

BBVA Group in January-September 2004

In recent months economic activity in the European Union continued to recover while the United States was relatively stable. Latin America consolidated growth at a level that was noticeably higher than the average in recent years with all the main countries performing well. However oil prices – which have constantly hit new highs – continue to be the main source of concern. In this context the Federal Reserve increased its reference rate twice in the third quarter to 1.75% while the European Central Bank held its rate steady at 2.0%. Market rates in the euro zone for periods up to 12 months have remained unchanged while longer term rates have declined marginally. Thus the slope of the 3-12 month curve has flattened. On the other hand Mexico short-term rates continued the uptrend seen in prior quarters.

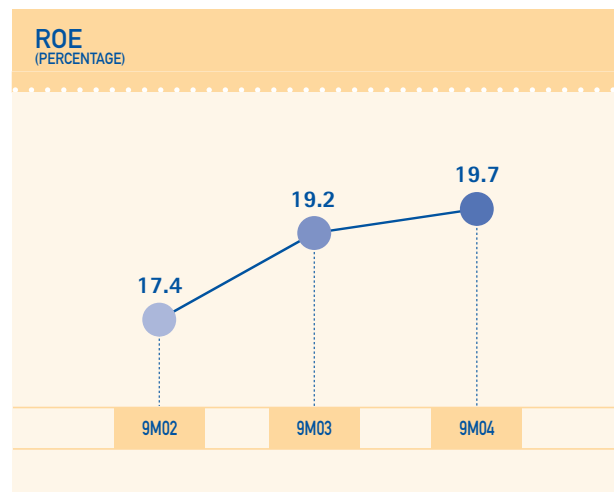
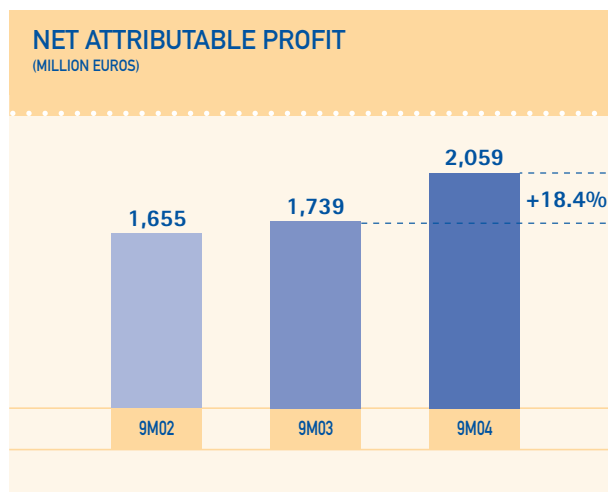
Currency markets were mainly flat in the third quarter. Currencies in Mexico, Argentina and Venezuela declined slightly against the euro and the US dollar, and increased in Chile, Peru and Colombia. However, over the last 12 months most of these currencies have depreciated and this can be seen in the table on the next page. It shows the exchange rates at 30-Sep-04 (which are used to convert the balance sheet and business figures into euros) and the average rates for the first nine months of the year (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 9.1% against the closing rate on 30-Sep-03 and by 14.2% against the average exchange rate for the first nine months of 2003. The Venezuelan bolivar and

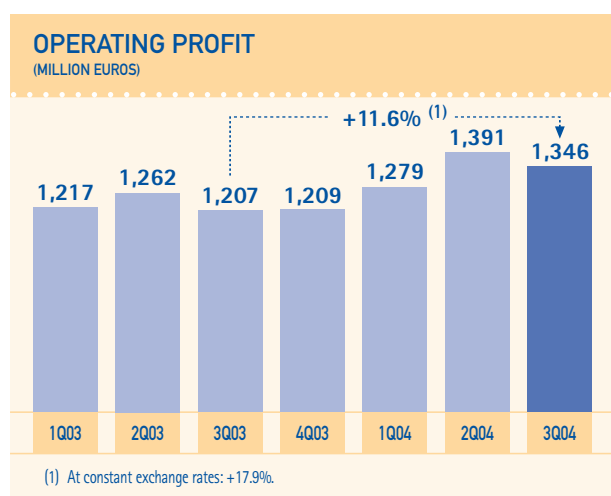
the Argentine peso have depreciated by more than 21% and 8%, respectively. On the other hand the Chilean peso has appreciated by 5%.

As usual, the year-on-year percentage variations at constant exchange rates are given in this report. This is done to facilitate analysis of the different items on the income statement by eliminating the effect of exchange rates. Likewise, comments on business activity refer to variations calculated at constant exchange rates where this is relevant.

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

- Attributable net income in the third quarter (704 million euros) was 23.2% higher than the same period in 2003 and is the highest figure since the second quarter of 2001. Thus cumulative attributable net income from January to September 2004 came to 2,059 million euros – a year-on-year increase of 18.4% (an increase of 22.6% at constant exchange rates).
- Earnings per share increased 12.4% while ROE stands at 19.7% (19.2% in the same period of 2003) and ROA is 1.04%.
- The Group continues to enjoy high quality results. The growth in attributable net income is based on the positive trend in operating profit while the effect of the intermediate items on the income statement is largely neutral.





- The year-on-year growth in operating profit continues to accelerate: the 1,346 million euros generated in the third quarter exceeded those of the same period in 2003 by 11.6% at current exchange rates and by 17.9% at constant rates. Thus the cumulative figure for the first nine months of 2004 (4,016 million euros) grew 9.0% at current exchange rates and 15.6% at constant rates (7.7% and 14.5%, respectively, in the first half).
- Cumulative net interest income in the first three quarters came to 5,261 million euros, 4.7% more than the same period in 2003 (or 10.8% more at constant rates). This was due to faster business growth – especially in lending activities in Spain and in the Americas.
- Net fee income came to 2,523 million euros. Year-on-year this was 3.0% higher at current exchange rates and 9.4% higher at constant rates, ie, similar to the first half year.
- Operating expenses were contained and fell 1.9% at current exchange rates while they increased 3.4% at constant rates. Together with increased revenues this meant that the cost/income ratio improved to 44.8%, compared to 46.7% in the first nine months of 2003. Although the cost/income ratio improved in all business areas, the improvement was especially significant in Mexico, where it fell below 40%.
- Retail banking in Spain and Portugal continued the upward trend of recent quarters with year-on-year increases of 19.2% in lending activities and 9.2% in customer funds (deposits, mutual funds and pension funds). The equivalent figures at 30-Jun-04 were 18.0% and 8.9%, respectively. With operating expenses flat, operating profit grew by 11.5% (11.0% in the first half).
- Lending and deposits in terms of average balances improved in the Wholesale and Investment Banking Area and additionally fee income grew 18.7%. In the year to September attributable net income climbed 11.5% year-on-year.
- The Americas had another record quarter in terms of operating profit and attributable income. At current exchange rates operating profit grew at 6.4% year-on-year (it declined 2.4% in the first half). At constant exchange rates the increase of 21.3% was nearly double the figure at 30th June (11.2%). A decisive contribution to this positive performance was due to the increase of 20.9% in net interest income – boosted by the increase in business activity (22.7% in lending and 11.4% in traditional deposit-taking)

EXCHANGE RATES ⁽¹⁾

	End of period Exchange Rates			Average Exchange Rates	
	30-09-04	Δ% on 30-09-03	Δ% on 30-06-04	9M04	Δ% on 9M03
Mexican peso	14.1543	(9.1)	(0.9)	13.8133	(14.2)
Argentine peso	3.7165	(8.8)	(3.1)	3.6037	(8.5)
Chilean peso	758.15	1.5	2.0	754.15	5.0
Colombian peso	3,246.75	3.7	0.7	3,267.97	(1.9)
Peruvian new sol	4.1477	(2.2)	1.8	4.2235	(8.4)
Venezuelan bolivar	2,380.95	(21.8)	(2.1)	2,293.58	(21.3)
U.S. dollar	1.2409	(6.1)	(2.0)	1.2250	(9.2)

(1) Expressed in currency/euro.

and by changes in interest rates. Profit after tax rose by 33.2% and attributable net income climbed 79.9% (60.0% at current rates) due to lower minority interests in Bancomer.

- Mexico showed an increase of its operating profit at current rates for the period January-September and all earnings figures on the income statement grew faster. Lending grew faster (up 28.0% in peso terms) and customer funds grew at the same rate (12.6%). Both activities focus on the most profitable areas. Therefore operating profit grew 21.9% (double the figure of 10.9% for the first half year) and net income climbed 42.5%. Attributable net income came to 580 million euros – nearly double the amount for Jan-Sep 2003.
- The Group's asset quality continues to be high. At the end of the quarter non-performing loans stand at 1.05%. This is lower than Jun-04 (1.11%) or the level of twelve months earlier (1.52%). Coverage now stands at 235.8% (223.4% at 30-Jun-04 and 180.2% at 30-Sep-03).
- The capital base also continues to be solid. Core capital at 30-Sep-04 was 6.0% – reaching the target for year end. Tier I was 8.0% and the BIS ratio 12.0%.
- The second interim dividend of 0.10 euros per share was paid on 11th October. Like the first interim dividend it represents an increase of 11.1% over interim dividend payments in 2003.

One of the cornerstones of the BBVA Group's strategy is the quest for profitable growth, whether organic or otherwise. Thus in September an agreement was reached in Mexico to acquire Hipotecaria Nacional, the largest private enterprise specialising in mortgages, for \$375m. This operation consolidates the Group's leadership in the private mortgage market in Mexico – a sector with high growth potential.

An agreement was also reached in September to acquire Laredo National Bancshares (LNB) for \$850m. LNB is a financial group based in Texas and a leader in the area of the Mexican frontier. It has \$3.4 billion in total assets and 110,000 customers. It is expected that this operation and

that of Hipotecaria Nacional will be concluded in the first quarter of 2005. These operations are subject to approval by the relevant authorities and they will contribute to the Group's expansion in the US Hispanic market.

A new US retail business unit has been set up under the Americas Area to develop BBVA's strategy in this market. It will comprise LNB, Valley Bank (it operates in southern California and the actual acquisition process has ended in October), Bancomer Transfer Services (the leader in US remittances to Mexico) and BBVA Puerto Rico.

The success of the Group's strategy in the main markets in which it operates has been recognised by *The Banker*, which designated BBVA as the best bank in Spain and Latin America in 2004. In the case of Spain, the key feature in this evaluation was the strong advance in commercial banking, where BBVA has an innovative strategy and novel products. These contributed to its high ranking in European banking circles in terms of earnings per share, cost efficiency and profitability. In Latin America the magazine pointed to successful strategic decisions such as the increased stake in BBVA Bancomer, which is yielding record results, the integration of franchises (demonstrated by the fact that one third of the Group's managers are Latin-Americans) and the mature approach of the regional strategy as witnessed by the sale of the Brazilian subsidiary.

Income for the period

Attributable net income in the third quarter (704 million euros) was 23.2% higher than the 572 million euros obtained in same period last year and this is the highest figure since the second quarter of 2001. This increase – like that of the first half – is the fruit of growing recurrent earnings. The neutral effect of the intermediate lines on the income statement means the increase in operating profit is similar (in absolute terms). Likewise, the third quarter results mean that ordinary revenues and operating profit have grown faster in the first nine months than in the first half year – at both current and constant exchange rates.

Operating profit in the third quarter rose to 1,346 million euros, a year-on-year increase of 11.6% (17.9% at constant exchange rates). This was higher than the corresponding figures (7.7% and 14.5%, respectively) in the first half. It brings cumulative operating profit for the first nine months to 4,016 million euros – 9.0% higher at current rates and 15.6% higher at constant rates than the same period in 2003.

By business areas, cumulative operating profit in Retail Banking in Spain and Portugal grew 11.5% and in Wholesale and Investment Banking it grew 5.7%. Despite the impact of currency depreciation, the Americas Area recorded a positive variation (6.4%) for the first time in recent years. Calculated at constant exchange rates the figure is 21.3%. This improvement was the result of increases of 4.5% in Mexico and 10.1% in the rest of this area (21.9% and 20.1%, respectively, at constant rates).

The positive trend in operating profit stems from increases in net interest income and net fee income and from cost-containment because net trading income was in fact lower than last year.

Net interest income in the third quarter came to 1,742 million euros, 4.0% higher than the same period in 2003 (up 9.8% at constant exchange rates). The cumulative figure for the first nine months comes to 5,261 million euros with a year-on-year increase of 4.7% (10.8% at constant rates).

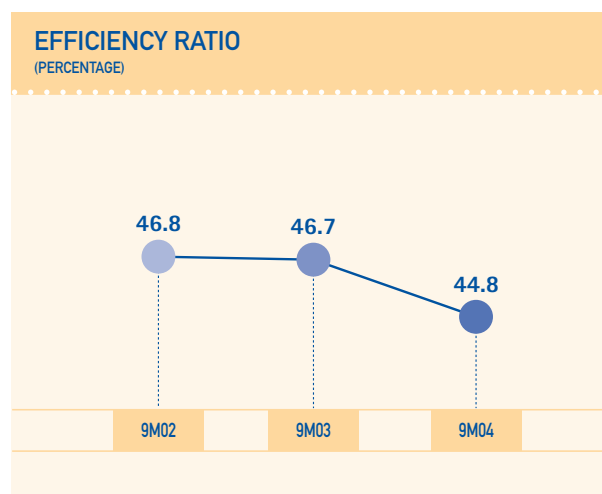
In Retail Banking in Spain and Portugal the year-on-year increase in net interest income between January and September was 2.7% (slightly higher than the first half year) while Wholesale banking maintained the same high growth rate (12.3%). In the Americas it increased 5.4% at current exchange rates and 20.9% at constant rates (0.6% and 15.5%, respectively, in the first half).

Net fee income in the third quarter came to 873 million euros. This was the highest figure since the fourth quarter of 2002. The cumulative amount to September is 2,523 million euros, 3.0% higher than the same period last year (9.4% at constant exchange rates and

in line with the first half). There were increases of 11.6% in Retail Banking in Spain and Portugal, 18.7% in Wholesale and Investment Banking, and 10.6% at constant rates in the Americas. Attention is drawn to fee income from mutual and pension funds, which make up about one third of the total. These rose by 12.3% at constant exchange rates year-on-year. Commissions on securities rose by 14.4% and fees from credit and debit cards increased 10.3%.

Core revenues in the third quarter therefore came to 2,615 million euros, 3.5% higher than the same period in 2003 (up by 9.6% at constant exchange rates). The cumulative figure for the first nine months comes to 7,784 million euros, an increase of 4.2% at current rates (10.4% at constant rates). Net trading income declined 4.7% year-on-year in the quarter and by 26.6% in the first nine months. Despite this, ordinary revenues in the third quarter grew 3.2% in current euros compared to the same period in 2003 and 9.1% at constant rates. This was higher than the corresponding figures (1.8% and 7.7%, respectively) for the first half. This brought the cumulative amount for Jan-Sep to 8,153 million euros, an increase of 2.2% at current rates (8.2% at constant rates).

Control of operating expenses continues to be a constant concern in the BBVA Group. They have fallen 2.1% during the quarter and 1.9% year-to-date at current rates (3.3% and 3.4%, respectively, at constant exchange rates). In Retail Banking and in Wholesale Banking expenses were practically flat while in the Americas they



increased by 6.5% in the year to September in local currency terms. Thanks to this and to higher revenues, the cost/income ratio for the first three quarters of 2004 now stands at 44.8%, 0.1 points better than the first half and 1.9 points better than the 46.7% recorded for the first nine months of 2003. Improvements were seen in all business areas. The ratio for Retail Banking in Spain and Portugal is 42.7% (45.1% for the same period in 2003). In Wholesale Banking it is 29.0% (30.1%) and in the Americas 42.4% (44.9%).

The contribution of companies carried by the equity method came to 607 million euros in the first nine months. The year-on-year increase of 21.7% continues to be influenced by extraordinary adjustments in 2003 following restatement of the 2002 results of Telefónica and Terra. After discounting dividends received, net earnings from companies carried by the equity method came to 309 million euros, a year-on-year increase of 8.3%.

Net income on Group transactions came to 358 million euros in the first nine months of 2004, 9.0% less than the same period last year. The most significant transaction in the third quarter was the sale of the 17.1% stake in Vidrala with capital gains of 19 million euros. This adds to the gains generated in the prior quarters through the sale of interests in Banco Atlántico, Direct Seguros and Acerinox.

The Group earmarked 714 million euros for loan-loss provisions in the year to September compared to 1,054 million euros in the same period of 2003, which included 285 million euros for increasing coverage of exposure associated with Argentinean country risk, from 50% to 75%. It also included other provisions related to that country with simultaneous write-back of special funds included under extraordinary results. Therefore the aggregate of loan provisioning and extraordinary results is similar to the first nine months of 2003. Amortisation of goodwill came to 496 million euros, 15.2% more than the same period last year. This was mainly due to the higher amortisation associated with Bancomer.

Corporate income tax increased faster than earnings before taxes during the period due mainly to

deductions generated in 2003. These lowered the basis of comparison while results attributable to minority interests declined 42.6% due to their reduction in Bancomer after the take-over, to the exchange-rate effect and to the decline in the cost of preferred stock.

Thus Group's attributable net income rose to 2,059 million euros, an increase of 18.4% over the 1,739 million obtained in the first nine months of 2003. This figure rises to 22.6% at constant exchange rates. Both growth rates are better than those recorded in the first half (16.1% at current rates and 20.1% at constant rates). Net income of 704 million euros generated in the third quarter of 2004 exceeded that of the same period in 2003 by 23.2%.

Following the capital increase of 1,999 million euros in February, earnings per share in the first nine months came to 0.61 euros, a year-on-year increase of 12.4% and an improvement over the 10.6% recorded at the end of the first half. Return on equity rose to 19.7% compared to 19.2% for the first nine months of 2003 and return on assets was 1.04%.

Balance sheet and business activity

Total Group assets at 30th September 2004 came to 310 billion euros. At current exchange rates this was 9.0% more than a year previous. Business activity, expressed as the sum of lending and total customer funds under management, rose to 489 billion euros. The year-on-year increase was 10.7% at current rates and 12.6% at constant rates. This was higher than the 8.8% and 11.9%, respectively, recorded at 30-Jun-04.

Lending continued to grow strongly reaching 170 billion euros at 30-Sep-04. This was 13.2% higher than at 30-Sep-03 (14.5% higher at constant exchange rates). The year-on-year increases at 30-Jun-04 were 12.2% and 14.3%, respectively.

Lending to other resident sectors, which now amounts to 113 billion euros, increased 17.2%. For the seventh successive quarter this figure has grown faster than the previous quarter. This solid performance started with an

increase of 8.9% at the end of 2002 and 13.4% at the end of 2003. At the end of June the quarter-on-quarter growth was 16.8% and it reached the above figure of 17.2% at the end of September. This trend mainly reflects the important growth in secured loans which increased by 23.5% at 30-Sep-04. Other term loans, which are 32% of the total, increased 9.3% while leasing grew 20.1% and commercial loans 12.8%.

Public sector lending has increased 18.5% in the last twelve months to 14.5 billion euros. At the same time lending to non-residents increased 5.2% (9.6% at constant exchange rates) to 40 billion euros compared to a 3.6% increase at the end of June.

The solid gains in lending activity were accompanied by significant improvements in asset quality. In the last twelve months non-performing assets have fallen 33.8% to 1,952 million euros. Therefore the NPL ratio at 30-Sep-04, defined as doubtful loans, including contingent liabilities and excluding group 5 country risk, divided by total risk, declined to 1.05% compared to 1.11% at 30-Jun-04 and 1.52% at 30-Sep-03. (The overall ratio for lending has fallen even further, from 1.96% at the end of September 2003, to 1.15%.)

All business areas contributed to this reduction in the NPL ratio as a result of the decrease of non-performing assets in all areas and the increase in total lending. The ratio in Retail Banking in Spain and Portugal stands at 0.62% (0.90% at 30-Sep-03), in Wholesale and Investment Banking it is 0.28% (0.67% at 30-Sep-03) and 3.66% in the Americas (4.76%). The figure for the latter area was due to improvements in Mexico and at other banks in the region.

As the decline in NPLs has been accompanied by increases in provisions, coverage rose to 235.8% at the end of the quarter from 223.4% at 30-Jun-04 and 180.2% at 30-Sep-03.

Total customer funds under management by the Group came to 319 billion euros at 30-Sep-04 with year-on-year increases of 9.4% in current euros and 11.6% at constant exchange rates. They grew faster than the 7.1% and 10.7%, respectively, recorded at the end of June.

Customer funds on the balance sheet came to 196 billion euros, 9.2% more than at 30-Sep-03 (11.5% more at constant rates). Of this figure, 7 billion euros are Public Sector debits and 71 billion euros relate to other resident sectors. This is a year-on-year increase of 5.7%, which rises to 6.8% for deposits (compared to 1.5% at 30-Jun-04). It was supported by current and savings accounts, which grew 12.6% in aggregate. Non-resident deposits totalled 70 billion euros, increasing 1.5% at current exchange rates and 7.0% at constant rates – including transactional deposits which grew 17.8% in local currency terms. Growth in marketable debt securities was also higher (25.4%). In the third quarter 3 billion euros were issued in “Cédulas Hipotecarias” (covered bonds), complementing a similar issue in March.

The volume of off-balance sheet funds (mutual funds, pension funds and customers' portfolios) grew to 123 billion euros at the end of September. In current euros this was a year-on-year increase of 9.8% (an increase of 11.8% at constant exchange rates). It exceeded the corresponding figures at 30-Jun-04 (7.0% and 10.5%, respectively).

Of this figure, Spain accounts for 67 billion euros with an increase of 14.6% compared to 30-Sep-03. The main component is provided by mutual funds with 41.6 billion euros (a year-on-year increase of 16.2%). This rate of growth is considerably higher than the average for the banking system. In absolute terms BBVA has increased its assets and its market share more than other market players in the last year: 8 basis points in the third quarter and 77 basis points in the last twelve months, achieving growth of 19.09%. Pension funds came to 12.6 billion euros and managed portfolios were 12.5 billion – growing 10.2% and 14.0%, respectively, since September 2003.

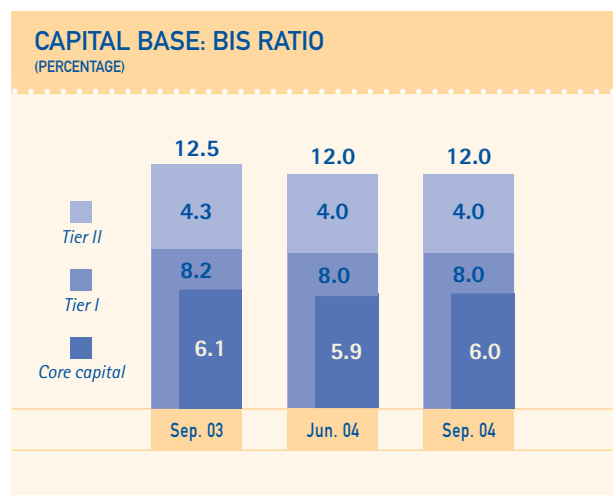
In other countries where the Group operates, off-balance sheet funds came to 56 billion euros with year-on-year increases of 4.6% at current exchange rates and 8.6% at constant rates (an improvement over the decline of 2.7% and increase of 4.0%, respectively, at 30-Jun-04). Of this figure, 28 billion euros are pension funds, 19 billion are managed portfolios and 9 billion euros are mutual funds.

Capital base

At 30 September 2004 the capital base of the BBVA Group was 21,857 million euros based on the standards set by the Bank for International Settlements (BIS) with a capital base surplus (above the BIS requirements) of 7,260 million euros.

Core capital increased to 10,925 million euros and thus the ratio now stands at 6.0%, compared to 5.9% recorded at 30-Jun-04 and 5.7% at 31-Mar-04, following the acquisition of the minority interests of Grupo Financiero Bancomer. This improvement is the consequence of improved recurrent results which have achieved in just two quarters the target set for the end of 2004. After incorporating other core equity, Tier I, which represents 66.9% of the capital base, was 8.0%.

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



The BBVA share

In the third quarter of 2004 the world's main stock-exchanges declined compared to the levels at the end of June. The falls in the most important indices in the main economic centres were varied: Euro Stoxx 50 (-3.0%), S&P (-2.3%) and Nikkei (-8.7%).

The BBVA share price rose 0.9% during the third quarter, outperforming the above indices. The Euro Stoxx Bank index, which best represents the banking sector in the Euro area, rose 0.4% and the Ibex 35 fell 0.6%. BBVA also outperformed the share price of its main Spanish rivals.

Over the last twelve months the BBVA share has risen 25.1%. This is higher than Euro Stoxx Bank (17.8%), the Euro Stoxx 50 (13.8%) and the Ibex 35 (19.8%). The positive trend in the share price and the capital increase carried out in February 2004 to finance the buyout of the other Bancomer shareholders, mean that BBVA's market cap has grown 32.7% in this period to 37.6 billion euros at 30-Sep-04. This makes BBVA the second largest financial group in the euro zone by market value.

During the third quarter the variation in the BBVA share price, expressed as the percentage difference between maximum and minimum trades, was 9%. The average number of shares traded daily was 35 million – slightly higher than the previous quarter – and thus turnover was 386 million euros compared to 375 million euros in the second quarter.

In regard to shareholder remuneration, a first interim dividend against 2004 results was paid on 12th July and the second on 11th October. Both of these dividends were 0.10 euros per share. This is an increase of 11.1% over the corresponding interim dividends paid last year.