

BBVA Group in 2004

In 2004 the world's economy was stronger than the year before, with China and the United States as the principal engines of growth while high oil prices were the main concern. Latin America enjoyed its best year in recent times with significant growth in all the main countries. However, growth in the European Union was considerably more modest although in Spain it was similar to the 2.5% recorded in 2003. These circumstances led the Federal Reserve to lift its reference rate gradually to 2.25% while the European Central Bank held its rate steady at 2.0%. Short-term market rates in the euro zone remained stable while long-term rates have declined. Thus the slope of the interest rate curve has flattened. However, in Mexico, short-term rates have continued to rise from the second quarter onwards.

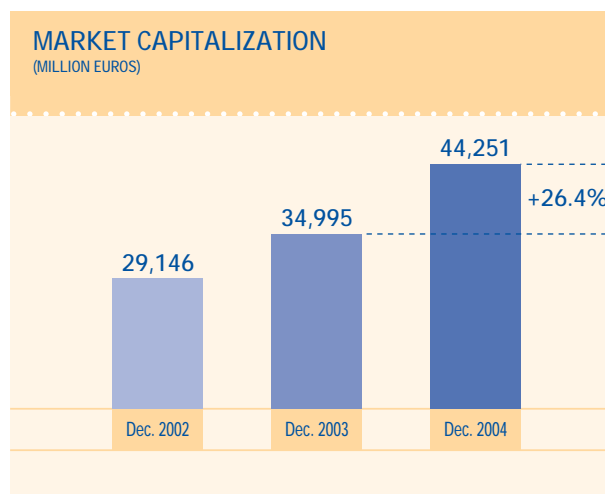
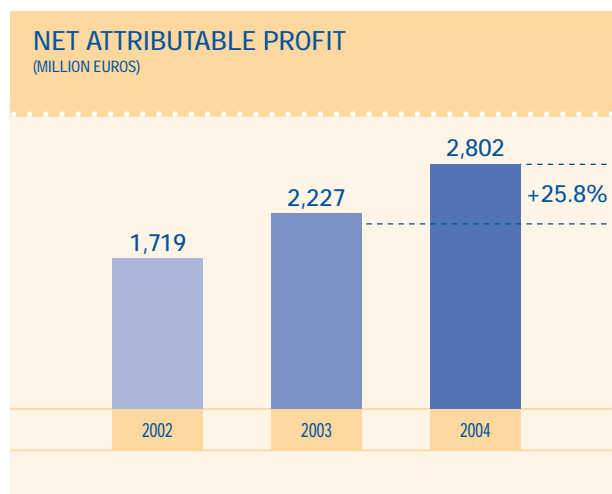
Currency markets were relatively stable until the end of the year when the dollar fell further against the euro. This effect spilled over into the main Latin-American currencies. The table on the next page shows the final exchange rates at 31-Dec-04 (used to convert the balance sheet and other key figures from local currency to euros). It also shows the average rate for the year (used to convert the local income statements) and the figures for previous years. The Mexican peso, which has the greatest effect on the group's financial statements, depreciated 13.0%; the Venezuelan bolivar fell 21.9%, the Argentine peso 9.0% and the US dollar 9.1%. The Chilean peso revalued by 2.9%.

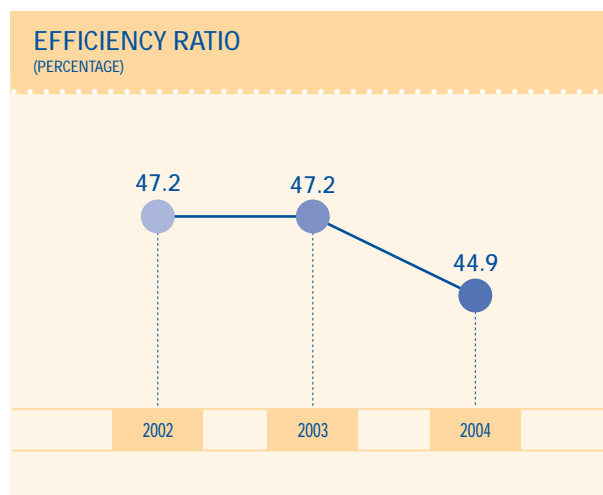
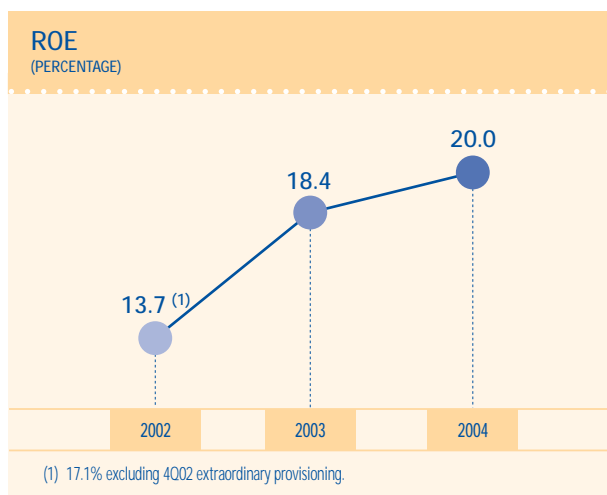
The year-on-year percentage variations at constant exchange rates are also shown in this report. This is

done to facilitate a comparison between the different items on the income statement excluding the effect of variations in exchange rates. These figures are given below where relevant. Likewise, remarks related to changes in the balance sheet and in the key indicators also include variations calculated at constant exchange rates if these are significant.

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

- Attributable net profit rose to €2,802m. This was 25.8% more than 2003 and an all-time record for BBVA (the increase was 30.4% at constant exchange rates). In quarterly terms, attributable net profit grew steadily throughout the year, reaching the highest figure ever recorded by BBVA in the 4th quarter.
- Earnings per share increased 19.2%, ROE rose to 20.0% (18.4% in 2003) and ROA was 1.05%.
- The high quality of the Group's results stems from the growth in operating profit. This increased 11.1% to €5,440m (an increase of 17.3% at constant exchange rates). In fact the figure has grown steadily quarter-by-quarter throughout the year.
- All business areas recorded important increases in operating profit: 13.3% in Retail Banking, 7.2% in Wholesale Banking and 11.6% in the Americas (where it grew 26.0% at constant rates).





- Net interest income came to €7,069m, which was 4.9% more than 2003 (10.5% at constant rates). This was due to faster business growth in Spain and the Americas, spurred by record low interest rates in the domestic market and rising interest rates in Mexico.
- Growth in net fee income also reflected higher business activity, growing 3.6% to €3,379m (9.4% at constant exchange rates).
- Operating expenses fell by 1.3% and increased by only 3.6% at constant rates. Together with the increase in revenue, this led to an improvement in the cost/income ratio, which fell to 44.9% (47.2% in 2003). This improvement was shared by all business areas.
- Retail Banking in Spain and Portugal grew throughout the year in terms of both business volume and results. Lending increased by 20% and customer funds by 10.1%. The combined effect of

the 6.5% growth in ordinary revenues and the containment of expenses led to a 13.3% increase in operating profit and a 13.8% increase in attributable net profit (which rose to €1,410m).

- Lending and deposits also grew faster in the Wholesale and Investment Banking Area. The increase in net interest income and net fee income, together with the fall in expenses, compensated for lower net trading income. Thus operating profit grew 7.2% and attributable net income grew 10.1% to €515m.
- In the Americas all items on the income statement grew quarter-by-quarter during the year and this area also generated increasingly higher profits. For the first time in recent years growth was higher in all quarters in terms of current rates. The increase in business activity (30.1% in lending and 12.3% in traditional fund gathering at banks operating in local currencies), together with the changes in

EXCHANGE RATES⁽¹⁾

	End of period Exchange Rates			Average Exchange Rates	
	31-12-04	Δ% on 31-12-03	Δ% on 30-09-04	2004	Δ% on 2003
Mexican peso	15.1823	(6.5)	(6.8)	14.0382	(13.0)
Argentine peso	4.0488	(8.1)	(8.2)	3.6664	(9.0)
Chilean peso	759.30	(1.4)	(0.2)	757.58	2.9
Colombian peso	3,205.13	9.5	1.3	3,257.33	(0.3)
Peruvian new sol	4.4745	(2.1)	(7.3)	4.2399	(7.2)
Venezuelan bolivar	2,610.97	(22.6)	(8.8)	2,341.92	(21.9)
U.S. dollar	1.3621	(7.3)	(8.9)	1.2438	(9.1)

(1) Expressed in currency/euro.

interest rates, boosted the more recurrent earnings, particularly net interest income. Operating profit recorded an annual increase of 11.6% (26.0% at constant exchange rates); net profit grew 24.6% and attributable net profit – influenced by lower minority interests in Bancomer – grew by 70.8% (91.4% at constant rates) to €1,239m.

- The picture in Mexico was particularly encouraging. Business activity grew further, focusing on the most profitable product lines. In local currency terms lending grew 37.6% and customer funds 11.4%. The cost/income ratio went below 40% and there were higher increases year-on-year in all the items on the income statement. Operating profit increased by 11.2% (27.9% at constant exchange rates) and net profit by 28.9% (48.2% at constant rates). Attributable net profit came to €841m, which was more than double 2003.
- The Group once again improved asset quality, the NPL ratio had fallen to 0.95% by the end of the year (compared to 1.37% at the end of 2003). Coverage increased to 247.2% compared to 184.9% a year earlier.
- Capital adequacy continued to be strong with core capital standing at 6.0% on 31-Dec-04 (achieving the goal set for the year), Tier I was 8.1% and the BIS ratio was 12.5%.
- The steady improvement in BBVA's finances and the success of its strategy have been widely recognised by the market: the share price rising 19.2% during the year. This increase was the highest among large European banking groups and it outperformed both the general and specific indices. The buoyant share price and the capital expansion meant that the Group's market capitalisation increased 26.4% to €44.25 billion at 31-Dec-04.
- The proposed dividend per share for 2004, to be submitted to the General Shareholders Meeting for approval, will be €0.442 per share. This is an increase of 15.1% compared to the €0.348 per share paid against 2003 results.

One of the cornerstones of the BBVA Group's strategy is the quest for profitable growth through organic or

non-organic activities. In terms of growth in core business, 2004 witnessed the emergence of numerous initiatives in all business areas. These included the financial services plan, the customer programme and the launch of BBVA Patrimonios by the Retail Banking Area for Spain and Portugal; expansion of the bank's brands in Latin-American markets by Wholesale and Investment Banking, including Anida (the name that BBVA uses for its new real estate strategy); and the creation of a technology centre in Monterrey; the new business strategy for Finanzia México and the enhanced synergy between banking, insurance and pension business in Chile, by the Americas Area.

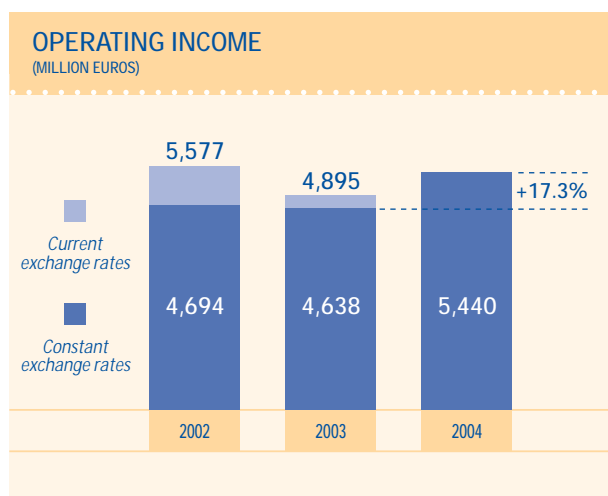
Examples of non-organic growth include the \$4.1-billion takeover bid for Bancomer's minority holdings. This was financed partly by an increase in capital of nearly €2 billion. Following this operation, BBVA now holds 99.7% of Bancomer. Another operation in Mexico was the agreement to acquire 100% of Hipotecaria Nacional (the largest private mortgage lender) for \$375m. This transaction has been finalised in January 2005.

Further international expansion focused on the Hispanic market in the USA with the acquisition of Valley Bank in California for \$17m and Laredo National Bancshares (LNB), a financial group in Texas, for \$850m. The latter operation will be concluded at the beginning of 2005. In order to strengthen and co-ordinate the above operations within the Americas Area, a new US retail banking unit has been set up. It consists of LNB, Valley Bank, Bancomer Transfer Services and BBVA Puerto Rico.

Income for the period

In 2004 the BBVA Group obtained attributable net income of €2,802m. This is an all-time record for the Group. Compared to 2003 (€2,227m) it represents an increase of 25.8%. This figure would be 30.4% excluding the impact of the depreciation in Latin-American currencies on the Group's results in this region.

This important increase is mainly due to the positive performance of operating profit and therefore reflects



improved fundamentals. In absolute terms the increase in operating profit is similar to the rise in attributable net profit. Thus the intermediate items on the statement have almost zero effect.

Operating profit came to €5,440m. This was 11.1% higher than the €4,895m obtained in 2003 (17.3% at constant exchange rates). The trend during the year has been upwards with increasingly higher figures (9.0% for January-September, 7.7% for January-June and 5.2% for January-March).

All business areas are contributing to the improvement in operating profit. Retail Banking in Spain and Portugal grew 13.3% and Wholesale and Investment Banking 7.2%. For the first time in recent years the effect of currency depreciation in the Americas was overcome and the increase in operating profit was 11.6% (26.0% at constant exchange rates). This was due to good performance by Mexico (11.2% or 27.9% at constant rates) as well as by the rest of this area (12.2% or 22.6% at constant rates). Furthermore the ALCO (through the active management of structural interest rate and currency risks) and the large industrial companies unit (through the active management of the portfolio of investments) also reported significant increases in net trading income and dividends, thus contributing to the growth in operating profit.

This favourable trend in operating profit is due to the increase in net interest income and in net fee income and to the containment of costs.

Net interest income in 2004 was €7,069m. This was 4.9% more than the previous year (at constant exchange rates the increase was 10.5%).

In the domestic market lower interest rates continued to put spreads under pressure. Therefore the retail and wholesale banking areas focused their efforts on price management and the growth in lending and customer funds thus increasing net interest income by 3.9% and 10.0% respectively. The corresponding increase in the Americas was 8.0% at current exchange rates and 22.8% at constant rates. Here the increase in business activity (which is focused on the more profitable products) and price management were complemented by higher interest rates in countries such as Mexico.

Net fee income was €3,379m, growing 3.6% over the previous year (9.4% at constant exchange rates). It grew 11.6% in Retail Banking in Spain and Portugal, 24.0% in Wholesale Banking and 9.5% in the Americas at constant exchange rates.

Thus core revenues rose to €10,448m, some 4.4% higher than 2003 (10.1% higher at constant exchange rates). Together with net trading income, which fell 7.1% (a fall of 3.6% at constant rates), ordinary revenues came to €11,053 in 2004 with an annual increase of 3.7% (an increase of 9.3% at constant rates). It should be noted that core revenues grew throughout the year. The annual increases in terms of both current and constant exchange rates were increasingly higher.

Operating expenses fell by 1.3% (they grew by 3.6% at constant rates). This was a result of flat domestic activity and an increase of 6.7% in the Americas in local currency terms.

The growth in ordinary revenues and the containment of costs led to a new improvement in the cost/income ratio which stands at 44.9% (2.3 points better than the 47.2% recorded in 2003). This means that the BBVA Group remains at the head of large banks in the euro area in regard to this important index. The improvement was seen in all business areas. The ratio in Retail Banking in Spain and Portugal was 41.8% (an improvement of 2.9 points over the figure of 44.7% in 2003). In Wholesale

and Investment Banking it was 29.9% (1.8 points better than the 31.7% for the previous year) and in the Americas it was 42.1% (an improvement of 3.4 points with regard to 45.5% in 2003).

Income from companies carried by the equity method came to €360m which was 6.1% lower than the previous year. This was because dividends (which came to €437m, an increase of 36.9% over 2003) were a bigger proportion of the gross contribution of €797m (which was 13.4% higher than the €702m recorded in 2003). A charge for €37m was made in the last quarter in order to bring to zero the contribution of BNL to this line of the income statement in 2004.

The bank's portfolio of investments contributed €592m to income from Group transactions. This was an annual increase of 7.0%. The most relevant operation during the year was the sale of the holding in Banco Atlántico which generated €218m. In addition capital gains on interests held by the Wholesale Banking unit and the large industrial corporations unit rose to €138m and €150m, respectively.

The Group has earmarked €931m for loan-loss provisions, 27.1% less than the €1,277m in 2003, which included €285m for increasing coverage of exposure associated with country risk in Argentina, from 50% to 75%. It also included other provisions related to that country with simultaneous write-back of special funds, included under extraordinary items. A reduction in non-performing loans (NPL) allowed specific provisions to be reduced while coverage for the statistical and generic provisions was increased to €600m, the latter due to growth in lending.

Amortisation of goodwill accounted for €582m during the year. This figure was less than the 2003 figure of €639m, which included extraordinary items of €119m (Bradesco y Gas Natural). Of the amount provided in 2004, €243m was for amortisation of goodwill at Bancomer (where the period of amortisation has been extended from 10 years to 20 years), and €193m for Banca Nazionale del Lavoro of which €145m is the early cancellation (made in the last quarter) of all goodwill related to this entity.

Net extraordinary items generated a deduction of €730m. This included €572m (€372m net of tax) booked in the fourth quarter for early retirement of 1,372 employees during year. In previous years this was charged against reserves in accordance with the authorisation by the Bank of Spain.

After deducting provisions for corporate income tax, net income came to €3,192m, some 10.2% more than 2003 (15.4% at constant exchange rates). Of this amount, €390m was generated by minority interests. This figure was 41.7% less than in 2003 due mainly to the decline in minority interests at Bancomer following the takeover in the first quarter of 2004. It was also due to the exchange rate effect and to the lower cost of preferred stock following repayment of old issues and lower interest rates on new issues made during the year.

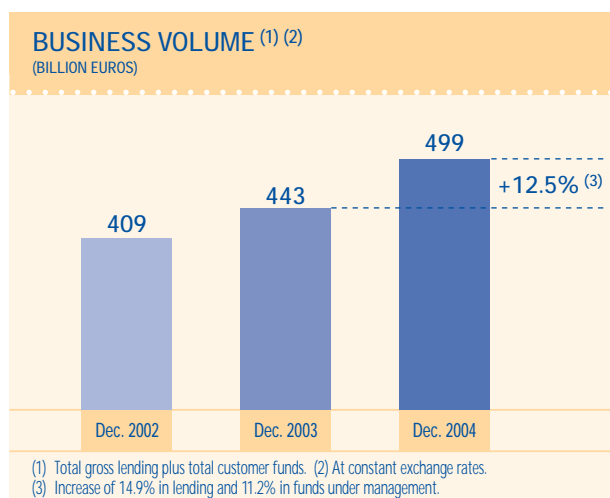
Therefore the Group's attributable net profit in 2004 came to €2,802m rising 25.8% over the figure of €2,227m in the previous year. This percentage would be 30.4% at constant exchange rates. Earnings per share therefore rose to €0.83 compared to €0.70 in 2003, an increase of 19.2% (which is less than the rise in attributable net profit due to the capital increase of €1,999m in February 2004).

The growth in net income led to a 20.0% rise (compared to 18.4% in 2003) in return on equity (ROE) despite higher equity due the above-mentioned capital increase. Thus BBVA continues to be one of the top banks in the euro zone in regard to this ratio. Return on assets (ROA) stands at 1.05% and the return on risk-weighted assets (RORWA) is 1.79% (these were 1.04% and 1.74%, respectively, in 2003).

Balance sheet and business activity

The key indicators for the BBVA Group in 2004 confirm the faster growth of high-street banking business. The increases in the main items are higher than those recorded in 2003 in Spain and in the Americas (whether at current or constant exchange rates).

Total assets at 31-Dec-04 came to €311 billion and this figure is 8.3% higher than a year earlier (10.0%



higher at constant rates). Total business volume, which is the aggregate of gross lending and total customer funds under management, came to €499 billion. This was 11.0% higher than the €449 billion recorded at 31-Dec-03. At constant exchange rates this figure increases to 12.5%. Both figures are significantly higher than in 2003 (3.1% at current rates and 8.4% at constant rates).

Lending to customers accounted for €175 billion. This is 13.9% more than the figure of €153 billion at the end of 2003 (14.9% at constant rates). It should be noted that this business has been growing progressively faster over the last eight quarters.

Two securitisation operations were carried out in the fourth quarter of 2004. One of these involved €1 billion of car finance and the other, also €1 billion, entailed loans to SMEs. These amounts were accordingly removed from the Group's balance sheet. Together with similar operations by BBVA and BCL in previous years, the total volume of securitisation is close to €4 billion. If these are taken into consideration, the rate of increase in lending would be 14.6% in euros and 15.6% at constant exchange rates.

Lending to other resident sectors came to €117 billion with an annual increase of 15.0% (16.2% if securitised loans are included). Growth was therefore higher than in 2003 (13.4%) and in 2002 (8.9%). Secured loans continued to be the main engine of growth in this area. They increased by 21.7% (22.3% with securitised

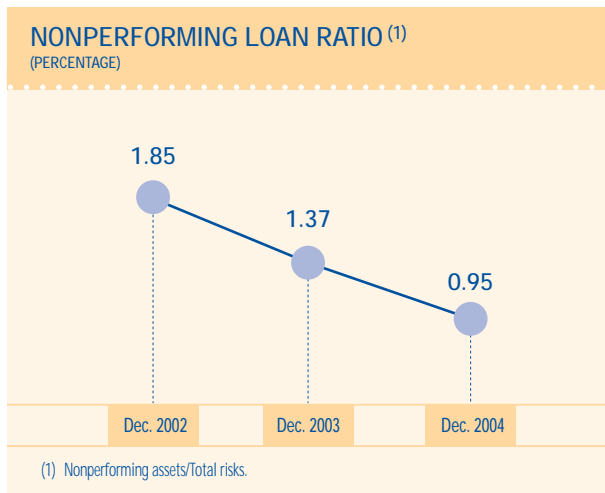
loans). This was due to the buoyant market for housing finance. Leasing increased by 22.0%, commercial loans by 11.1% and other loans by nearly 8% with securitisation.

Lending to the public sector rose to €15 billion at an annual rate of 15.3% and lending to non-residents came to €41 billion, an increase of 13.7% at current exchange rates and 17.9% at constant rates. This is in contrast to the decline recorded in 2003. Thanks to selective growth in some countries in previous years, the improved economic situation in Latin America has opened the way to a more general increase in lending in 2004.

The important level of lending growth in 2004 was compatible with a significant improvement in asset quality. Non performing assets during the year declined 31.9% to €1,820m compared to €2,673m at 31-Dec-03. Thus the NPL ratio, defined as bad debts (including contingent liabilities but excluding group 5 country risk) divided by total risk, fell to 0.95% at the end of the year, from 1.37% at 31-Dec-03. This ratio has so far declined for eight quarters running. The NPL ratio for lending alone has fallen even faster, from 1.74% in December 2003 to 1.04%. It stands at a record low of 0.55% for loans to other resident sectors in Spain at the end of 2004 (0.72% at 31-Dec-03). This is below the average for the sector.

Bad debts are falling in all business areas while total lending is increasing. Therefore there is a general decline in the NPL ratio. In Retail Banking in Spain and Portugal it stands at 0.61% (0.85% at 30-Dec-03), in Wholesale and Investment Banking it is 0.19% (0.50% at 30-Dec-03) and in the Americas 3.18% (previously 4.46%). The figure for the latter area was due to improvements in Mexico (2.60% at year-end compared to 3.72% at 31-Dec-03) and in the other banks in the region.

The above decline in bad debts was accompanied by an increase in provisions, mainly in the form of greater generic and statistical provisions. Coverage has increased from 184.9% at 31-Dec-03 to 247.2% at the end of 2004.

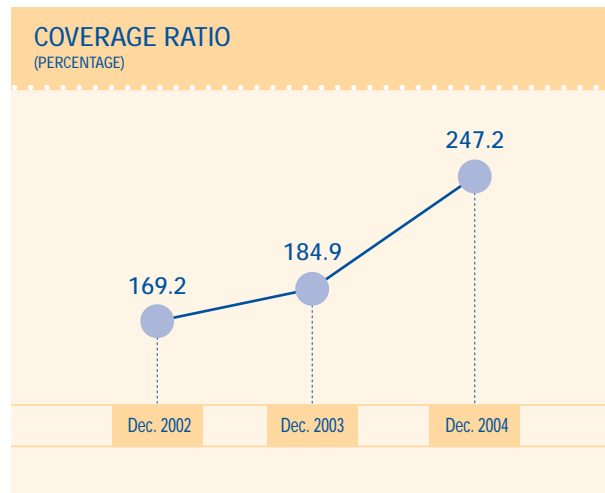


Total customer funds managed by the Group came to €324 billion at the end of the 2004. This was an increase of 9.5% over the figure of €296 billion at 31-Dec-03. The increase at constant exchange rates is 11.2%. Both figures are higher than those recorded in 2003 (2.3% at current rates and 8.4% at constant rates). While in 2003 growth in total customer funds was mainly concentrated in off-balance sheet items, in 2004 it has been more even, with greater increases in deposits due to the recovery in fixed deposits.

Customer funds on the balance sheet came to €199.5 billion, 9.1% more than at the end of 2003 (10.9% at constant rates). In the domestic market deposits by other residential sectors came to €72 billion. This was 9.8% higher than at the end of 2003 when the increase was 2.6%. Deposits excluding repos grew 8.7% to €59 billion (3.9% in 2003) with increases of 7.2% in current and savings accounts, and 11.8% in term deposits. The aggregate of deposits, mutual funds and pension funds grew at an annual rate of 10.6% (7.3% in 2003).

Deposits by non-residents were €70 billion with year-on-year increases of 4.2% at current exchange rates and 8.7% at constant rates. In 2003 they declined by 8.3% at current rates and grew by 6.0% at constant rates. Public sector deposits came to €5 billion. This figure was affected by the lower balance awarded in the Treasury auction, compared to the figure at 31-Dec-03.

Lastly, marketable debt securities grew 28.9% to €44 billion (including an increase of 63.0% in mortgage



warrants) and subordinate debt grew by 9.6% to €8 billion.

Off-balance-sheet customer funds (mutual funds, pension funds and customers' portfolios and assets) managed by the Group came to €124.5 billion. The annual increase of 10.1% was higher than in 2003 (3.9%) and same observation applies to the other relevant business figures.

More than half of these funds, €69 billion, were contributed by Spain with an annual increase of 13.9%. Of this amount, mutual funds accounted for €42.2 billion (up 13.3%) following growth of 12.0% in mutual funds and doubling of assets in the BBVA Propiedad real estate fund. Pension funds increased to €13.5 billion (a rise of 10.6%) including an increase of 14.2% in individual pension plans thanks to the BBVA Protección products. The bank was also awarded deposit and management of the central government employees' pension fund. This is the biggest by number of participants (530,000). Customers' portfolios and assets under management account for the remaining €13.3 billion – having grown 19.3%.

In other countries where the Group operates, off-balance-sheet funds came to €55.5 billion with a year-on-year increase of 5.7% at current exchange rates. At constant rates this becomes an increase of 8.9%. Of these, €28 billion are pension funds, €18.7 billion are customers' portfolios and €8.8 billion are mutual funds.

Capital base

At 31st December 2004 the capital base of the BBVA Group came to €22,647m based on the criteria of the Bank for International Settlements (BIS). This figure is 4.9% higher than at 31-Dec-03 and capital surplus is €8,157m. Core capital came to €10,910m, representing 6.0% of risk-weighted assets, achieving the goal set for the year. Tier I capital is 8.1% and the BIS ratio stands at 12.5%.

During 2004 the acquisition of minority interests in Bancomer and the increase in business (risk-weighted assets increased by 6.5%) created new demands for capital. These were covered by the capital increase of €1,999m and by retained profits.

With the object of optimising the bank's capital structure, preference securities of BBVA International Ltd. were amortised in June (€700m of the B series with a 6.24% coupon) and in December (€1,000m of the C series with a 5.76% coupon). At the same time two issues of preference securities were made by BBVA Capital Finance, a wholly-owned subsidiary of the Group based in Spain. These entailed €500m in June and €1,125m in December. Both were placed through the bank's branch network. Following these operations the weight of preference securities in basic equity fell by 1.2 points, to 25.8%.

In regard to the second category of equity (Tier II), €1,000m of subordinated debt was issued in October

and \$100m of subordinated debt issued by BBVA Capital Funding in 1995 was retired. Thus Tier II has increased to 4.4% during the year.

The BBVA share price

In 2004 the international stock markets confirmed the recovery that started in 2003 and shares in Spain performed positively.

In 2004 the BBVA share price outperformed the main European banks, rising 19.2% since 31-Dec-03. This was significantly higher than the 6.9% increase in the Euro Stoxx 50 index and the 10.9% increase in Euro Stoxx Banks. These indices represent the average of the general market and of the banking sector in the euro zone. It also outperformed the 17.4% rise in the Ibx 35. The increase in the share price together with the capital increase mean that BBVA's market capitalisation at the end of 2004 comes to €44,251m. This is an increase of €9,256m or 26.4% since 31-Dec-03. In terms of market value, BBVA is the third largest bank in the Euro Stoxx 50.

During the year 9,040 million BBVA shares were traded on the electronic continuous market. This was 11.5% more than in 2003 and it represents 266.6% of share capital. Average daily turnover was 36 million shares or 1.06% of the bank's capital. The average amount traded daily was €403m and this was 35.4% higher than 2003.

In regard to a shareholder remuneration stemming from 2004 earnings, three dividends of €0.10 per share were paid in July and October 2004, and January 2005. After adding a final dividend of €0.142, whose approval will be proposed at the General Shareholders Meeting, the total dividend received by shareholders against 2004 earnings will come to €0.442 per share. This is an increase of 15.1% over the €0.384 paid against 2003 results. Thus pay-out is at 53.5% and the yield, calculated on the share price at the end of the year, will be 3.39%.

