BBVA making the difference

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"Best among peers: top investment choice"

BBVA making the difference

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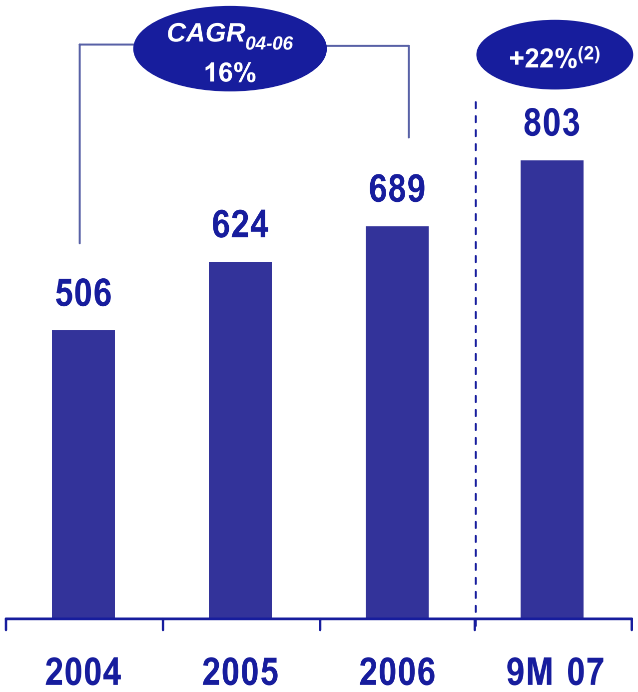
Index

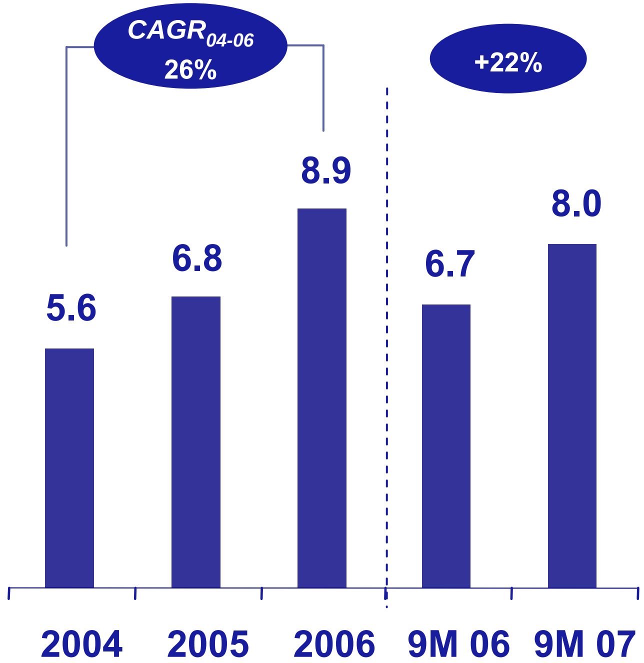
- **Where are we coming from?. The starting point**
- **Active Balance Sheet management: paying off in the new environment**
- **Best among peers: top investment choice**

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

Total Business Volume (1)
€ billion



Operating profit
€ billion



With consistent growth in all business areas

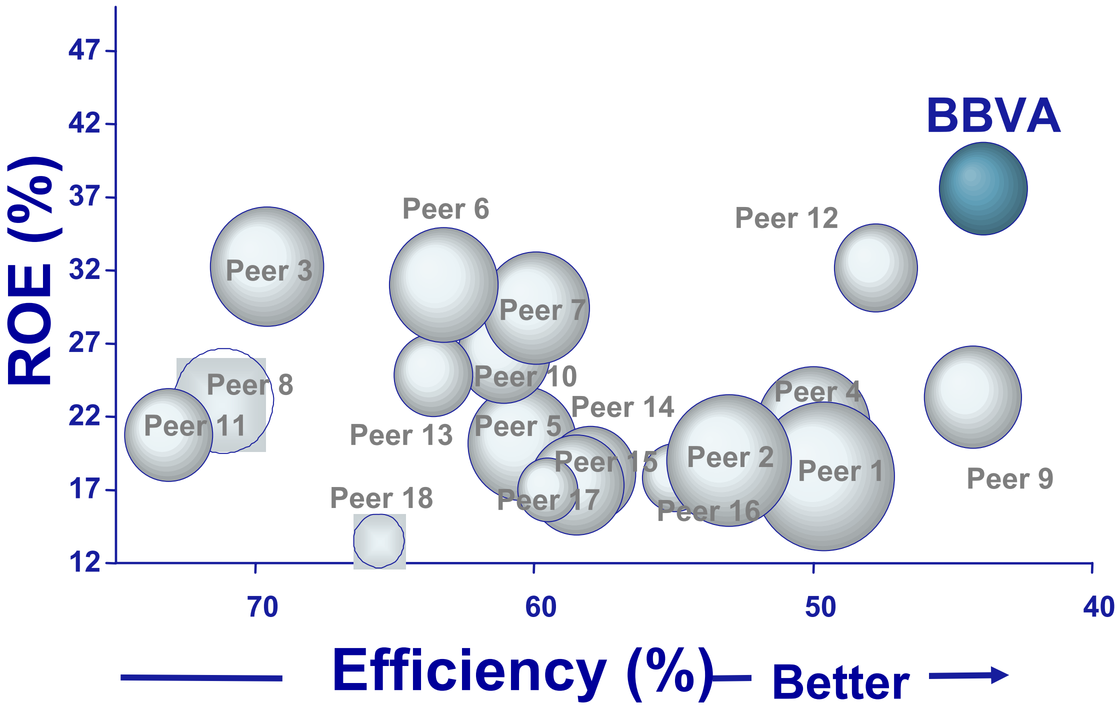
(1) Loans and customer funds
(2) YoY growth

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

ROE, Efficiency & Attributable profit

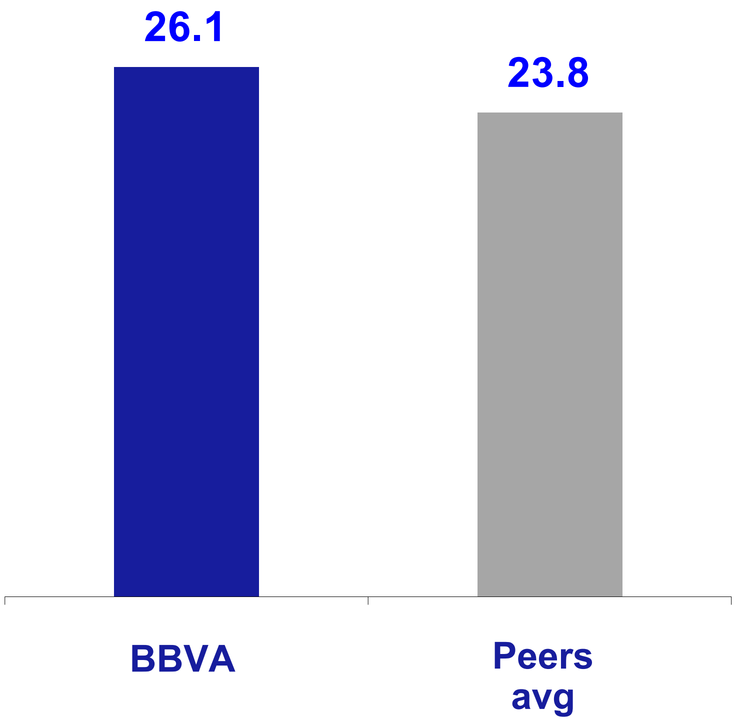
Bubble's size: Attributable profit

European banks 2006



Operating profit

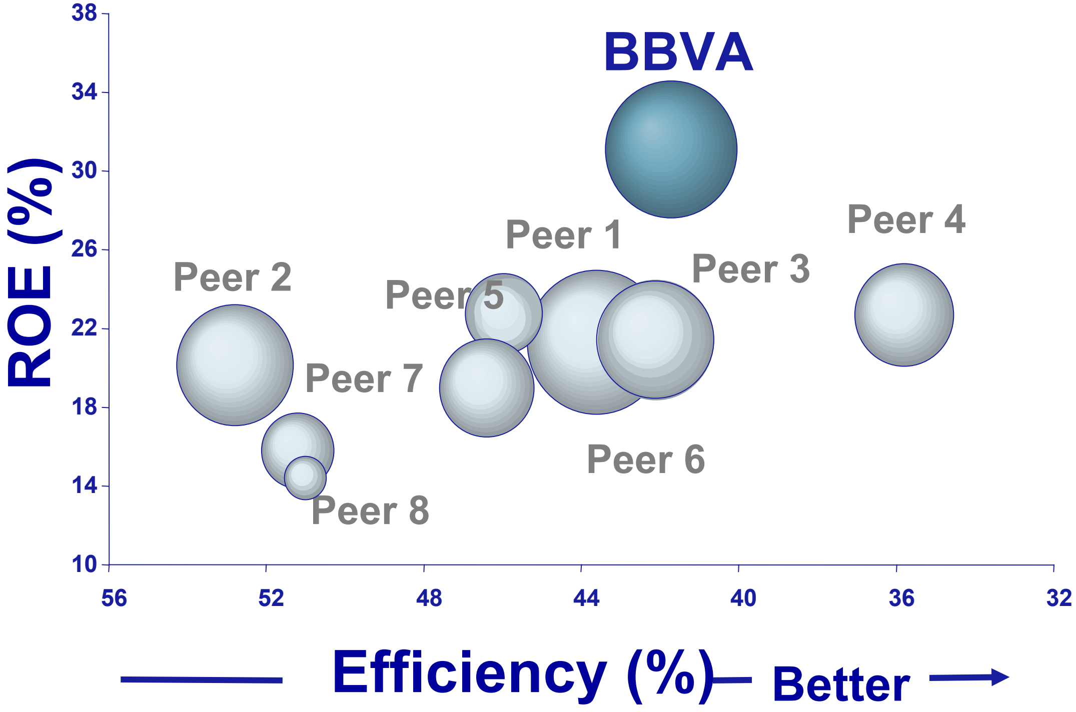
Δ CAGR 2006 / 2004 (%)



Particularly in its main home markets: Spain and Portugal

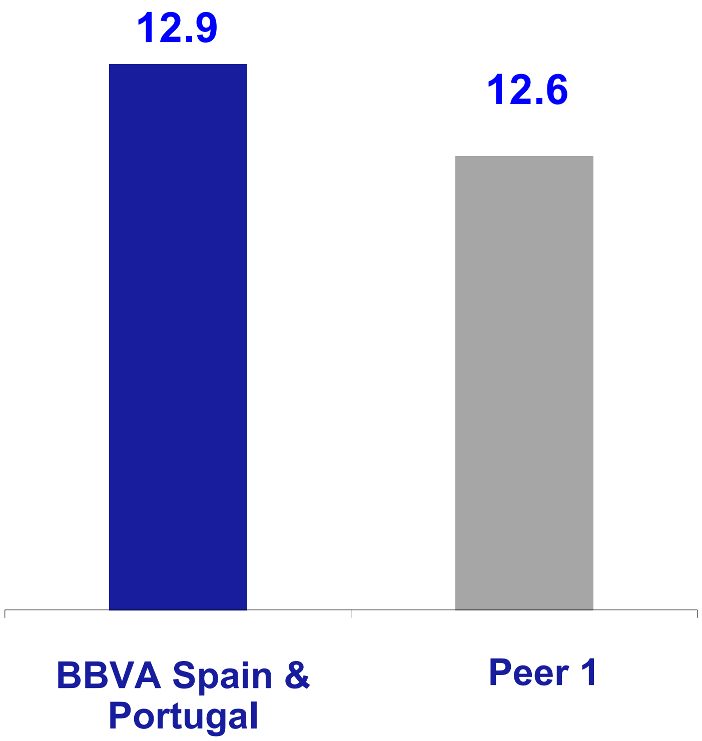
ROE, Efficiency & Attributable profit

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



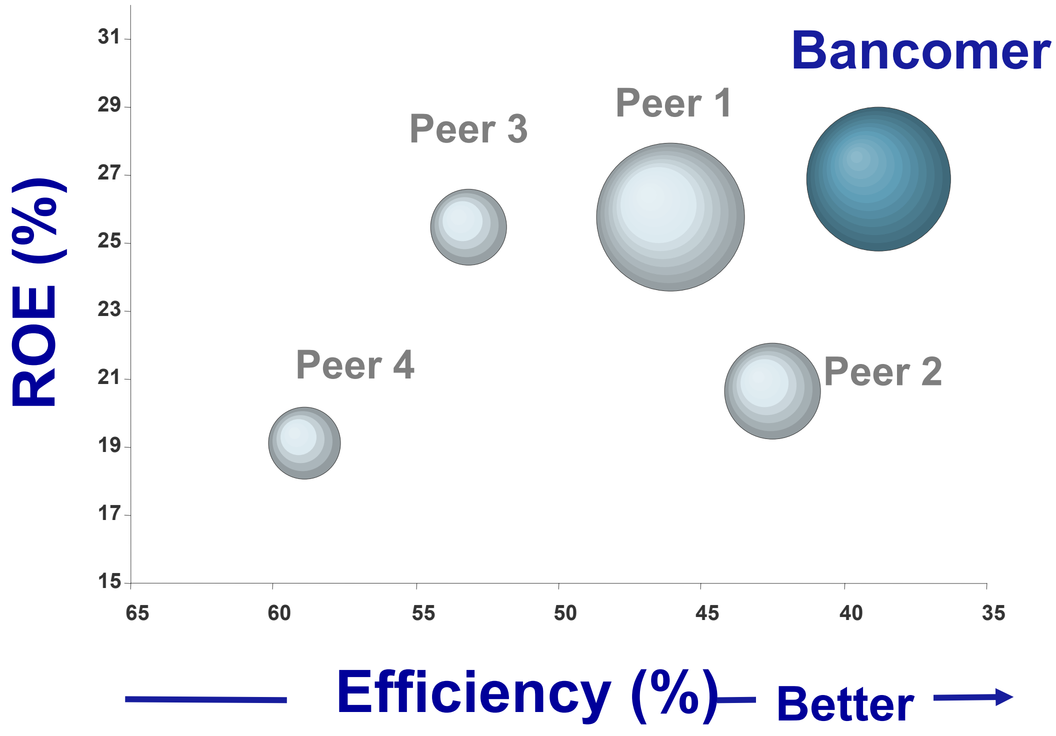
Operating profit

Δ CAGR 2006 / 2004 (%)



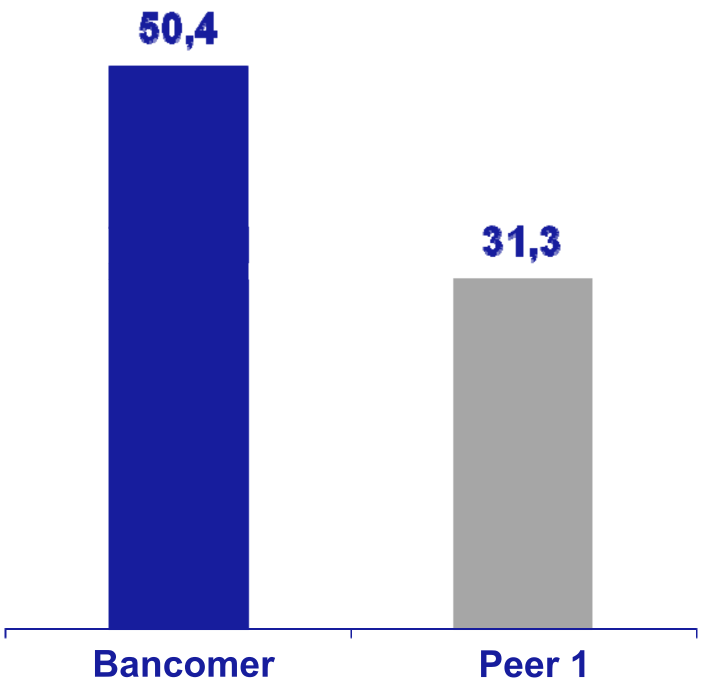
As well as in Mexico

ROE, Efficiency & Attributable profit 2006
Bubble's size: Attributable profit
Mexican banks 2006



Operating profit

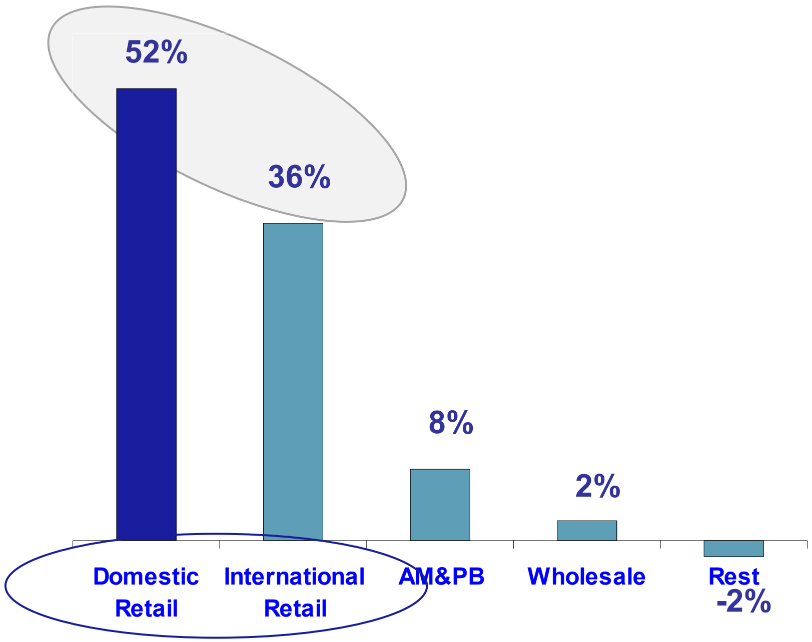
Δ CAGR 2006 / 2004 (%)



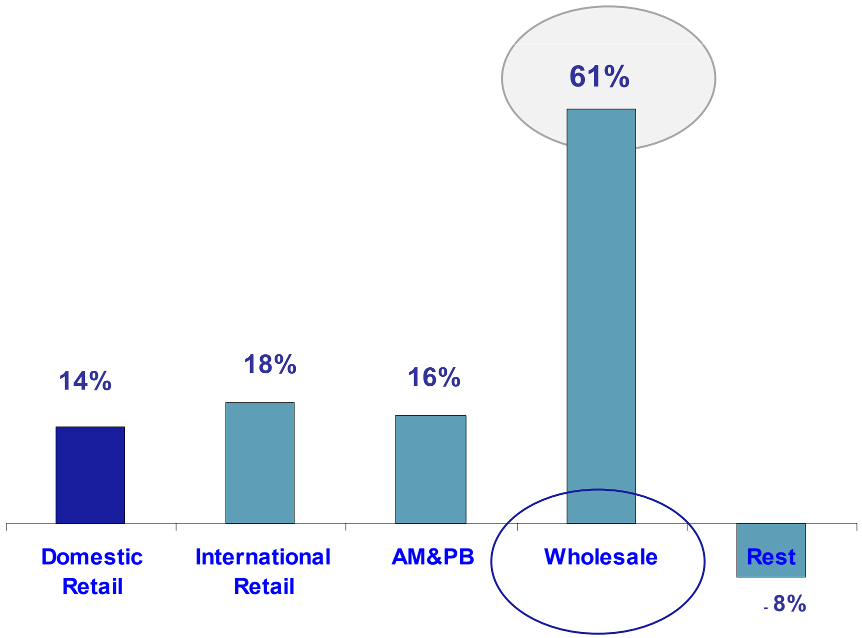
BBVA´s growth profile is based on recurrent profits coming from multi-local retail operations

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

BBVA



European Average



More than 75% of BBVA´s value[1] is coming from multi-local retail operations

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

Consolidating our position in Mexico

- Buyout of BBVA Bancomer minorities

Reinforcing high potential businesses

- Hip. Nacional (Mex)
- Granahorrar (Col)
- Forum (Chile)

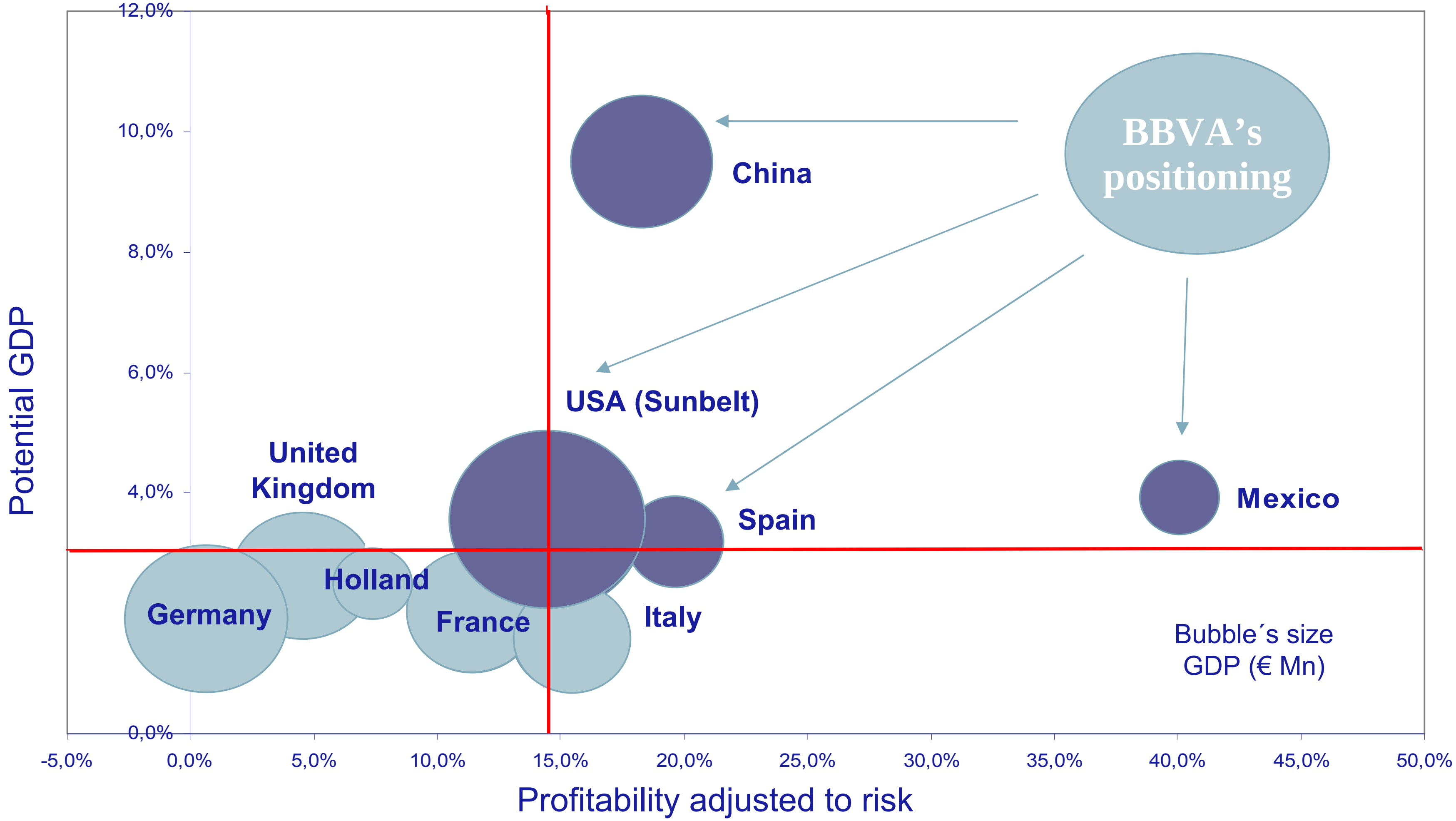
Building up a powerful franchise in the Sunbelt

- Laredo
- Texas Regional
- State National
- Compass

Creating medium term options in new high growth markets

- Asia Plan
- Citic Group alliance

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

	Before	After
Liquidity	• Market provided • No limitation in amount available • Low cost	• **Own customer deposits strategic** • **Only available for best credits** • **High cost**
Capital	• Market provided • Outsourcing of Balance Sheets • High dividend growth	• **Pressure on regulatory capital** • **Unexpected capital consumption: writedowns** • **Tighter regulatory environment?** • **Dividend policy reconsidered**
Risk Management	• Credit risk pass-trough to the market • Focus on origination	• **Stronger credit requirements** • **Credit risk monitoring and control on origination** • **Balance sheet risk management as a key competitive advantage**
Competition	• High number of competitors: wholesale institutions, monoliners, retailers, and others with a distribution network	• ***"Too big to fail"* banks prevail** • **Lower balance sheet availability** • **Small an medium size institutions, subject to liquidity and capital constraints**

Higher barriers to access retail banking operations
STRONG OPPORTUNITY FOR BBVA

Index

- Where are we coming from?. The starting point

- **Active Balance Sheet management: paying off in the new environment**

  “Strength of BBVA in Capital, Liquidity an 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

Vulnerability of financial institutions

	Wholesale banks	BBVA
• 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)

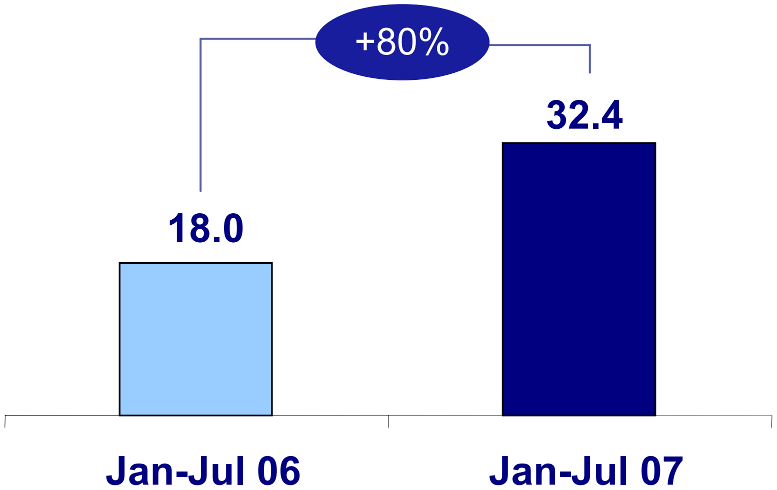
Others were:

- 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

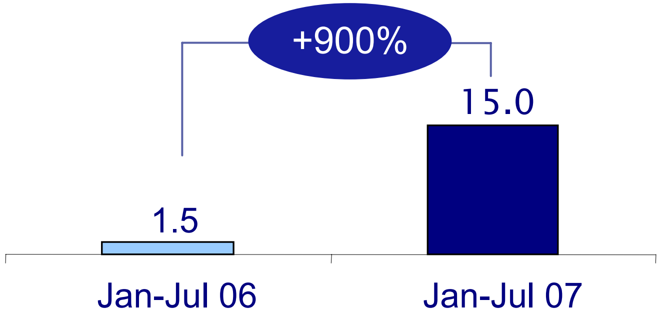
Wholesale funding (€ Bn)



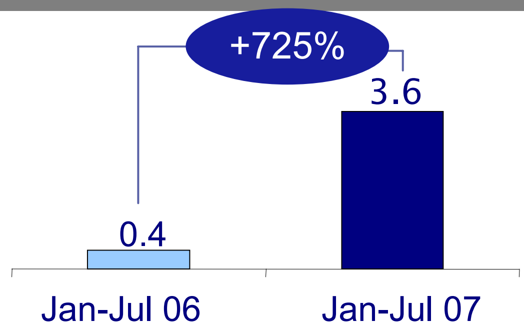
€ 32,4 Bn of medium and long term funding from January to July 07

Liquidity risk active management (In 2006 / 2007)

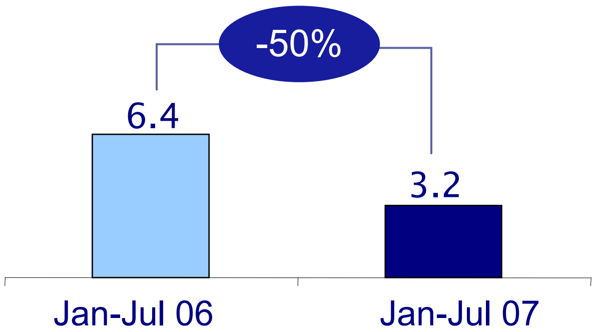
Securitization (€ Bn)



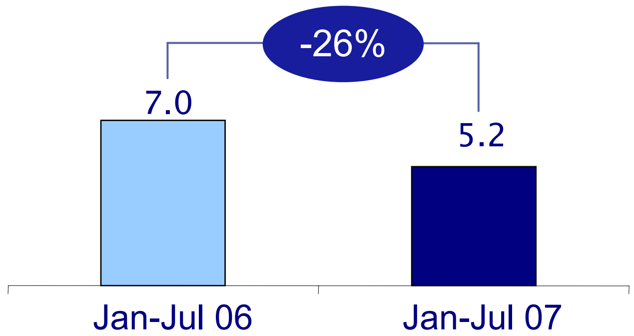
Prefered shares & Sub debt* (€ Bn)



Covered Bonds (€ Bn)



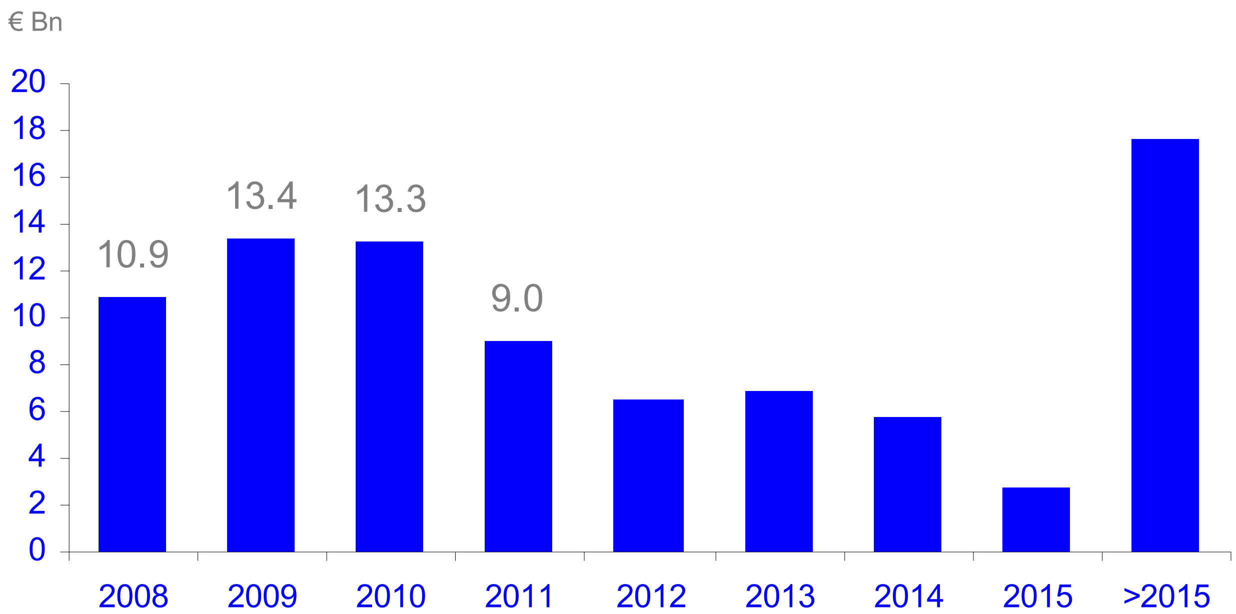
Short term commercial paper (€ Bn)



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

** Bancomer € 950 mn included*

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

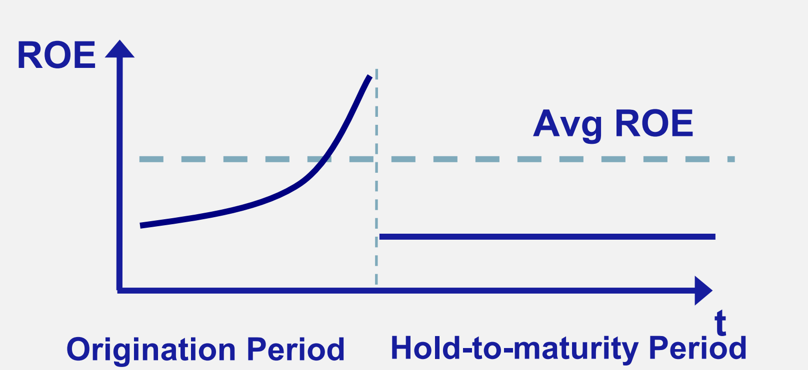
Active Management of Capital

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.

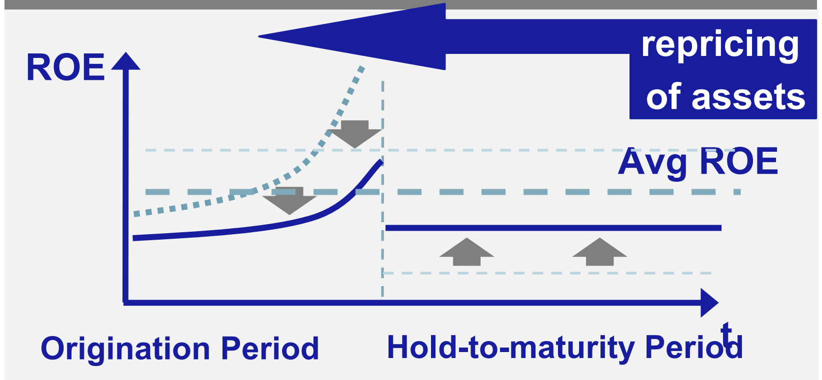
Until June 2007



Competition

- Distribution networks with IT & structuring capabilities.

Current Situation



Competition

- Regulatory Capital needed
- Liquidity is key

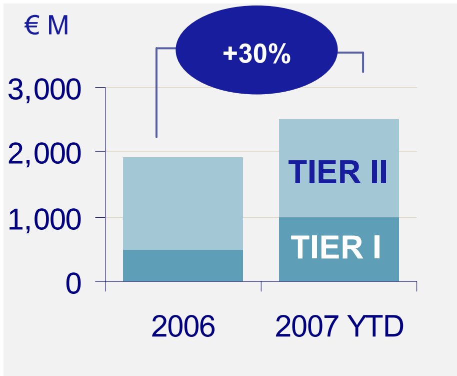
} Big commercial banks

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

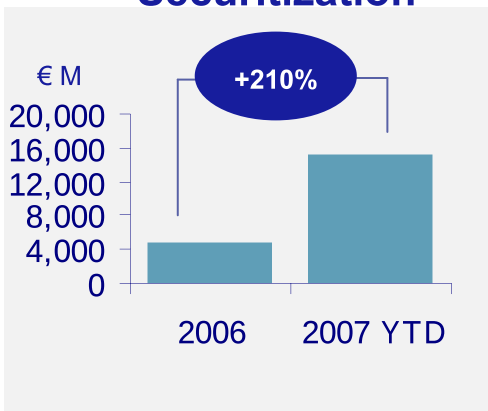
Capital Markets

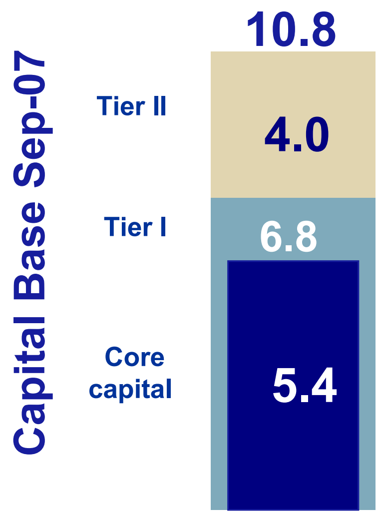


- **Capital increase Nov-06**
- **Compass acquisition financing:**
  - **- 51% cash**
  - **- 49% equity**

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

Securitization





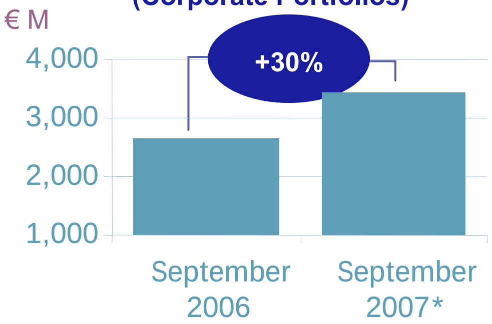
+ Basel II

Active Management of Capital III

BBVA additional internal sources of Capital

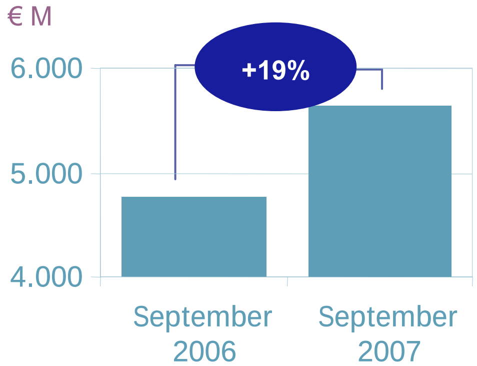
Gross Capital Gains Available for sale

(Corporate Portfolios)



* 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

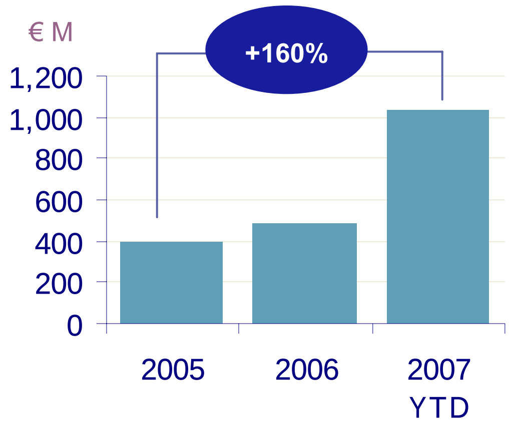
Active Management of Capital IV

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 secutitizations
  - ✓ 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)

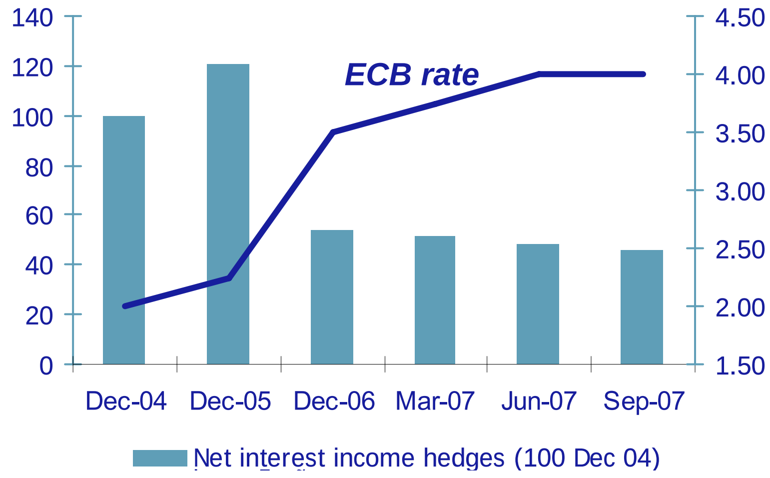
✓ Interest rate risk management → focus in hedging customer exposure not in P&L contribution

✓ Investment portfolio → management tool, not P&L tool

Interest rate hedges evolution

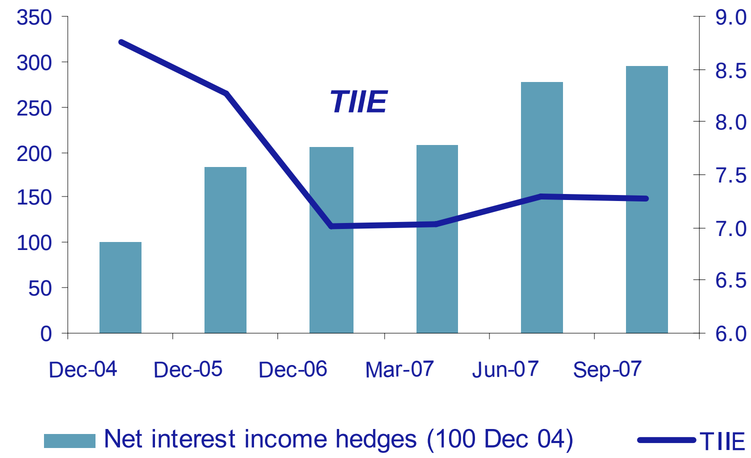
Euro

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



Active FX hedging

Main Objectives

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

Management of Capital Investment

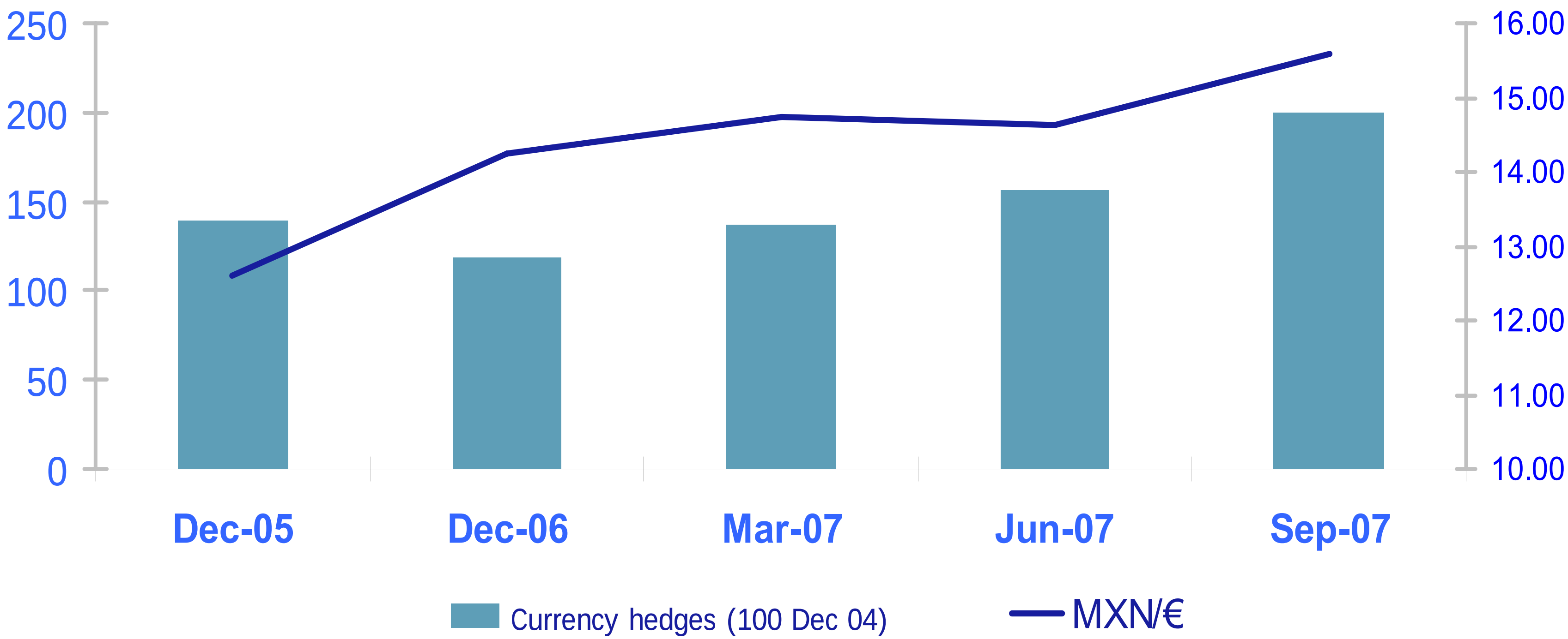
- FX hedge at portfolio level: 50% (100% $ exposure)
- Hedging of FX stress scenarios (Mexico)
- Minimum effects in Core Capital Ratio ($/€ 1,50: 4 pb; ·$/€ 1,60: 7 pb)

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

Index

- 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

I	BBVA´s Starting point	• Earnings momentum • Corporate positioning • Culture of performance • Management track record
+		
II	BBVA´s Resources	• Strong liquidity position • Sound regulatory capital • Track record of discipline in the management of the main balance sheet risks
+		
III	BBVA´s Strategy	• Focus on our current business • Customer insight, driver of our new business models • Deep transformation plan • Innovation as a growth engine • Management team strongly commited with value creation

Best among Peers: top investment choice

Revenues

Costs

Risk Premium

Balance Sheet

Best among Peers: top investment choice

Revenues

BBVA	Peer Group
• Retail and customer oriented business	• Strong weight of wholesale business
• Higher growth in home markets: Spain, Mexico, Latam, Texas, Sunbelt	• Lower growth in home markets
• Strength and critical mass of the different franchises	• Lack of scale in international retail business and complexity
• New set of business models, segments and products through innovation	• Monoliners business lines
• Capability of repricing and gaining of market share	• Constraints on Balance Sheet availability
• Mortgages only means 9.5% of total ordinary revenues in Spain&Portugal (9M07)	• Pressure of monoline businesses in liquidity and asset quality
Lower beta with higher alpha generation	**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	Peer Group
• 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	• Writedowns of credit porfolio 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
Stable risk premium	**Writedowns: risk premium up**

Best among Peers: top investment choice

Balance Sheet

BBVA	Peer Group
• Strong liquidity and capital position • Organic growth to be our key driver	• Liquidity and regulatory capital under pressure and limiting growth • Need for additional consolidation and M&A to survive? • Asset disposals
Full availability of Balance Sheet	**Constraint of resources, limiting growth**

Best among Peers: top investment choice

I	**Starting point**	• Ahead of peers
II	**Resources**	• Fully available
III	**Strategy**	• A plan for sustain growth

+ Starting point + Resources + Strategy

Big Opportunity to BBVA

"Best among peers: top investment choice"

150 years

adelante

BBVA making the difference