

# BBVA

## Merrill Lynch Banking & Insurance CEO Conference

London, 9<sup>th</sup> October 2008



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**1**

**BBVA: standing out in the current environment**

**2**

**Addressing current market concerns:**

- Liquidity
- Asset quality
- Solvency

**3**

**Delivering strategic initiatives:**

- Structural client growth
- US franchise integration
- Technology based efficiency

1

One year ago ...

BBVA

The environment has changed in the banking sector

From...strong growth and revenues, sou...



How is BBVA going...

Merrill Lynch Banking & Insurance  
London, 2007

Since then, the crisis has had serious consequences ...

**Banking on Trouble**  
By Daniel Pollit  
Posted Tuesday, July 15, 2008, at 6:14 AM ET

**Profit at U.S. regional banks tumble, evaporate**  
Tue Jan 22, 2009 9:14am EST

**Subprime crisis may not have blown over yet**  
Several studies have pointed the subprime problem is on the line of banking crises that affected countries all around the world.

**Economist Predicts Worst is Just Ahead**  
Prof. Robert J. Gordon, MIT, MIT, MIT

**Subprime Crisis Again in the Spotlight as the Meltdowns of Fannie Mae and Freddie Mac Fuel Fears of a Deeper Downturn**

**Regional bank shares under pressure as worries mount**  
By William Potalon III, Executive Editor

**Failure raises concern for regional banks**  
By Joanna Chung in New York  
Published: July 15 2008 03:00 | Last updated: July 15 2008 03:00

**Bank shares tumble; First Horizon down 25%**  
Monday, July 14, 2008 - 12:54 PM EDT

**Bank Losses: Are We Just Getting Started?**  
By Alan Quaresima, CFA | July 15, 2008 | [Comment on this](#)

**Large U.S. regional banks in "capitulation mode," Merrill**  
June 20, 2008 8:57 AM ET



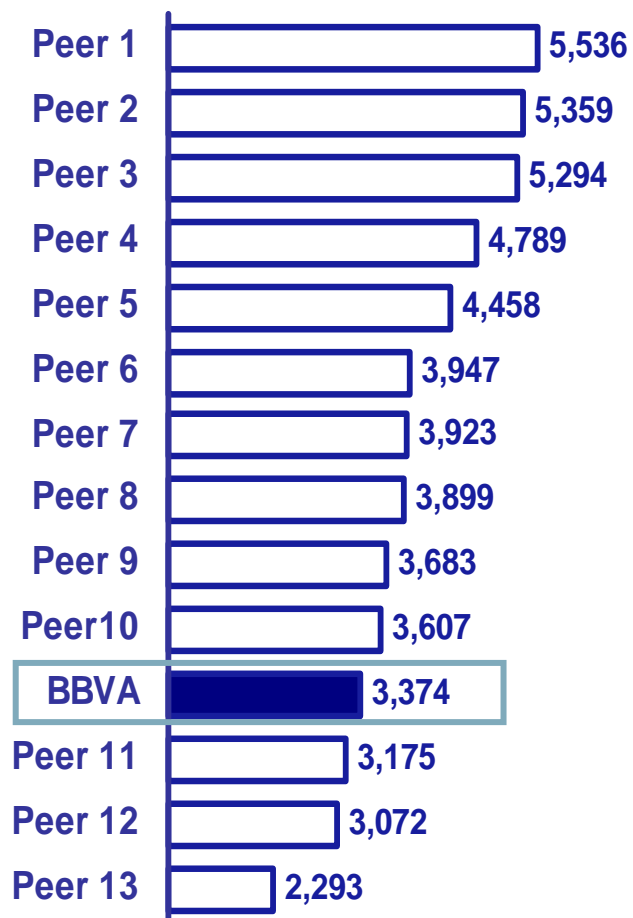
... impacting on those entities with weaker business models

A new banking world ...

# In which, BBVA's results are outstanding

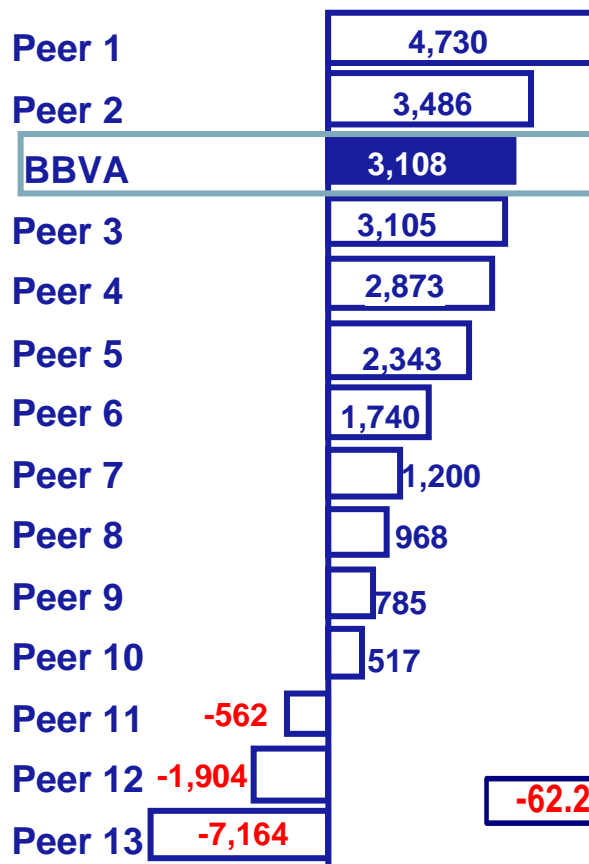
## 1H07 Results

€m



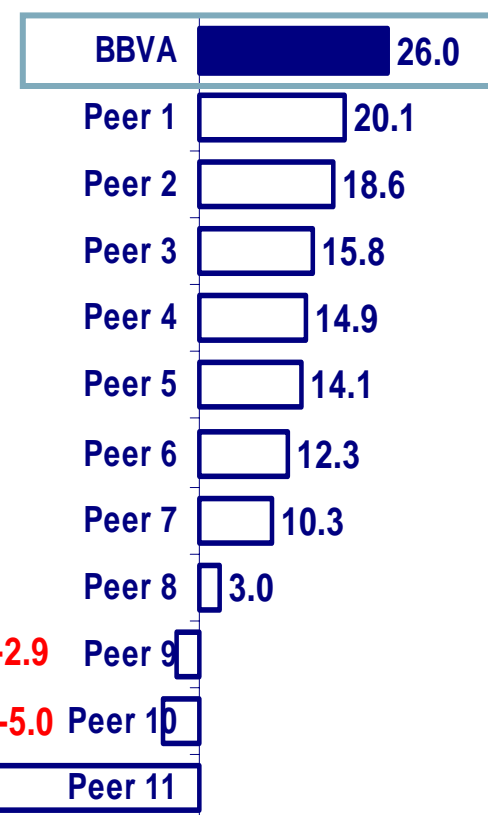
## 1H08 Results

€m



## ROE

1H08 (%)



Internal sources based on public information  
BBVA ex. one offs: 2,624 m €

Internal sources based on public information  
BBVA ex. one-offs: 2,928 m €

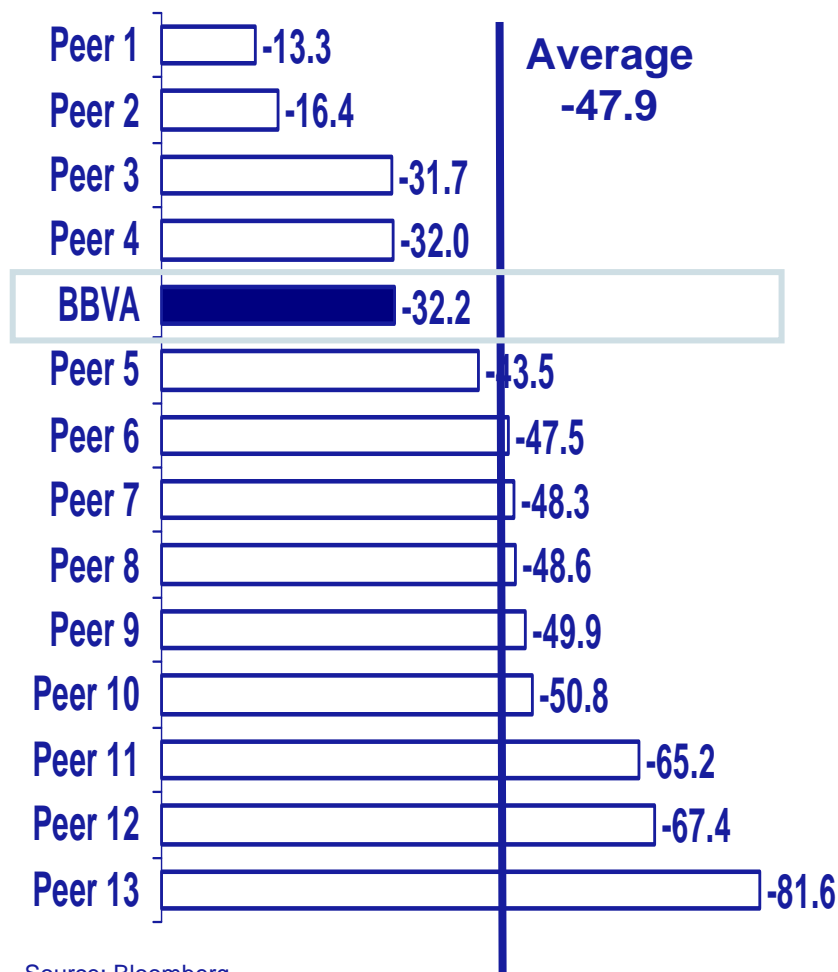
Internal sources based on public information

Peers: Santander, BNP Paribas, Intesa Sanpaolo, Unicredit, Barclays, Société Générale, HBOS, Crédit Agricole, Lloyds, Deutsche Bank, Credit Suisse, RBS, UBS

# Are the markets differentiating enough?

## TSR

Aug.07 to 06/oct/08  
(%)

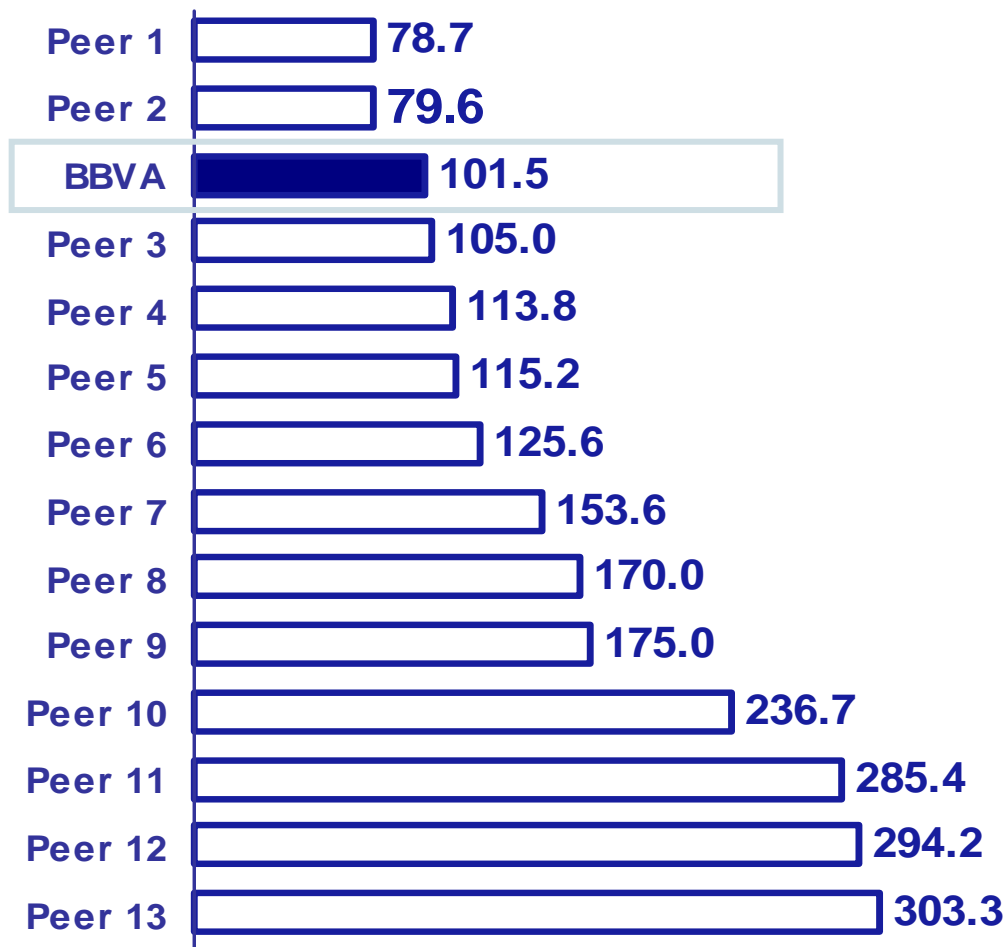


Source: Bloomberg

Peers: Santander, BNP Paribas, Intesa Sanpaolo, Unicredit, Barclays, Société Générale, HBOS, Crédit Agricole, Lloyds, Deutsche Bank, Credit Suisse, RBS, UBS

## 5Y Senior Debt CDS Spread

Figures as of 06/oct/08  
(bps)



Source: Bloomberg

**Market concerns****Liquidity**

- Higher funding costs
- Still significant issuance needs for 2008 and 2009
- Shortage of liquidity sources

**Asset quality**

- Credit market deteriorating
- Asset quality worsening
- High provisioning needs to rebuild coverage

**Solvency**

- Further pressure to deleverage
- NAV's at risk
- Capital deficits

**BBVA****Liquidity**

- Large client deposit base
- Well spread wholesale funding maturities
- 50 bn € liquidity sources

**Asset quality**

- Traditional asset quality deteriorating but much less than our peers
- Among best NPL & coverage ratio in Europe
- Excess provisions

**Solvency**

- Recurrent organic capital generation
- Additional capital sources
- Strong capital base
- Small but profitable balance sheet

**2.1**

**Liquidity**

**2.2**

**Asset  
quality**

**2.3**

**Solvency**

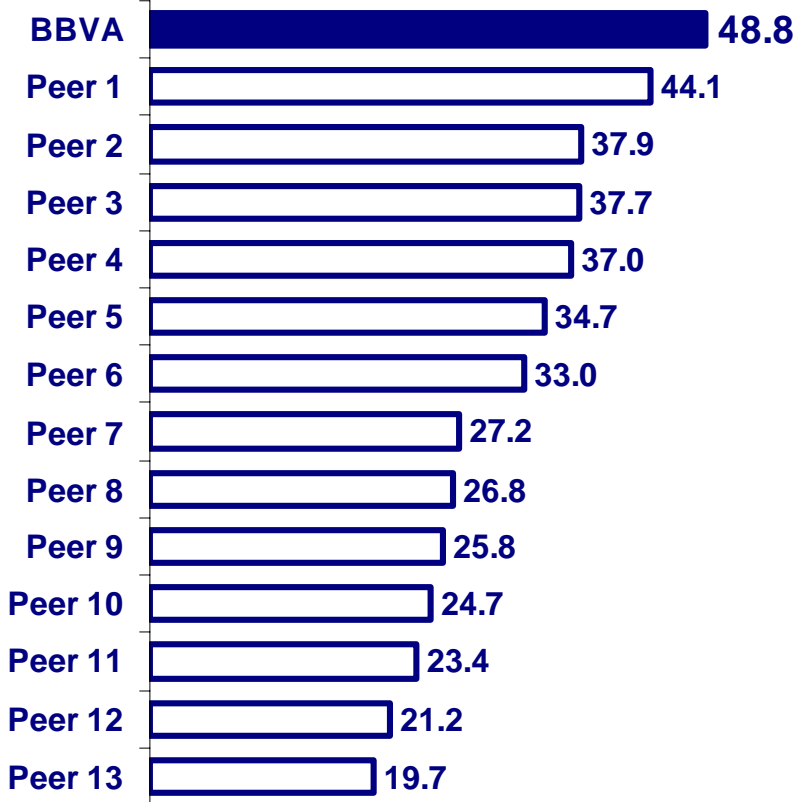


**2.1**

**BBVA enjoys a comfortable position**

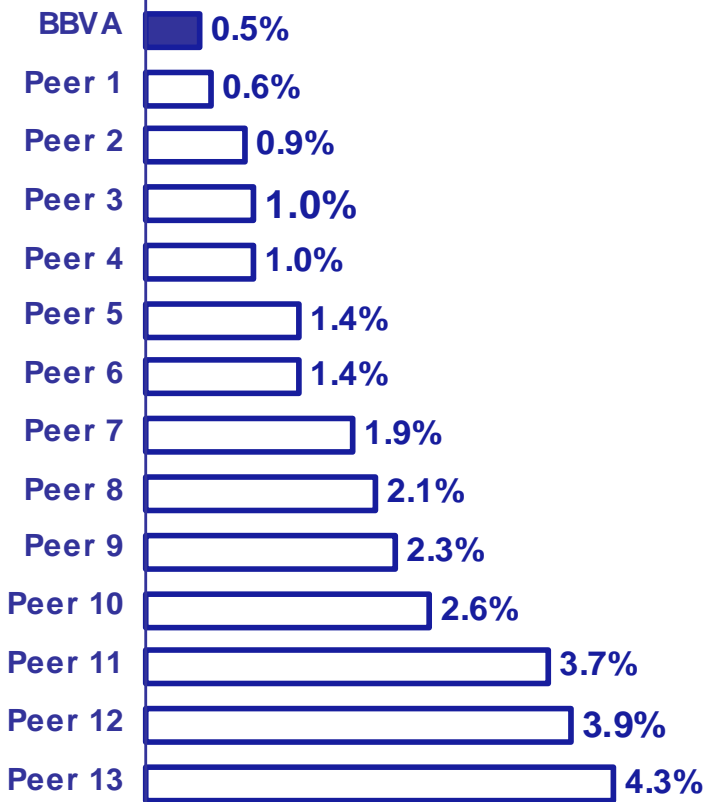


**Deposits to total assets**  
(%, Jun.08)



Internal sources based on public information

**Commercial gap as % of balance sheet**  
(%, Jun.08)



1H08 lending growth - deposit growth / Total assets  
Source: BBVA Research

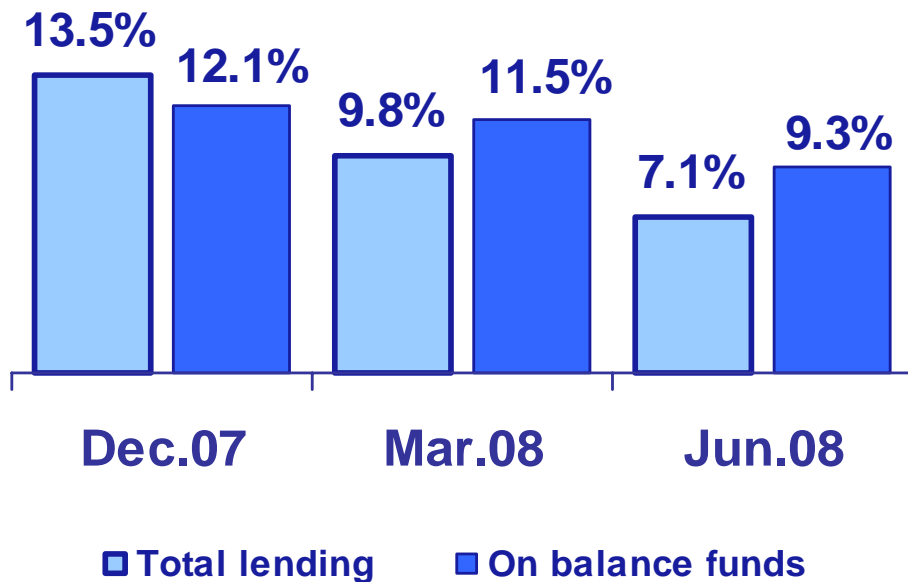
**Large deposit franchise**

Peers: Santander, BNP Paribas, Intesa Sanpaolo, Unicredit, Barclays, Société Générale, HBOS, Crédit Agricole, Lloyds, Deutsche Bank, Credit Suisse, RBS, UBS

# Proper management of liquidity resources

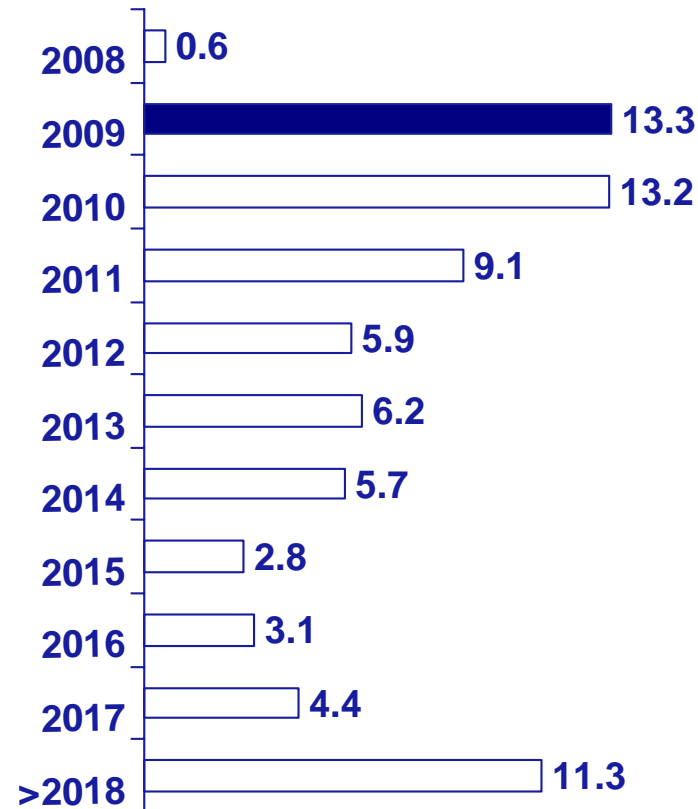
Lending & on balance funds  
Y-o-Y growth, BBVA Spain (%)

**Change in trend eases to manage the liquidity gap**



**Market share gains in mutual funds**

BBVA's wholesale funding maturities  
(€bn)

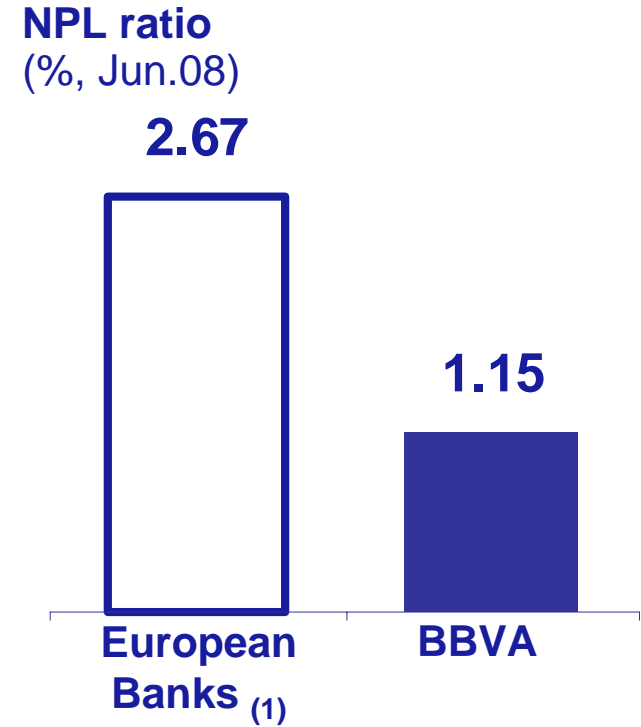
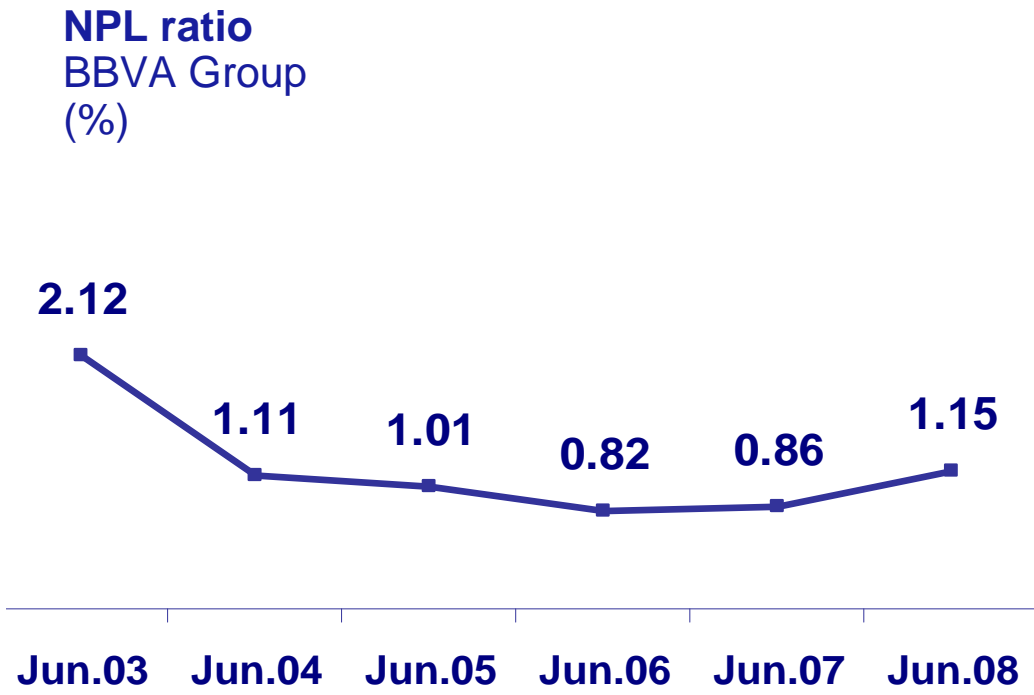


**No concentration of maturities**

**2.2**

# NPLs ratio deteriorating, but close to historic lows and much less than our European peers

**BBVA**



Internal sources based on public information

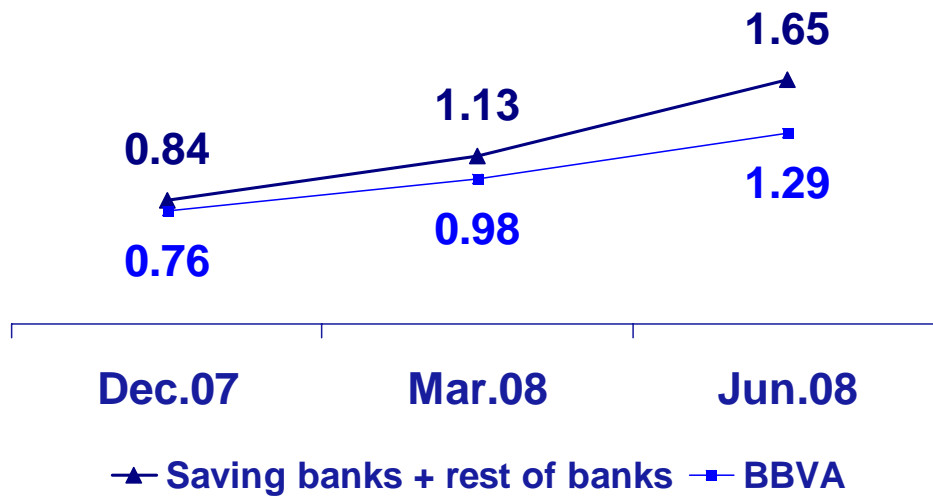
**BBVA has superior credit quality than its peers in all core markets**

(1) Average principal listed European banks. Last available data.

# In Spain, BBVA has a better asset quality than competitors

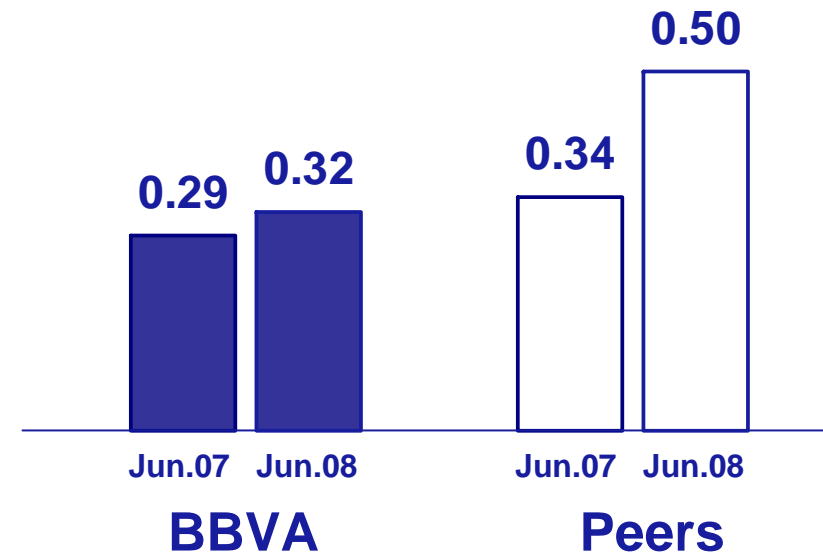
# BBVA

**NPL ratio**  
Resident sector  
Spain  
(%)



Source: BdE

**Risk premium**  
Spain  
(%)



Internal sources based on public information

Peers: Santander, Popular, Banesto, Bankinter, Sabadell, Caja Madrid, La Caixa

# This is the result of a more conservative approach during the upcycle

## Individuals

**Average LTV: 52.9%**

**1<sup>st</sup> home: 96%**

**NPL Ratio**  
(Figures as of Jun.08)

**BBVA**

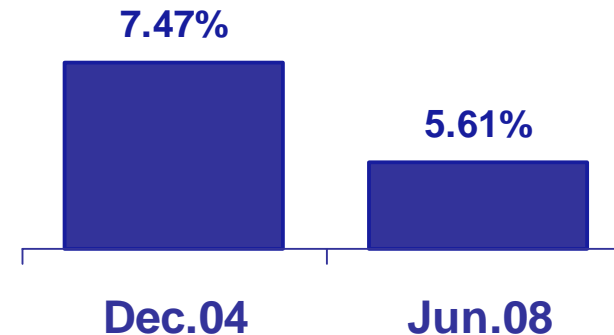
**0.96%**

**Banks + Savings**

**1.28%**

## Developers

**BBVA Market share Developers**



**Limited exposure to developers €17,161m (8% of lending Spain & Portugal)**

**6,000 clients, of which the 50 largest account only for 21% of the portfolio**

**NPL Ratio**  
(Figures as of Jun.08)

**BBVA**

**1.00%**

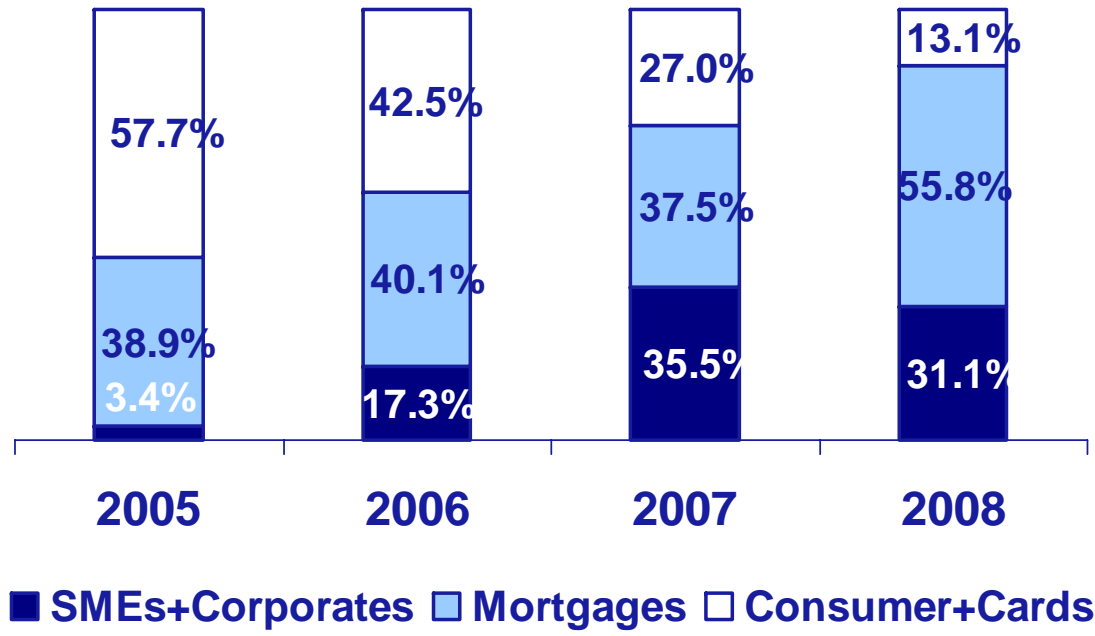
**Banks + Savings**

**2.01%**

**Construction & Real Estate**

# Bancomer's anticipation in commercial strategy ...

Lending origination mix (%)



**BBVA Bancomer**

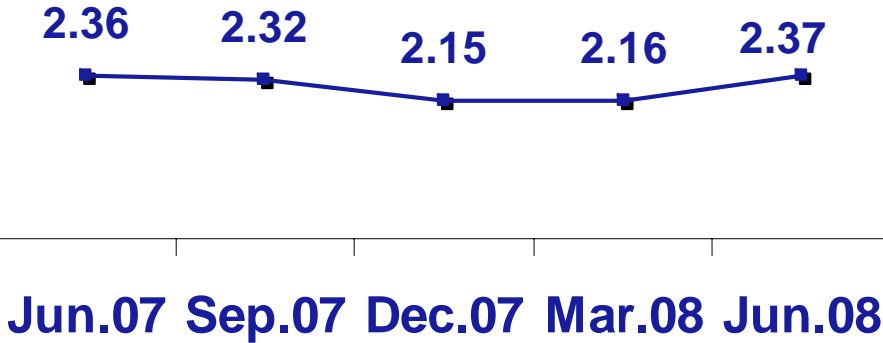
**1<sup>st</sup> to grow in Consumer+Cards (2003)**

**1<sup>st</sup> to grow in mortgages (2004)**

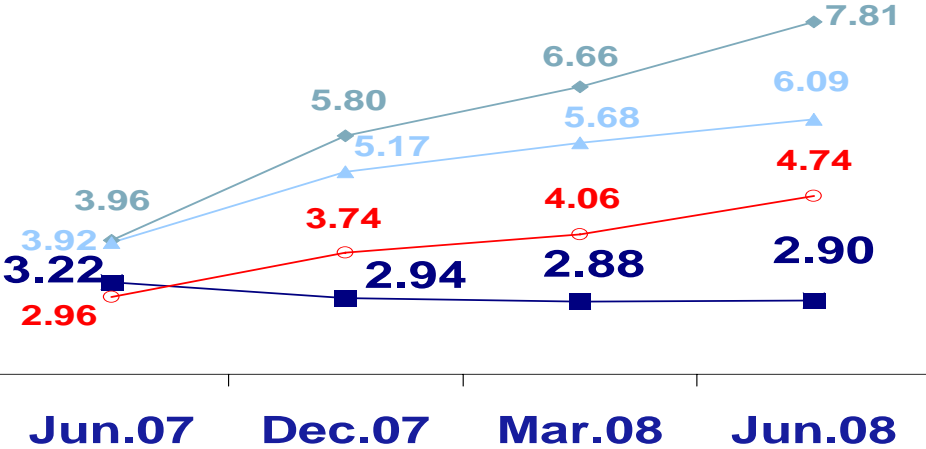
**1<sup>st</sup> to push SMEs (2005)**

# And in the implementation of provision methodology based on expected loss ...

**NPL ratio**  
BBVA Bancomer  
(%)



**Risk premium**  
Mexico  
(%)



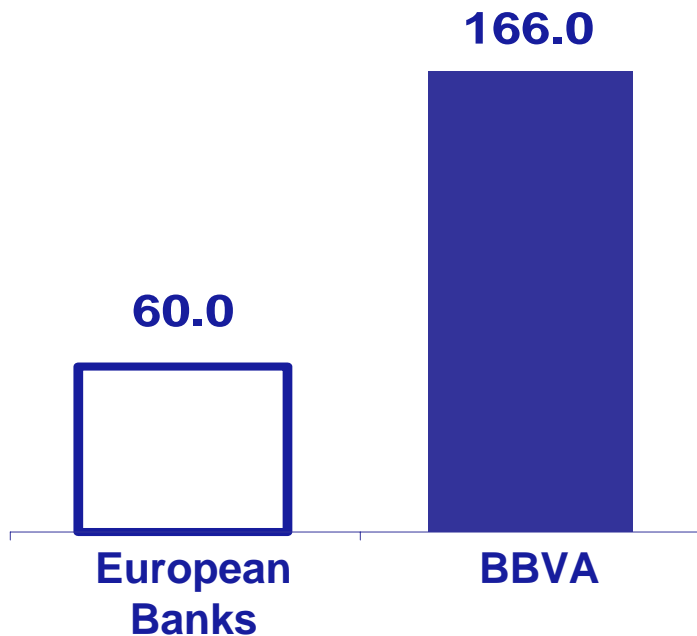
■ Bancomer    ◆ Banamex    ○ Santander Serfin    ▲ HSBC

Internal sources based on public information

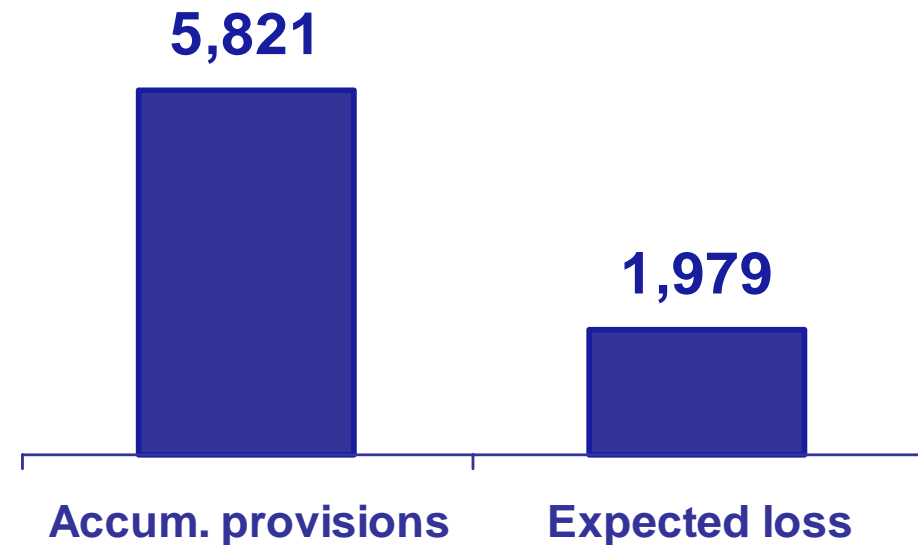
**As a result, Bancomer's NPL and risk premiums are stable**

# BBVA is well covered against any potential worsening in the environment

Coverage ratio  
(%, Jun.08)



Accum. generic provision vs expected loss  
(€m, Jun.08)



Internal sources based on public information

**NPL Ratio**  
**BBVA: 1.15% vs European banks: 2.67%**



2.3

## We are large organic capital accumulators **BBVA**

**Organic capital generation (BIS II)**

**+15 bps in 2Q08**

**+20 bps in 1Q08**

**+**

**In addition ....**

**Latent capital gains of  
€2.7 bn (Jun.08)**

**€3.8 bn excess  
provisions (Jun.08)**

**No unexpected  
consumption of capital**

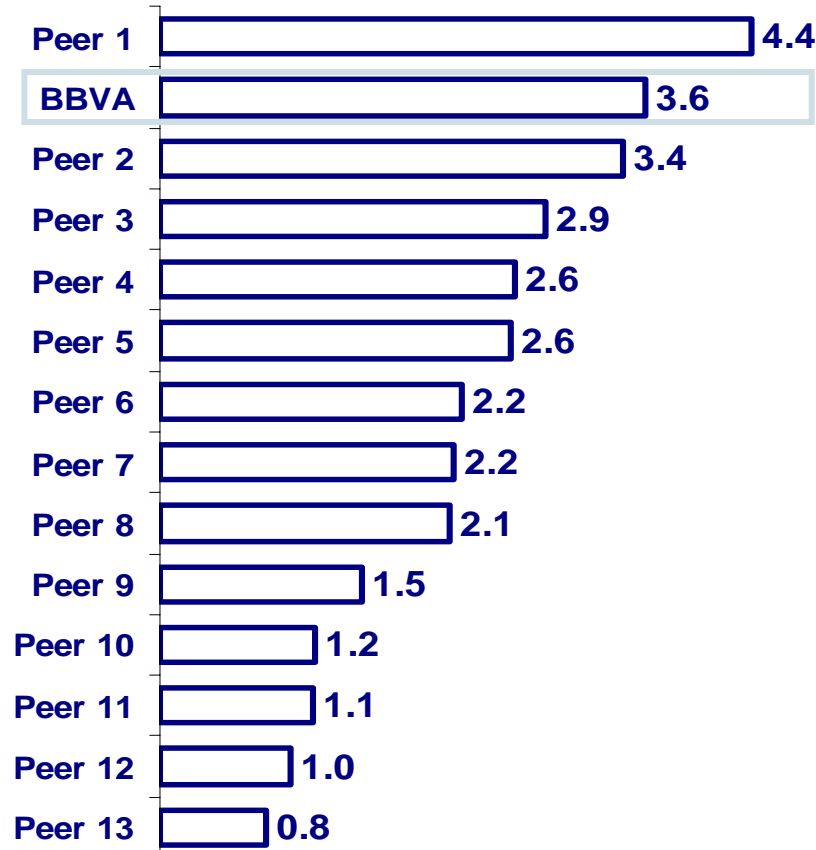
**BIS II capital barely vulnerable to  
declining house prices and to  
cycle deterioration**

**(-20% in house prices => 0 b.p in core capital)**

**(-30% in house prices => -3 b.p in core capital)**

# BBVA is one of the safest bets in this environment

Tangible equity/Asset  
(%, Jun.08)



**Core capital  
6.3%**

**Tier I  
7.7%**

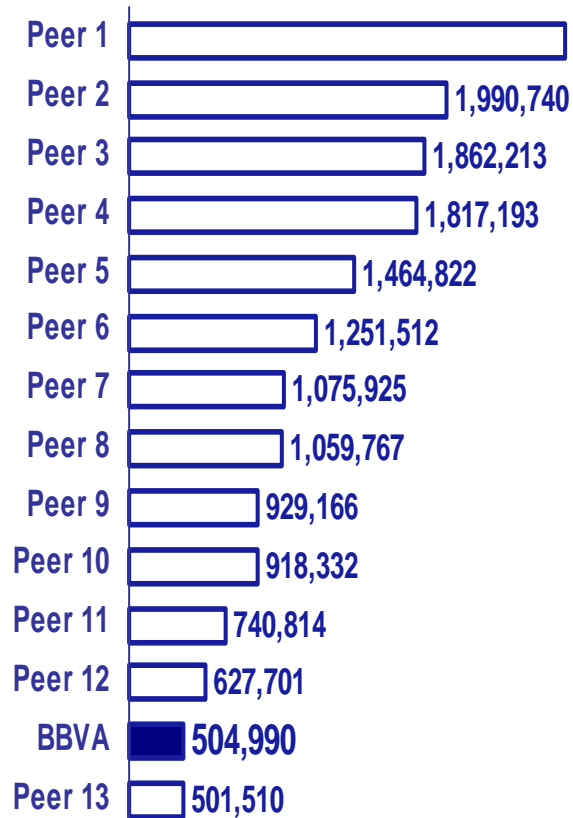
**6.8% cash dividend yield\***

Internal sources based on public information

\*Analyst consensus estimate

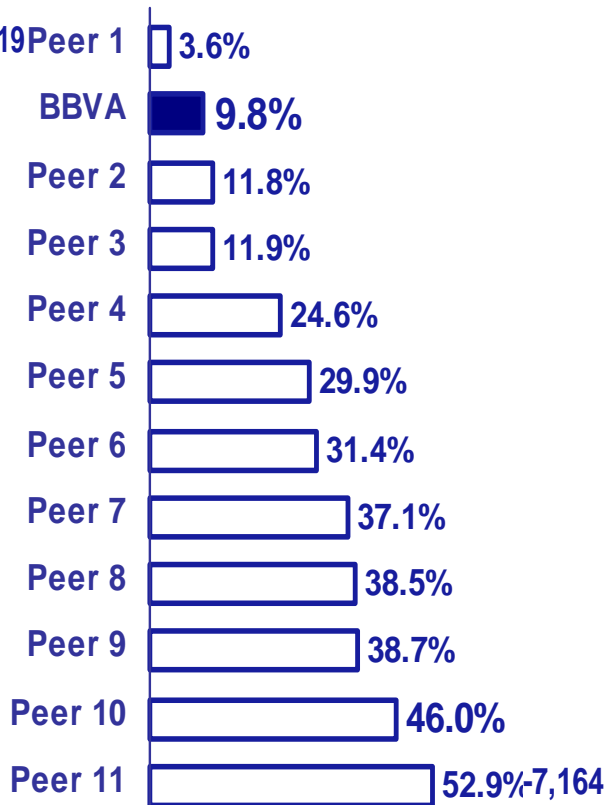
# BBVA emerges from this crisis as one of the strongest banks worldwide

**Balance sheet**  
(€ million, Jun.08)



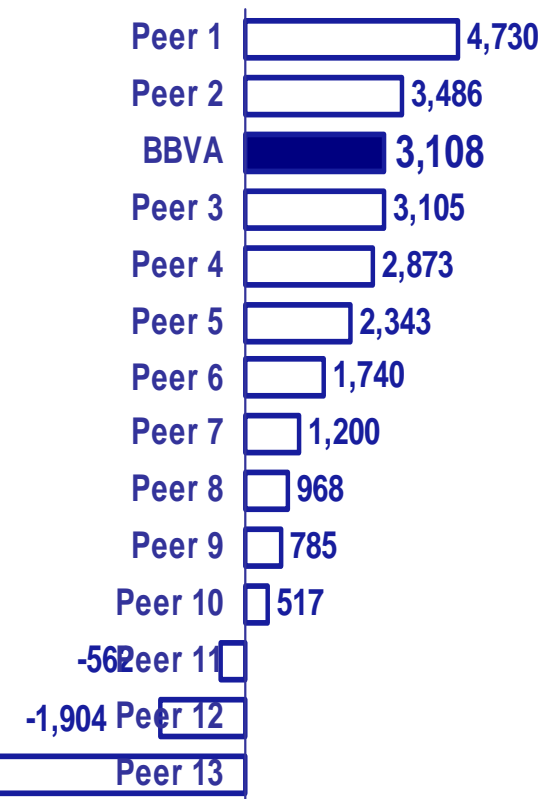
Internal sources based on public information

**% Income from Investment banking**  
(%. Jun.08)



BBVA research

**Attributable profit**  
(€ million, 1H08)



Internal sources based on public information

**Low leverage**

+

**Retail business model**

=

**Recurrent earnings**

**3**

## **Delivering strategic initiatives**

**3.1**

**Structural  
client  
growth**

**3.2**

**US  
franchise  
integration**

**3.3**

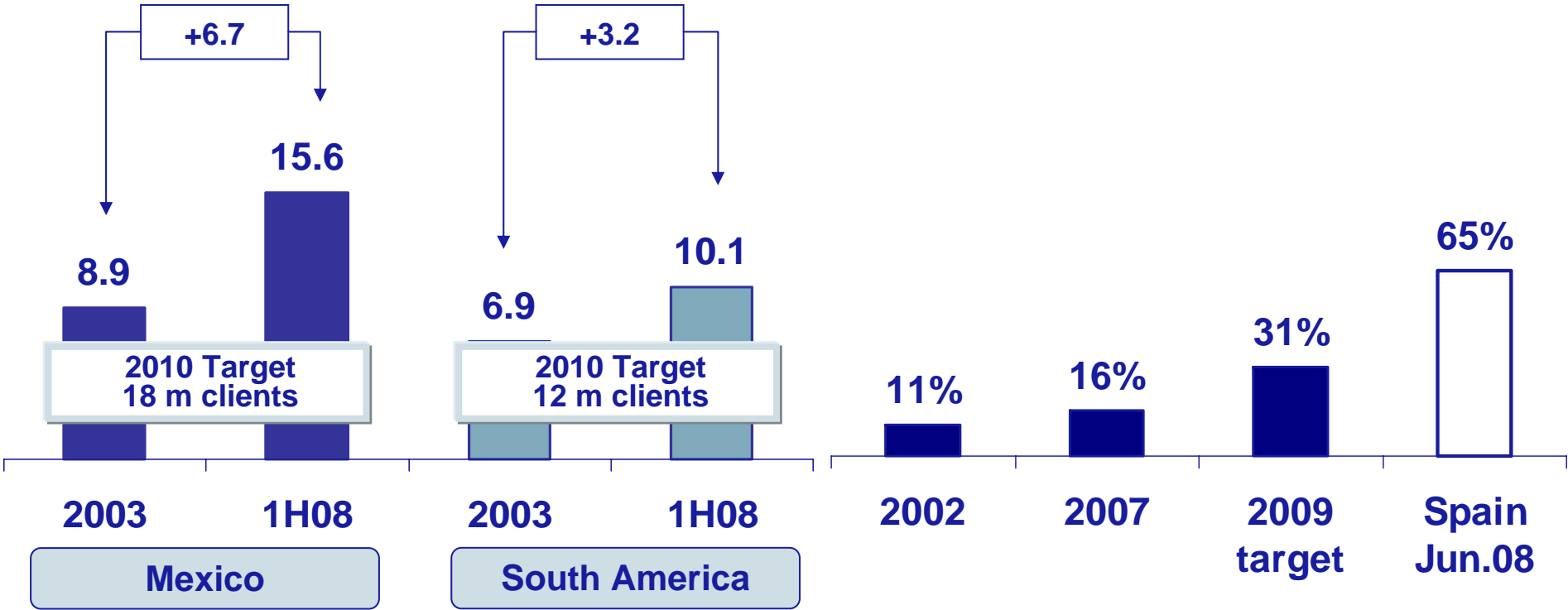
**Technology-  
based  
efficiency**

3.1

# We are focused on bolstering client-driven BBVA growth in all our franchises

Individuals  
BBVA Customer Base  
(Million people)

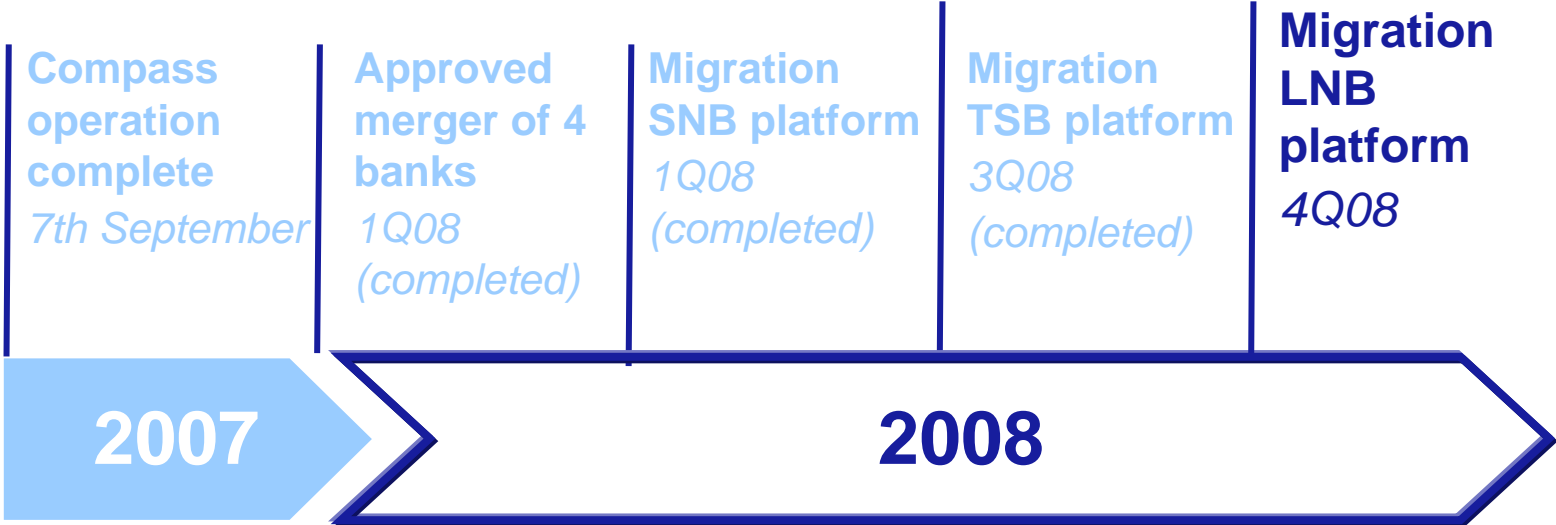
SME's  
Bancomer's customers with credit  
(%)



**Customer growth based on low-cost strategies**

3.2

# US integration process is on track



**Synergies according to expectations**

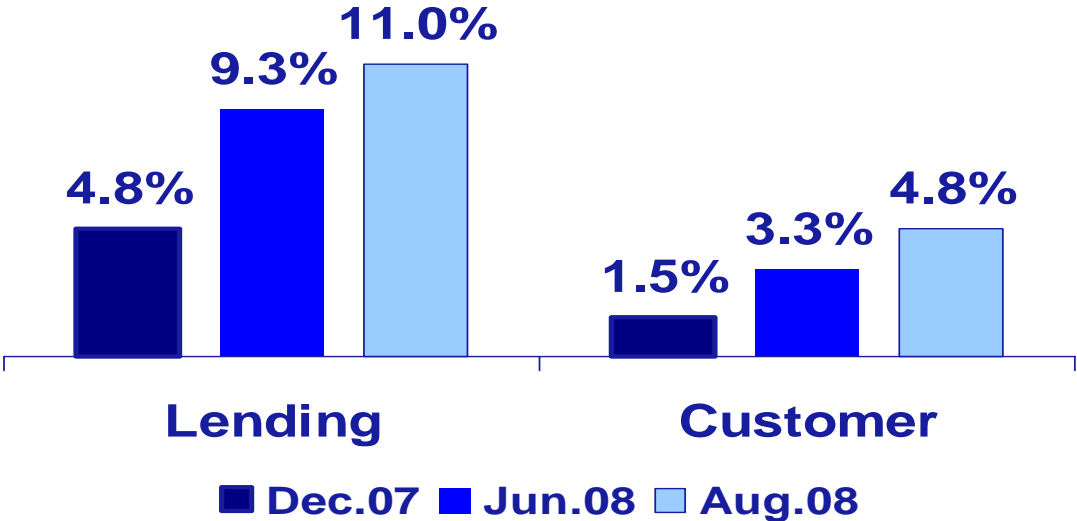
**Cost: income\*: 55.9% (-2.9 p.p. since Dec.07)**

**Establishing the  Compass brand**

\*Cost/income ratio before amortisation of intangibles

# Growth in activity since Compass acquisition

**Lending & Customer funds**  
Compass Bank  
Year-on-year growth  
(Average balances)



**Taking advantage of market situation to grow in higher quality corporates**

**Improving credit quality:**  
FICO Score: 738 (Jun.08) vs 712 (Dec.07)  
Risk grade: 5.2 (Jun.08) vs 6.2 (Dec.07)

# Moving forward in our strategic plan

**2008**

**TRISTAR  
Integration Plan**



**Obtaining cost  
and revenue  
synergies**

**2009**

**Integrate Compass  
into BBVA**



**Capturing  
Group's  
synergies and  
sharing a  
corporate  
culture**

**2010**

**"Upgrade"  
Strategic Plan**



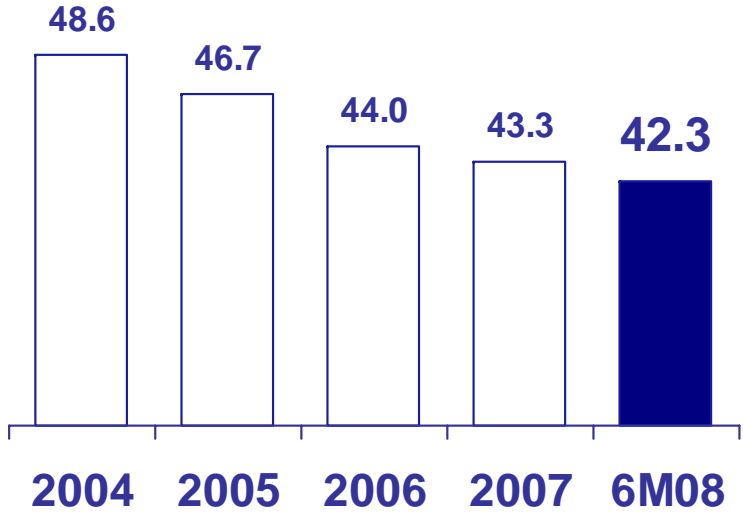
**Achieving our  
vision: Building  
a leading  
franchise in the  
Sunbelt**



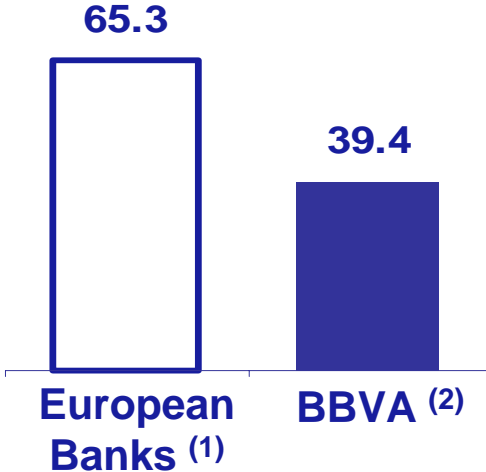
3.3

# BBVA Group is already the most efficient bank among European peers

Cost/income ratio excluding one-offs  
(Depreciation included, %)



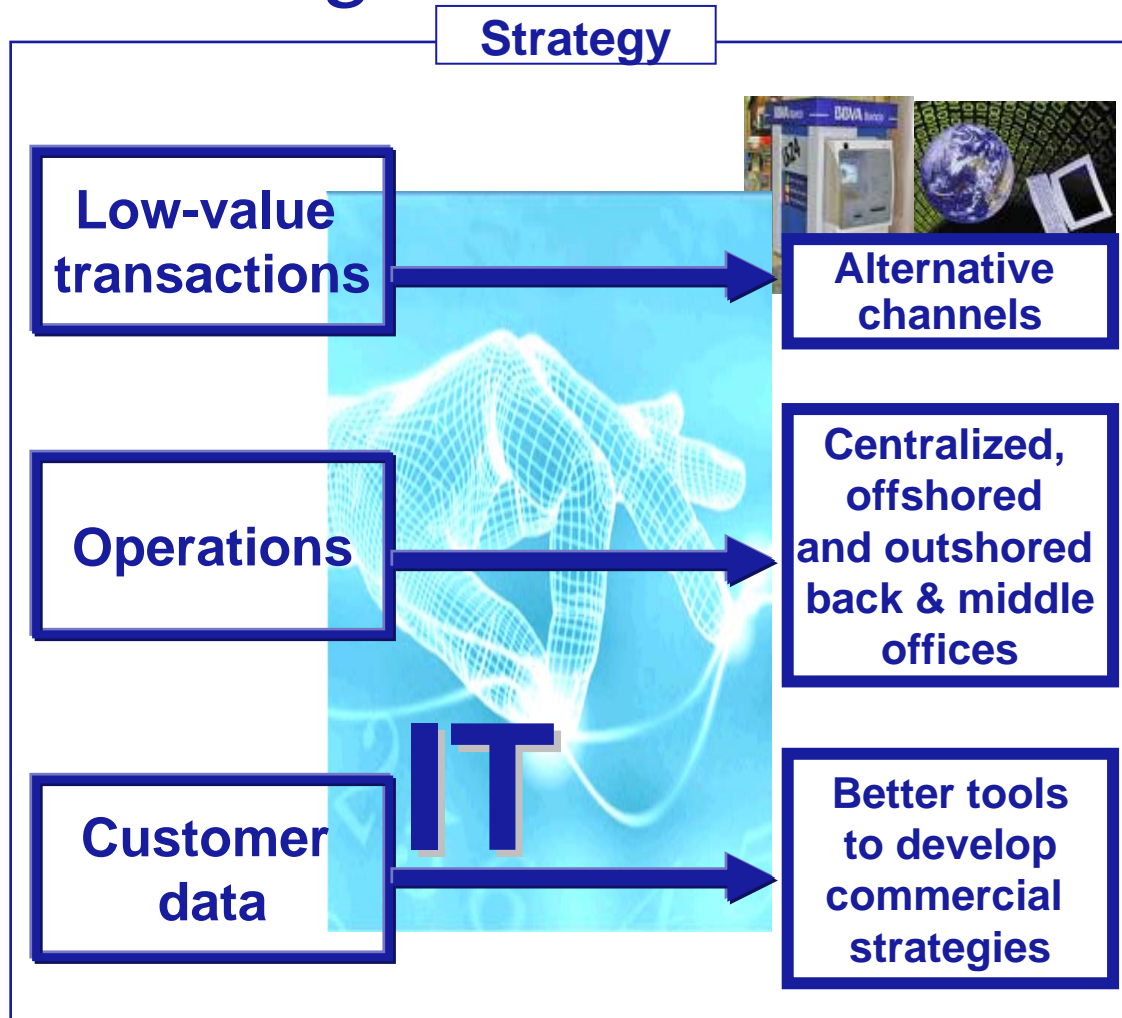
Cost/income ratio including one-offs  
(Depreciation included, %)



(1) Average major listed European banks. Latest available data.  
(2) Depreciation included  
Internal sources based on public information

**But we continuously work to improve....**

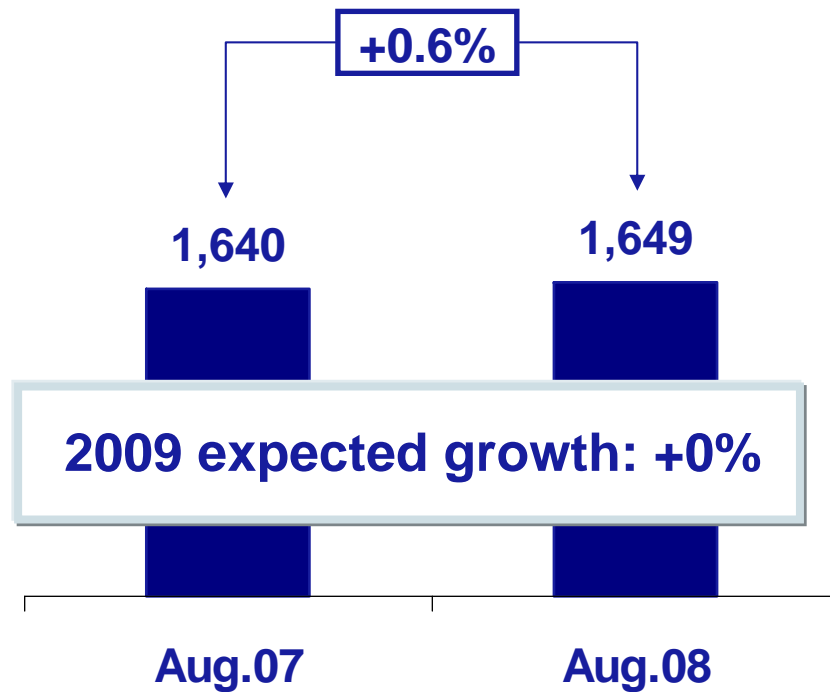
# ... making intensive use of information technologies



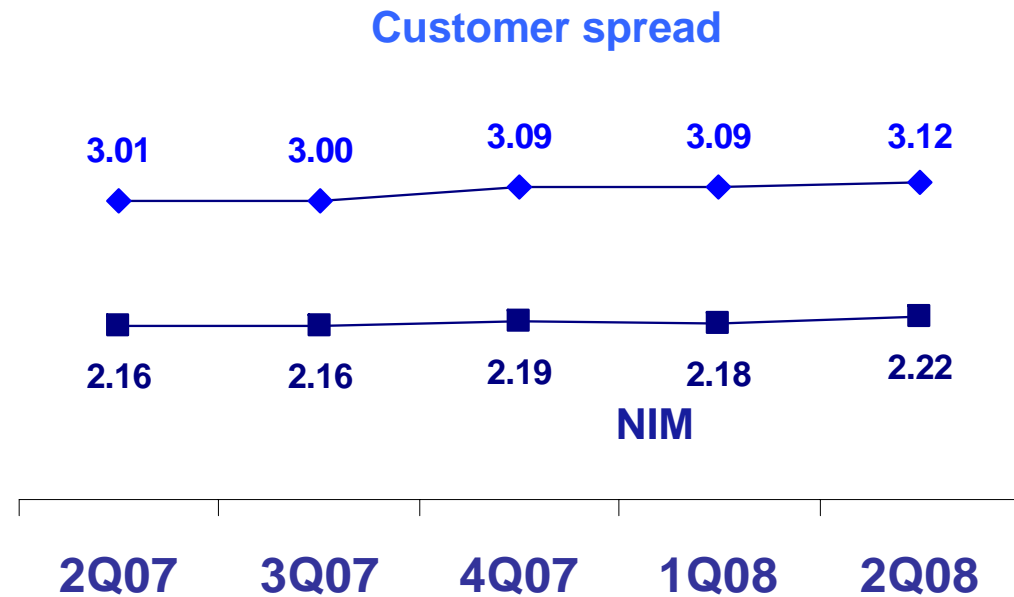
**Increasing network efficiency & productivity ...**

# This is the case of Spain, where costs are close to zero growth

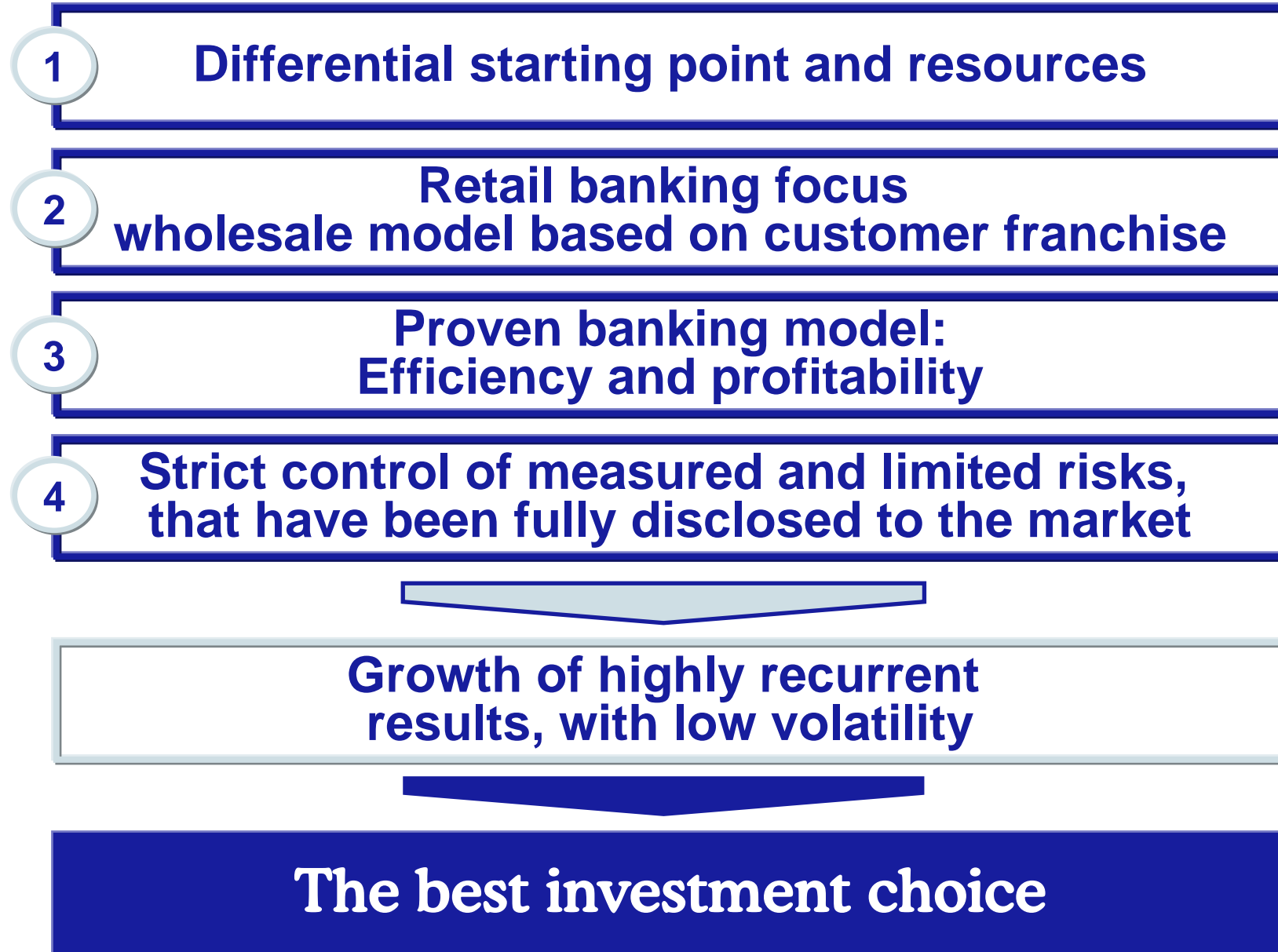
**General administrative expenses**  
BBVA Spain & Portugal  
YoY growth

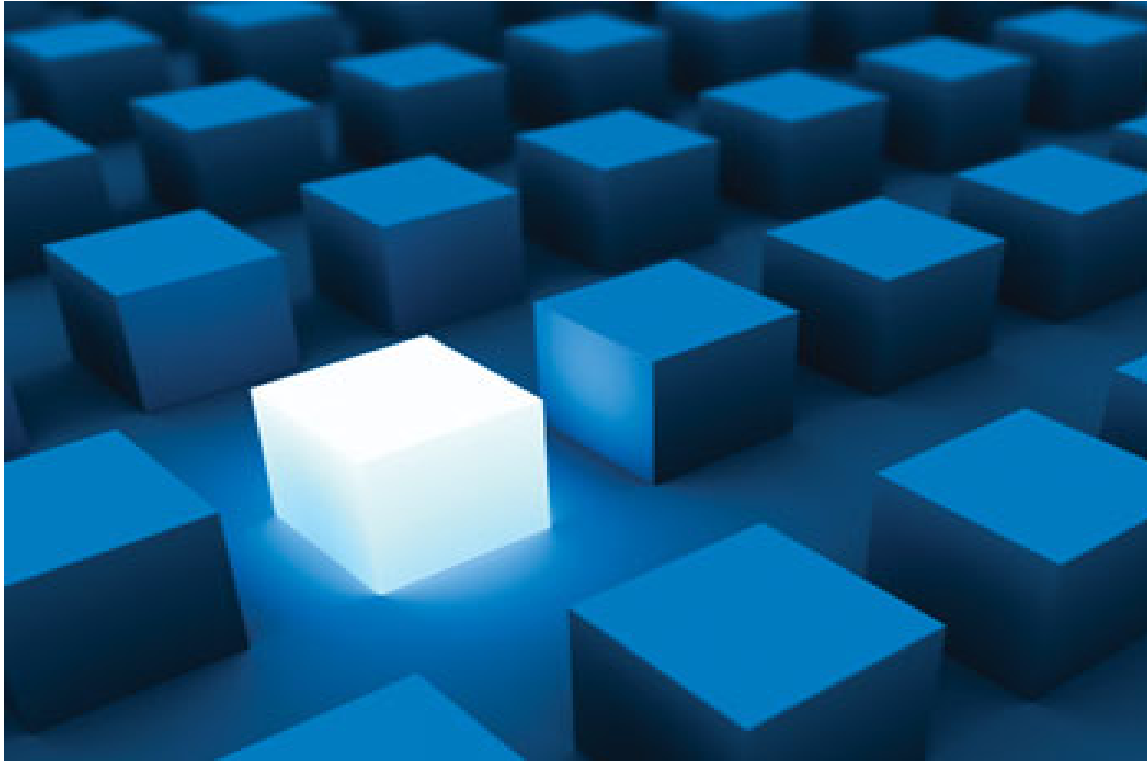


**Customer spread and NIM**  
BBVA Spain & Portugal  
(%)



**With a focus on pricing policy**





Are the markets differentiating enough?

**BBVA**

Merrill Lynch Banking & Insurance CEO Conference

London, 9<sup>th</sup> October 2008

