B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to us

Since our loan portfolio is highly concentrated in Spain, adverse changes affecting the Spanish economy could have a material adverse effect on our financial condition.

We historically have developed our lending business in Spain, which continues to be our main place of business. As of December 31, 2004, business activity in Spain accounted for 76.46% of our loan portfolio. See "Item 4. Information on the Company—Selected Statistical Information—Loans by Geographic Area". Any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on our loan portfolio and, as a result, on our financial condition and results of operations.

A substantial percentage of our customer base is particularly sensitive to adverse developments in the economy, which renders our lending activities relatively riskier than if we lent primarily to higher-income customer segments.

Medium- and small-size companies and middle and lower middle income individuals typically have less financial strength than large companies and high-income individuals and accordingly can be expected to be more negatively affected by adverse developments in the economy. As a result, it is generally accepted that lending to these segments of our existing and targeted customer base represents a relatively higher degree of risk than lending to other groups.

A substantial portion of our loan portfolio consists of residential mortgages and consumer loans to middle and lower middle income customers and commercial loans to medium and small companies. Consequently, during periods of slowdown in economic activity we may experience higher levels of past due amounts which could result in higher levels of allowance for loan losses. We cannot assure you that we will not suffer substantial adverse effects on our base portfolio to these customer segments in the event of adverse developments in the economy.

Increased exposure to real estate in Spain makes us more vulnerable to developments in this market.

The sound economic growth, the strength of the labor market and a decrease in interest rates in Spain have caused an increase in the demand of mortgage loans in the last few years. This has had repercussions in housing prices, which have also risen significantly. As residential mortgages are one of our main assets, comprising 40%, 42% and 44% of our loan portfolio at December 31, 2002, 2003 and 2004, respectively, we are currently highly exposed to developments in real estate markets. A strong increase in interest rates or unemployment in Spain might have a significant negative impact in mortgage payment delinquency rates. An increase in such delinquency rates could have an adverse effect on our business, financial condition and results of operations.

Highly-indebted households and corporations could endanger our asset quality and future revenues.

Spanish households and firms have reached, in recent years, a high level of indebtedness, which represents increased risk for the Spanish banking system. The increase of loans referenced to variable interest rates make debt service on such loans more vulnerable to changes in interest rates than in the past. The increase in households' and firms' indebtedness also limits their ability to incur additional debt, decreasing the number of new products we may otherwise be able to sell them.

A sudden shortage of funds could cause an increase in our costs of funding and an adverse effect on our operating revenues.

Historically, one of our principal sources of funds has been savings and demand deposits. Time deposits represented 35.0%, 31.1% and 29.3% of our total funding at December 31, 2002, 2003 and 2004, respectively. Large-denomination time deposits may, under some circumstances, such as during periods of significant changes in market interest rates for these types of deposit products and resulting increased competition for such funds, be a less stable source of deposits than savings and demand deposits. In addition, since we rely heavily on short-term deposits for our funding, we cannot assure you that, in the event of a sudden or unexpected shortage of funds in the banking systems or money markets in which we operate, we will be able to maintain our current levels of funding without incurring higher funding costs or having to liquidate certain of our assets.

We face increasing competition in our business lines.

The markets in which we operate are highly competitive. Financial sector reforms in the markets in which we operate have increased competition among both local and foreign financial institutions, and we believe that this trend will continue. For example, the adoption of the euro as the common currency throughout the EU is making it easier for European banks to compete against us in Spain. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which we must now compete.

We also face competition from non-bank competitors, such as:

- department stores (for some credit products);
- leasing companies;
- factoring companies;
- mutual funds;
- pension funds; and
- insurance companies.

We cannot assure you that this competition will not adversely affect our business, financial condition and results of operations.

Our business is particularly vulnerable to volatility in interest rates.

Our results of operations are substantially dependent upon the level of our net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond our control, including deregulation of the financial sectors in the markets in which we operate, monetary policies pursued by national governments, domestic and international economic and political conditions and other factors.

Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby negatively affect our results of operations. For example, an increase in interest rates could cause our interest expense on deposits to increase more significantly and quickly than our interest income from loans, resulting in a reduction in our net interest income.

In addition, income from treasury operations is particularly vulnerable to interest rate volatility. Since approximately 69% of our portfolio consists of variable interest rate loans maturing in more than one year, rising interest rates may also bring about an increase in the non-performing loan portfolio.

We must adopt new accounting standards in 2005 that will impact our financial reporting.

In 2004 we prepared our financial statements in accordance with Spanish GAAP, and prepared a reconciliation of certain items to U.S. GAAP as required by SEC regulations. Under current European Union (EU) law, listed EU companies had to apply from January 1, 2005 International Financial Reporting Standards (IFRS) adopted by the EU in preparing their consolidated financial statements.

Applying these standards to our consolidated financial statements will imply a change in the presentation of our financial information since the financial statements will include more components and reflect classification differences, and additional disclosure will be required. Additionally, there will be a change in the valuation of certain items. Regarding the former, at this moment it is not possible to determine the exact impact that this new regulation will entail compared to Spanish GAAP, since new pronouncements from the International Accounting Standards Board (IASB), or pronouncements that are not endorsed by the European Union (EU) prior to the preparation of our December 31, 2005 consolidated financial statements, may have an impact on our financial statements. Regarding the latter, we have performed a preliminary analysis of how the adoption of IFRS will impact our financial condition and results of operations. We cannot assure you, however, that we will not experience any decreases in our shareholders’ equity or that our net income, each as calculated under IFRS, will not decrease or increase, respectively, when we prepare our 2005 consolidated financial statements under IFRS. We also cannot assure you that any such decrease in shareholders’ equity or net income would not have a material adverse effect on our results of operations and financial condition. See “Operating and Financial Review and Prospects-International Financial Reporting Standards (IFRS)”.

Our financial statements and periodic disclosure under securities laws may not give you the same information as financial statements prepared under U.S. accounting rules and periodic disclosures provided by domestic U.S. issuers.

Publicly available information about public companies in Spain is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States. In addition, although we are subject to the periodic reporting requirements of the United States Securities Exchange Act of 1934 (the “**Exchange Act**”), the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Finally, we maintain our financial accounts and records and prepare our financial statements in conformity with Spanish GAAP, which differs in certain respects from U.S. GAAP, the financial reporting standard to which many investors in the United States may be better accustomed.

Risks Relating to Latin America

The devaluation of the Argentine peso, high inflation and other adverse macroeconomic conditions in Argentina and related emergency measures adopted by the Argentine Government in 2001 and 2002 have had, and may continue to have, a material adverse effect on our business, financial condition and results of operations.

The Argentine economy experienced a severe crisis in 2001 and 2002, marked by the continued movement of capital out of Argentina, the end of convertibility of the peso, devaluation, and the return of inflation. The crisis had a strong impact on the financial system and jeopardized the solvency and liquidity of banks. In 2003 and 2004, the Argentine economy stabilized and experienced significant growth, but uncertainty regarding the scope, sustainability and pace of the recovery remained. The Argentine economic and social situation has quickly deteriorated in the past and may quickly deteriorate in the future and we cannot assure you that the Argentine economy will continue to experience sustained growth.

The emergency measures adopted by the Argentine government in response to the economic crisis at the end of 2001 and during 2002 that affected our results of operations included: freezing public debt payments, ending convertibility between the Argentinean peso and the dollar, imposing cash withdrawal limits on sight and savings accounts, re-scheduling of term deposit maturities and converting dollar assets and liabilities to pesos at different exchange rates.

As a result of the emergency measures described above, we have written off our entire investment in Argentina to date. However, despite our provisions and write-downs, a deterioration in the Argentine economy or further emergency measures adopted by the government in Argentina could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that the laws and regulations currently governing the Argentinean economy will not change in the future, or that any changes which may occur will not adversely affect our business, financial condition or results of our operations in the country, or the business which we transact with counterparties located in the country.

Our Latin American subsidiaries’ growth, asset quality and profitability may be affected by volatile macroeconomic conditions, including government default on public debt, in the Latin American countries where they operate.

The Latin American countries where we operate have experienced significant economic volatility in recent decades, characterized by slow growth, declining investment and significant inflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which we lend. Negative and fluctuating economic conditions, such as a changing interest rate environment, also affect our profitability by causing lending margins to decrease and leading to decreased demand for higher-margin products and services.

Negative and fluctuating economic conditions in some Latin American countries could result in government defaults on public debt. This could affect us in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks’ exposure to government debt is generally high in several Latin American countries in which we operate.

While we seek to mitigate these risks through the conservative risk policies described in “Item 11. Quantitative and Qualitative Disclosures About Market Risk”, no assurance can be given that our Latin American subsidiaries’ growth, asset quality and profitability will not be affected by volatile macroeconomic conditions in the Latin American countries in which we operate.

Latin American economies can be directly and negatively affected by adverse developments in other countries.

Financial and securities markets in Latin American countries in which we operate, are to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. Negative developments in the economy or securities markets in one country, particularly in an emerging market, may have a negative impact on other emerging market economies. These developments may adversely affect the business, financial condition and operating results of our subsidiaries in Latin America.

We are exposed to foreign exchange and, in some instances, political risks as well as other risks in the Latin American countries in which we operate, which could cause an adverse impact on our business, financial condition and results of operations.

We operate commercial banks in 10 Latin American countries and our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social and political conditions. We are confronted with different legal and regulatory requirements in many of the jurisdictions in which we operate. These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalization of assets. Our international operations may also expose us to risks and challenges which our local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, and political risk which may be particular to foreign investors. Our expansion in these markets requires us to respond to rapid changes in market conditions in these countries. We cannot assure you that we will continue to succeed in developing and implementing policies and strategies that are effective in each country in which we operate or that any of the foregoing factors will not have a material adverse effect on our business, financial condition and results of operations.

Regulatory changes in Latin America that are beyond our control may have a material effect on our business, financial condition and results of operations.

A number of banking regulations designed to maintain the safety and soundness of banks and limit their exposure to risk are applicable in certain Latin American countries in which we operate. Local regulations differ in a number of material respects from equivalent regulations in Spain and the United States.

Changes in regulations that are beyond our control may have a material effect on our business and operations. In addition, since some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on our business, financial condition and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

BBVA's predecessor bank, BBV, was incorporated as a limited liability company (a *sociedad anónima* or "S.A.") under the Spanish Corporations Law on October 1, 1988. BBVA was formed as the result of a merger by absorption of Argentaria into BBV that was approved by the shareholders of each institution on December 18, 1999 and registered on January 28, 2000. It conducts its business under the commercial name "BBVA". BBVA is registered with the Commercial Registry of Vizcaya (Spain). It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, telephone number 34-94-420-3001. BBVA's agent in the U.S. for U.S. federal securities law purposes is Raúl Santoro de Mattos Almeida (BBVA New York, 1345 Avenue of the Americas, 45^{th} floor, NY, New York, 10105). BBVA is incorporated for an unlimited term.

On March 29, 2005, our Board of Directors approved the launch of an exchange offer for the approximately 85.3% of the shares of Banco Nacionale del Lavoro, S.p.A. ("BNL") which we did not already own (the "BNL Exchange Offer"). Under the terms of the BNL Exchange Offer, BBVA is offering one of its ordinary shares for every five ordinary shares of BNL. On April 8, 2005, BNL's board of directors announced that it considered the terms of the BNL Exchange Offer to be fair and on April 27, 2005, the Commission of European Union approved the BNL Exchange Offer as compatible with the European common market. On April 14, 2005, the Commissione Nazionale per la Borsa (the Italian securities regulator) approved the BNL Exchange Offer and on May 13, 2005, the Bank of Italy authorized BBVA to acquire more than 50% of BNL's shares. On June 14, 2005, an Extraordinary Meeting of Shareholders of BBVA approved a capital increase to finance the BNL Exchange Offer. Under the terms of the proposed capital increase, BBVA will issue up to a maximum of 531,132,133 new ordinary shares. BBVA's shareholders also resolved to delegate to our Board of Directors the authority to determine the appropriate moment to undertake the capital increase. On June 21, 2005, the Bank of Spain announced that it would not oppose the capital increase.

We launched the exchange offer on June 20, 2005 and the final day on which acceptances will be accepted will be July 22, 2005. The BNL Exchange Offer is not being made and will not be made, directly or indirectly, in or into the United States, Canada, Japan, Australia or any other jurisdiction in which any such exchange offer would require the authorization of the relevant regulatory authorities or would violate applicable laws or regulations. In particular, no offer to purchase BNL shares or to sell BBVA shares is being made, directly or indirectly, in or into, or by use of the mails of, or by any means or instrumentality (including, without limitation by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce, or any facility of any securities exchange, of the United States and the BNL Exchange Offer will not be capable of acceptance by any such use, means, instrumentality or facility. Accordingly, under the terms of the BNL Exchange Offer, we will not accept tenders from the United States or from Canada, Japan, Australia or any other jurisdiction in which the BNL Exchange Offer would require the authorization of the relevant regulatory authorities or would violate applicable laws or regulations.

Capital Expenditures

Our principal capital expenditures from 2002 to the date of this Annual Report were the following:

2005

On April 28, 2005, we acquired all of the common shares of Laredo National Bancshares Inc., a privately-owned financial holding company and bank holding company headquartered in Laredo, Texas for $850 million. The acquisition closed after receiving regulatory approvals from the Board of Governors of the Federal Reserve System and the Bank of Spain.

On January 7, 2005, our Mexican affiliate Grupo Financiero BBVA Bancomer, S.A. de C.V. ("Bancomer") acquired all of the common shares of Hipotecaria Nacional de Mexico, a privately held Mexican mortgage bank, for $356 million. The acquisition closed after receiving regulatory approvals from the relevant Mexican authorities.

2004

On January 30, 2004, our Board of Directors adopted a resolution to launch a tender offer for the approximately 40.6% of the shares of Bancomer, our Mexican affiliate, which were not already owned by BBVA. The tender offer was launched on February 19, 2004 and expired on March 19, 2004. As a result of the successful completion of the tender offer and subsequent purchases during 2004 of Bancomer's capital stock, at December 31, 2004, we owned 99.70% of Bancomer's outstanding shares.

On March 18, 2004, the Board of Directors of BBVA Banco Francés, S.A. ("Banco Francés"), our Argentine affiliate, resolved to implement a plan intended to improve Banco Francés's adjusted stockholders' equity and enable Banco Francés to comply with new minimum capital requirements established by the Argentine Central Bank. Under this plan, we:

- acquired from Banco Francés its entire interest in Banco Francés (Cayman) Limited for $238.5 million; and
- subscribed to a capital increase by capitalizing a loan we granted to Banco Francés in an amount up to U.S.$77.7 million.