

# Retail Banking in Spain and Portugal

## INCOME STATEMENT

(MILLION EUROS)

	Retail Banking Spain and Portugal			Memorandum item:			
	1H04	Δ%	1H03	Commercial and SME Banking		Asset Management and Private Banking	
	1H04	Δ%	1H03	1H04	Δ%	1H04	Δ%
<b>NET INTEREST INCOME</b>	1,645	2.6	1,603	1,458	1.2	21	3.2
Net fee income	787	12.0	703	660	10.4	114	18.1
<b>CORE REVENUES</b>	2,431	5.4	2,306	2,118	3.9	135	15.5
Net trading income	24	3.3	23	22	3.3	1	91.4
<b>ORDINARY REVENUES</b>	2,455	5.4	2,329	2,140	3.9	136	15.8
Personnel costs	(707)	2.1	(692)	(641)	2.1	(25)	(5.6)
General expenses	(351)	(2.6)	(361)	(306)	(3.1)	(14)	(10.5)
<b>GENERAL ADMINISTRATIVE EXPENSES</b>	(1,058)	0.4	(1,053)	(948)	0.3	(39)	(7.4)
Depreciation and amortization	(53)	(10.8)	(59)	(46)	(11.8)	(2)	8.3
Other operating income and expenses	(22)	(12.9)	(26)	(21)	(14.4)	(1)	(11.2)
<b>OPERATING PROFIT</b>	1,323	11.0	1,191	1,125	8.3	95	29.7
Net income (loss) from companies accounted for by the equity method	2	26.6	2	1	n.m.	1	(16.8)
Amortization of goodwill	-	-	-	-	-	-	-
Net income (loss) from Group transactions	26	n.m.	-	-	-	-	-
Net loan loss provisions	(281)	15.4	(244)	(258)	14.1	(3)	95.6
Net extraordinary income (loss)	11	27.8	9	16	55.8	(2)	8.5
<b>PRE-TAX PROFIT</b>	1,081	12.8	958	884	7.6	91	27.9
Corporate income tax	(360)	14.3	(315)	(299)	9.7	(31)	30.7
<b>NET PROFIT</b>	721	12.1	643	585	6.5	60	26.5
Minority interests	(34)	(12.8)	(39)	(28)	(22.3)	(2)	(35.9)
<b>NET ATTRIBUTABLE PROFIT</b>	687	13.7	604	557	8.5	58	31.5

## BALANCE SHEETS

(MILLION EUROS)

	30-06-04			30-06-03			30-06-04			30-06-04		
	30-06-04	Δ%	30-06-03	30-06-04	Δ%	30-06-03	30-06-04	Δ%	30-06-04	Δ%	30-06-04	Δ%
Total net lending	99,775	18.0	84,562	93,073	18.0	856	17.5					
Securities portfolio	416	174.6	152	14	60.8	38	0.2					
Liquid assets	2,216	14.3	1,939	1,142	-	359	63.1					
Inter-area positions	16,590	4.7	15,845	15,228	5.9	944	(17.5)					
Property and equipment and intangible assets	661	(2.2)	676	548	(1.1)	10	(32.5)					
Other assets	1,451	105.5	706	576	41.1	67	97.7					
<b>TOTAL ASSETS/LIABILITIES AND EQUITY</b>	121,109	16.6	103,880	110,581	16.0	2,275	4.4					
Deposits	52,653	1.7	51,751	48,682	2.2	1,382	2.8					
Debt securities	6	-	6	-	-	-	-					
Equity	7,557	8.9	6,937	6,397	11.4	358	(37.1)					
• Shareholders' funds	4,377	9.9	3,984	3,690	11.3	210	(37.8)					
• Other eligible funds	3,179	7.7	2,953	2,707	11.5	148	(36.2)					
Liquid liabilities	3,906	50.3	2,599	27	(8.1)	1	(68.7)					
Inter-area positions	52,180	34.2	38,869	51,695	33.6	309	295.9					
Other liabilities	4,807	29.3	3,718	3,779	17.0	225	21.6					
<b>OTHER CUSTOMER FUNDS MANAGED</b>												
• Mutual funds	40,917	19.5	34,237	35,539	17.9	4,862	31.3					
• Pension funds	12,768	10.4	11,563	6,239	14.9	6,309	6.3					
• Customer portfolios	8,335	17.5	7,094	968	22.4	7,367	16.9					

## SIGNIFICANT RATIOS

(PERCENTAGE)

	30-06-04		30-06-03		30-06-04		30-06-04	
ROE	32.3		30.3		31.3		46.8	
Efficiency ratio	43.1		45.2		44.3		28.6	
NPL ratio (Nonperforming assets/Total risks)	0.65		0.89		0.61		0.03	
Coverage ratio	353.1		249.1		373.8		n.m.	

Retail Banking in Spain and Portugal includes business with customers who are individuals, retailers or small and medium enterprises plus the management of mutual funds, pensions and insurance products. It also covers special financial services (Finanzia, Uno-e and Dinero Express), it conducts the e-banking business, consumer finance, the distribution of cards, renting and transfers of immigrant funds.

In the second quarter this area recorded higher activity in lending and customer funds, and it managed output and costs in an appropriate manner. There was also a further improvement in the cost/income ratio. Thus it consolidated the progressive quarterly improvement in revenues, which grew faster than the first quarter in year-on-year terms. Specifically, operating profit –which in March was growing at 8.1%– closed the second quarter at 691 million euros, 13.8% above the same period in 2003. This is the highest amount in recent years. As a result, operating profit for the first half rose to 1,323 million euros, with year-on-year growth of 11.0%.

The positive trend in operating profit carried over to attributable net income which increased 14.8% in the second quarter and 13.7% in the half year in year-on-year terms. It rose to 687 million euros – lifting ROE from 30.3% (in first half of 2003), to 32.3%.

Lending activity reinforced the upward trend noted in recent quarters and at 30-Jun-04 it reached 100 billion euros with a year-on-year increase of 18.0%, compared to 16.3% on 31-Mar-04 and 13.9% on 31-Dec-03. All products and segments recorded positive variations including mortgages which grew 23.3% (20.5% in March) and SMEs and businesses lending (up 18.1%).

Total funds under management (the sum of deposits and mutual and pension funds) grew 8.9% year-on-year (they were growing at 7.3% on 31-Dec-03). In the first half they increased by more than 6 billion euros (against 4.1 billion euros in the first half of 2003). Attention is drawn to mutual funds which increased 19.5% following the BBVA's roll out of new high value-added products and personalised customer advisory. In the half year, mutual funds led the market in terms of asset growth and ranking by net contributions. The latter figure came to 3.3 billion euros, more than 30% of the entire banking system. Therefore the bank has gained 48 basis points in market share during the half year and 69 basis points over the last 12 months, bringing its share to 19%. It was the only large fund manager to record significant market gains in both periods. Stable funds (mainly time deposits and mutual and pension funds) grew 10.0% over 30-Jun-03 and transactional

deposits increased 9.3%, supported by the year's first savings campaign. This attracted some 1.3 billion euros.

In the second quarter these important business improvements were accompanied by almost stable customer spreads because the cost of deposits fell significantly. All this resulted in a year-on-year increase of net interest income in the second quarter of 3.1% (2.6% in the half year). Net fee income also grew strongly in the quarter, by 16.1% in year-on-year terms, and lifted the half year figure to 12.0% (12.6% in mutual and pension funds). Thus in the first half both core revenues and ordinary revenues increased 5.4%.

The positive trend of revenues and control of operating expenses (which grew only 0.4%) meant that the cost/income ratio once again improved, by 2.1 points to 43.1%, compared to the first half of 2003. Furthermore the percentage of costs covered by fee income (the recurrency ratio) increased 7.7 percentage points to 74.4%.

During the half year, 281 million euros were set aside for loan-loss provisioning (15.4% more than the first half of 2003) due to greater activity and transfers to the statistical reserve. This was because specific provisioning requirements fell on further improvement in the non-performing loan ratio. The NPL ratio was 0.65% (0.89% at 30-Jun-03) and the level of coverage was 353.1% (249.1% a year earlier). NPLs fell by 14.7% and related provisions rose by 20.9%. Therefore, attributable net income came to the figure of 687 million euros mentioned above. Of this, 557 million euros came from Commercial and SME Banking, 58 million from Asset Management and Private Banking, 58 million euros from Insurance Activities, 14 million from Special Financial Services and 1 million from Portugal.

Taken together, Commercial and SME Banking business accounts for more than 80% of the operating profit and net income in the Retail Banking Area. The profile of these businesses results is similar with faster growth in net interest income and net fee income, a further improvement in the cost/income ratio and higher operating profit (rising 8.3% to 1,125 million euros) and higher attributable net income (up 8.5%). Asset quality also improved further.

Marketing innovation continued to be an outstanding feature in the second quarter. *Hipoteca Fácil* (Easy Mortgage) added new features related to flexibility and ease of payment. New residential lending operations in the second quarter came to more than 3.7 billion euros (3.1 billion euros in the first quarter); a year-on-year increase of 52.9%. Including developers, the total volume of mortgages signed in the second quarter came to 6.1 billion euros. This was 48.4% higher than

the same period last year. In June the bank launched a novel consumer credit campaign that has financial advantages, a 25%-discount on comprehensive risk insurance policies and a 2-year subscription to Auto Club Repsol at no charge. In the first month it generated 12% more sales than June 2003.

SME and Businesses Banking –with a network of 1,044 branches and 1,866 specialists– recorded year-on-year lending growth of 18.3%. Leasing volumes during the half year increased by 29% and renting, factoring and confirming by 40%. In addition, the BBVA Group increased its market share of placement of the *ICO-PYMES 2004* credit line by 410 basis points to a total of 23.9%. This entailed 12,333 operations worth 716 million euros. In the businesses segment new lines have been started, such as medium and long-term fixed-rate loans for capital expenditure and leasing and promotion of renting. The mobile POS terminal was used in campaigns to win new customers.

In regard to fund-gathering activities, attention is drawn to the relaunch of mutual funds, traditional savings campaigns and improvements to the range of insurance policies.

With regard to mutual funds and as already mentioned above, BBVA Gestión was the best manager in the first half in terms of performance, achieving its target of increasing market share. It launched two new types of guaranteed funds: these were the *Planes Renta* (that allow you to invest safely over the medium term with a financial-fiscal return that is higher than the alternatives) and equity funds such as *Triple Óptimo* and the recent *4-100 Ibex* fund (with greater expectations of returns linked to equities). With this the Group has reinforced its leadership in the guaranteed fund segment. Moreover, marketing has been enhanced through the use of a new guidance tool known as the *profiler*. This allows investment solutions (baskets of funds) to be matched to the customer's risk profile. Thanks to their success, the value of mutual funds managed by BBVA in Spain rose to 40.34 billion euros – a year-on-year increase of 18.0% (against 13.8% for the entire banking system). Assets of the real estate fund rose to 859 million euros. This was 94.5% more than at 30-Jun-03. It produces steady returns of 8.3%, which is 157 basis points higher than the sector average. Lastly, BBVA continues to be the leader in terms of net fee income average. The rate stands at 1.376%, which is 11 basis points higher than the average fee income of the large management firms.

Pension funds under management in Spain recorded year-on-year growth of 10.5%, rising to 12.55 billion euros (15.1% growth in individual plans and 5.8% in employer pension schemes). Thus BBVA strengthened its leadership in pensions

with a market share of 20.0% – based on the latest figures (March 2004). It outperformed the market in individual plans and it continues to lead in employer pension schemes. BBVA won the competitions for the Barcelona Town Hall and Frudesa. In July it competed with the main Spanish firms to win management and custody of the pension plan for employees of the central government with 530,000 participants and an initial amount of 55 million euros.

Private banking now handles 13.13 billion euros of assets. This is 8.4% more than at the end of 2003. Of this amount, 7.05 billion is handled by BBVA Patrimonios (11.5% more than at 31-Dec-03) after net contributions of 639 million euros. Apart from the resources transferred to BBVA Patrimonios, the Personal Banking unit manages 6.08 billion euros directly.

The sharp increase in activity carried over to the income statement of the asset management and private banking unit. Year-on-year it increased attributable net income by 31.5% to the 58 million euros mentioned above – boosted by net fee income (up 18.1%) and cost cutting (costs were down by 7.4%). Total assets under management by the unit came to 64 billion euros, growing 16.4% over 30-Jun-03.

In the insurance business, BBVA Seguros achieved 102 million euros in earnings before taxes. This was 17.4% more than in the first half of 2003. During the quarter single-premium policies were launched for mortgages, the *Vida 15* policy was reformed, life and household policies were adjusted to return part of the premium as a no-claims bonus, specific products were marketed to independent professionals and company managers and lastly, a product was launched specifically for the businesses segment.

Special Finance Services recorded an increase in lending of 16.5% compared to 30-Jun-03. Total lending rose to 2,838 million euros with significant increases in all products: 52% in car finance, 21% in equipment and 31% in equipment renting. In vehicle renting, sales climbed 131% to 5,808 units. During the first half Uno-e obtained operating profit of 8 million euros and net income before tax of 5 million euros (against a loss of 11 million euros in the first half of 2003). In the immigrant remittance business, Dinero Express tripled the activity during the half year to 36,000 transfers worth 10.4 million euros.

BBVA Portugal also closed the first half with gains in its market share of lending (up by 10 basis points) and mutual funds (up 24 basis points). Mortgage loans increased by 39% –reflecting the marketing success of *Easy Mortgage*– and mutual funds increased 25.4%. Operating profit grew by 31.3% thanks to net interest income (up by 2.6%), net fee income (up by 15.2%) and cost control (a 2.0% increase).