

# *BBVA “Cédulas Territoriales”*

## *Investor presentation*

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July 2007



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## Overview and financial performance

BBVA Public Sector business

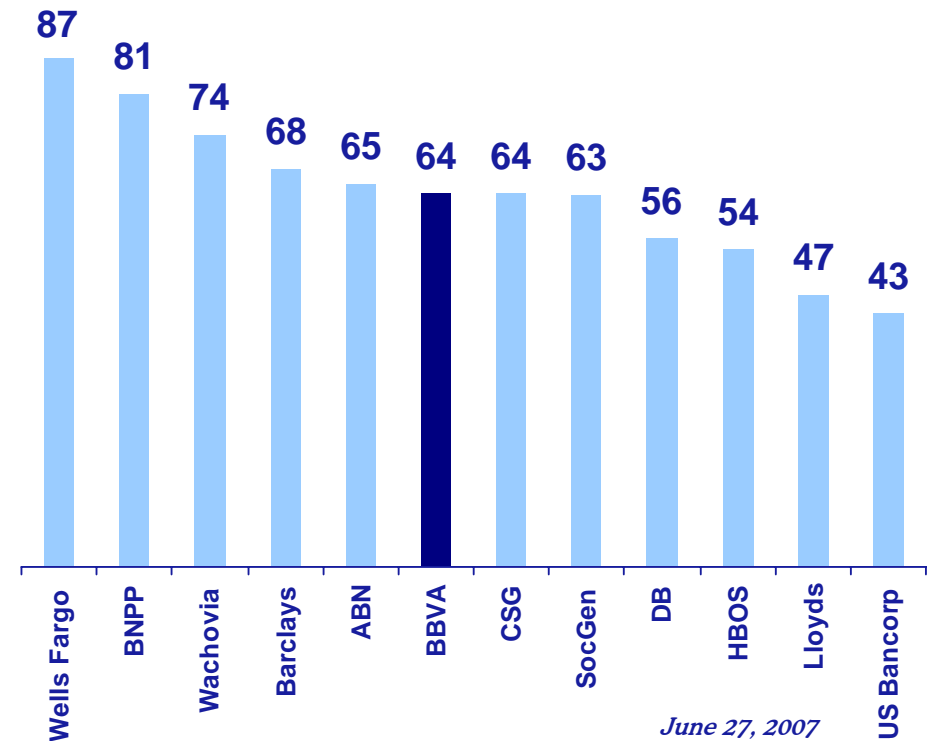
BBVA Funding Strategy

*“Cedulas Territoriales”*

Appendix

Total assets	€447 bn
Net Income	€4,736 m
Employees	100,427
Branches	7,508
Countries	33
# Customers	40 m

## Market capitalisation (€bn)



... offering a full range of products and services

...with strong credit rating

## Long term ratings

**Moody's**

**Aa1**

**S&P**

**AA-** Positive Outlook

**Fitch**

**AA-** Positive Outlook

## “Cédulas Territoriales” ratings\*

**Moody's**

**Aaa**

# BBVA enjoys a strong position in attractive growth markets: from the home market, Spain ...

**The Spanish economy maintains better prospects than Europe**

(%) GDP growth

	2006	2007e	2008e
<b>Spain</b>	3.9	3.8	3.1
<b>Europe</b>	2.8	2.7	2.4

<u>BBVA</u>	<u>Market share</u>	<u>Ranking</u>
Loans	11.7%	1st
Deposits	11.9%	2nd
Mutual Funds	16.6%	2nd
Pension Funds	18.3%	1 <sup>st</sup>
Branches	8.5%	
Number of customers: 11 million		

Source: BBVA estimates

## Sound macroeconomic environment

(%) GDP growth	2006	2007e	2008e
<b>Mexico</b>	4.7	3.6	3.8
<b>South America*</b>	5.3	4.8	4.3

\* Excluding Brazil

Source: BBVA Economic Research Department

## Mexico      Market Share      Ranking

Loans      30.0%      1st

Deposits      26.6%      1st

Pension Funds      17.1%      2nd

Number of Customers: 13.8 m

## South America\*

Loans      10.4%      2nd

Deposits      10.4%      1st

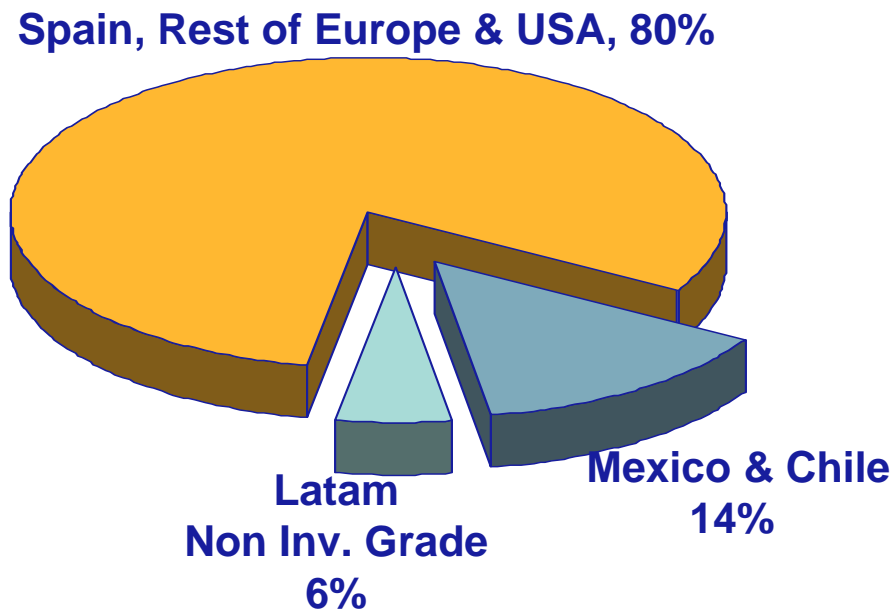
Pension Funds      24.2%      1st

Number of Customers: 8.5 m

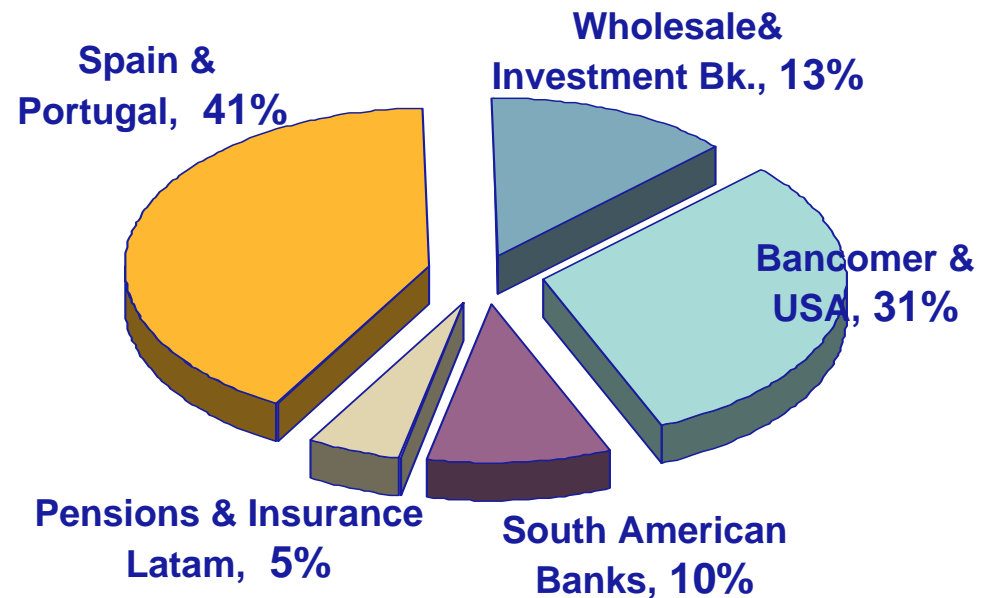
Source: BBVA estimates

# Balanced distribution of assets and profits

Group assets distribution (%)



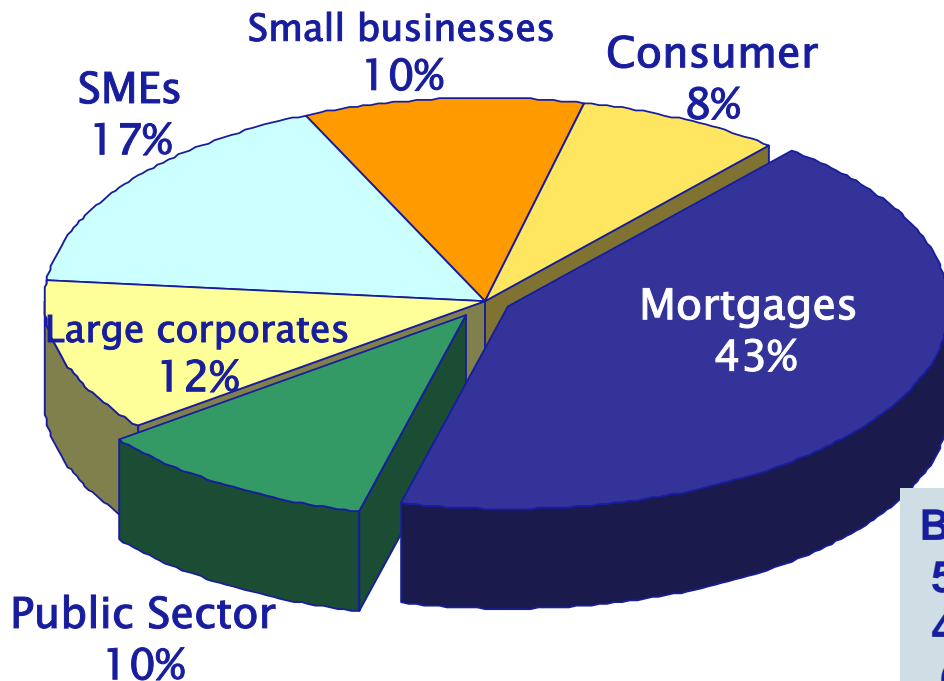
Net attributable profit distribution (%)



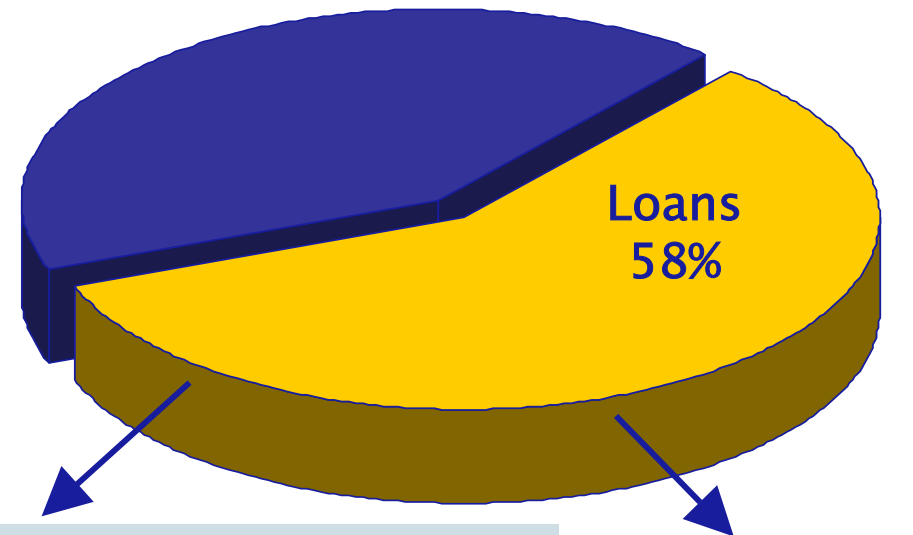


# High quality and low risk profile of the loan portfolio in Spain and Latin America

**Spain**  
**Loan portfolio distribution**



**Latin America**  
**Loans/total assets**

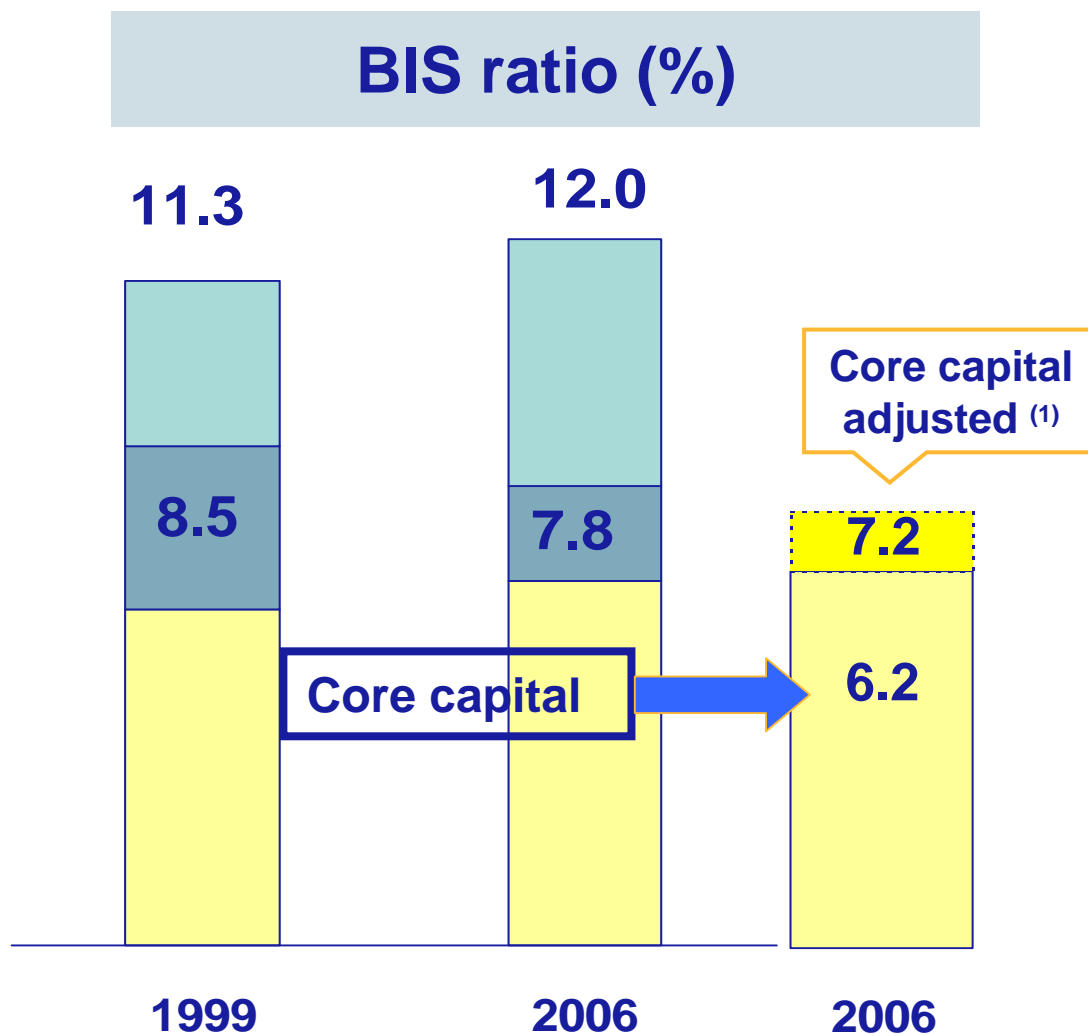


**By Segments**  
50% individuals (23% mortgages)  
42% Corporates & SMEs  
6% Public Sector

66% in Mexico

**50% of loan portfolio in Spain is secured**

# Strong capital position



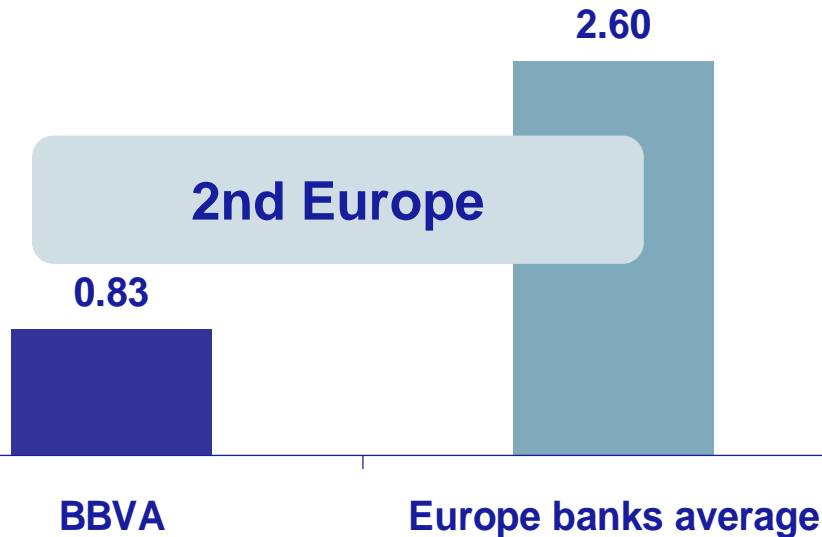
## Additionally:

- €3.0bn unrealized capital gains
- Full coverage of pension fund liabilities

(1) Including generic provisions net of expected losses in core capital.  
1999 data Pre-IFRS

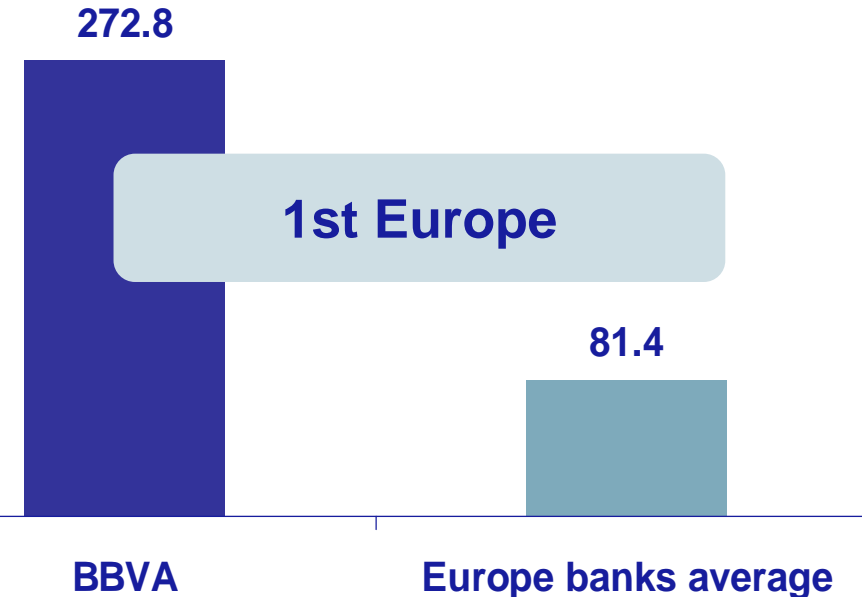
# Moderate risk profile and superior coverage ratio **BBVA**

NPL ratio  
(%)



**95% assets  
investment grade**

Coverage ratio  
(%)

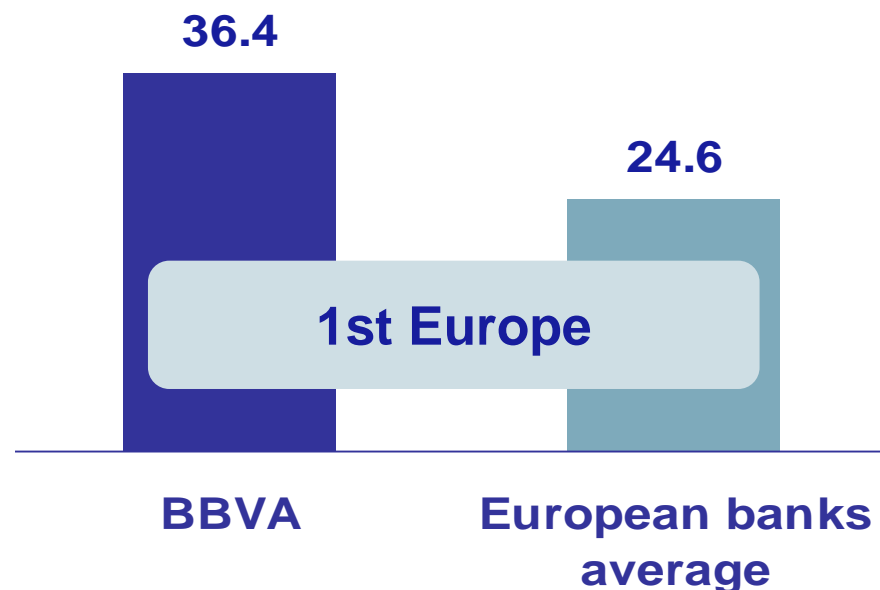
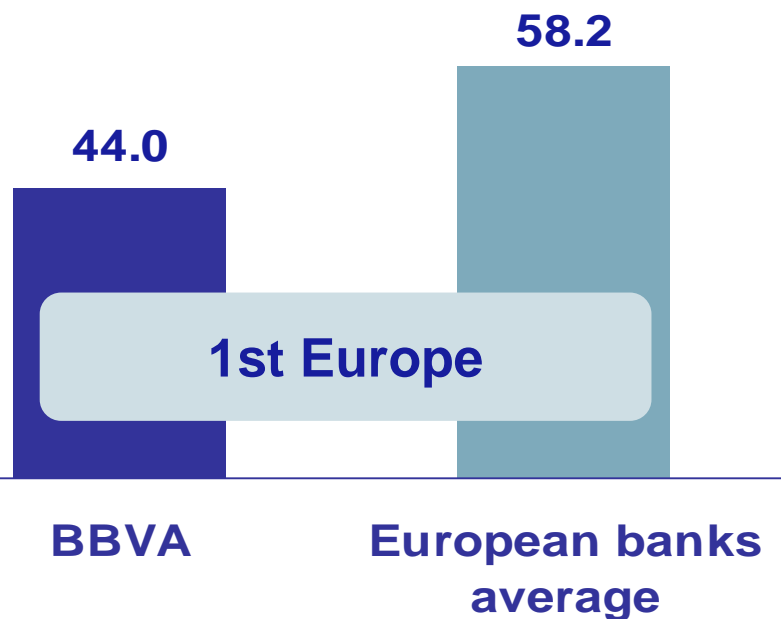


**44% of lending  
collateralized**

# ... and best in class efficiency and profitability

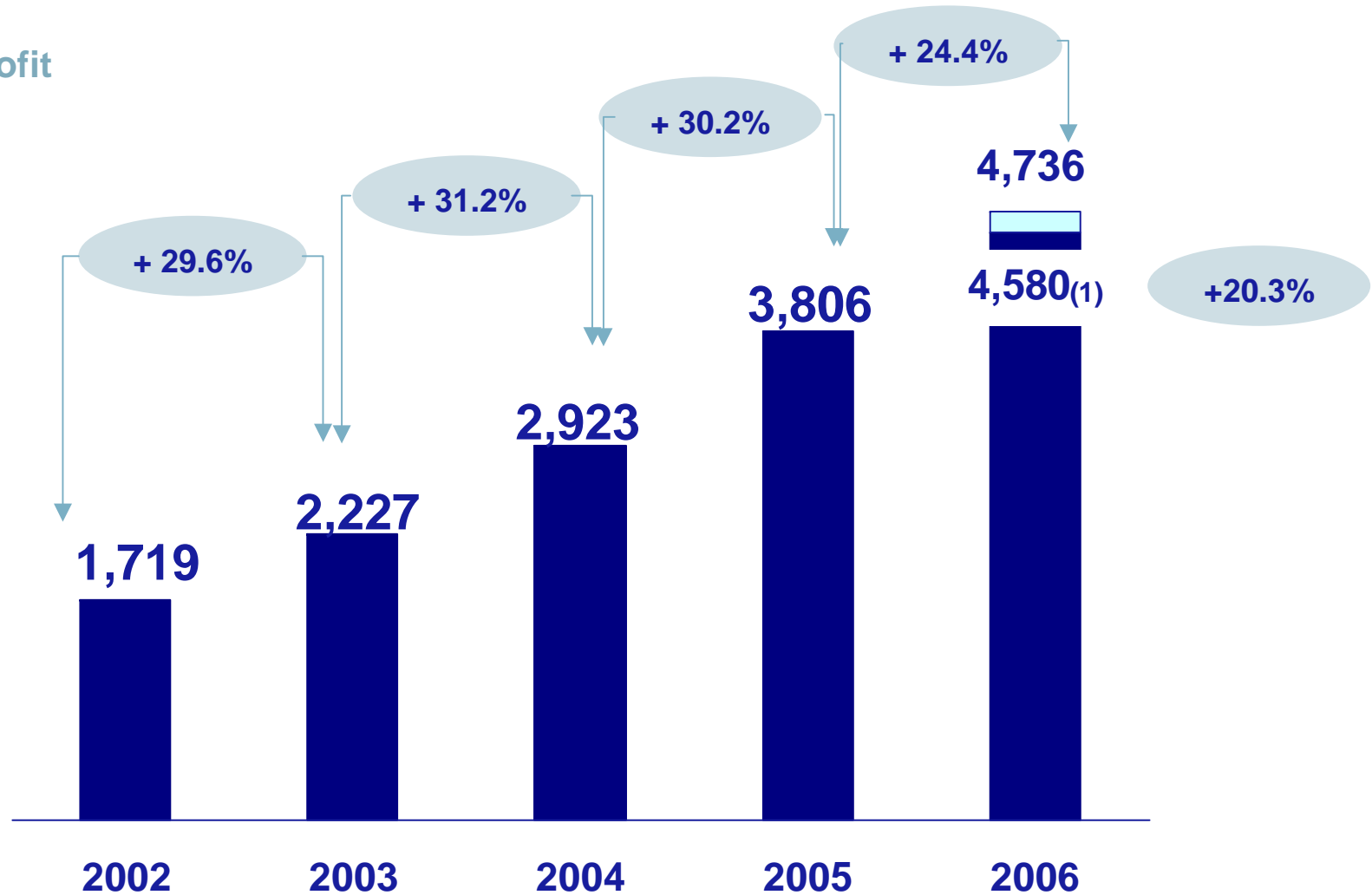
Cost: income ratio (%)

ROE (%)



# 2006: a year of record profit for BBVA

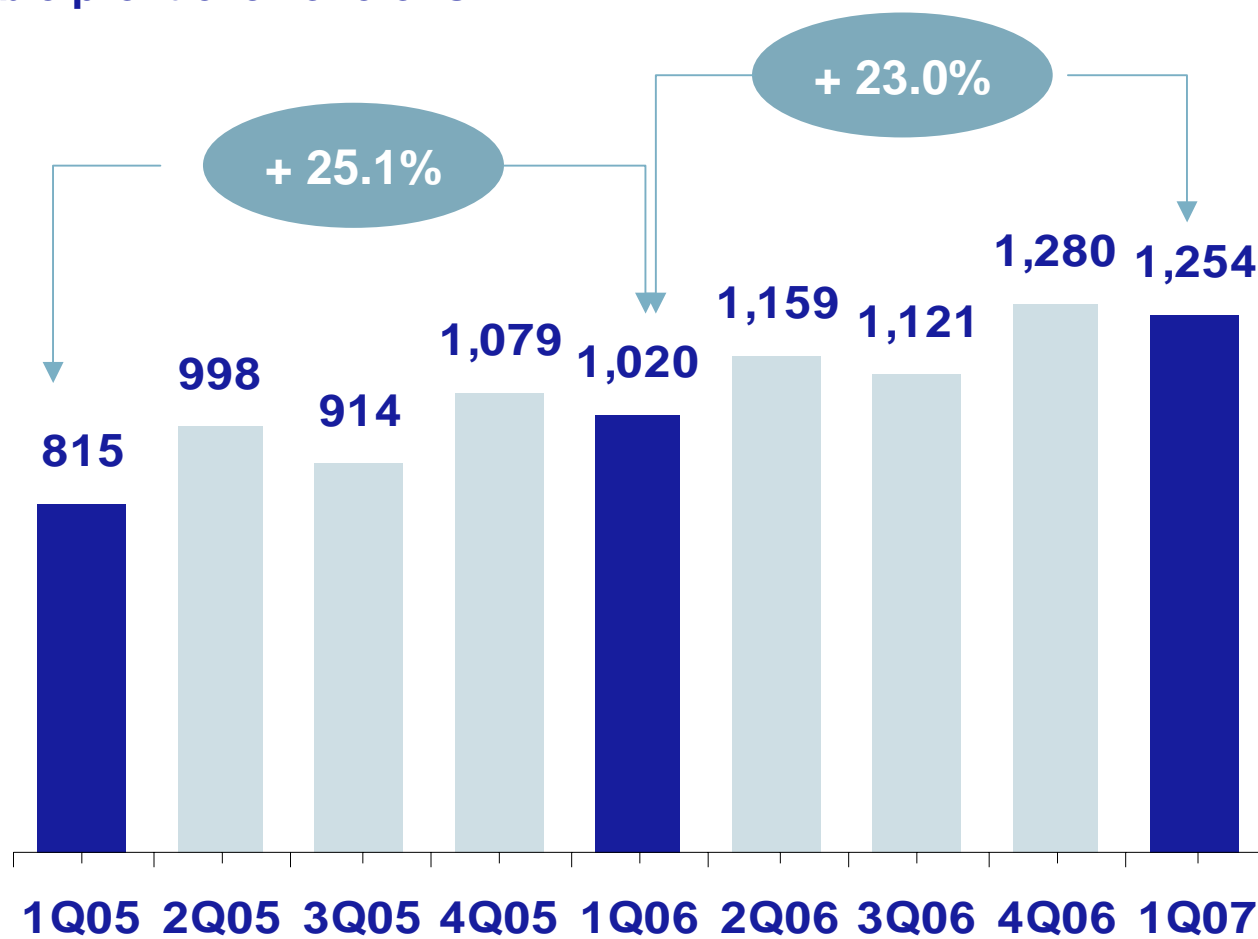
Net attributable profit  
(€m)



(1) Excluding one-offs

# 2007 has started on a strong note

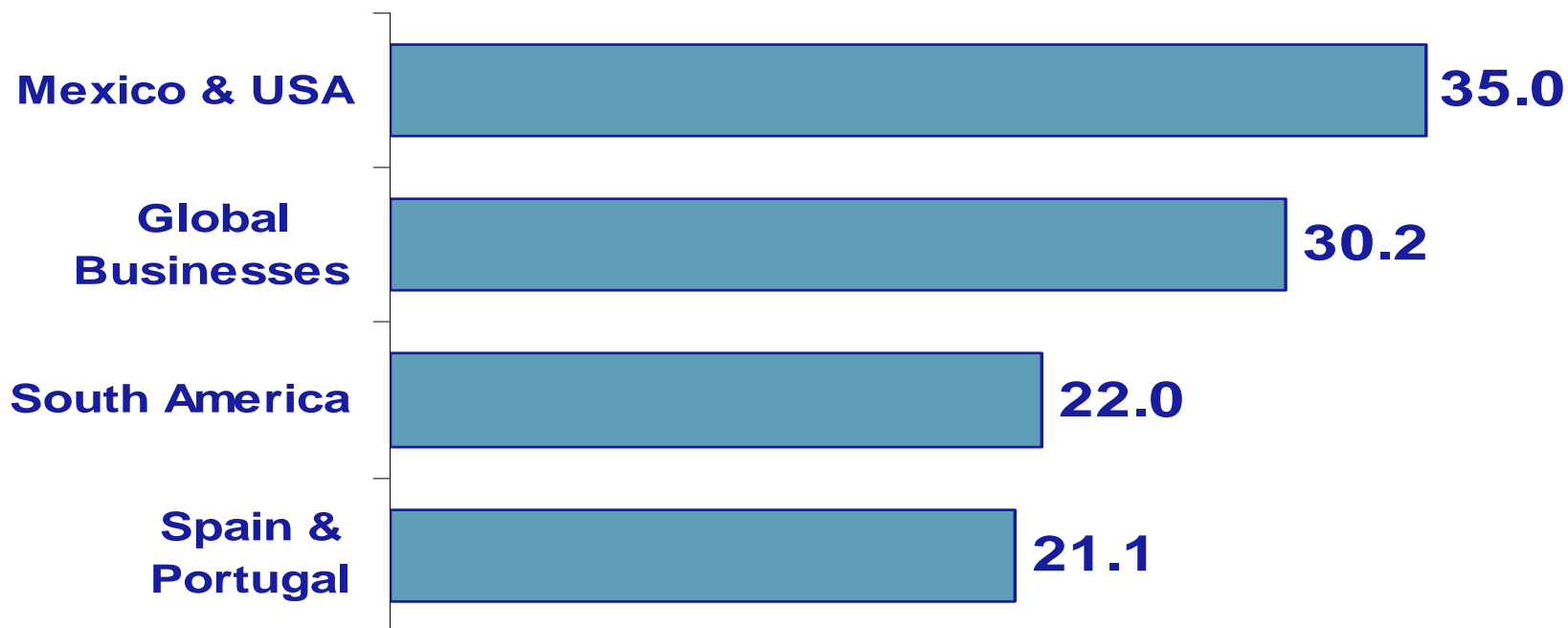
Net attributable profit excl. one-offs  
(€m)



**+31.1% in constant euros**

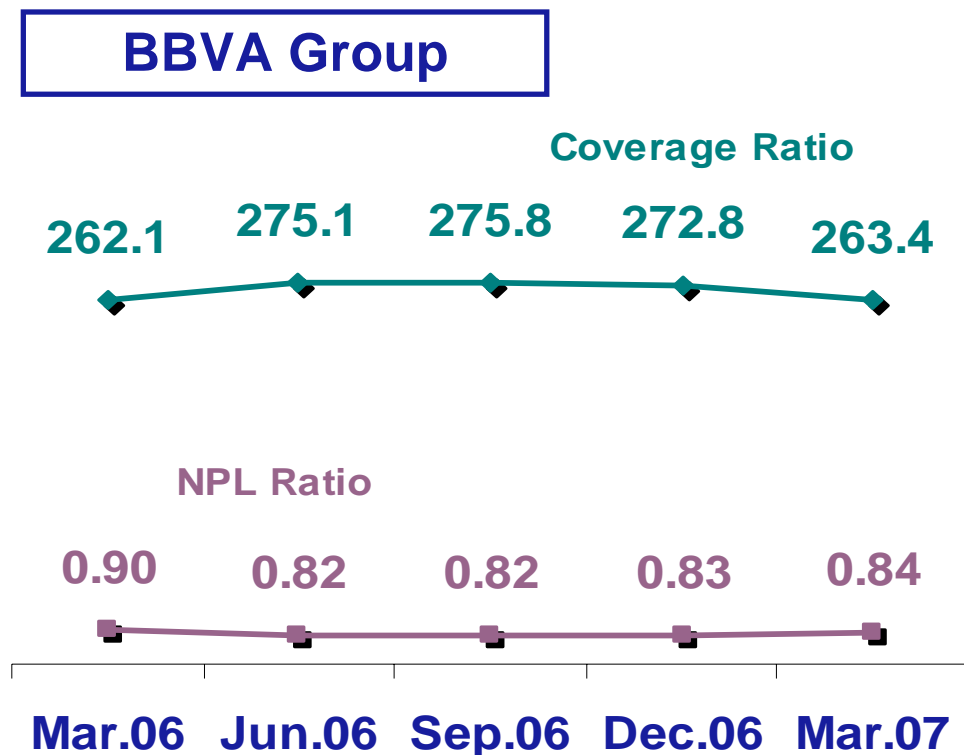
# With all business areas contributing

1Q07 Operating profit  
Cum. change (% , € constant)



**All Business Areas grow above 20% at the operating profit level**

# 1Q07: Excellent asset quality and coverage ratio



**Spain & Portugal**





**Mexico and USA**

**South America**

%	
NPLs	Coverage
0.59	296.3
2.33	276.2
2.62	133.4

**71% of loan-loss provisions are generic**



High Profitability		ROE	34.7%
High efficiency		Efficiency	42.4%
Excellent asset quality		NPL Ratio	0.84%
		Coverage	263%
Solvency		BIS Ratio	11.6%
		Ratings	AA- / Aa1

# Contents

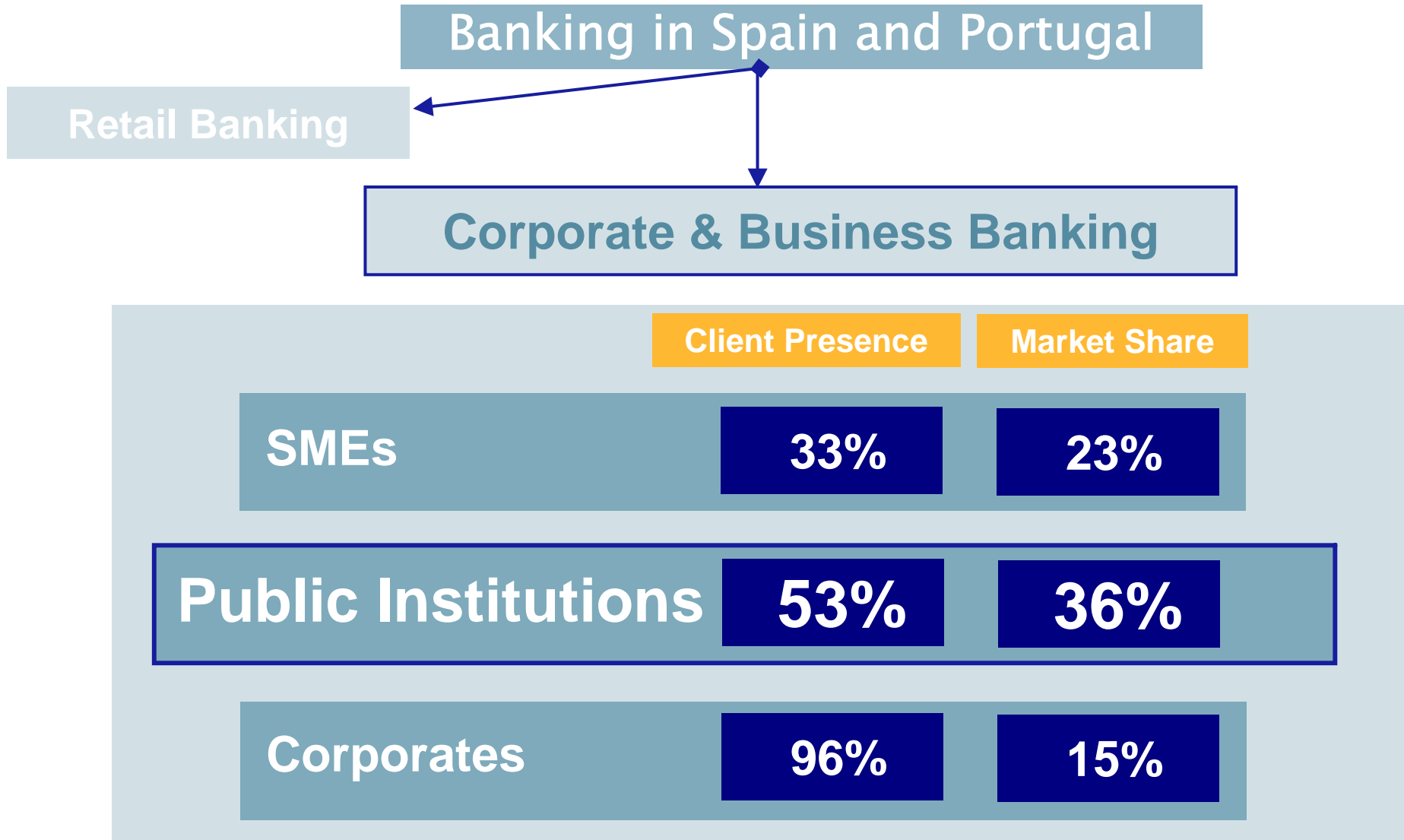
Overview and financial performance

## **BBVA Public Sector business**

BBVA Funding Strategy

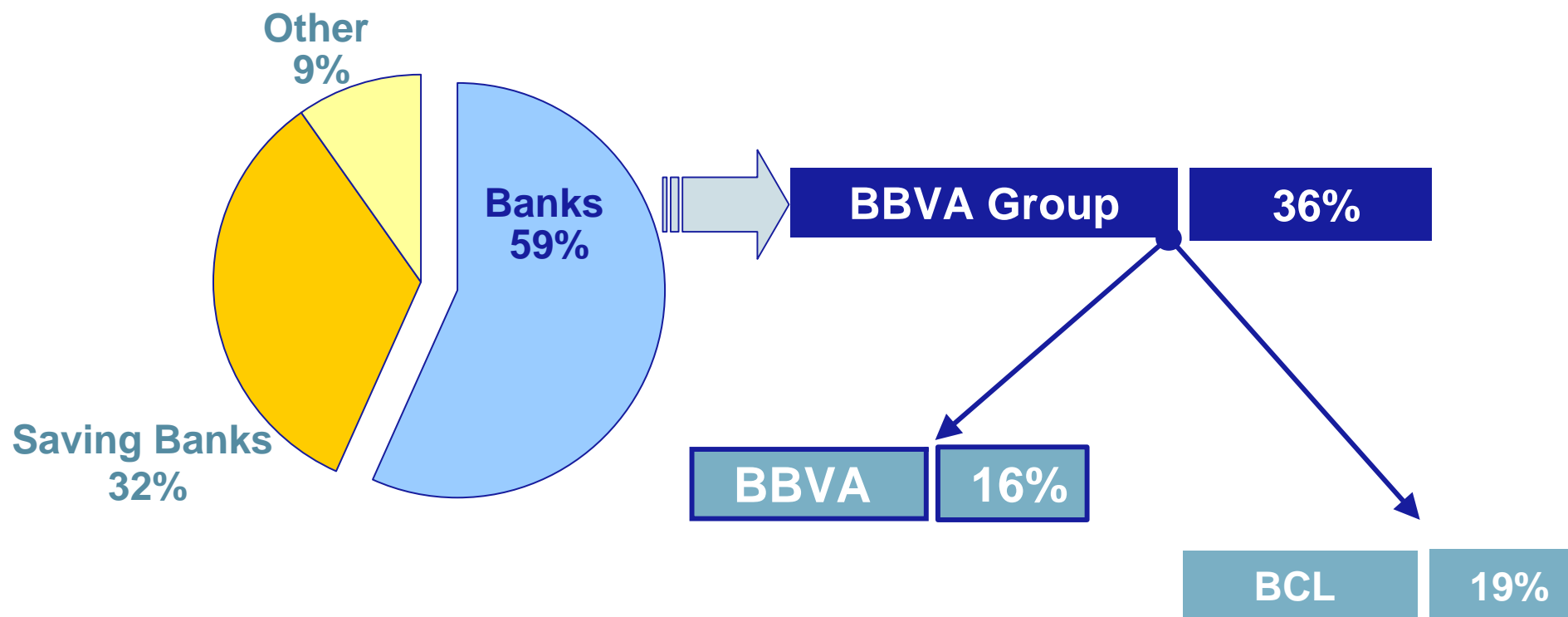
*“Cedulas Territoriales”*

Appendix



# BBVA is the leading player in Spanish Public Sector business

## Public Sector loans market share (%)



**BBVA is the market leader in lending to the public sector in Spain, based on :**

- **Business model of integral relationship banking, offering a full range of financial products and services, including high value added services such as project finance, tax collection services and specialized internet portals**
- **Strong nationwide presence**
- **BBVA Group manages the public sector business through BBVA and its specialist subsidiary Banco de Crédito Local (same management and risk policies but separate portfolios)**

More than 6,000 clients, covering all areas of the Spanish Public Sector

1

## Central Administration

- Government Departments, Autonomous Entities
- Public Enterprises

2

## Regional Governments

- Regional Governments
- Public Enterprises, Autonomous Entities at regional level

3

## Local Administration

- Provincial Administration
- Municipalities
- Public Enterprises, Autonomous Entities at local level

## Specialized network

- 52 branches in Spain, nationwide coverage
- 2 branches in Belgium
- 2 branches in Portugal

**Account manager approach for client management**

**Segment specific expertise**

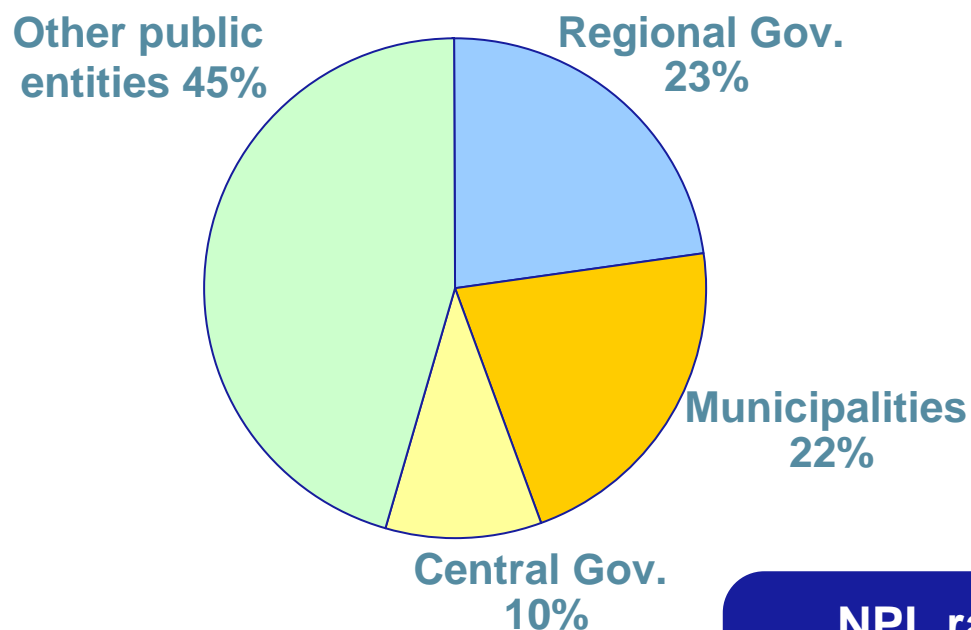
**Highly trained and experienced staff**

**High cross-sell ratios**

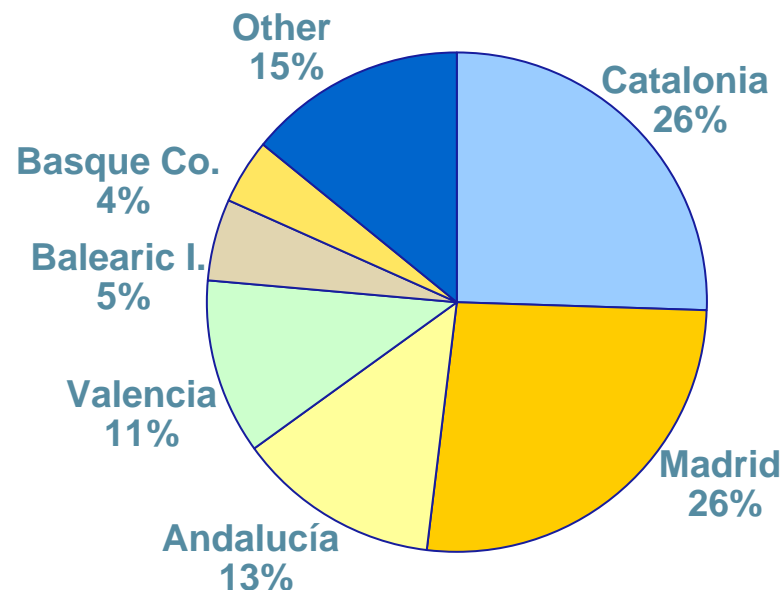
# A diversified and good quality portfolio

## BBVA Public Sector business Loan structure (%)

**By type of borrower**



**By region**



**NPL ratio** 0.08%

**NPLs Coverage** 154%



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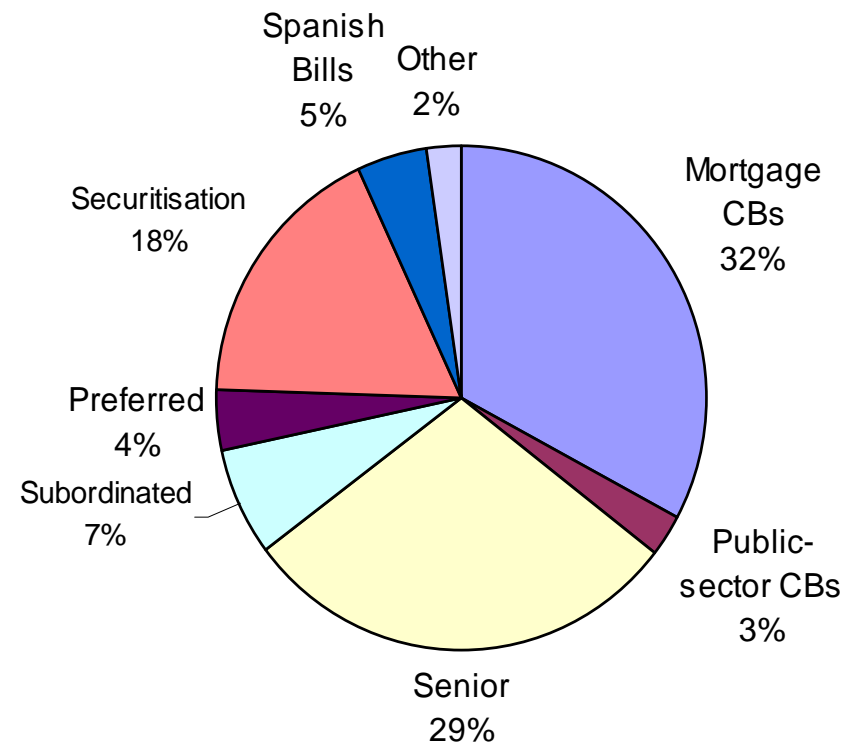
- Diversification by tenor, instruments and market:
  - ✓ Short term: Spanish bills (“pagarés”), CP
  - ✓ Medium term: Euromarket, GMTN, private placements
  - ✓ Long term: “Cedulas hipotecarias” (Covered bonds), senior debt, capital instruments
- Liquid benchmarks are established by maturities
- Smooth maturity profile
- A policy of independence and coordination of funding needs. Group subsidiaries fund themselves independently, without support from the parent
- Transparency and communication with market participants. High quality of disclosed information

# BBVA: a diversified funding structure

## Total stock (30/06/07 €Bn)

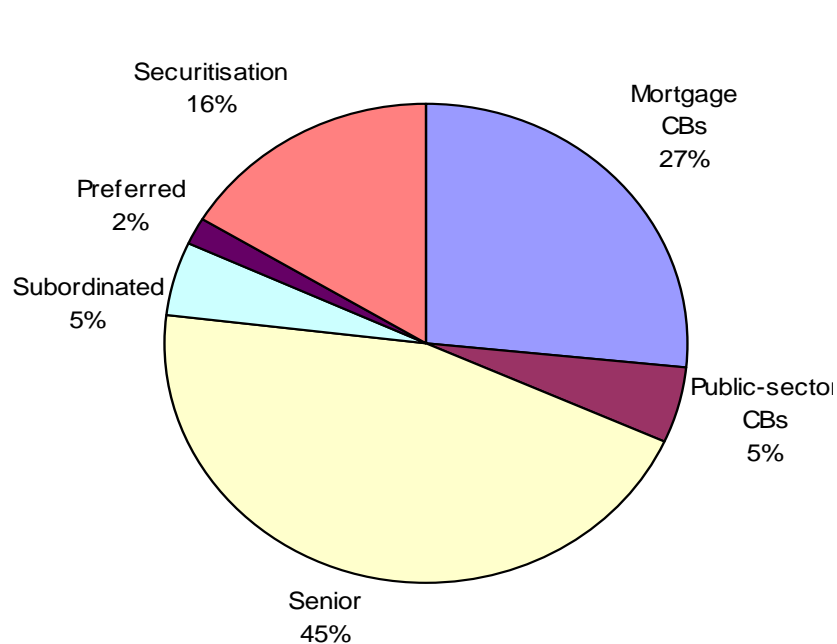
Mortgage CBs	39.0
Public Sector CBs	4.1
Senior debt (MTN)	34.6
Subordinated debt	8.3
Preferred shares	4.5
Spanish bills	5.4
Securitisations	21.0
Other (1)	2.8
Total	119.7

## Total Stock Distribution (30/06/07)

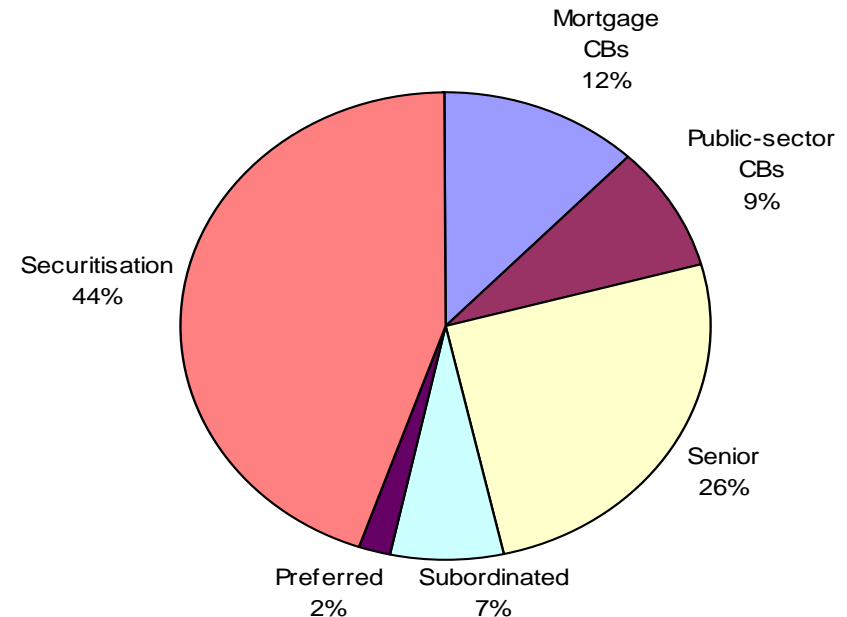


(1) USCDs, ECDs Eurodeposits and Private Placements

## Issued 2006



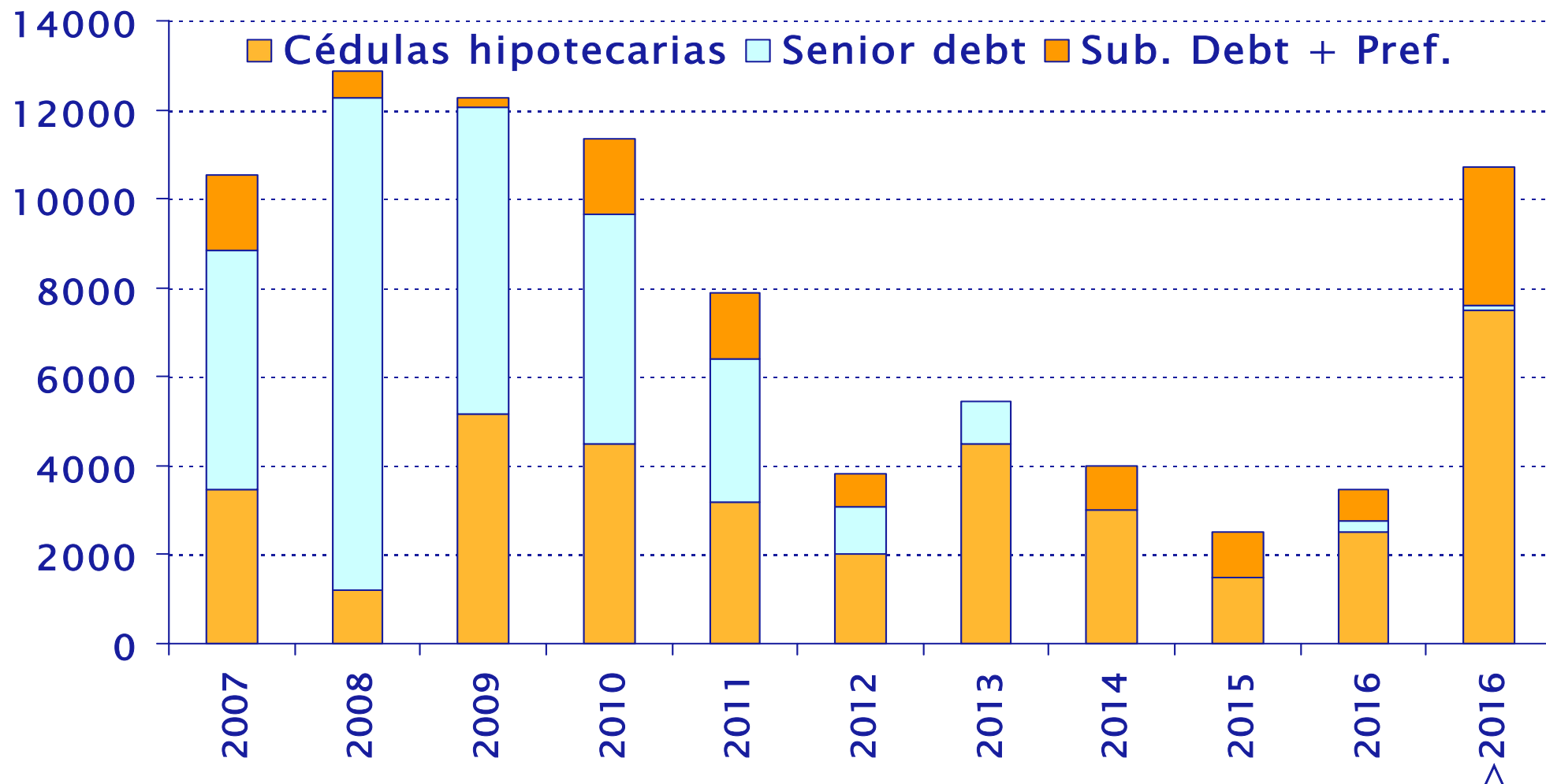
## Issued 2007 YTD



### New initiatives:

- Securitisations playing a more important role
- Increasing presence in the US bond market
- Broader investor base for capital instruments
- New ECP programme

## BBVA funding maturity matrix



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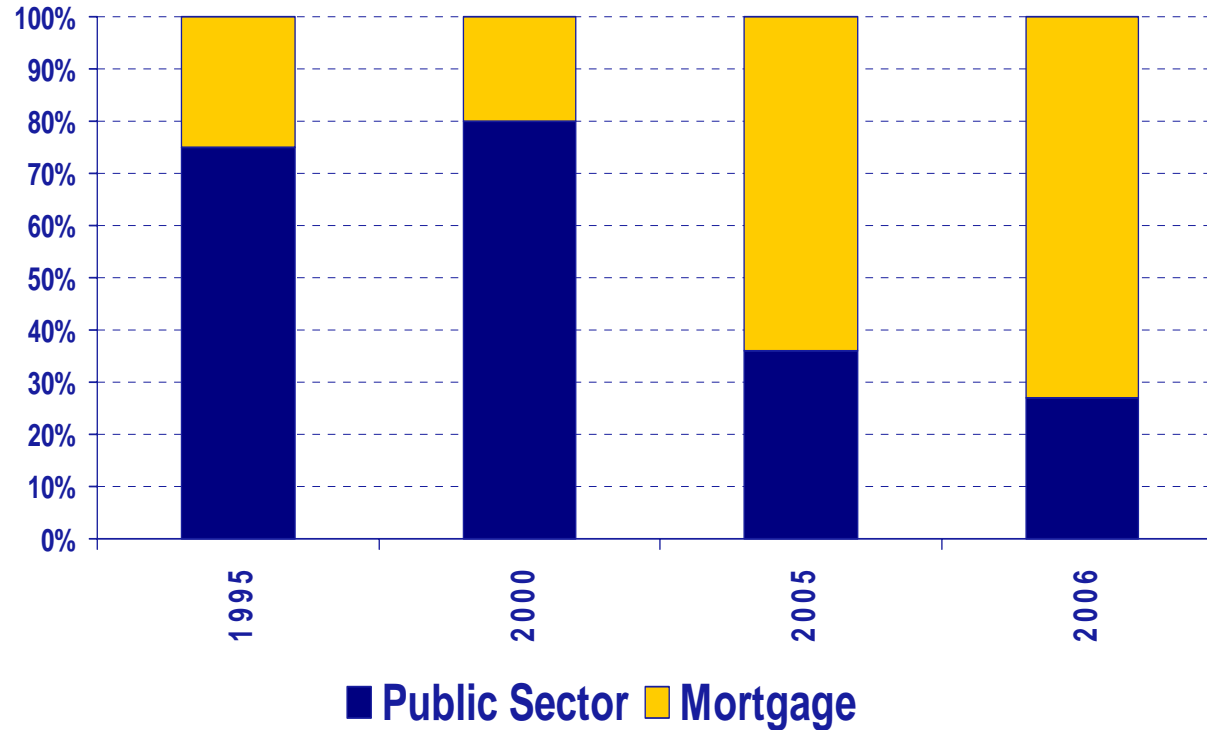
BBVA Funding Strategy

***“Cedulas Territoriales”***

Appendix

# Public sector covered bonds represent just 27% of new issuance

## Breakdown of Benchmark Issuance by Collateral type



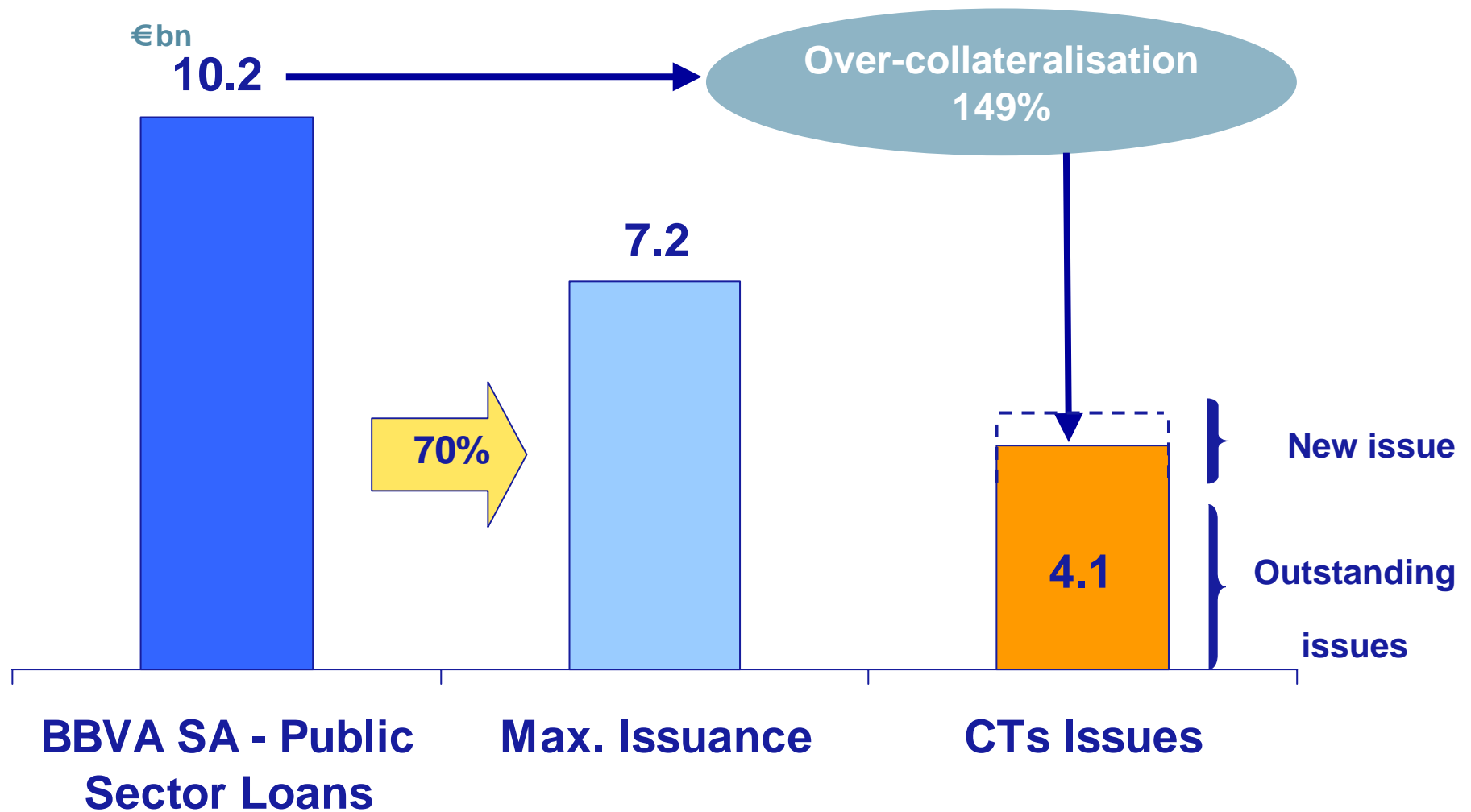
- **The CTs are full recourse to BBVA**
- CTs holders have a priority security claim over the Cover Pool: BBVA's entire public-sector loan and credit book
- The CTs holders are classified by the Law in the category "special-privileged creditors" in respect of any amount due under the CTs
- CTs cannot be terminated merely on the grounds of the existence of insolvency proceedings. The collateral and the proceeds thereof will be reserved, by provision of law, for the settlement of such special-privileged credit rights
- The maximum amount of outstanding CTs that an issuer is allowed to issue may not exceed 70% of the Cover Pool.
- This translates into a minimum 43% over-collateralisation required by law, the highest level in any European jurisdiction



# European covered bonds: a comparison

	<u>Spain</u> <u>Cédulas</u>	<u>Germany</u> <u>German Pfandbrief</u>	<u>France</u> <u>Obligations Foncières</u>	<u>UK</u> <u>Structured CB</u>
Over-collateralisation	Minimum <b>43%</b>	Minimum <b>2%</b>	Over-collateralisation is required but level is not explicitly defined	Minimum <b>7.5%</b> (additional over-coll. may be needed particular risks in case of bankruptcy of the seller)
Eligible Assets	EAA Public Sector Loans and Credits (no bonds). No cover asset register: priority claims against total public-sector pool + full senior recourse to all the assets of the issuer	Public Sector Loans and Bonds.	No separation between public and mortgage pool required. No limit for AAA MBS and Public Sector ABS tranches	Types not fully standardised: prime mortgages, buy-to-let, self-certified. First-lien residential mortgages
Substitution Assets	No	Derivatives (max 12% of cover pool, in NPV terms). Claims against certain banks (max. 10%)	Deposits and Loans to credit institutions. Other CBs. Promissory notes. Max 15%	Bank Deposits. Triple-A RMBS tranches, government securities. Short-term notes. Max 10%
Risk-weighting	10%	10%	10%	20%
Supervision and framework	Bank of Spain, Ministry of Economy	BAFIN (German Banking supervisor)	Commission Bancaire	No explicit covered bond legal framework
Effect on balance sheet	Loans remain on the bank's balance sheet	Loans remain on the bank's balance sheet	Loans remain on the bank's balance sheet	True Sale
Statutory preferential right in bankruptcy	Preferential claim on the entire public sector loan portfolio. If cover pool is insufficient, CTs rank pari-passu with senior unsecured debt	Segregation of cover pool in case of insolvency	No recourse to parent company	Administrative expenses and derivatives payments rank prior to amounts due on covered bonds
External Support	Not regulated, but very likely. In the past Bank of Spain stepped in where banks were in stress	Not regulated	Not regulated	Absent. Certain thresholds trigger replacement of servicer ahead of issuer's default

# BBVA's Cédulas Territoriales, very strong over-collateralisation



# BBVA Cédulas Territoriales: Strengths

**Ratings**



**Moody's: Aaa**

**Quality of the security  
portfolio**



**Loans to the Public Sector**

**Over-collateralisation**



**Legal minimum of 43%**

**Risk weighting**



**10% BIS**

**Liquid Asset Class**



**Market making agreements**

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**Appendix**

<b>Balance (million euros)</b>	<b>2005</b>	<b>2006</b>	<b>Change (%)</b>
Total assets	392,389	411,916	5.0
Customer lending (Gross)	222,413	262,969	18.2
On-balance sheet customer funds	259,200	283,645	9.4
Total customer funds	403,087	425,709	5.6
Equity	17,302	22,318	29.0
Shareholders' funds	13,036	18,210	39.7
<b>Income (million euros)</b>			
Net interest income	7,208	8,374	16.2
Ordinary revenues	13,024	15,701	20.6
Operation Profit	6,823	8,883	30.2
Pre tax profit	5,592	7,030	25.7
Net attributable profit	3,806	4,736	24.4

<b>Significant ratios</b>	<b>2005</b>	<b>2006</b>
ROE (Net attributable profit/average equity)	37.0	37.6
ROA (Net profit/ATA)	1.12	1.26
Efficiency ratio including depreciation and amortization	46.7	42.6
NPL ratio	0.94	0.83
NPL coverage ratio	252.5	272.8
<b>Capital adequacy ratios (BIS)</b>		
Total	12.0	12.0
Tier I	7.5	7.8
Core capital	5.6	6.2
<b>Data per share and market capitalisation</b>		
Net attributable profit	1.12	1.39
Dividend	0.531	0.637
Book value	3.84	5.13
Market capitalisation	51,134	64,788
<b>Other information</b>		
Number of shares	3,391	3,552
Number of employees	94,681	98,553
Number of branches	7,410	7,585

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