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The risk function

- Credit risk
- Other risks
- Basel II
- Conclusions
Risk function: global and company wide approach, with local implementation

Risk function is core at BBVA
- Strong risk culture throughout the Group
- Fully independent function: strict corporate governance standards
- Highly qualified teams

Company wide approach
- Tools, models and general policies follow corporate standards
- Integrated management of all risks: economic capital used for managing businesses

Local implementation
- Risk models adapted to local conditions
- Decentralised teams with functional dependence from holding company
- Proximity and knowledge of end-customer is crucial
Economic capital is a key element in our risk management model …

• We have been working along these lines for **years**…

• … with the support of robust **internal models** and methodologies, **solid IT support and highly qualified teams**…

• … consolidating the **forward-looking focus** of risk management, combining economic capital with the analysis of recurrence and scenarios…

• … and allowing **to compare** between risks and their **integration**:
  • In credit risk: translates into same units exposures of nominally very different profiles
  • Different risk types: translates into same units heterogeneous risk categories
… allowing for the integration of risk management with the Group’s value-based approach

Fully integrated into management...

• Corporate strategy: management of business portfolio
• Budgets and planning (Group and business units)
• Incentives: based on economic profit
• Business strategy: product design, price setting, customer segmentation

... and key element to valuing adequacy of provisions and capital
Risk profile diversified by geographies and products with a considerable retail bias

September 2007

Economic Capital
Total: €18.78 billion
● The risk function
● Credit risk
● Other risks
● Basel II
● Conclusions
Credit risk: an example of company wide approach + local implementation

1. Rating for companies and institutions
   - Corporates
   - SMEs
   - Real-estate
   - Public sector
   - Financial entities
   - Country risk

2. Scoring for retail exposures
   - Behavioural and reactive
   - Segmented by product
     - Consumer
     - Cards
     - Mortgages
     - Business

- Implemented throughout the group and integrated in processes and schemes of risk acceptance
- Uniform corporate policy tailored to local market conditions
- Global tools and database facilities
- Centralised calibration of economic capital and expected loss
- Cross view of Group credit risk profile
Favourable NPL evolution in recent years

Group

NPL ratio

<table>
<thead>
<tr>
<th>Date</th>
<th>NPL Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-04</td>
<td>1.13%</td>
</tr>
<tr>
<td>Dec-05</td>
<td>0.94%</td>
</tr>
<tr>
<td>Dec-06</td>
<td>0.83%</td>
</tr>
<tr>
<td>Sep-07</td>
<td>0.88%</td>
</tr>
</tbody>
</table>

Business Units

NPL ratio

- South America: 4.8%, 3.7%, 2.9%, 2.7%, 2.4%, 2.4%, 2.3%, 2.4%, 2.2%, 2.0%, 0.7%, 0.6%, 0.5%, 0.7%
- Mexico: 1.8%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%, 2.1%
- US: 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%, 1.7%
- Spain and Portugal: 0.7%, 0.5%, 0.6%, 0.7%, 0.7%, 0.7%, 0.7%, 0.7%, 0.7%, 0.7%
- Global Businesses: 0.4%, 0.2%, 0.04%, 0.02%
And very substantial coverage ratio

GROUP COVERAGE RATIO = 234.1%
€5.6 billion generic provisions vs €2.3 billion expected loss (Cyclically adjusted)

(Eur. Mn)

(*) Includes country-risk
Distribution of economic capital by credit risk

Credit risk economic capital

Total €11.89 billion

Business units
- Global Businesses: 14%
- South America: 11%
- Mexico: 20%
- US: 9%

Risk segments
- Corporates: 27%
- SMEs: 19%
- Consumer + cards: 19%
- Mortgages: 17%
- Businesses: 9%
- Public sector: 8%
- Banks: 2%

Scoring based - Rating based

September 2007
Credit risk in Spain and Global Businesses: broad diversification of customer and product portfolio

Focus on 3 key portfolios:

- Mortgages
- Developers
- Global Customers
<table>
<thead>
<tr>
<th>Residential mortgages (€ m)</th>
<th>% Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of loans</td>
<td>890,525</td>
</tr>
<tr>
<td>Lending</td>
<td>71,040</td>
</tr>
<tr>
<td>% second home</td>
<td>5.0%</td>
</tr>
<tr>
<td>NPLs</td>
<td>279.6</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>0.39%</td>
</tr>
<tr>
<td>Coverage ratio</td>
<td>275%</td>
</tr>
<tr>
<td>Provisions</td>
<td>768</td>
</tr>
<tr>
<td>Economic capital</td>
<td>1,152</td>
</tr>
</tbody>
</table>

(*) % of credit risk economic capital

LTV calculated on historical appraisals

**Spain: Prudent risk profile in residential mortgages (I)**

% LENDING BY LTV (av 53.3%)

- 79.1%
- 11.7%
- 9.2%

AFFORDABILITY (av 26.3%)

- AFFOR >40 16%
- AFFOR 30-40 19%
- AFFOR < 30 65%
Residential mortgages by vintage

Quarterly NPL entries

Quarters since origination

0.30%
0.25%
0.20%
0.15%
0.10%
0.05%
0.00%

0 2 4 6 8 10 12 14 16 18 20 22

2002
2003
2004
2005
2006
2007

Spain: Prudent risk profile in residential mortgages (II)
Developers: prudent and consistent policies in recent years

- Specialised analyst team with cyclical view.
- Diversified portfolio, good asset quality and limited exposure relative to Group.
- Solid customers, experts in market.
- Land financing policy: rigorous approval conditions.
- Reduced and selective second home development exposure.

### Developers (€ m) % Group

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No loans</td>
<td>12,043</td>
<td>4.8%</td>
</tr>
<tr>
<td>Lending</td>
<td>14,798</td>
<td>4.8%</td>
</tr>
<tr>
<td>NPLs</td>
<td>12.5</td>
<td>0.4%</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>0.08%</td>
<td></td>
</tr>
<tr>
<td>Coverage ratio</td>
<td>1,961%</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>245</td>
<td>3.2%</td>
</tr>
<tr>
<td>Economic capital</td>
<td>277</td>
<td>2.3%  (*)</td>
</tr>
</tbody>
</table>

(*) % of credit risk economic capital
Global Businesses: diversified, high-quality portfolio

<table>
<thead>
<tr>
<th>Global businesses (€ m)</th>
<th>% Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td>32,179</td>
</tr>
<tr>
<td>NPLs</td>
<td>16.2</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>0.02%</td>
</tr>
<tr>
<td>Coverage ratio</td>
<td>5,043%</td>
</tr>
<tr>
<td>Provisions</td>
<td>818</td>
</tr>
<tr>
<td>Economic capital</td>
<td>1,622</td>
</tr>
</tbody>
</table>

- 93.5% investment grade
- Little exposure to leverage finance
- No commitments pending syndication

(*) % of credit risk economic capital
Forward looking: stable risk premiums, larger weighting of specific provisions

Spain and Global Businesses

Risk premium (*)

-0.50% | -0.25% | 0.00% | 0.25% | 0.50% | 0.75% | 1.00%
2007 | 2008 | 2009 | 2010

Generic provision | Specific provision | Specific+Generic

(€ m)

Generic provision=Maximum provision

(*) Provisions on average lending

BBVA making the difference.
Generic provisions account for most of risk premium

Spain and Global Businesses

Risk premium charged to P&L vs estimated economic risk premium

Average 2005-2007

0.34% 0.13%

0.08% Specific

Average risk premium charged to P&L Average economic risk premium (*)

€3.8 billion generic provisions vs €0.8 billion expected loss, cycle adjusted (Basel II criteria)

(*) According to internal models based on own experience, in validation process by Bank of Spain.
Thus, according to our models, stability in risk premium is ensured even in worst case scenarios.

Simulation on Spanish GDP performance 1991-1993: growth in years 2008, 2009 and 2010:+2.5%, +0.9% and –1.0% respectively.
Mexico credit risk: retail profile, diversified by product

**Distribution of balances**
- Mortgages: 33%
- Cards: 19%
- Public sector: 6%
- SMEs: 12%
- Corporate: 21%

**Distribution of economic capital by credit risk**
- Mortgages: 22%
- Consumer: 19%
- Public sector: 2%
- SMEs: 16%
- Corporates: 11%
- Cards: 31%

*In a process of increasing banking penetration with permanent focus on RAROC*
Mexico: strict provisioning methodology based on expected loss

Provisions far in excess of both local requirements and Bank of Spain standard coefficients

Provisions for mortgages + consumer + cards

BBVA risk premium stability (*)

Allowing for more stable risk premiums throughout the cycle and growth based on solid foundations

(*) Provisions on average lending
(**) Source: Comisión Nacional Bancaria y de Valores

BBVA making the difference.
South America credit risk: diversification and strong improvement in asset quality

Distribution of economic capital
Credit risk

NPL ratio

Growth driven by consumer lending: focus on RAROC
BBVA USA: experienced management, prudent risk management and high diversification

**Loan Portfolio (USA)**

- Commercial: 20.8%
- Construction Commercial: 13.7%
- Construction Residential: 11.0%
- Commercial Real Estate: 18.7%
- Indiv. Mortgage: 22.7%
- Auto: 9.6%
- Other Consumer (incl CC): 3.5%

**Net Charge-Off Ratio**

- Asia, Russia, Tech Bubble (1996 - 1998)

Compass has historically outperformed the industry and its peers during different business cycles.
The risk function
Credit risk
Other risks
Basel II
Conclusions
Other risks: measured and managed with a global view (I)

- Global platform
- Corporate action framework
- Measurements and valuations independent of management unit
- Structural balance sheet risks managed globally by Finance division
  - Liquidity
  - Interest rate
  - Exchange rate

The recent market turbulence, a valuable stress test for this type of risks
Other risks: measured and managed with a global view (II)

- Market risk: managed by the Markets Unit. Diversified and very limited (average VAR 3Q07 €21m). Internally approved capital calculation models
- Market risk culture based on “mark to market”. No use of SIV/conduit vehicles. Insignificant direct and indirect exposure to ABSs and CDOs
- Operating risk: managed in all business units. In process of validation for advanced Basel II models.
- Other risks:
  - Analysis and minimisation of biometric risks
  - Insurance company technical risks
  - Asset management fiduciary risks
The risk function
Credit risk
Other risks
Basel II
Conclusions
• Internal models being validated in Spain and Mexico for operating and credit risk in 2008 (market risk model already in use prior to Basel II)

• New Bank of Spain Capital Regulation in final preparation stage

• Pillar II: practical application standards in progress by Bank of Spain
BBVA well positioned for new regulatory environment

• Retail focus
• Good credit profile
• Little weight of trading book
• Internal operational risk model
• Significant excess of provisions
• Diversification benefits of economic capital models (Pillar II)

• Better results than peers in impact studies (QIS)
• Parallel calculation exercises show 12% reduction of risk-weighted assets
• Future implementation of internal models in Compass will be positive

• Segments in banking penetration processes
• Equity portfolios
The risk function
Credit risk
Other risks
Basel II
Conclusions
Conclusions

• Risk management model:
  • With global focus while concentrating on local implementation
  • Experienced teams, with cyclical view and prudent focus on business growth: mortgages, consumer, developers, SMEs, etc.
  • Integrated in the Group management model based on value
  • Vision of expected loss adjusted for cycle in the different businesses.

• With a risk profile that is:
  • Retail, very diversified
  • Well protected against market turbulence
  • With provisions in excess of expected loss
  • Diversified against stress scenarios

Stable credit risk premiums expected in the years ahead