“Managing in an uncertain interest rate environment”

GOLDMAN SACHS
Banking Conference

Montecarlo, 10th June 2004
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Managing in a low interest rate environment in Spain

Positioning for the new scenario

The BBVA Bancomer case

Conclusions
Interest rates in the Eurozone have been on a downward path for the last years.

Euribor 3 months

Spanish Banking System: Net interest margin (%)

Affecting negatively the net interest margins of the Spanish banks.
What has BBVA done to offset the negative impact of low interest rates?

We have focussed on:

1. Increasing commercial activity and careful pricing policies
2. Management of interest rate risks
3. Improving fees
4. Cost control
5. Credit quality improvements
Retail Banking: a marketing offensive...

...driven by innovation and anticipation

- June 03: Mortgage solutions
- July 03: Solutions for SMEs
- September 03: Fondo Extra 5
- November 03: Pension solutions
- January 04: Easy Mortgage
- Feb - Mar 04: Óptimo and Rentas Funds
- April 04: Credit card Tarjeta diez
... that is contributing to boosting business activity

Year-on-year growth
Average balances

Lending

Total customer funds deposits + funds

Mar.03 | Jun.03 | Sep.03 | Dec.03 | Mar.04
10,8%  | 12,1%  | 12,9%  | 13,7%  | 15,9%

Mar.03 | Jun.03 | Sep.03 | Dec.03 | ene-04
1,0%   | 5,1%   | 6,9%   | 7,4%   | 10,5%
...with three pillars of the improvement

<table>
<thead>
<tr>
<th>1. A steady mortgage demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>✅ Individuals+21% developers+17%</td>
</tr>
<tr>
<td>✅ 1Q04: record quarter in new mortgage production (5.1 €Bn, +48%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Accelerating volumes from SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>✅ +17% increase in SME’s</td>
</tr>
<tr>
<td>✅ +19% increase in small businesses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Increase in off-bal ance sheet funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>✅ +19% increase in mutual funds</td>
</tr>
<tr>
<td>✅ Gaining market share</td>
</tr>
</tbody>
</table>

Data corresponds to 1Q04 yoy change
In Wholesale Banking, selective recovery in lending

y-o-y change

% growth by business unit

Average balances

- 6.4%
- 3.4%
- 2.3%
1.5%
3.6%

<table>
<thead>
<tr>
<th></th>
<th>Mar-03</th>
<th>Dec-03</th>
<th>Mar-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global corporate</td>
<td>-12.7</td>
<td>-9.6</td>
<td>-1.9</td>
</tr>
<tr>
<td>Domestic</td>
<td>-6.8</td>
<td>-7.7</td>
<td>+4.3</td>
</tr>
<tr>
<td>International</td>
<td>-22.4</td>
<td>-11.9</td>
<td>-12.7</td>
</tr>
<tr>
<td>Institutional</td>
<td>+2.5</td>
<td>+9.3</td>
<td>+10.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-6.3</td>
<td>+1.5</td>
<td>+3.6</td>
</tr>
</tbody>
</table>
Careful pricing allows for a satisfactory evolution of net interest margins...

Net Interest Margin (Retail Banking) Vs. Euribor 3 months (%)

- 3.37 3.35 3.21 3.10 3.06 (N.I.M. Retail banking)
- 2.72 2.39 2.17 2.18 2.09 (Euribor 3 months)
- 1.06 1.10 0.98 1.04 1.13 (N.I.M. Wholesale Bk.)

...despite interest rates at record lows
The ALCO maintains a portfolio of government securities

Target: To offset the negative effect on the Group’s N.I.I. of a fall in interest rates

The size of the portfolio was €24 bn as of March 2004. Short duration: 1.8 years (2.6 years beginning 2003)

65% of latent capital gains are locked in

Additionally, €8 bn IRS to hedge the spread 3-12 month Euribor
Strong focus in fee generation, driven by asset management

Domestic Businesses (1) Net fee income
(€ million)

Mar.03 Jun.03 Sep.03 Dec.03(2) Mar.04
394 399 410 426 428

+8.6%

(1) Retail and Wholesale & Investment Banking in Spain
(2) Excluding preferred fees (as extraordinary in December 2003)
Cost control in both Retail and Wholesale businesses

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Banking</th>
<th>Wholesale &amp; Investment Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar.02</td>
<td>586</td>
<td>84</td>
</tr>
<tr>
<td>Mar.03</td>
<td>567</td>
<td>73</td>
</tr>
<tr>
<td>Mar.04</td>
<td>566</td>
<td>75</td>
</tr>
</tbody>
</table>

Total expenses (€ million)
... with better asset quality than the Spanish Banking System

- Improvements in risk management techniques
- Increase in less risky assets (mortgages)

NPL ratio (%) (Domestic Sector)
As a result, healthy growth in operating profit of domestic businesses ...

<table>
<thead>
<tr>
<th></th>
<th>1Q03</th>
<th>1Q04</th>
<th>Chg. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>897</td>
<td>985</td>
<td>9.9</td>
</tr>
<tr>
<td>Core revenues</td>
<td>1,274</td>
<td>1,383</td>
<td>8.6</td>
</tr>
<tr>
<td>Ordinary revenues</td>
<td>1,402</td>
<td>1,493</td>
<td>6.5</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>606</td>
<td>696</td>
<td>15.0</td>
</tr>
</tbody>
</table>
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Positioning for the new scenario

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Conclusions
What has changed in the macro environment recently?

1. Higher GDP growth and higher interest rates expectations

Strong growth recovery in 1Q04

Faster shift towards neutral monetary policies

USA: 3m interest rates discounted by futures

Euro: 3m interest rates discounted by futures
What has changed in the macro environment recently?

2. Higher oil prices

- Cyclical increase in demand and lower inventories

- Geopolitical risks and speculative positions

- Adds further pressure to the oil price and becomes the main source of uncertainty
Financial scenarios to year end 2004

- Geopolitical risk is diluted, as in previous occasions
- Price of oil falls
- Economies continue to grow, albeit more moderately (end of positive temporary effects)
- Geopolitical risk is maintained or intensifies further
- The price of oil remains high
- Confidence levels decrease and economic activity adjusts downwards

Geopolitical risk thus becomes the catalyst for a series of pending adjustments
With rates at a trough, higher economic activity will likely lead to moderate increases in interest rates.

Source: BBVA Economic Research department
In this scenario, BBVA is well placed given the structure of its assets ...

Retail banking loans structure

- Residential mortgages, 51%

Yield curve 12M-3M Euribor

Current steepening of the 3-12m slope enhances profitability of mortgage book
... and its liabilities

Retail Bk. deposits structure

Demand deposits, 60%

Deposit spread * (%)

Liquid deposits: spread stabilisation

* Euribor 1m - cost of customer funds
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Conclusions
Mexico: a sizeable economy

GDP (BN USD)

- Spain: 650
- Mexico: 637
- Emerging Eur G10: 403

GDP per capita (US$)

- MEX: 5.994
- CHI: 4.712
- VEN: 3.045
- BRA: 2.759
- COL: 1.823

... with similar population (approx. 100 mn.)

...entering a growth phase

GDP Growth (1) (% y-o-y change)

-0.3
0.9
1.3
4.0
3.8

2001 2002 2003 2004e 2005e

Source: BBVA Economic Research department
Despite lower rates, BBVA Bancomer has succeeded in defending the net interest margin ...
... growing its customer deposit base, while also improving the mix

**y-o-y change**

**%growth by product**

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<th>Mar-03</th>
<th>Dec-03</th>
<th>Mar-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sight a/cs</td>
<td>+13.0</td>
<td>+18.1</td>
<td>+16.8</td>
</tr>
<tr>
<td>Term deposits</td>
<td>+14.7</td>
<td>+9.6</td>
<td>-6.5</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>-6.9</td>
<td>+5.8</td>
<td>+23.7</td>
</tr>
<tr>
<td>TOTAL (*)</td>
<td>+4.0</td>
<td>+9.0</td>
<td>+10.1</td>
</tr>
</tbody>
</table>

* Including repos

...with strong support from sight and savings accounts and funds
... and expansion of lending with focus in the most profitable segments

- March 2003:
  - Legacy portfolio: 26%
  - Manageable lending: 74%

- March 2004:
  - Legacy portfolio: 22%
  - Manageable lending: 78%

Yoy growth:
- Commercial&Government: +12%
- Consumer&Cards: +31%
- Mortgages: +10%
Thus BBVA Bancomer has shown a significant increase in net interest income.
In this context special emphasis in fees and gains in efficiency
... achieving the highest operating profit of recent quarters

Operating Profit
Constant € million

+18.9%

1Q03: 322
4Q03: 335
1Q04: 383
BBVA Bancomer: a deposit rich franchise

348 bn MXN

Time Deposits (50%)

Demand Deposits (50%)

176 bn MXN

Deposits

Loans

Contribution to NII

Customer Deposits 65.5%

Loans 34.5%

Well positioned for higher interest rates
... and the trend in interest rates has already changed

Cetes 28 days: 2004 evolution
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Conclusions
We are creating a very solid Group

<table>
<thead>
<tr>
<th>Feature</th>
<th>ROE</th>
<th>Efficiency</th>
<th>NPL Ratio</th>
<th>Coverage</th>
<th>BIS Ratio</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Profitability</td>
<td>20.3%</td>
<td>46.0%</td>
<td>1.23%</td>
<td>209.8%</td>
<td>12.1%</td>
<td>AA- / Aa2</td>
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<tr>
<td>Highly productive</td>
<td></td>
<td></td>
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<tr>
<td>Controlled risks</td>
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<tr>
<td>Solvency</td>
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...and growth in EPS of 25.1%
Conclusions

BBVA has successfully implemented commercial and interest rate risk policies with good results, despite low interest rates.

Cost control and credit quality have also made a significant contribution.

The Group will benefit from the current steepening of the yield curve.

On course to deliver a good evolution of results.
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