

BBVA

BBVA: Delivering profitable growth

MERRILL LYNCH

European Banking & Insurance Conference

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- **Overview**

- Confirming the prospects of organic growth in 2004
- Focussed and profitable non-organic growth
- Conclusions

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 focussed in delivering growth

In 2003, BBVA completed its internal transformation ...

Corporate
Governance

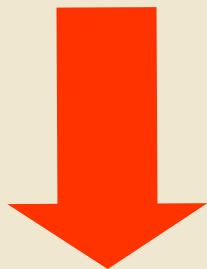
Organisational
structure

Management
Team

Corporate
Culture

... and Group performance already improved with EPS increasing 29,5%

Last year at the Merrill Lynch conference ...



**BBVA:
Ready to
grow**

...and now



**BBVA:
Delivering
profitable
growth**

In 2004, the Group has delivered profitable growth projects

Organic growth

- Driver of 2004 growth
- 1H04: high cruising speed in activity and earnings
- ... In all business areas

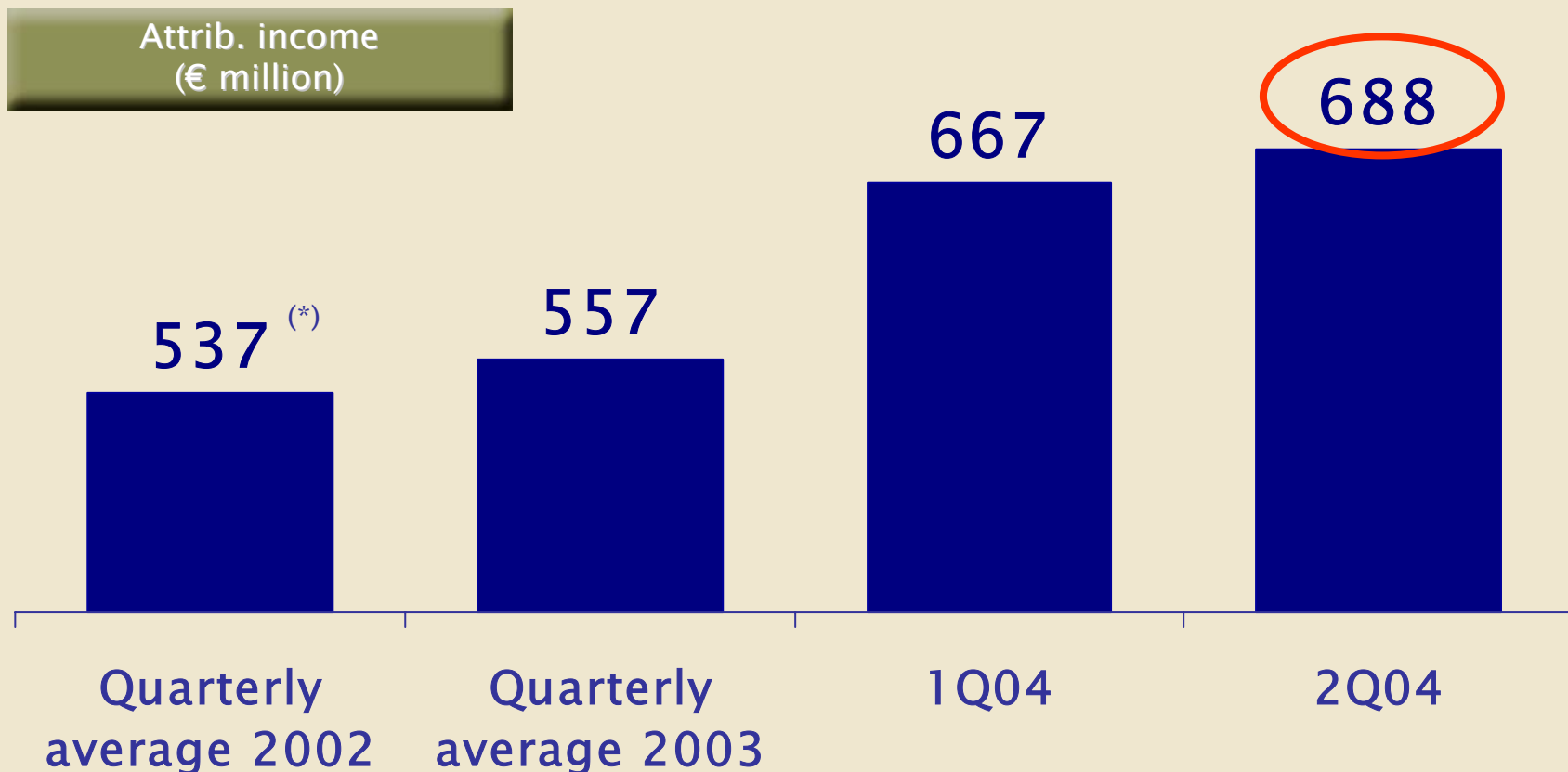
Non-organic growth

- Businesses and markets with high growth potential
- Mexico and USA
- Strategic fit and value creation

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2Q04 confirms the forecasted cruising speed



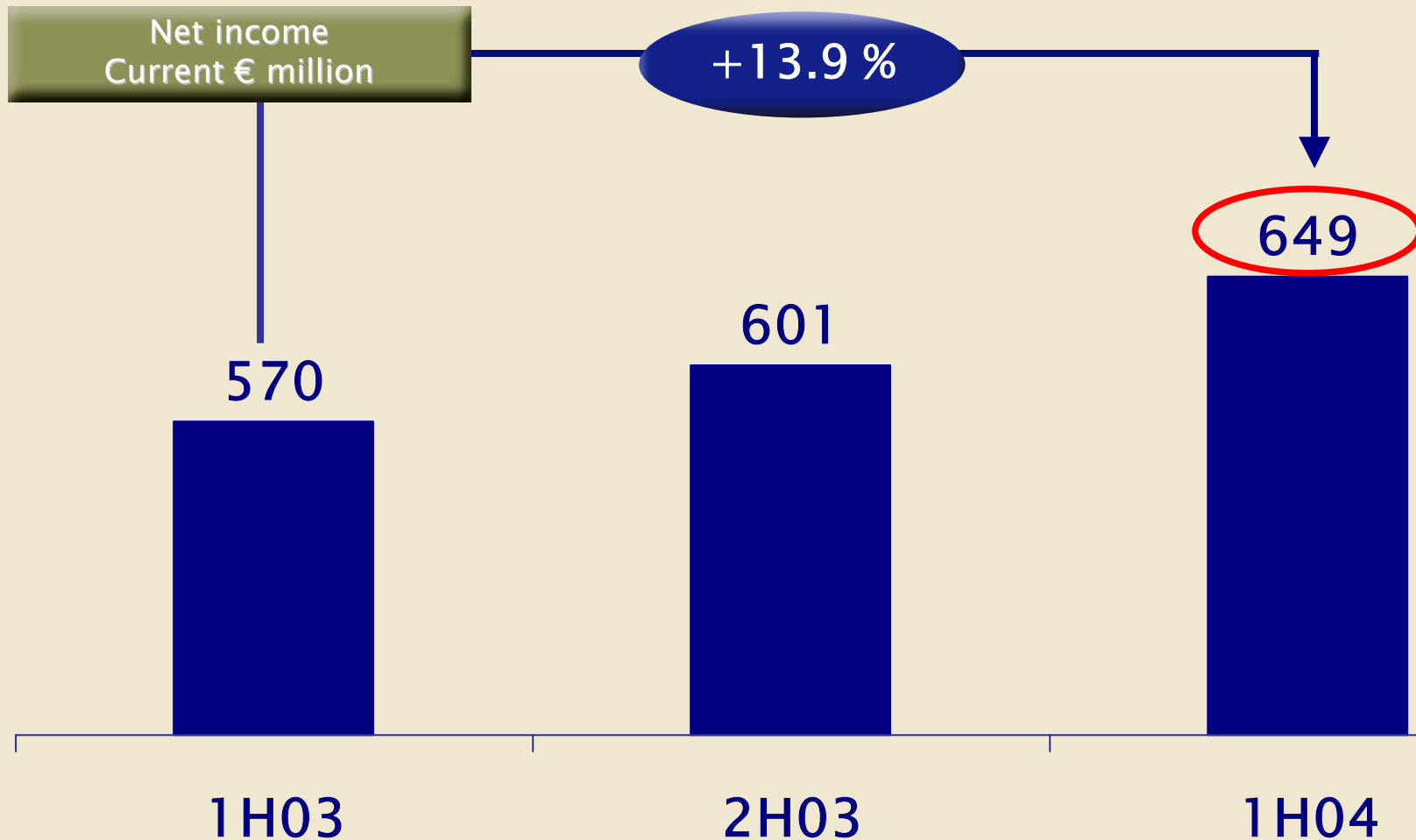
(*) Before extraordinary provisioning in Dec-02: €427 mill

Boosted by operating profit that grew 10.2% in 2Q04

...with positive growth of recurrent results in domestic businesses...

Domestic Businesses (€ million)	1H03	1H04	Chg %
Net interest income	1,890	2,052	+8.6
Core revenues	2,647	2,863	+8.2
Ordinary revenues	2,860	3,079	+7.7
Operating Profit	1,277	1,496	+17.2

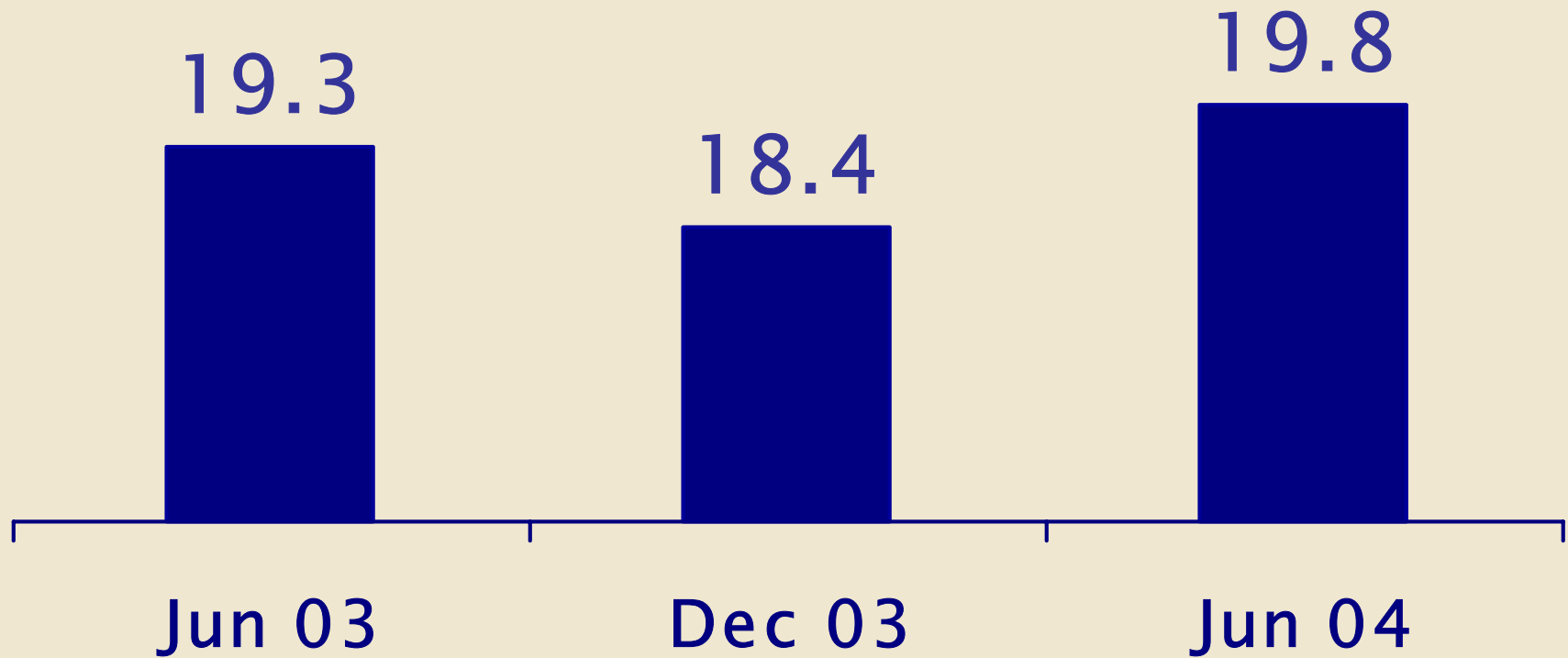
... whilst net profit from the Americas reached new heights



...despite a devaluation of 12.3% in currencies

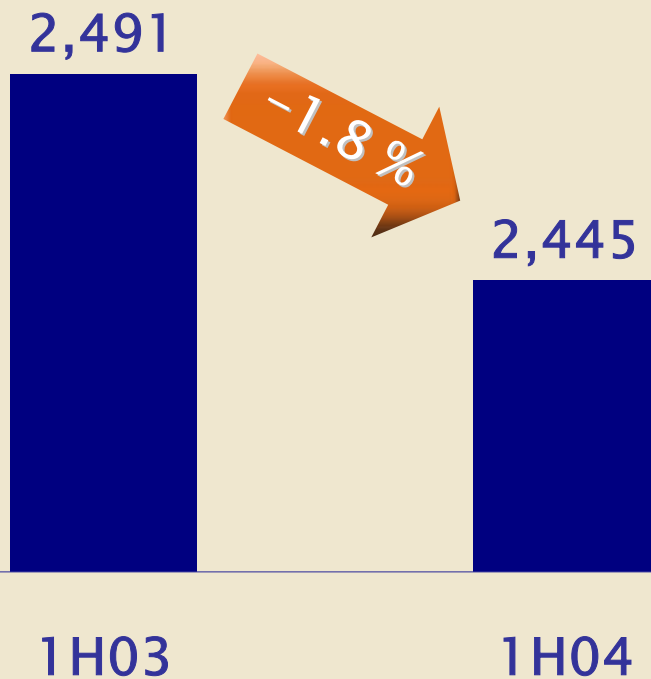
Leading to further progression in profitability

ROE (%)

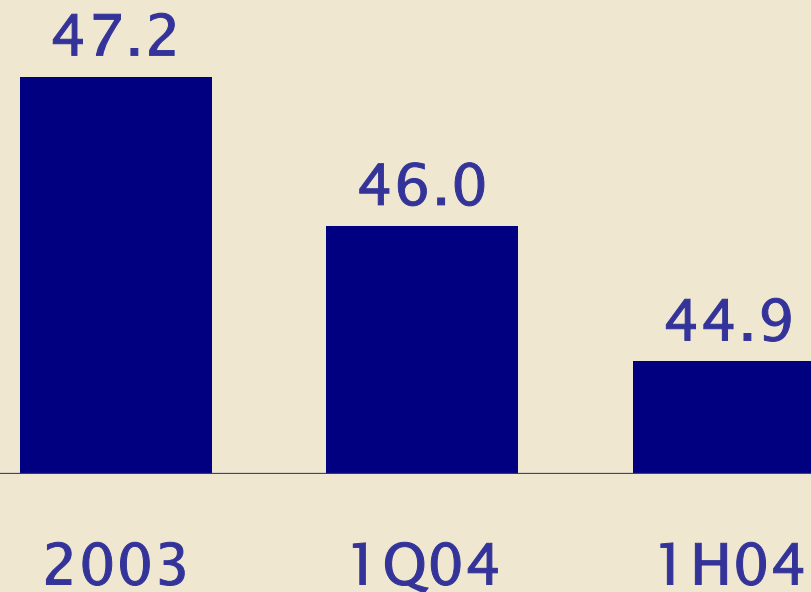


Group's efficiency continues to improve

Personnel + General Expenses
(€ million)

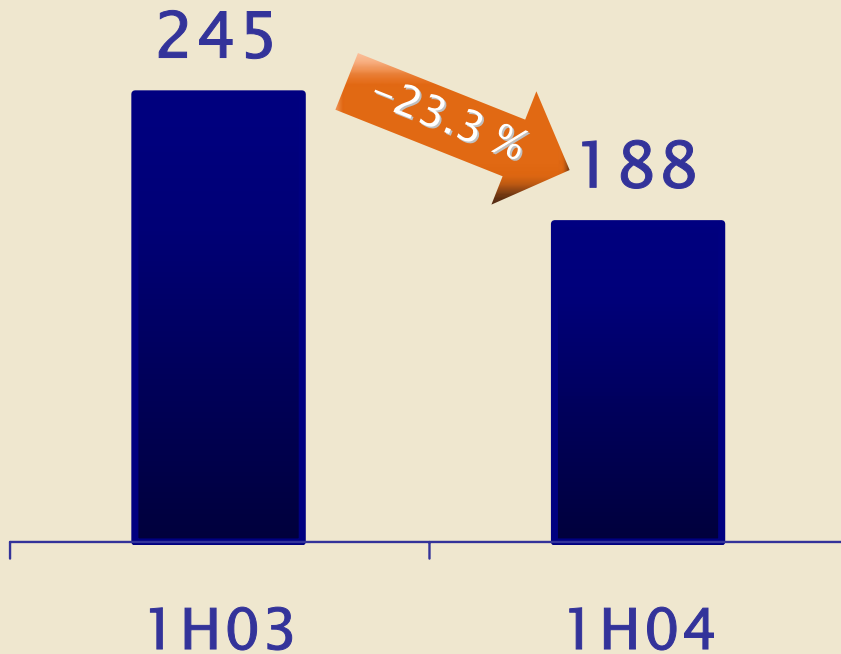


Cost-income ratio
(%)

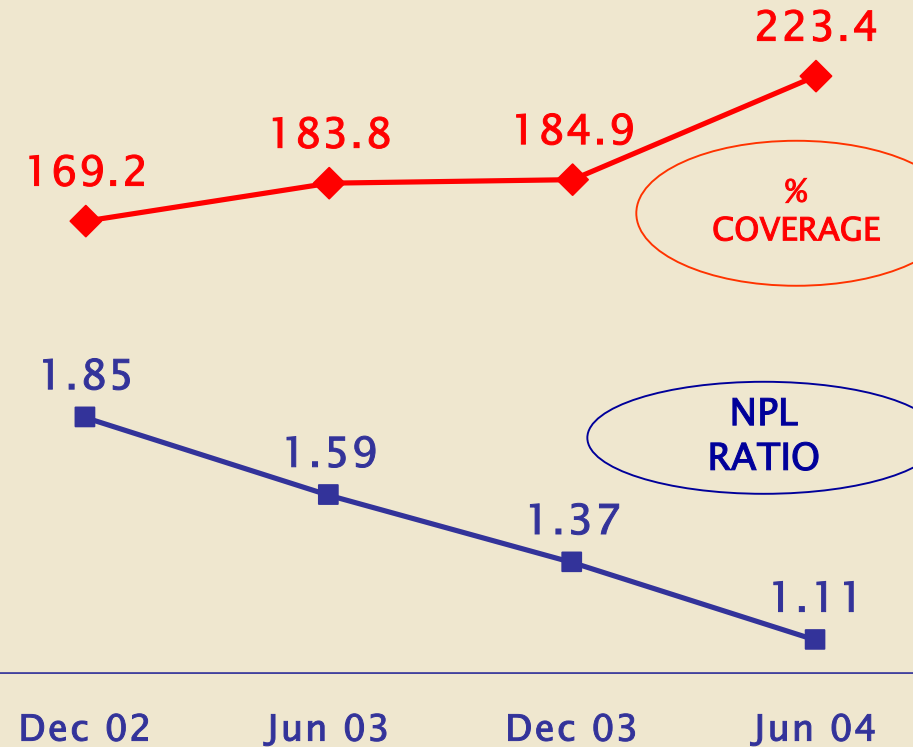


Outstanding asset quality and coverage ratios

Net entries to NPLs
(€ million)

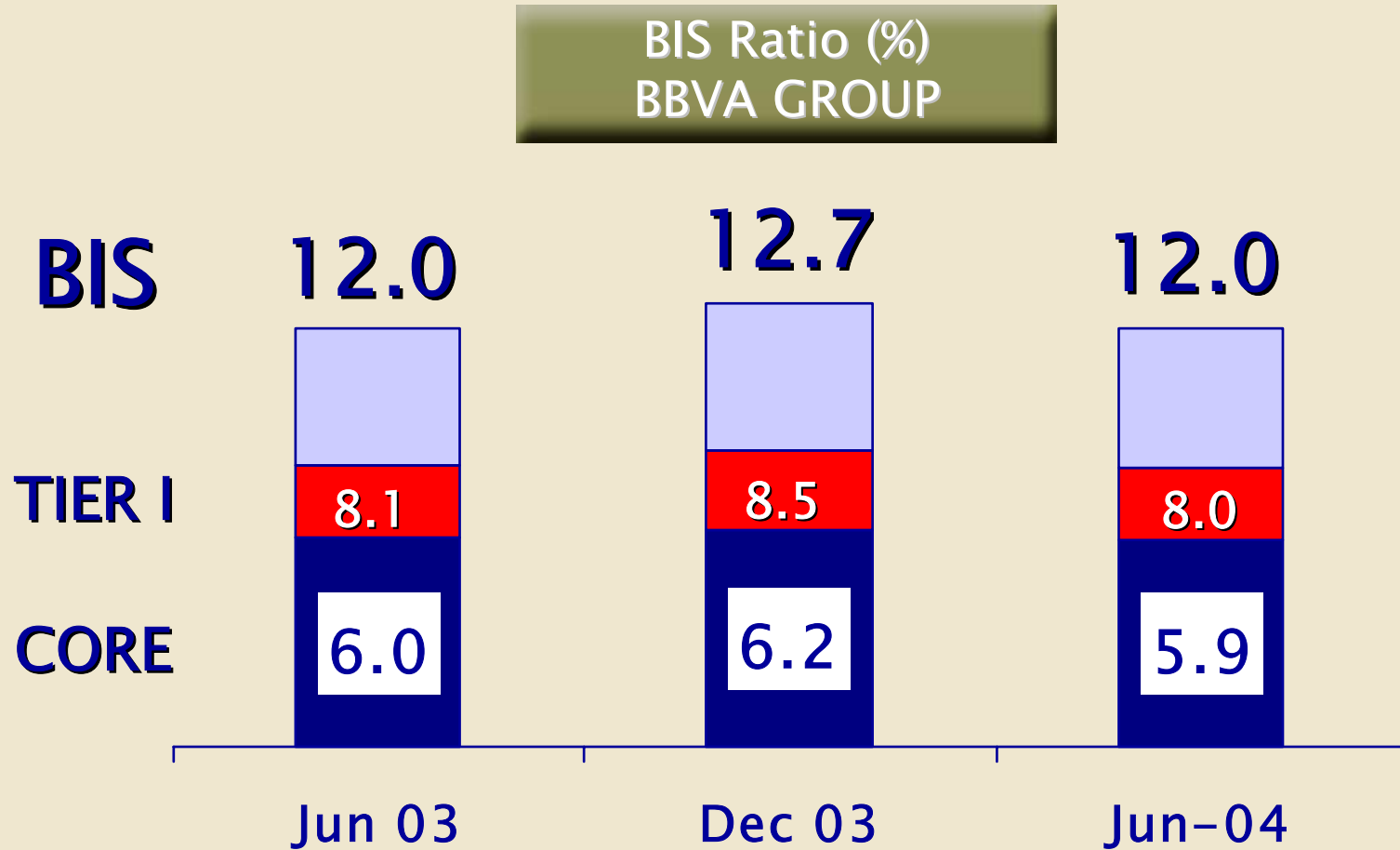


NPL ratio and coverage (%)



Non-specific provisions in the first half:
€326 million (63% of the total)

Continuing high levels of solvency



...neutralizing the Bancomer transaction

The drivers of results

1

Retail Banking: sustained growth of activity carries over to earnings

2

Excellent earnings in Wholesale & Investment Banking

3

Further improvements in the Latin American results

1

Retail Banking: a marketing offensive . . .

...driven by innovation and anticipation

Jun-Jul 03

Mortgage and SMEs solutions

Sep-Nov 03

Fondo Extra 5 / Pension solutions

January 04

Easy Mortgage

Feb - Mar 04

Óptimo and *Rentas* Funds

April 04

Credit card *Tarjeta diez*

June 04

Fondo 4-100 Ibex

September 04

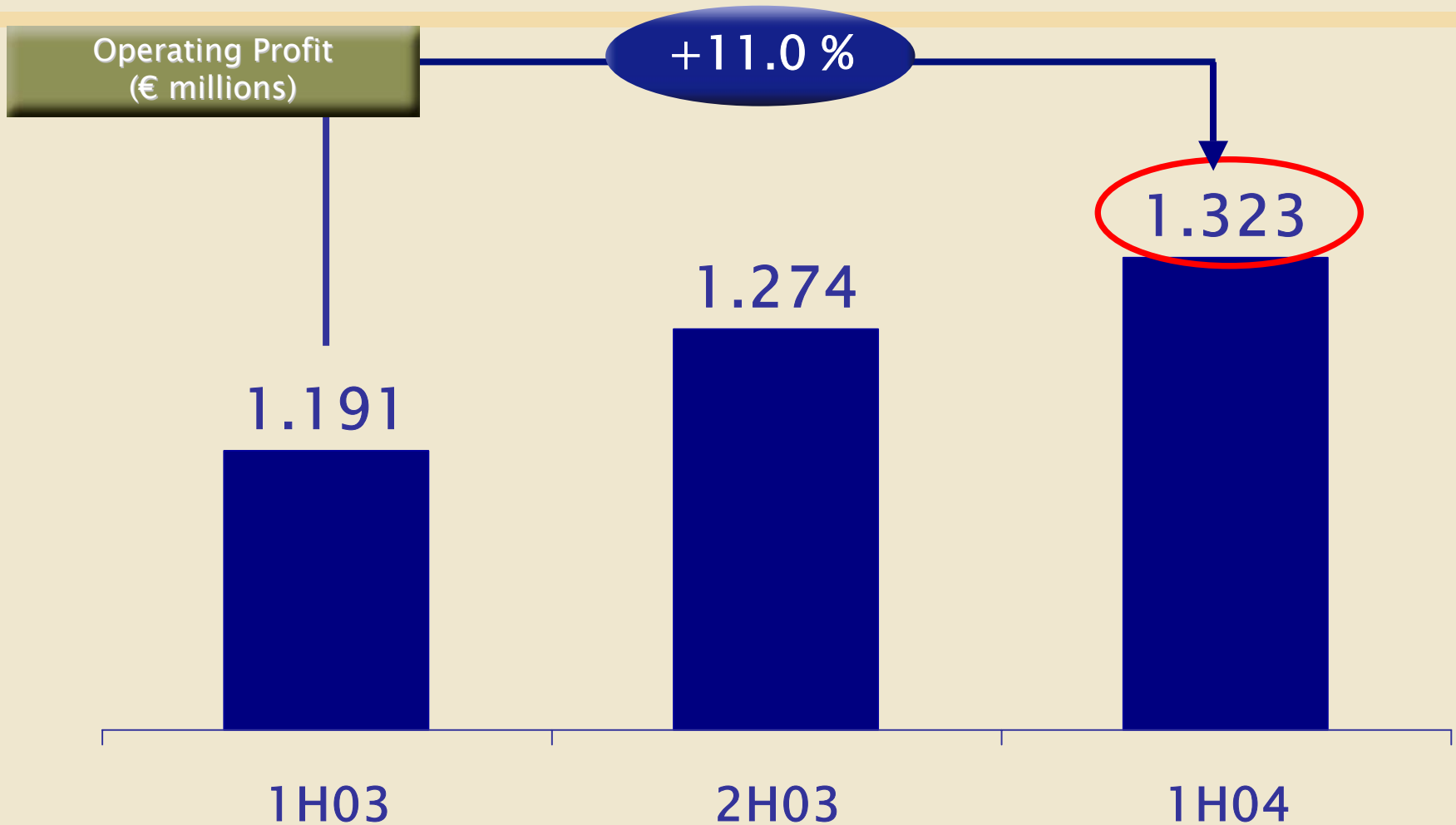
Mixed index link deposit

... that is contributing to boosting business activity



Acceleration in all segments: mortgage for individuals +23%, small businesses +19% and mutual funds +20%

... All this leads to notable growth in earnings



... with growth of 13.7% in attrib. net income during the half year

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

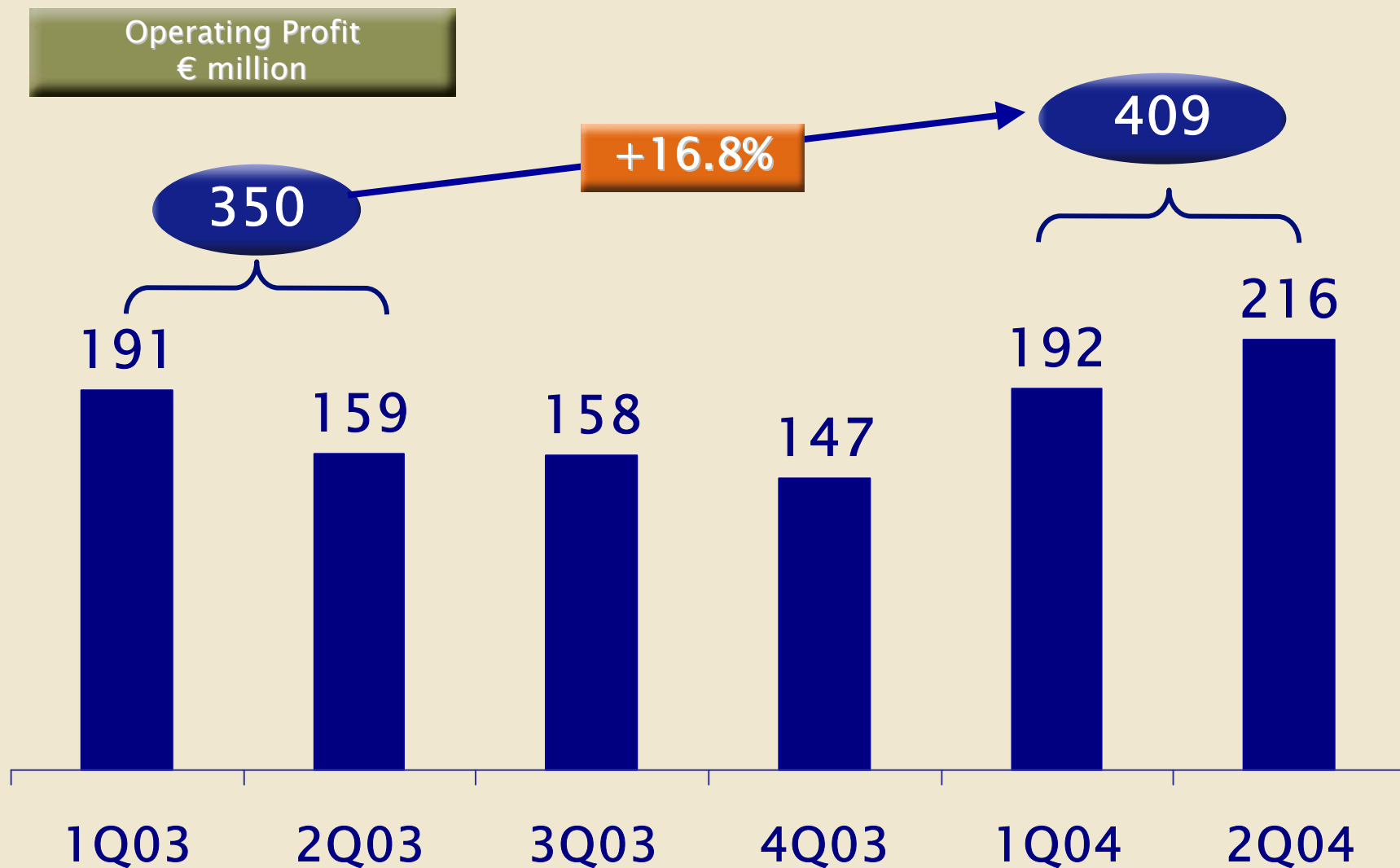
Focus on SME's and businesses
(one in three of all Spanish SMEs are BBVA customers)
Cross-selling

Special Financial Services

Internet banking & Consumer finance
Profitability and convenience

A steady growth potential for financial services in Spain

Excellent earnings in Wholesale and Investment Banking



BBVA: the leading player in Spain

The global relationship model

Corporate Banking

97% of large corporates are BBVA customers

Institutional Banking

35% market share in lending to the public sector

The franchise model

Global Markets and Distribution

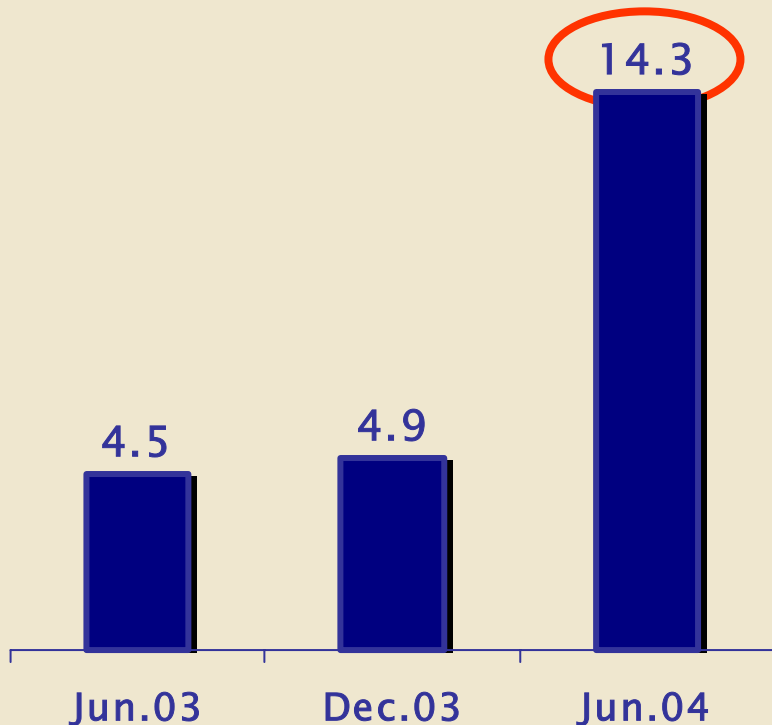
Leadership in Spain and expansion in Latin America

3

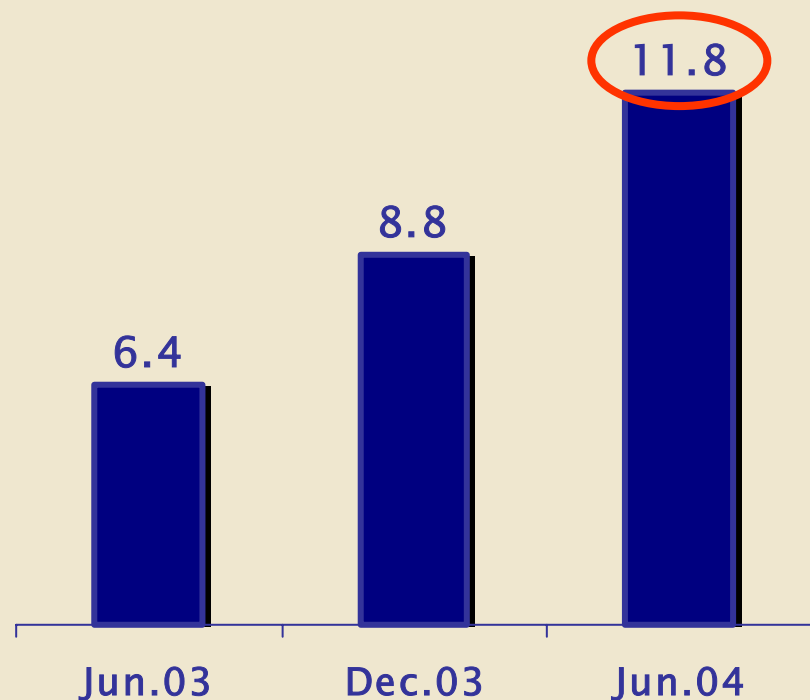
The Americas show accelerating growth of activity

Average balances
Constant €

Lending
YoY change(%)



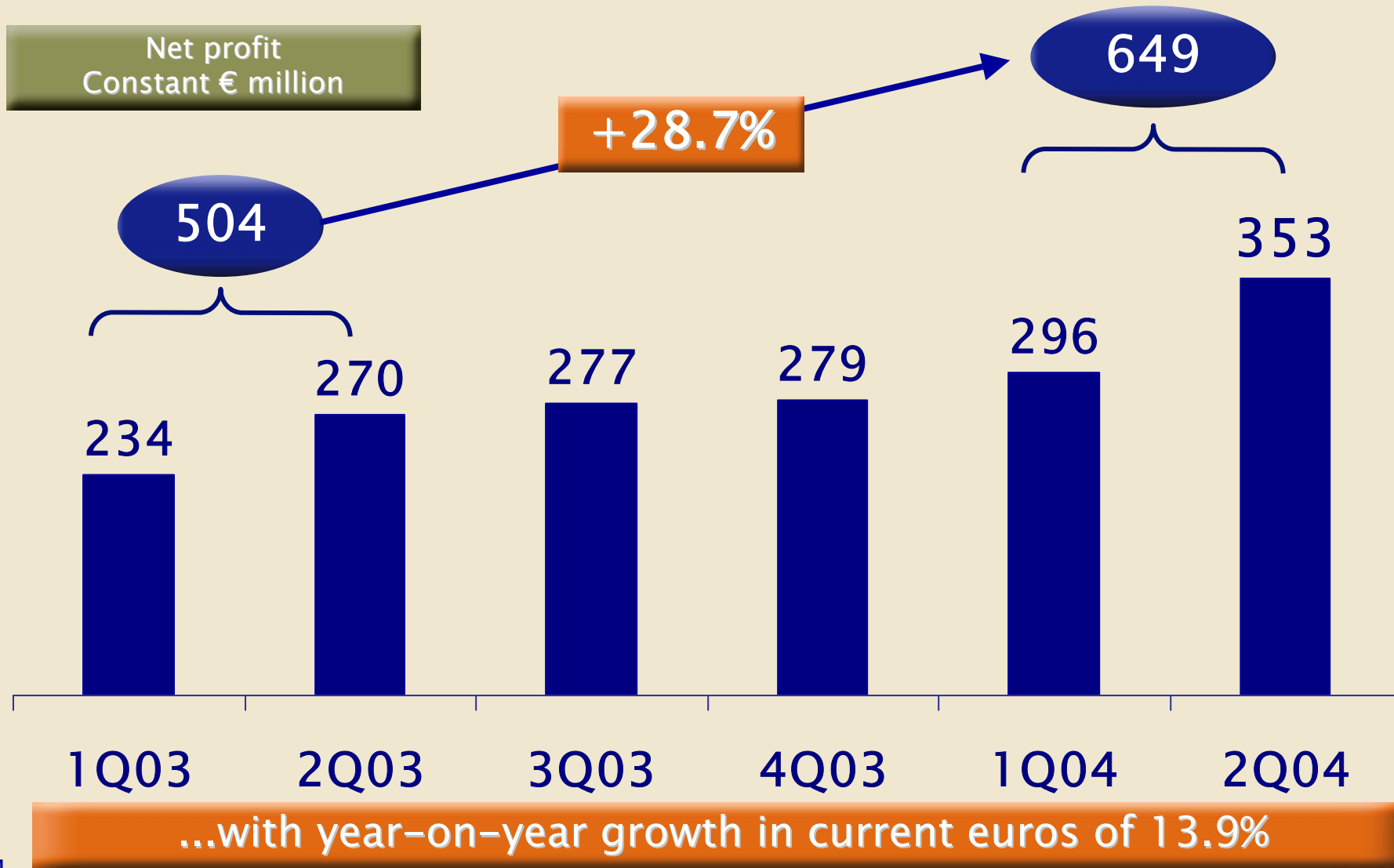
Customer funds
YoY change(%)



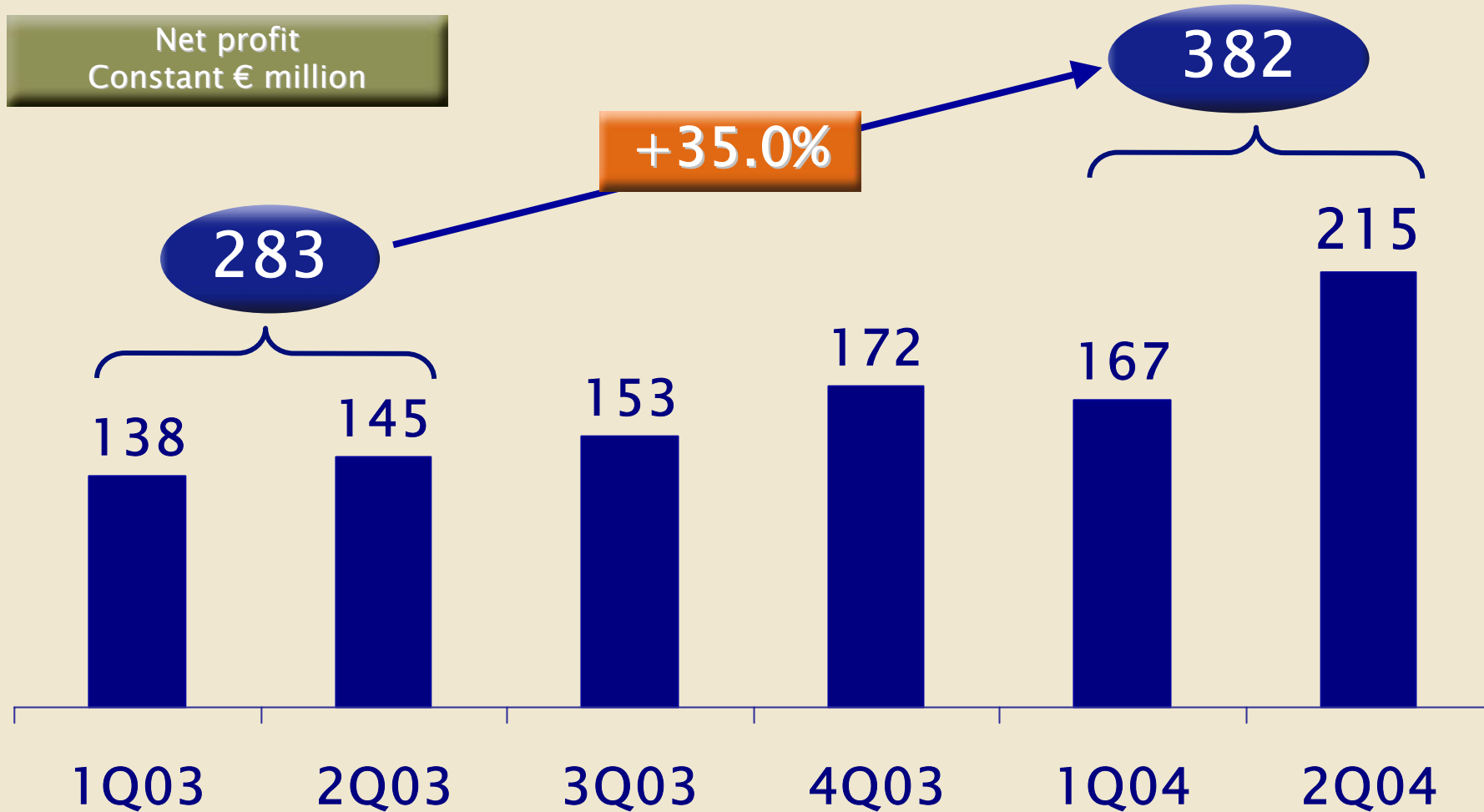
Lending growth in investment-grade countries: +18.0%

Growth in current and savings a/cs. +23.2%

... that is feeding through to net profits



... and new record highs in BBVA Bancomer profits



...with year-on-year growth in current euros of 15.5%
and 77.7% in net attributable profit

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Positioning in businesses and markets with high growth potential

1

Acquisition of
BBVA Bancomer
minorities



Consolidating the leading
Mexican bank

2

Hipotecaria
nacional



Decisive step in the
Mexican mortgage business

3

Laredo National
Banc. & Valley
Bank



Entering a new and growing
market

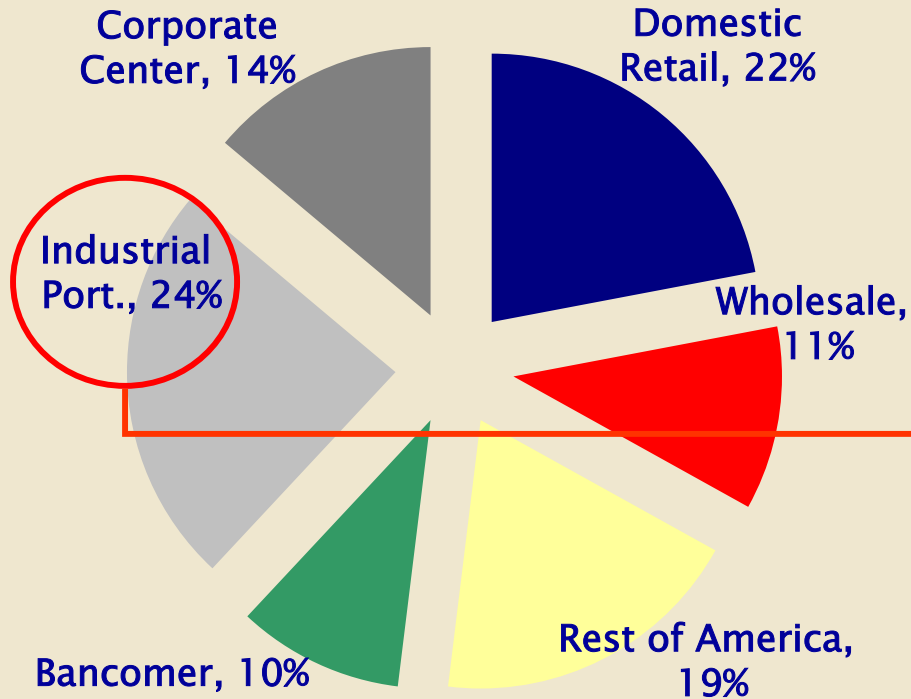
... And all transactions earnings accretive from first year

BBVA Group Cash EPS Impact ⁽¹⁾	2004E	2005E	2006E
Acquisition of BBVA Bancomer minorities ⁽²⁾	+5.2%	+6.1%	+6.9%
Hipotecaria Nacional	n.a.	+1.6%	+1.7%
Laredo National Bancshares	n.a.	+0.9%	+1.0%
Aggregate Cash EPS impact	+5.2%	+8.6%	+9.6%

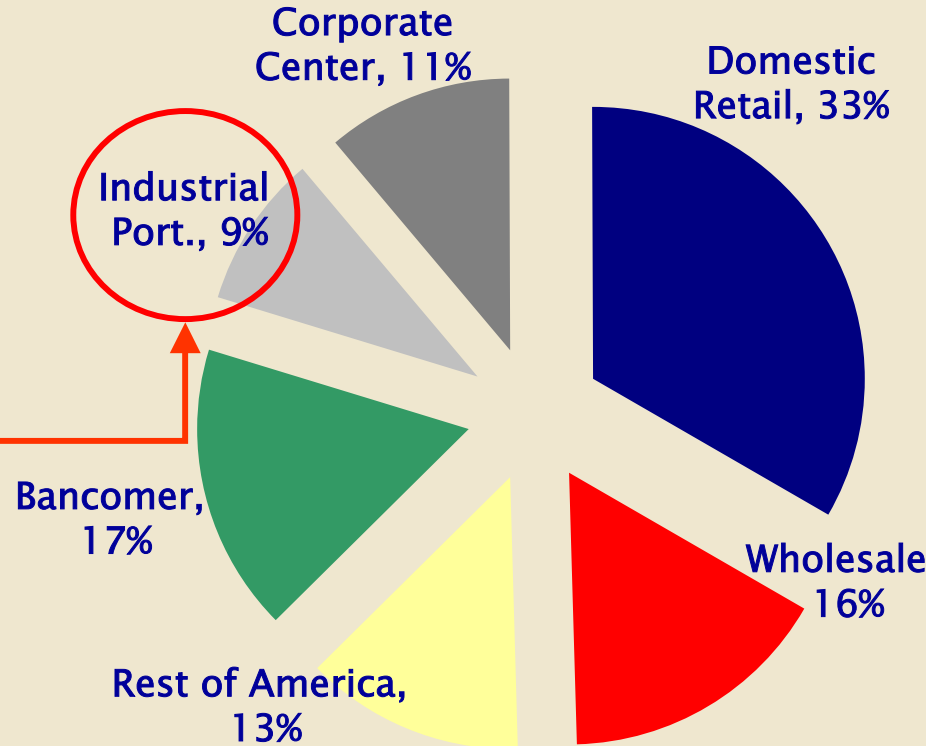
Adding €305 m to 2005E Group profit (cash basis)

Consistency in the strategy

Economic capital
2002



Economic capital
2004



Reallocation of capital from non core areas to strategic businesses

1

Acquisition of BBVA Bancomer minorities

Strategic fit

BBVA consolidates its position in Bancomer

- Leader in Mexico
- Greater management flexibility
- BBVA's risk profile not affected
- Growth potential

Value creation

EPS and cash EPS accretion from 1st year

- Appropriate timing → more profitable investments
- Favourable financing:
 - More efficient capital allocation
 - Positive tax effect
- Successful capital increase

BBVA Bancomer is the leading franchise in Mexico

Leader in banking business

and in non-banking business

Number 1

Market
share

- Loans:.....23.5%
- Customer Funds:..... 28.4%

Number 1

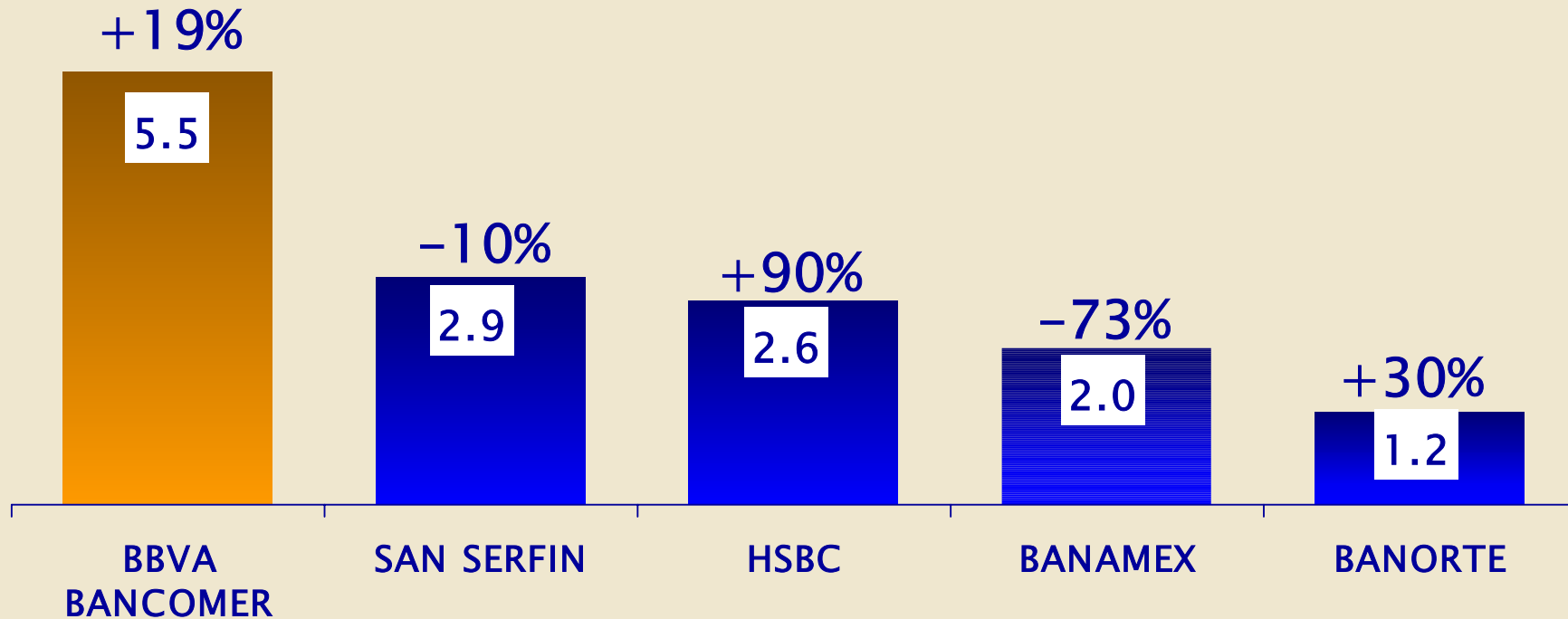
Market
Share

- Bancassurance.....33.3%
 - Annuities.....20.5%
 - Transfers.....39.1%
- ## Number 2
- AFORE.....20.6%

...and more than 9 million customers

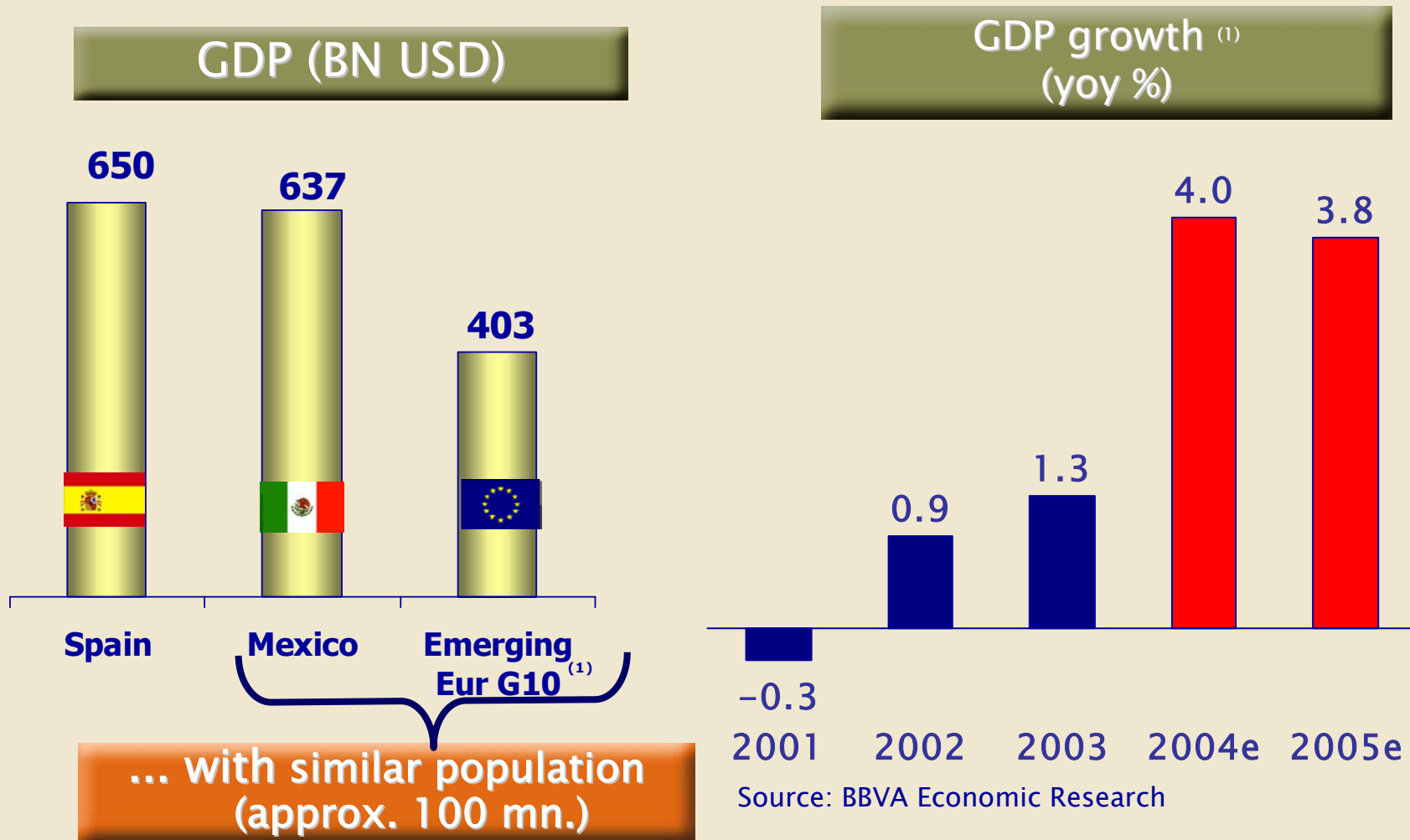
... with better results than peers

Profit before taxes 1H04 (Bn MXN)
and annual change (%)



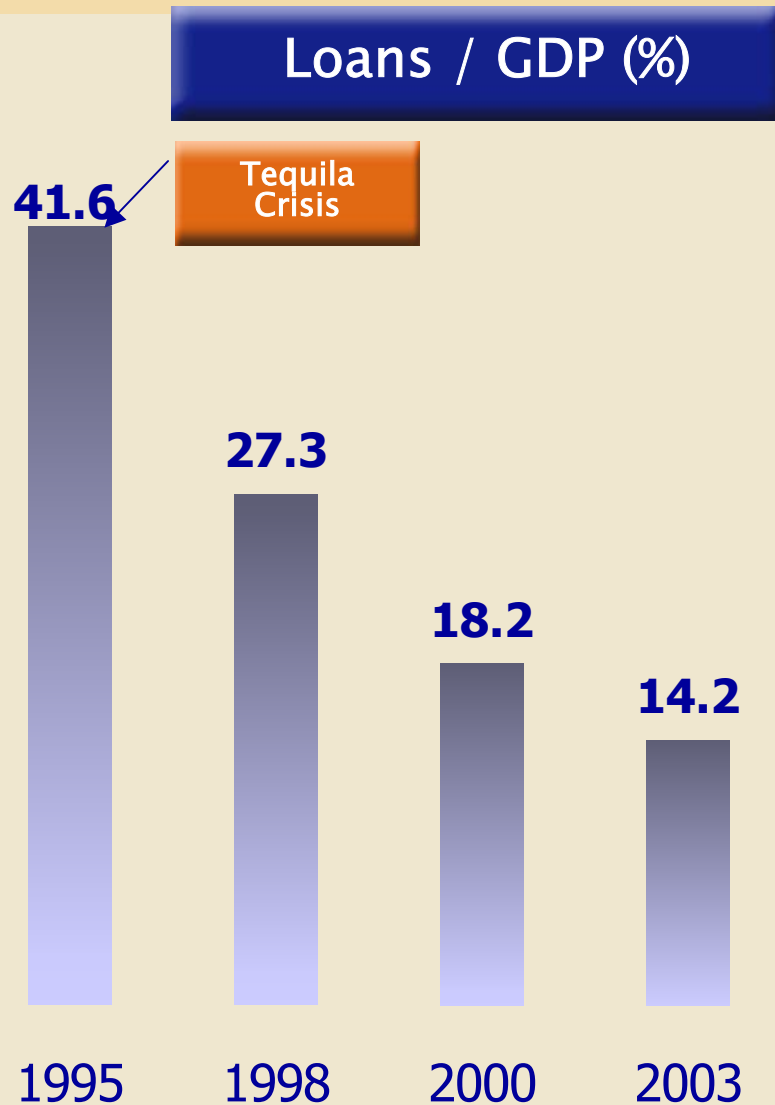
Source CNBV

Mexico: a sizeable economy entering a new growth phase



33 (1)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.

Credit penetration is low, offering high growth potential

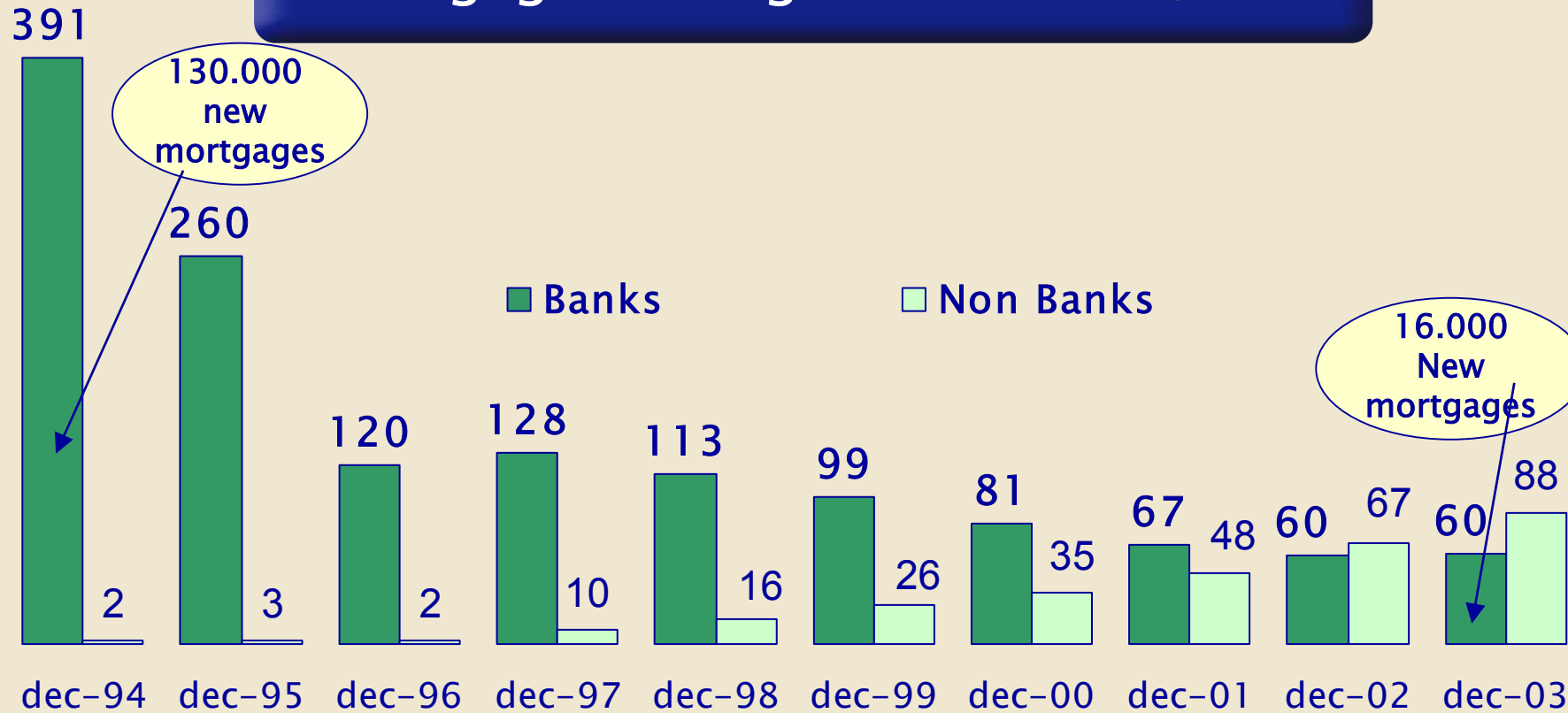


- Profitability of current 20 million banked clients
- Potential market – estimated at 30 million
- Integration of informal economy
- Stabilization of macro outlook for credit activity

2

Mortgage market: a great opportunity

Mortgage loans granted (bn constant pesos) (1)



The banks lost presence in the mortgage market in the aftermath of the “Tequila crisis”

Drivers for housing demand

- Positive demographic profile
- Unsatisfied demand (significant housing deficit)
- Increasing average income of Mexican households
- Improvement of the affordability ratio

Ample room to grow for the Mexican mortgage business

In this environment, BBVA Bancomer is creating a solid mortgage franchise...

1. An integral mortgage strategy



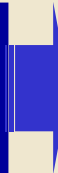
- Re-launch in April 2003
- Development of business model
- Segmented product offering, with attractive promotions and pricing

2. Entering the Public Market: *"Infonavit"*



- Innovative strategic alliance
- *"Apoyo Infonavit"* and co-financing Infonavit
- Targetting a new customer base, with potential for cross-selling

3. Private Market: non-organic approach



- Acquisition of the Sofol *"Hipotecaria Nacional"*
- Market leadership

Consolidating the position of the bank in all market segments

Hipotecaria Nacional (HN): leading Sofol by market share and profitability

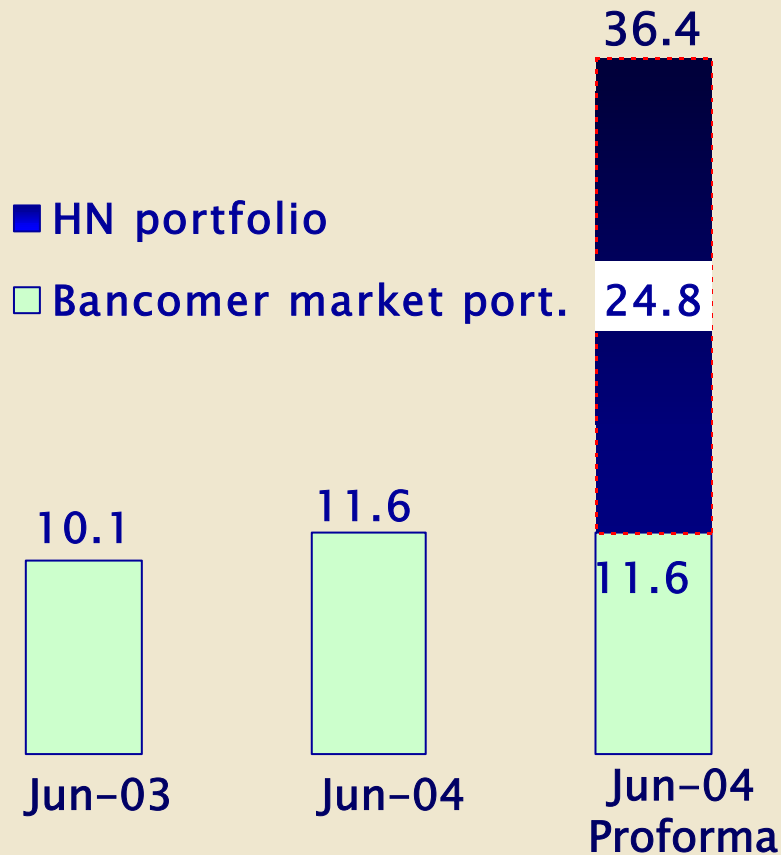
Largest Mexican mortgage SOFOL: 29% market share

- Mortgage loan portfolio: US \$2,100 m
- Shareholders funds (2Q 04): US \$ 170 m
- 2003 Net Profit: US \$48 m. (US \$60 m 2004E)
- ROE : 34%. ROA: 2.5%
- BBVA Group earnings accretive from initial year (EPS 05E +1.6%)

US\$ m	MORTGAGE SOFOLES / December 2003						
	Loans	M. Share	NPL ratio	NPL Cov.	Capital	Net profit	ROE
HIPOTECARIA NACIONAL	2,092	29.3%	1.11%	54%	142	48	34%
SU CASITA	1,234	17.3%	2.35%	50%	101	19	19%
CREDITO Y CASA	1,069	15.0%	2.05%	50%	69	10	15%
CREDITO INMOBILIARIO	656	9.0%	3.01%	40%	86	10	12%
METROFINANCIERA	425	6.0%	1.55%	50%	30	11	37%
PATRIMONIO	393	5.5%	2.23%	41%	29	10	35%

The acquisition of HN is a decisive step in the expansion of BBVA Bancomer mortgage business

BBVA Bancomer mortgage market portfolio (Bn Pesos)



- Bolting on a new distribution channel with a successful business model
- HN triples the current stock of market mortgages of BBVA Bancomer
- The combined market share stands at approximately 26% for the private market (1)
- Lower funding costs for HN

③ Opportunities to grow in the US Hispanic market for BBVA

A BFS and Valley Bank

- ▶ First approach to the “recently arrived”
- ▶ Money transfer services: remittances USA–Mexico
- ▶ Potential to offer easy banking products demanded by immigrants market

B Laredo National Bancshares

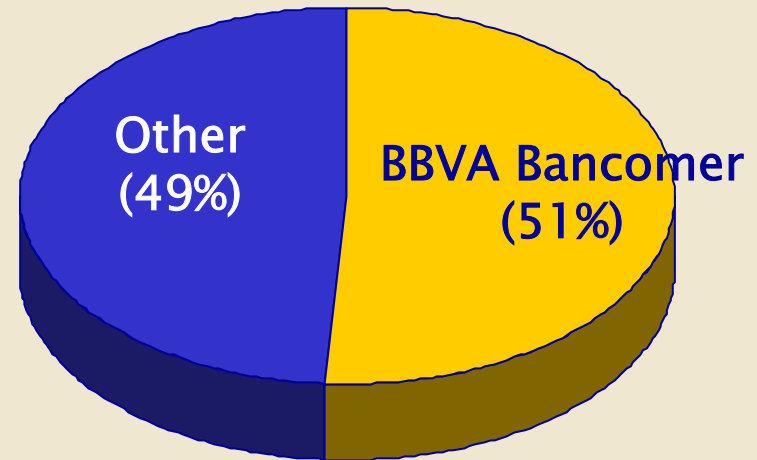
- ▶ Serving a growing Hispanic population (mainly Mexicans) in the U.S.
- ▶ Commercial banking activity: focus on individuals and SMEs
- ▶ Leading position in its core markets
- ▶ High asset gathering potential

Maintaining leadership

Hispanic market in USA

- ▶ Population: 37 million
- ▶ Population with earnings: 22 million
- ▶ Average earnings: \$22,000

Market share of electronic funds transfer

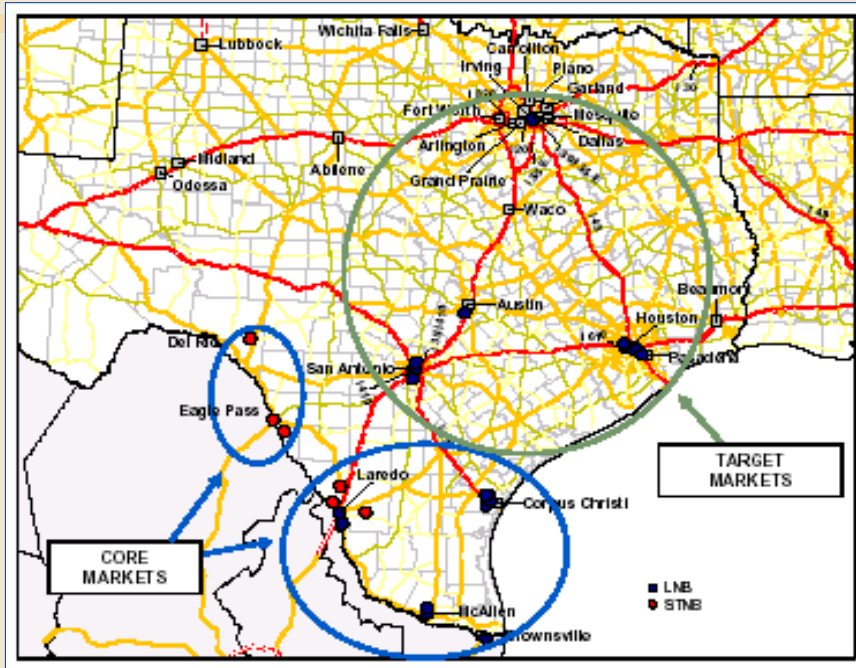


- ▶ Bancomer is the largest player in this business:
 - ▶ 15 million transactions in 2003 (+19% vs 2002)
 - ▶ \$ 6 bn 2003 (+17% vs 2002)

Laredo National Bancshares Overview

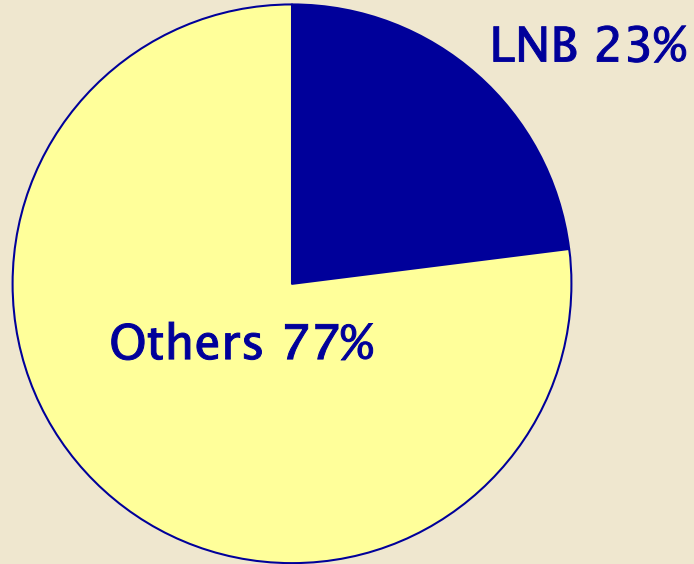
- Founded in 1892 and headquartered in Laredo (Texas), LNB is a financial group established in the US–Mexican border region and other selected Texas cities
- Bicultural and bilingual financial institution (over 97% of the company's staff is bilingual)
- Operates two banks: The Laredo National Bank (LN) and South Texas National Bank (STN)
- Other business lines include mainly Homeowners Loan Corp. (HLC), a mortgage origination company
- LNB serves approximately 110,000 customers, of which 85% are Hispanic
- Total assets of \$3.4 bn, loans of \$1.8 bn and deposits of \$2.8 bn as of March 2004
- 1,785 employees and 35 branches in Texas
- A focussed and profitable franchise: \$40Mn net profits in 2003 and ROE of 15%

A significant footprint in the core markets and main Texas cities



Branch Network
Core Markets : 23 Branches
Target Markets: 12 Branches
2004 Expansion: 12 Branches

Core Markets Share (1) (%)



LNB is the leader in a high growth region, with potential to expand in adjacent regions leveraging on its ability to service the needs of the Hispanic population

43 (1) Core markets includes main "Border Region" cities: Brownsville, Del Rio, Eagle Pass, Laredo and McAllen

Very attractive demographic prospects

- Hispanics are the fastest growing demographic in the US, representing 13% of the US population
- Total population in LNB's footprint is 13 million and it is expected to grow to 15 million by 2008
- The concentration of Hispanics in LNB's footprint is 34% vs. 13% in the U.S.
- Household income in LNB market is expected to grow by 9% compared to 5% national average
- The Hispanics are an underserved segment: only 65% have checking accounts vs 95% of the "anglo" market

Summarizing, excellent opportunity in a region with a high growth potential

- ❑ A significant move into the US mainland Hispanic market
- ❑ LNB has a leading position in its core markets, with very good results performance
- ❑ High profitability levels and low risk profile
- ❑ Medium term opportunity to grow
- ❑ The transaction is earnings accretive from first year

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Significant advance in the Group performance in 1H04, with a strong focus on growth

**Retail
Banking**

Strong commercial activity

**Wholesale
Banking**

**Confirming the recurrency of
results**

Americas

**Excellent earnings
performance**

... and three significant non-organic projects in 2004: BBVA Bancomer minorities acquisition, Hipotecaria Nacional and Laredo N.B.

We are creating a very solid Group

Highly profitable	▶	ROE	19.8%
Highly productive	▶	Cost/income ratio	44.9%
With risk under control	▶	NPL ratio	1.11%
		Coverage	223.4%
Solvency	▶	BIS Ratio	12.0%
		Rating	AA- / Aa2

An excellent risk–return growth combination

BBVA

BBVA:
Delivering profitable growth

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London, 7th October, 2004