A STRATEGY FOR PROFITABLE GROWTH

A SOUND STRATEGY (2002–2005)

In 2002, BBVA entered a new phase, looking to the future with optimism, confidence and ambition. This new stage was based on three key pillars: the management of diversity, growth and value. Nonetheless, the Group's two main referents were kept firmly in mind: customers and innovation.

2003 was the year in which the Group's foundations were reinforced. In order to address a complex global scenario, the narrowing of margins and the impact the appreciation of the euro had on earnings in the Group's Latin American businesses, BBVA chose to consolidate the management and supervision of both risks and efficiency. Likewise, a new organisational structure was introduced with a ground-breaking approach to executive management, and a revamped code of conduct was approved with a far-reaching training plan, with the goal being to position BBVA at the forefront in Corporate Governance.

Each and every one of these actions meant that in 2004 the Group's core businesses recorded significant progress driven by each one of the units. The demanding organic growth targets set for the year were easily achieved, exceeding market expectations and posting record profits for the Group. Progress was simultaneously made in inorganic growth schemes: BBVA launched a takeover bid on 100% of the shares it still did not own in BBVA Bancomer; it announced the acquisition of Hipotecaria Nacional in Mexico (joining the Group in January 2005), and in the United States it purchased specialist entities in target segments, such as Laredo National Bancshares (joining the Group in May 2005) and Valley Bank (December 2004).

In 2005, now fully ensconced in a growth pattern, BBVA once again posted record profits of €3,806m, successfully dove-tailing its strategy of organic growth – over 94 growth projects underway – with its strategy of inorganic growth, with such examples as the takeover bid on Banca Nazionale del Lavoro (BNL) and the acquisition of Granahorrar in Colombia.

Following several years of shareholding, and with a thorough knowledge of the company, BBVA decided to launch a takeover bid on BNL in order to focus its investment. This could be achieved in two ways: purchasing BNL for the price set in the takeover, thereby integrating it within the Group and subsequently transforming it, or selling the investment for an attractive price.

Following an analysis of the situation created, first by the Unipol operation and, now in 2006, by the announcement of the bid submitted by BNP Paribas, BBVA has decided it can generate greater value for its shareholders by divesting itself of its holding in the Italian bank. At a price of €2.9525 per share announced by the French bank BNP Paribas, BBVA would obtain capital gains of close to €600m.

In addition, in October 2005 BBVA announced the purchase of Granahorrar in Colombia; an acquisition that places BBVA at the head of the country's mortgage market, whilst also incorporating a broad customer-base.

In short, the outcome of the new phase initiated in 2002 has been extremely positive, rendering BBVA an investment alternative in which growth has been the dominant feature during this period, whilst a perfect balance has been struck between risk and returns.

BBVA, an institution in constant growth

Growth, one of the mainstays of Group strategy, has initially been reflected in the major increases in activity: BBVA's business volume, ie, the sum of customer lending and funds, amounted to €625.5 billion at year-end 2005, 1.4 times greater than the figure returned at year-end 2002, thanks to the positive trend in the three business areas: Retail Banking in Spain and Portugal, Wholesale and Investment Banking and the Americas.

This growth in business has been mirrored in net attributable profit, whereby if in 2004 BBVA recorded its best results ever, the steady pace of growth in 2005 has meant that this last year has also closed with record profits: €3,806m, a figure that is 2.2 times up on 2002.

In turn, earnings per share, the more pertinent figure for appraising value creation, have risen in 2005 to €1.12, which means more than doubling the €0.54 forthcoming in 2002. All this has had a bearing on the major increase in the Group's

BBVA takes a step forward in the transformation process

	Growth 2002	Growth 2005		AAGR 2002-2005
Market value	29,146	51,134	x1.8	20.6%
Net attributable profit	1,719 (1)	3,806	x2.2	30.3%
EPS	0.54 (1)	1.12	x2.1	27.7%

The finest indication of value creation for shareholders

(1) Pre-IFRS.

market capitalisation during the period in question, which at year-end 2005 stood at €51,134m, as opposed to €29,146m at year-end 2002.

BBVA: at the forefront in returns

The growth BBVA has experienced in recent years has been compatible with the achievement of high returns. Amongst today's major financial institutions, BBVA presents the highest returns in the European Union, with ROE (net attributable profit over average equity) in 2005 amounting to 37.0%.

All this has been rendered possible by the progress BBVA has made in its management competencies: the supervision of distribution networks, with significant increases in commercial productivity in the Group's main operating markets, the management of efficiency, in which BBVA is a recognised benchmark, and the management of credit and structural risks.

BBVA: increased productivity

The management of the branch network is one of BBVA's many strengths. It provides contact with customers, who the Group places at the heart of its business and with whom it seeks to uphold fluent, transparent and lasting reciprocal dealings. BBVA, which some years ago embarked upon the segmentation of networks, has therefore designed myriad innovative products and has equipped management teams with the tools, knowledge and skills required to cater efficiently for customer needs. The outcome of these efforts in 2005 has been a 33.9% increase in the average number of products sold by each manager in the retail segment in Spain, and a 41.8% rise in Mexico. An excellent position that BBVA is determined to improve for the good of its customers – the true architects of the Group's achievements.

BBVA: the leading bank in efficiency in the euro zone

In 2005, BBVA has recorded an efficiency ratio of 46.7%. This is a measurement that relates costs (including amortizations and depreciations) to operating income. This figure places BBVA in pole position amongst major banks in the euro zone in terms of efficiency, making it a benchmark entity at global level.

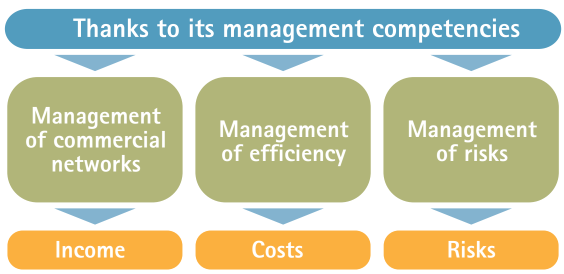
BBVA: an excellent risk profile

The Group has managed to combine growth with efficient risk management, which BBVA considers to be a core competency for providing investors with stable and ongoing value creation.

The result of this accomplished management has been that at year-end 2005, the BBVA Group's non-performing loans (NPL) ratio has recorded its lowest ever level of 0.94%, with the NPL coverage rate soaring to a record high of 252.5%. It should furthermore be remembered that 95% of the Group' assets are located in investment grade countries, and that BBVA adopts a hands-on approach to structural risk management (exchange rates, interest rates, reputational risk, etc). Such factors lie behind the high score BBVA has been awarded by the main rating agencies: AA– by Standard & Poor's and Fitch, and Aa2 by Moody's.

Finally, it should be noted that over these years BBVA has achieved a self-financing growth model, generating sufficient capital to remunerate its shareholders handsomely and address both organic and inorganic growth operations, upholding sound capital ratios at all times.

BBVA presents the highest returns in the European Union, at 37%



PLEDGES HONOURED

BBVA is today a more efficient, profitable and solvent group. A group which, moreover, has honoured each and every one of the pledges it made in 2002 to its stakeholders: customers, shareholders, employees and public at large. Pledges that underpin the Group's corporate culture and which have been embodied in numerous projects.

Customers

Actions focusing on customers, the veritable cornerstone of the business, have been legion over these years: the Customer project, initiated in Mexico and subsequently extended to all other countries; the financial services plan in retail banking, an inventive approach to customer dealings based on guidance and personalisation; the *400* plan or the *Faro* plan, which have helped to bolster the wholesale banking franchise; the launch of *Hipoteca Fácil* (Easy Mortgage), the *Carteras Gestionadas* for funds and the *Cuentas Claras*, which constitute as many examples of innovative and useful solutions for customers; or the service provided to segments with a high growth potential, such as the Hispanic community in the United States or the migrant worker population in Spain.

Shareholders

The pledge to enhance investor trust has also been reflected in numerous schemes: the safeguarding of their interests through inorganic growth operations underscored by value creation and strategic focus criteria, the application of a Corporate Governance System based on the most stringent standards of transparency and ethical conduct or the adoption of a Code of Conduct, without ignoring a policy of increased dividends.

Employees

The road travelled by BBVA over these years is due largely to its employees' commitment to the common good. There have been abundant schemes within this sphere: the new executive management structure, the furtherance of personal and professional development, the recognition of worth and the management of diversity as a competitive advantage.

Society

In each one of the societies in which BBVA is operational, the Group has sought to increase its value contribution through its corporate responsibility actions, integrated within all the Group's areas and activities, as a mainstream factor that has a bearing on all its lines of action.

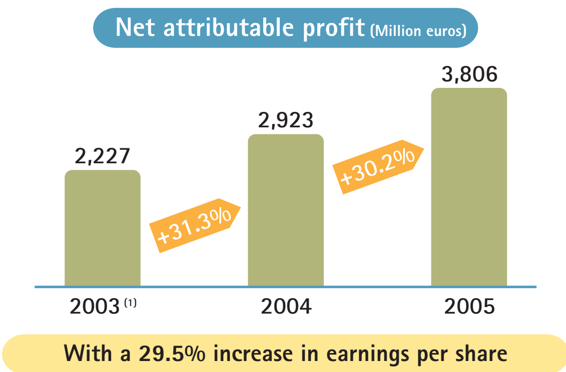
MILESTONES 2005

In short, 2005 has concluded a cycle in which BBVA has pursued a stunning trajectory of profitable growth, with its maximum expression being the record earnings achieved in the year.

2005: record profits once more

Earnings should be analysed within the strategic framework defined in 2002. Accordingly, steady progress has been made in 2005 in the management lines announced at the beginning of the year, ensuring the continuance of the growth trend initiated in prior years and thereby recording the aforementioned net attributable profit of €3,806m, 30.2% up on 2004, and a new record as the Group approaches 150 years in business.

BBVA concludes another record year



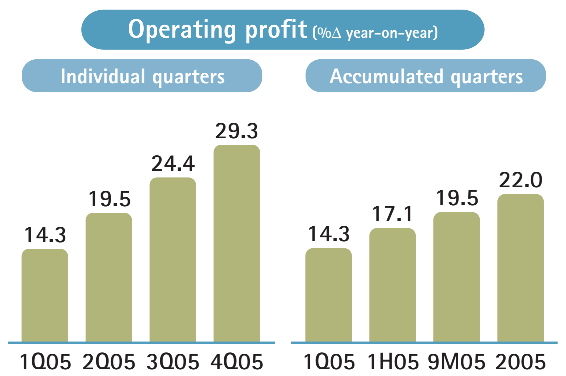
(1) Pre-IFRS.

Keys to the year. The keys to these earnings may be summarised as follows:

- Upholding high rates of growth in all business areas, which have been mirrored in income, with sharp, balanced increases in all lines.

- The positive performance of operating profit, amounting to €6,823m, up 22% on 2004. This is the crucial factor in the growth in profits, and once again this year it reveals the high recurrence and quality of Group earnings.
- A further highlight has been the acceleration from one quarter to the next in year-on-year growth rates, in terms of both net profits and margins.

Year-long upward trend



Dividend growth. The growing generation of earnings enables the BBVA Group to pursue its well-received policy on shareholder remuneration, and a proposal has therefore been made to increase the dividend corresponding to 2005 to €0.531 per share, a 20.1% increase on the prior year.

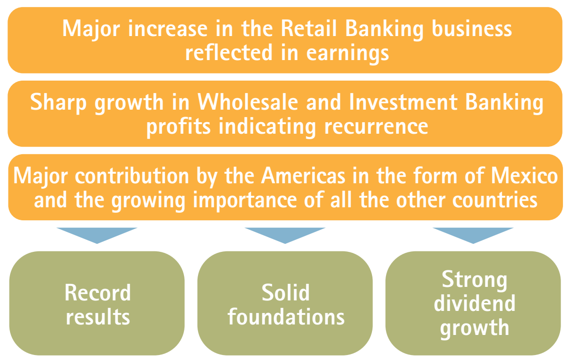
Excellent performance in all business areas. The Group's earnings in 2005 have been based on an excellent performance in the three business areas.

Retail Banking in Spain and Portugal has once again successfully exceeded the targets set. The dynamism of business activity, with increases of 20% in lending and 10% in customer funds, has been reflected in the area's earnings, with net attributable profit amounting to €1,614m, 13.1% up on the prior year.

Wholesale and Investment Banking has consolidated its franchise model in 2005, closing an excellent year with a net attributable profit of €592m, 46.6% up on the figure for 2004, thanks to the business's steady growth rates, the recurrence of income in Corporate Banking and Institutional Banking and the strength shown by the Markets unit.

The Americas area has posted record profits of €1,820m in 2005, a 52.3% increase on 2004. All business units in the area have recorded positive growth in terms of both earnings and business, with Mexico being an especially significant case. The net attributable profit the country has recorded in the banking, pensions and insurance businesses has risen 56.7% to €1,350m. This figure accounts for 74% of the profits in the Americas area and for 35% of the overall total for the Group.

BBVA completes another excellent year



Granahorrar takeover

In 2005, the *Fondo de Garantías de Instituciones Financieras* in Colombia declared BBVA the winner in the auctioning of Granahorrar, for a sum of €364m. This operation enables BBVA to take the lead in Colombia's mortgage market, reinforcing its presence in a country that has embarked upon a period of growth and stability.

Granahorrar is one of the leading entities in the Colombian mortgage market, with a 15.2% market share. It has 130 branch offices, which supplement the current network of 255 branches in BBVA Colombia. In 2004, Granahorrar posted a net attributable profit of $45m, with a return on equity (ROE) of 20.9% and a NPL ratio of 3.2%.

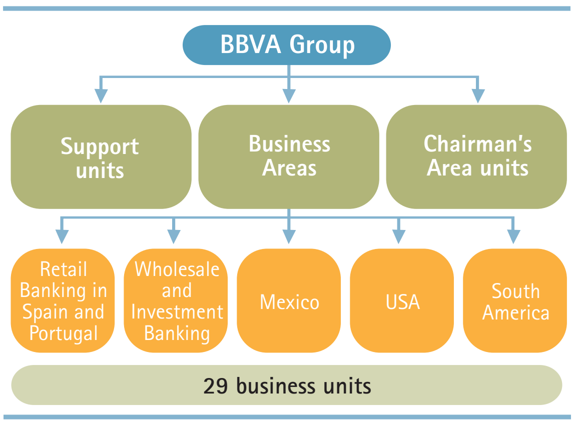
This acquisition fulfils two basic criteria that BBVA has been applying in the assessment of inorganic growth operations: consistency with the Group's strategy and value creation for shareholders from the very beginning.

New organisational structure

In December 2005, BBVA adopted a new organisational structure, with a view to driving the Group's growth on the basis of three pillars of action: furthering the Group's globalisation, reinforcing the business units' decision-making scope and accelerating transformation through innovation in processes and value sources.

The new structure includes three types of areas and units: Business, Human Resources, IT & Operations and the Chairman's Area. The business units, defined as value creation centres, are directly responsible for their market penetration, growth and income statement. The diversity and global nature that characterises the Group today has advised raising the number of business areas from three to five, which as of January 2006 are as follows: Retail Banking in Spain and Portugal, Wholesale and Investment Banking, Mexico, the United States and South America.

Likewise, the Steering Committee has been reinforced, with the number of members being increased from 12 to 18 and the inclusion of the four heads of the key business units.



BBVA MARCHES PURPOSEFULLY INTO THE FUTURE

Looking to the future, BBVA wishes to continue advancing along the path of profitable growth, and aspires to further consolidate its position as an excellent investment alternative.

Accordingly, the Group's strategy involves continued work on two vital aspects of future value creation: corporate positioning and the business model.

Corporate positioning

BBVA adopts a hands-on approach to the management of its business portfolio. An umbrella framework has been defined for the entire Group and its 29 business units determine their own growth plans – ones that consider both organic and inorganic growth, and whose evolution plays a dynamic role in defining the aforementioned portfolio.

Recent years have witnessed the strengthening of what are deemed to be the Group's core businesses. The economic capital allocated to the business areas has thus risen from 79% of the total in 2002 to 83% in 2005. This increase reflects the greater penetration in high-growth markets and businesses, in which BBVA is acknowledged to be competitively positioned, in the fields of both retail and wholesale banking.

Retail business. BBVA has a major presence in the retail business in Spain and the Americas.

There is a prevailing belief in the Group that the Spanish market, which upholds a broad growth differential regarding the European Union, still has considerable growth potential. BBVA's positioning in this market may be rated as excellent, both within the sphere of private customers, in which it holds a position of leadership in all segments and business lines, as within the sphere of SMEs, where its strategy of differentiation has consolidated its dominant market position.

Concerning the Americas, a region that has undergone major economic growth in recent years, BBVA's forecasts are also extremely favourable. Ten years after BBVA made its first acquisition in the Americas – Banco Continental in Peru –, the Group is comfortably positioned in all those countries in which its pursues its business, thanks to its successful global business model, which is supplemented by each market's particular specificities.

Mexico is a key country in the development of BBVA strategy in the region. The Group has a steadfast commitment to Mexico, as revealed by the investments made in 2004. Furthermore, the

BBVA share was quoted on the Mexican stock exchange for the first time in August 2005, whereby it became the first European financial group to be listed on the Mexican stock market.

The BBVA Bancomer franchise, furthermore, has acted as a gateway to the US market, a country in which BBVA pursues three major lines of business: cash remittances, in which Bancomer Transfer Services (BTS) is the market leader with a share in excess of 40%; the core products and services for migrant workers, through BBVA Bancomer USA; and banking products for subsequent generations and SMEs, through Laredo National Bancshares.

A full value arrangement that exploits BBVA Bancomer's competitive advantages, with a highlight being the brand's acceptance amongst the Mexican population on both sides of the border.

Wholesale business. BBVA has a business model for this activity based on the franchise it has been developing over the past years. BBVA is the market leader in Spain in corporate banking, being the first or second provider for 79% of large corporations, and the second in Latin America, albeit the first if we exclude Brazil. In the institutions segment, BBVA has traditionally been a veritable benchmark amongst its competitors, a status it still retains today. In addition, the Group occupies positions of leadership in trade finance and project finance, businesses that BBVA is extending to emerging markets.

Along these lines, Asia provides a clear opportunity for exporting the Group's franchise model. BBVA is approaching this region in a cautious yet determined manner. May 2005 thus witnessed the creation of a new business unit, Corporate Banking Asia, part of the *Asia* plan, a growth project of strategic importance for the Wholesale and Investment Banking area and for BBVA as a whole. At year-end 2005, the Group was present in Beijing, Tokyo, Hong Kong and Shanghai.

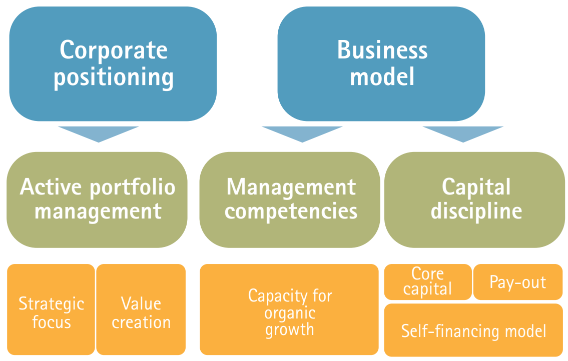
Business model

Together with corporate positioning, the business model is the second of the essential factors underpinning value creation. As has been mentioned earlier, BBVA has a tried and tested management model based on the Group's three management competencies or strengths – the management of the commercial network, the management of efficiency and the management of risk.

These management strengths, which the Group has successfully exported to its Latin American franchise, explain the organic growth the Group has recorded in the past and constitute the basis for future growth.

Furthermore, the management of its core capital, which has remained at around 6%, with a pay-out level close to 50% (47.3% in 2005), has allowed for self-financed growth in recent years and for shareholders to be suitably remunerated through dividend pay-outs. The annual dividend growth rate over the period 2002-2005 has amounted to 15.1%.

BBVA consolidates its position as an excellent investment alternative...



The BBVA business model provides an assurance of future growth through its business models. Therein lies its market value and awareness, as they constitute the Group's true centre of gravity. They are imbued with sufficient autonomy to oversee their own income statements and decide upon their own growth plans, all within the framework defined by the Group.

Nonetheless, although the business model is admittedly important, the key lies in its implementation. In this sense, the BBVA Group has a structured organisation, centred on the development of its earnings-focused strategy and, above all, it has a magnificent team, more than just the sum of its individualities, which is the main guarantee for the future.