

## **BBVA Factoring, E.F.C, S.A. (Unipersonal)**

Financial Statements and Management  
Report for the year ended December 31,  
2008, together with the Auditor's Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with Bank of Spain's Circular 4/2004 (see Notes 1 and 31). In the event of a discrepancy, the Spanish-language version prevails.*

*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Sole Shareholder of

BBVA Factoring, Establecimiento Financiero de Crédito, S.A. (Sole-Shareholder Company):

1. We have audited the financial statements of BBVA FACTORING, Establecimiento Financiero de Crédito, S.A. (Sole-Shareholder Company) ("the Company", a Banco Bilbao Vizcaya Argentaria Group company – (see Note 17) comprising the balance sheet at 31 December 2008 and the related income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.
2. As required by Spanish corporate and commercial law, for comparison purposes the Company's directors present, in addition to the figures for 2008 for each item in the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, the figures for 2007. Our opinion refers only to the financial statements for 2008. On 11 April 2008, we issued our auditors' report on the 2007 financial statements, in which we expressed an unqualified opinion.
3. As mentioned in Note 1.11, to the accompanying financial statements, pursuant to Articles 234 and 250 of the Spanish Companies Law, on 27 January 2009 the directors of Banco Bilbao Vizcaya Argentaria, S.A., the Company's sole shareholder ("the absorbing company") and on 26 January 2009 the directors of BBVA Factoring, Establecimiento Financiero de Crédito, S.A. (Sole-Shareholders Company) ("the absorbed company") drafted, signed and approved a merger plan whereby the latter was absorbed by the former. Consequently, if all the authorisations required to carry out this merger are obtained, these financial statements will be the last that the Company will prepare.
4. As indicated in Note 1, the Company's operations are performed under the management of the Banco Bilbao Vizcaya Argentaria Group, giving rise to the related party balances and transactions detailed in Note 30. The accompanying financial statements, which are presented in compliance with current legislation, should be interpreted in this context.
5. In our opinion, the accompanying financial statements for 2008 present fairly, in all material respects, the equity and financial position of the Company at 31 December 2008 and the results of its operations, the changes in its equity and its cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with the accounting principles and standards contained in Bank of Spain Circular 4/2004 applied on a basis consistent with that of the preceding year.
6. The accompanying directors' report for 2008 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2008. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.  
Registered in ROAC under no. S0692

Francisco García-Valdecasas  
5 February 2009

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, folio 188, sección 8, hoja, M-54414, inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1 - Torre Picasso, 28020 Madrid.

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Membre exergent:  
DELOITTE, S.L.

Any 2009 Núm. 20/09/00597  
CÒPIA GRATUÏTA

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**BBVA FACTORING,  
E.F.C., S.A. (Unipersonal)**

Financial statements  
for the year ended  
December 31, 2008

**BBVA FACTORING,  
E.F.C., S.A. (Unipersonal)**  
**BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007 (Notes 1 to 3)**

ASSETS	Thousands of euros	
	2008	2007 (*)
<b>CASH AND BALANCES WITH CENTRAL BANKS (Note 7)</b>	<b>30</b>	<b>31</b>
<b>FINANCIAL ASSETS HELD FOR TRADING</b>	-	-
Loans and advances to credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	-	-
Other equity instruments	-	-
Trading derivatives	-	-
Memorandum item: Loaned and advanced as collateral	-	-
<b>OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	-	-
Loans and advances to credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	-	-
Other equity instruments	-	-
Memorandum item: Loaned and advanced as collateral	-	-
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 8)</b>	<b>203</b>	<b>203</b>
Debit instruments	-	-
Other equity instruments	203	203
Memorandum item: Loaned and advanced as collateral	-	-
<b>LOANS AND RECEIVABLES (Note 9)</b>	<b>6,633,114</b>	<b>6,695,471</b>
Loans and advances to credit institutions	85,436	199
Loans and advances to customers	6,547,678	6,695,272
Debit instruments	-	-
Memorandum item: Loaned and advanced as collateral	-	-
<b>HELD-TO-MATURITY INVESTMENTS</b>	-	-
Memorandum item: Loaned and advanced as collateral	-	-
<b>CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK</b>	-	-
<b>HEDGING DERIVATIVES (Note 10)</b>	<b>127</b>	-
<b>NON-CURRENT ASSETS HELD FOR SALE</b>	-	-
<b>INVESTMENTS (Note 11)</b>	<b>574</b>	<b>574</b>
Associates	574	574
Jointly controlled entities	-	-
Group entities	-	-
<b>INSURANCE CONTRACTS LINKED TO PENSIONS (Note 16)</b>	<b>201</b>	<b>201</b>
<b>TANGIBLE ASSETS (Note 12)</b>	<b>114</b>	<b>122</b>
Tangible Assets	114	122
Other assets leased out under an operating lease	114	122
Cedido en arrendamiento operativo	-	-
Investment property	-	-
Memorandum item: Loaned and advanced as collateral	-	-
<b>INTANGIBLE ASSETS</b>	-	-
Goodwill	-	-
Other intangible assets	-	-
<b>TAX ASSETS (Note 20)</b>	<b>26,879</b>	<b>19,886</b>
Current	-	-
Deferred	26,879	19,886
<b>OTHER ASSETS (Note 13)</b>	<b>8,835</b>	<b>3,098</b>
<b>TOTAL ASSETS</b>	<b>6,670,077</b>	<b>6,719,586</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendix I attached are an integral part of the balance sheet as of December 31, 2008.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accounting principles Spain (see Note 31). In the event of a discrepancy, the Spanish-language version prevails.

**BBVA FACTORING,  
E.F.C., S.A. (Unipersonal)**  
**BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007 (Notes 1 to 3)**

LIABILITY AND EQUITY	Thousands of euros	
	2008	2007 (*)
<b>FINANCIAL LIABILITIES HELD FOR TRADING</b>		-
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Debt certificates (including bonds)	-	-
Trading derivatives	-	-
Short positions	-	-
Other financial liabilities	-	-
<b>OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		-
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Debt certificates (including bonds)	-	-
Subordinates liabilities	-	-
Other financial liabilities	-	-
<b>FINANCIAL LIABILITIES AT AMORTIZED COST (Note 14)</b>	<b>6,384,219</b>	<b>6,478,987</b>
Deposits from central banks	-	-
Deposits from credit institutions	6,197,626	6,105,165
Customer deposits	-	-
Debt certificates (including bonds)	-	-
Subordinates liabilities	-	-
Other financial liabilities	186,593	373,822
<b>CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN PORTFOLIO</b>		-
<b>HEDGES OF INTEREST RATE RISK</b>		-
<b>HEDGING DERIVATIVES (Note 10)</b>	<b>3,178</b>	-
<b>LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE</b>		-
<b>PROVISIONS (Note 15)</b>	<b>2,357</b>	<b>5,593</b>
Provisions for pensions and similar obligations	282	305
Provisions for taxes	-	-
Provisions for contingent exposures and commitments	-	-
Other provisions	2,075	5,288
<b>TAX LIABILITIES (Note 20)</b>	<b>13,102</b>	<b>1,165</b>
Current	13,102	1,165
Deferred	-	-
<b>OTHER LIABILITIES (Note 13)</b>	<b>3,898</b>	<b>3,533</b>
<b>TOTAL LIABILITIES</b>	<b>6,406,754</b>	<b>6,489,278</b>

(\*) Presented for comparison purposes only.

LIABILITIES AND EQUITY (Continuation)	Thousands of euros	
	2008	2007 (*)
<b>STOCKHOLDER'S EQUITY</b>	<b>264,402</b>	<b>230,308</b>
Capital (Note 17)	26,874	26,874
Issued	26,874	26,874
Unpaid and uncalled (-)	-	-
Share premium (Note 18)	93,180	93,180
Reserves (Note 19)	110,254	85,416
Other equity instruments	-	-
Equity component of compound financial instruments	-	-
Other	-	-
Less: Treasury shares	-	-
Income for the period	34,094	24,838
Less: Dividends and remuneration	-	-
<b>VALUATION ADJUSTMENTS</b>	<b>(1,079)</b>	<b>-</b>
Available-for-sale financial assets	-	-
Cash flow hedges (Note 10)	(1,079)	-
Hedges of net investments in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Other valuation adjustments	-	-
<b>TOTAL EQUITY</b>	<b>263,323</b>	<b>230,308</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>6,670,077</b>	<b>6,719,586</b>

MEMORANDUM ITEMS	2008	2007 (*)
<b>CONTINGENT EXPOSURES</b>	-	-
<b>CONTINGENT COMMITMENTS</b>	-	-

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The accompanying Notes 1 to 31 and Appendix I attached are an integral part of the balance sheet as of December 31, 2008.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accounting principles Spain (see Note 31). In the event of a discrepancy, the Spanish-language version prevails.

# BBVA FACTORING, E.F.C., S.A. (Unipersonal)

## INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (Notes 1 to 3)

	Thousands of euros	
	2008	2007 (*)
INTEREST AND SIMILAR INCOME (Note 24)	287,271	216,561
INTEREST EXPENSE AND SIMILAR CHARGES (Note 25)	(225,327)	(173,156)
<b>NET INTEREST INCOME</b>	<b>61,944</b>	<b>43,405</b>
INCOME FROM EQUITY INSTRUMENTS (Note 8)	349	240
FEE AND COMMISSION INCOME (Note 26)	23,277	20,729
FEE AND COMMISSION EXPENSES (Note 26)	(548)	(576)
GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET)	(199)	-
Held for trading	-	-
Other financial instruments at fair value through profit or loss (Note 10)	(199)	-
Other financial instruments not at fair value through profit or loss	-	-
Other	-	-
EXCHANGE DIFFERENCES (NET)	-	-
OTHER OPERATING INCOME (Note 29)	1	23
OTHER OPERATING EXPENSES (Note 29)	(650)	(161)
<b>GROSS INCOME</b>	<b>84,174</b>	<b>63,660</b>
ADMINISTRATIVE EXPENSES	(11,343)	(11,799)
Personnel expenses (note 27)	(5,846)	(7,524)
Other administrative expenses (note 28)	(5,497)	(4,275)
AMORTISATION (Note 12)	(35)	(43)
PROVISION EXPENSE (NET) (Note 15)	32	(1,165)
IMPAIRMENT LOSSES (NET)	(24,245)	(13,638)
Loans and receivables (Note 6)	(24,245)	(13,638)
Other financial instruments not at fair value through profit or loss	-	-
<b>NET OPERATING INCOME</b>	<b>48,583</b>	<b>37,015</b>
IMPAIRMENT LOSSES OF OTHER ASSETS (NET)	-	-
Goodwill and other intangible assets	-	-
Other assets	-	-
GAINS (LOSSES) IN WRITTEN OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	-	-
NEGATIVE GOODWILL	-	-
GAINS (LOSSES) IN NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	-	-
<b>INCOME BEFORE TAX</b>	<b>48,583</b>	<b>37,015</b>
INCOME TAX (Note 20)	(14,489)	(12,177)
<b>INCOME FROM CONTINUED</b>	<b>34,094</b>	<b>24,838</b>
INCOME FROM DISCONTINUED OPERATIONS (NET)	-	-
<b>INCOME FOR THE PERIOD</b>	<b>34,094</b>	<b>24,838</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendix I attached are an integral part of the balance sheet as of December 31, 2008.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accounting principles Spain (see Note 31). In the event of a discrepancy, the Spanish-language version prevails.

# **BBVA FACTORING, E.F.C., S.A. (Unipersonal)**

## **STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

(Notes 1 to 3)

	Thousands of euros								Valuation adjustments	Total equity
	Total equity									
	Stockholder's equity									
	Share Capital (Note 17)	Share premium (Note 18)	Reserves (Note 19)	Other equity instruments	Less: Treasury shares	Profit for the year	Less: dividend and remunerations	Total Stockholder's equity		
Balance at January 1, 2008	28,874	93,180	85,418	-	-	24,838	-	230,308	-	230,308
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Effect of correction of errors	-	-	-	-	-	-	-	-	-	-
Adjusted Initial balance	28,874	93,180	85,418	-	-	24,838	-	230,308	-	230,308
Total income/expense recognized	-	-	-	-	-	34,094	-	34,094	(1,079)	33,015
Other changes in equity	-	-	24,838	-	-	(24,838)	-	-	-	-
Increased of capital	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into capital	-	-	-	-	-	-	-	-	-	-
Increase of other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial instruments	-	-	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-
Transactions including treasury shares and other equity instruments (net)	-	-	-	-	-	-	-	-	-	-
Transfers between total equity entries	-	-	24,838	-	-	(24,838)	-	-	-	-
Increase/Reduction in business combinations	-	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-	-
Rest of increase/reductions in total equity	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2008	28,874	93,180	110,254	-	-	34,094	-	264,402	(1,079)	263,323

	Thousands of euros								Valuation adjustments	Total equity
	Total equity									
	Stockholder's equity									
	Share Capital (Note 17)	Share premium (Note 18)	Reserves (Note 19)	Other equity instruments	Less: Treasury shares	Profit for the year	Less: dividend and remunerations	Total Stockholder's equity		
Balance at January 1, 2007	28,874	93,180	65,747	-	-	19,669	-	205,470	-	205,470
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Effect of correction of errors	-	-	-	-	-	-	-	-	-	-
Adjusted initial balance	28,874	93,180	65,747	-	-	19,669	-	205,470	-	205,470
Total income/expense recognized	-	-	-	-	-	24,838	-	24,838	-	24,838
Other changes in equity	-	-	19,669	-	-	(19,669)	-	-	-	-
Increased of capital	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into capital	-	-	-	-	-	-	-	-	-	-
Increase of other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial instruments	-	-	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-
Transactions including treasury shares and other equity instruments (net)	-	-	-	-	-	-	-	-	-	-
Transfers between total equity entries	-	-	19,669	-	-	(19,669)	-	-	-	-
Increase/Reduction in business combinations	-	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-	-
Rest of increase/reductions in total equity	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2007	28,874	93,180	85,416	-	-	24,838	-	230,308	-	230,308

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendix I attached are an integral part of the balance sheet as of December 31, 2008.



Translation of financial statements originally issued in Spanish and prepared in accordance with generally accounting principles Spain (see Note 31). In the event of a discrepancy, the Spanish-language version prevails.

**BBVA FACTORING,  
E.F.C., S.A. (Unipersonal)**

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND  
2007 (Continuation)**

(Notes 1 to 3)

CHANGES IN TOTAL EQUITY	Thousands of euros	
	2008	2007 (*)
<b>INCOME FOR THE YEAR</b>	<b>34,094</b>	<b>24,838</b>
<b>OTHER RECOGNIZED INCOME (EXPENSES)</b>	<b>(1,079)</b>	<b>-</b>
Available-for-sale financial assets	-	-
Revaluation gains/losses	-	-
Amounts transferred to income statement	-	-
Reclassifications	-	-
Cash flow hedges	(1,541)	-
Revaluation gains/losses	(1,541)	-
Amounts transferred to income statement	-	-
Amounts transferred to the initial carrying amount of the hedged items	-	-
Reclassifications	-	-
Hedges of net investment in foreign operations	-	-
Revaluation gains/losses	-	-
Amounts transferred to income statement	-	-
Reclassifications	-	-
Exchange differences	-	-
Revaluation gains/losses	-	-
Amounts transferred to income statement	-	-
Reclassifications	-	-
Non-current assets held for sale	-	-
Revaluation gains/losses	-	-
Amounts transferred to income statement	-	-
Reclassifications	-	-
Actuarial gains and losses in post-employment plans	-	-
Rest of recognized income and expenses	-	-
Income tax	462	-
<b>TOTAL INCOME AND EXPENSES FOR THE YEAR</b>	<b>33,015</b>	<b>24,838</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendix I attached are an integral part of the balance sheet as of December 31, 2008.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accounting principles Spain (see Note 31). In the event of a discrepancy, the Spanish-language version prevails.

## BBVA FACTORING, E.F.C., S.A. (Unipersonal)

### CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (Notes 1 to 3)

	Thousands of euros	
	2008	2007 (*)
<b>CASH FLOW FROM OPERATING ACTIVITIES (1)</b>	<b>85,263</b>	<b>798</b>
Profit for the year	34,094	24,838
Adjustments to obtain the cash flow from operating activities:	14,030	13,385
Amortisation	35	43
Other adjustments	13,995	13,342
<b>Net increase/decrease in operating assets</b>	<b>141,606</b>	<b>(1,286,836)</b>
Financial assets held for trading	-	-
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	-	-
Loans and receivables	147,594	(1,286,788)
Other operating assets	(6,088)	(48)
<b>Net increase/decrease in operating liabilities</b>	<b>(95,517)</b>	<b>1,264,085</b>
Financial liabilities	-	-
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(94,768)	1,267,981
Other operating liabilities	(749)	(3,896)
<b>Collection/Payments for income tax</b>	<b>(8,850)</b>	<b>(14,674)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES (2)</b>	<b>(27)</b>	<b>(662)</b>
Investment	(27)	(662)
Tangible assets	(27)	(88)
Intangible assets	-	-
Investments	-	(574)
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
<b>Divestments</b>	<b>-</b>	<b>-</b>
Tangible assets	-	-
Intangible assets	-	-
Investments	-	-
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	-	-
Other collections related to investing activities	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES (3)</b>	<b>-</b>	<b>-</b>
Investment	-	-
Dividends	-	-
Subordinated liabilities	-	-
Amortisation of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other items relating to financing activities	-	-
<b>Divestments</b>	<b>-</b>	<b>-</b>
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other items relating to financing activities	-	-
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH OR CASH EQUIVALENTS (4)</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (1+2+3+4)</b>	<b>85,236</b>	<b>136</b>
<b>CASH OR CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>230</b>	<b>94</b>
<b>CASH OR CASH EQUIVALENTS AT END OF YEAR</b>	<b>85,466</b>	<b>230</b>

  

	2008	2007 (*)
<b>COMPONENTS OF CASH AND EQUIVALENT AT END OF YEAR</b>		
<b>COMPONENTS OF CASH AND EQUIVALENT AT END OF YEAR</b>		
Cash	30	31
Balance of cash equivalent in central banks	-	-
Other financial assets	85,436	199
Less: bank overdraft refundable on demand	-	-
<b>TOTAL CASH OR CASH EQUIVALENTS AT END OF YEAR</b>	<b>85,466</b>	<b>230</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendix I attached are an integral part of the balance sheet as of December 31, 2008.

## **BBVA Factoring, E.F.C., S.A. (Unipersonal)**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **1. Introduction, basis of presentation of the financial statements and other information.**

##### **1.1. Introduction -**

BBVA Factoring, Establecimiento Financiero de Crédito, S.A. (Unipersonal) ("the Company") was incorporated in Bilbao under the name of Sociedad de Financiación de Ventas a Plazo, S.A. (SOFIVENSA) in March 1969. In May 1987 the Company's name was changed to B.B. Factoring, S.A. In 1988, after the Banco Bilbao Vizcaya Group was created, the Company became BBV Factoring, S.A. In 2000 Argentaria Factoring, E.F.C., S.A. and Catalana de Factoring S.A., E.F.C. were merged into BBV Factoring, S.A., E.F.C. with the dissolution without liquidation of the first two companies. The name of the post-merger company was BBVA Factoring, E.F.C., S.A. The transactions performed by Argentaria Factoring, E.F.C., S.A. and Catalana de Factoring, S.A., E.F.C. were deemed to be performed for the account of the Company for accounting purposes from 1 January 2000.

The Company is regulated by the Spanish Companies Law 3/1994, of 14 April, which adapted Spanish credit institution legislation to the Second Banking Coordination Directive and introduced other amendments to the financial system, by Royal Decree 692/1996, of 26 April, on the legal regime applicable to credit finance establishments (EFCs) and by other provisions applicable to it.

As required by the aforementioned Royal Decree 692/1996, on 23 October 1996, the Company was registered in the Bank of Spain's Special Register of EFCs.

The bylaws and other public information on the Company can be consulted at its registered office at c/ Paseo de Gracia 25, Barcelona. Its company object, per its bylaws, is to engage in recourse or non-recourse factoring transactions and in complementary activities such as investigating and classifying its clientele, recording accounts receivable and, generally, any other activity that facilitates the administration, evaluation, security and financing of the receivables arising from domestic and international commercial transactions that may be assigned to it.

The Company belongs to the Banco Bilbao Vizcaya Argentaria Group (Note 17). The operating branches perform all the transactions relating to business attracted through the Banco Bilbao Vizcaya Argentaria Group's branch network.

The Company's financial statements for 2007 were approved by the shareholders at the Annual General Meeting of the Company on 23 June 2008. The 2008 financial statements of the Company have not yet been approved by its shareholders at the Annual General Meeting. However, the Company's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

##### **1.2. Basis of presentation of the financial statements -**

On 22 December 2004, the Bank of Spain issued Circular 4/2004 on Public and Confidential Financial Reporting Rules and Formats.

The purpose of the new accounting Circular is to modify the accounting system of Spanish credit institutions and to adapt it to the new accounting framework arising from the adoption by the European Union, through various EU Regulations, of the International Financial Reporting Standards (EU-IFRS) in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

The Bank of Spain issued Circular 6/2008 on November 26, 2008, which modified Circular 4/2004, in order to adapt it to the IFRS-EU requirements.

The Company's financial statements for 2008 were prepared by its directors (at the Board meeting on 4 February 2008) from the Company's accounting records and are presented in accordance with the formats established by Bank of Spain

Circular 6/2008, of 26 November, and, accordingly, they present fairly the Company's equity and financial position at 31 December 2008, and the results of its operations, the changes in equity and the cash flows in 2008.

All accounting policies and measurement bases with a material effect on the financial statements were applied in their preparation.

### **1.3. Comparative information -**

The annual financial statements for the year ended December 31, 2008 were prepared under the financial statements models established in Circular 6/2008 of the Bank of Spain, which represents modifications in the presentation format of the financial statements, and the accompanying notes, with respect to the format of Circular 4/2004 of the Bank of Spain that was used to prepare the financial statements of the Bank for the year 2007

The information relating to 2007 contained in these notes to the financial statements is presented, solely for comparison purposes, with information relating to 2008.

Appendix I include reconciliation between the financial statements prepared in accordance to the models of Circular 1/2008 of Bank of Spain and the financial statements prepared in accordance with Circular 4/2004 of Bank of Spain for the year 2007.

### **1.4. Responsibility for the information and use of estimates -**

The information in these financial statements is the responsibility of the Company's directors. In the financial statements for 2008 estimates were occasionally made by the Company in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (Note 6).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments (Note 2-d y 16).
- The useful life of the tangible assets (Note 12).
- The fair value of certain unquoted assets (Note 8, 10 and 11).

These estimates were made on the basis of the best information available at 31 December 2008 on the events analysed. However, future events might make it necessary to change these estimates (upwards or downwards) in coming years.

### **1.5. Report on the activity of the Customer Care Department and the Customer Ombudsman -**

In conformity with Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and Customer Ombudsman of Financial Institutions, and because the Company belongs to the Banco Bilbao Vizcaya Argentaria Group, the Bank adhered to the Regulations on the Customer Ombudsman and the Customer Care Department of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and designates as customer ombudsman the ombudsman appointed by BBVA at any time.

### **1.6. Environmental impact -**

At 31 December 2008, the Company's financial statements did not disclose any item that should be included in the environmental information document envisaged in the related Ministry of Economy Order dated 8 October 2001.

### **1.7. Agents of credit institutions -**

As of December 31, 2008 neither during 2008, the Company has maintained no agency contracts as required in accordance to the article 22 of the Royal Decree 1245/1995, of July 14 of the Ministry of Economy.

### **1.8. Investments in capital of Credit Entities -**

As of December 31, 2008 the Company had no investments in equity of Credit Entities, resident neither non-resident ones, equal or greater than 5% of capital share of right votes.

### **1.9. Capital management and minimum equity required -**

Capital management at the BBVA Group is undertaken with the overriding objective of complying with its regulatory capital requirements under Bank of Spain criteria, as set forth in Bank of Spain Circular 3/2008, of May 22, regarding the

calculation and oversight of minimum capital requirements at Spanish credit institutions, under the Bank for International Settlements' new Basel Capital Accord (BIS-II).

This circular stipulates that the consolidated groups of credit institutions must at all times maintain a capital adequacy ratio or solvency coefficient of no less than 8% of that entity's risk-weighted assets, measured as set forth in the same circular.

During 2008 the company asked for exemption of required information about Capital Management and minimum equity at individual level due to the fact that established circumstances in 5<sup>th</sup> rule of 3/2008 Circular are concurring. As of December 31, 2008 Bank of Spain had not yet declared at this respect. Therefore, the Company has made the needed procedures to present the official statements in order to a dismiss of the request or non statement before the deadline of presentation expires. The Company, in order to carry out with the minimum requirements established in mentioned rule, joins their equity requirements in BBVA Group.

Bank of Spain Circular 3/2008, of 22 May, establishes the elements that should be classified as capital for the purpose of compliance with the minimum capital requirements set forth therein. Capital management of BBVA Group is made under Circular 3/2008 of Bank of Spain established. At this sense, the Group considers as minimum capital requirements the indicated in 8<sup>th</sup> rule of Circular 3/2008 of Bank of Spain.

As of December 31, 2007 management reviewed the regulatory capital base of capital and solvency ratios under the Bank of Spain criteria as set out in Circular 5 / 1993 of March 26.

As of December 31 2008 and 2007, the eligible capital of the Bank exceeded the minimum required under the regulations then in force.

#### **1.10. Seasonal nature of income and expenses -**

The nature of the most significant activities and transactions carried out by the Bank is mainly related to traditional activities carried out by financial institutions that are not affected by seasonal or cyclical factors.

#### **1.11. Subsequent events -**

On January 9 and 12, 2008 Banco Bilbao Vizcaya Argentaria, S.A. obtained the sole shareholder condition after acquisition of capital shares in hands of Cidessa Uno, S.L. and Corporación General Financiera, S.A. (see Note 17).

The Directors of BBVA Factoring, E.F.C., S.A. (sole shareholder), in Board meetings held on January 26, 2009, and Banco Bilbao Vizcaya Argentaria, S.A., in its Board meeting of January 27, 2009, approved the proposal to merge the sole shareholder company into Banco Bilbao Vizcaya Argentaria, S.A. and the subsequent transfer en bloc of their assets to BBVA, which will acquire by universal succession the transferors' rights and obligations. The merger agreement will be submitted to shareholders for approval in general meeting during the first quarter of the year.

## **2. Accounting policies and measurement bases**

The accounting policies and measurement bases applied in preparing the Company's financial statements for 2008 were as follows:

### **a) Financial instruments**

#### *Initial recognition of financial instruments*

Financial instruments are initially recognised in the balance sheet when the Company becomes a party to the contract, in accordance with the contractual conditions, and, in the case of the Company and in view of its company object, the contract is based on the assignment of trade receivables under factoring arrangements and complementary activities. Specifically, debt instruments, such as loans, are recognised from the time that a legal right to receive cash arises.

#### *Derecognition of financial instruments*

A financial asset is derecognised when any of the following conditions are met:

1. The contractual rights to the cash flows from the financial asset expire; or
2. The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

Financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired, with the intention either to resell them or to cancel them.

#### *Fair value and amortised cost of financial instruments*

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques sufficiently used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and interest payments and the cumulative amortisation charged to the income statement by the effective interest method of the difference between the initial cost and the maturity amount of the financial instruments. In the case of financial assets, amortised cost also includes any reductions for impairment.

For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date. In the case of floating rate financial instruments, the effective interest rate is estimated as for fixed rate transactions and is re-calculated on each repricing date on the basis of the changes in future cash flows arising therefrom.

#### *Classification and measurement of financial assets and liabilities*

Financial instruments are classified in the Company's balance sheet into the following categories:

**1. Available for sale financial assets:** This caption in the accompanying balance sheets includes the equity on Telefónica Factoring Do Brasil, Ltda. That the Company hold on (see Note 8).

This equity is measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

According to Circular 4/2004 of Bank of Spain, when there is an impairment evidence, the impairment losses are equal to the difference between their recoverable amount (Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use: the present value of expected future cash flows discounted at the market rate of return for similar securities) and their carrying amount. These impairment losses are determined taking into account the equity of the investee (except for valuation adjustments due to cash flow hedges) for the last approved balance sheet, adjusted for the unrealized gains at the measurement date. Impairment losses are recognized in the income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses may only be reversed subsequently in the event of the sale of the assets.

The impairment losses on equity instruments measured at acquisition cost are equal to the difference between their carrying amount and the present value of expected future cash flows discounted at the market rate of return for similar securities. These impairment losses are determined taking into account the equity of the investee (except for valuation adjustments due to cash flow hedges) for the last approved balance sheet, adjusted for the unrealized gains at the measurement date.

Impairment losses are recognized in the income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses may only be reversed subsequently in the event of the sale of the assets.

Accrued Dividends from these equities are recognized as income in the heading "Income from the equity instruments" in the accompanying income statements.

**2. Loans and receivables:** this category includes financing granted to third parties in connection with ordinary lending activities carried out by the Company and the "unfinanced, non-recourse" credit risk.

The financial assets included in this category are initially recognised at fair value, adjusted by the amount of the fees and commissions and transaction costs directly attributable to the acquisition of the financial asset, which are charged to the income statement on a straight-line basis until maturity. These assets are subsequently measured at amortised cost.

Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the cash amount paid is recognised as finance income on a straight-line basis over the remaining term to maturity.

The "recourse" transactions relate to debts for which the Company does not bear the risk of non-payment. Conversely, in the "non-recourse" transactions, the Company bears any bad debt risk that may arise (a default by a debtor arising from trade disputes between the debtor and the assignor or from breach of the contractual terms agreed upon by them is not deemed to be a bad debt risk).

The "non-recourse" accounts receivable, which are recorded at the full amount of the unmatured remittances delivered by the assignors and approved by the Company, are included under "Loans and Receivables - Loans and Advances to Customers - Factoring Transactions" (Note 9.3). The undrawn portion of the amount payable to the assignors is recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" (Note 14) in the accompanying balance sheets. In contrast, in "recourse" transactions, "Loans and Receivables - Loans and Advances to Customers - Factoring Transactions" reflects the portion of the unmatured delivered remittances that has been paid to the assignor. Also, pursuant to Bank of Spain regulations, the unmatured remittances delivered by the assignors relating to unfinanced recourse factoring transactions, which amounted to EUR 217,109 thousand at 31 December 2007 (31 December 2007: EUR 184,751 thousand), are included as an off-balance-sheet item under "Drawable by Third Parties" (Note 23).

In addition, the Company performed reverse (supplier) factoring ("confirming") transactions in which the debt, on which the Company bears the bad debt risk, takes the form of invoices approved by the debtor and advanced in full to the assignor. The aforementioned transactions are recorded under "Loans and Receivables - Loans and Advances to Customers - Reverse Factoring Transactions" (Note 9.3). Reverse factoring remittances which are not advanced are recognised as off-balance-sheet items and amounted to EUR 1,968,191 thousand at 31 December 2008 (31 December 2007: EUR 2,450,752 thousand) (Note 23). Certain reverse factoring contracts give the debtor the option of repurchasing his own factored receivables and of sharing through allowances the revenues from the factored remittances. These allowances were recognised under "Interest Expense and Similar Charges" in the accompanying income statements (Note 25).

Additionally, the Company performs factoring transactions known as "overall factoring", which is characterised mainly by the establishment of an overall limit per assignor, taking on board the receivables on which the Company bears the bad debt risk or makes advances on account and the establishment of a threshold below which this risk will not be covered. These transactions are recognised under "Loans and Receivables - Loans and Advances to Customers - Factoring Transactions" (Note 9.3).

Since the Company generally has the intention to hold these transactions to final maturity, they are recognised at amortised cost in the balance sheet.

Interest earned on these assets, which is calculated using the effective interest method as defined above, is recognised under "Interest and Similar Income" in the accompanying income statements. The exchange differences on securities included in this category denominated in currencies other than the euro are recognised as set forth in Note 2-e.

**3. Financial liabilities at amortised cost:** this category includes the financial liabilities not included under Financial Liabilities Held for Trading or under Other Financial Liabilities at Fair Value through Profit or Loss or through Equity.

When funds are advanced, the advance amount is paid directly to the customer and the applicable interest and factoring fees, if any, can be deducted. However, if the Company does not advance any funds, the transaction amount is recognised under "Financial Liabilities at Amortised Cost" in the accompanying balance sheets until it is paid to the customer when collected (Note 14).

Additionally, "Financial Liabilities at Amortised Cost" in the accompanying balance sheets includes the amount payable to assignors in respect of the stipulated contractual deposit or of the unused portion.

Interest accrued on these liabilities, which is calculated using the effective interest method as defined above, is recognised under "Interest Expense and Similar Charges" in the accompanying income statements. The exchange differences on securities included in this category denominated in currencies other than the euro are recognised as set forth in Note 2-e.

#### 4. Hedging Derivatives

Assets and liabilities recognized in these headings in the accompanying balance sheets are valued at fair value (Note 10).

Changes produced subsequent to the designation in the valuation of financial instruments designated as hedged items as well as financial instruments designated as hedging items are recognized based on the following criteria:

1. In the fair value hedges, the changes in the fair value of the derivative and the hedged item attributable to the hedged risk are recognized in the heading "Gains or losses on financial assets and liabilities (Net)" in the income statement.

2. In the cash flow hedges, the differences produced in the effective portions of hedging items are recognized temporarily under the heading "Valuation adjustments – Cash flow hedges". These valuation changes are recognized in the heading "Gains or losses on financial assets and liabilities (Net)" in the income statement in the same period or periods during which the hedged instrument affects profit or loss, when forecast transaction occurs or at the maturity date of the item hedged.

Differences in valuation of the hedging item for ineffective portions of cash flow hedges are recognized directly in the heading "Gains or losses on financial assets and liabilities (Net)" in the income statement.

### ***Impairment financial assets***

#### **Definition**

A financial asset is considered to be impaired – and therefore its carrying amount is adjusted to reflect the effect of its impairment – when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to a negative impact on the future cash flows that were estimated at the time the transaction was arranged.
- In the case of equity instruments, mean that the carrying amount of these instruments cannot be recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the year in which the impairment becomes known, and the recoveries of previously recognized impairment losses are recognized in the income statement for the year in which the impairment is reversed or reduced, with the exception that any recovery of previously recognized impairment losses for an investment in an equity instrument classified as available for sale which are not recognized through profit or loss but recognized under the heading "Valuation Adjustments – Available for sale Financial Assets" in the balance sheet.

Balances are considered to be impaired, and accrual of the interest thereon is suspended, when there are reasonable doubts that the balances will be recovered in full and/or the related interest will be collected for the amounts and on the dates initially agreed upon, taking into account the guarantees received by the entity to assure (in part or in full) the performance of transactions. Amounts collected in relation to impaired loans and receivables are used to recognize the related accrued interest and any excess amount is used to reduce the principal not yet paid.

When the recovery of any recognized amount is considered to be remote, this amount is removed from the consolidated balance sheet, without prejudice to any actions taken by the entity in order to collect the amount until their rights extinguish in full through expiry, forgiveness or for other reasons.

#### **Calculation of impairment financial assets**

The impairment on financial assets is determined by type of instrument and the category where is recognized, as follows:

##### ***Impairment of debt instruments carried at amortized cost:***

##### **Impairment losses determined individually**

The quantification of impairment losses of the assets classified as impaired is done on an individual basis in which customers in the amount of their operations is equal to or exceeds €1 million.

The amount of the impairment losses incurred on these instruments relates to the positive difference between their respective carrying amounts and the present values of their expected future cash flows.

The following is to be taken into consideration when estimating the future cash flows of debt instruments:

- All the amounts that are expected to be obtained over the residual life of the instrument; including, where appropriate, those which may result from the guarantees provided for the instrument (after deducting the costs required for foreclosure and subsequent sale).
- The various types of risk to which each instrument is subject.
- The circumstances in which collections will foreseeable be made.



These cash flows are discounted using the original effective interest rate. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective rate determined under the contract.

As an exception to the rule described above, the market value of quoted debt instruments is deemed to be a fair estimate of the present value of their future cash flows.

#### **Impairment losses determined collectively**

The quantification of impairment losses is determined on a collective basis in the following two cases:

- Assets classified as impaired of customers in which the amount of their operations is less than €1 million.
- Asset portfolio not impaired but which presents an inherent loss.

To estimate the collective loss of credit risk corresponding to operations with resident in Spain, the BBVA uses the parameters set by Annex IX of the Circular 4/2004 from Bank of Spain on the base of its experience and the Spanish banking sector information in the quantification of impairment losses and provisions for insolvencies for credit risk. These parameters will be used as far as the Bank of Spain validates internal models based on historical experience of the Bank.

Following is a description of the methodology to estimate the collective loss of credit risk:

##### 1. Specific allowance or provision for insolvency risk of the portfolio doubtful

The debt instruments, whoever the obligor and whatever the guarantee or collateral, that have past-due amounts with more than three months, shall be analyzed individually, taking into account the age of the past-due amounts, the guarantees or collateral provided and the economic situation of the customer and the guarantors.

In the case of unsecured transactions and taking into account the age of the past-due amounts, the allowance percentages are as follow:

<b>Age of the past-due amount</b>	<b>Allowance percentage</b>
Up to 6 months	between 4.5% and 5.3%
Over 6 months and up to 12 months	between 27.4% and 27.8%
Over 12 months and up to 18 months	between 60.5% and 65.1%
Over 18 months and up to 24 months	between 93.3% and 95.8%
Over 24 months	100%

##### 2. General allowance or provision of the portfolio into force

The debt instruments, whoever the obligor and whatever the guarantee or collateral, that do not have individually objective of impairment are collectively assesses, including the assets in a group with similar credit risk characteristics, sector of activity of the debtor or the type of guarantee.

The allowance percentages of hedge are as follows:

Negligible risk: 0%  
 Low risk: 0.06% - 0.75%  
 Medium-low risk: 0.15% - 1.88%  
 Medium risk: 0.18% - 2.25%  
 Medium-high risk: 0.2% - 2.50%  
 High risk: 0.25% - 3.13%

#### **b) Investments**

This item in the accompanying balance sheets includes the Company's ownership interest in the share capital of Telefónica Factoring Mexico, S.A. de C.V. (Note 11).

This investment is measured at acquisition cost, net of impairment losses, if applicable.

Pursuant to Bank of Spain Circular 4/2004, of 22 December, when there is evidence of impairment of investments, the impairment amount is estimated as the negative difference between the recoverable amount (calculated as the higher of

fair value of the investment less costs to sell or value in use; value in use is defined as the present value of the cash flows expected to be received from the investment in the form of dividends and those resulting from its sale or other disposal) and the carrying amount. Impairment losses on these investments and reversals of impairment losses are charged and credited, respectively, to "Impairment Losses (Net)" in the income statement.

### **c) Recognition of income and expenses**

The most significant criteria used by the Company to recognise its income and expenses are summarised as follows:

#### *Interest income, interest expenses and similar items:*

As a general rule, interest income, interest expenses and similar items are recognised on the basis of their period of accrual. Specifically, dividends received from other companies are recognised as income when the Company's right to receive them arises.

However, when a debt instrument is deemed to be impaired individually or is included in a group of instruments that are impaired because they have payments more than three months past due, the recognition of accrued interest in the income statement is suspended. This interest is recognised as income, when collected, as a reversal of the related impairment losses.

#### *Commissions, fees and similar items:*

Fee and commission income and expenses are recognised in the income statement using criteria that vary according to their nature. The most significant fee and commission items are as follows:

- Those arising from transactions or services that are provided over a period of time, which are recognised over the life of these transactions or services.
- Those relating to a service provided in a single act, which are recognised when the single act is carried out.

#### *Non-finance income and expenses:*

These are recognised for accounting purposes on an accrual basis.

### **d) Post-employment benefits and other commitments to employees**

Following is a description of the most significant accounting criteria relating to the commitments to employees, related to post-employment benefits and other commitments, of the Bank and branch abroad (Note 16).

#### *Commitments valuation: assumptions and gains/losses recognition*

The present values of the commitments are quantified on a case-by-case basis. The valuation method used for current employees is the projected unit credit method, which views each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

In adopting the actuarial assumptions, it is taken into account that:

- They are unbiased, in that they are neither imprudent nor excessively conservative.
- They are mutually compatible, reflecting the economic relationships between factors such as inflation, rates of salary increase and discount rates.
- The future levels of salaries and benefits are based on market expectations at the balance sheet date for the period over which the obligations are to be settled.
- The discount rate used is determined by reference to market yields at the balance sheet date on high quality corporate bonds.

Actuarial gains or losses arising from differences between the actuarial assumptions and what had actually occurred, were recognized in the income statements. The bank did not use the "corridor approach".

## **Post-employment benefits**

### **- Pensions**

Post-employment benefits include defined contribution and defined obligation commitments.

#### Defined contribution commitments

The amounts of these commitments are determined, on a case-by-case basis, as a percentage of certain remuneration items and/or as a pre-established annual amount. The current contributions made by the Company for defined contribution retirement commitments, which are recognized with a charge to the heading "Personnel Expenses – Contributions to external pension funds" in the accompanying income statements (Notes 16 and 27).

#### Defined benefit commitments

The Company has defined benefit commitments for permanent disability and death of current employees and early retirees; for death of certain retired employees; and defined-benefit retirement commitments applicable only to certain groups of serving employees (unvested benefits), or early retired employees (vested benefits) and of retired employees (ongoing benefits). Defined benefit commitments are funded by insurance contracts and internal provisions.

Entities that have covered their pension commitments with insurance policies written by entities forming part of the group shall recognise those commitments as follows:

- (i) Pension commitments to employees shall be recorded as pension provisions.
- (ii) The insurance policy shall be recorded on the asset side as an insurance contract linked to
- (iii) The expense for the period shall be recorded in the item "personnel expenses" net of the amount relating to the insurance contracts.

### **- Post-employment welfare benefits**

The Bank has welfare benefit commitments the effects of which extend beyond the retirement of the employees entitled to the benefits. These commitments relate to certain current employees and retirees, depending upon the employee group to which they belong.

The present values of the vested obligations for post-employment welfare benefits are quantified on a case-by-case basis. They are recognized in the heading "Provisions - Funds for Pensions and Similar Obligations" in the accompanying balance sheets (Note 15) and they are charged to the heading "Personnel expenses – Other personnel expenses" in the accompanying income statements (Note 27).

#### **Other commitments to employees**

The Bank is obliged to deliver partially or fully subsidised goods and services. The most significant employee welfare benefits granted, in terms of the type of compensation and the event giving rise to the commitments are: loans to employees, life insurance, study aid and long-service bonuses.

The present values of the vested obligations for commitments with personnel are quantified on a case-by-case basis. They are recognized in the heading "Provisions - Funds for Pensions and Similar Obligations" in the accompanying balance sheets (see Note 15). The post-employment welfare benefits delivered by the Bank to active employees are recognized in the heading "Personnel expenses – Other personnel expenses" in the accompanying income statements (see Note 27).

Other commitments for current employees accrue and are settled on a yearly basis, it is not necessary to record a provision in this connection.

### **e) Translation differences**

#### *Functional currency:*

The Company's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in "foreign currency".

The detail at 31 December 2008 and 2007 of the equivalent euro value of the main asset and liability balances denominated in foreign currency, by item, is as follows:

	Thousands of euros	
	2008	2007
<b>ASSETS</b>		
<b>Loans and receivables</b>	<b>1,789</b>	<b>1,622</b>
Sterling Pound	305	774
US dollar	1,354	659
Yen	130	189
<b>Available-for-sale financial assets</b>	<b>247</b>	<b>247</b>
Brasilian real	247	247
<b>Investments</b>	<b>574</b>	<b>574</b>
Mexican peso	574	574
<b>LIABILITIES</b>		
<b>Financial liabilities at amortised cost</b>	<b>1,789</b>	<b>1,622</b>
Sterling Pound	305	774
US dollar	1,354	659
Yen	130	189

*Translation of foreign currency balances:*

Foreign currency transactions performed by the Company are initially recognised in the financial statements at the equivalent euro value, translated using the exchange rates prevailing at the transaction date. Subsequently, the Company translates the foreign currency monetary balances to its functional currency using the closing exchange rates.

*Exchange rates*

For the purpose of preparing the financial statements, foreign currency balances were translated to euros, taking into account the aforementioned criteria, at the exchange rates published by the European Central Bank.

**f) Tangible assets**

Property, plant and equipment for own use includes assets held by the Company for current or future use which are expected to be used over more than one year. Property, plant and equipment for own use is presented in the balance sheet at acquisition cost –the fair value of any consideration given plus the aggregate cash payments made or committed–, less:

1. The related accumulated depreciation, and
2. Any estimated impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge is recognised in the income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Rates
Buildings and structures	2%
Computer hardware	25%

The Company assesses at the reporting date whether there is any internal or external indication that a tangible asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the new remaining useful life and/or to the revised carrying amount.

Similarly, if there is an indication of a recovery in the value of a tangible asset, the Company recognises the reversal of the impairment loss recognised in prior periods and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the year in which they are incurred.

#### **g) Tax assets and liabilities**

The income tax expense is recognised in the income statement, except when it results from transactions the gains or losses on which are recognised directly in equity, in which case the income tax is also recognised in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the income statement.

On 29 November 2006, Law 35/2006 on Personal Income Tax and Partially Amending the Corporation Tax, Non-Resident Income Tax and Wealth Tax Laws was published. This Law, which will come into effect on 1 January 2007, establishes, inter alia, a reduction in the standard tax rate for corporation tax purposes to 32.5% for tax periods beginning on or after 1 January 2007 and to 30% for tax periods beginning on or after 1 January 2008.

"Income Tax" includes the amounts charged and credited to the income statement (see Note 20) in connection with the income taxes accrued in the current year and arising from adjustments to the amounts recognised in prior years.

Deductible temporary differences, arising from differences between the carrying amount and the tax base of an asset or liability item, and tax credit and tax loss carry forwards give rise to deferred tax assets or liabilities. Deferred tax assets and liabilities are calculated by applying to the temporary difference or to the related tax credit and tax loss carry forward the tax rates at which they are expected to be recovered or settled.

The deferred tax assets and liabilities recognised are reassessed periodically in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

#### **h) Provisions**

Provisions are present obligations arising from a legal or contractual requirement, from valid expectations created by the Company in third parties regarding the assumption of certain types of responsibilities or from the virtual certainty as to the future course of regulation in particular respects, especially proposed new legislation that the Company cannot avoid.

Provisions are recognised in the balance sheet when each and every one of the following requirements is met: the Company has a present obligation resulting from a past event and, at the balance sheet date, it is more likely than not that the obligation will have to be settled; it is probable that to settle the obligation the Company will have to give up resources embodying economic benefits; and a reliable estimate can be made of the amount of the obligation.

#### **i) Termination benefits**

Termination benefits must be recognised when the Company has undertaken to terminate the labour employment of employees under a formal detailed employee termination plan. There are no redundancy plans making it necessary to recognise a provision in this connection.

#### **j) Cash Flow Statement**

For the preparation of the statement of cash flows has been used the indirect method. This method starts from the entity's profit or loss and adjusts its amount for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The following terms are used in the cash flow statements with the meanings specified:

- a) Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- b) Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- c) Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- d) Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

In preparing the consolidated cash flow statement, short-term highly liquid investments that are subject to an insignificant risk of changes in value were classified as "cash and cash equivalents". Accordingly, the Company classifies as cash and cash equivalents the balances recognised under the following:

- Cash property of Company registered in caption "Cash and Central Banks" in the accompanying balance sheet and Deposits on Credit Institutions registered in the caption "Loans and receivables".

**k) Statements of change in equity**

The statement of changes in equity presented in these financial statements shows the total changes in equity in the year. This information is in turn presented in two statements: the statement of recognised income and expense and the statement of total changes in equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Statement of recognised income and expense

This part of the statement of changes in equity presents the income and expenses generated by the Company as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the income statement for the year and the other income and expenses recognised, in accordance with current regulations, directly in equity.

Accordingly, this statement presents:

- a) Profit for the year.
- b) The net amount of the income and expenses recognised temporarily in equity under "Valuation Adjustments".
- c) The net amount of the income and expenses recognised definitively in equity.
- d) The income tax incurred by the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.
- e) Total recognised income and expense, calculated as the sum of the items in a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to minority interests.
- f) The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of its nature, under "Entities Accounted for Using the Equity Method".

The detail of the changes in income and expenses recognised in equity under "Valuation Adjustments" is as follows:

- a) Revaluation gains/(losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised under this line item in the year remain there, even if in the same year they are transferred to the income statement, to the initial carrying amount of other assets or liabilities or are reclassified to another line item.
- b) Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, albeit in the same year, which are recognised in the income statement.
- c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, albeit in the same year, which are recognised at the initial carrying amount of the assets or liabilities as a result of cash flow hedges.
- d) Other reclassifications: includes the amount of the transfers made in the year between valuation adjustment items in accordance with current regulations.

The amounts of these items are presented gross and, except as indicated above for the items relating to valuation adjustments of entities accounted for using the equity method, the related tax effect is recognised in this statement under "Income Tax".

### Statement of total changes in equity

This part of the statement of changes in equity includes all the changes in equity, including those due to changes in accounting policy and those made to correct errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the equity items, and the changes made are grouped together on the basis of their nature into the following items:

- a) Adjustments due to changes in accounting policy and adjustments made to correct errors: include the changes in equity arising as a result of the retrospective restatement of the balances in the financial statements due to changes in accounting policy or to the correction of errors.
- b) Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the statement of recognised income and expense.
- c) Other changes in equity: includes the remaining items recognised in equity, including, inter alia, increases and decreases in the endowment fund, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in equity.

### 3. Distribution of net profit

The proposed distribution of net profit for 2008 that will be submitted for approval by the shareholders at the Annual General Meeting is as follows:

Thousands of euros

<b>2008 net profit</b>	<b>34,094</b>
<b>Distribution to:</b>	
Voluntary reserve	34,094

### 4. Earning per share

Basic earnings per share are determined by dividing net profit or losses in a given period by the weighted average number of shares outstanding during the period.

Diluted earnings per share are determined using a method similar to that used to calculate basic earnings per share; however, the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of share options, warrants and convertible debt instruments outstanding at period-end.

The "diluted number" of shares linked to warrants outstanding at period-end is determined in two stages: firstly, the hypothetical liquid amount that would be received on the exercise of these warrants is divided by the annual average price of the share and, secondly, the difference between the amount thus quantified and the present number of potential shares is calculated; this represents the theoretical number of shares issued disregarding the dilutive effect. Profit or loss for the period is not adjusted.

Therefore, the calculation of earnings per share was as follow:

	2008	2007
<b>EARNINGS PER SHARE FOR CONTINUING OPERATIONS</b>		
Numerator for basic earnings per share:		
Income available to common stockholders (thousands of euros)	34,094	24,838
Numerator for diluted earnings per share:		
Income available to common stockholders (thousands of euros)	34,094	24,838
Denominator for basic earnings per share (millions of shares)	7,444,443	7,444,443
Denominator for diluted earnings per share (millions of shares)	7,444,443	7,444,443
<b>Basic earnings per share (euros)</b>	<b>4.58</b>	<b>3.34</b>
<b>Diluted earnings per share (euros)</b>	<b>4.58</b>	<b>3.34</b>

As of December 31, 2008 and 2007, there were neither instruments nor share based payment to employees that could potentially dilute basic earnings per share, nor discontinued operations that affected the earnings per share calculation for periods presented.

## **5. Remuneration of directors and senior executives**

### **Remuneration of directors -**

In 2008 and 2007 the Company's Board members did not earn or receive any salaries, attendance fees or other remuneration and the Company did not grant any advances or loans or have any pension or life insurance commitments to current or former Board members.

### **Remuneration of senior executives -**

The salary received in 2008 by the Company's senior executive officer amounted to EUR 82 thousand.

### **Detail of the directors' investments in companies with similar business activities and performance by directors, as independent professionals or as employees, of similar activities.**

Pursuant to Article 127.3 of the Spanish Companies Law, introduced by Law 26/2003, of 17 July, which amends Securities Market Law 24/1988, of 28 July, and the Spanish Consolidated Companies Law, in order to reinforce the transparency of listed companies, following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of the Company and of the Banco Bilbao Vizcaya Argentaria Group, in which the members of the Board of Directors own, directly or indirectly, equity interests.

Owner	Investee	Activity	Ownership Interest	Functions
Javier Virgilio Estévez Zurita	BBVA, S.A.	Banking	14,781	Officer
Carlos Olivares Sánchez	BBVA, S.A.	Banking	2,819	-
Alvaro José Báñez Hernández	BBVA, S.A.	Banking	2,958	Officer
M <sup>a</sup> del Mar Rodrigo Casanova	BBVA, S.A.	Banking	4,898	Officer
Elías Soler Vives	BBVA, S.A.	Banking	7,759	-
Antonio Alonso Granada	BBVA, S.A.	Banking	14,932	Officer
Emiliano Salcines Zugasti	BBVA, S.A.	Banking	2,213	Officer
Juan José Moreno Serrano	BBVA, S.A.	Banking	5,856	Officer
Fernando Colomina Barrueco	BBVA, S.A.	Banking	3,444	-

Also, pursuant to the aforementioned Law, set forth below are the activities carried on, as independent professionals or as employees, by the various members of the Board of Directors that are identical, similar or complementary to the activity that constitutes the company object of the Company:

Owner	Entity	Function or position
Javier Virgilio Estévez Zurita	BBVA, S.A.	Officer
	Telefónica Factoring, S.A.	Director
	Telefónica Factoring, S.A.	Director
Carlos Olivares Sánchez	Telefónica Factoring do Brasil Ltda.	Director
	Telefónica Factoring Mexico, S.A. de C.V.	Director
Alvaro José Báñez Hernández	BBVA, S.A.	Officer
Antonio Alonso Granada	BBVA, S.A.	Officer
M <sup>a</sup> del Mar Rodrigo Casanova	BBVA, S.A.	Officer
Emiliano Salcines Zugasti	BBVA, S.A.	Officer
Juan José Moreno Serrano	BBVA, S.A.	Officer

## **6. Risk exposure**

### **6.1. Interest rate risk management -**

The Company actively manages its interest rate risk in order to minimise, and in certain cases eliminate, the possible impact of changes in market interest rates on its investment and, therefore, on the net interest income reported in the income statement.

For this purpose several clearly differentiated measures are taken, namely:



1. For certain transactions, the funds required for payments to customers are raised through the BBVA Treasury Department rather than using the central account (average of 30-day Euribor).

The Company requests the funds required from the Treasury Department for the time required for the transaction concerned, thereby closing the transaction price and, therefore, fully eliminating any possible interest rate risk which might arise.

The parameters giving rise to this measure are as follows: a) very tight spreads, b) very long financing periods for certain transactions, and c) very large amount investments. Obviously, these parameters are considered provided that the financing method is not payment in arrears and that their reference rate is the central account, since in this case there would be no risk in this connection.

2. Daily assessment of the interest rate performance. Follow-up of the European Central Bank's expectations in respect of the foreseeable short- and medium-term interest rate policy. Monthly analysis of the Company's average spread on its contracts.
3. On the basis of the foregoing, the Company considers the possibility of borrowing funds from BBVA's Treasury Department in order to eliminate the possible interest rate risk on certain of the Company's investment aggregates, divided into 15-day tranches once the weighted average interest rate applied to customers has been calculated for these figures.

The Company has an outstanding credit facility through BBVA with a limit of EUR 2,500,000 thousand for these transactions. The balance drawn down at 31 December 2007 amounted to EUR 1,249,122 thousand (Note 14).

## 6.2. Credit risk exposure -

The Company's maximum credit risk exposure amounted to EUR 6,758,649 thousand at 31 December 2008, down 2.12% on 2007 year-end. The breakdown of these figures between the two products managed for the BBVA Group shows that the increase in reverse factoring with respect to 2007 was 13.2% –this product concentrates 47.9% of the total risk–, whereas factoring –which accounts for 52.1% of the total– decreased by 13.2%.

The customer credit risk is broken down as follows:

Thousands of euros			
Reverse Factoring Risk		Factoring Risk	
2008	2007	2008	2007
3,212,173	2,837,919	3,489,450	4,021,634

## Financial assets past due but not impaired

The table below provides disclosure on financial assets past due as of December 31, 2008 but not impaired, specifically an age analysis by class of financial instrument:

	Thousands of euros			
	Up to 1 month	1 to 2 months	2 to 3 months	Total
Loans and advances to customers	26,550	38,221	15,654	78,425

## Impaired assets and impairment losses

At 31 December 2008, the total past-due balance amounted to EUR 125,174 thousand (€67,568 thousand corresponding to impaired assets and €57,606 thousand corresponding to substandard assets) as a result of the special features of the products managed by the Company and of the Bank of Spain regulations in this connection, which affect the recording of provisions. A distinction must be drawn between past-due balances receivable from the private sector and those receivable from the public sector. The former must be provisioned on the basis of the age of the past-due balances (based on the schedule set by the regulator), whereas those relating to the public sector are not provisioned. Therefore, the detail of the aforementioned past-due balance is as follows:

	Thousands of euros			
	Past-Dues		Provision	
	2008	2007	2008	2007
<b>Private Sector</b>	<b>31,666</b>	<b>5,641</b>	<b>28,221</b>	<b>4,345</b>
<b>Public Sector</b>	<b>35,902</b>	<b>47,838</b>	<b>2,973</b>	<b>2,973</b>
Central government	1,181	876	-	-
Autonomous community governments	29,694	43,002	1,176	1,176
Local governments	4,996	3,913	1,797	1,797
Social security	31	47	-	-
<b>Total</b>	<b>67,568</b>	<b>53,479</b>	<b>31,194</b>	<b>7,318</b>

However, these past-dues can be deemed to be technical non-performance since they arise mainly from the long payment periods of the public sector rather than from an actual non-performance which may entail a loss for the Company.

Noteworthy is the large amount of the past-dues from autonomous community governments which arises from the factoring transactions performed on various autonomous community agencies managing the public health care system. The past-dues relate mainly to the long payment periods of some of these agencies. The reasons are multiple depending on the autonomous community concerned, but they are summarised as follows:

- Long internal administrative processes at each health agency, which means that the invoice accounting period is between 90 and 180 days.
- Once the invoice has been accounted for it must be approved and the approval period is quite long (between 90 and 360 days).
- Finally, a budget item must be assigned to the expenditure, and funds must be available to make the related payments.

In private sector the increase in doubtful loans is produced by the slowdown of economic conditions.

Consequently, the total past-due ratio was 1.00% at 31 December 2008, whereas that relating only to the private sector was 0.67%. This gave rise to an increase with respect to 2007, when the past-due ratio was 0.71% and that of the private sector was 0.11%.

The total specific provisions for credit risk recognised by the Company amounted to EUR 31,194 thousand, 89.1% of which relate to past-dues from the private sector and 8.3% relate to past-dues from the public sector.

The changes in 2008 and 2007 in "Loans and Advances to Customers - Impaired Assets" were as follows:

	Thousands of euros	
	2008	2007
<b>Balance at the beginning of the year</b>	<b>53,479</b>	<b>62,536</b>
Additions	231,562	174,264
Recoveries	(217,308)	(182,760)
Transfers to write-off	(165)	(561)
<b>Balance at the end of the year</b>	<b>67,568</b>	<b>53,479</b>

Following is a detail of the impaired financial assets considered as of December 31, 2008, classified by geographical location of risk and by age of the oldest past-due amount:

	Thousands of euros					
	Impaired assets of loans and advances to other debtors					Total
	Amounts less than six months past-due	6 to 12 months	12 to 18 months	18 to 24 months	More than 24 months	
Spain	9,380	6,403	3,857	2,911	44,732	67,283
Rest of Europe	212	16	14	19	3	264
Latin America	-	-	-	-	-	-
United States	19	2	-	-	-	21
<b>Total</b>	<b>9,611</b>	<b>6,421</b>	<b>3,871</b>	<b>2,930</b>	<b>44,735</b>	<b>67,568</b>

The changes of impairment losses of financial assets over the years 2008 and 2007 were as follows:

	Thousands of euros	
	2008	2007
<b>Balance at beginning of year</b>	<b>18,685</b>	<b>18,135</b>
<b>Increase:</b>		
Assets of remote collectability	165	561
Products overdue not collected	-	1
<b>Decrease:</b>		
Cash recovery	(3)	(12)
Foreclosed assets	-	-
Other causes	(6)	-
<b>Net exchange differences</b>	<b>-</b>	<b>-</b>
<b>Balance at the end of year</b>	<b>18,841</b>	<b>18,685</b>

The changes in the balance of the allowance for impairment losses on "Loans and receivables" were as follows:

	Thousands of euros	
	2008	2007
<b>Balance at the beginning of the year</b>	<b>114,391</b>	<b>101,306</b>
Increase in impairment losses charged to income	33,944	15,938
Decrease in impairment losses credited to income	(9,696)	(2,291)
Transfers to written-off loans	(165)	(561)
Exchange differences and other	106	(1)
<b>Balance at the end of the year</b>	<b>138,580</b>	<b>114,391</b>
<b>Of which:</b>		
Individually determined	31,194	7,318
Of which: Substandard assets	5,761	-
Collective determined	101,625	107,073
<b>Of which:</b>		
<b>Determined by type of covered assets</b>		
Loans and advances to other debtors	138,580	114,391
<b>Of which:</b>		
<b>Determined by geographic area</b>		
Europe	138,533	114,369
Rest	47	22
	<b>138,580</b>	<b>114,391</b>

The recoveries of balances previously written off amounted to EUR 9 thousand in 2008 and are presented as a deduction of the balance of "Impairment Losses (Net) – Loans and Receivables" in the accompanying income statements.

#### Renegotiated financial assets

As of December 31, 2008 there is no assets that would otherwise be past due or impaired whose terms have been renegotiated.

### 6.3. Liquidity risk Exposure -

In the wake of the exceptional circumstances unfolding in the international financial markets, notably from the second half of 2008, the European governments committed to taking the opportune measures to try to resolve the issues confronting bank funding and the ramifications of constrained funding on the real economy with a view to safeguarding the stability of the international financial system. The overriding goals underpinning these measures were to ensure sufficient liquidity to enable financial institutions to function correctly, to facilitate the funding of banks, to provide financial institutions with additional capital resources where needed so as to continue to ensure the proper financing of the economy, to ensure that applicable accounting standards are sufficiently flexible to take into consideration current exceptional market circumstances and to reinforce and improve cooperation among European nations.

Framed by this general philosophy, the following measures were passed into law in Spain during the fourth quarter of 2008:

- Royal Decree-Law 6/2008, of October 10, creating the Spanish Financial Asset Acquisition Fund, and Order EHA/3118/2008, dated October 31, enacting this Royal Decree. The purpose of the fund, which is managed by Spain's economy ministry and has an initial endowment of €30 billion, extendable to €50 billion, is to acquire, with public financing and based on market criteria, via auctions, financial instruments issued by the banks and *cajas* and securitization funds containing Spanish assets, secured by loans extended to individuals, companies and non-financial corporates.
- Royal Decree-Law 7/2008, of October 13, on Emergency Economic Measures in connection with the Concerted Euro Area Action Plan, and Order EHA/3364/2008, dated November 21, enacting article 1 of the aforementioned Royal Decree, including the following measures:
- The extension of state guarantees to secure bills, debentures and bonds issued by credit entities resident in Spain since October 14, 2008. Debt issued availing this state guarantee must: form part of individual operations or issuance programs; not be subordinated or secured by any other class of guarantee; be traded on official Spanish secondary markets; mature within 3 months and 3 years, although this maturity can be extended to 5 years subject to prior notification to the Bank of Spain; be fixed or floating rate, subject to special conditions for floating-rate debt; be repaid in a single instalment at maturity; not have any options or other derivatives attached; and, have a nominal value of €10 million or more. The deadline for granting state guarantees is December 31, 2009 and the total amount of guarantees that can be extended in 2008 is €100 billion.
- Authorization, on an exceptional basis, until December 31, 2009, for the Spanish economy ministry to acquire securities, including preferential shares and other non-voting equity instruments, issued by credit entities resident in Spain that need to reinforce their capital and so request.

The Company is entitled to avail of the aforementioned measures under the umbrella of its risk management policy. Notwithstanding, the Company covers liquidity risk through Banco Bilbao Vizcaya Argentaria, S.A., sole shareholder and entity providing credit facilities. Like this, the Company attends to their actual need and the origination of new business to finance their customers (Note 21).

### 6.4. Other risks exposures -

Considering that the functional currency of Company is euro that represents practically all balance sheet, the impact of future Exchange rates is insignificant.

### 6.5. Risk concentration -

Taking part the Company in BBVA Group (Note 17), the Company is not supposed to fulfil the risk concentration limits.

## 7. Cash and balances with central banks

The breakdown of the balance of "Cash and Balances with Central Banks" in the balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Cash	-	1
Balances with the Bank of Spain	30	30
<b>Total</b>	<b>30</b>	<b>31</b>

## **8. Available-for-sale financial assets**

The breakdown of this heading in the accompanying balance sheets by listing is as follows:

	Thousands of euros	
	2008	2007
<b>By listing status</b>		
Unlisted	247	247
Less- Impairment loss	(44)	(44)
	<b>203</b>	<b>203</b>

The balance of "Available-for-Sale Financial Assets - Other Equity Instruments" in the accompanying balance sheets at 31 December 2008 and 2007 related to a 10.25% interest in the share capital of Telefónica Factoring do Brasil, Ltda. These securities are not listed.

The dividend accrued during 2008 is recorded under the heading "Income from equity instruments" in the income statement and amounted to 349 thousand euros (comparing to 240 thousand euros a year earlier).

## **9. Loans and receivables**

### **9.1. Breakdown**

The breakdown, by type of financial instrument, of the balance of "Loans and Receivables" in the balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Loans and advances to credit institutions	85,436	199
Loans and advances to customers	6,686,258	6,809,663
Debt securities	-	-
	<b>6,771,694</b>	<b>6,809,862</b>
Less- Impairment losses	(138,580)	(114,391)
<b>Total</b>	<b>6,633,114</b>	<b>6,695,471</b>

### **9.2. Loans and advances to credit institutions**

The breakdown, by type of financial instrument, of the balance of "Loans and Advances to Credit Institutions" in the balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Time deposits	-	-
Demand	85,436	199
	<b>85,436</b>	<b>199</b>
Less- Impairment losses	-	-
<b>Total</b>	<b>85,436</b>	<b>199</b>

This amount corresponds to the balance in hand of a credit policy with Banco Bilbao Vizcaya Argentaria, S.A., with maturity on May 15, 2010 and interest rate related to Euribor (Euribor + 1M).

### **9.3. Loans and advances to customers**

The breakdown, by loan type and status, of the balance of "Loans and Advances to Customers" in the balance sheets at 31 December 2008 and 2007, disregarding the balance of impairment losses, is as follows:

	Thousands of euros	
	2008	2007
<b>By loan type and status</b>		
Factoring and reserve factoring transactions	6,701,623	6,859,553
Of which:		
Substandard assets	57,606	-
Impairment assets	67,568	53,479
Other term loans	1,310	1,986
Receivable on demand and other	55,726	43,846
	<b>6,758,659</b>	<b>6,905,385</b>
Less- Valuation adjustments- Accrued interest	(72,401)	(95,722)
<b>Total</b>	<b>6,686,258</b>	<b>6,809,663</b>

The breakdown, by type of risk and transaction type, of the "Factoring and Reverse Factoring Transactions" account in the foregoing detail at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
<b>Type of risk-</b>		
Recourse transactions	203,159	204,546
Non-recourse transactions-		
In euros	6,496,676	6,653,385
In foreign currency	1,788	1,622
	<b>6,701,623</b>	<b>6,859,553</b>
<b>Transaction type-</b>		
Factoring	3,327,407	3,653,031
Reserve factoring	3,212,173	2,837,919
Overall factoring	162,043	368,603
	<b>6,701,623</b>	<b>6,859,553</b>

The breakdown, by activity sector of the borrower, of "Loans and Advances to Customers" at 31 December 2008 disregarding valuation adjustments, is as follows:

	Thousands of euros		
	Resident Borrowers	Non-Resident Borrowers	Total
Public sector	1,997,297	-	1,997,297
Manufacturing	1,174,053	466,887	1,640,940
Real estate and construction	1,399,409	-	1,399,409
Retailing and financial services	700,945	-	700,945
Other	1,020,068	-	1,020,068
<b>Total</b>	<b>6,291,772</b>	<b>466,887</b>	<b>6,758,659</b>

The breakdown, by activity sector of the borrower, of "Non resident - Loans and Advances to Customers" at 31 December 2007, disregarding valuation adjustments, is as follows:

	Thousands of euros		
	Resident Borrowers	Non-Resident Borrowers	Total
Public sector	1,771,954	-	1,771,954
Manufacturing	1,359,511	277,804	1,637,315
Real estate and construction	1,688,351	-	1,688,351
Retailing and financial services	800,203	-	800,203
Other	1,007,562	-	1,007,562
<b>Total</b>	<b>6,627,581</b>	<b>277,804</b>	<b>6,905,385</b>

The breakdown, by geographical area, of "Loans and Advances to Customers" at 31 December 2008 and 2007, disregarding valuation adjustments, is as follows:

	Thousands of euros	
	2008	2007
Europe	195,118	99,754
United States	243,406	104,371
Latin America	1,524	6,331
Rest of the world	26,839	67,348
<b>Total</b>	<b>466,887</b>	<b>277,804</b>

Note 21 to the financial statements contains a detail of the scheduled maturities of these assets at 2008 and 2007 year-end.

#### **10. Hedging Derivatives**

As of December 31, 2008 and 2007 the main positions hedged by the Company and the derivatives assigned to hedge those positions are:

##### **Fair value hedge:**

Fixed rate loans: this risk is hedged using interest-rate derivatives (fixed- variable swaps).

##### **Cash flow hedge:**

Most of the hedged items are floating interest rate loans: this risk is hedged using currency and interest rate swaps.

All derivatives have been contracted with Banco Bilbao Vizcaya Argentaria, S.A. (Note 30). The maturity periods are from 2015 to 2033 year.

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Company, since the net position in these financial instruments is the result of offsetting and/or combining them.

#### **11. Investments**

This heading in the accompanying balance sheets amounting to 574 thousand euros relates to an 24.33% interest in the share capital of Telefónica Factoring Mexico, S.A. de C.V. acquired on January 10, 2007. These securities are not listed. Following the details of investment are shown:

Company	% Capital	Capital	Reserves	Thousands of euros			Total Stockholder's equity
				Profit for the year	Interim dividends		
Telefónica Factoring México, S.A. de C.V.	24.33%	1,715	61	44	-		1,820

There is no impairment losses during 2008 and 2007.

## 12. Tangible assets

The changes in 2008 and 2007 in "Tangible Assets" in the accompanying balance sheets, itemised by type of asset, were as follows:

Thousands of euros			
	Computer	Furniture	Total
<b>Cost, net of allowance-</b>			
<b>Balance at 1 January 2007</b>	516	301	817
Additions	41	47	88
Retirements	-	-	-
<b>Balance at 31 December 2007</b>	557	348	905
Additions	27	-	27
Retirements	-	-	-
<b>Balance at 31 December 2008</b>	584	348	932
<b>Accumulated depreciation-</b>			
<b>Balance at 1 January 2007</b>	(478)	(262)	(740)
Additions	(31)	(12)	(43)
Retirements	-	-	-
<b>Balance at 31 December 2007</b>	(509)	(274)	(783)
Additions	(23)	(12)	(35)
Retirements	-	-	-
<b>Balance at 31 December 2008</b>	(532)	(286)	(818)
<b>Balance at 31 December 2007</b>	48	74	122
<b>Balance at 31 December 2008</b>	52	62	114

Fully depreciated assets amounted to EUR 561 thousand at 31 December 2008 (550 thousand euros as of 31 December, 2007). The Company carries on its business activities basically in properties owned by Banco Bilbao Vizcaya Argentaria, S.A., and a rental expense of EUR 100 thousand was recognised in this respect in 2008 (€120 thousand as of 31 December, 2007).

## 13. Other assets and liabilities

The breakdown of the balances in the accompanying balance sheets was as follows:

Thousands of euros		
	2008	2007
<b>Assets -</b>		
Prepaid expenses	31	77
Other prepayments and accrued income	8,804	3,021
<b>Total</b>	<b>8,835</b>	<b>3,098</b>
<b>Liabilities -</b>		
Unmatured accrued expenses	2,681	2,050
Other accrued expenses and deferred income	1,217	1,483
<b>Total</b>	<b>3,898</b>	<b>3,533</b>

## 14. Financial liabilities at amortised cost

The breakdown of the balances of "Financial Liabilities at Amortised Cost" in the accompanying balance sheets is as follows:



	Thousands of euros	
	2008	2007
Deposits from credit institutions	6,197,626	6,105,165
Other financial liabilities		
Factoring payables	178,423	370,269
Reverse factoring payables	3,802	2,803
Other items	4,368	750
	186,593	373,822
<b>Total</b>	<b>6,384,219</b>	<b>6,478,987</b>

#### 14.1. Deposits from credit institutions -

The breakdown, by type of transaction, of the balances of "Deposits from Credit Institutions" in the accompanying balance sheets is as follows:

	Thousands of euros	
	2008	2007
Deposits with agreed maturity	6,079,227	5,924,559
Other accounts	93,899	159,073
Valuation adjustments	24,500	21,533
<b>Total</b>	<b>6,197,626</b>	<b>6,105,165</b>

The detail of the balance of "Time Deposits" in the foregoing table is as follows:

	Thousands of euros (Balance Drawn Down)			
	2008	2007	Limit	Maturity
Financing account with Banco Bilbao Vizcaya Argentaria, S.A.	4,830,105	4,635,592	Not fixed	Not fixed
Credit facility with separate drawdowns from Banco Bilbao Vizcaya Argentaria, S.A.	1,249,122	1,288,967	2,500,000	01/06/2012
<b>Total</b>	<b>6,079,227</b>	<b>5,924,559</b>		

The financing account and the credit facilities shown in the foregoing table bear interest at floating rates tied to Euribor, ranging from 3.09% to 4.92% at 31 December 2008 (from 4.18% to 4.74% during 2007).

#### 15. Provisions

The breakdown of the balance of "Provisions" in the balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Provisions for pensions and similar obligations (Note 16)	282	305
Other provisions	2,075	5,288
<b>Total</b>	<b>2,357</b>	<b>5,593</b>

The changes in 2008 and 2007 in the balances of "Provisions for Pensions and Similar Obligations" and of "Other Provisions" in the accompanying balance sheet were as follows:

Thousands of euros			
	Provisions for Pensions and similar	Other provisions	Total
<b>Balance at 1 January 2007</b>	<b>356</b>	<b>4,075</b>	<b>4,431</b>
Year provision with a charge to income for the year			
Additional provisions	(48)	1,213	1,165
Interest expense and similar charges (Note 16 y 25)	6	-	6
Personnel expenses	6	-	6
Transfer to bad debts	-	-	-
Other Changes	(15)	-	(15)
<b>Balance at 31 December 2007</b>	<b>305</b>	<b>5,288</b>	<b>5,593</b>
Year provision with a charge to income for the year			
Additional provisions	(32)	-	(32)
Interest expense and similar charges (Note 16 y 25)	5	-	5
Personnel expenses	4	-	4
Transfer to bad debts	-	-	-
Other Changes	-	(3,213)	(3,213)
<b>Balance at 31 December 2008</b>	<b>282</b>	<b>2,075</b>	<b>5,593</b>
<i>Of which:</i>			
Provisions for off-balance-sheet risks	-	-	-
Other provisions	282	2,075	2,357
<b>Balance at 31 December 2008</b>	<b>282</b>	<b>2,075</b>	<b>2,357</b>

The charges to the income statement relating to "Provisions for Pensions and Similar Obligations" are recognised under "Interest Expense and Similar Charges", "Personnel Expenses" and "Provisions (Net)" in the income statement for 2007 and amounted to EUR 5 thousand, EUR 4 thousands and EUR (32) thousand, respectively (2007: EUR 4 thousand, 6 and EUR 48 thousand, respectively).

The amount registered under "Other changes" concept of "Other provisions" movement relates to a partial consignment of a legal contingency totally provisioned by the Company.

The Company's directors consider that there were no material contingencies at 31 December 2008 that might affect the Company's equity or net profit.

## **16. Commitments to Employees**

Under the collective labour agreement, Spanish banks are required to supplement the social security benefits received by employees or their beneficiary rightholders in the event of retirement (except for those hired after 8 March 1980), permanent disability, death of spouse or death of parent.

The employee welfare system in place at the Bank supersede and improve the terms and conditions of the collective labour agreement for the banking industry; the commitments envisaged in the event of retirement, death and disability cover all employees, including those hired after 8 March 1980. The Bank externalised all its commitments to serving and retired employees pursuant to Royal Decree 1588/1999. These commitments are instrumented in pension plans, insurance contracts with a non-Group company and insurance contracts with BBVA Seguros, S.A. de Seguros y Reaseguros, which is 99.94% owned by the Banco Bilbao Vizcaya Argentaria Group. This employee welfare system includes defined contribution commitments, the amounts of which are determined, on a case-by-case basis, as a percentage of certain compensation and/or as a pre-established fixed amount. Defined benefit commitments are funded by insurance contracts.

### **16.1. Commitments in Spain**

The commitments with personnel for post-employment defined contribution plans have no impact in the accompanying balance sheets (Note 2.d). In 2008, the Bank has made contributions to the defined contribution plans with a charge to the income statement amounted to €71 million (in 2007 the contributions amounted to €80 - Note 27).

### **16.2. Post-employment benefit**

The most significant actuarial assumptions used as of December 31, 2008 and 2007, for the quantification of these commitments are as follows:

	2008	2007
Mortality tables	PERM/F 2000P	PERM/F 2000P
Discount rate (cumulative annual)	4.5%/AA corporate bond yield curve	4.5%/AA corporate bond yield curve
Consumer price index (cumulative annual)	2.0%	2.0%
Salary growth rate (cumulative annual)	At least 3% (depending on employee)	At least 3% (depending on employee)
Retirement ages	First date at which the employees are entitled to retire or contractually agreed at the individual level in the case of early retirements	

#### 16.2.1. Public social security system benefit supplement

The Bank has defined benefit commitments for permanent disability and death of current employees and early retirees; for death of certain retired employees; and for retirement of certain specific groups of current employees, early retirees and retired employees (benefits in progress). These commitments are hedged through insurance contracts and internal funds.

The defined benefit commitments as of December 31, 2008 and 2007 were as follows:

	Thousands of euros	
	2008	2007
Pension commitments to retired employees	-	-
Pension contingencies in respect of current	201	201
<b>Funding</b>		
Insurance contracts with related insurance companies (Note 15)	201	201
<b>Unfunded obligations</b>	-	-

To cover pension commitments above mentioned, insurance contracts have been contracted with insurance companies with BBVA Seguros, S.A. de Seguros y Reaseguros, which is owned by the BBVA Group. The commitments are registered under the heading "Funds for pensions and similar obligations" of the accompanying balance sheets (Note 15) and the insurance contract assets are recognised in the heading "Insurance contracts linked to pensions".

There is no contributions made by the Company in relation to defined benefit retirement commitments during 2008 and 2007.

#### 16.2.2. Post-employment welfare benefits

The Company has welfare benefit commitments the effects of which extend beyond the retirement of the employees entitled to the benefits. These commitments relate to certain current employees and retirees, depending upon the employee group to which they belong.

The detail of these commitments as of 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Post-employment welfare benefit commitments to retired employees	-	1
Vested post-employment welfare benefit contingencies in respect of current employees	81	103
	81	104
<b>Funding</b>		
Internal provisions (Note 15)	81	104
<b>Compromisos no cubiertos</b>	-	-

The changes in 2008 and 2007 in the present value of the vested obligation for post-employment welfare benefit commitments were as follows:

	Thousands of euros	
	2008	2007
<b>Actuarial value at beginning of year</b>	<b>104</b>	<b>140</b>
+ Interest cost (Note 25)	5	6
+ Normal cost for the year (Note 27)	4	6
- Payments made	-	-
+/- Actuarial losses (Gains)	(32)	(48)
<b>Actuarial value at end of year</b>	<b>81</b>	<b>104</b>

### 16.3. Summary

Following is a summary of the charges recorded in the 2008 and 2007 income statements for post-employment benefit commitments:

	Thousands of euros	
	2008	2007
<b>Interest expense and similar charges:</b>		
Interest cost of pension funds (Nota 25)	5	6
<b>Personnel expenses:</b>		
Other personnel expenses (Nota 27)	4	6
Contributions to pension plans (Nota 27)	71	80
<b>Provision expense (net):</b>		
Transfers to funds for pensions and similar obligations	(32)	(48)
	<b>48</b>	<b>44</b>

As of 31 December 2008 and 2007 there were no unfunded actuarial gains or losses arising from differences between the actuarial assumptions and what had actually occurred or, where appropriate, from the effects of changes in the actuarial assumptions used.

### 16.4. Other commitments with personnel

Other benefits for active employees are earned and settled annually, not being necessary some provision. The total cost of the employee welfare benefits provided by the Bank to its current employees in the 2008 and 2007 was €147 million and €126 million, respectively, and these amounts were recognised with a charge to Personnel Expenses - Other in the accompanying income statements (Nota 27).

## 17. Share capital

At 31 December 2008 and 2007, the Company's share capital amounted to EUR 26,874,439.23 and consisted of 7,444,443 registered shares of EUR 3.61 par value each, all with the same rights, fully subscribed and paid by Corporación General Financiera, S.A., except for one share held by Cidessa UNO, S.L. (both Banco Bilbao Vizcaya Argentaria Group companies).

At 31 December 2008, the Company had not performed any treasury share transactions in the year.

On January 9 and 12, 2008 Banco Bilbao Vizcaya Argentaria, S.A. obtained the sole shareholder condition after acquisition of capital shares in hands of Cidessa Uno, S.L. and Corporación General Financiera, S.A.

Under 128.1 article of 2/95 law on Limited liability Companies, following is shown the contracts between the Company and sole shareholder, indicating type and specifications:

- A lease contract, annually renewable, of premises with Banco Bilbao Vizcaya Argentaria, S.A. (Note 12).
- Interest Rate Swaps contracts with Banco Bilbao Vizcaya Argentaria, S.A., of maturities between 2015 and 2033 year to cover interest rate risks (Note 10).

- Credit facilities signed with Banco Bilbao Vizcaya Argentaria, S.A. to finance factoring activities of the Company (Note 14).

## **18. Share premium**

The Consolidated Companies Law expressly permits the use of the share premium account balance to increase capital and establishes no specific restrictions as to its use.

## **19. Reserves**

The breakdown of "Reserves" in the accompanying balance sheets is as follows:

	Thousands of euros		
	Legal reserve	Voluntary reserve	Total
<b>Balance at 1 January 2007</b>	<b>4,846</b>	<b>60,901</b>	<b>65,747</b>
2005 profit	529	19,140	19,669
<b>Balance at 31 December 2007</b>	<b>5,375</b>	<b>80,041</b>	<b>85,416</b>
2007 profit	-	24,838	24,838
<b>Balance at 31 December 2008</b>	<b>5,375</b>	<b>104,879</b>	<b>110,254</b>

### **19.1. Legal reserve:**

Under the Consolidated Companies Law, entities must transfer 10% of net profit for each year to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

Except as mentioned above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

## **20. Tax matters**

The Company files consolidated tax returns as part of the consolidated tax group n° 2/82, the Parent of which is Banco Bilbao Vizcaya Argentaria, S.A. On 30 December 2002, the appropriate notification was submitted to the Ministry of Economy and Finance to extend indefinitely the Company's taxation under the consolidated taxation regime in accordance with current regulations.

In 2005, as a result of the tax audit conducted by the tax authorities, tax assessments were issued for the years 2001 to 2003, some of which were signed on a contested basis. After considering the temporary nature of certain of the items assessed, the amounts, if any, that might arise from these assessments were provisioned in full in at 2008 year-end.

The reconciliation of the income tax charge, calculated from accounting profit before tax, to the tax expense recognised for the period from 1 January 2008 to 31 December 2008, is as follows:

Thousands of euros	
<b>Accounting profit before tax</b>	<b>48,583</b>
Increase due to permanent differences	(349)
Increases (decreases) due to temporary differences:	
Arising in the current year	28,800
Arising in prior years	(7,744)
<b>Taxable profit</b>	<b>69,290</b>

The balance of "Tax Liabilities - Current" in the accompanying balance sheets includes the liability relating to the various applicable taxes, including EUR 13,102 thousand of 2008 and, income tax payable on 2008 profit, net of the prepayments and withholdings made in the year amounted to EUR 7,685 thousand.

Pursuant to Bank of Spain Circular 4/2004 and related provisions, the deferred tax assets are recognised under "Tax Assets" in the accompanying balance sheets and amounted to EUR 26,879 thousand and EUR 19,886 thousand at 31 December 2008 and 2007, respectively. Deferred tax assets arose mainly from the period provision for bad debts and from the adaptation to the new accounting rules and standards.

The varying interpretations which can be made of the tax regulations applicable to the operations performed by the banking industry in the open years might give rise to certain contingent tax liabilities that are not susceptible to objective quantification. However, the Company's directors and its tax advisors consider that the likelihood of these contingent liabilities materialising is remote and that, in any event, the tax debt which might arise therefrom would not materially affect these financial statements.

## 21. Residual maturity periods

The breakdown, by maturity, of the balances of certain items in the balance sheets at 31 December 2008 is as follows:

2008	Thousands of euros						Total
	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
<b>ASSETS-</b>							
Cash and balances with central banks	30	-	-	-	-	-	30
Loans and receivables							
Loans and advances to credit institutions	85,436	-	-	-	-	-	85,436
Loans and advances to customers	81,016	1,511,202	2,547,038	2,164,490	333,829	121,084	6,758,659
<b>LIABILITIES-</b>							
Financial liabilities at amortised cost							
Deposits from credit institutions	4,924,004	121,583	227,363	816,335	68,202	15,639	6,173,126
Other financial liabilities	185,859	95	-	639	-	-	186,593
Other asset items less liability items	(4,943,381)	1,389,524	2,319,675	1,347,516	265,627	105,445	484,408

The breakdown, by maturity, at 31 December 2007 is as follows:

2007	Thousands of euros						Total
	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
<b>ASSETS-</b>							
Cash and balances with central banks	31	-	-	-	-	-	31
Loans and receivables							
Loans and advances to credit institutions	199	-	-	-	-	-	199
Loans and advances to customers	77,887	2,199,604	2,189,747	1,902,019	387,180	148,948	6,905,385
<b>LIABILITIES-</b>							
Financial liabilities at amortised cost							
Deposits from credit institutions	4,794,665	549,255	77,882	301,599	231,244	128,987	6,083,632
Other financial liabilities	373,822	-	-	-	-	-	373,822
Other asset items less liability items	(5,090,370)	1,679,070	2,111,865	1,600,420	155,936	19,961	476,882

The Company has the financial support of BBVA in order to attend the maturities, under the credit facilities shown in note 14.

## 22. Fair value of financial assets and liabilities

The fair value of financial instruments not valued at fair value in the accompanying balance sheets (see Note 2), is similar to their book value due to the fact that are short term financial instruments.

## **23. Other significant information**

### **23.1. Transactions for the account of third parties**

The breakdown of "Transactions for the Account of Third Parties" is as follows:

	Thousands of euros	
	2008	2007
Conditional bills and other securities received for collection	2,687,902	3,437,020
Commercial bills received for collection	502,602	801,696
Other securities received for collection	2,185,300	2,635,324
General government	-	184,588
Resident sector	2,185,247	2,450,572
Non resident sector	53	164
<b>Total</b>	<b>2,687,902</b>	<b>3,437,020</b>

### **23.2. Other off-balance-sheet items**

The breakdown of "Other Off-Balance-Sheet Items" is as follows:

	Thousands of euros	
	2008	2007
Write-off assets	18,841	18,685
Past-due income on doubtful assets	394	1
Conditional bills and other securities received for collection	3,060	2,946
Documents securing transactions	68,993	253,917
Deposit accounts	33,689	23,935
Guarantees received	20,297	81,948
Registration accounts (unrestricted)	2,508,520	2,519,616
Control accounts	10,224	10,217
<b>Total</b>	<b>2,664,018</b>	<b>2,911,265</b>

## **24. Interest and similar income**

The breakdown of the main items of interest and similar income earned by the Company in 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Loans and advances to other debtors		
General government	33,530	18,771
Resident sector	247,846	193,219
Non resident sector	5,895	4,571
<b>Total</b>	<b>287,271</b>	<b>216,561</b>

The detail, by type of transaction, of "Interest and Similar Income" in the accompanying income statements for 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
<b>Factoring transactions-</b>		
General government	5,421	3,568
Resident sector	130,478	100,263
Non resident sector	4,262	2,608
<b>Reverse factoring transactions-</b>		
General government	28,109	14,745
Resident sector	116,789	93,259
Non resident sector	1,633	1,964
Other	579	154
<b>Total</b>	<b>287,271</b>	<b>216,561</b>

## **25. Interest and similar charges**

The detail of the balance of this heading in the consolidated income statement is as follows:

	Thousands of euros	
	2008	2007
Deposits for credit institutions	225,322	173,150
Cost allocable to provisions for pensions (Note 15 y 16)	5	6
<b>Total</b>	<b>225,327</b>	<b>173,156</b>

## **26. Fee and commission income and expense**

The breakdown of "Fee and Commission Income" and of "Fee and Commission Expense" in the accompanying income statements is as follows:

	Thousands of euros	
	2008	2007
<b>Fee and commission income</b>		
Factoring transactions	10,627	9,843
Reverse factoring transactions	12,436	10,822
Other fees and commissions	214	64
	<b>23,277</b>	<b>20,729</b>
<b>Fee and commission expense</b>		
Fees assigned to third parties	334	235
Other fees and commissions	214	341
	<b>548</b>	<b>576</b>



## 27. Personnel expenses

The detail of "Personnel Expenses" in the accompanying income statements is as follows:

	Thousands of euros	
	2008	2007
Wages and salaries	4,683	6,082
Social security costs	830	1,011
Contributions to external pension funds (Note 16)	71	80
Termination benefits	-	125
Other personnel expenses	262	226
<b>Total</b>	<b>5,846</b>	<b>7,524</b>

In 2006 a long-term share-based remuneration plan was implemented at the BBVA Group aimed at the Group's management team. At 31 December 2008, in the case of the Company, the total cost of the plan to be accrued over the term thereof (three years) is not material. The cost relating to 2008 is recognised under "Personnel Expenses – Other Expenses" in the income statement.

The average number of employees in the Company, by professional category, in 2008 and 2007 was as follows:

	Average Number of Employees	
	2008	2007
Executives	7	8
Supervisors	23	24
Administrative staff	48	71
<b>Total</b>	<b>78</b>	<b>103</b>

As of December 31, 2008, the number of employees in the Bank, by professional category and by gender, was as follows:

	Men	Women	Total
Board of directors	8	1	9
Executives	7	-	7
Supervisors	20	2	22
Administrative staff	20	14	34
<b>Total</b>	<b>55</b>	<b>17</b>	<b>72</b>

## 28. Other general administrative expenses

The breakdown of the balance of "Other General Administrative Expenses" in the income statement is as follows:

	Thousands of euros	
	2008	2007
Technology and systems	545	1,686
Communications	466	62
Advertising	1	-
Outsourced administrative services	3,635	1,725
Property, fixtures and materials	184	221
Taxes other than income tax	52	33
Other expenses	614	548
<b>Total</b>	<b>5,497</b>	<b>4,275</b>

In 2008, the Company signed a service line agreement with Opplus, S.A., a company of BBVA Group. The accrued amount was 1,378 thousand euros (Note 30) and is registered in the "Outsourced administrative services" account of below detail.

The balance of the heading "Other administrative expenses" in the foregoing table includes EUR 49 thousands of the audit fees paid by the Bank to their respective auditors.

The services provided by our accountants meet the independence requirements established in Law 44/2002, of 22 November, on Measures Reforming the Financial System and in the Sarbanes-Oxley Act of 2002 adopted by the Securities and Exchange Commission (SEC), and accordingly they did not include the performance of any work that is incompatible with the auditing function.

## **29. Other operating income and expenses**

The balance of "Other operating income" and "Other operating expenses" in the accompanying income statement at 31 December 2008 and 2007 relates to the regularisation of prior years' balances.

## **30. Transactions with Group entities**

The balances of the main aggregates in the financial statements arising from the transactions carried out by the Company with Banco Bilbao Vizcaya Argentaria Group companies in 2008 and 2007, which consist of ordinary business and financial transactions carried out on an arm's-length basis, are as follows:

	Thousands of euros	
	2008	2007
<b>BALANCE SHEET:</b>		
<b>Assets-</b>		
Credit institutions (Note 9)	85,414	174
Hedging derivatives (Note 10)	127	-
<b>Liabilities-</b>		
Credit institutions (Note 14)	6,111,592	6,103,122
Income tax payable to BBVA (Note 20)	13,102	1,165
Hedging derivatives (Note 10)	3,178	-
<b>INCOME STATEMENT:</b>		
<b>Debit-</b>		
Interest expense and similar charges (Note 25)	225,322	173,150
Outsourced administrative services (Note 28)	1,378	-
Other expenses (Note 12)	100	120

## **31. Explanation added for translation to English**

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

**Appendix I Reconciliation between Balance Sheet of 2007, prepared by Company in accordance with the Circular 4/2004 of the Bank of Spain, and balance sheet prepared in accordance with the Circular 6/2008 of the Bank of Spain, is provided below:**

ASSETS	Circular 4/2004	Adjustments	Circular 6/2008	ASSETS
CASH AND BALANCES WITH CENTRAL BANKS	31		31	CASH AND BALANCES WITH CENTRAL BANKS
FINANCIAL ASSETS HELD FOR TRADING	-		-	FINANCIAL ASSETS HELD FOR TRADING
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-		-	OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 8)	203		203	AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 8)
LOANS AND RECEIVABLES (Note 9)	6,695,471		6,695,471	LOANS AND RECEIVABLES (Note 9)
HELD-TO-MATURITY INVESTMENTS	-		-	HELD-TO-MATURITY INVESTMENTS
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO	-		-	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO
HEDGING DERIVATIVES	-		-	HEDGING DERIVATIVES
NON-CURRENT ASSETS HELD FOR SALE	-		-	NON-CURRENT ASSETS HELD FOR SALE
INVESTMENTS	574		574	INVESTMENTS
INSURANCE CONTRACTS LINKED TO PENSIONS	201		201	INSURANCE CONTRACTS LINKED TO PENSIONS
TANGIBLE ASSETS	122		122	TANGIBLE ASSETS
INTANGIBLE ASSETS	-		-	INTANGIBLE ASSETS
TAX ASSETS	19,888		19,888	TAX ASSETS
PREPAYMENTS AND ACCRUED INCOME	3,090	(3,090)	3,090	OTHER ASSETS
OTHER ASSETS	8	(8)	-	OTHER ASSETS
<b>TOTAL ASSETS</b>	<b>6,719,586</b>		<b>6,719,586</b>	<b>TOTAL ASSETS</b>
<b>LIABILITIES</b>	<b>Circular 4/2004</b>	<b>Adjustments</b>	<b>Circular 6/2008</b>	<b>LIABILITIES</b>
FINANCIAL LIABILITIES HELD FOR TRADING	-		-	FINANCIAL LIABILITIES HELD FOR TRADING
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-		-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH EQUITY	-		-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH EQUITY
FINANCIAL LIABILITIES AT AMORTIZED COST	6,478,987		6,478,987	FINANCIAL LIABILITIES AT AMORTIZED COST
CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN	-		-	CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN
HEDGING DERIVATIVES	-		-	HEDGING DERIVATIVES
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR	-		-	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR
PROVISIONS	5,593		5,593	PROVISIONS
TAX LIABILITIES	1,165		1,165	TAX LIABILITIES
ACCRUED EXPENSES AND DEFERRED INCOME	2,449	(2,449)	-	OTHER LIABILITIES
OTHER LIABILITIES	1,084	(1,084)	-	OTHER LIABILITIES
CAPITAL HAVING THE NATURE OF FINANCIAL LIABILITY	-		-	
<b>TOTAL LIABILITIES</b>	<b>6,489,278</b>		<b>6,489,278</b>	<b>TOTAL LIABILITIES</b>
<b>EQUITY</b>	<b>Circular 4/2004</b>	<b>Adjustments</b>	<b>Circular 6/2008</b>	<b>EQUITY</b>
VALUATION ADJUSTMENTS	-		-	VALUATION ADJUSTMENTS
STOCKHOLDER'S EQUITY	230,308		230,308	STOCKHOLDER'S EQUITY
Capital	28,874		28,874	Capital
Share premium	93,180		93,180	Share premium
Reserves	85,416		85,416	Reserves
Other equity instruments	-		-	Other equity instruments
Less: Treasury shares	-		-	Less: Treasury shares
Income attributed to the group	24,838		24,838	Income attributed to the group
Less: Dividends and remuneration	-		-	Less: Dividends and remuneration
<b>TOTAL EQUITY</b>	<b>230,308</b>		<b>230,308</b>	<b>TOTAL EQUITY</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>231,473</b>		<b>6,719,586</b>	<b>TOTAL LIABILITIES AND EQUITY</b>
<b>MEMORANDUM ITEMS</b>	<b>Circular 4/2004</b>	<b>Adjustments</b>	<b>Circular 6/2008</b>	<b>MEMORANDUM ITEMS</b>
CONTINGENT EXPOSURES	-		-	CONTINGENT EXPOSURES
CONTINGENT COMMITMENTS	-		-	CONTINGENT COMMITMENTS

**Appendix I Reconciliation between income statement during 2007, prepared by Company in accordance with the Circular 4/2004 of the Bank of Spain, and income statement prepared in accordance with the Circular 6/2008 of the Bank of Spain, is provided below:**

	Circular 4/2004	Adjustments	Circular 6/2008	
INTEREST AND SIMILAR INCOME	216,581		216,581	INTEREST AND SIMILAR INCOME
INTEREST EXPENSE AND SIMILAR CHARGES	(173,168)		(173,168)	INTEREST EXPENSE AND SIMILAR CHARGES
INCOME FROM EQUITY INSTRUMENTS	240	(240)		
NET INTEREST INCOME	43,645	(240)	43,405	NET INTEREST INCOME
		240	240	FEE AND COMMISSION INCOME
FEE AND COMMISSION INCOME	20,729		20,729	FEE AND COMMISSION EXPENSES
FEE AND COMMISSION EXPENSES	(576)		(576)	GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET)
GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET)				EXCHANGE DIFFERENCES (NET)
EXCHANGE DIFFERENCES (NET)				DIFERENCIAS DE CAMBIO (NETO)
		23	23	OTHER OPERATING INCOME
		(161)	(161)	OTHER OPERATING EXPENSES
<b>GROSS INCOME</b>	<b>63,798</b>	<b>(138)</b>	<b>63,660</b>	<b>GROSS INCOME</b>
OTHER OPERATING INCOME				
PERSONNEL EXPENSES	(7,524)		(11,799)	ADMINISTRATIVE EXPENSES
OTHER ADMINISTRATIVE EXPENSES	(4,275)		(43)	AMORTISATION
AMORTISATION	(43)		(1,165)	PROVISION EXPENSE (NET)
OTHER OPERATING EXPENSES		(1,165)	(13,638)	IMPAIRMENT LOSSES (NET)
		(13,638)	(13,638)	Loans and receivables
<b>NET OPERATING INCOME</b>	<b>51,958</b>	<b>(14,941)</b>	<b>37,016</b>	<b>NET OPERATING INCOME</b>
IMPAIRMENT LOSSES OF OTHER ASSETS (NETO)	(13,638)	13,638		IMPAIRMENT LOSSES OF OTHER ASSETS (NETO)
Inversiones crediticias	(13,638)	13,638		Goodwill and other intangible assets
PROVISION EXPENSE	(1,165)	1,165		Other assets
				GAINS (LOSSES) IN WRITTEN OF ASSETS NOT CLASSIFIED AS
OTHER GAINS	23	(23)		NON-CURRENT ASSETS HELD FOR SALE
Other	23	(23)		NEGATIVE GOODWILL
				GAINS (LOSSES) IN NON-CURRENT ASSETS HELD FOR SALE
OTHER LOSSES	(161)	161		NOT CLASSIFIED AS DISCONTINUED OPERATIONS
Other	(161)	161		
<b>INCOME BEFORE TAX</b>	<b>37,016</b>	-	<b>37,016</b>	<b>INCOME BEFORE TAX</b>
INCOME TAX	(12,177)		(12,177)	INCOME TAX
<b>INCOME FROM CONTINUED</b>	<b>24,838</b>	-	<b>24,838</b>	<b>INCOME FROM CONTINUED</b>
INCOME FROM DISCONTINUED OPERATIONS (NET)	-		-	INCOME FROM DISCONTINUED OPERATIONS (NET)
<b>INCOME FOR THE PERIOD</b>	<b>24,838</b>	-	<b>24,838</b>	<b>INCOME FOR THE PERIOD</b>

# **BBVA Factoring, Establecimiento Financiero de Crédito, S.A.**

Director's report for 2008,

## **BUSINESS PERFORMANCE**

In 2008 BBVA Factoring, as in prior years, continued to increase its business. Total assignments amounted to EUR 27,566 million, up 17.1% on 2007.

## **TARGETS FOR 2009**

BBVA Factoring will continue to develop and strengthen its factoring and reverse factoring products throughout the BBVA Group's areas of business.

The basic objective for 2009 for BBVA Factoring continues to be the use of new technologies and distribution channels, the BBVA Group's branch network and its customers and suppliers.

The search for new markets and products, international business expansion and improving efficiency are the other priorities for the year.

## **OUTLOOK FOR 2009**

As in prior years, we consider that the volume of assignments of receivables will continue to grow significantly in 2009, thereby consolidating the factoring and reverse factoring products as one of the most efficient means of financing the working capital of Spanish companies and institutions.

## **RISK EXPOSURE**

### Credit risk management

BBVA Factoring's maximum credit risk exposure amounted to EUR 6,758,649 thousand at 31 December 2008, down 2.12% on 2007 year-end. The breakdown of these figures by product (factoring and reverse factoring) shows that reverse factoring has increased with respect to 2008 by 13.2% –this product concentrates 47.9% of the total risk–, whereas factoring –which accounts for 52.1% of the total– decreased by 13.2%.

At 31 December 2008, total past-due balances amounted to EUR 67,568 thousand, of which EUR 31,666 thousand were attributable to the private sector and EUR 35,902 thousand to the public sector.

The total past-due ratio was 1.00% at 31 December 2008, whereas that relating only to the private sector was 0.11%.

The increase in private sector doubtful loans is consequent of adverse economic conditions during 2008.

However, these past-dues can be deemed to be technical non-performance since they arise mainly from the long payment periods of the public sector rather than from an actual non-performance which may entail a loss for the Company.

Noteworthy is the large amount of the past-dues from autonomous community governments which arises from the factoring transactions performed on various autonomous community agencies managing the public health care system.

### ***Interest rate risk management***

BBVA Factoring performs active interest rate risk management for the purpose of minimising, and in certain cases eliminating, the possible impact of changes in market rates on its investment and, consequently, on the net interest income shown in the income statement.

Several clearly differentiated actions are taken to achieve this goal: 1) to obtain the funds required for certain transactions from the BBVA's Treasury Department; 2) to monitor the changes in interest rates by following up the expectations of the European Central Bank with respect to the foreseeable interest rate policy at short and medium

term; and 3) to consider the possibility of requesting funds from the BBVA's Treasury Department for certain balances which, because of the term or price applied to customers, might be affected by the estimated interest rates.

#### REPORT ON THE ACTIVITY OF THE CUSTOMER CARE AND CUSTOMER OMBUDSMAN DEPARTMENT

In conformity with Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and Customer Ombudsman of Financial Institutions, and because the Company belongs to the Banco Bilbao Vizcaya Argentaria Group, the Bank adhered to the Regulations on the Customer Ombudsman and the Customer Care Department of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and designates as customer ombudsman the ombudsman appointed by BBVA at any time.

#### RESEARCH AND DEVELOPMENT ACTIVITIES

In 2008 the Company did not perform any research and development activities.

#### TREASURY SHARE TRANSACTIONS

The Company did not perform any treasury share transactions in 2008

#### SUBSEQUENT EVENTS

On January 9 and 12, 2008 Banco Bilbao Vizcaya Argentaria, S.A. obtained the sole shareholder condition after acquisition of capital shares in hands of Cidessa Uno, S.L. and Corporación General Financiera, S.A. (see Note 17).

Subsequent to the year-end close, the Directors of Banco BBVA Factoring E.F.C., S.A. (both sole shareholder companies), in Board meetings held on January 26, 2009, and Banco Bilbao Vizcaya Argentaria, S.A., in its Board meeting of January 27, 2009, approved the proposal to merge the sole shareholder company into Banco Bilbao Vizcaya Argentaria, S.A. and the subsequent transfer en bloc of their assets to BBVA, which will acquire by universal succession the transferors' rights and obligations. The merger agreement will be submitted to shareholders for approval in general meeting during the first quarter of the year.