Managing for growth in a changing environment

Manuel González Cid
New York, May 16th, 2006
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BBVA: strategy and execution to deliver superior growth

Well placed to continue growing in a changing environment

Conclusions
BBVA has delivered an excellent track record of growing results

### Attributable Profit (M €)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit (M €)</th>
<th>EPS CAGR 05-02</th>
<th>DPS CAGR 05-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1.719</td>
<td>+29.5%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>2.227</td>
<td>+31.3%</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>2.923</td>
<td></td>
<td>+30.2%</td>
</tr>
<tr>
<td>2005</td>
<td>3.806</td>
<td></td>
<td>+15.1%</td>
</tr>
</tbody>
</table>

Note: 2002 and 2003 Pre-IFRS
...whilst also strengthening Group’s fundamentals

**Efficiency**

- 2002: 52.3%
- 2005: 46.7%

**NPL ratio**

- 2002: 2.37%
- 2005: 0.94%

**Strong solvency (%)**

- 2002: 12.0%
- 2005: 7.5%

**Core capital adjusted (1)**

- 2005: 6.6%
- 2005: 5.6%

Additionally:

- €4.7bn unrealized capital gains
- Full coverage of pension fund liabilities

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2002 data pre-IFRS

- (1)Including generic provisions net of expected losses in core capital
BBVA’s capital discipline

- Core capital: 6% approx.
- Pay-out: 45%-50% approx.

... that meets two objectives

- Self-financing:
  - 2004: 5.8%
  - 2005: 5.6%

- Shareholder remuneration:
  - 04/03: +15.1%
  - 05/04: +20.1%
A balanced distribution of assets and a low risk profile

Banking in Spain
Loan portfolio breakdown

Assets by region

Spain, EU & USA, 77%

Latam Non Inv. grade 5%
Latam Investment grade 18%

Structural risks actively hedged

Mortgages 43%
Small businesses 10%
Public Sector 12%
Consumer 7%
SMEs 19%
Large corporates 7%
The Group has “turned around” its capital allocation over the last three years

### Economic Capital 2002
- **Corporate Centre**: 14%
- **Industrial Portfolio**: 24%
- **Wholesale**: 11%
- **LatAm**: 19%
- **Spain Retail and SMEs**: 22%
- **Mexico**: 10%

### Economic Capital 2005
- **Corporate Centre**: 5%
- **Industrial Portfolio**: 9%
- **USA**: 5%
- **LatAm**: 12%
- **Mexico**: 18%
- **Spain Retail and SMEs**: 35%
- **Wholesale**: 15%
## 1Q06 BBVA results: confirming the prospects

| Strong growth of net attributable profit | €1,020m (+25.1%) |
| Record quarter for operating profit     | €1,936m (+32.9%) |
| High quality of results with strong revenue generation | €3,659m (+27.1%) |
| Further strengthening of Group fundamentals | Cost/income: 45.9%  
ROE: 34.1% |
All divisions show excellent results

(Current €m)

<table>
<thead>
<tr>
<th>Division</th>
<th>Ordinary revenues</th>
<th>Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q 06</td>
<td>2005</td>
</tr>
<tr>
<td>Iberian Retail</td>
<td>+10.9%</td>
<td>+7.3%</td>
</tr>
<tr>
<td>Wholesale Business</td>
<td>+24.7%</td>
<td>+17.2%</td>
</tr>
<tr>
<td>South America</td>
<td>+56.8%</td>
<td>+20.0%</td>
</tr>
<tr>
<td>Mexico &amp; USA</td>
<td>+57.7%</td>
<td>+33.0%</td>
</tr>
</tbody>
</table>
Superior combination of Growth, Profitability and Risk among the main European banks
Contents

BBVA: strategy and execution to deliver superior growth

Well placed to continue growing in a changing environment

Conclusions
The world is changing at high speed…

Higher competition

Technology/Information

Globalization

Innovation

More customer power

With a shift of wealth towards emerging economies
...triggering new social-demographic factors

**Individuals**
- Aging consumer
- Wealthier and more urban consumer
- Wider consumer base

**Companies**
- More global
- More sophisticated
- Larger company base

Serving customers in a “new way” leads to great opportunities
In BBVA, we see this environment as an excellent opportunity in terms of growth.

A  Spain

B  America

Mexico  USA  South America

C  And a global franchise in wholesale business

New ways of articulating the relationship with customers
### Good performance and prospects for the Spanish economy

<table>
<thead>
<tr>
<th>% y-o-y growth</th>
<th>2005</th>
<th>2006E</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private consumption</strong></td>
<td>4.4</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Cap.ex.</strong></td>
<td>9.5</td>
<td>7.1</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>6.1</td>
<td>5.5</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>External demand</strong></td>
<td>-1.9</td>
<td>-1.7</td>
<td>-1.2</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>3.4</td>
<td>3.1</td>
<td>2.8</td>
</tr>
</tbody>
</table>

- **SS Affiliates (millions)**: 77.6, 14.6, 87.4
- **GDP as % average EU15 GDP**: 6 million jobs created in the period 1994-2005
- **Source**: BBVA Economic Research Department

*Source: BBVA Economic Research Department*
Strong growth of population and household formation

* Source: BBVA Economic Research Department
BBVA has a strong and profitable retail franchise

Growing in line with the system, with significantly higher profitability

Source BBVA: Aggregate calculated with BBVA, SCH, Caixa, Caja Madrid, Popular, Bankinter and Sabadell
We have identified future growth opportunities...

**Individuals**
- More dependency and asset mobility
- Global solutions and not only products
- New bancarization vision

**SME’s**
- Improve new revenue sources
- New financing and risk solutions

Still high growth potential for revenue generation
... and are beginning to exploit them

Answering and anticipating customer needs through a wide and innovative range of products
Focus on advisory and client solutions

Account managers with EFA certification (European Financial Adviser)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,956</td>
<td>2,534</td>
</tr>
</tbody>
</table>

Products per sales staff

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21.3</td>
<td>28.5</td>
</tr>
<tr>
<td>+33.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A well-trained network to deliver better customer service
A new growing segment: immigrants

- **Phase I: IMMIGRATION**
- **Phase II: SETTLING DOWN**
- **Phase III: INTEGRATION – 2nd GENERATION**

**Product**
- **BASIC BANKING**
- **MORE DEVELOPED PRODUCTS**
- **TRANSACTIONAL BANKING**

**Channel**
- **dineroexpress**

**Phases**
- **REMITTANCES**

Adapting to the needs of the customer
Improving the links between product factories and the distribution network

- **Insurance**
  - Broader product catalogues and simpler sales processes

- **Mortgage Banking**
  - Sourcing individual mortgages
  - Focus on quality developers

- **Asset Mgt & Private Banking**
  - Providing support to the network for specialist customer service, innovative product offering
Sound macroeconomic environment in Latinamerica

**Inflation (%)**

- Ave. 95-03: 12.10%
- 2003: 7.10%
- 2004: 6.80%
- 2005: 6.00%

**Budget balance (in % GDP)**

- Ave. 81-89: -7.30%
- Ave. 90-02: -2.50%
- 2003: -1.90%
- 2004: -0.90%
- 2005: -1.00%

**Trade flows over GDP, %**

- 1980: 23%
- 1990: 22%
- 2000: 34%
- 2004: 42%

**Forecasts (%)**

- GDP (%):
  - 2006E: 4.3%
  - 2007E: 3.7%

- Inflation (%):
  - 2006E: 6.0%
  - 2007E: 5.5%

- Fiscal balance (%GDP):
  - 2006E: -1.7%
  - 2007E: -1.5%

*Source: BBVA Economic Research Department*
The banking systems in the region today are healthy ...

- **NPL ratio (%)**
  - Latam: 3.6%
  - Eastern Europe (1): 6.4%

- **NPL coverage (%)**
  - Latam: 140%
  - Eastern Europe (1): 81%

- **BIS ratio (%)**
  - Latam: 16.4%
  - Eastern Europe (1): 16.5%

- **Moody’s FSR (%)**
  - Latam: 30.2%
  - Eastern Europe (1): 29.7%

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(1) Russia, Turkey, Hungary, Poland and Czech Republic / Source: BBVA Research and Global Financial Stability Report
... while the region offers significant room for higher bancarisation
BBV has an excellent franchise in Latinamerica which is delivering great results.

**Net profit (€m)**
- 2002: 715
- 2005: 1,820 (+36% CAGR)

**Efficiency (%)**
- 2002: 49
- 2005: 46

**ROE (%)**
- 2002: 24
- 2005: 34

**NPL ratio (%)**
- 2002: 3.8
- 2005: 2.7
Where do we see growth opportunities in Latin America?

**Individuals**
- Increased banking penetration
- Mortgage segment
- Credit cards and consumer finance

**SME’s**
- Increased banking penetration
- Focus on lending
In Mexico we have a broad, growing and segmented customer base with high potential.

Total lending as % of GDP

- 1994: 47.8
- 1999: 19.7
- 2004: 13.2
- 2005(E): 15.0

Customers ‘05 - 12.2 M

- Private Relationship: 18.5 th
- Preferred: 452 th
- Bank: 9.2 M
- Payroll: 0.9 M
- Residual: 1.3 M
- Users: 6.8 M

2.2m new customers in 2005
Growing contribution from pensions & insurance

Pensions in Latin America

Source: Analyst report

Leading in “savings” in Latin America means leading in pensions and insurance segments
In the US we are building our platform

- BTS
  - Reinforcing leadership in Mexico & Latam
  - Opening new pathways from USA to China, India, Philippines…

- BBVA Bancomer USA
  - First phase of branch openings completed
  - Initiating pilot phase

- Laredo National Bancshares
  - BBVA organization in place
  - First marketing initiatives taken
  - Branch expansion plan approved
BBVA’s wholesale business model based on its customer franchise…

And leadership in Trade Finance and Project Finance opens emerging markets to BBVA

Corporate Banking

Spain

96%

79%

1st Player

Latam

47%

26%

1st Player (ex Brasil)

Total

Leadership
...aiming to expand into other areas

Corporate Banking

Growth Plan in Asia
Currently in Beijing, Shangai, Tokio, Hong Kong
Future openings: Korea, Taiwan, Mumbai, Singapore, Sydney

Global Markets and Distribution

Benchmark in Spain
Extension to Latam
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Conclusions
Conclusions

- BBVA is committed to value creation
- We are aiming to take full advantage of the great changes happening in the world
- BBVA is positioned with leading franchises in the most important high growth markets
- With a solid business model in terms of risk management, efficiency and profitability
BBVA a very attractive investment…

Excellent combination
Profitability – Risk

- ROE: 34.0%
- 95% of assets in “investment grade” countries
- Rating: AA-

With strong growth

- EPS CAGR 05-02: +27.7%
- DPS CAGR 05-02: +15.1%
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