

# Wholesale and Investment Banking

## INCOME STATEMENT

(MILLION EUROS)

	Wholesale and Investment Banking			Memorandum item:			
	1H04	Δ%	1H03	Wholesale Banking		Markets	
				1H04	Δ%	1H04	Δ%
<b>NET INTEREST INCOME</b>	399	14.7	348	249	(3.4)	91	76.7
Net fee income	110	21.3	91	80	16.7	32	33.6
<b>CORE REVENUES</b>	509	16.1	439	329	0.8	123	62.9
Net trading income	53	(19.6)	66	18	51.7	43	(4.3)
<b>ORDINARY REVENUES</b>	563	11.4	505	348	2.6	166	37.6
Personnel costs	(100)	4.0	(96)	(57)	(2.5)	(37)	14.0
General expenses	(49)	(5.2)	(51)	(24)	1.3	(22)	(11.4)
<b>GENERAL ADMINISTRATIVE EXPENSES</b>	(148)	0.8	(147)	(81)	(1.4)	(59)	3.0
Depreciation and amortization	(3)	(42.6)	(6)	(2)	(9.9)	(1)	(67.9)
Other operating income and expenses	(2)	(3.2)	(2)	(2)	-	-	-
<b>OPERATING PROFIT</b>	409	16.8	350	262	4.0	106	76.3
Net income (loss) from companies accounted for by the equity method	1	(93.9)	22	(3)	n.m.	-	-
Amortization of goodwill	(1)	(2.7)	(1)	-	-	-	-
Net income (loss) from Group transactions	63	n.m.	1	-	-	-	-
Net loan loss provisions	(96)	68.6	(57)	(84)	67.3	(10)	266.0
Net extraordinary income (loss)	6	n.m.	(3)	9	n.m.	(3)	(83.4)
<b>PRE-TAX PROFIT</b>	382	22.3	312	184	(9.7)	93	148.2
Corporate income tax	(89)	22.2	(73)	(56)	(6.6)	(22)	234.7
<b>NET PROFIT</b>	293	22.3	239	129	(11.0)	70	129.4
Minority interests	(16)	(23.2)	(21)	(11)	(27.7)	(3)	(2.8)
<b>NET ATTRIBUTABLE PROFIT</b>	277	26.7	218	118	(9.0)	67	144.7

## BALANCE SHEETS

(MILLION EUROS)

	30-06-04		30-06-03		30-06-04		30-06-04	
		Δ%				Δ%		Δ%
Total net lending	40,965	5.1	38,988	37,924	1.4	2,820	90.5	
Securities portfolio	35,857	33.9	26,777	3,571	(7.2)	30,642	39.5	
Liquid assets	50,686	39.5	36,329	6,249	(40.7)	44,248	73.2	
Inter-area positions	45,144	12.4	40,160	-	-	44,972	12.2	
Property and equipment and intangible assets	45	(5.8)	48	39	(4.0)	5	(20.9)	
Other assets	6,919	6.0	6,529	461	(1.6)	6,403	6.9	
<b>TOTAL ASSETS/LIABILITIES AND EQUITY</b>	179,616	20.7	148,831	48,244	(7.7)	129,090	35.8	
Deposits	55,176	18.2	46,684	17,075	(22.4)	38,100	54.6	
Debt securities	6,156	(6.3)	6,568	6,156	(6.3)	-	-	
Equity	3,857	5.4	3,659	2,267	(1.5)	807	28.5	
• Shareholders' funds	2,265	5.7	2,143	1,210	(1.6)	480	28.4	
• Other eligible funds	1,592	5.0	1,516	1,057	(1.4)	326	28.5	
Liquid liabilities	81,265	47.8	54,967	6,592	5.4	74,163	52.2	
Inter-area positions	24,905	(14.2)	29,039	14,692	6.2	9,383	(36.1)	
Other liabilities	8,258	4.3	7,914	1,462	9.4	6,637	3.4	
<b>OTHER CUSTOMER FUNDS MANAGED</b>								
• Mutual funds	760	(0.3)	763	751	(1.6)	10	n.m.	
• Pension funds	2	7.5	2	2	7.5	-	-	
• Customer portfolios	4,093	8.9	3,759	4,093	8.9	-	-	

## SIGNIFICANT RATIOS

(PERCENTAGE)

	30-06-04		30-06-03		30-06-04		30-06-04	
ROE	25.4		22.0	19.8		31.2		
Efficiency ratio	26.4		29.2	23.4		35.3		
NPL ratio (Nonperforming assets/Total risks)	0.30		0.61	0.33		-		
Coverage ratio	410.8		198.3	380.8		-		

Wholesale and Investment Banking comprises the domestic and international global corporate banking units, institutional banking and the global markets and distribution unit, including the trading rooms in Europe and in New York, equities and bond distribution and the depository and custodial services. This area also includes the business and real estate projects unit and global transaction services.

Lending is currently 40.96 billion euros and is growing at 5.1% annually (3.2% on averages balances). This is a considerable improvement on the figure of 1.8% recorded at the end of March. Institutional banking put in the best performance with an increase of 10.4%. Asset quality also continues to improve as shown by the non-performing loan ratio of 0.30%, comparing favourably to 0.61% at 30-Jun-03, while coverage has climbed to 410.8% from the figure of 198.3% a year earlier. Deposits and off-balance sheet funds in this area increased by 3.4% (4.8% on average balances) over the figure for 30-Jun-03, which was exceptionally high.

With regard to earnings, all the main items on the income statement in the second quarter reflect excellent developments. Attributable net income rose to 166 million euros – double the figure for the same period last year and the highest obtained by this area in the last three years. Ordinary revenues grew 22.5% over the second quarter of 2003, due to two factors. These were the growth in net interest income (up by 22.4% due to dividends from the portfolio of business and real estate holdings and due to defensive pricing strategies) and fee income (up by 28.7%) in both wholesale and markets activities. These factors, aided by strict cost control (costs fell by 3.6%), boosted operating profit to 216 million euros. This was also the highest figure in the last three years and 36.3% higher than the same period a year earlier. Pre-tax profit came to 226 million euros (up by 88.5%) after setting aside 12 million euros more than in the second quarter of 2003 (an increase of 30.8%) for generic and statistical provisions. Earnings were also helped by better results on group transactions.

Thus all the main lines on the income statement in the first half are improving faster in year-on-year terms than in the first quarter. Attributable net income for the area in the first half comes to 277 million euros. This is an improvement of 26.7% year-on-year and all margins increased significantly. The cost/income ratio stands at

26.4%, having improved by close to 3 percentage points from the figure of 29.2% in the first half of 2003. This was due to an increase in ordinary revenues (up 11.4%) and to control of general expenses (up by only 0.8%). Operating profit grew by 16.8% to 409 million euros.

Wholesale Banking, which includes global corporate banking and institutional banking, achieved operating profits of 262 million euros in the first half. This was 4.0% higher than the same period of 2003. However attributable net income fell by 9.0% to 118 million euros –affected by the 67.3% increase in net loan provisioning due mainly to the higher generic and statistical reserves mentioned above derived from the increase of contingent liabilities. This was in contrast to a write-back in the first half of 2003.

Despite slack demand in the loan market, global corporate banking performed well based on an increase in guarantee operations and back-up lines, based on defensive pricing and on a year-on-year increase of 14.7% in fee income. Operating profit for the half year came to 175 million euros –a similar level compared to the previous year. The above mentioned higher provisions meant that the attributable net income amounted to 64 million euros.

Lending operations led by BBVA in the second quarter included syndicated loans of 4.5 billion euros to Auna Operadores de Telecomunicaciones, 10 billion euros to France Telecom and a 5-year syndicated credit line of 3 billion euros to finance Telefónica's purchase of BellSouth's assets in Latin America.

Bond origination services included a 10-year Kingdom of Spain issue of 5 billion euros and the placement of a 150-million euro issue for Corporación Andina de Fomento (CAF). BBVA also managed the second issue of 1 billion euros in territorial warrants with a 5-year term for Banco de Crédito Local.

A consulting assignment from the Renault Group for a 173-million euro real estate operation with technical support from BBVA Inmobiliaria, was a particularly relevant operation in the area of corporate finance.

Institutional banking closed the first half with attributable net income of 54 million euros – 22.7% higher than the first half of 2003. BBVA continues to

enjoy a position of leadership in the public sector with a market share of more than 38% in lending to both banks and savings banks and nearly 17% in Treasury liquidity ex-auction funds (based on the latest available data). The half-year results echoed the positive trend in volume (lending activities grew 10.4% with help from regional government and private institution lending, and customer funds grew by 7.5% –some 11.4% on average balances). The results also reflected the effort to maintain spreads as well as fee income and cost control. The cost/income ratio therefore improved by 4.8 points over the first half of 2003, to 18.8%. Operating profit increased 17.3%.

In the second quarter institutional banking renewed important agreements with the central government (banking services for the State Port Authority, MUGEJU and payment of salaries for FROM, for the State Vehicle Agency and for the Ministry of Justice). The bank successfully bid for contracts such as the IT Centre banking services for the Madrid Town Hall, custodial and payment collection services for the Madrid Regional Government and financial services for the Spanish Federation of Municipalities and Provinces.

BBVA also continued to strengthen its position among the different European organisations on the Iberian peninsula. It renewed its appointment as the custodian bank of the European Commission in Spain and in Portugal it was selected as custodian bank for the accounts of the European Organisation for the Safety of Air Navigation (Eurocontrol).

In the second quarter the global markets and distribution unit achieved its best income figures in three years thanks to particularly good earnings on interest rate management (in respect of both the proprietary and customers' positions). Growth in the securities business, supported by better volume and quality of customer transactions, also contributed to the income figure. Thus in the first half of 2004 this unit achieved operating profit of 106 million euros and attributable net income of 67 million euros with year-on-year increases of 76.3% and 144.7%, respectively.

Sales of dynamically-managed products, with capital guaranteed on expiry and returns linked to the performance of various international hedge funds, grew during the first half. In June, 80 BBVA warrants were listed and the monthly market share reached a record 13.6%. Furthermore in the second quarter BBVA participated in the flotation of FADESA as overall co-ordinator of the issue and manager of the retail tranche.

BBVA also continued to strengthen its leadership in the electronic continuous market (Spanish Stock Exchange) which it achieved at the beginning of the year, with a cumulative market share of 11.6% in June.

In regard to global transaction services, BBVA Factoring reinforced its leadership in the first quarter when its market share increased to 35.3% according to figures for 31st March 2004 released recently by the Spanish Factoring Association.

Attributable net income of the business and real estate projects unit in the first half came to 105 million euros –an increase of 68.6% year-on-year. This unit is currently handling a portfolio of 114 investments with a book value of 910 million euros. There are latent capital gains of 848 million euros. The portfolio is widely diversified and includes the real estate sector with 39.4% of book value and market services with 27.8%.

In line with the portfolio rotation plan, some 200 million euros were divested in the quarter. This included a 5% stake in Acerinox which generated capital gains of 36 million euros and a series of real estate plots with services installed. In addition 80 million euros were set aside for new investments.

In the second quarter a new strategy was rolled out for real estate projects. This takes the form of a new brand –*Anida*– and a strategic plan to make this one of the top three firms in the sector in terms of profit, yield and efficiency. The business plan focuses on land development (75%) and residential development (25%) with average annual investments of 250 million euros in the first two years.