



> Risk management

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- > Credit risk management
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- > Operational risk management



BBVA Group considers risk management to be a basic area to facilitate the stable generation of value for shareholders.

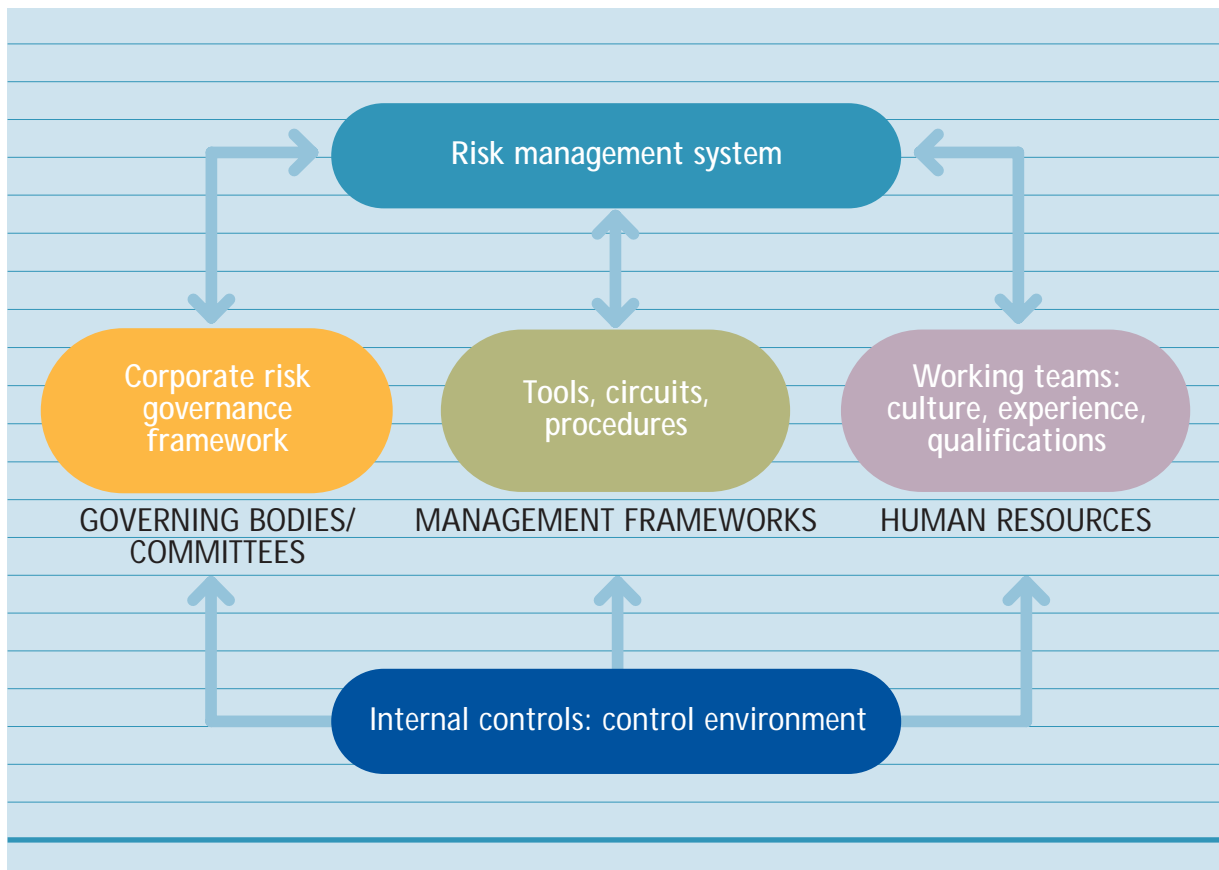
The Group has therefore devoted considerable resources to configure a risk management system that on the one hand meets the need for identifying, measuring, assessing and monitoring, in a consistent and homogeneous way, all types of risk that may be incurred by a diversified and internationally active banking group such as BBVA, and on the other hand meets the future capital requirements laid down by Basel II.

Risks are classified as credit risk (counterparty), market areas risk (considering joint measurements of market and credit risks in these activities), structural risk (including liquidity, equity, interest and exchange rate risks) and operational risk.

The fundamental objectives of the risk management system at the BBVA Group are to meet the specific needs of customers and to preserve the solvency of the Group according to the risk profile expectations approved in its business strategies.

This system aims for an integrated management of all the risks involved in the different businesses and activities, based on an in-depth knowledge of each individual type of risk and of the potential relationships between them.

The system also rests on a corporate risk management structure featured by a clear separation of functions and responsibilities, on a set of tools, circuits and procedures that make up the different management structures, on a system of in-house checks that ensure proper operation and right management orientation, and on a highly qualified staff.



Corporate management structure

The Board of Directors is the top level body that defines the Group's risk policy and approves, when necessary, the non delegated credit risk operations or financial programmes, with no limit as to their amount. It also authorizes transaction limits and delegation of faculties for credit, market and structural risks.

These tasks are handled by the Executive Committee, which is answerable to the Board.

The remit of the Board's Risks Committee, as a specialized body, includes:

- Assessing risk management at the Group in terms of its risk profile and capital map, broken down by businesses and areas of activity.
- Assessing general risk policies, which means establishing limits by types of risk or business, resources, procedures and management systems, structures and processes.
- Approving individual or group risks that could affect the financial solvency of the bank, in line with the delegation structure established.
- Analysing and approving credit risks, if necessary, in terms of maximum exposure per customer or per group.
- Monitoring the different risks of the Group and ensuring that they do not stray from the defined Group profile.
- Following the recommendations of regulatory and tutoring bodies and implementing them in the Group's risk management structure.
- Analysing the Group's risk control systems.

The Assets & Liabilities Committee (ALCO) is charged with the active management of structural risks involving liquidity, interest rates and exchange rates, and of the structure of BBVA's own resources.

The Internal Risks Committee, made up of the corporate heads of risk management at the

Group, handles the development and implementation of the risk management model at BBVA and assures that in day-to-day operations the risks, that the Group takes on, fit in with the objectives defined in the profile by the Group's top management bodies.

The Technical Operations Committee analyses and approves financial transactions and programmes, as the case may be, at its level of attributions, and refers those that are beyond its remit up to the Risks Committee.

Tools, circuits and procedures

The Group has set up management structures to meet the needs arising from the different types of risk.

Seeing risk management as a continuous process has led the Group to form the management processes for each risk with measuring tools for its admission, assessment and monitoring, and to define appropriate circuits and procedures, which are set down in manuals alongside the relevant management criteria.

The activities carried out include:

- Calculating the risk exposures of the portfolios, considering mitigating factors (netting, collateral, etc.).
- Calculating probability of default (PD), loss given default (LGD), and expected loss for each portfolio, assigning a PD to new operations (rating and scoring).
- Measuring the value at risk in portfolios under different scenarios using historical and Monte Carlo simulations.
- Setting limits on potential losses depending on the different risks incurred.
- Determining the potential impact of structural risks on the profit and loss statement.
- Setting limits and alerts to assure the liquidity of the Group.
- Identifying and quantifying operational risks by business lines and thus facilitating

their mitigation through corrective actions.

- Defining efficient circuits and procedures in line with the objectives established.

In short, risk management is understood as a whole implementing it via an integrated management structure.

Working Teams

To manage an effective overall risk management structure the right team of experts and the right skill levels are needed.

With this in mind, the Risks area works jointly with Human Resources to implement a skill management programme that has now been in place for three years. This programme provides skill maps for the whole Risks area and draws up training plans tailored to needs, people and targets pursued.

Internal Control

The development, implementation and continuous improvement of a risk management system calls for controls and indicators to ensure that management structures function properly and that progress is made in the deployment of the model in line with the objectives set. Best practices in risk management are also identified and adopted.

To that end the Group has set up an independent internal risk control function that,

in line with the recommendations of regulators, establishes working plans with business areas that can plug any identified gaps, ensuring that the Group's risk management is conducted in line with the best available practices.

New Capital Accord (Basel II)

In June 2004 the Basel Committee on Banking Supervision approved the New Capital Accord (Basel II), which is to serve as a reference for national regulators in the development of new standards for calculating capital. It is to be applied by financial institutions as from its entry into force at the end of December 2006. The Accord is a historic opportunity to encourage improvement in risk management in financial systems and to bring the concepts of economic capital and regulatory capital closer together.

The Group has been working in this direction for some years now, and with a view to duly meeting the regulations, has drawn up a Master Plan for Basel II. Under this plan multidisciplinary teams from Risks, Systems and Operations, Accounting and Consolidation, Management Information Services (MIS), Financial Management and business areas are working to construct and implement tools, historical databases and other components needed to make full use of the advanced risk management models considered in the new regulation.

> Overall risk map

Economic capital is a measure of the maximum losses that can be incurred with a

set confidence level (99.9%), in line with the target level of solvency.

Measurements of economic capital fit into management accounting by business units and their intrinsic valuation.

In accordance with progress in the RAR (Risk-Adjusted Return) project, highly detailed calculations are now available for economic capital by credit risk, at the transaction level at our parent company and subsidiaries in Spain, and at the aggregate, overall level in the rest of the Group. In 2005 transactional level calculations will be available in Mexico, Colombia and Peru, which means that more than 80% of our risk will be covered. By 2006 the system will be extended to Argentina, Chile, Puerto Rico and Venezuela.

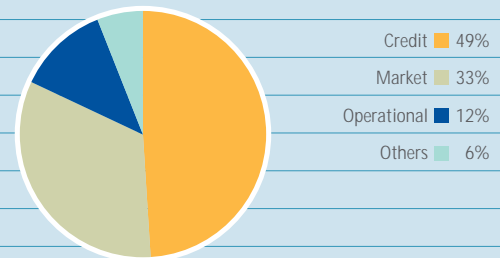
The accompanying graph shows the distribution of economic capital by business areas as of December 2004 in attributable terms (net of minority interests).

Retail Banking Spain and Portugal represents 34%, with 52% of that figure accounted for by Commercial Banking and 27% by SME Banking. The Americas represents 27% of the economic capital with Mexico absorbing 57% of it.

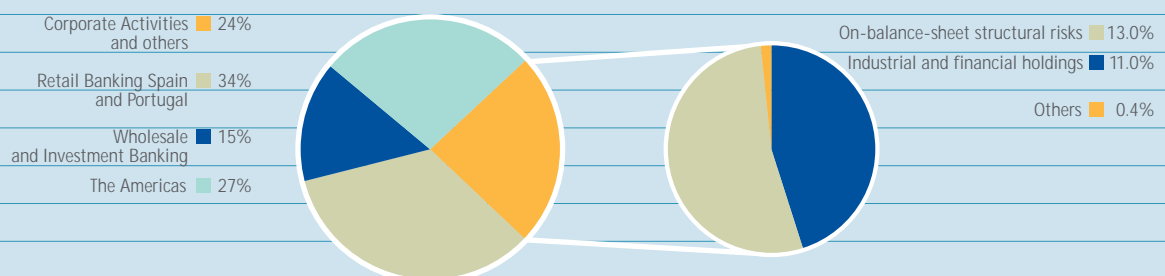
Wholesale and Investment Banking account for 15% of capital, while Corporate Activities, which includes holdings in industrial and financial firms and the management of structural balance-sheet risk, accounts for the remaining 24%.

By type of risk, credit risk at 49% continues to account for the largest portion of risk capital use as per the Group's business portfolio. The level is similar to that of 2003. Market risk, which includes the structural balance-sheet risk associated with movements in interest and exchange rates along with equities portfolio risk, stands at 33% of total capital, while operational risk stands at 12%. The remaining 6% is accounted for by fixed assets and use of capital deriving from the activities of the Group's insurance companies.

> Map of the BBVA Group's economic capital. Distribution by risk types
(Data in attributable terms: 31-12-04)



> Map of the BBVA Group's economic capital. Distribution by areas
(Data in attributable terms: 31-12-04)



> Credit risk management

Changes over time in credit risk exposure and quality

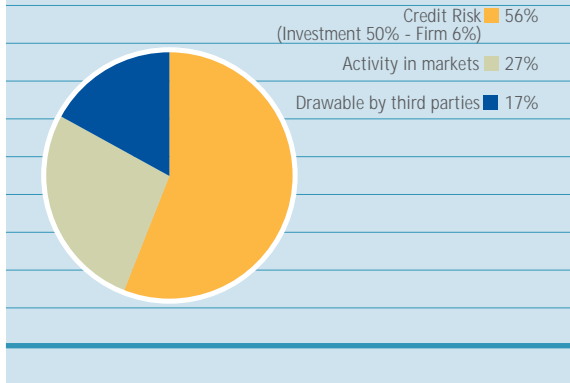
As of 31.12.04 the BBVA Group's overall credit risk exposure stood at €351 billion, 9.5% up on the previous year-end.

Customer lending (56% of the total including contingent liabilities) and credit lines drawable by third parties (17%) were up by 15.8% and 15.1% respectively, while potential exposure to credit risk in market operations (27% of the total) was down by 4.0%.

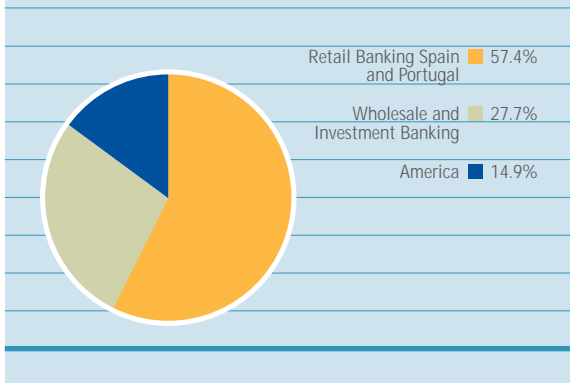
Credit risk in Retail Banking Spain and Portugal rose by 1.7 points in the year to 57.4% of the Group's total risk, while that of Wholesale and Investment Banking decreased by 1.2 points to 27.7% of the total.

In 2004 there were no significant changes in the distribution of risk by geographical areas. Thus, the Group in Spain (including branches abroad, mainly in Europe) accounted for 82.6%, the rest of Europe for 3.0% and exposure in Latin American countries for 14.4% (10.7% in investment grade countries).

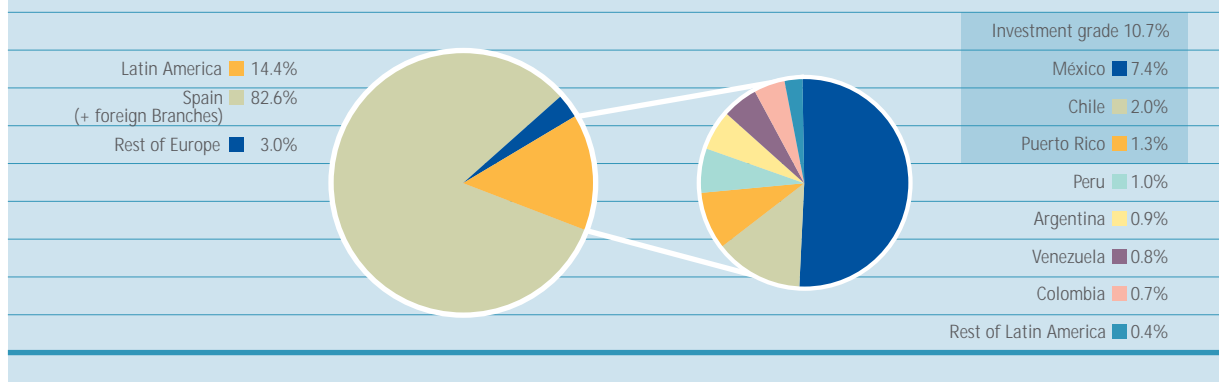
> Exposure. Customer risk (31-12-04)



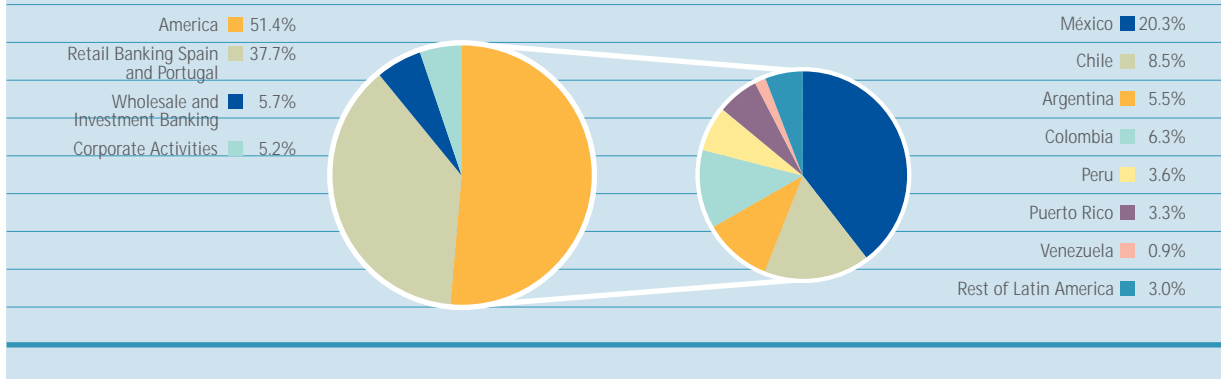
> Exposure. Gross credit risk by business areas. (31-12-04)



> Exposure. Gross credit risk by geographical areas (31-12-04)



> Nonperforming loans by business areas (31-12-04)



The trend in the Group's fundamental credit risk quality indicators in the year was once again favourable. The balance of nonperforming assets dropped by 20% to €1,856m, with decreases spread across all business areas.

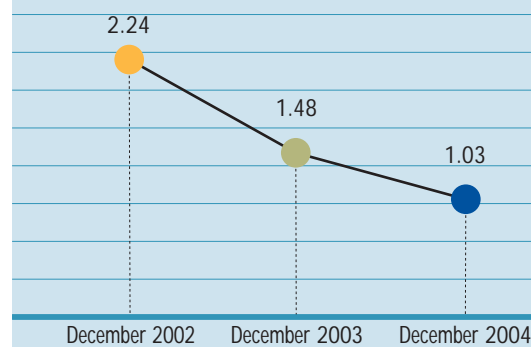
This decrease is due to a further reduction in the ratio of new nonperforming loans to total lending amount from 1.48% in 2003 to 1.03% in 2004, and to an improvement in the recovery rate to 36.6% of the critical mass (total of impaired loans plus new entries in the year), as opposed to 28.6% in the previous year.

As a result of the above, the non-performing loans (NPL) rate at year-end 2004 (including contingent liabilities and excluding sovereign risk group 5) was 0.95%, 42 basis points down on the figure as of 31-12-03.

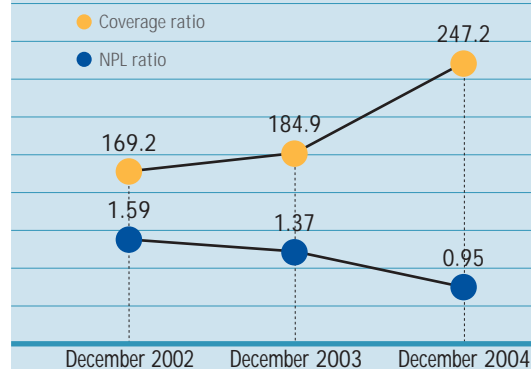
All business areas contributed to the reduction: Retail Banking Spain and Portugal decreased its NPL rate by 24 basis points to 0.61%, with a new record low in its rate of new nonperforming loans; Wholesale and Investment Banking achieved a major reduction in its rate to 0.19%, while the Americas has an NPL rate of 3.18%, 128 basis points below the figure for the previous year-end.

The BBVA Group's coverage ratio increased to 247.2% by 31-12-04, 62 percentage points above the figure at the previous year-end.

> New nonperforming loans/lending (Percentage)



> NPL ratio and coverage (Percentage)



Credit risk profile

Two measures are used to determine and identify the Group’s credit risk profile: expected loss and economic capital (by credit risk). To facilitate the admission, quantification and management of credit risk rating and scoring tools are used.

Under the new Basel regulations the use of internal models to measure credit risk and calculate insolvency risk coverage (as per Bank of Spain circular 4/2004) will be permitted only if those models are first approved by the supervisor. To that end, BBVA submitted its consumer loan, mortgage loan, large corporates and SME credit rating models to the Bank of Spain for approval in 2004.

The Group has historical PD and LGD databases capable of storing detailed information on all operations in each of its business areas. This means that precise estimates are now available for the inputs of the probabilities of default, LGD and exposure at default (EAD), as required under the new Basel regulations.

This forms the basis for calculating expected loss and capital (economic and regulatory) under common premises across all the Group’s banks. Under the new regulations the concept of “expected loss” will be a key component in calculating provisions and capital (insofar as it is calculated net of expected loss). Likewise, it will be possible to make risk-adjusted valuations of operations.

In this context, the BBVA Group aspires to be among the banks that use internal models from the onset of the implementation of Basel II.

BBVA Master Scale. BBVA has a master scale that is intended to facilitate the uniform classification of the Group’s risk portfolios. Two

versions exist: the narrow version, which classifies outstanding risks in 13 categories, and the broad version, which breaks them down into 34 categories.

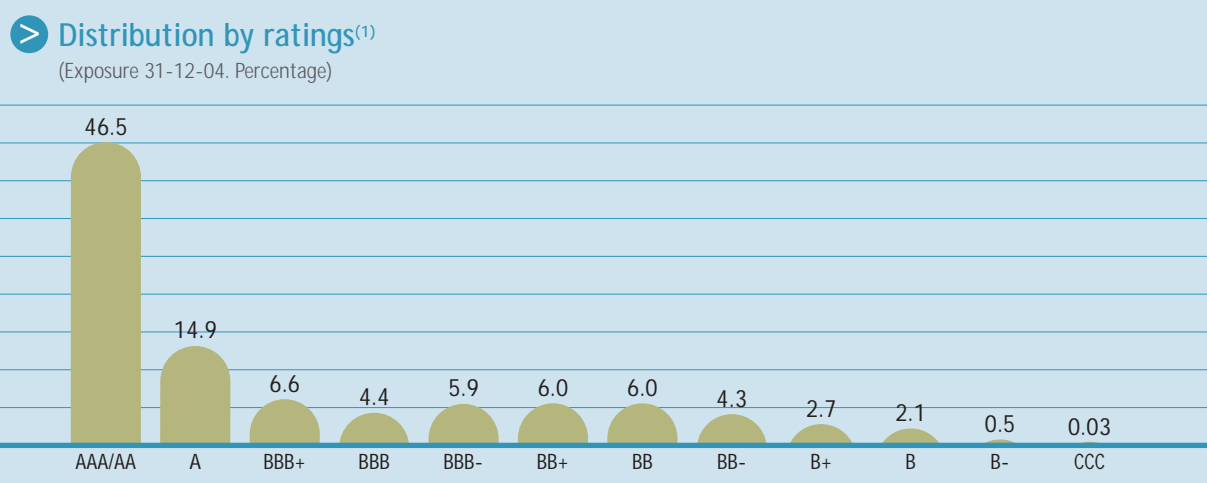
> BBVA Master scale (Narrow version)

Master Scale Rating	Default probability (in basis points)		
	Average	Minimum	Maximum
AAA	1	0	2
AA	3	2	5
A	7	5	11
BBB+	14	11	17
BBB	20	17	24
BBB-	31	24	39
BB+	51	39	67
BB	88	67	116
BB-	150	116	194
B+	255	194	335
B	441	335	581
B-	785	581	1,061
CCC	2,122	1,061	4,243

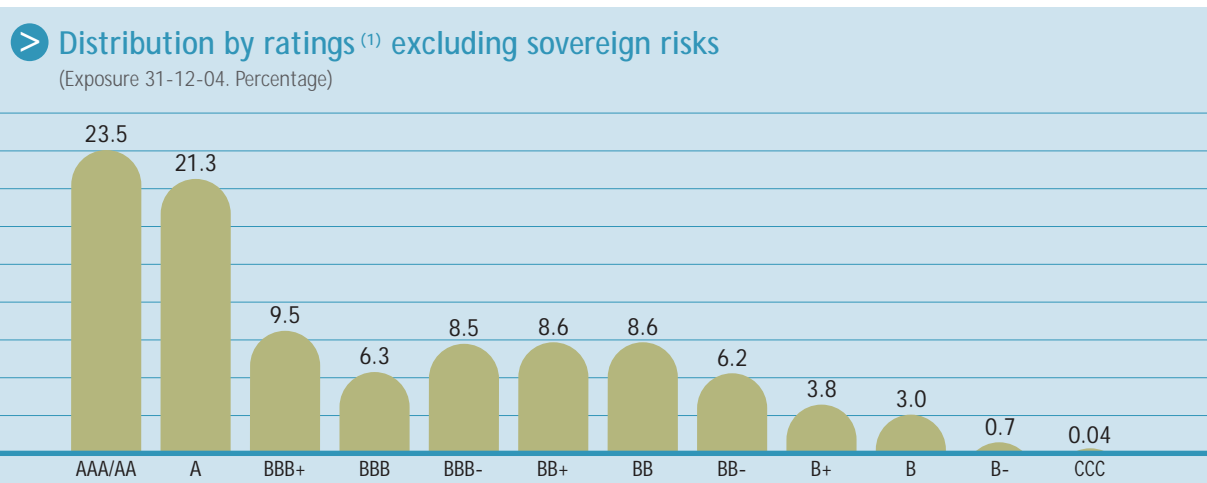
Applying this master scale, the distribution of ratings weighted by exposure for the parent bank and its subsidiaries in Spain, including companies, financial entities, institutions and sovereign borrowers, reveals that 61% of our credit risk exposure is concentrated in A-rated or higher buckets.

If we exclude sovereign loans, 45% of exposure is still rated at A or above, and 69% at BBB- or above.

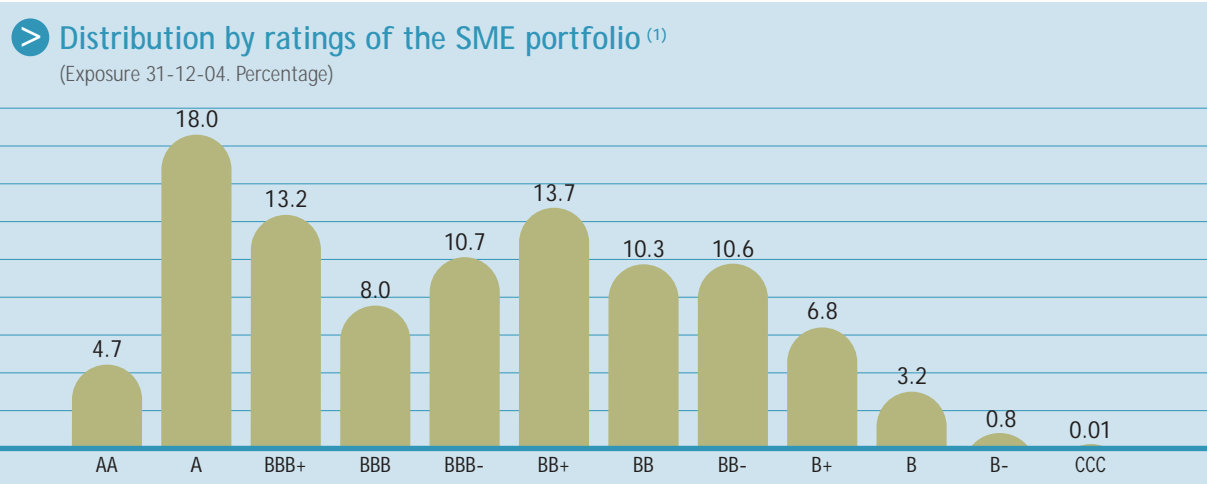
The charts also show the distribution of ratings in the corporate sector.



(1) Activities of parent bank and subsidiaries in Spain. SME's, financial firms, institutions and sovereign risks.



(1) Activities of parent bank and subsidiaries in Spain. SME's, financial firms and institutions.



(1) Activities of parent bank and subsidiaries in Spain. Includes firms invoicing over €5m.

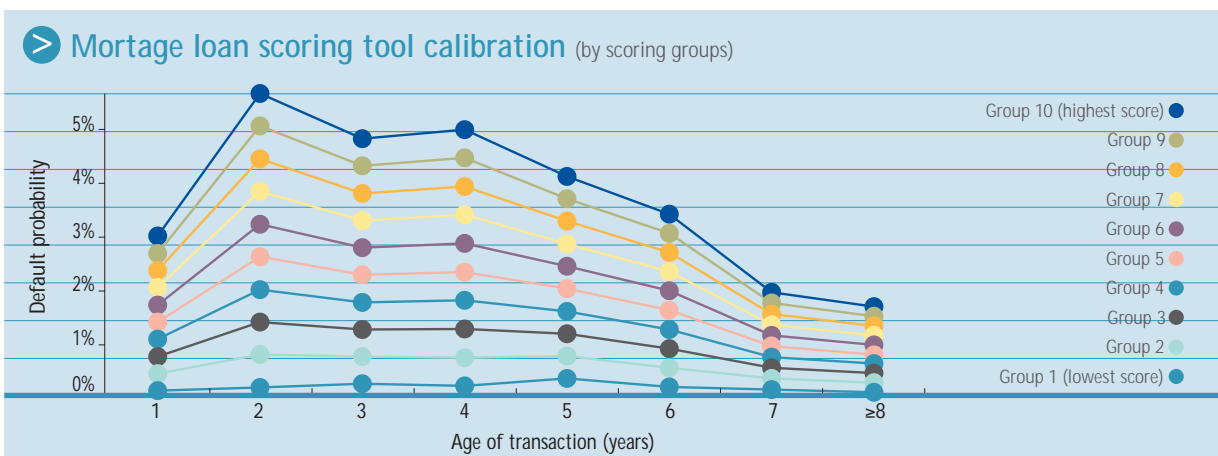
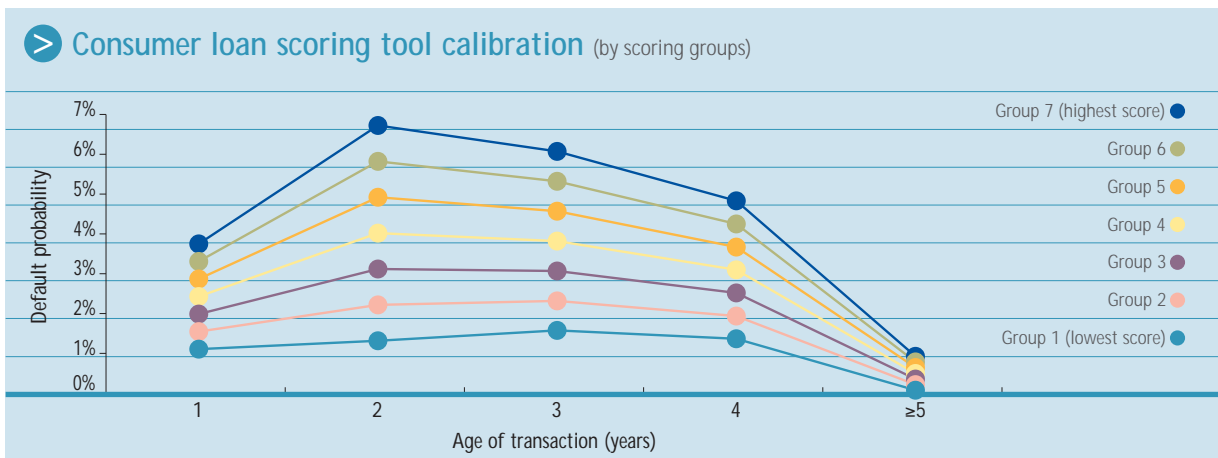
Probability of default. Basel II distinguishes between two segments for calculating capital: retail (consumer loans, mortgages, small businesses, etc.) and non retail transactions (SME's, banks, sovereign, etc.). BBVA has credit rating tools that clearly distinguish between these two segments and their components.

Each credit risk measurement tool enables a score to be obtained for operations in line with their credit quality. It is only possible to link this score with a probability of default if a broad historical database, that enables performance to be inferred, is available. The implementation of the RAR project has allowed the probability of default to be calculated incorporating all possible defaults in each operation, plus the

whole recovery process (not just the first default). In this way definitions of default are consistent with the databases for LGD and actual credit performance is reflected more adequately.

Scorings. The graphs below show default probability curves for each scoring group of the tool (known as tool “calibration”), as the time period for each transaction progresses, in the consumer and mortgage retail businesses of BBVA Spain.

It can be observed that the probability of default in these two business segments is highest around the second year as from the formalising of the loan, and that higher default rates are found in the worst-scored groups.



Ratings. The rating tools in place at the Group allocate a score (and a probability of default via calibration) to each customer in accordance with specific quantitative and qualitative data adjusted to each segment.

The mean probability of default profile associated with scores in the SME business rating (firms with sales between €5m and €150m) is shown in the following graph.

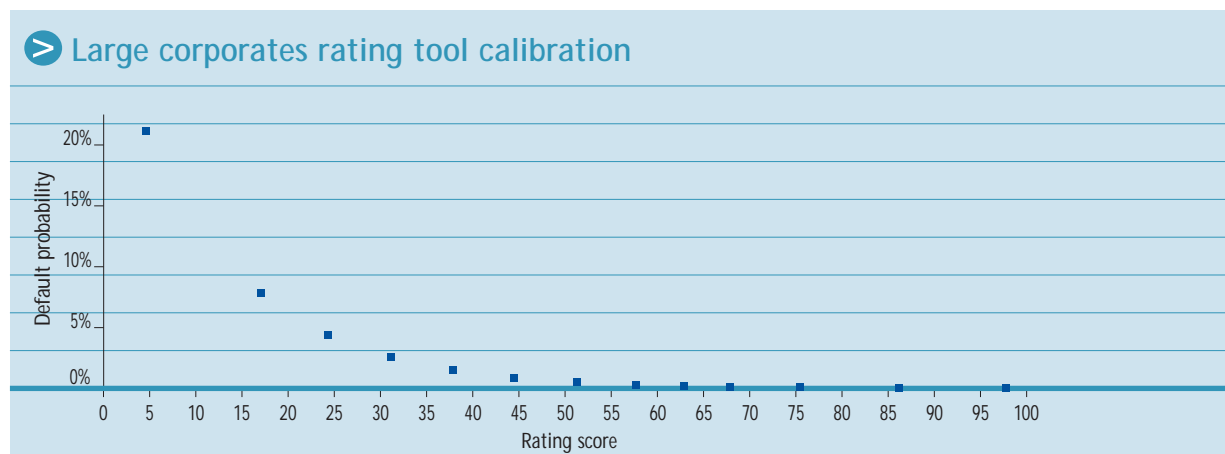
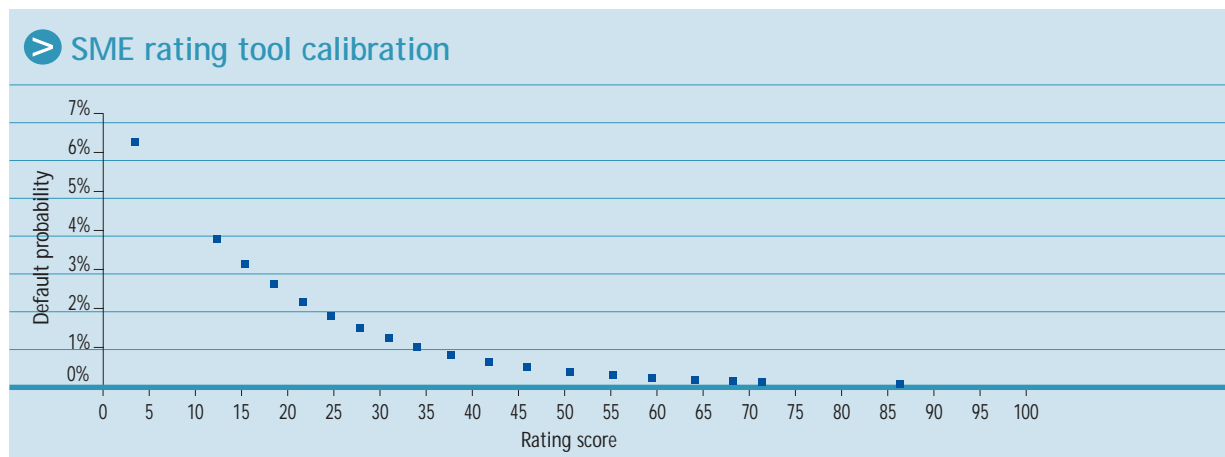
Large corporates (with sales of more than €150m) have, obviously, a low default rate.

LGD. The LGD (loss-given default) rate is defined as final loss expressed as a percentage of risk exposure in the event of default. It is the counterpart of the recovery rate, which can be

calculated as the difference between 100% and the LGD rate. One of BBVA's priorities is to obtain as precise an estimate of this rate as possible and to minimise it via the most efficient recovery mechanisms.

LGD is calculated by the "Workout LGD" method, which is based on discounting the flows of the defaulted exposure that has been recovered at different times as a result of the recovery process.

The methods used by the BBVA Group to estimate LGD differ according to the type of product in question. For retail product exposure the approach used is contract-based, and for other products it is customer-based.

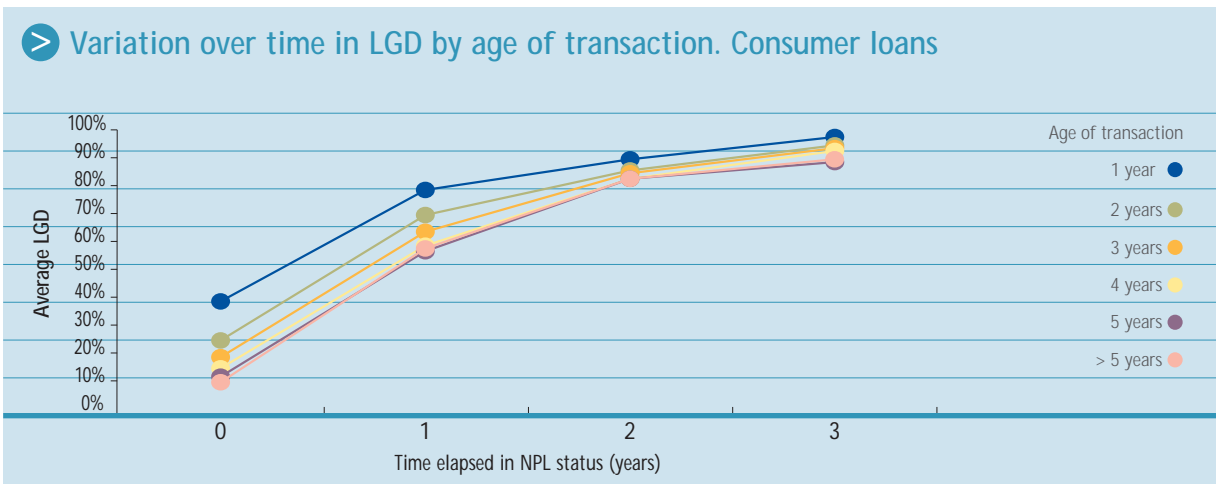
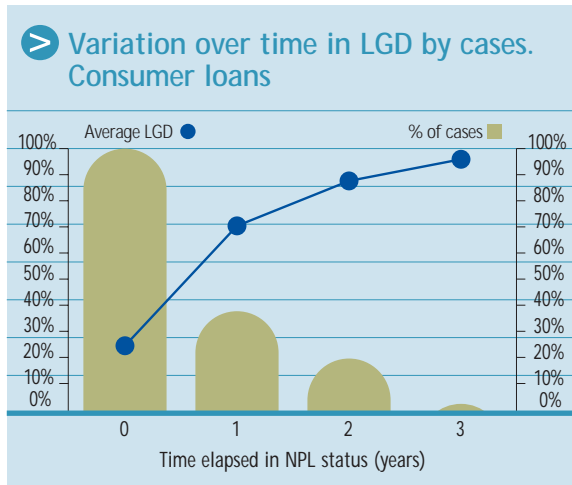
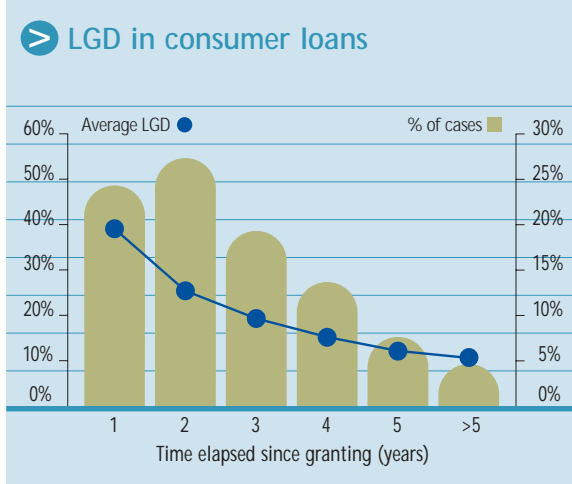


a) Consumer loans

As shown in the first graph below, the longer the time elapsed from the granting to the default of the loan, the lower the associated LGD is.

Recovery processes are taking effect, and defaulted exposure is tending to decrease. The second graph shows the trend in LGD over the time in which a transaction remains in default as from the original default date (known as the debt ratio). As in the previous graph, the left-hand axis is for the line of the graph and the right-hand axis for the bars (representing the percentage of the sample that exceeds each time frame for default periods). It can be seen that LGD increases as default periods increase.

The lines in the third graph correspond to different times as from the date of granting of the loan. It can be observed that both the age of the transaction and the time elapsed at default are jointly significant for the estimation of LGD. The Group therefore adjusts LGD calculations taking into account the levels of these two axes for each operation in the portfolio of consumer loans.



b) Residential mortgage

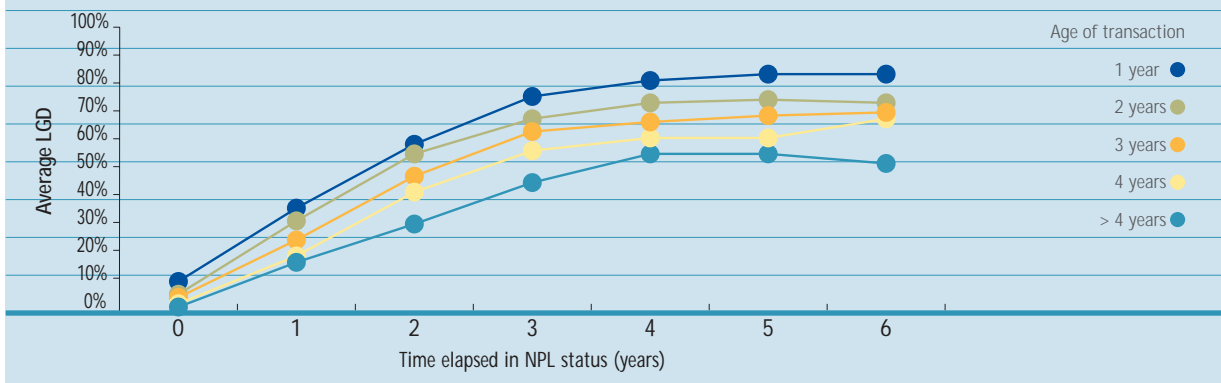
The first graph shows the age of the transaction at the time of default and how long the transaction remains in default after that time. The lines on the graph correspond to different times from the granting of the loan. As with consumer loans, both factors are significant in estimating LGD, both separately and jointly.

The loan to value ratio (LTV) is a characteristic feature of mortgage loans which may be expected to influence the LGD. The graph shows how LGD varies as

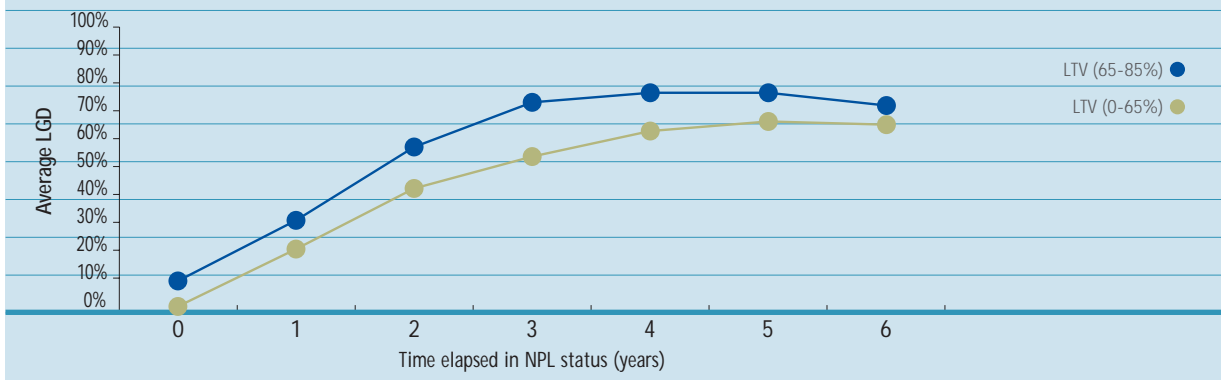
a function of LTV according to how long the loan remains in default. The lines on the graph correspond to different LTV's (expressed in percentages): it can be seen that the higher the LTV is, the greater the LGD is.

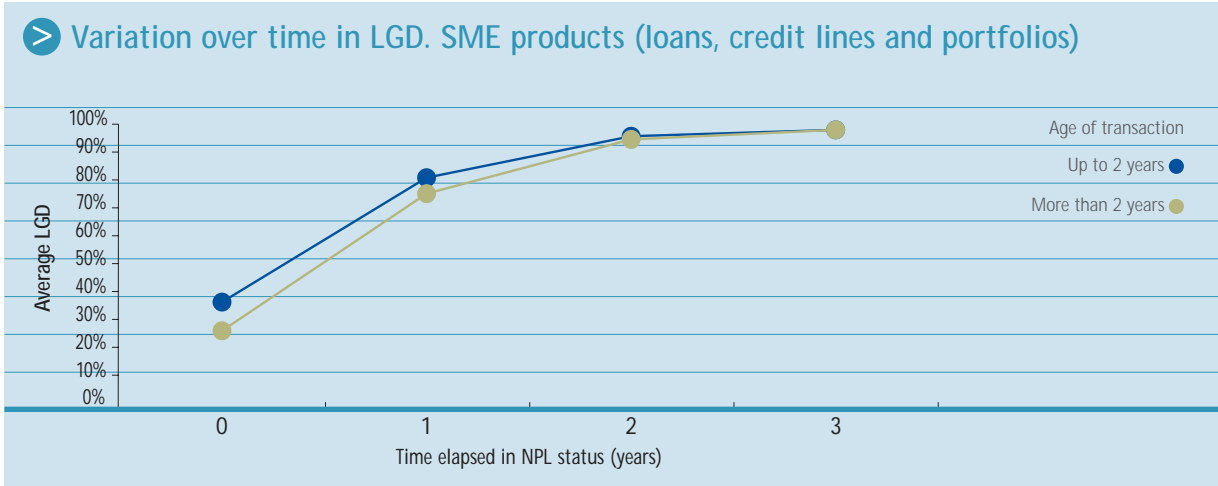
Just as the significant factors were taken into account in estimating LGD for consumer loans with personal guarantee (personal term loans), so the BBVA Group also adjusts LGD in view of the three elements indicated above for each transaction in its mortgage loan portfolio.

> Variation over time in LGD by age of transaction. Mortgage loans



> Variation over time in LGD. Mortgage loans



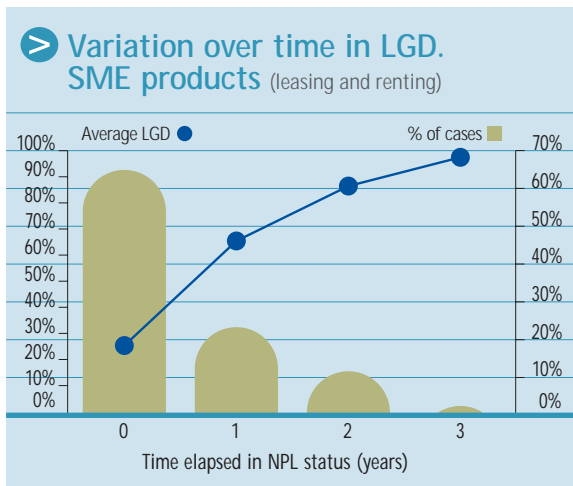


c) SME products

The graphs below show the LGD studies conducted for some typical corporate products (loans, credit lines, portfolios, leasing and renting), using a customer-based approach. The first graph shows the variations in LGD of loans, credit lines and portfolio products without collateral in line with the time elapsed from the granting of each transaction to the time of default by the customer, and how long the customer remains in default as from that time. The lines of the graph represent different times from the granting. It can be observed that LGD is affected by both factors at the same time.

The second graph shows the trend in LGD according to how long the customer remains in default from the initial default date on leasing and renting products. It can be seen that LGD increases as the time the customer remains in default increases.

At the BBVA Group different LGD rates are adjusted and attributed depending on the significant lines and whether or not there is collateral.



Exposure at the time of default. Exposure at the time of default is another of the inputs needed to calculate the expected loss on the Group's operations. All credit risk parameters are estimated automatically on the basis of the same data infrastructure.

Adjustment to the economic cycle. 2004 saw a renovation of the method used to adjust expected losses from credit risk in the Group's various portfolios to the economic cycle. These calculations must be performed for estimates of expected losses and economic capital adjusted to the economic cycle to be drawn up. In calculating coefficients of adjustment to the economic cycle, the conditions prevailing in the calibration period of the credit rating tools are linked with those expected in the future.

This method is supplemented by a stress analysis on expected losses. The stress of underlying risk factors for the different categories of homogeneous credit risk is worked out. It can thus be determined to what extent future expected loss could be affected by scenarios of economic downturn, high interest rates or, in the specific case of the mortgage portfolio, corrections in the real-estate market.

Expected losses. In 2004 the BBVA Group's expected losses were once again adjusted in line with the new information provided by the historical risk databases. It is important to emphasize that the expected losses indicated below have been adjusted upwards in line with the economic cycle as discussed above.

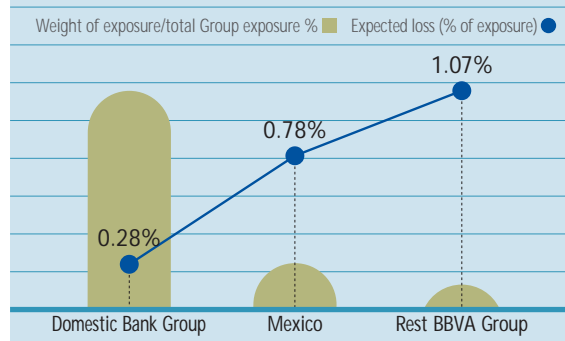
The breakdown of the Group's expected losses as a percentage of exposure shows that the domestic banking Group accounts for 76% of total exposure and has an expected loss of 0.28% of that exposure. Mexico and the rest of the Group have expected losses of 0.78% and 1.07%, respectively.

The expected loss attributable to the main business areas by exposure – Wholesale and Investment Banking accounts for 35% of exposure and Retail Banking Spain and Portugal for 41% – was 0.07% and 0.47%, respectively. The Americas (not including Mexico) had an expected loss of 1.27% of exposure.

Finally, the expected loss rates and economic capital for the main portfolios of the parent bank in Spain are also detailed.

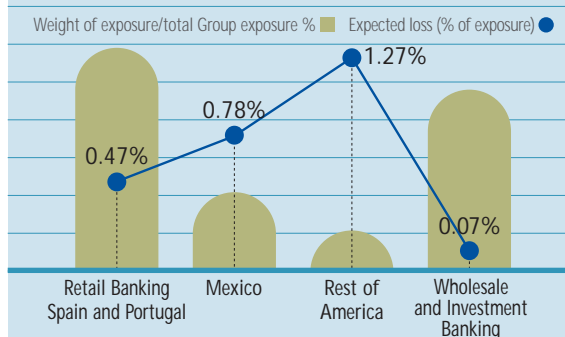
> Attributable expected losses by geographical areas

(Percentage of exposure 31-12-04)



> Attributable expected losses by business areas

(Percentage of exposure 31-12-04)



Risk statistics for main portfolios of BBVA, S.A.

Portfolios	Exposure ⁽¹⁾	Expected losses		Economic capital: credit	
	Million euros	Million euros	%	Million euros	%
Consumer loans	4,790.81	47.10	0.98	191.72	4.00
Mortgage loans	44,901.69	78.72	0.18	553.85	1.23
SME's ⁽²⁾	16,816.40	66.77	0.40	539.31	3.21
Corporates ⁽³⁾	31,440.25	29.77	0.09	632.41	2.01

(1) Includes off-balance-sheet positions to which the corresponding conversion factors are applied.

(2) Billing between €5m and €150m.

(3) Billing in excess of €150m.

> Risk management in market areas

The BBVA Group manages credit risk and market risk jointly in market areas or treasuries activities

through the Central Risk Unit in those areas.

This Unit sets suitable limits on the business activity carried out. These limits are approved by the Executive Committee. In market risks the limit structure determines an overall VaR (Value-at-Risk) per business unit, plus specific sub-limits by types of risk, activities and trading floors.

Limits are also set on losses and other control measures such as delta sensitivity. The proactive management of this limit structure is supplemented by a broad range of indicators and alerts that automatically activate procedures designed to deal with situations that could have negative repercussions on the activities of the business area.

The measurement model used is VaR, considering a covariance matrix with a confidence level of 99% and a time horizon of one day. Also considered are basis risk, spread, convexity and other risks associated with option positions and structured products. This means that the maximum loss that could be incurred by portfolios as a result of upsets in equity markets and in interest and exchange rates is measured.

In addition, periodic settlement VaR calculations are made in some portfolios, taking into account the liquidity conditions on financial markets at any given time.

Finally, the market risk measurement model incorporates back-testing or ex-post comparison, which helps ensure the precision of the risk measurements made.

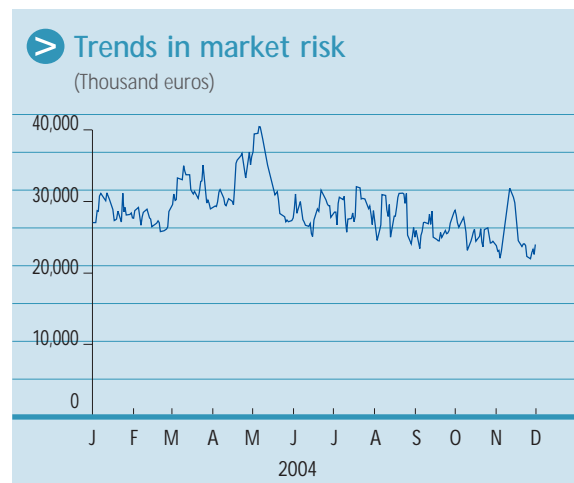
Stress-testing is also carried out, with periodical calculations of exposure to loss of each business unit, considering the impact of financial crises in the past and potential scenarios and predictions for the future.

The Group has continued to implement its new risk measurement platform, which is now fully operational in the Investment Banking area. This platform enables market risk to be integrated with credit risk, and uses the historical simulation and Monte Carlo methods, applying full valuation to optional products, with the consequent increase in the accuracy of risk estimations. It is intended to extend this platform shortly to the Group's Latin American units, starting with Mexico.

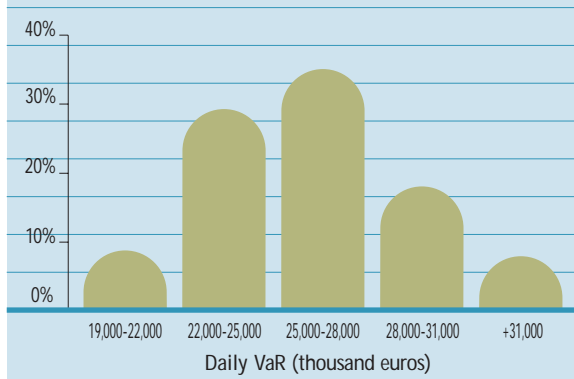
Market Risk in 2004

Increases in geopolitical risk levels, especially in the first half of the year (the Madrid train bombings and subsequent terrorist attacks) and rises in the price of oil, which reached record levels in October, affected the financial markets because of the resulting uncertainty as to the continuation of economic growth. In spite of this the main mature markets closed the year with rises on their stock exchanges, or at least with no significant losses, while in emerging markets spreads for sovereign risk were cut back, government debt showed a positive yield and stock markets rose considerably.

Against this backdrop, the trend of market risk in the market areas of the BBVA Group over the year was characterised by an

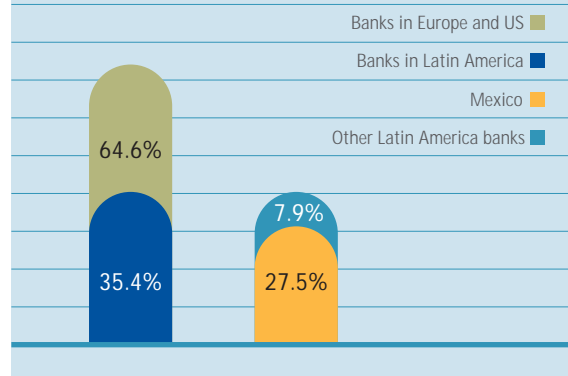


> Market risk frequency distribution



> Market risk by geographical areas

(Average 2004)



increasing risk profile in the early months of the year with maximum levels in May as a result of prevailing uncertainty in the financial markets, followed by a slow decrease in the subsequent months.

The market risk of the BBVA Group in 2004, in terms of VaR, was €26.25m on average.

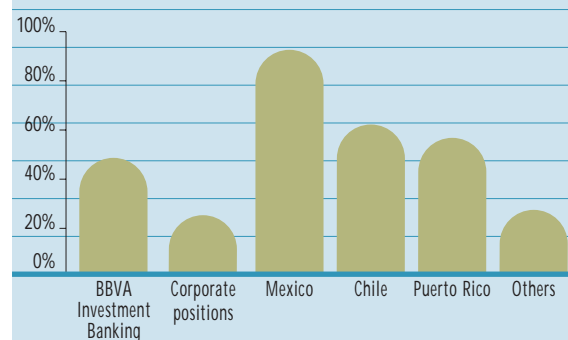
The main risk in the Group is interest rate risk (66% of the total at year-end), which includes both the systematic risk and the specific risk linked to spreads. Vega and correlation risks account for 12% and 8% of the total respectively, equity risk for 9% and currency risk for 5%.

By geographical areas, 64.6% of market risk is accounted for by banking in Europe and the US and 35.4% by the Group's Latin American banks. 27.5% is concentrated in Mexico.

Average use of limits by the Group's main business units was 41%.

> Average use of limits in 2004. Main business units

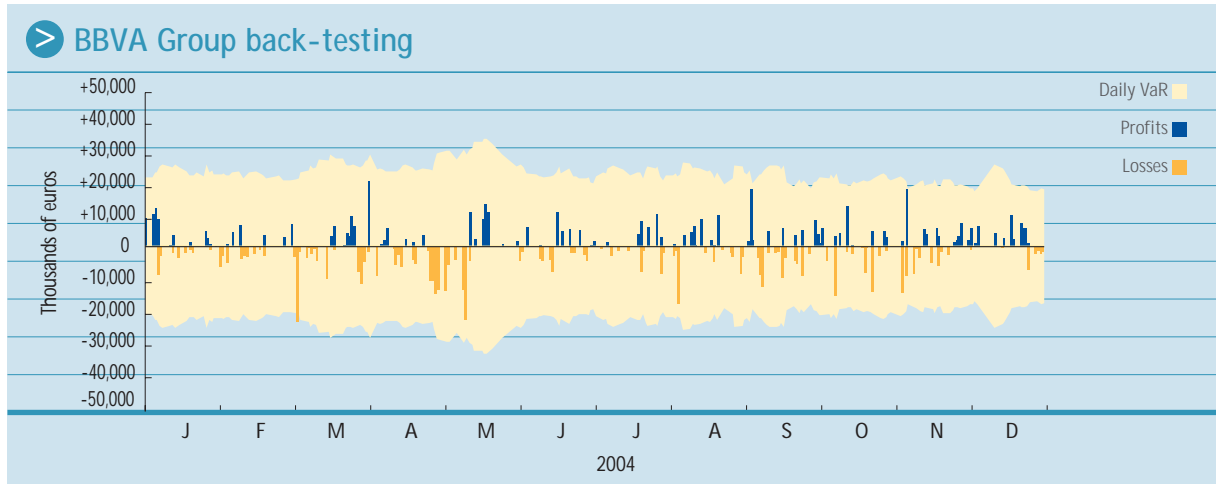
(Percentage)



> Market risk by risk factors (Thousand euros)

Risk	31-12-04	Daily VaR		
		Average	Maximum	Minimum
Interest ^(*)	15,868	19,806	32,075	13,211
Exchange rate ^(*)	1,070	1,446	3,792	440
Equity ^(*)	2,161	3,295	7,137	1,270
Vega and correlation	4,941	5,134	6,880	4,003
TOTAL	21,703	26,250	38,127	19,692

(*) Includes gamma risk of fixed-income, exchange rate and equity options, respectively.



Back-testing for the Group's market risk in 2004, which runs day to day comparisons between the results of revaluation of positions and the level of risk estimated via the model, confirms that the risk management model works correctly.

Credit risk in market activities

Credit risk in OTC financial instruments is calculated by considering the daily marking to market of the positions held, plus an estimate of maximum expected increase in value through to maturity.

2004 saw the introduction of a new measurement system based on Monte Carlo simulation for all operations. This method has entailed substantial improvements in regard to counterparty risk, since:

- It takes into account the portfolio effect, considering the possibility of correlation between the different market variables, and thus reflecting the offsetting effect of transactions.
- It incorporates the term effect, so portfolios comprising short- and long-term operations are dealt with jointly.

- It accurately measures the risk in operations with counterparties with whom legal netting and collateral contracts are set (ISDA, CSA, CMOF, etc.).
- It enables exotic products to be measured adequately.

The equivalent maximum credit risk exposure to counterparties was €12,641m as of 31-12-04, down 14% from the previous year's figure.

The policy of entering into netting and collateral agreements was extended, and these agreements now represent a significant proportion of total exposure.

The net market value of the instruments mentioned above in the portfolio at year-end was €503m, with a mean residual term of 101 months. The gross replacement value is €11,707m.

The table below shows the distribution by residual term of equivalent maximum exposure amounts for OTC financial instruments.

The counterparty risk assumed in this activity is with organisations with top credit ratings (89% of them rated A- or higher).

> OTC derivatives. Equivalent maximum exposure (Million euros)

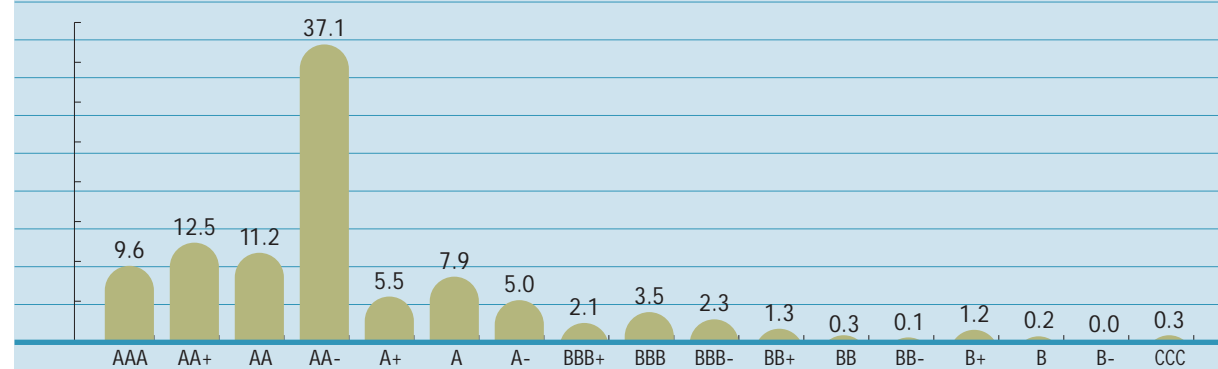
OTC financial instruments	Gross replacement value	Net replacement value	Equivalent maximum exposure	Weighted average term (months)
IRS	8,573	1,227	9,352	78
FRA's	7	(3)	12	2
Interest rate options	804	173	940	113
OTC interest rate diversification			(15)	
TOTAL OTC INTEREST RATE	9,383	1,397	10,289	98
Forward FX	419	(699)	501	18
Currency swaps	735	156	956	63
Currency options	276	(100)	229	26
OTC exchange rate diversification			(161)	
TOTAL OTC EXCHANGE RATE	1,430	(643)	1,525	56
OTC equity	328	(500)	509	25
Fixed income and others	566	249	461	136
OTC equity and others diversification			(40)	
TOTAL OTC EQUITY AND OTHERS	894	(251)	930	149
TOTAL DIVERSIFICATION			(103)	
TOTAL	11,707	503	12,641	101

> Distribution by residual terms. Maximum exposure in OTC financial instruments

Type of product	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	Up to 15 years	Up to 25 years	Over 25 years	Maximum exposure
OTC interest rate	10,289	9,730	8,549	4,936	2,924	1,003	919	300	10,289
OTC exchange rate	1,525	1,312	870	477	281	85	24	20	1,525
OTC equity and others	930	842	612	381	247	217	209	104	930
Total diversification	(103)				(8)	(9)	(8)		(103)
TOTAL	12,641	11,884	10,031	5,794	3,444	1,296	1,144	424	12,641

> Distribution of equivalent maximum exposure by ratings

(Percentage)



> Structural risk management

The exposure of a financial institution to variations in market interest rates is a risk

inherent to banking, but at the same time an opportunity to create economic value. The main source of structural interest risk lies in the difference between maturity and repricing dates (depending on whether fixed- or variable-rate positions are involved). This is affected by the curve risk, entailing changes in the slope and form of the interest rate structure over time, and the basis risk due to imperfect correlation between variations in interest rates on different instruments with similar characteristics.

Control of structural interest risk at the BBVA Group is based on the setting of a limit structure authorised year by year by the Executive Committee which enable the adequacy of risk to be compared to in-house policies and targets set. The graph below shows the average use of limits in 2004: no limits were exceeded.

Structural interest risk at the BBVA Group is actively managed and continuously monitored by the Assets and Liabilities Committee (ALCO) in line with the basic principles laid down by the Basel Committee in its 2004 consultative paper “Principles for the Management and Supervision of Interest Rate

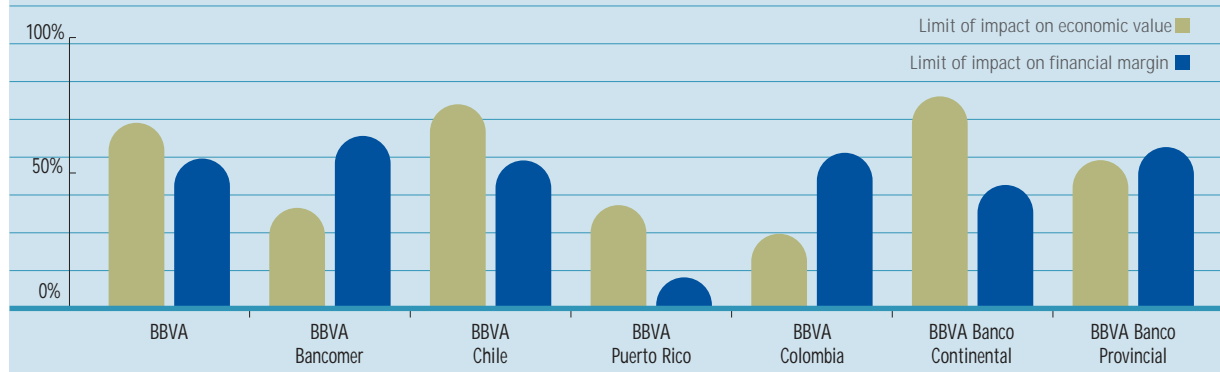
Risk”. To that end, the Group has provided itself with a number of tools and an organisational structure with clear allocation of responsibilities, thus guaranteeing that control and management functions are independent.

The purpose of structural interest risk management is two-fold: to reduce the impact of interest rate variations on net interest income and to protect the economic value of the Group. To that end financial instruments such as Treasury bills and bonds (issued by Spain and other euro-zone countries) and derivatives (interest rate swaps, options, future, etc.) are used.

The on-balance-sheet gap table shows BBVA Group’s distribution of maturities or repricing dates of the sensitive asset and liability aggregates on the balance sheet in euros, grouped by market type.

Measurement of structural interest rate risk involves projections of net interest income for one- and two-year horizons, in line with current interest rates and the changes over time envisaged in the balance sheet. The economic value of BBVA is calculated as the net present value of the expected future flows on the balance sheet. Subsequently, considering different market interest rate scenarios, curve simulations are performed that reflect other types of movement, such as changes in slope and curvature or parallel movements of

> Structural interest risk. Average use of limits





Matrix of maturities or repricing dates in the consolidated balance sheet in euros. Ex Treasury (Thousand euros)

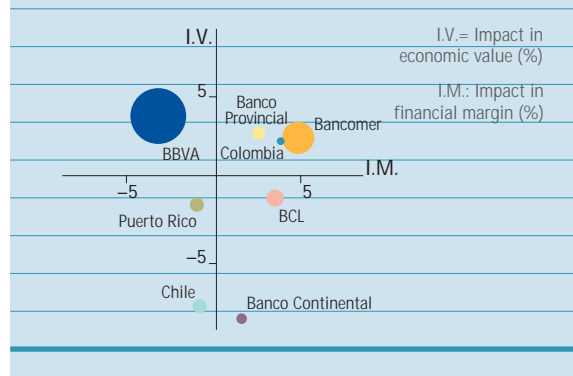
	Balance	1-6 months	6-12 months	1-3 years	3-10 years	+10 years
ASSETS						
Money market	25,092,563	24,262,924	779,230	45,306	4,701	402
Lending	127,653,979	81,628,561	30,886,633	8,590,969	5,534,263	1,013,554
Securities portfolio	29,004,366	8,694,671	1,730,102	9,361,349	6,543,634	2,674,610
TOTAL SENSITIVE ASSETS	181,750,908	114,586,155	33,395,965	17,997,623	12,082,598	3,688,567
LIABILITIES						
Money market	17,580,556	16,837,607	593,677	77,813	1,284	70,175
Customers deposits	72,403,744	24,913,854	2,118,051	11,828,823	33,543,016	-
Wholesale financing	45,948,337	20,297,422	132,770	3,926,540	20,439,328	1,152,277
Other sensitive liabilities	40,750,561	35,454,596	1,817,797	1,522,565	1,017,040	938,563
TOTAL SENSITIVE LIABILITIES	176,683,198	97,503,479	4,662,295	17,355,741	55,000,668	2,161,015
ON-BALANCE-SHEET GAPS	5,067,709	17,082,676	28,733,670	641,882	(42,918,071)	1,527,552
OFF-BALANCE-SHEET GAPS	20,503	(23,402,436)	1,561,595	4,648,118	17,439,846	(226,621)
TOTAL GAPS	5,088,212	(6,319,760)	30,295,265	5,290,000	(25,478,224)	1,300,931

different scales, calculating a distribution of impacts on net interest income and economic value that enables maximum negative variations to be calculated with a confidence level of 99%. This gives the economic capital by structural interest risk and enables risk to be managed on the basis of the balance between expected results and economic value.

The accompanying graph shows the risk levels of the main financial institutions of the Group, which remained stable throughout 2004.

In 2004 the principal aim of structural risk management was to reduce the impact on net interest income of the lower absolute level of interest rates. As part of the active management carried out, the ALCO unit holds structural coverage positions at year-end worth €22,987m. This portfolio generated ordinary revenues of €372m in 2004.

BBVA Group structural interest risk profile



> Structural exchange rate risk

Structural exchange rate risk refers to the potential losses in value of strategic and permanent positions as a result of adverse movements in exchange rates. BBVA's exposure to this risk arises mainly from its Latin American franchise.

Structural exchange rate risk is managed by the ALCO on the basis of regular measurements by the Risk area using an exchange rate scenario simulation model that takes into account both past trends and forecasts over a one-year time frame. These forecasts cover various market performance scenarios, including crisis scenarios, to which probabilities of occurrence are assigned. A distribution of annual results from exchange rate variations is thus obtained that provides the maximum potential loss with a confidence level of 99%.

These calculations determine not just the economic capital from structural exchange rate risk but also the contribution of the different positions to that risk. This allows management to be based on the balance between contribution to risk and expected results for each position.

The ALCO actively manages structural exchange rate risk with two objectives: to minimise the impact of currency depreciation on the Group's profit and loss statement and to protect the Group's asset value by reducing the effect of exchange rate variations on reserves.

In 2004 structural exchange rate risk was managed in the context of a significant depreciation of the US dollar against the euro, and of stability of Latin American currencies against the dollar. Active exchange rate risk management enabled the year to be closed with equity coverage standing at 47% (mainly centred on Mexico and Chile) and with a significant proportion of the 2004 results from Latin American units also covered.

> Liquidity risk

Liquidity risk is managed and monitored at the BBVA Group to ensure

that payment obligations will be met without having to obtain funds on burdensome terms.

Liquidity is monitored both from a short-term viewpoint (basically up to 90 days) and from the medium- and long-term structural position on an independent basis, i.e. with monitoring and management functions kept separate.

Liquidity risk is monitored by the Risks area, which is responsible for taking regular measurements, for developing tools and valuation models and for monitoring authorised limits.

The limit structure authorised by the Executive Committee provides a common framework, a basic instrument whose purposes include anticipating any future liquidity problems.

In addition, payment and collection flow simulations are analysed to assess the repercussion of hypothetical liquidity crisis scenarios at BBVA. These analyses form part of the crisis situation liquidity monitoring model as outlined in the Contingency Plan, which lays down responsibilities and the actions to be taken in the event of system-wide or specific liquidity stresses.

The Assets & Liabilities Committee (ALCO) is responsible for ensuring in the medium- and long-term that the resources needed to carry on the business are available. To that end it analyses the credit gap, establishes wholesale financing needs and draws up an issues plan suited to those needs. The ALCO also monitors the liquidity situation of the organisation and its medium-term liquidity profile.

Financing policy is based on the principle of diversification of sources of financing and maturity periods for debt issued depending on the average maturity of the credit assets to be financed. To that end, various types of financial instruments are used, including straight bonds, mortgage bonds, securitisation, etc.

In 2004 BBVA issued straight and subordinate bonds worth €6.5 billion, mortgage-backed securities €9.4 billion, plus

€2 billion in two securitisation processes on portfolios of loans for car purchases and loans for SME's. At the same time, BBVA maintains a debt security issue programme with a maximum of €10 billion.

> Structural risk management of the equity portfolio

Structural risk on the equity portfolio refers to the potential loss in value of positions in shares and other equity instruments due to variations in

share values or equity indices. The BBVA Group's exposure to this type of structural risk arises basically from its holdings in industrial and financial firms with medium- and long-term investment horizons.

The Risks area effectively measures and monitors structural risk on equity, monitoring compliance with the risk limits and policies of the various business units as approved by the Executive Committee. Risk limits on equity positions in the investment portfolio are established in terms of the use of economic capital attributable to a predetermined activity or portfolio. These limits on economic capital are supplemented by limits on investment and concentration. Depending on the nature of the positions, stop-loss limits are also laid down by strategy and by portfolio, reinforced by a system of results-related early warning signals to detect any surpassing of limits as soon as possible. In addition, regular stress testing and back-testing are carried out.

Favourable trends in equity markets in 2004 resulted in an increase in the value of exposure for the risk assumed which was offset by disinvestment, by active management through derivative instruments and by the reducing effect arising from increased diversification, so that risk levels remained stable.

> Operational risk management

The Basel Committee on Banking Supervision defines "operational risk" as risk that may result in losses as a result of human error, unsuitable or faulty internal processes, system failure or external causes. In-house, it is defined as risk that is neither credit nor market nor technical (insurance) risk. This definition includes strategic and regulatory risk.

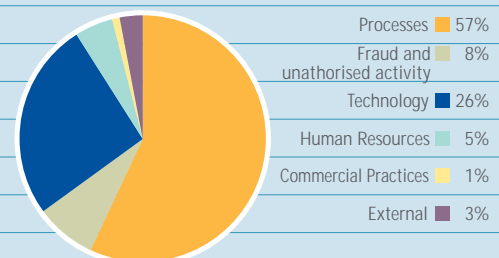
In 2004 the Group continued to implement a broad range of tools created in-house (Ev-Ro, TransVaR, SIRO, CORO and RepTool) to identify, measure, evaluate and mitigate risks of this type.

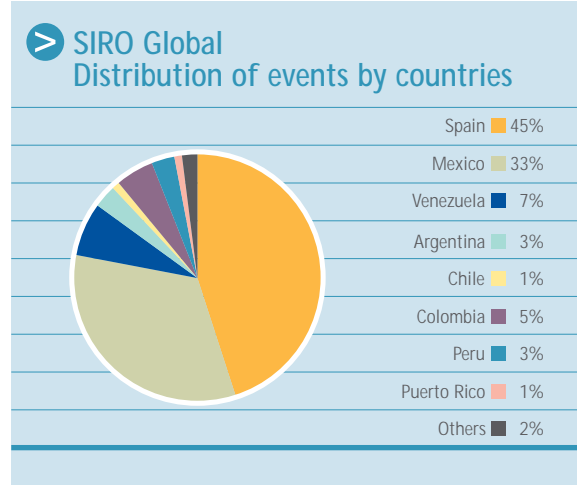
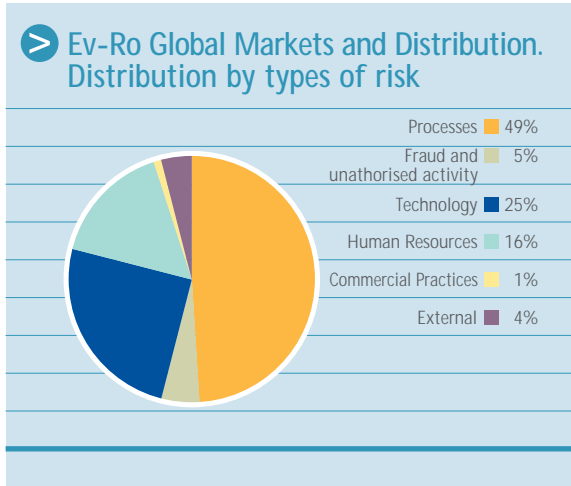
At BBVA, operational risk is managed in two ways: qualitatively (detecting exposure to risk before it manifests itself in events) and quantitatively (learning from events when they occur).

The tools used by the Group to manage operational risk are the following:

- 1) Ev-Ro:** This is a tool for the identification and valuation of operational risk factors by business or support areas. The information obtained is used to draw up risk maps and as the starting point for mitigation processes, with particular emphasis on the most significant aspects. This tool is implemented at 250 of the Group's units, i.e. more than 80% of the total. 20% of the risk factors detected

> Ev-Ro. BBVA Insurance Spain. Distribution by types of risk

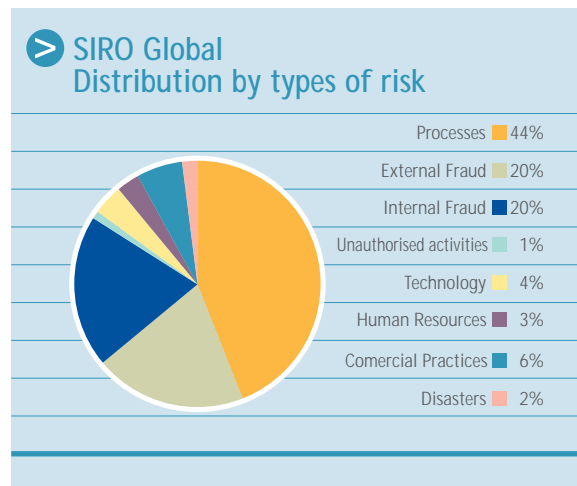




are considered as requiring priority action for mitigation, and action is being taken accordingly.

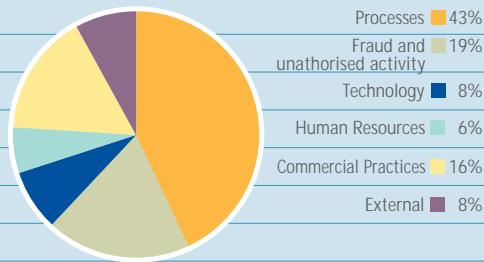
As an example, the two accompanying graphs summarise the distribution by types of operational risk at BBVA Insurance Spain and Global Markets and Distribution.

- 2) **TransVaR:** This is a monitoring tool for indicators or variables that characterise the processes of each area and are linked to the causes of operational risk. TransVaR is in place at around 50% of business units. Experience shows that operational risk is effectively reduced at areas that use this tool.
- 3) **SIRO:** This is a set of databases of operational risk events classified by risk type and business line. They are located in each country and upload every month into a central database called SIRO Global, where their information is consolidated. This tool was effectively implemented in Spain in January 2002 and in Latin America in July that same year. In 2004 interfaces were developed that make for better information capture and quality. The accompanying graphs show the distribution by countries and risk types of operational risk events on a cumulative basis from the outset to 31-12-04.

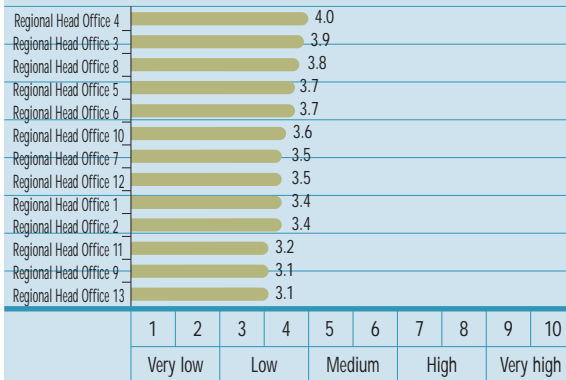


- 4) **CORO:** This is a new self-assessment tool that uses the scoring technique to measure operational risk at units with large numbers of branches. The self-assessment comprises 287 questions and 35 basic data to enable weighting to be established. This method is used to measure the level of operational risk on a scale of 0 to 10 (with 0 being the minimum and 10 the maximum) and to identify risk factors. CORO was implemented in 2004 in Commercial Banking Spain. Results based on a statistical sample with a guaranteed confidence level of 95% and a margin of error of 1% show a score for Commercial Banking of 3.5 out of 10, equivalent to an overall operational risk rating of “low”.

> CORO Commercial Banking:
Distribution weighted by types of risk



> CORO Commercial Banking:
Risk level by Regional head Offices



5) **RepTool:** This is a reputational risk management tool. Reputational risk is always the result of events caused by other types of risk. RepTool is used to identify reputational risk factors so that they can be mitigated. In 2004 it was implemented in Special Financial Services (Finanzia and Uno-e) and in International Private Banking, and work has begun to implement it in Global Corporate Banking.

ORX (Operational Risk Exchange)

To obtain more information for risk modelling, BBVA became a founder member of the ORX International Consortium, which currently includes 18 front line international banks. Each

quarter, the members of the Consortium anonymously access a database of operational risk events with a minimum amount of €20,000, containing information dating back to January 2002. ORX guarantees quality information, which is obtained from its members, and applies standards that ensure consistency of criteria in classification and valuation of events.

The management model

Operational risk management is in place in all business and support areas. Corporate tools are used in these units as sources of information on risks, events and causes and the starting point for mitigation plans.

In the Risks area the Central Operational Risk Unit designs and manages the implementation of tools at the Group. Each subsidiary bank has Operational Risk units that perform the same task in their own jurisdiction. Each business and support area has an Operational Risk Manager who manages this risk in that area. There is also an Operational Risk Committee, which meets periodically to analyse the information available and determine the most appropriate mitigation plans.

BBVA distinguishes between the following types of operational risk:

> **Types of operational risk**

Type	Origin
Processes	Human failure, operational errors.
Fraud and unauthorised activity	Criminal acts. Unauthorised internal activities
Technology	Technological failures of hardware, software and communications
Human resources	Failures in human resource policy, health & safety at work, etc.
Commercial practices	Product defects and improper sales practices
Disasters	Events (natural, accidental or provoked)
Suppliers	Nonfulfilment of services contracted