

150
years
adelante



BBVA making the difference



José Sevilla

General Manager Risk

“Risks at BBVA”

BBVA making the difference.



Disclaimer

This document is only provided for information purposes and does not constitute, nor must it be interpreted as, an offer to sell or exchange or acquire, or an invitation for offers to buy securities issued by any of the aforementioned companies. Any decision to buy or invest in securities in relation to a specific issue must be made solely and exclusively on the basis of the information set out in the pertinent prospectus filed by the company in relation to such specific issue. Nobody who becomes aware of the information contained in this report must regard it as definitive, because it is subject to changes and modifications.

This document contains or may contain forward looking statements (in the usual meaning and within the meaning of the US Private Securities Litigation Act of 1995) regarding intentions, expectations or projections of BBVA or of its management on the date thereof, that refer to miscellaneous aspects, including projections about the future earnings of the business. The statements contained herein are based on our current projections, although the said earnings may be substantially modified in the future by certain risks, uncertainty and others factors relevant that may cause the results or final decisions to differ from such intentions, projections or estimates. These factors include, without limitation, (1) the market situation, macroeconomic factors, regulatory, political or government guidelines, (2) domestic and international stock market movements, exchange rates and interest rates, (3) competitive pressures, (4) technological changes, (5) alterations in the financial situation, creditworthiness or solvency of our customers, debtors or counterparts. These factors could condition and result in actual events differing from the information and intentions stated, projected or forecast in this document and other past or future documents. BBVA does not undertake to publicly revise the contents of this or any other document, either if the events are not exactly as described herein, or if such events lead to changes in the stated strategies and intentions.

The contents of this statement must be taken into account by any persons or entities that may have to make decisions or prepare or disseminate opinions about securities issued by BBVA and, in particular, by the analysts who handle this document. This document may contain summarised information or information that has not been audited, and its recipients are invited to consult the documentation and public information filed by BBVA with stock market supervisory bodies, in particular, the prospectuses and periodical information filed with the Spanish Securities Exchange Commission (CNMV) and the Annual Report on form 20-F and information on form 6-K that are disclosed to the US Securities and Exchange Commission.

Distribution of this document in other jurisdictions may be prohibited, and recipients into whose possession this document comes shall be solely responsible for informing themselves about, and observing any such restrictions. By accepting this document you agree to be bound by the foregoing Restrictions.



- **The risk function**
- Credit risk
- Other risks
- Basel II
- Conclusions



Risk function: global and company wide approach, with local implementation

Risk function is core at BBVA

- Strong risk culture throughout the Group
- Fully independent function: strict corporate governance standards
- Highly qualified teams

Company wide approach

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

Local implementation

- Risk models adapted to local conditions
- Decentralised teams with functional dependence from holding company
- Proximity and knowledge of end-customer is crucial

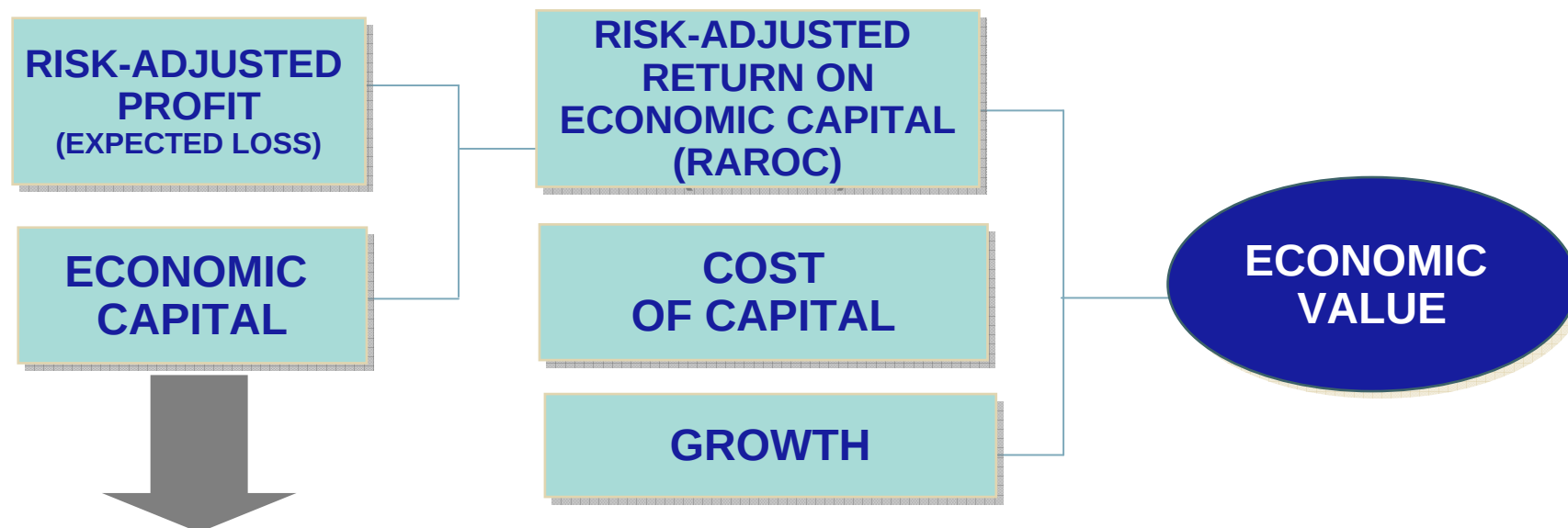


Economic capital is a key element in our risk management model ...

- We have been working along these lines for **years**...
- ... with the support of robust **internal models** and methodologies, **solid IT support and highly qualified teams**...
- ... consolidating the **forward-looking focus** of risk management, combining economic capital with the analysis of recurrence and scenarios...
- ... and allowing **to compare** between risks and their **integration**:
 - In credit risk: translates into same units exposures of nominally very different profiles
 - Different risk types: translates into same units heterogeneous risk categories



... allowing for the integration of risk management with the Group's value-based approach



Fully integrated into management...

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

... and key element to valuing adequacy of provisions and capital



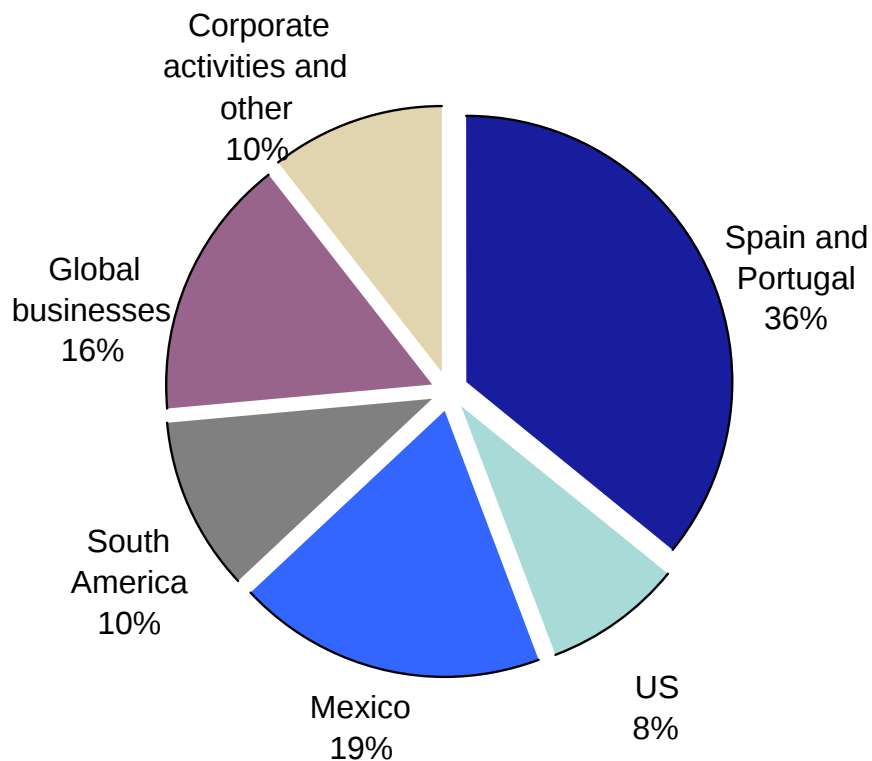
Risk profile diversified by geographies and products with a considerable retail bias

Economic Capital

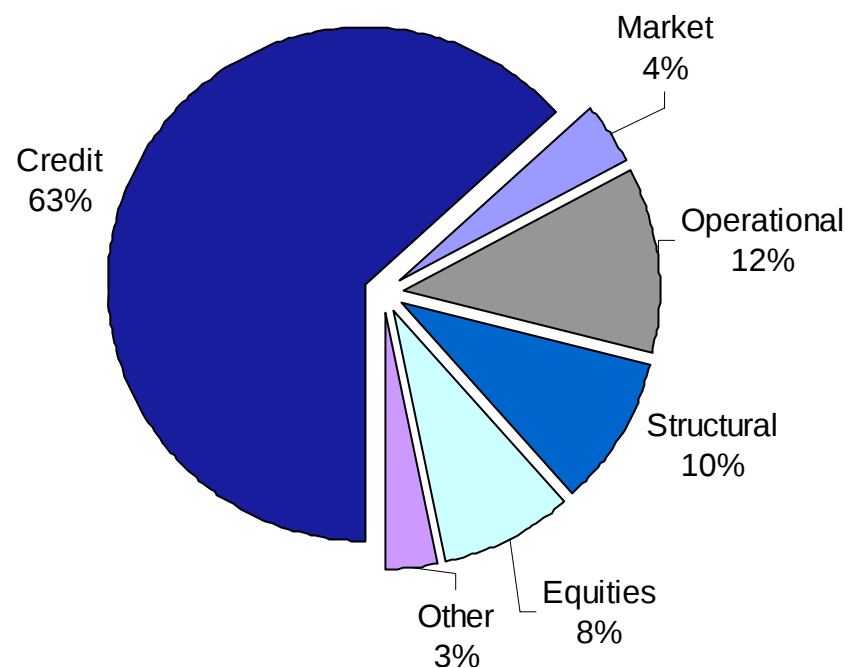
September 2007

Total: €18.78 billion

Business units



Risk types





- The risk function
- **Credit risk**
- Other risks
- Basel II
- Conclusions



Credit risk: an example of company wide approach + local implementation

1

Rating for companies and institutions

- Corporates
- SMEs
- Real-estate
- Public sector
- Financial entities
- Country risk



2

Scoring for retail exposures

- Behavioural and reactive
- Segmented by product
 - Consumer
 - Cards
 - Mortgages
 - Business



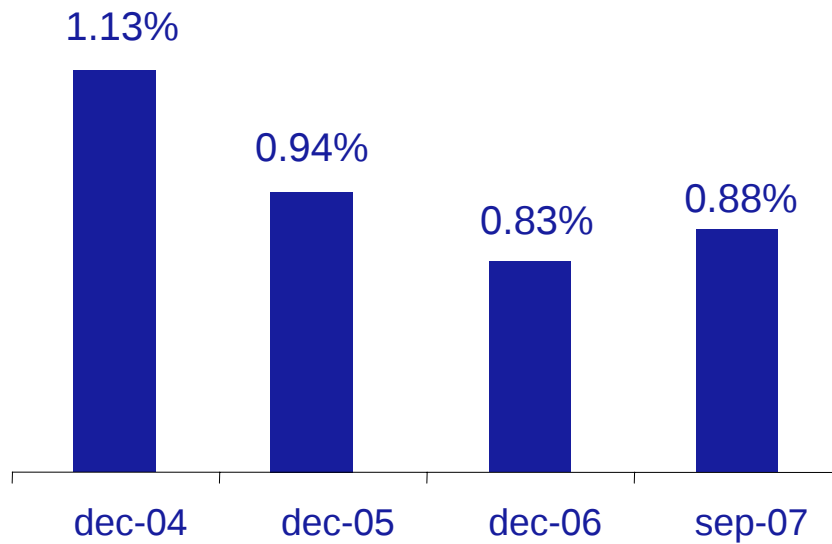
- Implemented throughout the group and integrated in processes and schemes of risk acceptance
- Uniform corporate policy tailored to local market conditions
- Global tools and database facilities
- Centralised calibration of economic capital and expected loss
- Cross view of Group credit risk profile



Favourable NPL evolution in recent years

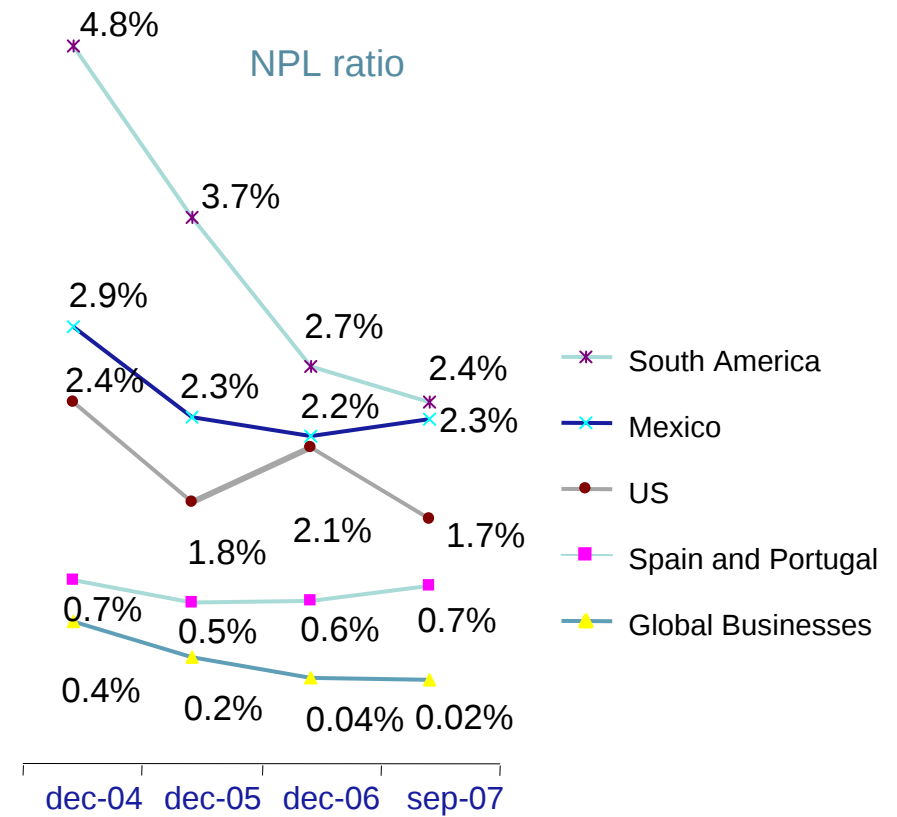
Group

NPL ratio



Business Units

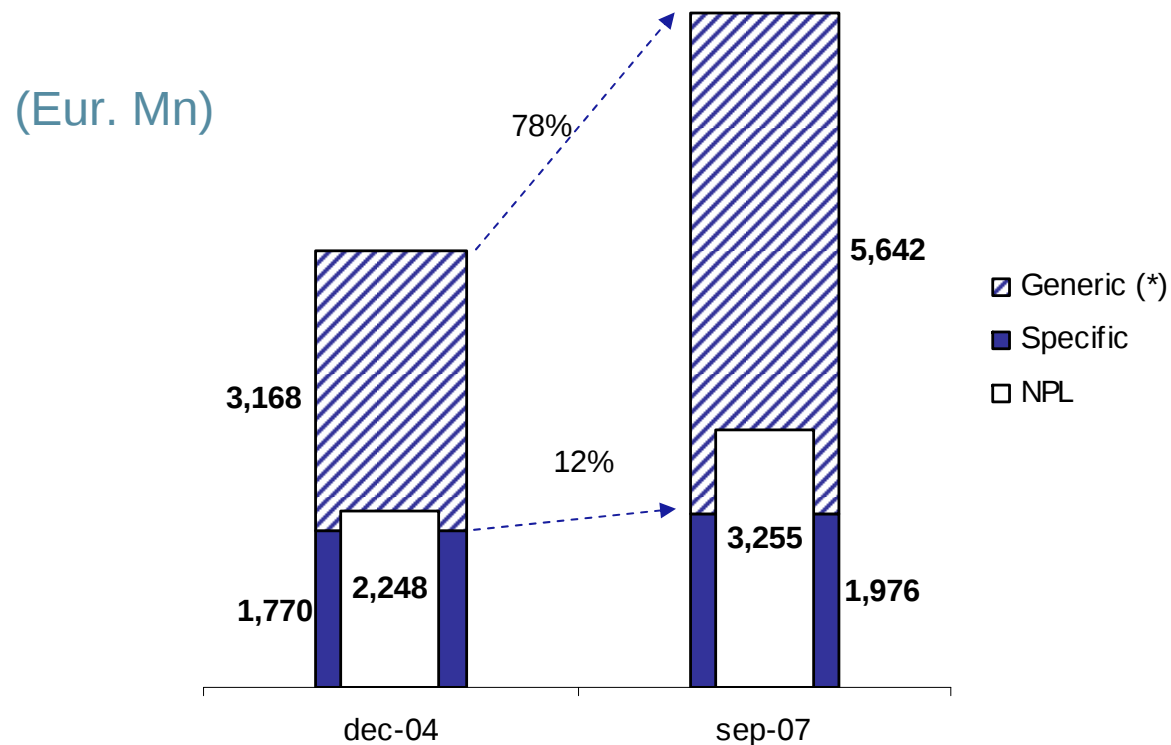
NPL ratio





And very substantial coverage ratio

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



(*) Includes country-risk



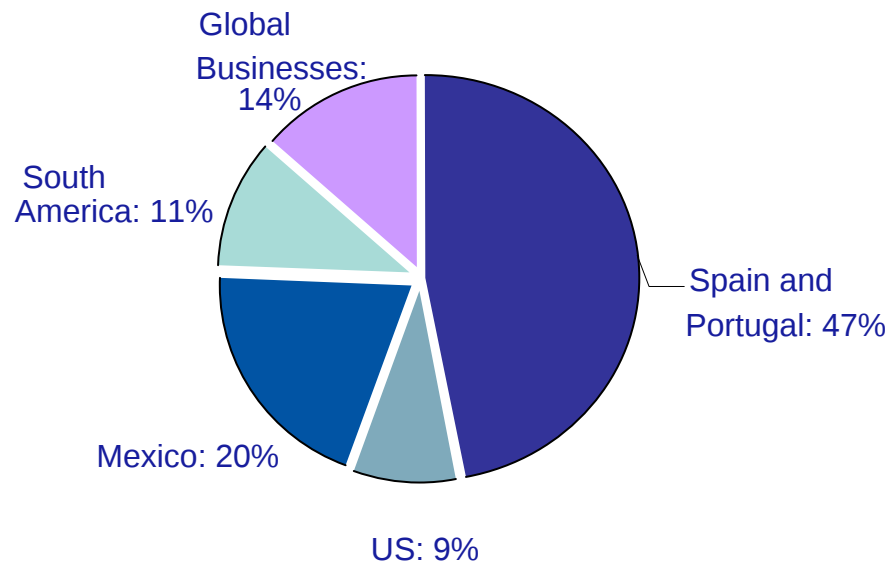
Distribution of economic capital by credit risk

Credit risk economic capital

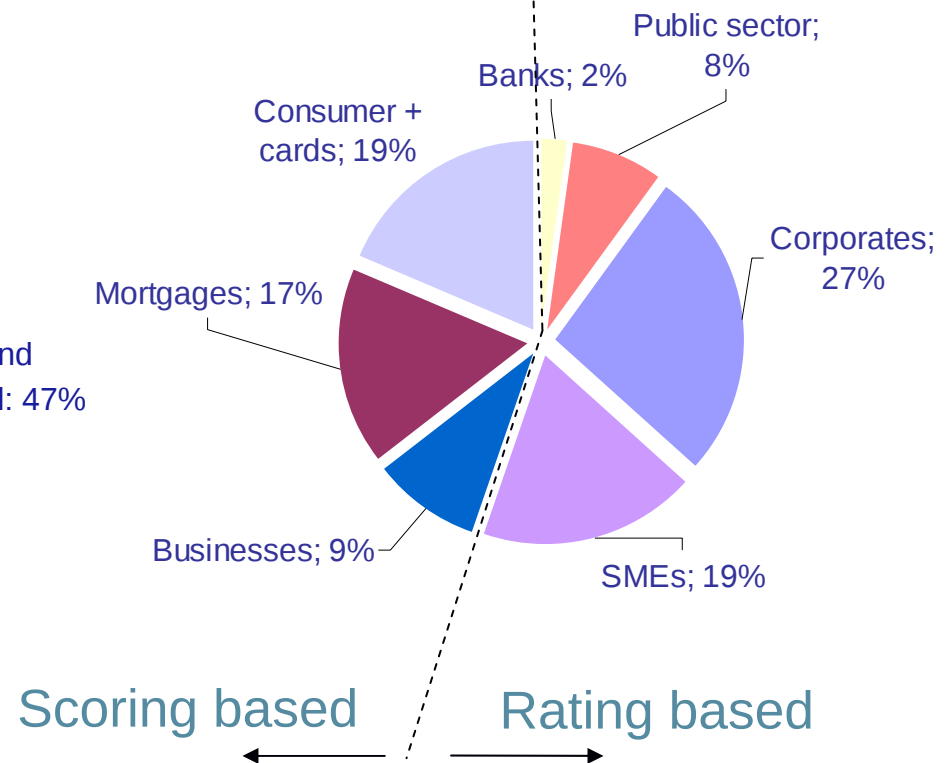
September 2007

Total €11.89 billion

Business units



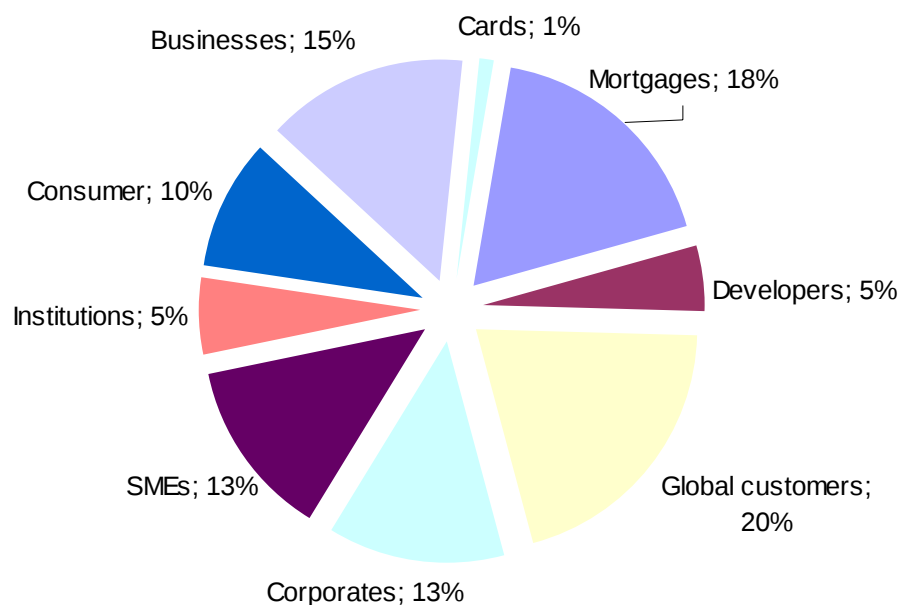
Risk segments





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

Economic capital distribution Credit risk



Focus on 3 key portfolios:

- **Mortgages**
- **Developers**
- **Global Customers**

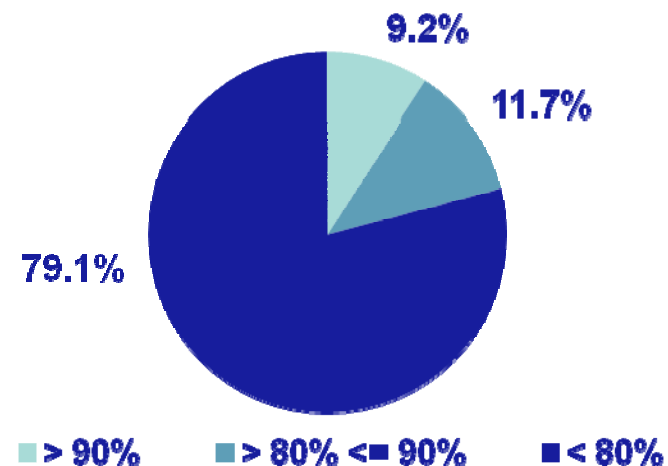


Spain: Prudent risk profile in residential mortgages (I)

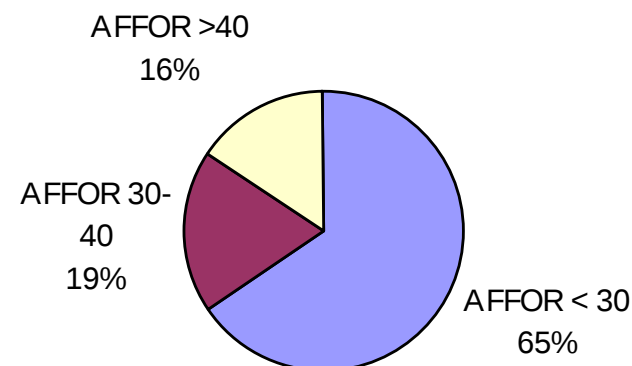
Residential mortgages (€ m)		% Group
No of loans	890,525	
Lending	71,040	23.0%
% second home	5.0%	
NPLs	279.6	8.6%
NPL ratio	0.39%	
Coverage ratio	275%	
Provisions	768	10.1%
Economic capital	1,152	9.7% (*)

(*) % of credit risk economic capital

% LENDING BY LTV (av 53.3%)



AFFORDABILITY (av 26.3%)



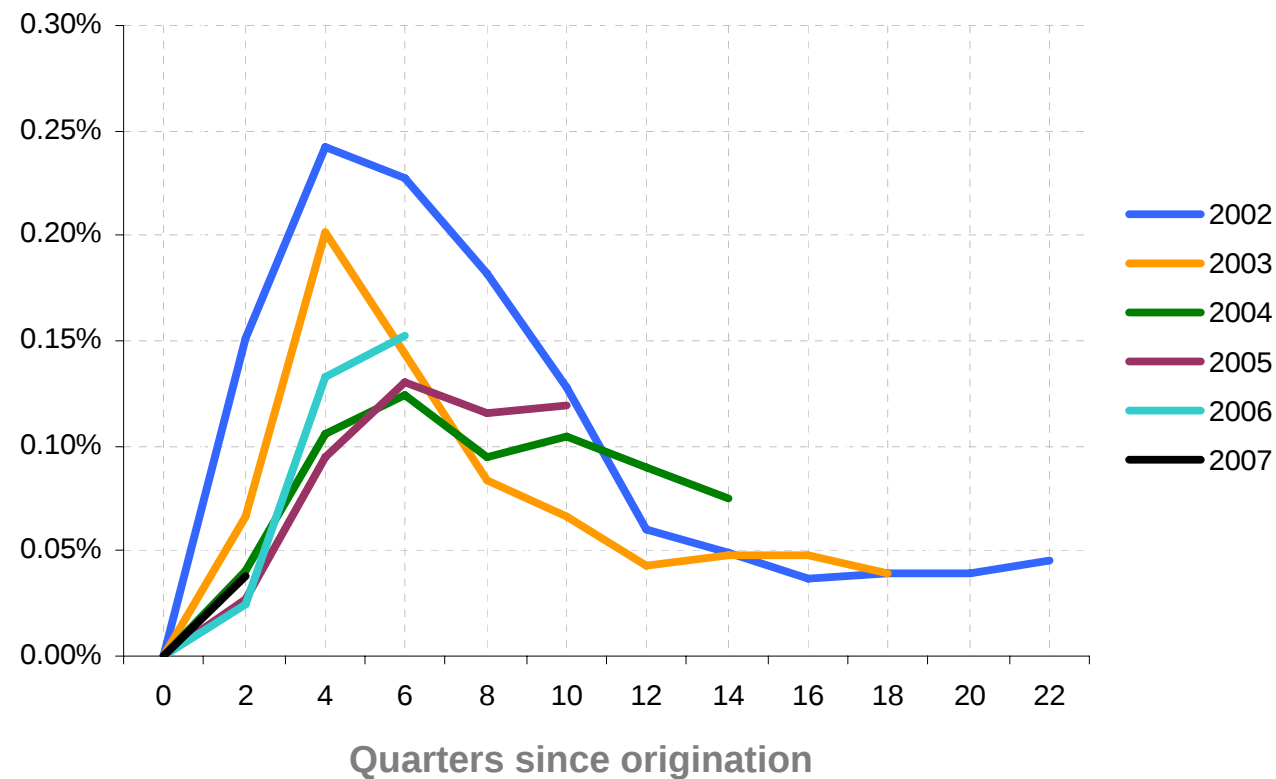
LTV calculated on historical appraisals



Spain: Prudent risk profile in residential mortgages (II)

Residential mortgages by vintage

Quarterly NPL entries





Developers: prudent and consistent policies in recent years

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

Developers (€ m)		% Group
No loans	12,043	
Lending	14,798	4.8%
NPLs	12.5	0.4%
NPL ratio	0.08%	
Coverage ratio	1,961%	
Provisions	245	3.2%
Economic capital	277	2.3% (*)

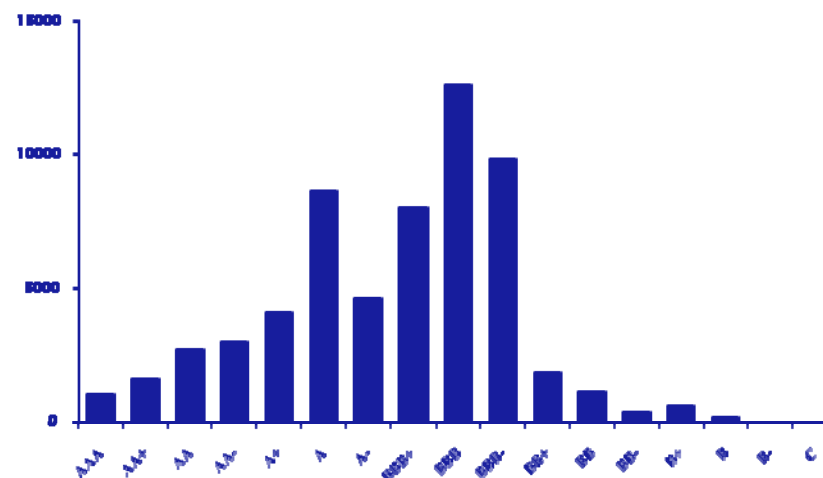
(*) % of credit risk economic capital



Global Businesses: diversified, high-quality portfolio

Global businesses (€ m)		% Group
Lending	32,179	10.4%
NPLs	16.2	0.5%
NPL ratio	0.02%	
Coverage ratio	5,043%	
Provisions	818	10.7%
Economic capital	1,622	13.6%(*)

Distribution by ratings



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

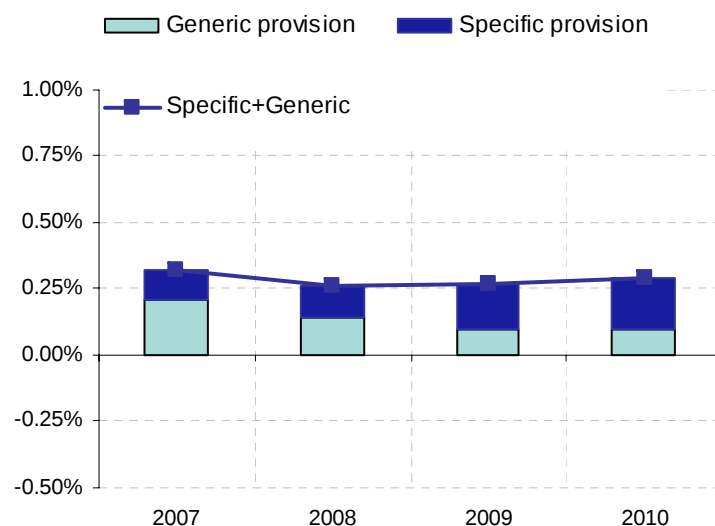
(*) % of credit risk economic capital



Forward looking: stable risk premiums, larger weighting of specific provisions

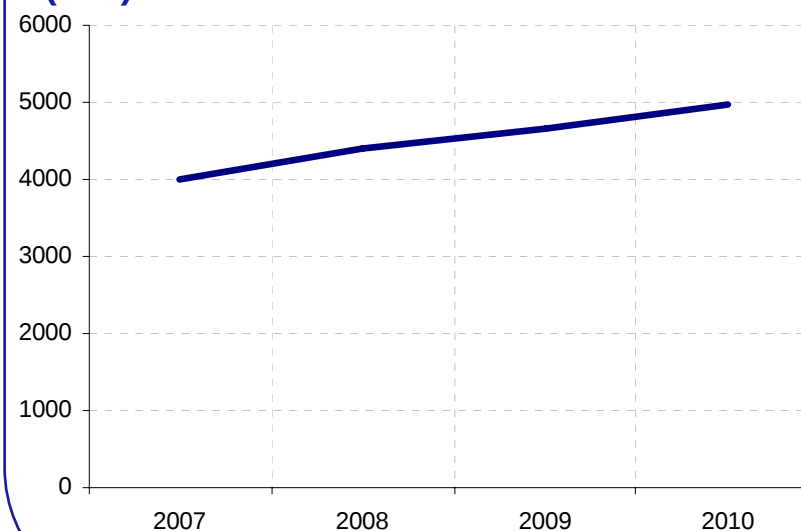
Spain and Global Businesses

Risk premium (*)



Generic provision=Maximum provision

(€ m)



(*) Provisions on average lending

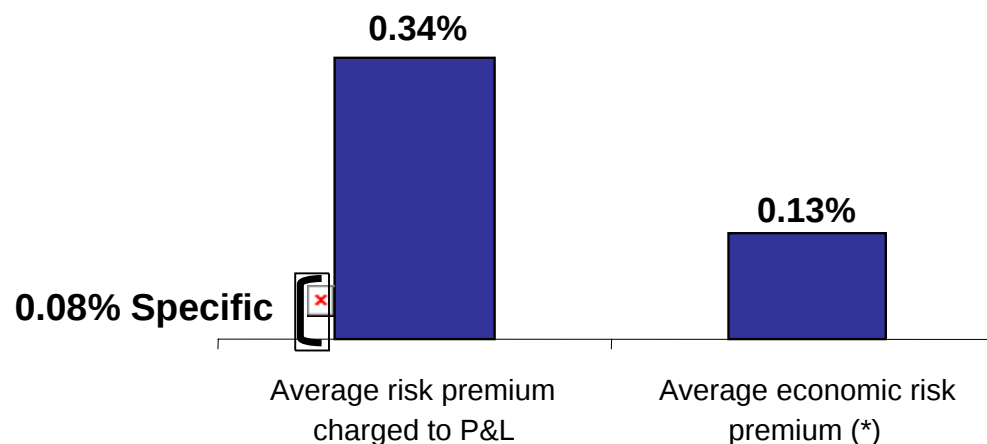


Generic provisions account for most of risk premium

Spain and Global Businesses

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

Average 2005-2007



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

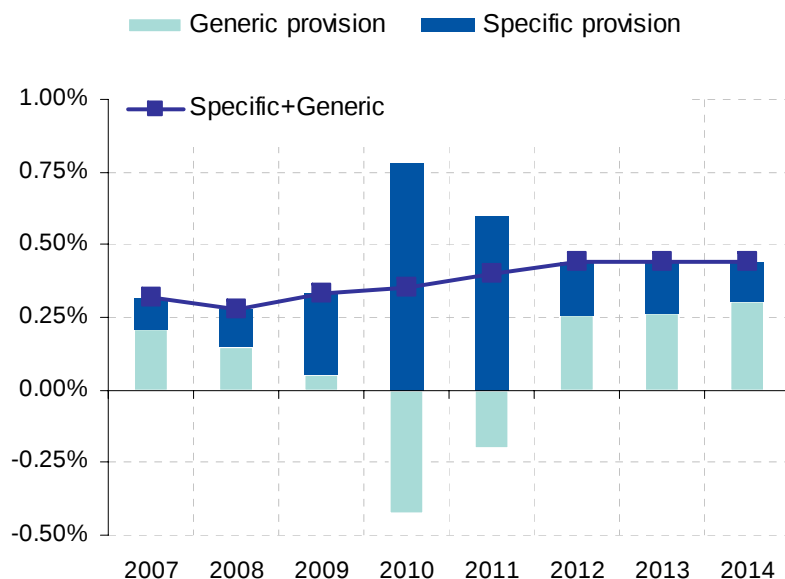
(*) According to internal models based on own experience, in validation process by Bank of Spain.



Thus, according to our models, stability in risk premium is ensured even in worst case scenarios

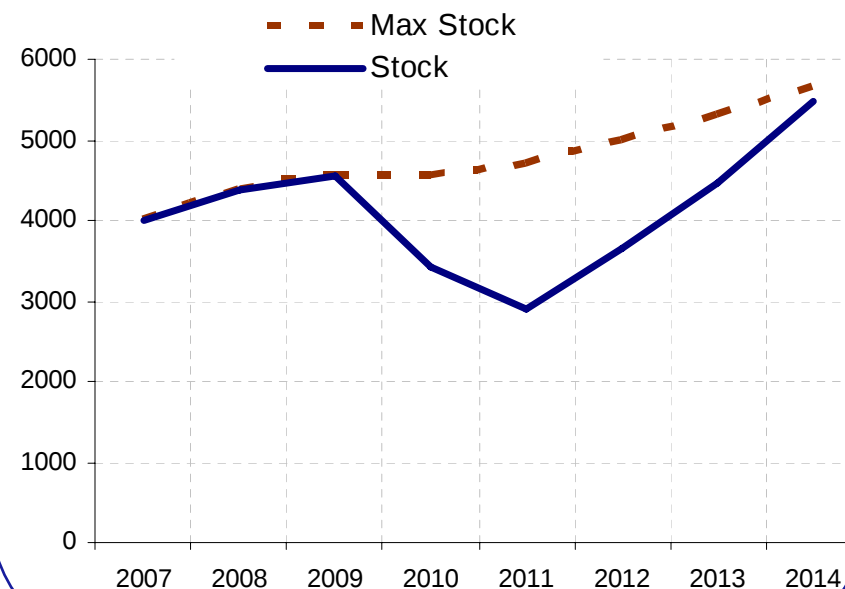
Spain and Global Businesses

Risk Premium



Change in Generic Provision

(€ m)

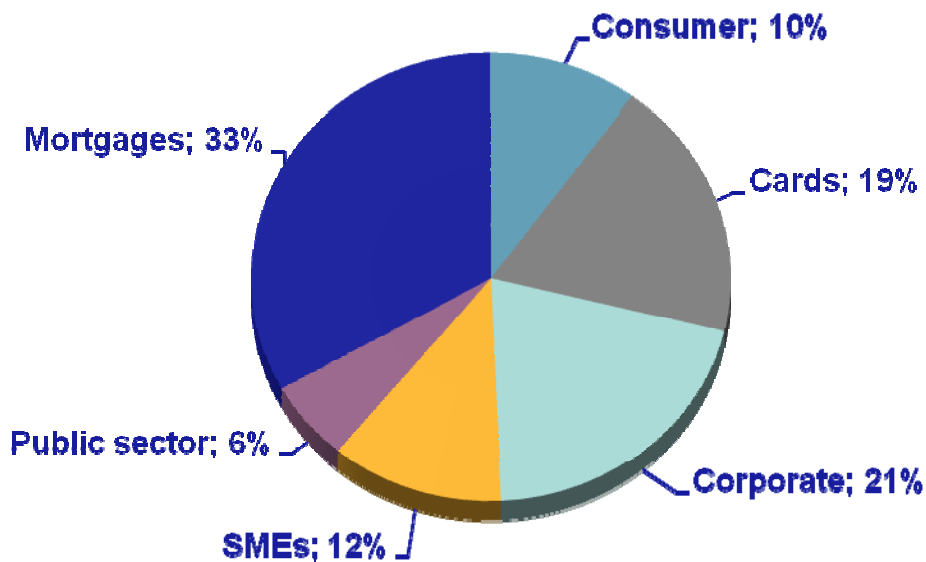


Simulation on Spanish GDP performance 1991-1993: growth in years 2008, 2009 and 2010: +2.5%, +0.9% and -1.0% respectively.

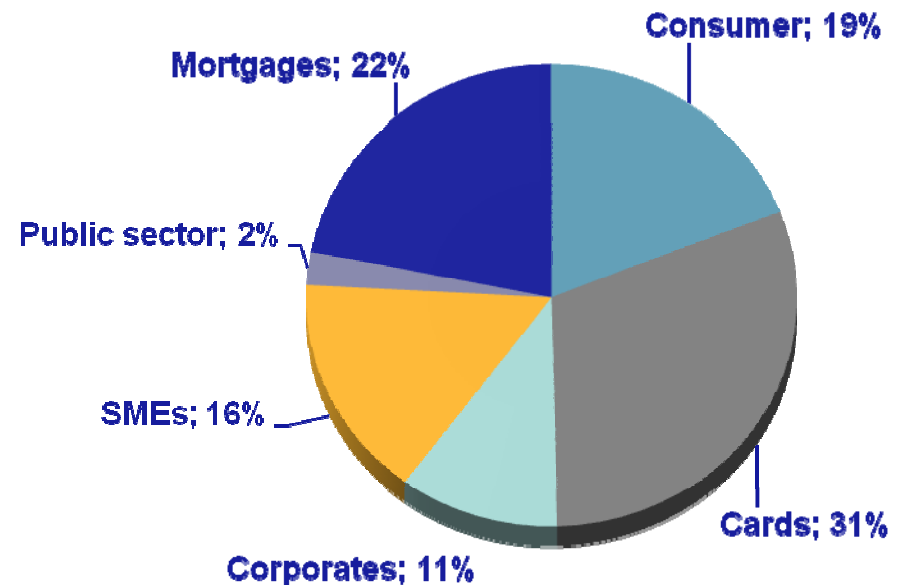


Mexico credit risk: retail profile, diversified by product

Distribution of balances



Distribution of economic capital by credit risk



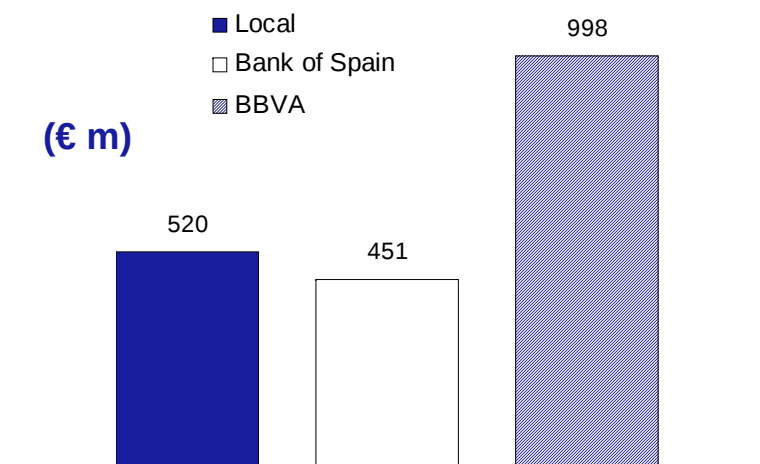
In a process of increasing banking penetration with permanent focus on RAROC



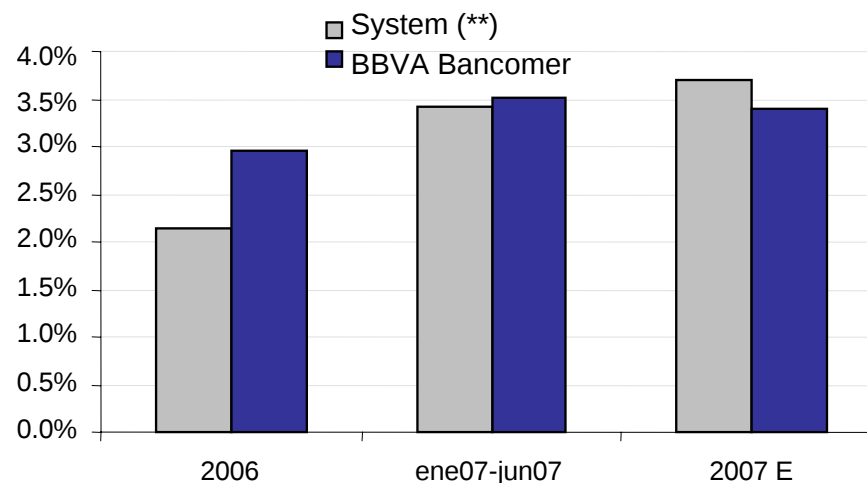
Mexico: strict provisioning methodology based on expected loss

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

Provisions for mortgages + consumer + cards



BBVA risk premium stability (*)



(*) Provisions on average lending

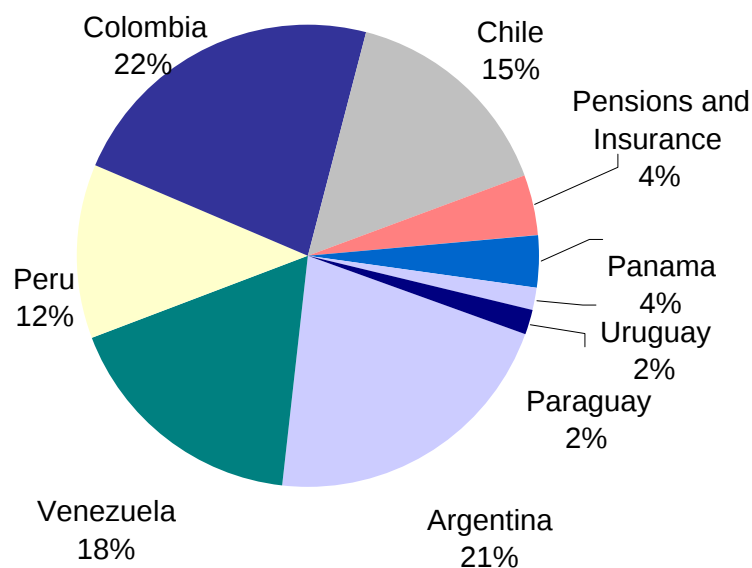
(**) Source: Comisión Nacional Bancaria y de Valores

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

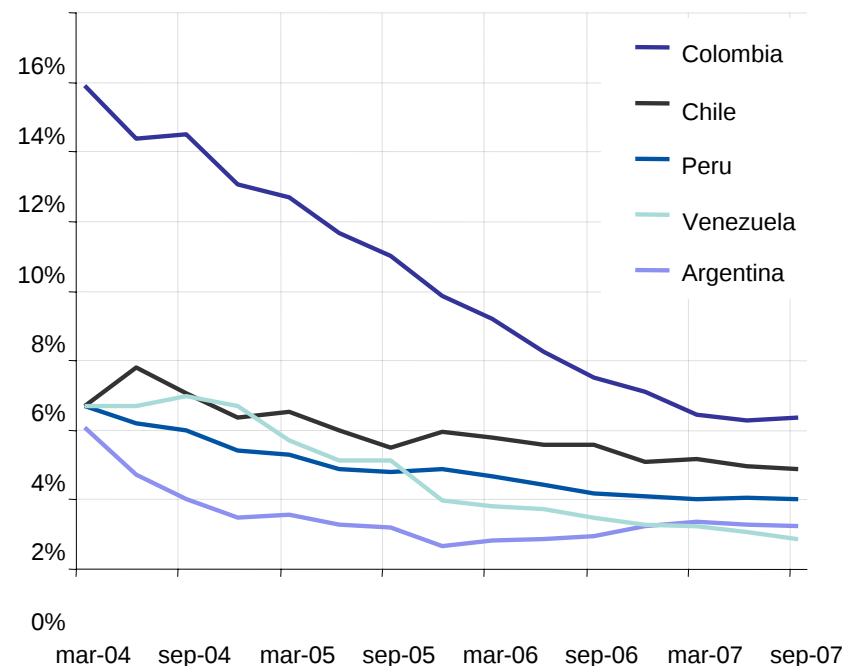


South America credit risk: diversification and strong improvement in asset quality

Distribution of economic capital Credit risk



NPL ratio

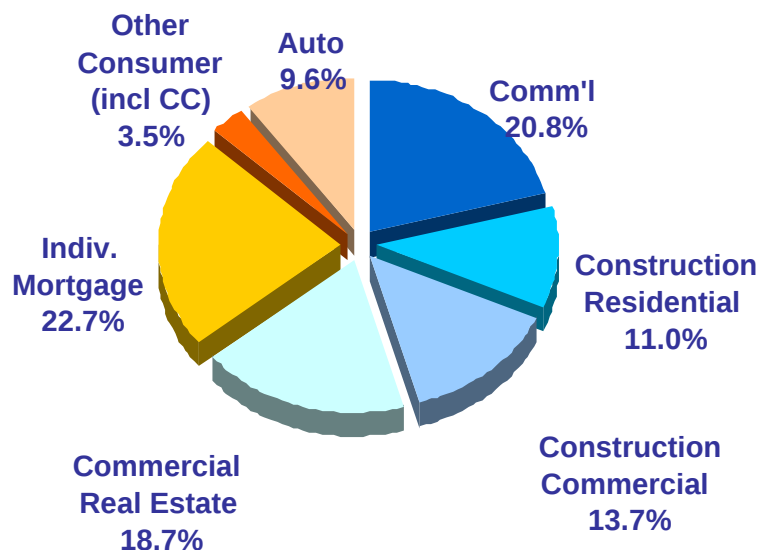


Growth driven by consumer lending: focus on RAROC

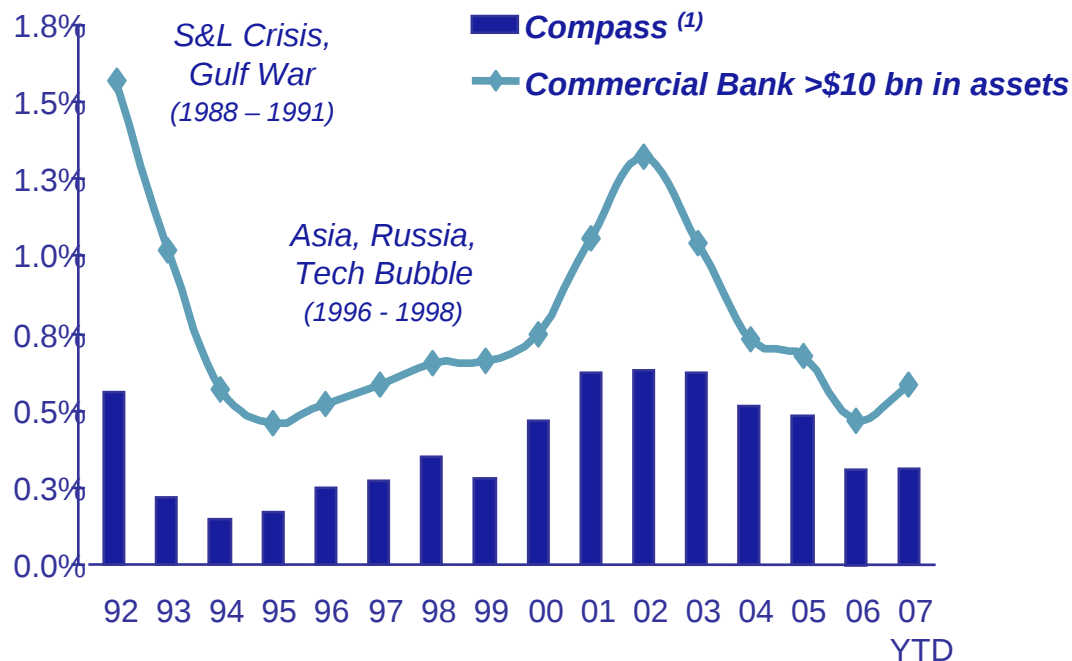


BBVA USA: experienced management, prudent risk management and high diversification

Loan Portfolio (USA)



Net Charge-Off Ratio



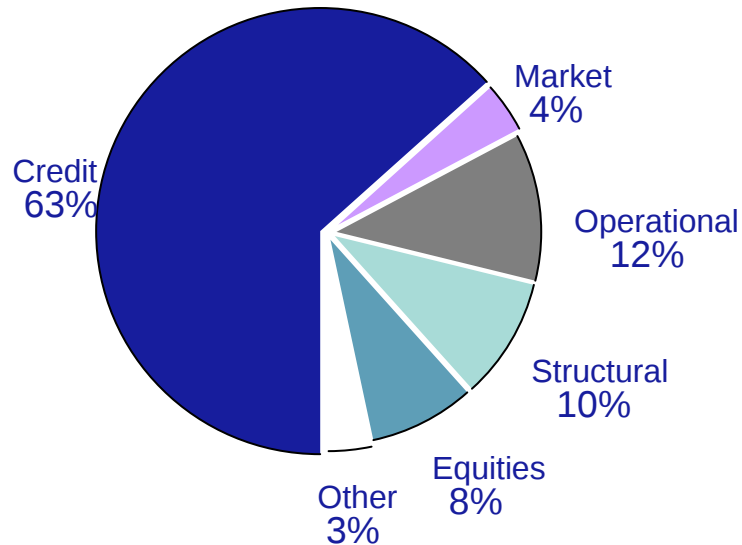
Compass has historically outperformed the industry and its peers during different business cycles



- The risk function
- Credit risk
- **Other risks**
- Basel II
- Conclusions



Other risks: measured and managed with a global view (I)



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

The recent market turbulence, a valuable stress test for this type of risks



Other risks: measured and managed with a global view (II)

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



- The risk function
- Credit risk
- Other risks
- **Basel II**
- Conclusions



Basel II process situation

- **Internal models being validated in Spain and Mexico for operating and credit risk in 2008** (market risk model already in use prior to Basel II)
- **New Bank of Spain Capital Regulation in final preparation stage**
- **Pillar II: practical application standards in progress by Bank of Spain**



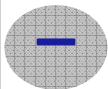
BBVA well positioned for new regulatory environment



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



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



- Segments in banking penetration processes
- Equity portfolios





- The risk function
- Credit risk
- Other risks
- Basel II
- **Conclusions**



Conclusions

- Risk management model:
 - With global focus while concentrating on local implementation
 - Experienced teams, with cyclical view and prudent focus on business growth: mortgages, consumer, developers, SMEs, etc.
 - Integrated in the Group management model based on value
 - Vision of expected loss adjusted for cycle in the different businesses.
- With a risk profile that is:
 - Retail, very diversified
 - Well protected against market turbulence
 - With provisions in excess of expected loss
 - Diversified against stress scenarios

Stable credit risk premiums expected in the years ahead

150
years

adelante



BBVA making the difference