

# BBVA

## BBVA: DELIVERING GROWTH

UBS Warburg Global Financial  
Services Conference

New York, 11<sup>th</sup> May 2004

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# Index

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- **BBVA Overview**
- Key growth drivers for BBVA
- Mexico: expanding horizons
- Conclusions

# BBVA is a financial services group with a solid strategic focus

Focus on its home markets

Spain

	<u>Mk. Share</u>	<u>Ranking</u>
Loans	16%	1 <sup>st</sup>
Deposits	14%	2 <sup>nd</sup>
Mutual Funds	19%	2 <sup>nd</sup>
Pension Funds	20%	1 <sup>st</sup>
Num. of customers	10 million	

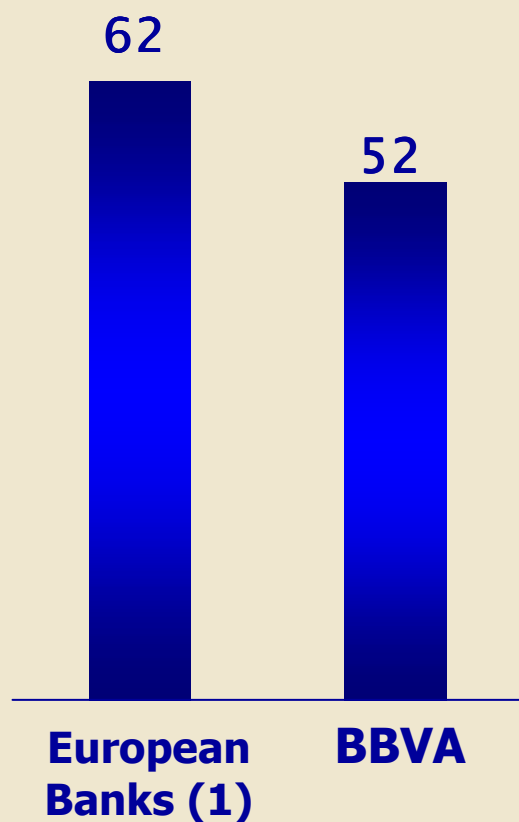
Latin America

	<u>Mk. Share (1)</u>	<u>Ranking</u>
Mexico	28%	1 <sup>st</sup>
Rest of Latam(2)	8%	2 <sup>nd</sup>
Num. of customers	23 million	
(1)	Deposits	
(2)	Excluding Brazil and Mexico	

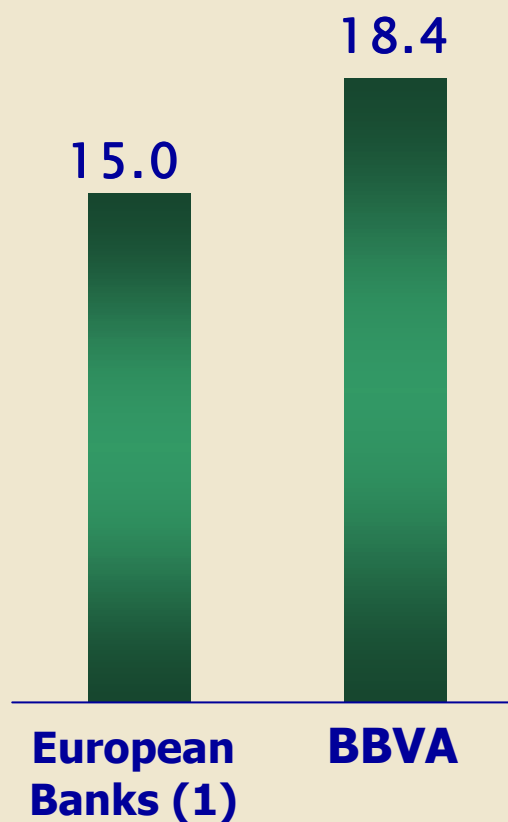
33 million customers and presence in 14 Latin American countries

# Well positioned against European peers

## EFFICIENCY % (1)



## ROE (%)



## BIS RATIO (%)

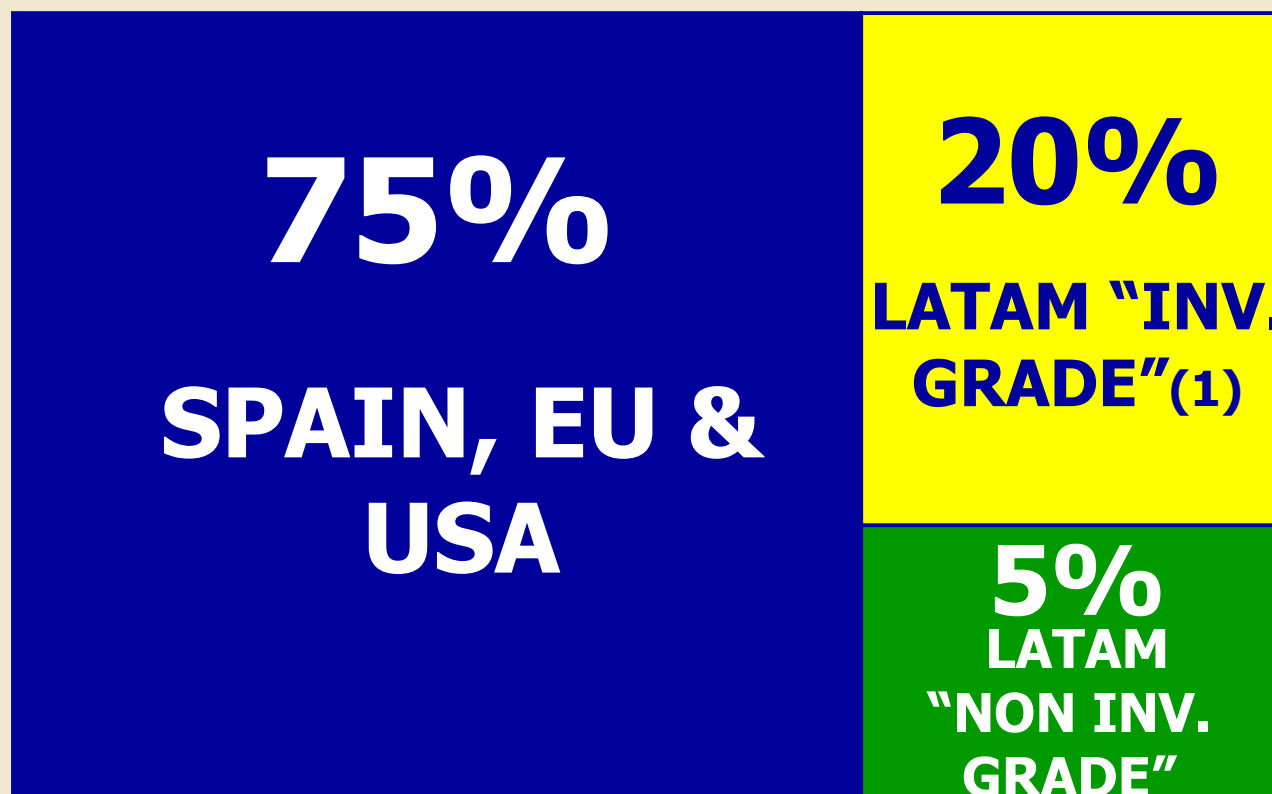


Data as of December 2003

(1) Average of 17 main European listed Banks

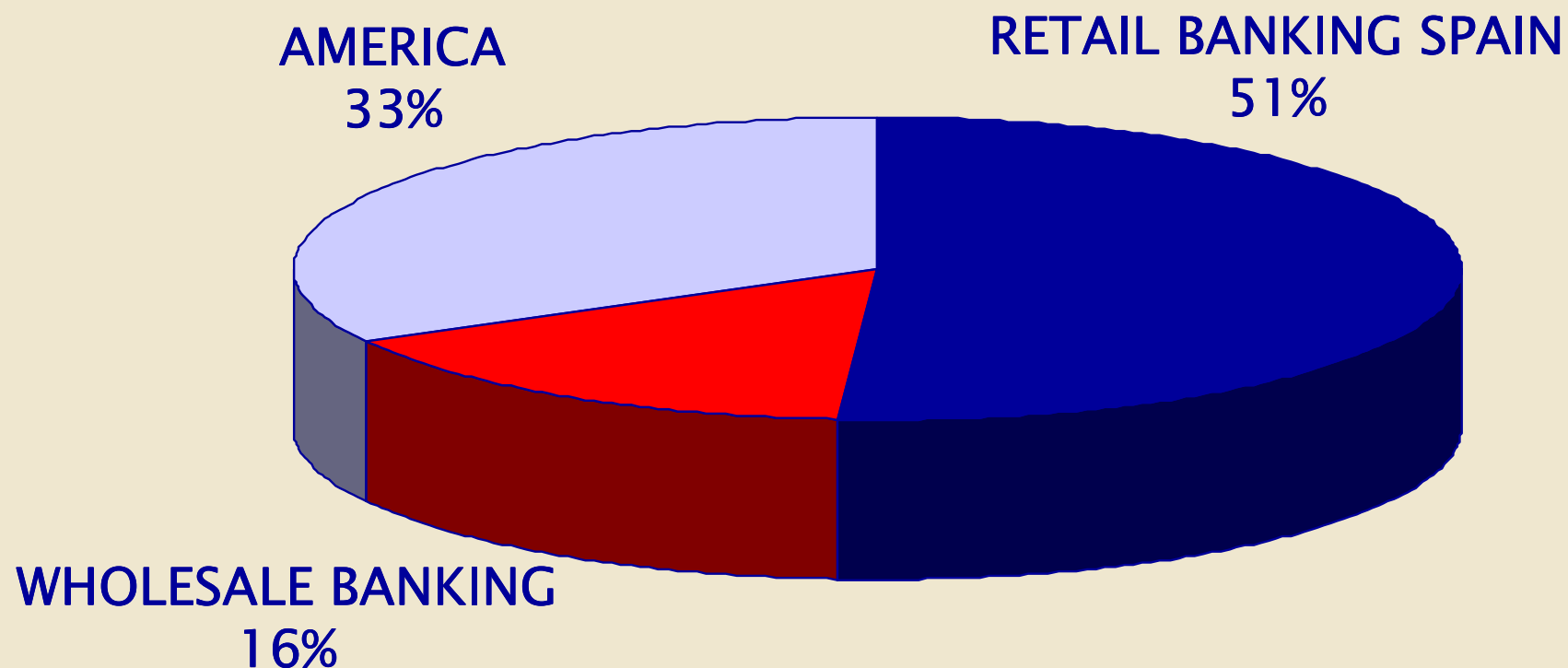
# ... with a balanced distribution of assets

## GROUP ASSETS BREAKDOWN (%)



# A well diversified business mix

## Attributable Profit by Business Areas (%)



# BBVA strategic issues

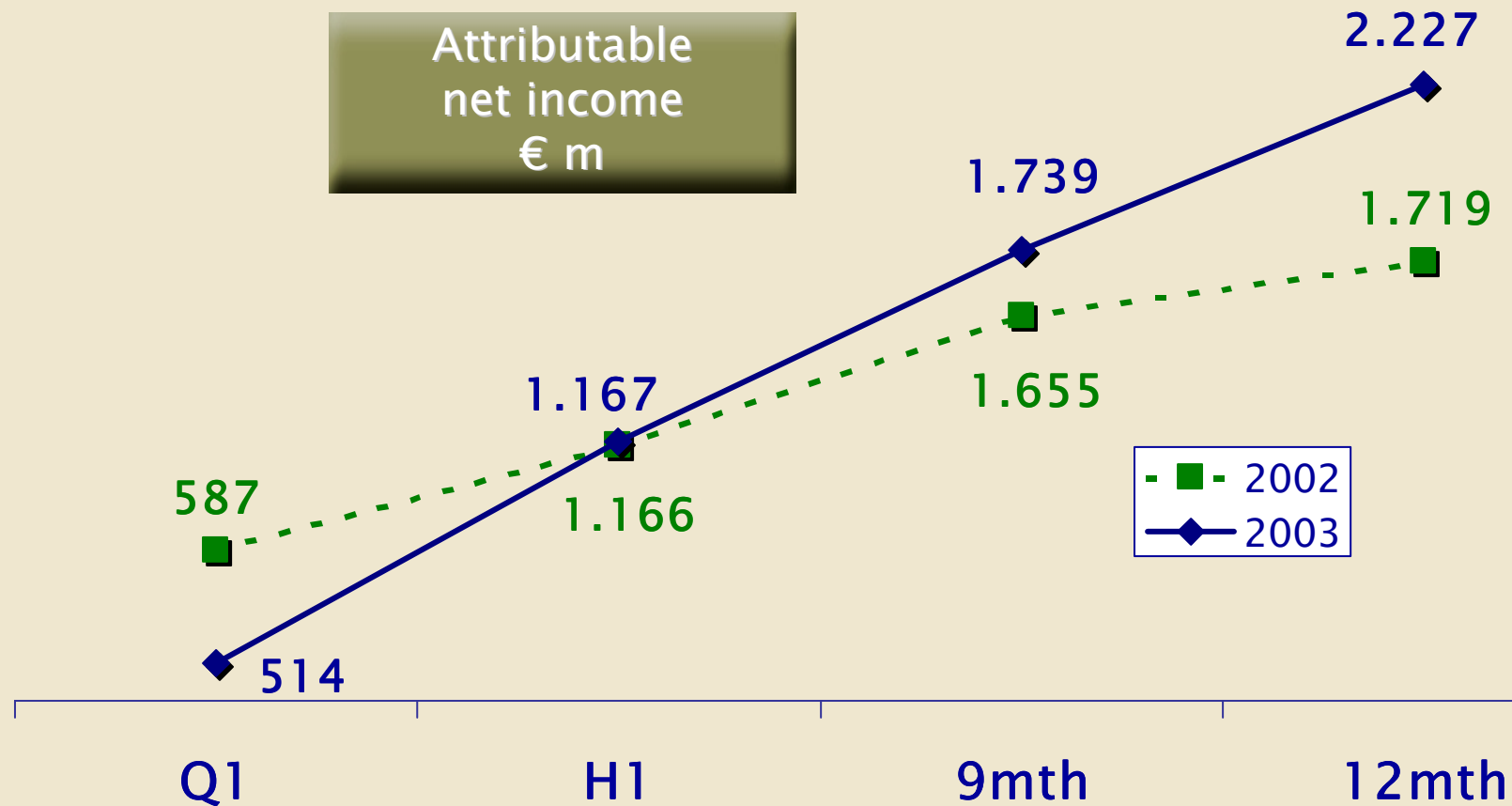
In 2002 we drew up a new strategic plan based in three pillars

1. Strengthening of Group fundamentals
2. Corporate culture and organisational changes
3. A value creation model based in profitable growth

The Group is now focused in delivering growth



# Group performance has already improved in 2003



...surpassing its commitment to the market (€ 2.15bn)

# This positive trend has been confirmed in 1 Q04 results . . .

BBVA Group Current € m	1 Q03	1 Q04	Chg (%)	Chg. (%) constant fx.
Net interest income	1,650	1,684	+2.1	+9.0
Core Revenues	2,456	2,508	+2.1	+9.0
Ordinary revenues	2,653	2,672	+0.7	+7.3
Operating Profit	1,217	1,279	+5.2	+12.5
Attrib. income	514	667	+29.9	+35.0

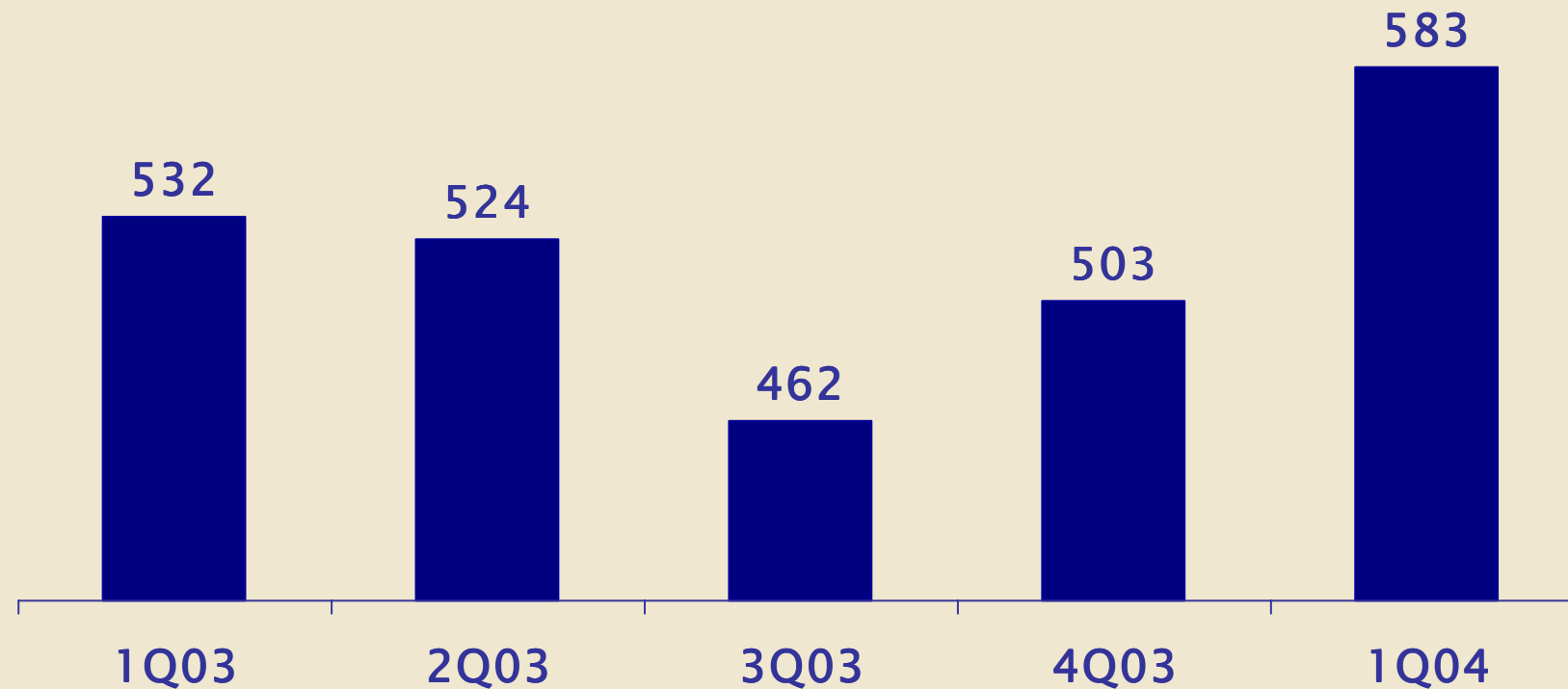
Revenue growth compensates the effects  
of currency devaluations (13.6%)

## ... With healthy growth in results of domestic businesses

Current € million	1 Q03	1 Q04	Chg. %
Net interest income	897	985	9.9
Core revenues	1,274	1,383	8.6
Ordinary revenues	1,402	1,493	6.5
Operating Profit	606	696	15.0

# ... and very positive contribution from the Americas

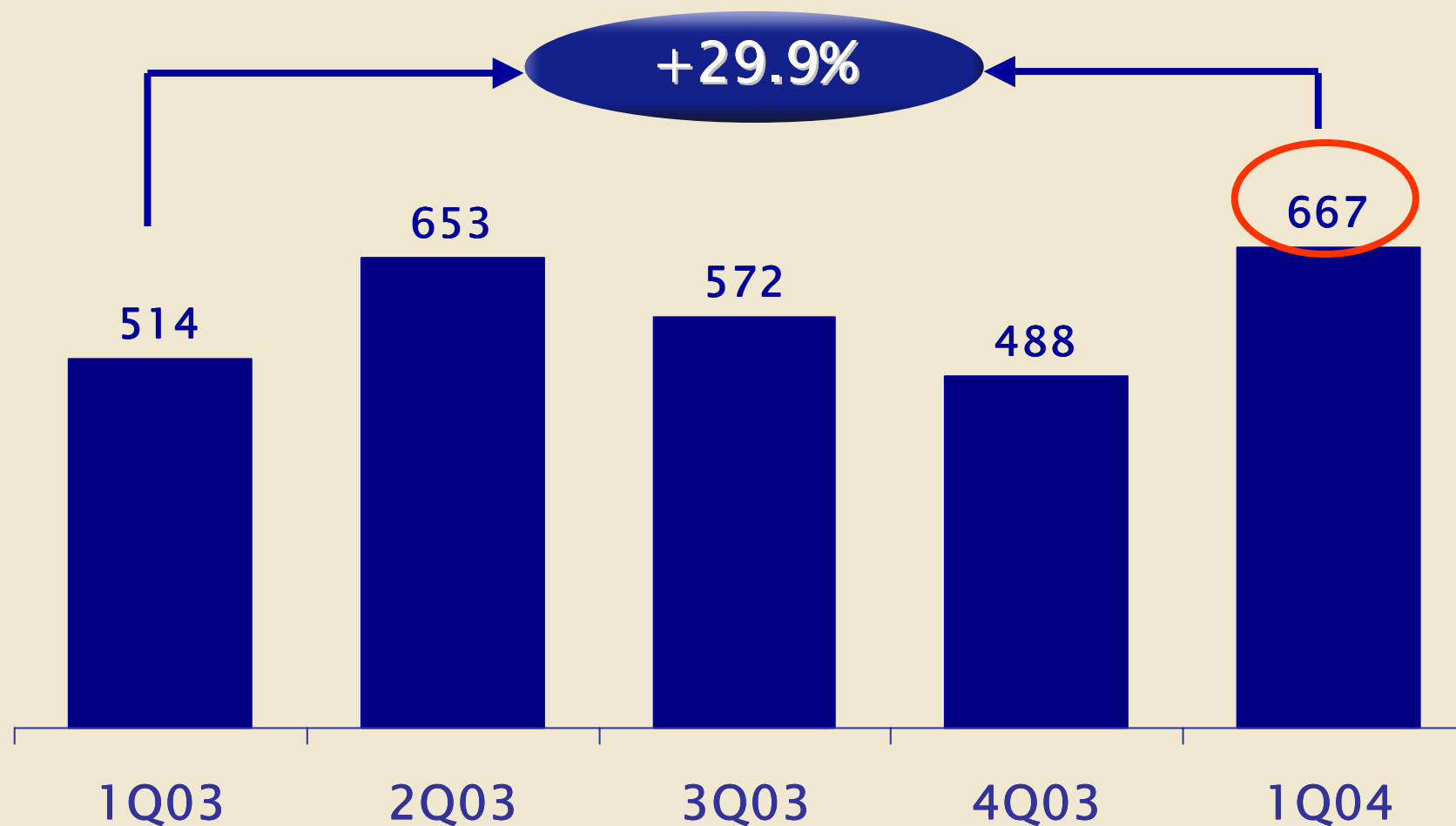
Operating Profit from Americas  
Constant € million



...driven by an increase of 18.9%  
in the operating profit from Mexico

Thus the Group has produced in 1 Q04 the highest net attributable profit in the last eleven quarters

Current € million



# Successful acquisition of BBVA Bancomer minorities

**The €2 billion share issue was well-received**

1.7 times oversubscribed in record time

**High acceptance of share offer**

Current holding: 99.7%

**Impact of the transaction**

Positive impact on EPS from year one

**Generating resources by reallocating capital**

Core Capital of €847 million

**Better capital allocation within the Group**

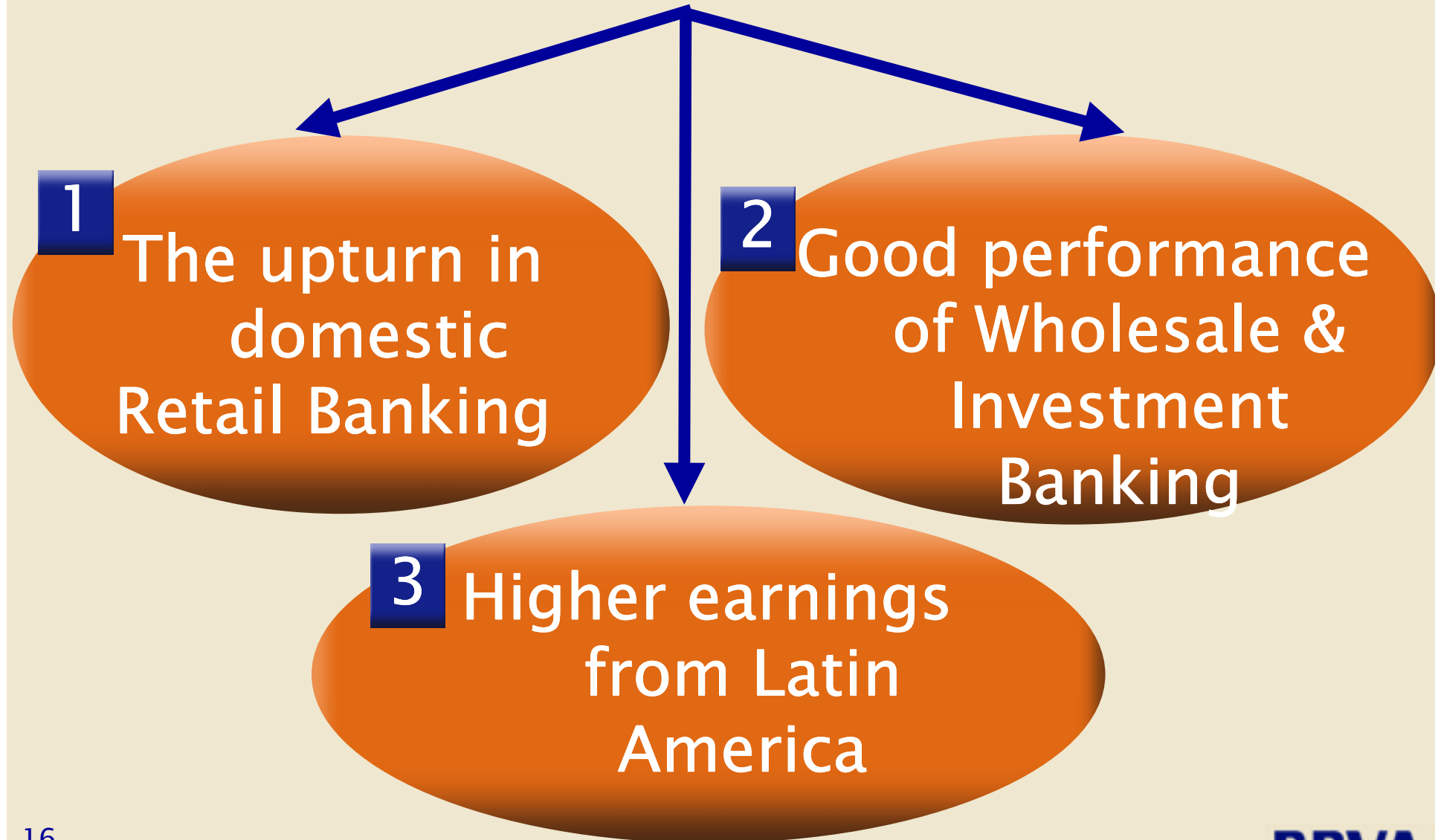
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- **Key growth drivers for BBVA**
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# Key growth drivers for BBVA

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1

# 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

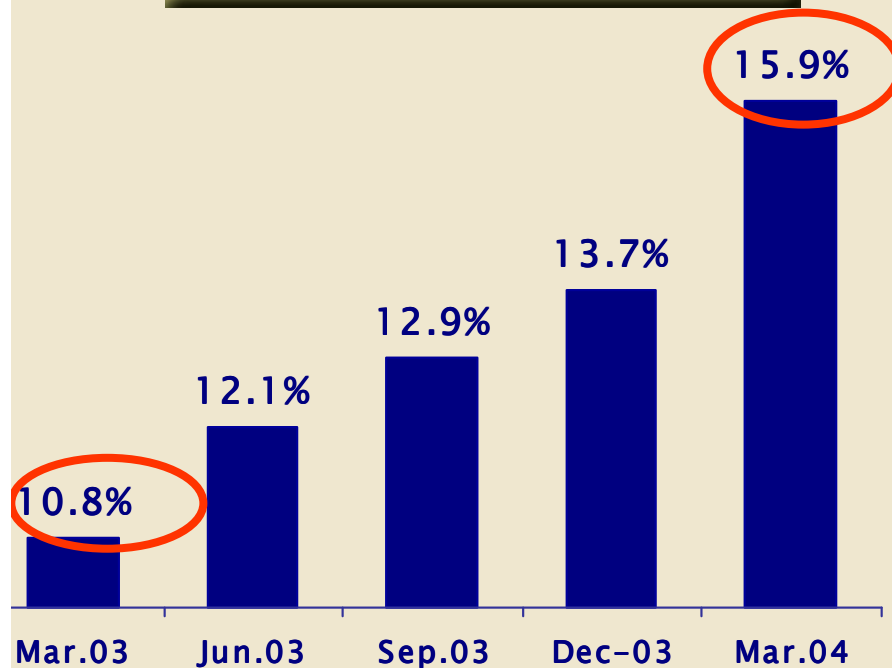
April 04

Credit card *Tarjeta diez*

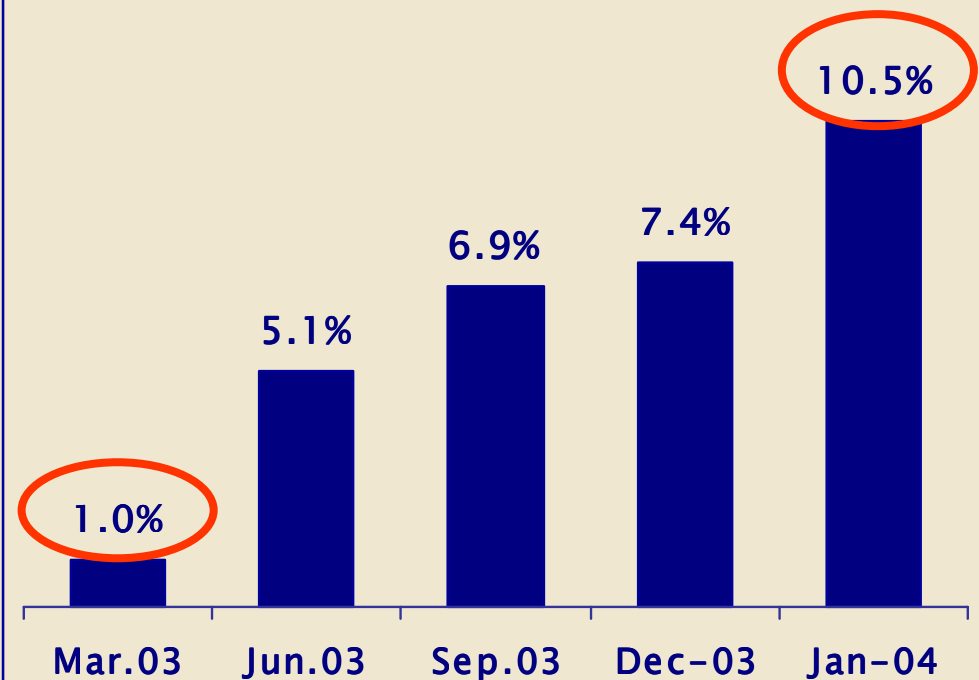
# ... that is contributing to boosting business activity

Year-on-year growth  
Average balances

## Lending



## Total customer funds deposits + funds



# The three pillars of the improvement in retail banking

## 1. A steady mortgage demand

- ✓ Individuals +21%, developers +17%
- ✓ 1Q04: record quarter in new mortgage production (5.1 €Bn, +48%)

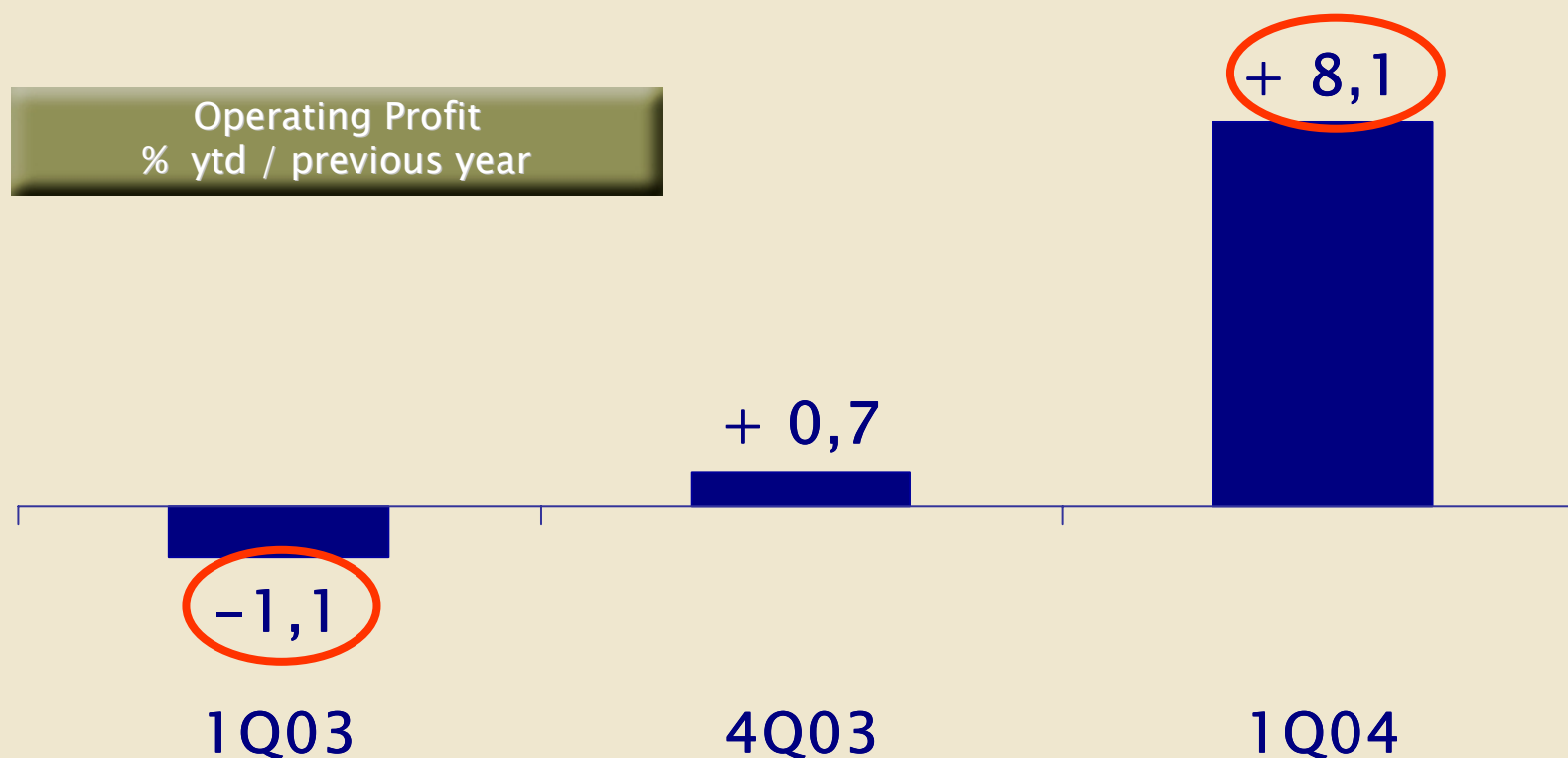
## 2. Accelerating volumes from SMEs

- ✓ +17% increase in SME's
- ✓ +19% increase in small businesses

## 3. Increase in off-balance sheet funds

- ✓ +19% increase in mutual funds
- ✓ Gaining market share

# All of it reflecting a progressive improvement of results



... with core revenues growing 3.8%

# Positive trends resulting from a strategic development of our retail franchise

## Personal Financial Services

Focus on individuals  
(8.5 m customers)  
Client Focus  
*Advisory*

## Commercial Financial Services

Focus on SME's and businesses  
(one in three of all Spanish SMEs are BBVA customers)  
*Cross-selling*

## Special Financial Services

Internet banking & Consumer finance  
*Profitability and convenience*

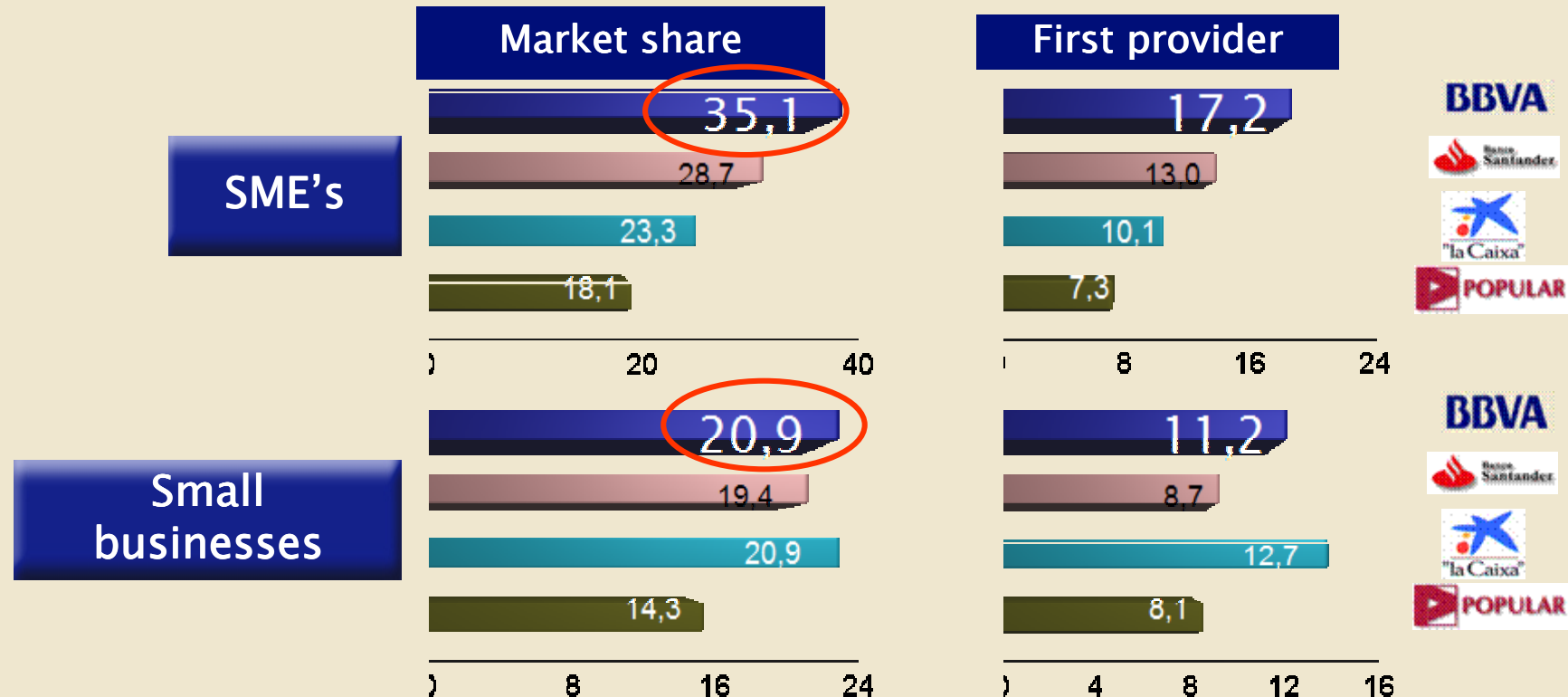
A steady growth potential for financial services in Spain

# Personal Financial Services: Progress in 2003

1. Branch transformation: 268 branches adapted
2. A new sales oriented structure: 50% increase in the sales force, 40% back-office reduction
3. 108,000 new active customers: 3.8 product per customer (3.6 in 2002)
4. Customer personalisation: 20% of the client base
5. Advisory capabilities: training 2,500 people
6. New tools to manage customers

A sales oriented organisation based on advisory and customer needs

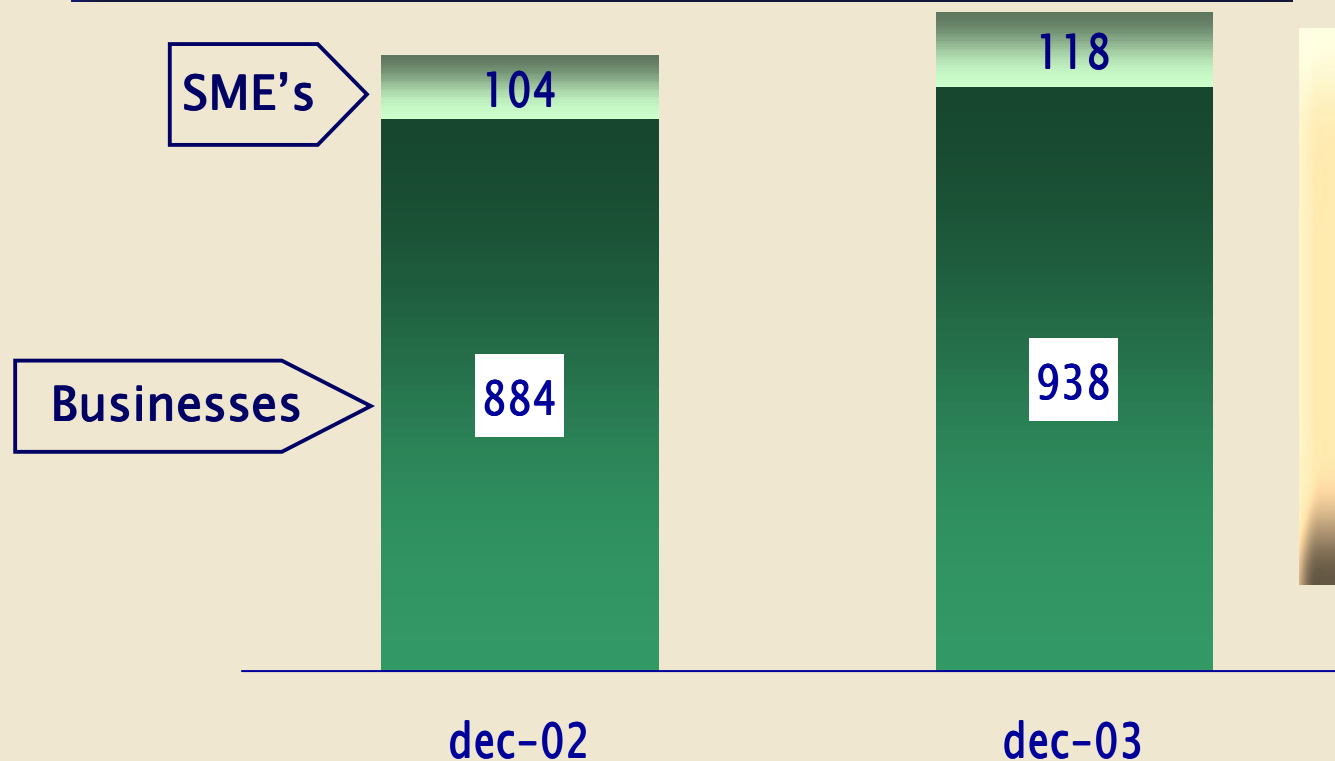
# Commercial Financial Services represents a great opportunity for BBVA



Serviced through specialised networks

# ... With good results in the first year

## Evolution of active customers (thousands)



- 8.6% increase in customers
- 4.7 products per customer
- 0.67% NPL ratio

Cross-selling supported by a broad product range



# Factors of market growth for the Spanish Retail Banks

## Mortgage Market

- Low interest rates, GDP improvement and job creation
- Better financial conditions
- Demographics: household formation, immigrants and tourism

## SMEs

- The importance of SME's in employment (64% of total private sector jobs )
- The main beneficiaries of labour deregulation in Spain
- Going through a phase of modernisation

# BBVA key performance indicators: higher targets for 2004 ...

## Loans/Funds

- Growth above the market
- Gaining market share

### Personal Financial Services

Active customers

2003

8,500,000

2004

8,900,000

Products per customer

3.8

4.1

### SME's

Active Customers

117,800

125,000

Products per customer

4.9

5.1

## 2 Good performance of Wholesale & Investment Banking



...Driven by rising net fee income (+14.7% y-o-y)

# Wholesale and Investment Banking: the leading player in Spain

The global  
relationship model

Corporate  
Banking

88% of large  
corporates are  
BBVA customers

Institutional  
Banking

35% market  
share in lending  
to the public  
sector

The franchise  
model

Global  
Markets  
and  
Distribution

Leadership in  
Spain and  
expansion in  
Latin America

# A successful strategy...

**3 Rs**

**R**eturn



**ROE 21,0%**

**R**elationship



**Nº 1 with large Spanish companies**

**Nº 1 with Public Institutions in all segments**

**Nº 2 with large Latin American companies**

**R**isk



**NPL Coverage ratio: 314%**

**NPL Ratio: 0.38%**

# ... with a clear objectives

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To export our global model to Latin America: Wholesale banking and markets



To reinforce our leading market position

With large corporations in Spain, Europe and Latin America

Financial markets Spain and Latin America

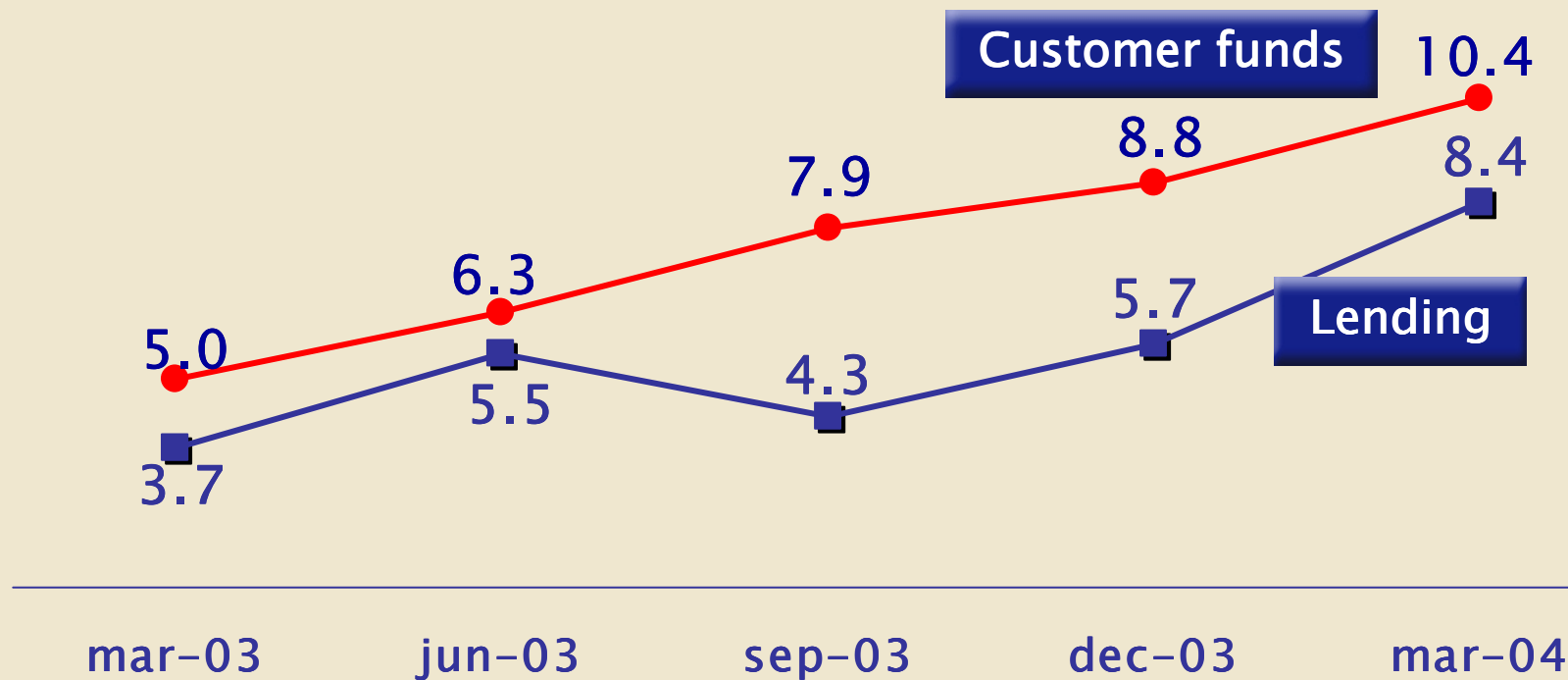
Spanish public sector and European institutions

## 3

# The Americas show growing levels of activity

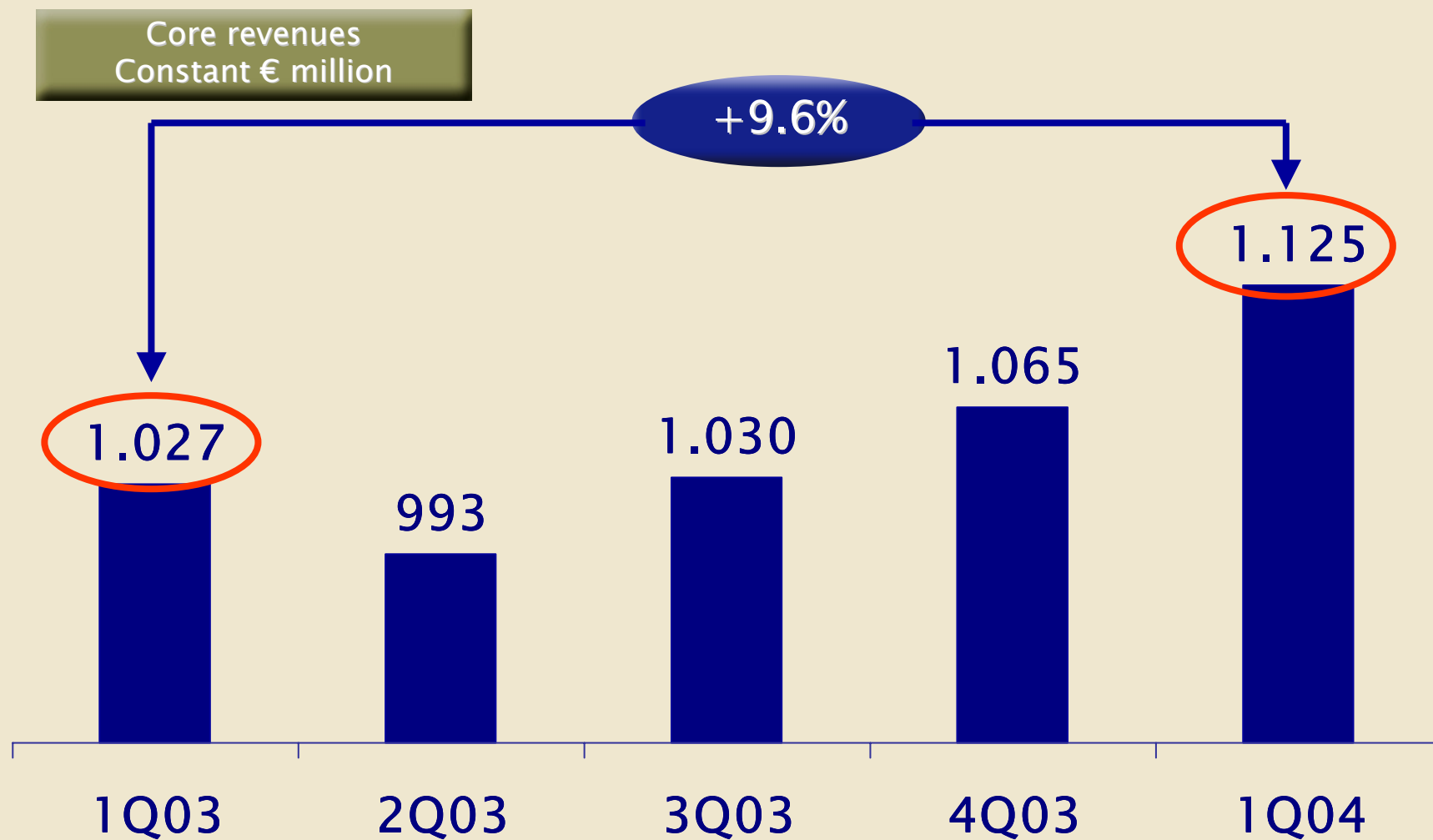
Constant €

year-on-year change



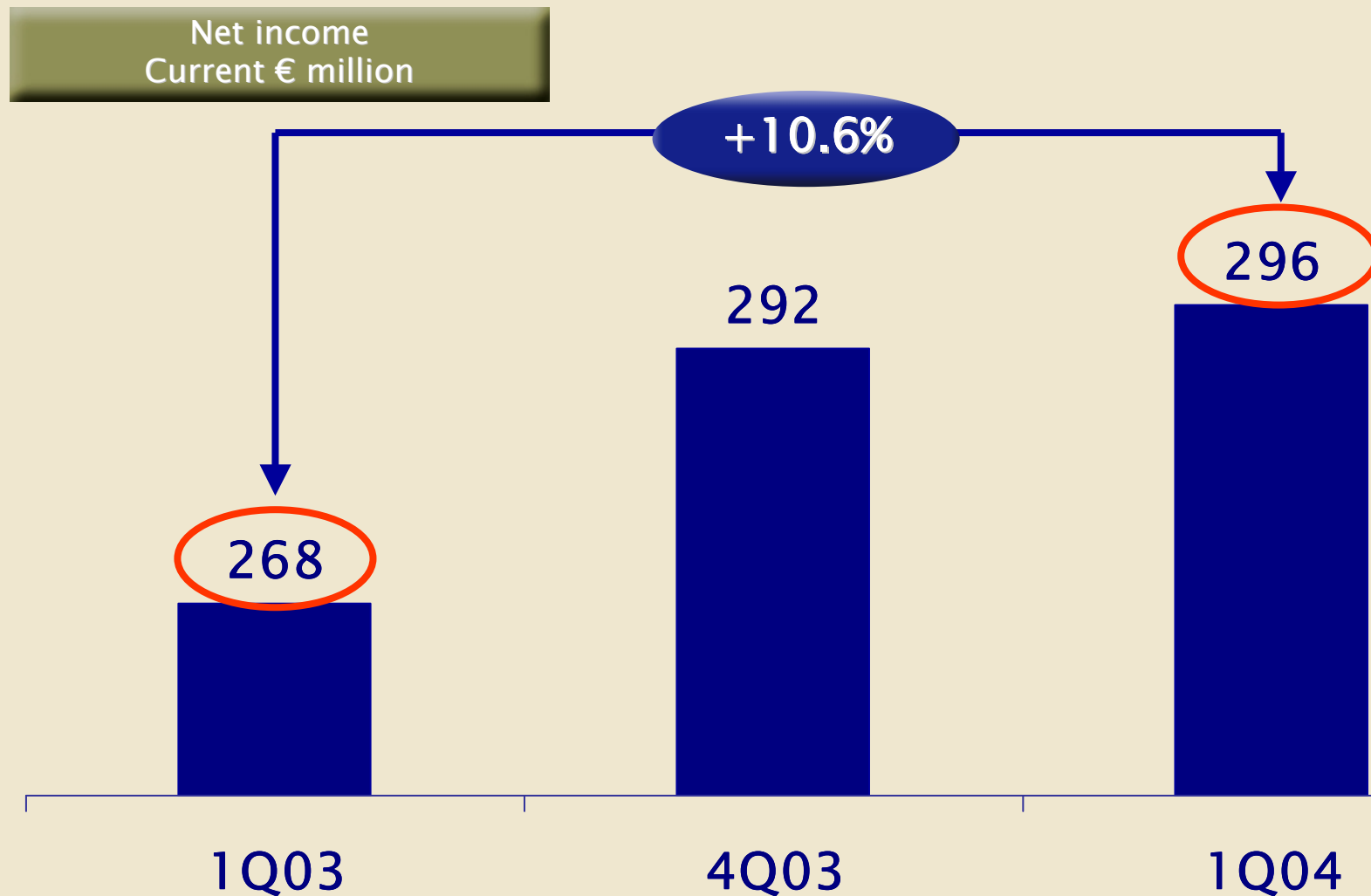
- ✓ Lending grows in investment-grade countries: +12.8%
- ✓ Customer funds growth focused on sight and savings accounts

## ... Strong revenue generation

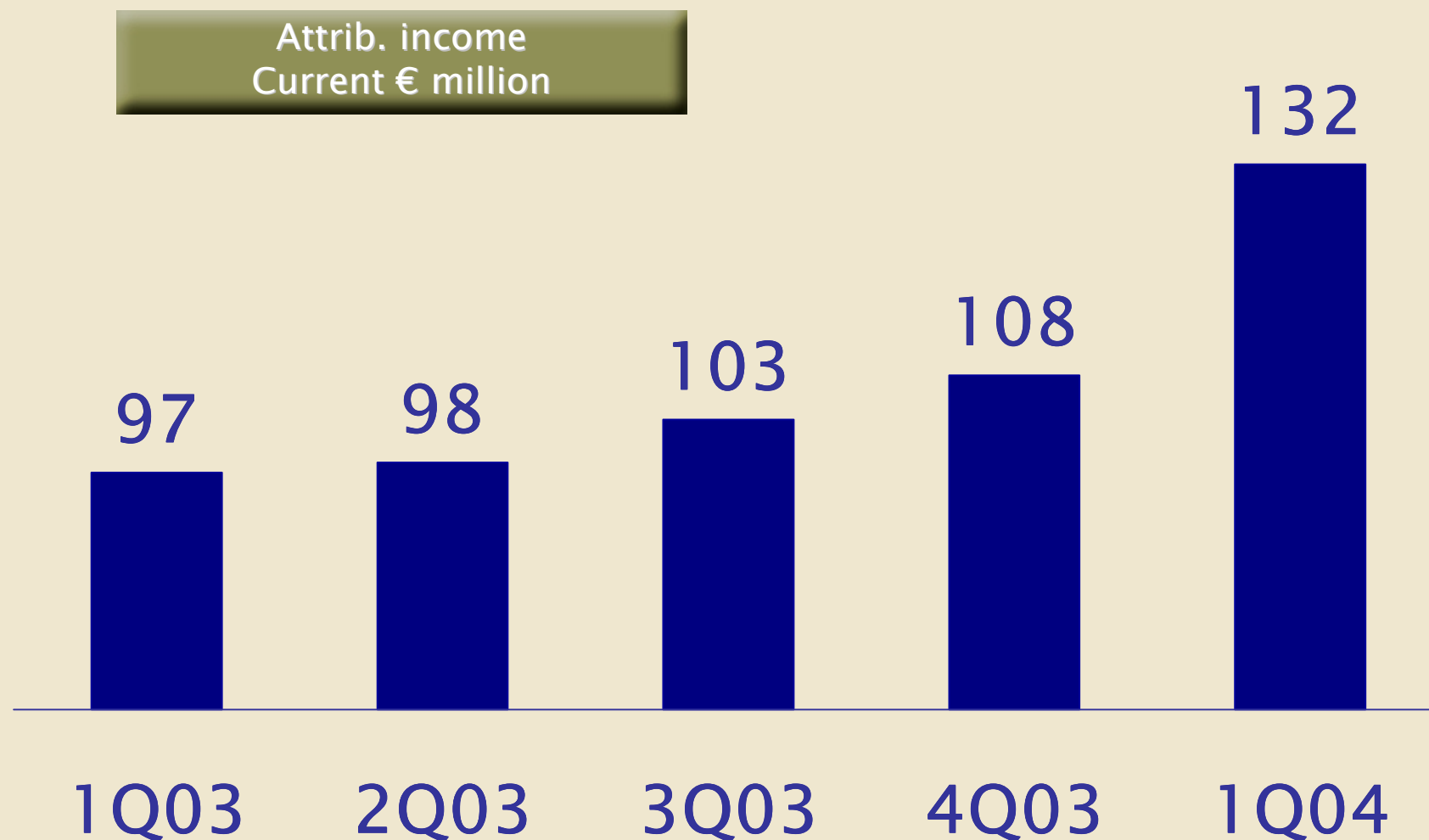




## ... And a positive evolution of profits in BBVA America

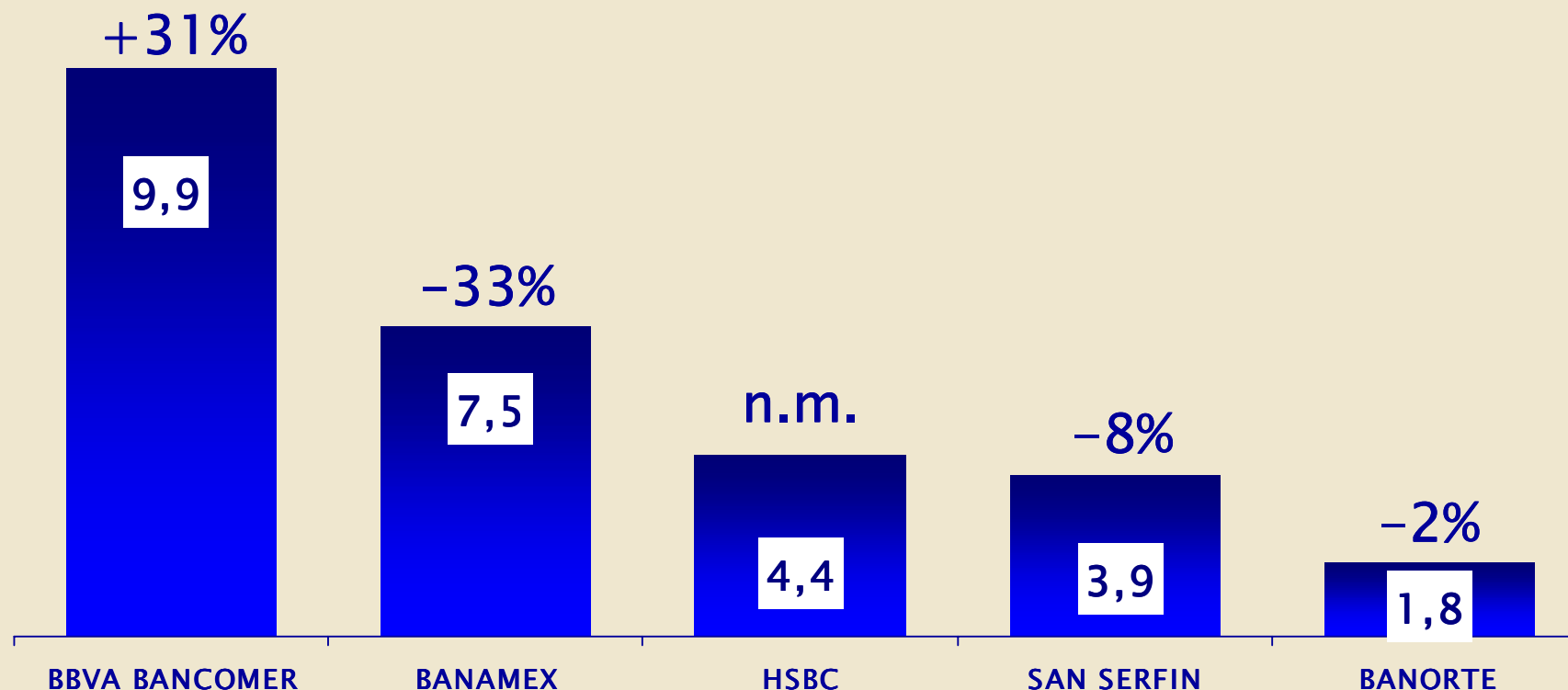


# ...with new record highs in BBVA Bancomer profits



# ...and better recurrent results than peers

Recurrent operating profit (\*) 2003 (MM Ps)  
and annual change (%)



(\*) Recurrent operating profit (NII + fees) - general administrative expenses. Source CNBV

**Mexico: a great opportunity for BBVA**

## In 2004 ...

- NII: Volumes will be the key, with sustainable margins prospects
- Fees: A clear recovery in Spain and continuous improvement in Latin America
- Costs: under control
- Active management of interest rates and forex risk
- Provisioning effort: stable in Spain (“Focei”) and declining in Latin America

**On course to deliver good results**

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# What are BBVA Bancomer's medium and long term growth opportunities?

1

A sizeable bank in a sizeable economy

2

Business mix improvement

3

Low banking penetration

4

Credit expansion

5

Hispanic population in USA

# ① BBVA Bancomer is the leading franchise in Mexico

Leader in banking business

and in non-banking business

## Number 1

Market  
share

- Loans:.....25.4%
- Customer Funds:..... 28.8%

## Number 1 Market Share

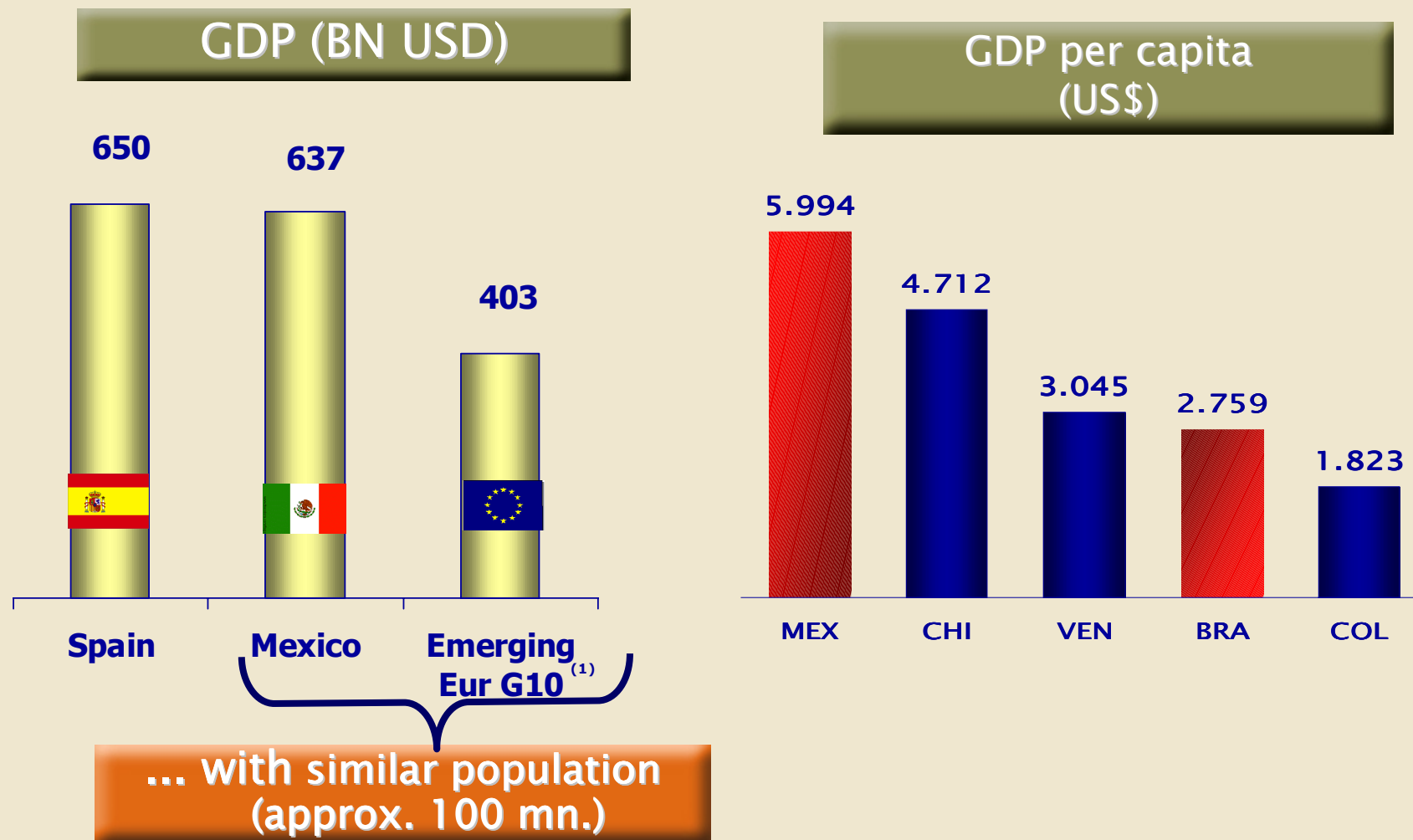
- Bancassurance.....38.8%
- Annuities.....20.4%
- Transfers.....40.0%

## Number 2

- AFORE.....21.3%

...and more than 9 million customers

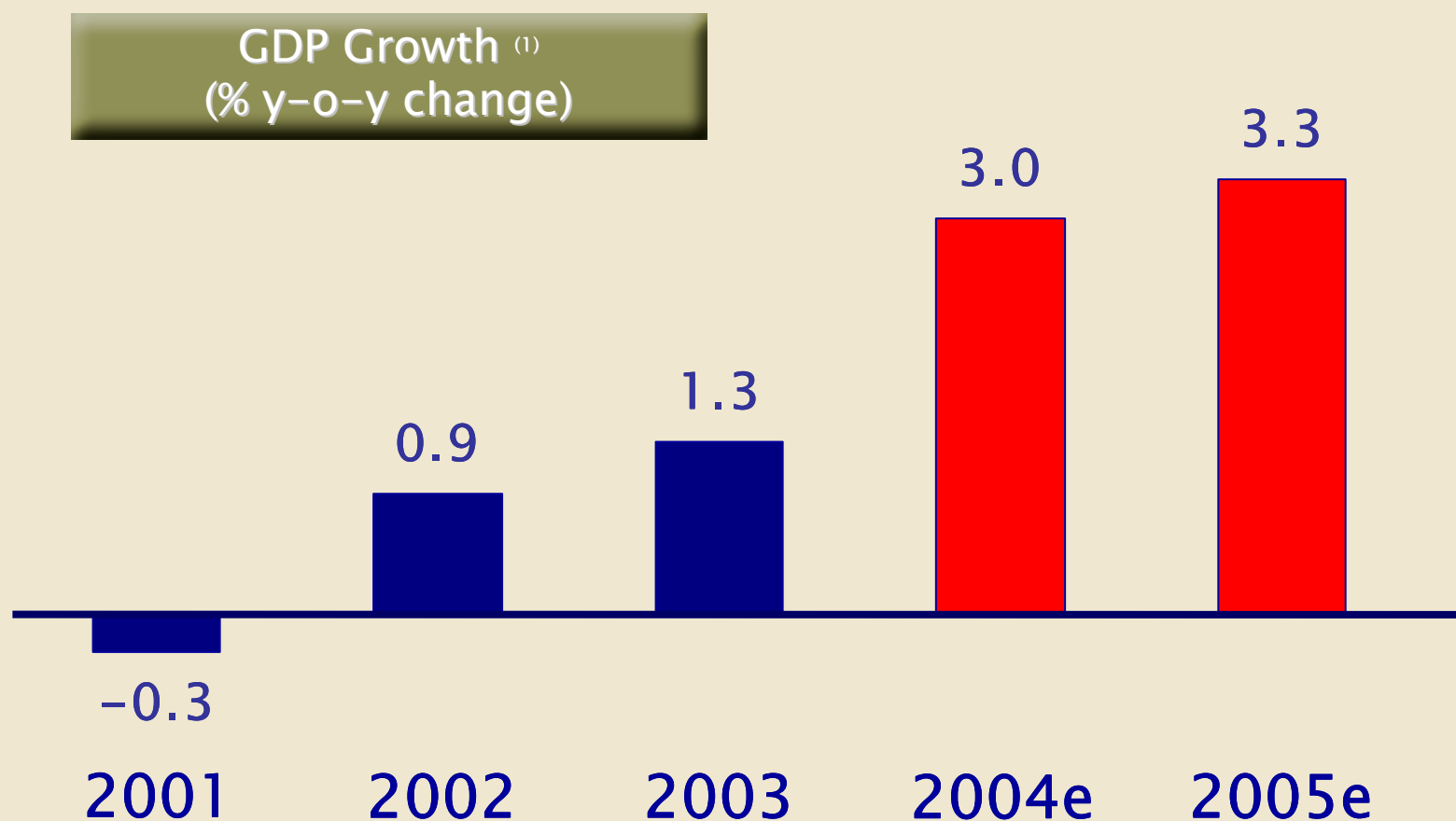
# Mexico: a sizeable economy



40 Emerg. Eur. G10: Group of 10 emerging countries in Eastern Europe, with 100 M inhabitants: Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia.



# ...entering a growth phase



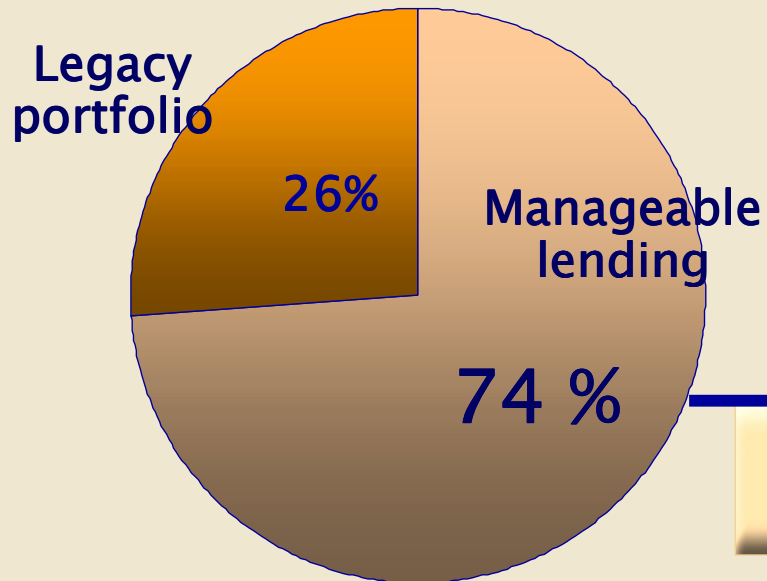
# An outstanding commercial success

	<u>Mar03</u>	<u>Mar04</u>	<u>Var. %</u>
Credit cards (million)	3.2	4.8	50.0
Debit cards (million)	10.3	11.2	8.7
New accounts “ <i>El Libretón</i> ”	7 million in 3 years		
Insurance customers* (thousand)	851	1,585	86.3
Electronic banking (thousand)	856	958	11.9

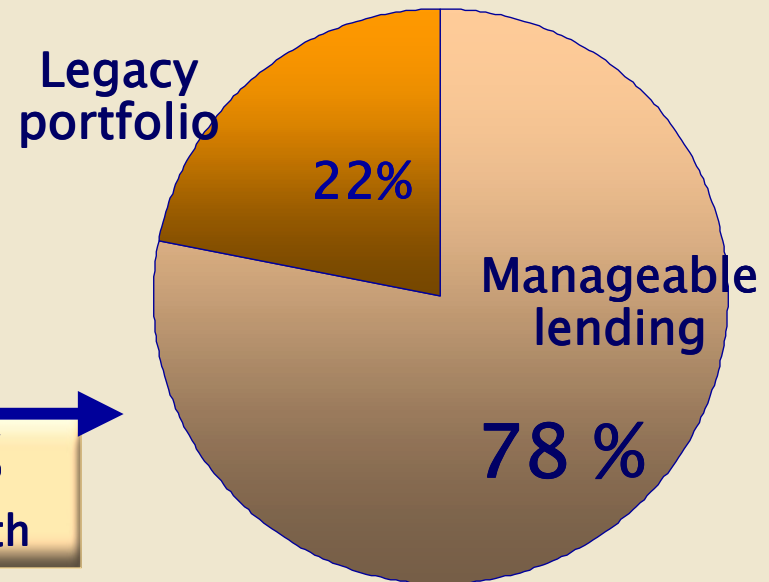
2

# Growth in lending and mix improvement

March 2003



March 2004



+15%  
Yoy growth

Commercial&Government

+12%

Consumer&Cards

+31%

Mortgages

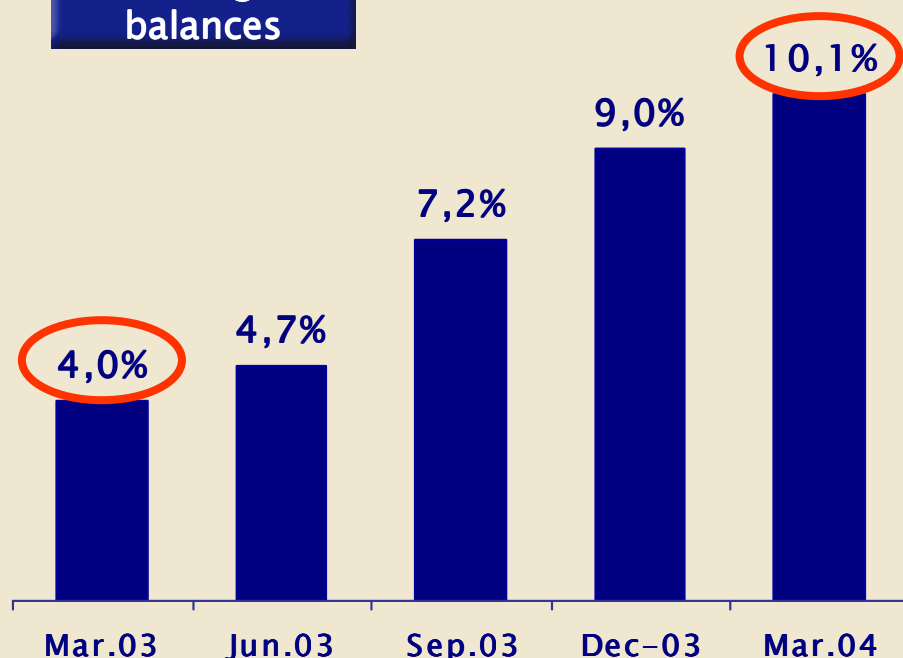
+10%

# Customer deposits also performing strongly, with better mix

y-o-y change

% growth by product

Average  
balances

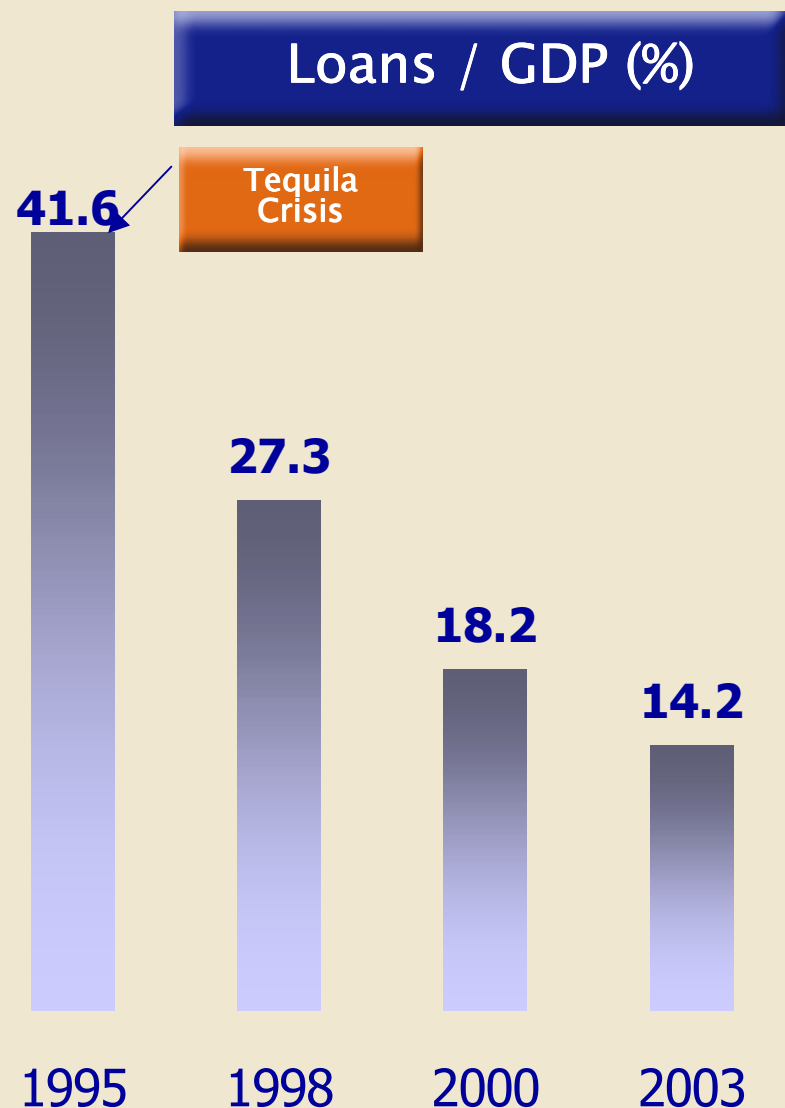


	Mar-03	Dec-03	Mar-04
Sight a/cs	+13.0	+18.1	+16.8
Term deposits	+14.7	+9.6	-6.5
Mutual funds	-6.9	+5.8	+23.7
<b>TOTAL (*)</b>	<b>+4.0</b>	<b>+9.0</b>	<b>+10.1</b>

\* Including repos

...with strong support from sight and savings accounts and funds

### ③ Potential growth and efficiency going forward



Given the low penetration of banking products, growth in financial revenues can outstrip GDP

- Profitability of current 20 million banked clients
- Potential market – estimated at 30 million
- Integration of informal economy
- Stabilization of macro outlook for credit activity

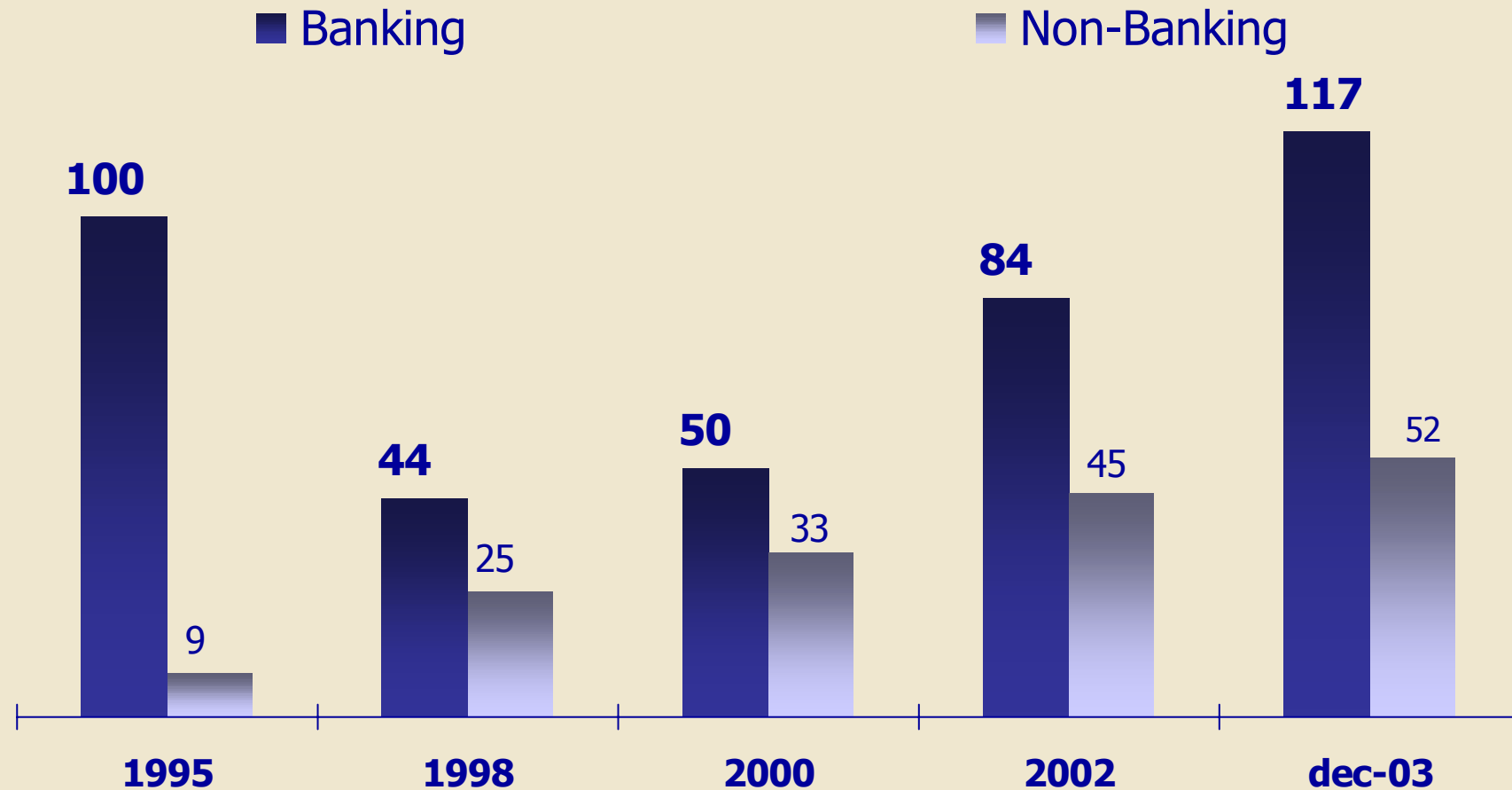
# Financial system transformation resulting in higher ROEs

- Regulation benchmarked to international standards
- Stricter risk modeling and taking procedures
- Adequate capitalization
- Improved technology
- Better knowledge of customer credit history
- Improved legal framework
- Increased consolidation

	Brazil	Chile	Mexico
ROE (nominal)	17.4	14.5	16.4
Inflation	9.5	2.5	4.0
ROE (real)	7.9	12.0	12.4

Mexico's banking sector ROE (inflation adjusted) is the highest in the region

## ④ Credit expansion: consumer loans have been the first to take off

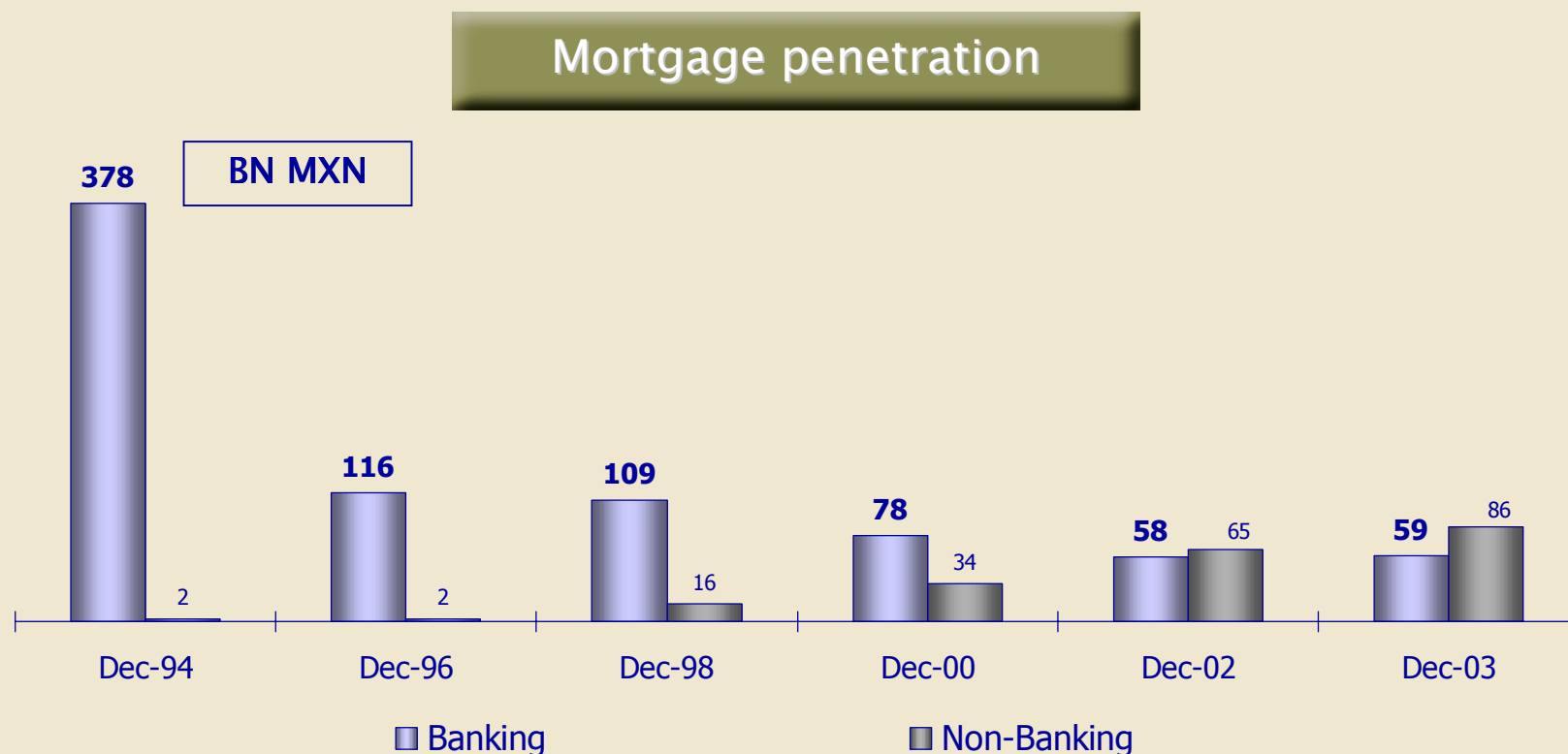


**Banks have successfully regained market share**

47 Figures in billions of pesos as of December 2003

**BBVA**

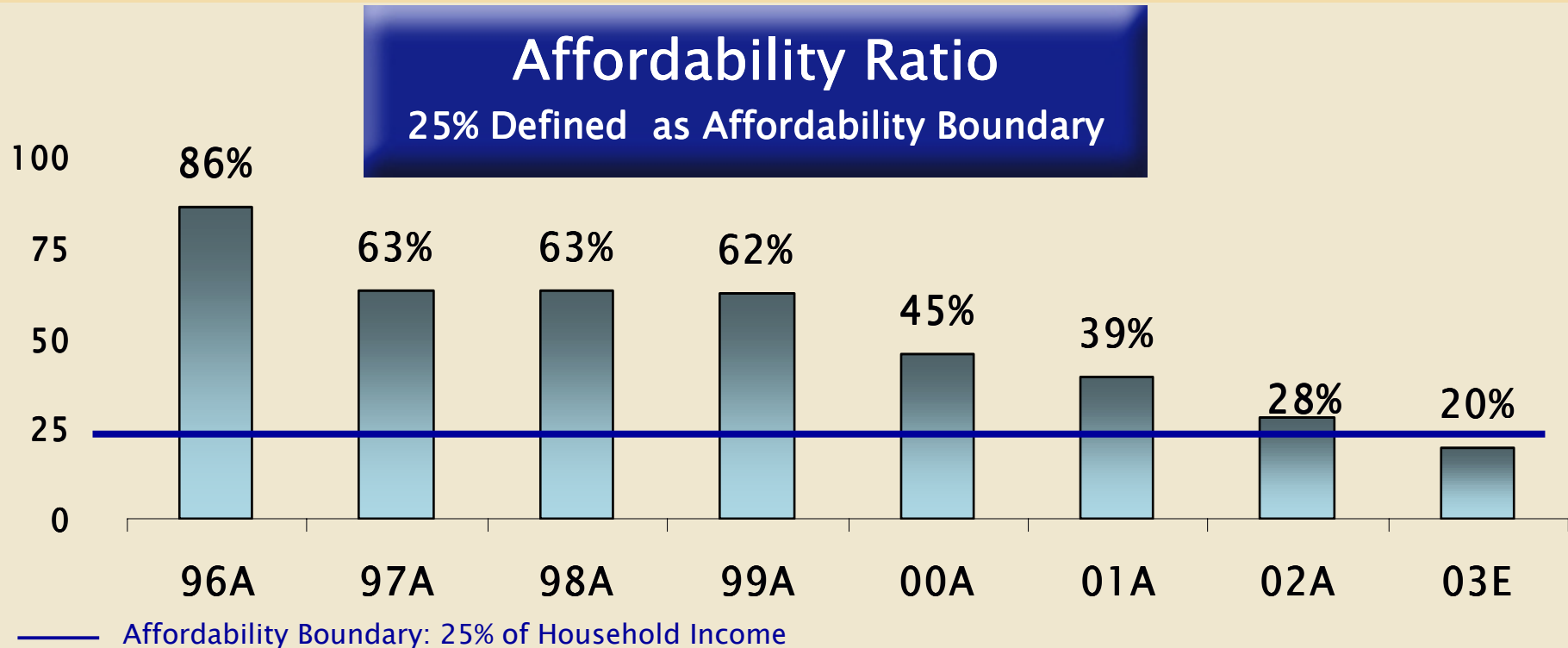
# Mortgage market: a short term priority...



**From MXN 378 Bn to MXN 59 Bn ten years after**



# ... and a long term opportunity



How big is the potential mortgage pool? (Next 10 years):

- Mortgage / GDP from 5% to 10%
- Additional mortgage system volume: \$31.7Bn
- BBVA Bancomer mortgage loans would go up 8 times to \$8 Bn

5

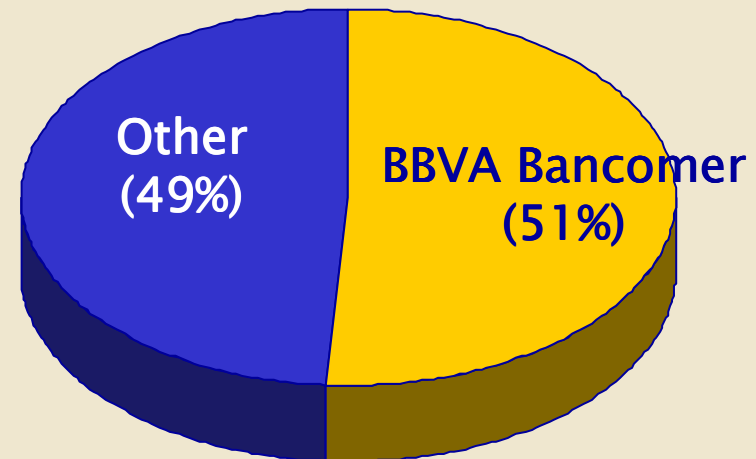
## Hispanic population in the USA: Bancomer Transfer Services

### Maintaining leadership

#### Hispanic market in USA

- Population: 37 million
- Population with earnings: 22 million
- Average earnings: \$22.000

#### Market share of electronic funds transfer



- Bancomer is the largest player in this business:
  - 15 million transactions in 2003 (+19% vs 2002)
  - \$ 6 bn 2003 (+17% vs 2002)

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# Significant advance in strategy in 1Q04, with a strong focus on growth

**Successful  
completion  
of BBVA  
Bancomer  
take-over**

**Strong growth in retail banking  
activity that is already being  
reflected in results**

**Activity and fee income lead to  
higher operating profit in Mexico**

**New strengthening in the Group's  
fundamentals**

# We are creating a very solid Group

High Profitability

ROE

20.3%

Highly productive

Efficiency

46.0%

Controlled risks

NPL Ratio

1.23%

Coverage

209.8%

Solvency

BIS Ratio

12.1%

Rating

AA- / Aa2

...and growth in EPS of 25.1%

# BBVA

## BBVA: DELIVERING GROWTH

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