



**BBVA**



**Audit and Compliance Committee Report  
2004**

## > Audit and Compliance Committee



> BANCO BILBAO VIZCAYA ARGENTARIA, S.A.  
AUDIT AND COMPLIANCE COMMITTEE  
REPORT ON DUTIES AND ACTIVITIES  
2004

## BANCO BILBAO VIZCAYA ARGENTARIA, S.A. AUDIT AND COMPLIANCE COMMITTEE REPORT ON DUTIES AND ACTIVITIES 2004

Banco Bilbao Vizcaya Argentaria, S.A. has an Audit and Compliance committee comprising only independent directors who are not members of the bank's Executive committee. This committee helps the board of directors in overseeing the financial statements and the implementation of the control function within the BBVA group.

The committee is regulated under article 48 of the company bylaws and articles 29 and following of the board regulations, as well as having its own specific regulations.

The board regulations stipulate that the committee must have a minimum of four members, appointed by the board of directors. All must be independent directors and the board will designate one of them to act as chairman.

The regulations also insist that members of the committee understand the nature of the group's businesses and the basic risks associated with them. They must be willing to apply the judgement skills that they have developed from their professional experience, adopting an independent, critical attitude. In any event, the committee chairman shall have expertise in financial management and shall understand the accounting standards and procedures required by the industry regulators.

When its mission so requires, the committee's regulations state that it may engage external advisory services if its members consider that these cannot be provided by group experts or technical staff on the grounds of specialisation or independence.

Likewise, the committee can call on the personal co-operation and reports of any member of the management team when its members deem this necessary to carry out their duties in regard to relevant matters.

On 31st December 2004, the BBVA Audit and Compliance committee comprised the following members:

<b>Chairman</b>	Mr. Ricardo Lacasa Suárez
<b>Members</b>	Mr. Ramón Bustamante y de la Mora
	Mr. Ignacio Ferrero Jordi
	Mr. Carlos Loring Martínez de Irujo
	Ms. Susana Rodríguez Vidarte

On 24th April 2004, Mr. Carlos Loring Martínez de Irujo joined the committee, replacing Mr. Juan Carlos Álvarez Mezquíriz, whom the board of directors had appointed to the bank's Executive committee.

## DUTIES

The scope of its functions is as follows:

- To supervise the sufficiency, adequacy and effectiveness of the internal control systems and to ensure the accuracy, reliability, scope and clarity of the financial statements for the company and its consolidated group in the annual and quarterly reports. This also applies to the accounting and financial information required by the Bank of Spain or other regulatory bodies including those of countries where the group carries out its activities.
- To oversee compliance with applicable domestic and international standards in matters relating to money laundering, conduct on the securities markets, data protection and the scope of group actions regarding competition. Also to ensure that any requirements submitted to it by regulators with powers over these matters to provide information or take any measures are dealt with in a timely and appropriate fashion.
- To ensure that the internal codes of ethics and conduct and securities market operations, as they apply to group personnel, comply with legislation and are appropriate for the bank's purposes.
- To carefully monitor compliance with the provisions of the BBVA directors' charter and ensure directors comply with applicable standards of conduct in the securities markets.

## ACTIVITIES

As explained above, the committee has its own set of regulations, approved by the board of directors. The regulations can be found on the company's website. They go into details regarding the committee's duties within the scope described above and contain the standards regulating its composition and operation.

In accordance with art. 6 of its regulations, the Audit and Compliance committee shall meet as often as necessary to comply with its functions. However, an annual meeting schedule shall be drawn up in accordance with its duties.

Officers responsible for Accounts, Internal Audit and Standards Compliance may be invited to attend the meetings and, when these officers deem their presence at the meeting to be helpful, other staff from these departments who have particular knowledge or responsibility in the matters contained in the agenda, can also be invited to speak.

During 2004, the Audit and Compliance committee has held twelve meetings, all conducted according to a broad-ranging agenda. The meetings were regularly attended by the chief officer of the Executive Chairman's Office, which is responsible for the areas of Accounts, Internal Audit and Standards Compliance, and the chief officers of Internal Audit, Regulatory Compliance and Accounts and Consolidation, as well as other group staff, when the items on the agenda so required.

Hearing from members of the management staff provided the committee members with appropriate information to understand the issues within their scope of power. Moreover, management staff held periodic meetings with the chairman to help him prepare the committee meetings and deal with certain points that required specific attention.

The external BBVA auditor also frequently attended the meetings.

**Financial Statements.** One of the duties of the Audit and Compliance committee is to ensure that the financial statements are correct, reliable, sufficient and clear. This applies to the bank's financial statements and those of its consolidated group.

To such effects, the committee is constantly monitoring the way the accounts are being drawn up, reviewing their content in detail before they are presented to the board of directors. It holds frequent meetings with bank executives in charge of the accounts and with the external auditor.

Thus, the committee, in the presence of the external auditor, reviewed both the annual accounts to 31st December 2003 and the interim accounts for each quarter of 2004. Its members also received timely information on the monthly performance of the income statement, which is recurrently presented at each committee meeting by officers from the different areas of the bank in charge of drawing it up.

Apart from this ongoing scrutiny throughout the year, prior to the board of directors filing the annual accounts for the year ending 31st December 2004, the committee analysed them in detail. The accounts being submitted to this AGM have merited the committee's approval and conformity, in that they comply with the requirements laid down in its regulations that they be correct, reliable, sufficient and clear.

In this area, the committee also supervises the financial and accounting information that BBVA furnishes the regulators and the markets in Spain and in other countries to whose jurisdiction BBVA is subject in its operations. In particular, the committee checks the protocols that are lodged each year with the Spanish Commission for the Securities Market (CNMV) and the Securities and Exchange Commission of the United States (SEC).

During the year, the committee has reviewed the form 20-F that must be registered with the SEC in the United States and has seen the contents of the annual prospectus (Folleto Continuado) filed with the CNMV.

**External Audit.** Another essential duty of the Audit committee is to select the external auditors for the bank and its group, and for all the companies in it. It must also verify, with proper periodicity, that the external audit schedule is being carried out in compliance with the service level agreed, and that said level satisfies the requirements of the competent authorities and the bank's governing bodies.

To such end, the committee is in constant contact with the external auditor. In 2004, it met with the auditors in plenary session seven times, and further specific meetings were also held between the committee's chairman and the external auditor in which they tracked issues of special interest regarding the drawing up of the financial statements and the quality of the job being done by the external audit.

During its meetings in 2004, the committee analysed in detail and approved the external audit schedule for this year. It periodically monitored its implementation and evolution, and approved the budget allocation for the bank's and the group's external audit for 2004.

Likewise, it read the report from the external auditors with their recommendations on 2003, and the plans drawn up jointly with the internal and external auditors regarding their implementation, which it subsequently scrutinised.

The committee resolved to file the proposal to appoint the external auditors for the bank and its consolidated group to audit the 2004 accounts. It suggested the board of directors

submit the appointment of the firm, Deloitte & Touche Spain, S.L. to the consideration of the AGM. On 28th February 2004, the AGM approved the appointment.

It also resolved to propose that the board submit the re-election of the firm to this AGM as external auditor for the 2005 accounts. This year's AGM will consider this proposal within the established agenda.

The committee must also ensure the independence of the external auditors. This entails two main duties:

- Ensuring that the auditors' warnings, opinions and recommendations cannot be compromised.
- Establishing the incompatibility between the provision of audit services and the provision of consultancy, unless there are no alternatives in the market to the auditors or companies in the auditors' group of equal value in terms of their content, quality or efficiency. In such event, the committee must grant its approval, which can be done in advance by delegation to its chairman.

During its periodic meetings with the external auditor over the year, the Audit committee and its chairman have focused special attention on the details of the progress and quality of the external audit work. It has been monitoring the engagement of consultancy services to ensure compliance with the committee's regulations and the applicable legislation in order to safeguard the independence of the external auditor.

Thus, in compliance with prevailing standards, all the audit services have been given preliminary approval by the committee's chairman.

Moreover, the internal audit has repeatedly submitted information to the committee on compliance with the standards on the engagement of professional services by auditing firms to the BBVA group.

**Internal Audit.** During 2004, the committee has carried out the tasks entailed in supervising the internal group audit. It has analysed and approved the internal audit schedule for the year, and has constantly monitored its implementation and development, through ongoing contacts with the Internal Audit officer, who has addressed the committee on eight occasions.

It has also followed up on the recommendations report stemming from the conclusions of the 2003 audit, and the evolution and development of the master plan for internal audits, giving special reports on the projects of greatest importance for the internal audit area.

Amongst these, the project regarding adaptation of internal oversight systems to section 404 of the Sarbanes Oxley Act is of special importance for the group. It has been established as a global project aimed not just at complying with the requirements established by the act, but also at overhauling the group's internal oversight systems in order to adapt them to the most stringent international standards.

Another project is the BBVA AUDIT project, whose goal is to significantly enhance the quality and efficiency of internal audit work, putting more resources into the jobs that generate most added value.

The Internal Audit officer has also held periodic meetings with the committee chairman to report on the performance of internal audit activities over the year.

**Regulatory Compliance.** The committee has subjected the activity of the Regulatory Compliance department to constant scrutiny during 2004.

It has analysed and approved the annual action plan for the Regulatory Compliance department and has monitored its implementation throughout the year. The officers responsible for the plan have reported to the committee on four occasions, as well as holding specific meetings with its chairman.

During these presentations, issues of most relevance for the area have been tackled, such as prevention of money laundering, the internal oversight model in the integration of own-account activity and the implementation of the BBVA group's new code of conduct, which significantly reinforces the group's activity in this matter.

**Other Activities.** The committee has also been informed of what has been done by the external regulators in Spain and abroad regarding the bank and its group during 2004 within the scope of its activity. These include the Bank of Spain, the CNMV (Comisión Nacional del Mercado de Valores) and the SEC (Securities and Exchange Commission) in the United States. It has also ensured compliance with any requirements from these agencies in due time and in the proper manner.

To such end, the chief officer of the Executive Chairman's area and the chief officer of Accounts and Consolidation have reported to the committee on the requirements received and the steps taken to comply with them. When necessary, the officers responsible for the other bank areas with powers in this matter also attended the meetings.

One element of special relevance for the committee during 2004 was the scrutiny of the latest developments in the regulations applicable to financial institutions, and more specifically, the international accounting standards (IAS).

The chief officer of Accounts and Consolidation has been reporting to the committee on the conception and development of the IAS project in BBVA, intended to get to know and evaluate the new standards and implement the procedures and systems necessary for their effective implementation.

This project has also been dealt with in depth at the committee's different meetings. Specific presentations have been given over the year by the external auditor, reporting on the IAS issues of most importance for the bank and its group.

The Committee, in pursuit of its duties, has also been informed of other issues of special relevance that fall within its scope. For example, questions regarding the latest Spanish and international standards applicable to the activity of the bank and its group, with respect to risks, etc. To such end, it has maintained an excellent relationship with the officers responsible for the bank's executive areas with knowledge of these matters.

**Conclusion.** As explained above, the Audit and Compliance committee has maintained an intense working schedule during 2004. It has received help from different areas of the group with expertise on matters within the committee's scope, and also from the external auditor and other non-BBVA professionals whom its members considered advisable to bring in.

Consequently, we can conclude that in 2004 the committee was able to satisfactorily fulfil the mission given to it by the board of directors, which comprises the duties established in its regulations.