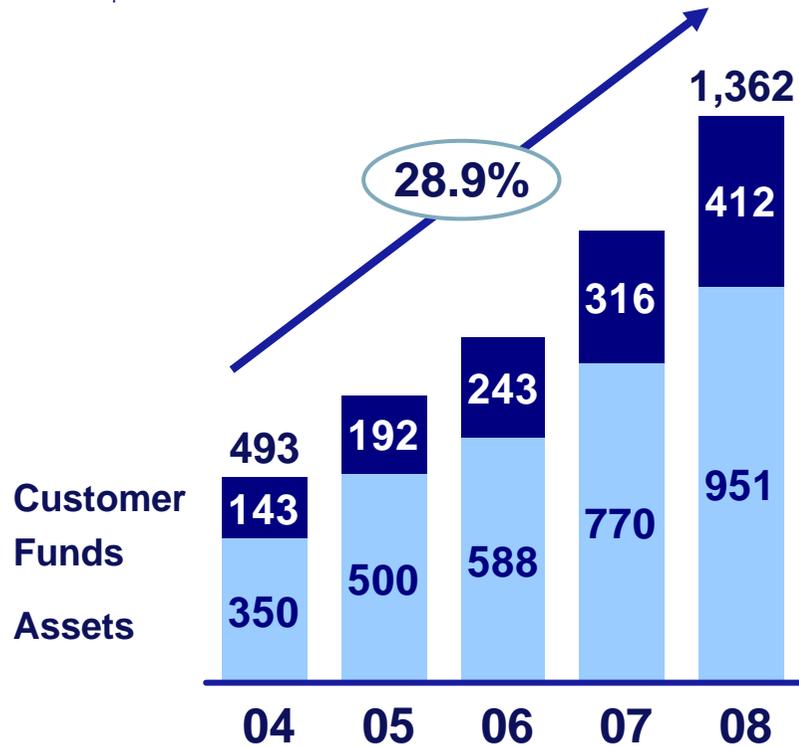
(1) BBVA Compass figures for 1Q09: NIM: 3.73%; Efficiency: 56%; Provisions/Operating income: 56%  
 (2) Median 2Q09/2Q08 (VAR) and 2Q09 (Ratios) Peer Group: Suntrust, Regions, BB&T, Associated, Comerica, First Horizon, Huntington, M&T, M&I, Zions, Synovus, Cullen/ Frost. Colonial is not included (not available 2Q)  
 (3) Excluding FDIC One Time, M&I and IA amortization  
 (4) % margin with PMAs  
 (5) Provisions/ operating profit (excl. amort. Intangibles and M&I)

# D

## BBVA's South American business has had **BBVA** an outstanding growth in the last 5 years

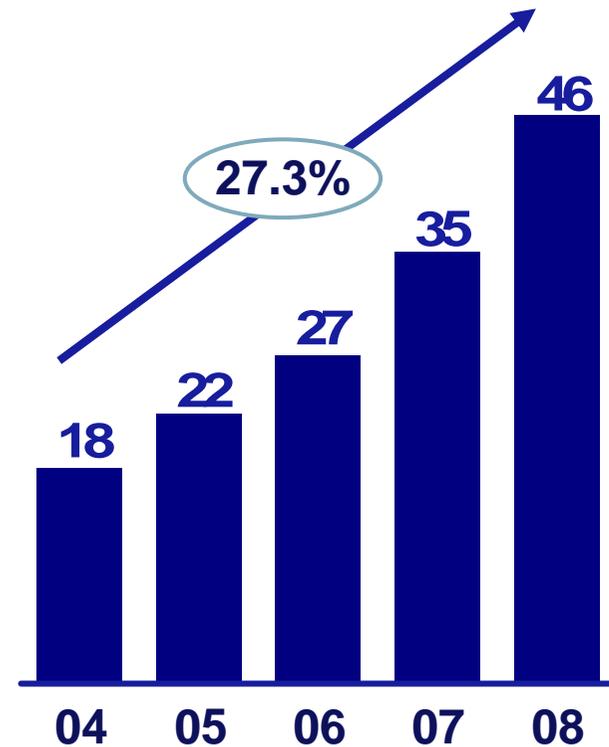
### Strong business volume growth...

Assets & customer funds, BBVA South America  
US\$ mM



### ... and revenue

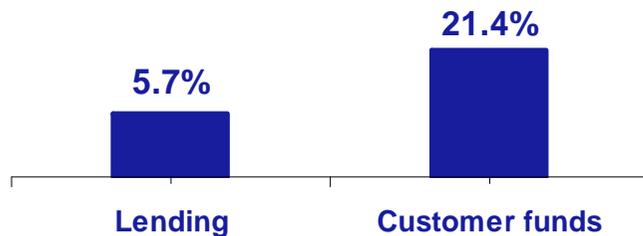
Gross income, BBVA South America  
US\$ mM



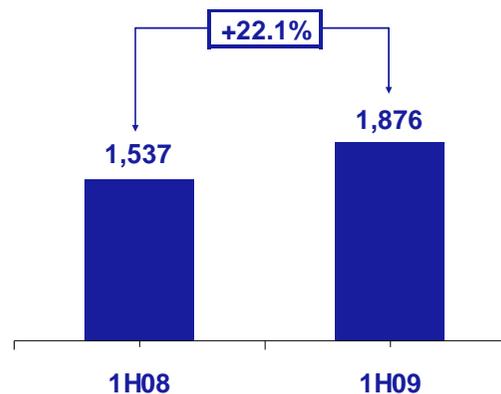
% CAGR

# A growth that remains high in the current environment

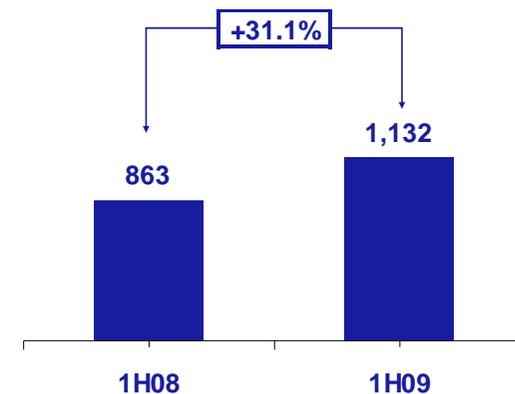
**Lending and cust. funds**  
South America  
Year-on-year growth  
(Average balances)



**Gross income**  
South America  
(Constant €m)



**Operating income**  
South America  
(Constant €m)



**Efficiency**  
39.7%

**ROE**  
42.8%

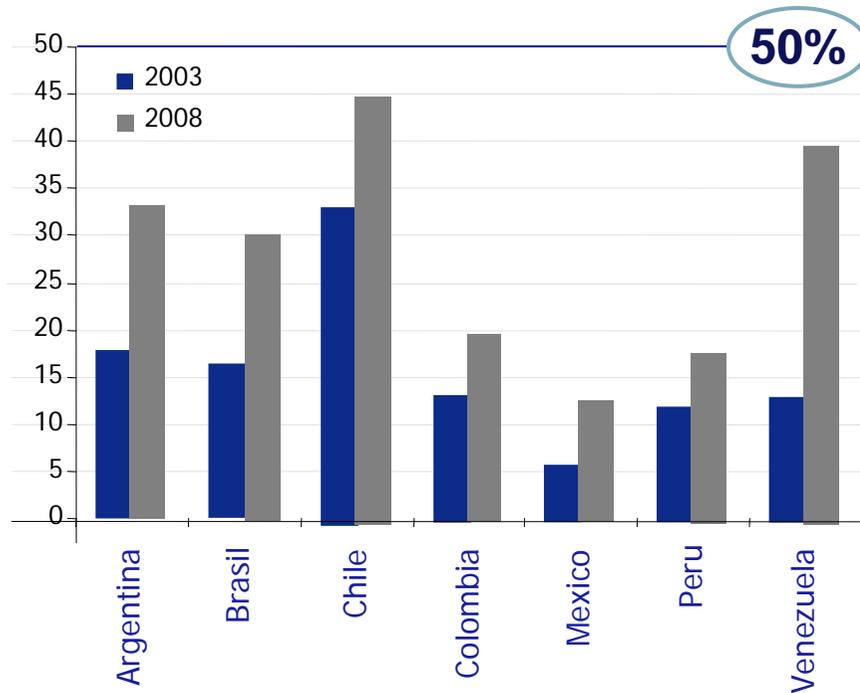
**NPA**  
2.62%

**Coverage**  
129%

**Net interest income: €1,210m (+17.8%)**

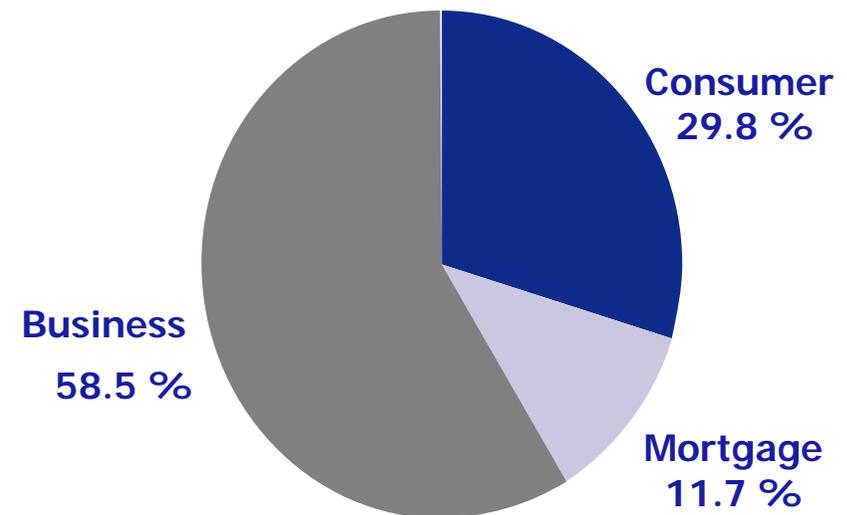
# Despite strong credit growth, the region still has a very low penetration

**Bank lending as % of GDP**



Source: National Statistics

**Credit by segment**

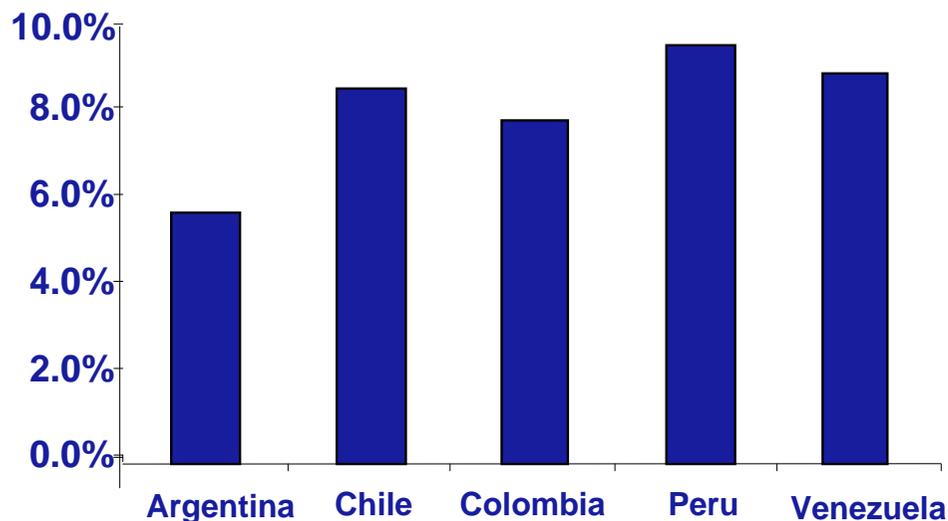


Source: National Statistics

**Credit to households share of total remains well below developed economies**

# Ongoing socio-economic developments boost the potential magnitude of the emerging middle classes

Middle class population growth 1999-2006 (%)



Close to 20 million people earn between 9,000 and 30,000 USD annually in the countries in which BBVA operates

With a 3.7% expected population growth from 2008-2010, middle classes are expected to grow by 6%

# BBVA South America, an additional Bancomer **BBVA**

€ Bn as of June 2009, clients in millions

**Assets**

**63.3**

**42.8**

**Customer lending (gross)**

**28.7**

**25.3**

**Customer deposits**

**30.4**

**30.9**

**Clients**

**15.7**

**21.4**

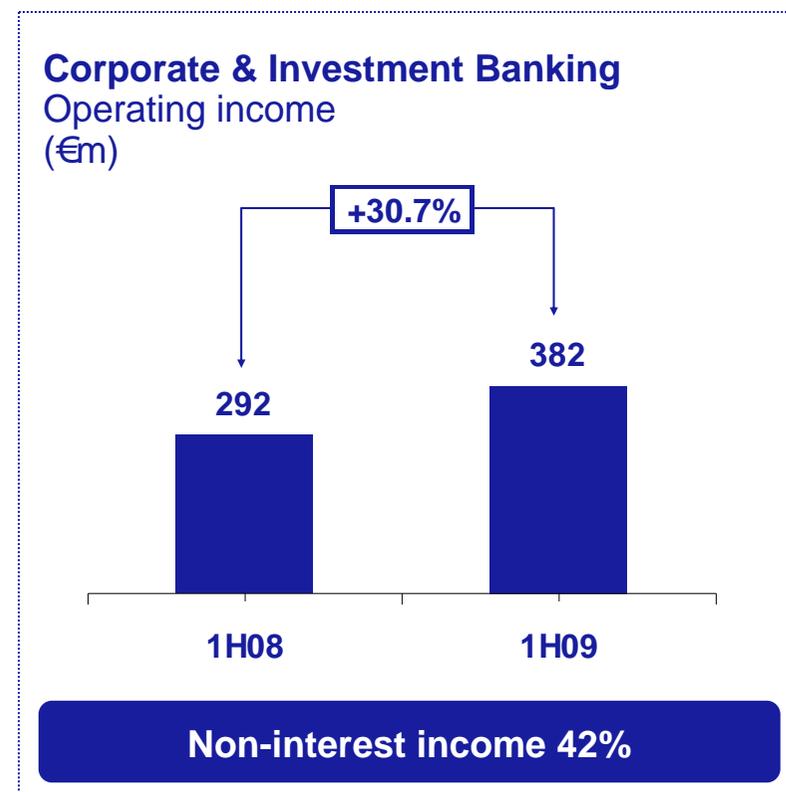
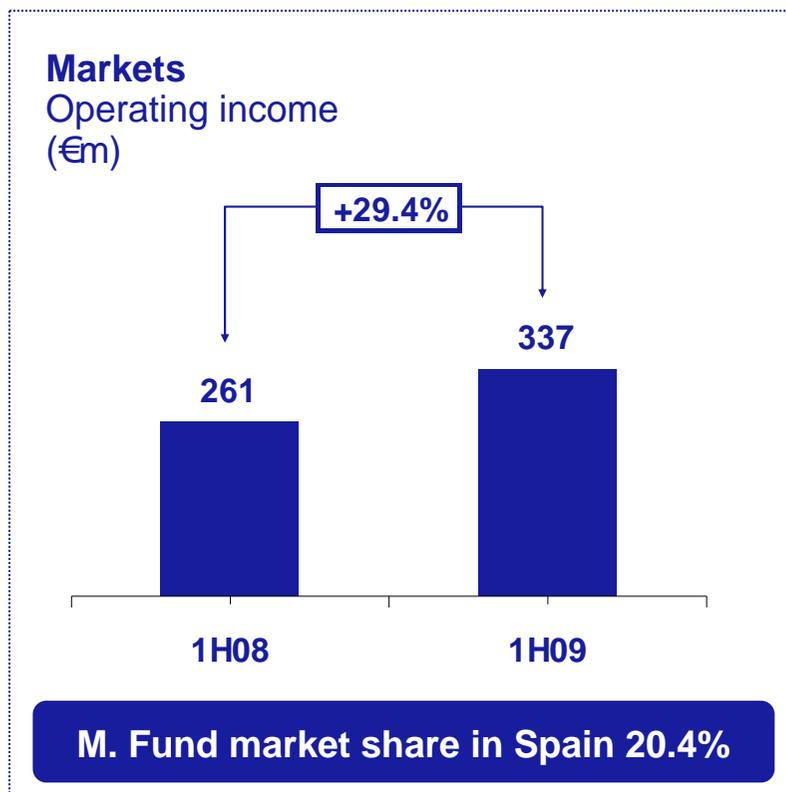
**Payroll clients**

**7.1**

**6.6**

**More than 80% of clients in the region do not have credit products, including 5 million payroll clients**

**E** A profitable wholesale franchise



**Developing our strategic alliance with CITIC Group in high profitable businesses in China**

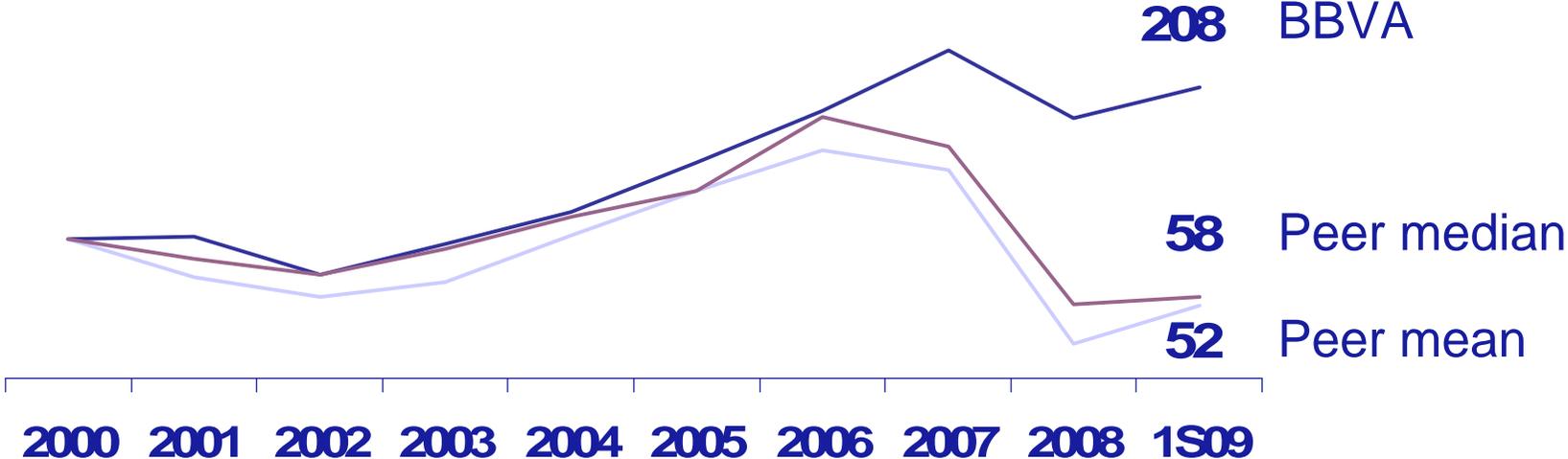
***BBVA is delivering in the old and in the new normal with ...***

**High structural  
profitability**

**Superior growth  
Prospects**

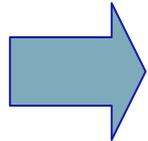
# With high profitability and growth that flows all **BBVA** the way down to EPS growth

Earnings per share  
Peer Group  
(%, 2000-1S09)

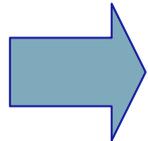


Peers: BARCL, BNPP, CASA, CMZ, CS, DB, HSBC, ISP, LBG, RBS, SAN, SG, UCI & UBS)

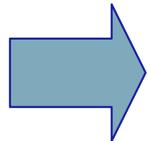
**In conclusion, BBVA is delivering**



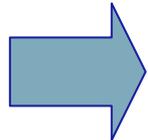
**Substantial profitability**



**Outstanding EPS relative evolution**



**Growth potential**



**With a strong balance sheet**

**Does BBVA merit a relative  
P/E multiple discount?**

# *“Delivering in the Old and in the New Normal”*

## **BBVA Group**

Banking & Insurance CEO Conference 2009 – Merrill Lynch  
Manuel Gonzalez Cid, CFO

London, 30<sup>th</sup> September 2009