

BBVA Group in the first half of 2004

Expectations of recovery in the world's economy in the second quarter of 2004 improved with noticeable growth in the United States, Japan, China and other emerging economies, and more moderate reactivation in the European Union. The main Latin-American economies also appear poised for greater growth this year. These trends together with the inflationary impact arising from higher oil prices have increased expectations of a gradual rise in interest rates. Already in the second quarter, interest rates over shorter periods in the euro zone remained at levels similar to the previous quarter, slightly above 2%. This is in contrast to the continuous decline recorded over the last two years. On the other hand, longer-term interest rates, specifically the 12-month rate, have rebounded during the quarter with a corresponding increase in the slope of the 3-12 month curve. In Mexico short-term interest rates also consolidated their tendency to rise during the quarter. At the end of June, in a move that had been widely discounted by the market, the Federal Reserve increased its reference rate by a quarter point to 1.25%. The European Central Bank held rates steady at 2.0%.

Currency markets were little changed during the quarter. The currencies of Mexico, Argentina and Chile fell by approximately 2.5% against the euro and there were minor appreciations in other Latin-American currencies as well as in the US dollar. The table on the next page shows the final exchange rates at 30-Jun-04 (used to convert the balance sheet and business figures from local currency to euros). It also shows the average exchange rate in the first half (used to convert the income statement). The Mexican peso is the currency that has the greatest effect on the Group's accounts. It has depreciated by approximately 15.0% against the final rate on 30-Jun-03 and by 14.4%

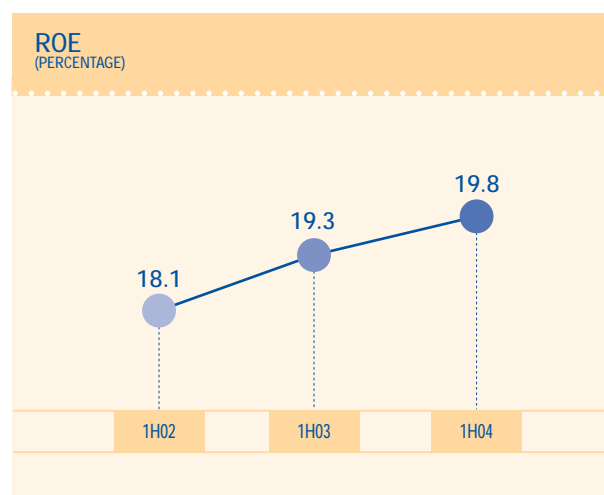
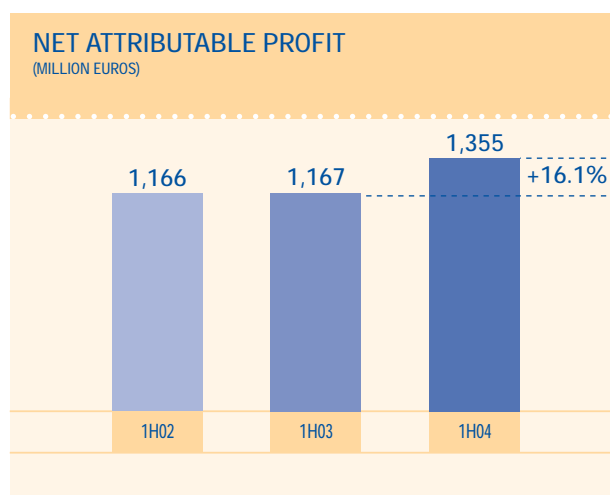
against the average exchange rate in the first half of 2003. The Venezuelan bolivar also witnessed significant depreciation (20.1%) and the fall in the Argentine peso has been smaller. On the other hand, the Chilean peso has been revalued by 6.9% compared to the first half of last year.

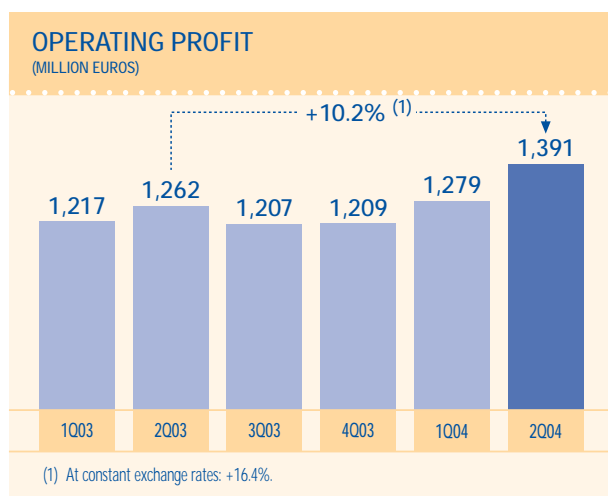
As usual, the year-on-year percentage variation at constant exchange rates is given in this report. This is done to facilitate a comparison between the different items on the income statement by eliminating the depreciation in exchange rates. These figures are referred to below where relevant. Likewise, remarks regarding business activity also include variations calculated at constant exchange rates.

Like the last quarterly report, the income statement analysed in this report is the consolidated public account which incorporates Argentina in a fully consolidated manner. Likewise, the business figures and results of Group subsidiaries in Argentina are reported as part of the Americas Area.

The most relevant aspects of the BBVA Group in the first half of 2004 are summarised below:

- Attributable net income in the second quarter came to 688 million euros. This is the highest quarterly figure in the last three years. It brings the half-year earnings to 1,355 million euros – a year-on-year increase of 16.1% (an increase of 20.1% at constant exchange rate).
- Earnings per share increased by 10.6%, ROE rose to 19.8% (19.3% in the first half of 2003) and ROA was 1.04%.





- The main features in the Group's results were as follows:
 - High quality of earnings; attributable net income in the half year was supported by the positive evolution of the operating profit and the effect of the items between these two figures was neutral.
 - Faster year-on-year growth of the more recurrent earnings with higher quarterly increases in all income lines (net interest income, core revenues, ordinary revenues and operating profit) –even at current exchange rates.
 - In all the Group's business areas, the growth in operating profit in the second quarter and in the first half was higher than in previous periods.
- Thus operating profit in the second quarter came to 1,391 million euros and year-on-year growth (10.2% at current exchange rates and 16.4% at constant rates) was higher than growth in the first quarter (5.2% and 12.5%, respectively). As a result, the figure

for the first half, 2,670 million euros, was higher than the first half of 2003 by 7.7% at current exchange rates and by 14.5% at constant rates.

- Net interest income in the second quarter was high, rising to 1,835 million euros compared to 1,684 million euros in the first quarter. This was due to dividends received (a seasonal effect) and to an improvement in core net interest income (financial revenues less financial expenses). Solid growth in the level of business activity, particularly in lending to the Spanish resident sector and transactional deposits at the Latin-American units, is being more directly transformed into net interest income in a context of spreads behaving better than previous quarters.
- Net fee income also improved compared to the first half of last year, growing by 3.3% at current exchange rates and by 9.4% at constant rates. The improvement extended to all business areas.
- Costs were contained and fell 1.8% at current exchange rates while they increased 3.5% at constant rates. Together with higher revenues this meant that the cost/income ratio improved to 44.9%, compared to 46.6% in the first half of 2003, with improvements in all business areas.
- Retail Banking in Spain and Portugal shows higher growth in all items on the income statement compared to the first quarter. Lending grew 18.0% year-on-year (16.3% at 31-Mar-04) and customer funds (deposits, mutual and pension funds) by 8.9% (10.9% at 31-Mar-04). Thus core revenues increased in the half year by 5.4% (3.8% in the first quarter) supported by faster growth in net interest income (2.6% compared to 2.1% in the first quarter) and by net fee income

EXCHANGE RATES ⁽¹⁾

	End of period Exchange Rates			Average Exchange Rates	
	30-06-04	Δ% on 30-06-03	Δ% on 31-03-04	1H04	Δ% on 1H03
Mexican peso	14.0207	(15.0)	(2.5)	13.7199	(14.4)
Argentine peso	3.6009	(10.7)	(2.5)	3.5745	(6.9)
Chilean peso	773.40	3.5	(2.6)	747.38	6.9
Colombian peso	3,267.97	(1.6)	0.3	3,311.26	(3.2)
Peruvian new sol	4.2208	(6.0)	0.2	4.2620	(9.8)
Venezuelan bolivar	2,331.00	(21.7)	0.5	2,267.57	(20.1)
U.S. dollar	1.2155	(6.0)	0.6	1.2265	(9.9)

(1) Expressed in currency/euro.

(12.0% compared to 7.8% to March). The increase in revenues combined with control of operating costs has improved the cost/income ratio by 2.1 points to 43.1% (45.2% in the first half of 2003). It has also led to year-on-year increases of 11.0% in operating profit and of 13.7% in attributable net income.

- Wholesale and Investment Banking closed the second quarter with outstanding levels of operating profit and net income. All profit lines on the income statement were higher than the figures for the first quarter. Operating profit in the first half came to 409 million euros (up by 16.8%) and attributable net income was 277 million euros (up by 26.7%). The record earnings figure demonstrates the high profitability and power of the Group's approach in the wholesale business.
- Lending in the Americas (excluding Bancomer's old mortgage portfolio and doubtful loans) increased 15.8% in local currency and traditional fund gathering including repos placed through the branch network and mutual funds increased by an average of 11.7% for all the banks. This meant that net interest income increased by 15.5% at constant exchange rates (7.7% in the first quarter). Net fee income grew 11.8% and costs grew by 5.7% (lower than the 7.7% figure for the first quarter). Therefore despite lower net trading income, the operating profit increased by 11.2% (9.7% at March). Lower provisioning requirements following an improvement in the non-performing loan ratio, helped profit after tax to rise 28.7%. Finally, the lower minority interests after the purchase of Bancomer caused attributable net income to grow by 49.8% in current euros and by 68.3% at constant exchange rates.
- Mexico continues to add customer funds at high speed and lending is growing faster. This has resulted in net interest income increasing 14.3% at constant exchange rates and is considerably higher than the 7.9% recorded in the first quarter. Despite the decline in net trading income compared to last year, operating profit grew 10.9% in year-on-year terms and net income by 35.0%. With the decrease in minority interests, attributable net income in the half year is more than double the same period in 2003.
- Risk quality in the Group continues to improve. As bad debt levels declined in all business areas and lending activity increased, the non-performing loan ratio as a percentage of total exposure fell in all areas

to 1.11% at 30-Jun-04 (1.23% three months earlier and 1.59% twelve months earlier). The increase in provisioning together with the above decline in bad debts resulted in an increase in coverage which rose to 223.4% (209.8% at 31-Mar-04 and 183.8% at 30-Jun-03).

- The Group maintained its solid capital base: core capital was 5.9% (compared to 5.7% at 31-Mar-04 and in line with the target of 6.0% established for year end), Tier I capital was 8.0% and the BIS ratio 12.0%.
- On 12th July a first interim dividend of 0.10 euros per share was paid against 2004 results. This is an increase of 11.1% over the first interim dividend paid in 2003.

Following the successful bid to buy out the minority interests in Bancomer in the first quarter (BBVA's interest in Bancomer rose to 99.7% at 30th June) an agreement has been reached for the acquisition of Valley Bank. This bank has a licence to operate in California and six branches located south of Los Angeles. It is expected that this operation will be completed in the third quarter subject to the corresponding authorisations. At that time the Group will be able to offer its customers full banking services in southern California through Bancomer Transfer Services. This company is the leader in remittances from the United States to Mexico. It will also help the Group explore the specific needs of the Hispanic community in the U.S.

After the end of the half year, Bancomer together with other Mexican banks, has reached an agreement with the Mexican Bank Savings Protection Institute (known as IPAB) under which bills of exchange issued by the Bank Savings Protection Fund (Fobaproa) are being exchanged for IPAB bonds. This agreement includes auditing provisions and an end to the litigation between the parties. The provisions in the local books together with those made at the consolidated level, fully cover the expected contingencies arising from this agreement.

Income for the period

In the second quarter of 2004, the BBVA Group once again increased the speed at which it is generating recurrent earnings. It recorded the highest operating profit since the second quarter of 2002 and the highest attributable net income since the second quarter of 2001

–despite the impact of intense depreciation of Latin-American currencies in recent years. Following this positive quarter, all profit lines on the income statement from net interest income to operating profit, show that growth in the first half (in year-on-year terms) was higher than the equivalent figures for the first quarter –both at current and constant exchange rates.

Operating profit generated between April and June comes to 1,391 million euros, which is a year-on-year increase of 10.2% (16.4% at constant exchange rates). These percentages are better than the year-on-year growth of 5.2% and 12.5%, respectively, in the first quarter. This means that the operating profit of 2,670 million euros in the first half is 7.7% higher than the same period in 2003 at current exchange rates (14.5% at constant rates).

Faster growth of recurrent earnings in the Group are coming from all business areas. In the Retail Banking Area in Spain and Portugal operating profit grew 11.0% (8.1% in the first quarter), in Wholesale and Investment Banking it grew 16.8% (0.6% at March) and in the Americas the figure was 11.2% at constant exchange rates (9.7% in the first quarter). The figure for the Americas is the result of a 10.9% increase in Mexico and 11.5% in the rest of the continent.

This favourable trend in operating profit is supported by good performance of net interest income and net fee income and by the containment of costs.

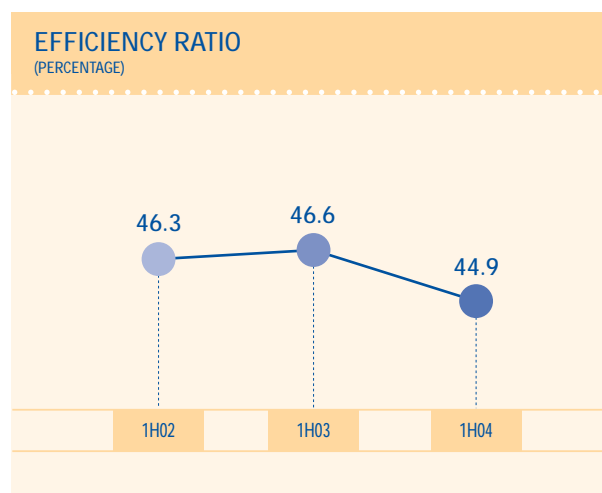
In the first half, net interest income came to 3,519 million euros. This was 5.1% higher than the same period in 2003 at current exchange rates and 11.4% at constant rates. It was the consequence of dividends received and of an improvement in the core net interest income (financial revenues less financial expenses).

In the first half year Retail Banking in Spain and Portugal recorded a year-on-year increase in net interest income of 2.6% boosted by higher activity in a context of more stable customer spreads. In Wholesale Banking it grew 14.7% and in the Americas it grew by 0.6% at current exchange rates despite the impact of currency depreciation. When stated at constant rates this growth was 15.5% (14.3% in Mexico). In the first quarter of the year, these year-on-year improvements were 7.7% and 7.9%, respectively.

Net fee income came to 826 million euros in the second quarter with a year-on-year increase of 4.3%. This was higher than the 2.3% recorded in the first quarter. In the first half fee income came to 1,650 million euros, an increase of 3.3% (9.4% at constant exchange rates). Attention is drawn to the improvement in Retail Banking in Spain and Portugal where the year-on-year increase was 12.0%. Fee income includes mutual and pension funds, which make up about one third of the total. They exceeded fee income in the first half of 2003 by 13.4% at constant exchange rates. Commissions on securities intermediation rose by 9.2% and fees from collections and disbursements increased by 8.4%.

Thus core revenues for the quarter rose to 2,661 million euros, 6.9% higher than the second quarter of 2003. Consequently the cumulative figure for the half year was 5,169 million euros. It exceeded the first half of 2003 by 4.5% at current exchange rates and by 10.7% at constant rates. Net trading income declined by 32.0% in the half year. This was due to the Americas and specifically to Mexico where an increase in interest rates and sovereign risk in the second quarter affected the value of the trading portfolio. It was also influenced by the high levels in Argentina in 2003. Ordinary revenues came to 5,443 million euros in the half year with increases of 1.8% at current exchange rates and 7.7% at constant rates. This was despite the above-mentioned decline in net trading income. The corresponding figures in the first quarter were 0.7% and 7.3%, respectively.

Operating expenses in the half year fell 1.8% at current exchange and increased 3.5% at constant rates. In Retail Banking and in Wholesale Banking they were practically



flat while in the Americas they increased 5.7%. The evolution of revenues and expenses led to a new improvement in the cost/income ratio. This was 43.9% in the second quarter –the best figure in BBVA's history. This puts the figure for the first half at 44.9% with an improvement of 1.7 points over the 46.6% for the same period of 2003. Improvement was recorded in all business areas, falling to 43.1% in Retail Banking (45.2% in the first half of 2003), to 26.4% in Wholesale Banking (compared to 29.2%) and to 43.2% in the entire Americas area with 40.2% in Mexico (43.9% and 41.0%, respectively, in the first half of 2003).

The contribution of companies carried by the equity method came to 386 million euros in the half year. The year-on-year increase was 29.8% and was mainly due to extraordinary adjustments in 2003 following restatement of the final 2002 results of companies such as Telefónica and Terra. After discounting the dividends received, net earnings from companies carried by the equity method came to 156 million euros, a year-on-year increase of 35.6%.

Earnings on Group transactions in the half year came to 307 million euros (10.4% higher than the same period in 2003). This included capital gains of 218 million euros and 26 million euros generated in the first quarter by the sale of shares in Banco Atlántico and Direct Seguros, and by capital gains of 36 million euros from the sale of the 5% stake in Acerinox in the second quarter. The first half of 2003 included 343 million euros on the sale of the interest in Crédit Lyonnais.

The Group earmarked 514 million euros for loan provisions in the half year compared to 847 million euros in the same period last year which included 285 million euros for increasing the coverage of exposure associated with Argentina's country risk, from 50% to 75%. It also included other provisions related to that country with simultaneous write-back of special funds under extraordinary results. After considering the above mentioned provisions and extraordinary results, the change with regard to the first half of 2003 is practically zero. Amortisation of goodwill accounted for 313 million euros, an increase of 4.0% compared to the same period last year. This was due to greater amortisation for Bancomer as goodwill on industrial shareholdings was reduced as a result of divestments. It should also be taken into account that the second quarter of 2003 included amortisation of 39 million euros generated by the purchase of the interest in Bradesco.

Net income before tax comes to 2,118 million euros. This is 13.1% more than the first half of 2003 at current exchange rates and 18.9% higher at constant rates. It should be noted that at constant exchange rates the increase in net income before tax is exactly the same as the operating profit. In terms of the overall effect of the intermediate items of the profit and loss account, the higher earnings from the equity method and, to a lesser extent, from Group operations, are compensated by goodwill, provisioning and extraordinary items.

Corporate tax for the half year comes to 569 million euros. A tax rate of 27% is considered normal. Thus net profit was 1,549 million euros, 3.3% more than the 1,500 million euros in the same period in 2003 (an increase of 8.1% at constant exchange rates). Income attributable to minority holdings was 194 million euros – 41.7% less than the first half of 2003. This was mainly due to the reduction in minority interests in Bancomer following the takeover, to the effect of exchange rates and to the decrease in the cost of preferred stock on amortisation of old issues and their partial replacement by lower cost issues.

This brings the attributable net income of the Group in the second quarter of 2004 to 688 million euros and the cumulative figure for the first half is 1,355 million euros. This is an increase of 16.1% over the 1,167 million euros in the first half of 2003 (20.1% at constant exchange rates).

Despite the capital increase of 1,999 million euros done in February, earnings per share increased by 10.6% to 0.40 euros and return on equity (ROE) rose to 19.8% compared to 19.3% in the first half of 2003. Return on assets (ROA) is 1.04%.

Balance sheet and business activity

At 30th June 2004 the total assets of the BBVA Group came to 316 billion euros. This represents a year-on-year increase of 13.9% in current euros and 17.7% at constant rates and it is an improvement on the growth recorded in the first quarter (12.1% and 15.8%, respectively). Business volume, the sum of total loans and customer funds under management, came to 481.5 billion euros, 8.8% more than 30-Jun-03 at current exchange rates and 11.9% more at constant rates. These figures are similar to those at the end of the first quarter of 2004 and confirm the sustained growth of the Group's business.

Lending to customers was especially active and closed the quarter with a balance of 166 billion euros, 12.2% higher than the balance at 30-Jun-03 (14.3% higher at constant exchange rates). At 31-Mar-04 the year-on-year increase was 9.1% at current rates and 11.2% at constant rates.

Lending to other resident sectors continues to grow faster and reached 110 billion euros at the end of the half year. This was 16.8% more than twelve months earlier (14.5% at 31-Mar-04). Of the above figure, secured loans continue to be the most active. They increased by 22.3% over June 2003 to 59 billion euros (in March the increase was 19.4%). They now account for 53.9% of loans to other resident sectors, compared to 51.4% a year earlier. Other lending includes leasing (up by 21.9%) and other term loans (up by 9.9%).

Lending to non-residents also grew faster and although they continue to be affected by currency depreciation, they came to 39 billion euros. For the first time in recent years they recorded a positive year-on-year variation in current euros of 3.6%. This becomes 11.0% at constant exchange rates (a 0.3% decline and a 6.9% increase, respectively, at 31-Mar-04).

Non-performing loans declined for the sixth quarter running to 1,995 million euros at 30-Jun-04. This was a year-on-year fall of 36.2%. This reduction, together with the above increase in lending, has led to an important improvement in asset quality. The non-performing loan (NPL) ratio is defined as bad loans (including contingent liabilities and excluding group 5 country risk) divided by total exposure. The ratio for total risk exposure was 1.11% compared to 1.23% at 31-Mar-04 and to 1.59% at 30-Jun-03. The ratio for credit risk also improved to 1.20% from 2.12% in June 2003.

The improvement continued to come from all business areas, both in the quarter and in the last twelve months. In all cases it was the result of the decline in doubtful loans and the increase in lending activity. In Retail Banking in Spain and Portugal the NPL ratio for total risk exposure fell to 0.65% compared to 0.89% at 30-Jun-03. In the case of Wholesale Banking the ratio is now 0.30% (0.61% a year earlier) and in the Americas it has fallen to 3.88%, compared to 5.08% in June 2003 (3.47% and 4.12%, respectively, in Mexico).

The above decline in non-performing loans together with the increase in provisions during the quarter, resulted in

coverage increasing to 223.4%, compared to 209.8% at 31-Mar-04 and 183.8% at 30-Jun-03.

Total customer funds under management came to 316 billion euros at the end of the half year. This was 7.1% more than the same date a year earlier and at constant exchange rates the figure swells to 10.7%.

Customer funds on the balance sheet rose to 196 billion euros, a year-on-year increase of 7.2% at current exchange rates and 10.8% at constant rates. Public sector deposits were 6 billion euros and deposits by other resident sectors were 73 billion euros. This was 7.1% more than June 2003. They include transactional deposits (current and savings accounts) which increased 5.7%. Time deposits fell due to the marked preference of customers for mutual funds. Non-resident deposits increased by 0.7% at current exchange rates and by 9.7% at constant rates. There was a notable increase in transactional deposits (up by 18.2% in local currency). Marketable debt securities continue to grow at a significant pace due to the 3 billion euro issue of "cédulas hipotecarias" (covered bonds) in the first quarter.

Off-balance sheet funds (mutual funds, pension funds and customer's portfolios) came to 120 billion euros at the end of June 2004, 7.0% higher than the amount twelve months earlier (10.5% higher at constant exchange rates).

Spain accounted for 66 billion euros with an increase of 16.5% year-on-year. This was supported by growth of 19.0% in mutual funds which rose to 41.2 billion euros. The success of the new funds launched by the Group in the first half (*Triple Óptimo, Plan Rentas 2007, Plan Rentas 2009, BBVA 4-100 Ibex*) means that in absolute terms BBVA is the manager with the greatest growth in assets since the end of 2003. It has grown more than other big fund managers and has gained most market share: 48 basis points in the first half and 69 basis points in the last twelve months. At the end of June pension funds came to 12.6 billion euros and customer's portfolios to 12.4 billion euros, with year-on-year increases of 10.5% and 14.5%, respectively.

In other countries where the Group operates, off-balance sheet funds came to 54 billion euros with a year-on-year decline of 2.7% at current exchange rates. At constant rates this becomes an increase of 4.0%. Of this figure, 27.1 billion euros are pension funds, 17.4 billion euros are customer's portfolios and 9.2 billion euros mutual funds.

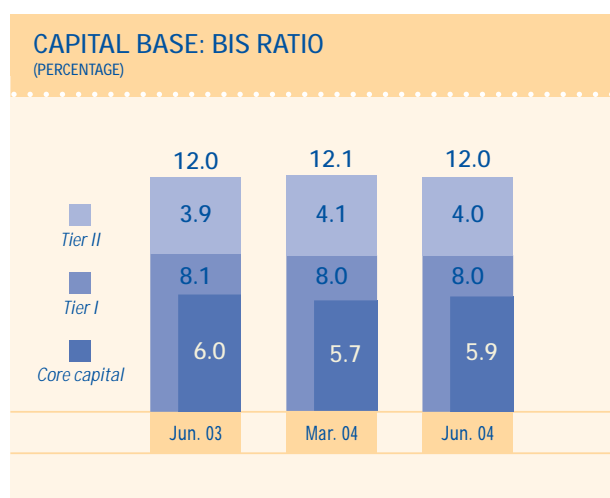
Capital base

At 30th June 2004 the capital base of the BBVA Group was 21,073 million euros with a capital base surplus of 7,002 million euros –based on the standards of the Bank for International Settlements (BIS).

Core capital was 10,348 million euros and the ratio now stands at 5.9%, compared to 5.7% at 31-Mar-04. This improvement is a result of recurrent earnings in the second quarter and is in line with the target of 6.0% for the end of 2004. After incorporating other core equity, Tier I, which represents 66.7% of the capital base, was 8.0%.

In view of market conditions, the Group's capital base was further improved on 30th June 2004 by early amortisation of 700 million euros of preference shares (series B of BBVA International Ltd) with a coupon of 6.24%. Furthermore in June BBVA Capital Finance, a wholly-owned Group subsidiary with headquarters in Bilbao, issued 500 million euros of preference shares. This was distributed through the bank's branch network. It carries 3% p.a. interest over the first two quarters and after this interest will be variable and linked to 3-month Euribor (with a minimum of 2.75% and a maximum of 6.50% up to 30-Sept-09).

Tier II is 4.0% and, together with Tier I, brings the BIS ratio to 12.0%.



The BBVA share price

In the second quarter of 2004 and despite the expected rises in interest rates and higher oil prices, the world's stock exchanges managed to consolidate the levels achieved at the end of March and closed the quarter with moderate advances in the most important indices: the Euro Stoxx 50 increased by 0.8%, the S&P by 1.3% and the Nikkei rose by 1.2%.

The BBVA share price rose 1.9% during the second quarter. This was better than the Euro Stoxx Banks which rose 1.1%. This index represents the average of the banking sector in the Euro area. The share price also outperformed the Euro Stoxx 50, the Ibx 35 (up by 0.8%) and the share price of other major Spanish banks.

In the last twelve months the BBVA share price has risen by a total of 20.0%. This is higher than Euro Stoxx Banks (16.8%), the Euro Stoxx 50 (16.2%) and the Ibx 35 (17.7%). Together with the capital increase in February 2004, this means that BBVA has increased its market capitalisation by 27.3% over the above period, bringing it to 37.2 billion euros at the end of June.

In the second quarter the variation in the BBVA share price, expressed as the percentage difference between the maximum and minimum price, was 12% and the average number of shares traded was 34 million. The latter figure is somewhat lower than that of the first quarter of 2004. Average daily volume has declined from 409 million euros in the first quarter to 375 million euros in the second.

In regard to shareholder remuneration, a final dividend of 0.114 euros per share for 2002 was paid on 13th April. On 12th July the first interim dividend of 0.10 euros per share was paid against 2004 results. This is an increase of 11.1% over the first interim dividend last year.