

> Relevant events

The financial information provided in this quarterly report follows the criteria established in Circular 4/2004 of the Bank of Spain and the international financial reporting standards (IFRS), approved by the European Union. The figures for 2004 have been prepared using the same criteria and are directly comparable. Therefore they are different to those published in 2004. The figures in this report have not been audited and thus may change in the future. This quarterly report contains certain reallocations of items on the income statement of 2004 and 2005, to the figures published in the previous quarterly report. They have no impact on net profit and only a limited effect on operating profit or on the balance sheet, shareholders' funds and on the corresponding reconciliation of accounts. This report includes all of these changes.

The most relevant financial aspects of the BBVA Group in 2005 are summarised below:

- In 2005 the group recorded significant improvements in the main business ratios and other indicators. These figures already stood at exemplary levels in the international context. Strong increases in business volume in all segments and geographic regions were accompanied by additional improvements in risk quality and coverage. This situation led to the best results ever in the history of BBVA. Following the year's achievements in earnings per share, efficiency, return on equity and on assets, together with the improvement in risk quality, BBVA has consolidated its position among the largest European financial groups.
- Attributable net income in 2005 rose to €3,806m, an increase of 30.2% over the €2,923m obtained in 2004. The profit figures for the full year and for the fourth quarter are both all-time records.
- Earnings per share grew 29.5% to €1.12 and ROE increased to 37.0% (33.2% in 2004).
- The considerable increase in profit in 2005 is mainly due to positive performance by all sources of revenue.
- Operating profit rose to €6,823m, an increase of 22.0%.
- Apart from the elevated profit figure, its significant upward trend and the excellent quality of earnings, the year-on-year comparisons for each quarter show that growth in all margins and profit is accelerating.
- Ordinary revenues rose 17.1% on favourable performance of all components. These include net interest income which grew 17.0% and income from fees and insurance which rose 16.4%. Operating costs including depreciation grew more slowly (at 12.0%) and, on a like-for-like basis, this figure was 8.4%.
- As a result, the cost/income ratio including depreciation, stands at 46.7% having improved 1.9 points over 2004 (48.6%). Without depreciation the ratio would be 43.2%.
- The strong increase in lending to customers was accompanied by a further improvement in asset quality. Thus the NPL ratio improved to 0.94% at 31-Dec-05, compared to 1.13% a year earlier. Coverage increased to 252.5% (219.7% at 31-Dec-04).
- At year-end, core capital stands at 5.6%. Tier 1 capital is 7.5% and the BIS ratio 12.0%. Excluding the acquisitions done in 2005, the core capital would be 6.2%.
- On 10th October the group paid a third interim dividend of €0.115 per share against 2005 results. This was the same amount as the July and October dividends and 15% higher than dividends a year earlier.
- The high level of business activity in the Retail Banking Area for Spain and Portugal led to a 20.1% increase in lending (supported by SME finance and mortgages) and a 10.0% rise in customer funds. This helped ordinary revenues to climb 8.3%. Operating

profit and net attributable profit both recorded year-on-year increases of 13.1%. The net attributable profit for this area came to €1,614m.

- In the Wholesale and Investment Banking Area the group's capacity to generate revenue was reflected in ordinary revenues (up 24.4%) and operating profit (up 33.9%). After lower provisioning requirements, net attributable profit grew 46.6% to €592m.
- The Americas Area also enjoyed high levels of business activity, especially in lending. This was reflected in revenues with increases of 32.6% in net interest income and 35.4% in operating profit. It lifted net attributable profit to €1,820m, an increase of 52.3% over 2004. On a like-for-like comparison (ie, excluding Hipotecaria Nacional, Laredo Nacional Bancshares and BBVA Bancomer USA and in December, Granahorrar in Colombia), operating profit rose 32.3% and net attributable profit 45.4%.
- Bancomer's contribution is particularly significant. Its operating profit jumped 46.2%, supported by net interest income (up 39.7% thanks to higher volumes in the more profitable lines) and by net fee income (up 26.1%). Net profit shot up 56.3% to €1,192m (46.1% excluding Hipotecaria Nacional).
- Lastly, at the end of December the group announced a new organisation structure that will drive its global strategy of profitable growth and energise its transformation through innovative business models.

> ECONOMIC ENVIRONMENT

In 2005 the world's economies continued to expand at more than 4%, showing notable resistance to increases in the oil price. In line with the steady economic expansion and the growing risk of inflation, the US Federal Reserve gradually increased rates from 1% in

June 2004 to 4.25% at the end of 2005. Despite this, long-term interest rates continued at very low levels. On average, the 10-year rate in 2005 was the same as the previous year and the rate curve flattened.

On 1st December the European Central Bank also signalled the start of an upward cycle by increasing its rate to 2.25% after two and a half years at 2%. This led to a rebound in euribor in the fourth quarter but, despite this, the average 10-year rate remained lower than in 2004. The European economy grew less than in 2004. However, the Spanish economy was up 3.4% (three-tenths of a percent more than in 2004) driven by strong domestic demand from consumers, the housing market and SMEs. Foreign trade and higher inflation were negative factors.

Latin America was favoured by the international context and grew more than 4% in 2005. This was the third year of significant growth, characterised by the fact that it extended to all countries in the region. Increases in raw material prices, the improvement in nominal exchange rates and a significant reduction in risk premiums have also favoured these countries. Mexican interest rates peaked in May and began to fall at the end of August. The peso gained ground against the dollar and this kept inflation at record lows.

In the fourth quarter the euro fell 2.1% against the dollar and this largely extended to most Latin-American currencies. As a result, the euro fell against the main Latin-American currencies over the last 12 months. Thus the effect of exchange rates on the group's balance sheet at 31-Dec-05 and on the year-on-year comparisons, is now positive. On the other hand, average exchange rates during the year are used to convert the items on the income statement to euros. This time, the overall impact is positive for the first time in many years although not great. The Mexican peso appreciated 3.5% against the euro, the Colombian peso 12.7%, the Chilean peso 8.7% and the Peruvian sol 3.5%. The dollar rate was unchanged and the Venezuelan bolivar fell 10.5%.

> Exchange rates ⁽¹⁾

	Year-end exchange rates			Average exchange rates	
	31-12-05	$\Delta\%$ on 31-12-04	$\Delta\%$ on 30-09-04	2005	$\Delta\%$ on 2004
Mexican peso	12.6357	20.2	3.1	13.5575	3.5
Argentine peso	3.5907	12.8	(2.7)	3.6382	0.8
Chilean peso	606.80	25.1	5.9	696.86	8.7
Colombian peso	2,695.42	18.9	2.2	2,890.17	12.7
Peruvian new sol	4.0434	10.7	(0.3)	4.0976	3.5
Venezuelan bolivar	2,531.65	3.1	2.1	2,617.80	(10.5)
US dollar	1.1797	15.5	2.1	1.2441	-

(1) Expressed in currency/euro.

> Interest rates (Quarterly average)

	2005				2004			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Official ECB rate	2.08	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Euribor 3 months	2.34	2.13	2.12	2.14	2.16	2.12	2.08	2.06
Euribor 1 year	2.63	2.20	2.19	2.33	2.31	2.35	2.29	2.14
Spain 10 year bond	3.38	3.23	3.36	3.64	3.79	4.15	4.31	4.14
USA 10 year bond	4.48	4.20	4.15	4.29	4.16	4.29	4.58	3.99
USA Federal rates	3.97	3.43	2.92	2.45	1.95	1.43	1.00	1.00
TIIE (Mexico)	9.10	9.88	10.05	9.40	8.54	7.45	6.73	5.90