

## LETTER FROM THE CHAIRMAN



Dear Shareholder

2005 has been an excellent year for BBVA. We have posted a net attributable profit of €3,806m, a figure that is 30.2% higher than for 2004 and constitutes a new record for our Group.

Even more significantly, earnings per share – the most pertinent reflection of the value BBVA creates for its shareholders – increased by 29.5%.

Accordingly, in 2005 BBVA has extended and reinforced its trajectory of profitable growth: we

have accelerated the advancement of activity in all our businesses, furthermore increasing our profitability. We have strengthened our foundations even more: the recurrence and quality of our results, our efficiency and our risk profile. All-in-all, this will enable us to continue creating value consistently in the future.

The clear progression in our earnings and the confident expectations we hold for the future enable us to significantly increase shareholder remuneration. The board of directors is therefore

submitting a proposal to the Annual General Meeting for a 2005 dividend of €0.531 per share, a 20.1% increase on last year. This, in turn, will be the highest figure ever paid out by the Group, bringing the average growth in the share dividend in 2002-2005 to 15.1% per year.

Our rising profits in 2005 were rooted in the firm pace of activity in all business areas, resulting in increases of 26% in lending and 22% in customer funds for the Group as a whole. In turn, this increment in business has been reflected in major rises in revenue, with increases of 17% in net interest income and ordinary revenues, and 22% in operating profit.

In short, we are presenting earnings of the highest quality, based on sustained growth in more recurrent revenues.

BBVA has therefore consolidated its position in 2005 as the most profitable bank amongst major financial groups in the European Union, with a return on equity (ROE) of 37%, more than 15 points above the average recorded by our peers.

We have managed to combine these returns with exceedingly robust foundations. In 2005, we have continued to improve our efficiency with a rise of 190 basis points, bringing it to 46.7%. This, too, is unmatched by major financial groups in the euro zone, bettering their average by 13 percentage points.

Concurrently, BBVA has continued to improve its risk profile, with a further drop of 19 basis points in the non-performing loans ratio, which now stands at 0.94%, and a 33% increase in the NPL coverage ratio, now at 252%. Both variables

underscore the robustness of our balance sheet and confirm our leadership status amongst Europe's foremost banks.

BBVA has indeed had a magnificent 2005, thereby placing us in a strong position to face the future. This strength is drawn from the success of a strategy implemented in a coherent and systematic manner and from an ongoing process of transformation and improvement. A process that is still under way and, what's more, gathering pace, driving us firmly forward into this year, 2006, and into those to come.

Since 2002, BBVA has been at the forefront in the transformation of Corporate Governance, applying the most stringent and advanced international standards.

We have renewed our corporate culture, based on strict, clear ethical principles, on customer-focus throughout the entire organisation, on our pledge to all our stakeholders, and on our commitment to innovation.

We have also transformed our executive management model, rendering it more open and streamlined, and furthered the autonomy, initiative and responsibility of our human resources, making the best possible use of their skills.

We have begun 2006 with a new organisational structure, which has basically involved increasing the number of business areas from three to five: Retail Banking in Spain and Portugal, Wholesale and Investment Banking, Mexico, South America and the United States. Furthermore, the Steering Committee has been reinforced, with the number of members being

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increased from 12 to 18 and the inclusion of the four heads of the key business units.

The aim is to further the Group's globalisation, empowering the decision-making ability of business units and accelerating the transformation process under way, giving innovation an added boost.

The transformation process being undertaken at BBVA has enabled us to take a giant step forward. As foreseen, BBVA has recorded steep growth, with the business volume rising 40% between 2002 and 2005.

Yet above all, BBVA has grown in a profitable manner. Over these same years, BBVA has more than doubled its net attributable profit. Even more significant, however, and of greater interest to our shareholders, is the fact that BBVA has more than doubled its earnings per share, rising from €0.54 in 2002 to €1.12 in 2005. This means that these earnings have risen at an average annual rate of 27.7%, well above the average of 23.8% recorded by the largest banks in the EU.

These figures have boosted the Group's market value, with BBVA's market capitalisation now twice that recorded in December 2002.

Not only have we grown, we have also laid extremely solid foundations for future growth.

Over these years, we have extended our geographical base, building up a position of clear leadership in Mexico's financial market, initiating our deployment in the United States and reinforcing our presence in Asia.

Insofar as business is concerned, we have embarked upon far-reaching long-term projects

catering for underserved segments in the United States and migrant workers in Spain. We are also spearheading the relaunch of the mortgage business in Latin America, strengthening our market positioning in countries such as Mexico or Colombia, where in 2005 we acquired Granahorrar, a leading entity with a market share exceeding 15%. We are also reinforcing our position in businesses such as trade finance or project finance.

Our aim this year, 2006, is to uphold this pattern of strong profitable growth. We have defined a preferential growth framework, and within it, the Group's 29 business units have implemented 94 new schemes that address both organic and inorganic growth. Yet the latter is always undertaken upholding two very clear premises: consistency with our strategy and value creation.

The BNL operation has testified to our compliance with these principles. In 2005, we decided to launch a take-over bid on BNL, in order to focus our investment in this bank, which amounted to almost 15%. This aim could be achieved either by purchasing BNL for the price set by BBVA, or by selling the investment for an acceptable price. Finally, following the announcement of the offer made by the French group BNP, we came to the conclusion that the best way of generating the most value for shareholders was to sell our stock at the price of €2.9525 per share offered by the French group, thereby generating capital gains for BBVA of close to €600m and freeing up major liquidity funds

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and capital for addressing other profitable projects.

In the retail business, BBVA focuses on two regions in which it implements its acknowledged expertise in network management: Spain and the Americas, where Mexico is the key country. In all these areas and countries, 2006 is going to be another excellent year for growth.

In the United States, we are formulating a comprehensive value arrangement, exploiting the competitive advantages of the BBVA Bancomer brand amongst the population of Mexican origin, with the aim then being to extend it to the entire Hispanic community and, finally, to the whole of the US market.

In the wholesale business, the BBVA model is based on franchising. In both Spain and Latin America (excluding Brazil), BBVA is the leader in corporate banking. It is also the global leader in trade finance and project finance, businesses that provide us with a bridgehead for accessing other markets. Amongst these, Asia, the world's most rapidly expanding region, and with ever closer ties with Latin America, constitutes a clear opportunity for BBVA.

The furtherance of all these growth plans requires our continuous effort in transformation, underpinned by two clearly defined referents: on the one hand, our quest to provide our customers with increasingly enhanced solutions, as a means for sustained value creation, and on the other, an ongoing commitment to innovation to distinguish us from our competitors in the global financial industry. BBVA has implemented a Strategic

Innovation Plan, which has already produced significant results this year, in terms of products, processes and access to new markets.

Yet this is no more than the tip of the iceberg, the size of which will gradually be revealed in this and ensuing years though BBVA's three core approaches: innovation in our current businesses; the application of new technologies that benefit our customers; and new business models catering for the requirements of a society undergoing rapid change.

In 2005, BBVA has further reinforced its position as one of the world's foremost banks in terms of productivity, returns and value creation for its shareholders.

This is the result of a well-designed strategy that is systematically and consistently applied, hand-in-hand with a commitment to continuous improvement, transformation and customer-focused innovation.

Our aim over the next few years is to become one of only a handful of benchmark entities in the 21st century's global financial industry. We are on our way to achieving this, and I am convinced that we are going to take further steps in 2006 that will bring us closer to this goal, thereby benefiting not only our shareholders, but also our customers, our employees and the societies in which we operate.

27 February 2006  
Francisco González Rodríguez

