Implementing a strategy to deliver profitable growth

Morgan Stanley European Banks Conference
April 8th 2005
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In 2002 we launched an ambitious Strategic Plan

Positioning BBVA among the best banks in Europe

We set a target: Podium in Profitability, Efficiency, EPS Growth
Taking into account the Group’s situation

**Integration processes**

- Spain
- Mexico

**Internationalization**

- Staff out of Spain

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>3.232</td>
<td>5%</td>
</tr>
<tr>
<td>2002</td>
<td>66.902</td>
<td>68%</td>
</tr>
</tbody>
</table>

Defining a new culture => new way of seeing the Group...
... and we worked on improving fundamentals

Complex Macro environment
Asset Quality

Recent Integrations
Efficiency

Boosting profitability
Today BBVA is a very solid Group

...improving coverage and maintaining high levels of capital adequacy requirements
... efficient

**Efficiency ratio (%)**

2001: 49.9%  
2002: 47.6%  
2003: 46.6%  
2004: 44.9%

**Efficiency ratio (*) (%) European comparison**

<table>
<thead>
<tr>
<th>2004</th>
<th>BBVA</th>
<th>49.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>51.9</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>57.3</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>61.0</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>63.5</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>64.2</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>66.6</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>67.9</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>78.2</td>
<td></td>
</tr>
</tbody>
</table>

(*) (Administrative expenses + Amort) / (Ordinary Revenues + Net income from companies accounted for by the equity method)

**Commercial productivity in 2004: +30%**
...and profitable

ROE (%)

European comparison

18,0 17,1 18,4 20,0

2001 2002 2003 2004

(*) Before extraordinary writedowns
This placed BBVA in a sound competitive position ... 

... allowing the development of our Strategic Plan

Growth
BBVA is pursuing a double approach to deliver growth …

...as a way of creating value for our shareholders
We have demonstrated that we can grow organically

**Retail Banking: YoY change (%)**
- 2003: 13.7%
- 2004: 19.7%
  - Lending: 6.5%
  - Customer Funds: 9.5%
  - ∆ Profit: +13.8%

**America: YoY change (%)**
- 2003: 14.5%
- 2004: 26.0%
  - Lending: 11.9%
  - Customer Funds: 14.3%
  - ∆ Profit: +24.6%
In 2004 we reached historical profits...with an EPS increase of +19.2%
BBVA is pursuing a double approach to deliver growth ...

Non-organic growth

Strategic focus  Value Creation

...as a way of creating value for our shareholders
BBVA’s non organic growth takes advantage of our management skills
BBVA is a benchmark in managing risks

Structural and operational risk management

Interest rates => € 23 Bn. portfolio

Currency => 47% Book Value coverage

NPL Ratio (%)

Spain

America (Dec 04)

BBVA

Sector average

Dec 01  Dec 02  Dec 03  Dec 04

BBVA

0,62

0,69

0,72

0,75

0,83

0,86

0,91

0,90

0,96

Banks

Saving Banks

Dec 01  Dec 02  Dec 03  Dec 04

Mex  Arg  Chile  Col  Peru  Ven

2,1  1,2  1,6  1,2  2,2  2,4  2,2

3,8  7,2

4,6

0,7  0,9
BBVA’s non organic growth takes advantage of our management skills

2

Ability to improve efficiency
An excellent track record

Costs / Ordinary revenues (%)

Retail Banking

Wholesale Banking

America

<table>
<thead>
<tr>
<th>Year</th>
<th>Wholesale Banking</th>
<th>Retail Banking</th>
<th>America</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>48.4%</td>
<td>32.3%</td>
<td>48.9%</td>
</tr>
<tr>
<td>2004</td>
<td>41.8%</td>
<td>29.9%</td>
<td>42.1%</td>
</tr>
</tbody>
</table>
BBVA’s non organic growth takes advantage of our management skills

- Ability to improve efficiency
- Risk Model
- Ability to manage retail networks
Management of commercial networks

**SPAIN**
- Business volume per branch
  - Mill €
  - 2001: 55,46
  - 2004: 73,36

**MEXICO**
- Business volume per branch
  - Mill pesos
  - 2001: 271,7
  - 2004: 387,3

Sector Average 04
- 50,47
- 349,4
BBVA’s non organic growth takes advantage of our management skills...with a clear focus on implementation
The Group analyses those transactions were our management skills can be implemented.

**Definition**

- Active portfolio management
  - (supported by VBM programme)

**Implementation**

- Well structured organization
- Results oriented
- Concept of team above individuality
This is not a theory: we did it during 2004

- Consolidating our leading positioning in Mexico
- Reinforcing high potential businesses
- Penetrating new markets

- Buyout of BBVA Bancomer minorities
- Hipotecaria Nacional
- USA

Total Investment 2004: €4,3 Bn
Those movements allowed us to enhance our business mix

**Economic Capital 2002**

- Corporate Centre, 14%
- Ind. Portfolio, 24%
- Bancomer, 10%
- Retail Banking, 22%
- Wholesale Banking, 11%
- Rest of America, 19%

**Economic Capital 2004**

- Corporate Centre, 9%
- USA, 6%
- Retail Banking, 34%
- Ind. Portfolio, 11%
- Bancomer, 15%
- Rest of America, 10%
- Wholesale Banking, 15%

Proforma including Laredo National Bank
That is the path we are following

...and our offer for BNL is consistent with this strategy
BNL operation fits in BBVA’s strategy

A. Improvement of the Group’s portfolio
B. BNL as a platform for growth in the Italian market
C. Value Creation

Geographic and business line diversification
Leveraging BBVA’s experience
Positive impact from the first year

...with limited execution risk
BNL improves our business portfolio by increasing its diversification

Economic Capital BBVA

- Corporate Centre: 9%
- Ind. Portfolio: 11%
- Bancomer: 15%
- USA: 6%
- Retail Banking: 34%
- Wholesale Banking: 15%
- Rest of America: 10%
- Ind. Portfolio: 8%

Economic Capital BBVA+BNL

- Corporate Centre: 6%
- Ind. Portfolio: 8%
- Bancomer: 11%
- USA: 4%
- Italy (Retail): 18%
- Retail Banking: 27%
- Wholesale Banking: 18%
- Rest of America: 8%
BNL operation fits in BBVA’s strategy

BNL as a platform for growth in the Italian market

Leveraging BBVA’s experience
A company in which BBVA can apply its management skills:

Risk model
Risk and Recoveries Model

A two-fold approach

Old Portfolio
- Focus on recoveries
- Coverage: 91% (pro-forma)

New Production
- Focus on improving scoring and monitoring processes
- Future risk premium: 0.39%
A company in which BBVA can apply its management skills:

- Ability to manage retail networks
- Ability to improve efficiency
Improvement in efficiency levels

Efficiency Ratio comparison (%)(1)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNL</td>
<td>65.0</td>
<td>58.9</td>
<td>50.8</td>
</tr>
<tr>
<td>Italy - System</td>
<td>65.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Italian big</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>banks average</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBVA Group</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

(1) Includes depreciation

Sinergies in costs before taxes (€ m)

- 2H 2005: 46
- 2006: 130
- 2007: 193

10.2% of BNL’s cost base,(2)
which will require a €255 MM restructuring charge

(2) consensus for 2007 cost base

Improving systems and processing models
Reducing general and administrative expenses
A company in which BBVA can apply its management skills:

- Ability to improve efficiency
- Ability to manage retail networks
Management of commercial networks

Retail & SME’s branch network action plan

- Branch management
- Customer management

Impact on profit before tax\(^{(1)}\)

\[\text{€ MM}\]

- 2H 2005\(e\)
  - 14

- 2006\(e\)
  - 71

- 2007\(e\)
  - 89

(€ m)

... That will require investments of €135 M aprox.

which amount to 2.6% of BNL’s revenue base\(^{(2)}\)

Note (1) Net of investment cost and includes improvements in the wholesale operation

\(2\) consensus for 2007 revenues
BNL operation fits in BBVA’s strategy

Value Creation

Positive impact from the first year
Effect on capital

Core capital (pro–forma 2004) = 5.72%

Latent capital gains in industrial portfolio: €1.566 m (net of taxes)

Buy back share programme: Up to 3.5% of capital
## A value creating transaction for BBVA

<table>
<thead>
<tr>
<th></th>
<th>(€ MM)</th>
<th>2005e (Second Half)</th>
<th>2006e</th>
<th>2007e</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total synergies</strong></td>
<td></td>
<td>60</td>
<td>201</td>
<td>282</td>
</tr>
<tr>
<td><strong>Expected contribution to BBVA Net Attr. Income (1)</strong> by BNL</td>
<td>250</td>
<td>617</td>
<td>713</td>
<td></td>
</tr>
<tr>
<td><strong>EPS Impact</strong></td>
<td>+ 0.0%</td>
<td>+ 1.2%</td>
<td>+2.1%</td>
<td></td>
</tr>
</tbody>
</table>

Note: (1) Includes synergies. Based on consensus earnings
BNL: an acquisition that would allow BBVA to implement its management skills...

... value creation for BBVA shareholders from day one

... high visibility of synergies

... appropriate financing structure of the transaction

With a very limited execution risk
Conclusions

BBVA is consistently following a strategic plan

Target: deliver profitable growth in the future

Organic

Non-organic

Strategic Focus

Value creation

Leverage in management skills

Customer oriented
Risk & Efficiency skills
Distribution capabilities
Focus on results and implementation
Implementing a strategy to deliver profitable growth

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