BBVA: Delivering profitable growth

MERRILL LYNCH

European Banking & Insurance Conference

London, 7th October, 2004
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Index

- Overview
  - Confirming the prospects of organic growth in 2004
  - Focussed and profitable non-organic growth
  - Conclusions
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.
In 2003, BBVA completed its internal transformation ...

... and Group performance already improved with EPS increasing 29.5%
Last year at the Merrill Lynch conference ...

BBVA: Ready to grow

BBVA: Delivering profitable growth

...and now
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
Index

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2Q04 confirms the forecasted cruising speed

Attrib. income (€ million)

Quarterly average 2002
537 (*)
Quarterly average 2003
557
1Q04
667
2Q04
688

(*) 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...

<table>
<thead>
<tr>
<th>Domestic Businesses (€ million)</th>
<th>1H03</th>
<th>1H04</th>
<th>Chg %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>1,890</td>
<td>2,052</td>
<td>+8.6</td>
</tr>
<tr>
<td>Core revenues</td>
<td>2,647</td>
<td>2,863</td>
<td>+8.2</td>
</tr>
<tr>
<td>Ordinary revenues</td>
<td>2,860</td>
<td>3,079</td>
<td>+7.7</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>1,277</td>
<td>1,496</td>
<td>+17.2</td>
</tr>
</tbody>
</table>
... whilst net profit from the Americas reached new heights.

Net income Current € million

<table>
<thead>
<tr>
<th>Year</th>
<th>1H03</th>
<th>2H03</th>
<th>1H04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>570</td>
<td>601</td>
<td>649</td>
</tr>
</tbody>
</table>

+13.9%... despite a devaluation of 12.3% in currencies.
Leading to further progression in profitability

ROE (%)

Jun 03: 19.3
Dec 03: 18.4
Jun 04: 19.8
Group’s efficiency continues to improve

<table>
<thead>
<tr>
<th>Personnel + General Expenses (€ million)</th>
<th>Cost-income ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,491 1H03</td>
<td>47.2 2003</td>
</tr>
<tr>
<td>2,445 1H04</td>
<td>46.0 1Q04</td>
</tr>
<tr>
<td></td>
<td>44.9 1H04</td>
</tr>
</tbody>
</table>

Cost-income ratio improvement: -1.8%
Outstanding asset quality and coverage ratios

Net entries to NPLs (€ million)

<table>
<thead>
<tr>
<th>1H03</th>
<th>1H04</th>
</tr>
</thead>
<tbody>
<tr>
<td>245</td>
<td>188</td>
</tr>
</tbody>
</table>

-23.3%

NPL ratio and coverage (%)

<table>
<thead>
<tr>
<th>Dec 02</th>
<th>Jun 03</th>
<th>Dec 03</th>
<th>Jun 04</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.85</td>
<td>1.59</td>
<td>1.37</td>
<td>1.11</td>
</tr>
<tr>
<td>169.2</td>
<td>183.8</td>
<td>184.9</td>
<td>223.4</td>
</tr>
</tbody>
</table>

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

BIS Ratio (%)
BBVA GROUP

<table>
<thead>
<tr>
<th></th>
<th>Jun 03</th>
<th>Dec 03</th>
<th>Jun-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIS</td>
<td>12.0</td>
<td>12.7</td>
<td>12.0</td>
</tr>
<tr>
<td>TIER I</td>
<td>8.1</td>
<td>8.5</td>
<td>8.0</td>
</tr>
<tr>
<td>CORE</td>
<td>6.0</td>
<td>6.2</td>
<td>5.9</td>
</tr>
</tbody>
</table>

...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
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

**Lending**

- Year-on-year growth
- Average balances

**Customer Funds**

- (B. sheet funds + mutual funds)

<table>
<thead>
<tr>
<th></th>
<th>Jun.03</th>
<th>Jun.04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td>11.7%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Average balances</td>
<td>4.3%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Acceleration in all segments: mortgage for individuals +23%, small businesses +19% and mutual funds +20%
... All this leads to notable growth in earnings

Operating Profit (€ millions)

1H03 1.191
2H03 1.274
1H04 1.323

+11.0%

... 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

Operating Profit € million

1Q03 2Q03 3Q03 4Q03 1Q04 2Q04

191 159 158 147 192 216

350 → +16.8% → 409

1Q03 2Q03 3Q03 4Q03 1Q04 2Q04

409

21
BBVA: the leading player in Spain

The global relationship model

- Corporate Banking
- Institutional Banking

The franchise model

- Global Markets and Distribution

Leadership in Spain and expansion in Latin America

97% of large corporates are BBVA customers

35% market share in lending to the public sector
The Americas show accelerating growth of activity

<table>
<thead>
<tr>
<th></th>
<th>Average balances</th>
<th>Lending YoY change(%)</th>
<th>Customer funds YoY change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Constant €</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Jun.03</th>
<th>Dec.03</th>
<th>Jun.04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending growth in investment-grade countries:</td>
<td>+18.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in current and savings a/cs.</td>
<td>+23.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Jun.03</th>
<th>Dec.03</th>
<th>Jun.04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td>4.5</td>
<td>4.9</td>
<td>14.3</td>
</tr>
<tr>
<td>Customer funds</td>
<td>6.4</td>
<td>8.8</td>
<td>11.8</td>
</tr>
</tbody>
</table>
... that is feeding through to net profits

Net profit
Constant € million

1Q03 2Q03 3Q03 4Q03 1Q04 2Q04
234 270 277 279 296 353

+28.7%

649

...with year-on-year growth in current euros of 13.9%
... and new record highs in BBVA Bancomer profits

Net profit Constant € million

1Q03 2Q03 3Q03 4Q03 1Q04 2Q04

138 145 153 172 167 215

+35.0%

...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

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

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

(1) I/B/E/S estimates, excluding goodwill amortization. (2) I/B/E/S for BBVA and BBVA Bancomer
Consistency in the strategy

Reallocation of capital from non core areas to strategic businesses
### Acquisition of BBVA Bancomer minorities

<table>
<thead>
<tr>
<th><strong>Strategic fit</strong></th>
<th><strong>Value creation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BBVA consolidates its position in Bancomer</strong></td>
<td><strong>EPS and cash EPS accretion from 1st year</strong></td>
</tr>
</tbody>
</table>

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

- **Appropriate timing → more profitable investment**
- **Favourable financing:**
  - More efficient capital allocation
  - Positive tax effect
- **Successful capital increase**
BBVA Bancomer is the leading franchise in Mexico

Leader in banking business

Number 1

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

and in non-banking business

Number 1

Bancassurance......33.3%
Annuities..............20.5%
Transfers..............39.1%

AFORE...............20.6%

...and more than 9 million customers
... with better results than peers

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

- BBVA: +19% 5.5
- BANCOMER: -10% 2.9
- SAN SERFIN: +90% 2.6
- HSBC: -73% 2.0
- BANAMEX: +30% 1.2
- BANORTE

Source: CNBV
Mexico: a sizeable economy entering a new growth phase

GDP (BN USD)

Spain 650  Mexico 637  Emerging Eur G10 (1) 403

GDP growth (1) (yoy %)

2001 2002 2003 2004e 2005e

-0.3 0.9 1.3 4.0 3.8

Source: BBVA Economic Research

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
Mortgage market: a great opportunity

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

Source: Central Bank of Mexico
(1) Excluding “fideicomisos UDIS e IPAB”
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%)

<table>
<thead>
<tr>
<th>US$ m</th>
<th>MORTGAGE SOFOLes / December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loans</td>
</tr>
<tr>
<td>HIPOTECARIA NACIONAL</td>
<td>2,092</td>
</tr>
<tr>
<td>SU CASITA</td>
<td>1,234</td>
</tr>
<tr>
<td>CREDITO Y CASA</td>
<td>1,069</td>
</tr>
<tr>
<td>CREDITO INMOBILIARIO</td>
<td>656</td>
</tr>
<tr>
<td>METROFINANCIERA</td>
<td>425</td>
</tr>
<tr>
<td>PATRIMONIO</td>
<td>393</td>
</tr>
</tbody>
</table>
The acquisition of HN is a decisive step in the expansion of BBVA Bancomer mortgage business

- 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

(1) Banks + Sofoles
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
Valley Bank & Bancomer Financial Services

Maintaining leadership

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

Market share of electronic funds transfer

- BBVA Bancomer (51%)
- Other (49%)

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

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.

(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
Overview

Confirming the prospects of organic growth in 2004

Focussed and profitable non-organic growth

Conclusions
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: Delivering profitable growth

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