Ángel Cano
General Manager Human Resources, IT & Operations

Innovation and Transformation:
“A New Approach to Productivity and Efficiency”
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Challenging productivity standards
Why now is the right time?
Innovation: new marketing perspectives
Transformation: a global approach to our business model
Conclusions
BBVA: An undisputed leader in efficiency across the economic cycle

Accumulated operating leverage:
Income-costs accumulated growth (%)

Average operating leverage ( %)

Income Costs

Average income growth rate
Average costs growth rate
Next 3 years: “Reaching the Efficiency Frontier” based on a differential strategy: Innovation + Transformation

Accumulated operating leverage:
Income-costs accumulated growth (%)

Average operating leverage ( %)

Business "as we are"  
Income: 12.1  
Costs: 7.2  
+4.9%

With Innovation and Transformation  
Income: 12.9  
Costs: 4.7  
+8.2%

Average income growth rate  
Average costs growth rate
Innovation + Transformation: a new approach to foster higher earnings growth

Our Strategy for additional earnings growth:

BBVA

INNOVATION + TRANSFORMATION

3.3%

ADDITIONAL OPERATING LEVERAGE
BBVA corporate objectives

PRODUCTIVITY OBJECTIVES

- 35% Cost to Income
- 8% Average Operating Leverage

By 2010
Why now is the right moment?

**European Banks**

**ROA 2006. Percentage**

<table>
<thead>
<tr>
<th>BBVA</th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3</th>
<th>Peer 4</th>
<th>Peer 5</th>
<th>Peer 6</th>
<th>Peer 7</th>
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<th>Peer 12</th>
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<td>0.75</td>
<td>0.74</td>
<td>0.66</td>
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<td></td>
<td></td>
<td>1.22</td>
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</table>

**Efficiency Ratio 2006. Percentage**

<table>
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<tr>
<th>BBVA</th>
<th>Peer 1</th>
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</tbody>
</table>

Source: Company annual reports. Figures excluding extraordinary income

**BBVA making the difference.**
Customer behavior trends increasingly favours self-service as a successful customer service strategy

<table>
<thead>
<tr>
<th>US Transactions by Channel</th>
<th>$ bn</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Service</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Call-center</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Branch</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

Financial services customers increasingly demand Self-Service as relationship channel

Other sectors’ experiences show us the way to convert self-service into an opportunity

- **Airlines self check-in**
  - Average savings per check-in: 2.5US$
  - Productivity enhancement: From 22 check-ins per attended counter to 40 by self-service
  - Increased customer satisfaction

- **IKEA Online help desk**
  - Improves brand image
  - Helps customers’ product identification and selection
  - More than 4000 monthly visits just in Spain

Self-service gives the industry the opportunity to reshape a high cost activity
Digitalization and communications are now key business levers that enable business process redefinition.

Digitalization

Communication

Third generation fiber optics that are able to carry up to 10 trillion bits per second in a single strand of fiber are being tested.

The number of text messages sent and received every day exceeds the total population of the planet.
In this context, Innovation + Transformation plans are a key part of our strategy to foster higher earnings growth.
We are now able to capitalize on the efforts and achievements of the last 4 years.

I + T Strategy Roll-out

Traditional Efficiency Management

Global Transformation Plan

Innovation within the Business Areas

New Concepts: Incubated centrally

C/I: 52.2%

C/I: 44%

C/I: 35%

Operating Leverage: 8%

2002 2006 2007 2008 2009 2010

BBVA making the difference.
Innovation Plan: Two complementary approaches

1. Within the Business Units
   - Unbanked Segments
   - Business Boundaries
   - Give Access to Financial Services
   - Increase Product Offering

   Developed and managed by the business units

2. Emerging Concepts
   - Digitalization
   - Use of Information
   - New Business Opportunities
   - New Marketing Approaches

   Incubated centrally until roll-out
Innovation within the Business Units: Significant commitments

**Business Units Objectives**

**SPAIN**
- 1 m new young customers
- 0.5 m new immigrant customers
- 10% of operating profit growth coming from non financial products

**MEXICO**
- 100,000 new SME customers
- 300% increase in customer loans and credit card balances
- 300% increase in home mortgages

**LATIN-AMERICA**
- 3 m new customers
- 245% increase in customer loans and credit card balances

“The Bank in Your Card”
Emerging Concepts: A portfolio of initiatives that can have an impact in the way client relationships will be managed

Innovation Plan

- Digital marketing
- Innovation in new digital business
- Innovative ways of employee collaboration

Webzine

E-Conta

Blogosfera BBVA

BBVA making the difference.
### Transformation Plan: A Differential Approach, a Global View of the Business Value Chain

#### Support and Corporate
- **Corporate Functions**
- **Support Services**

#### Production Model
- **Production**
- **Operations**

#### Distribution Model
- **Sales**
- **Customer Service**

**Customer Service**
- Customer service through branches and direct channels

**Sales**
- Sales support activities (risk, marketing, HR) and corporate functions (accounting, audit, finance, ...)

**Production**
- Product and services manufacturing (IT) and middle and back-office operations

**Distribution**
- Branch and other channels’ sales forces
An approach that helps us to identify activities with the highest current costs and highest expected returns.

Cost structure, relative weighting

<table>
<thead>
<tr>
<th>Support and Corporate</th>
<th>Production Model</th>
<th>Distribution Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Functions</td>
<td>Support Services</td>
<td>Operations</td>
</tr>
<tr>
<td>Support Services</td>
<td>Production</td>
<td>Sales</td>
</tr>
<tr>
<td>Production</td>
<td>Operations</td>
<td>Customer Service</td>
</tr>
</tbody>
</table>

10% 21% 12% 5% 28% 24%
A clear aim: to reach the “efficiency frontier”, in each activity of the value chain.
The distribution model is the key starting point, as it makes up more than 50% of total costs.

The point of sale is the key element of the cost structure of any universal bank.
The current model has a large proportion of customer service and operations, i.e., low value added activities.

Sales force time break down:
- Sales: 35-40%
- Servicing/transactions: 20%
- Commercial work: 15-20%
- Transactional: 15%
- Others: 10%

Sales effort: 30-35% of total time.

Branch Structure:
- Sale Personnel: 65%
- Customer Service Personnel: 35%
Transforming service and operations at the point of sale can significantly improve the cost structure of distribution.

- Transformation of customer service / operations at the point of sale (60-65% branch activity)

**Automation and Separation of Customer Service from Sales**

**Service and Operations Centralization**

**Self-service:** Reduce Service Costs

**Sales:** Increase Selling Capacity

**Production:** Gather and concentrate scale related costs
Whilst fostering the transformation strategies of the rest of the value chain

**Support Services and Corporate Functions**
- Economies of scale and “labor costs arbitrage”

**Production Model**
- Further Streamline production

**Sales Model**
- Sell more
- Sell better

- Client knowledge
- Segmentation technology
- Customer value based sales management
In this context, an important initiative in progress is the “upgrade” of technological infrastructure at the point of sale.

- **Branches**: 6,340
- **ATMs**: 7,605
- **Broadband Average Increase per Branch Kbps**: +1,500%

Differences between countries, Spain 1Mbps.
Global Transformation Plan

1. Reconfigure the distribution model
2. Develop a “best-in-class” production model
3. Improve efficiency of support services and corporate functions

Create Value

Improve cost to income ratio

-9%

2006       Objective

44         35
A 23 initiatives program within an integrated plan

Productivity Improvement by Type of Action

<table>
<thead>
<tr>
<th></th>
<th>Optimization</th>
<th>Efficiency</th>
<th>New Models</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>0.2%</td>
<td>3.3%</td>
<td>10%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>--</td>
<td>10.3%</td>
<td>12.2%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Production Model</td>
<td>2.3%</td>
<td>12.3%</td>
<td>(9.7% not considered due to reinvestment)</td>
<td>14.5%</td>
</tr>
<tr>
<td>Support Services</td>
<td>3.1%</td>
<td>5.0%</td>
<td>0.8%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Corporate Functions</td>
<td>2.8%</td>
<td>6.0%</td>
<td>1.1%</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

With the objective of improving global productivity by 15%
... being a key element to achieve the ambitious objectives of the Innovation and Transformation Plan

BBVA’s Innovation and Transformation Plan

- Additional Investment: €1,400 M
- Additional Revenue: €520 M
- Expense Reduction: €827 M

NPV: €5,500 M
A plan that will involve an in-depth review of all aspects of the business model

BBVA
A global leading bank with high profitability and a solid reputation

Distribution Model

Production Model

Support Services and Corporate Functions

Brand
Culture
Management of talent

A review that is only feasible, given our strengths at the business “foundations”
To summarize: Corporate Goals

PRODUCTIVITY OBJECTIVES

- 35% Cost to Income
- 8% Operating Leverage

By 2010
BBVA will remain at the leading edge of productivity in 2010

NEW EFFICIENCY FRONTIER

Industry Efficiency Path

BBVA

Note: Competitors' C/I evolution based on change rate between 2005 and 2006

Peer 1
Peer 2
Peer 3
Peer 4
Peer 5
Peer 6
Peer 7
But, what's on the other side of the frontier?

C/I: 44%
Costs Management

C/I: 35%
Operating Leverage: 8%

Traditional Efficiency Management

Global Transformation Plan

Innovation within the Business Areas

Emerging Concepts: Incubated centrally

Future Banking Business Model

2002 2006 2007 2008 2009 2010 2011

BBVA making the difference.