

## > 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.

The most relevant aspects of the BBVA Group in the first nine months of 2005 are summarised below:

- In the third quarter the group generated net attributable profit of €914m. This was 35.7% higher than the €674m obtained in the same period last year. Like previous quarters, recurrent revenues were the main driver behind the increase in profit.
- Progressive acceleration of growth in all lines on the income statement brought net attributable profit in the first nine months to €2.7 billion, a year-on-year increase of 24.9%. Earnings per share increased 24.0% and return on equity rose to 35.2%.
- The positive performance of revenues, especially net interest income, net fee income and insurance, with year-on-year increases that were higher than in June, resulted in a 19.7% increase in operating profit (17.7% at the half-year). Growth of revenues and operating profit was higher in all business areas.
- Ordinary revenues increased 14.3% in the first nine months, exceeding the half-year figure of 11.8%. This was the result of a 14.5% rise in net interest income (11.1% at the half-year), driven by higher business volume, and of net fee income and insurance, which grew 13.6% (10.5% in June).
- Operating expenses, including depreciation, increased 10.3%, which was less than revenues. On a like-for-like basis (ie, excluding Laredo National Bancshares, Hipotecaria Nacional and Valley Bank) the increase in expenses was 7.4%.
- Thus the cost/income ratio improved to 43.6% against 44.7% for the first nine months of 2004. Including depreciation, the ratio is 47.0% and the year-on-year improvement increases to 1.9 percentage points.
- Despite higher lending, non-performing loans (NPLs) declined. This brought the NPL ratio to 0.98% at 30-Sep-05 against 1.29% a year earlier. Coverage rose to 246.4% (211.7% at 30-Sep-04).
- Core capital at 30-Sep-05 stands at 5.9%, in line with the group's target. Tier 1 capital is 7.9% and the BIS ratio 12.7%.
- On 10th October the group paid a second interim dividend of €0.115 against 2005 results. This was the same amount as the one paid on the 11th July and 15% higher than dividends last year.
- Retail Banking in Spain and Portugal continued to increase lending by more than 20% year-on-year. This was supported by lending to SMEs and mortgages. Customer funds rose faster, at 11.6%. Net interest income, net fee income and insurance grew faster than at the half-year. This helped ordinary revenues to increase 8.5%, operating profit 14.3% and net attributable profit 13.3% (to €1.2 billion).
- In the third quarter results in Wholesale and Investment Banking were higher than the same period last year, especially in the markets unit. Ordinary revenues rose 25.3% in the year to September and operating profit climbed 42.6%. Net attributable profit came to €447m, an increase of 59.8%.

- The Americas Area continues to report high growth in banking activity as well as insurance and pensions. This helped to lift year-on-year growth of net interest income to 29.3% and operating profit growth to 36.4%. Net attributable profit came to €1.33 billion, an increase of 60.2%. In a like-for-like comparison based on the same units, operating profit grew 31.3% and attributable profit 53.2%.
- Bancomer continued to be the outstanding performer with sharp increases in the more profitable business lines (ie, consumer finance and cards on the credit side and transactional accounts in terms of customer funds). Revenues were higher (37.7% in net interest income and 19.8% in net fee income). Thus operating profit rose 50.2% and net profit climbed 62.9% to €836m (53.0% excluding Hipotecaria Nacional).

## > ECONOMIC ENVIRONMENT

In recent months the international economic environment was affected by new rises in the price of oil and associated products and by the effects of hurricanes Katrina and Rita. These may lead to a slight decline in US growth. Thus the Federal Reserve, in view of the risk of inflation, continued to raise

interest rates, bringing them to 3.75% at 30-Sep-05. The increase in long-term rates was lower, flattening the interest rate curve. In the euro zone, in a context of moderate growth, the ECB held rates steady at 2.0%. Here the interest rate curve was also flatter, with medium-term rates slightly higher in the third quarter and longer rates stable. The Spanish economy continued to outpace the rest of the euro zone by a significant amount although inflation is also higher and the current account deficit is growing.

Latin America grew at a faster rate in recent months. Debt spreads were lower and inflation is under control. This opens the door to lower interest rates in the future. In Mexico the TIIE fell to 9.48% at the end of September and the quarterly average dropped to 9.88% compared to 10.05% at the half-year. However it is still higher than the third quarter of 2004 (7.45%).

The exchange rates that most influence the group's financial statements changed little in the third quarter. At 30-Sep-05 the euro had depreciated against the main Latin-American currencies compared to 30-Sep-04, except for the Venezuelan bolivar. Therefore the effect of exchange rates on year-on-year comparisons on the group's balance sheet was positive. In regard to average cumulative exchange rates in the year to September, which are used to convert amounts to

## > Exchange rates <sup>(1)</sup>

	Year-end exchange rates				Average exchange rates	
	30-09-05	Δ% on 30-09-04	Δ% on 30-06-05	Δ% on 31-12-04	January-Sep. 05	Δ% on January-Sep. 04
Mexican peso	13.0212	8.7	0.1	16.6	13.8318	(0.1)
Argentine peso	3.4937	6.4	(0.4)	15.9	3.6686	(1.8)
Chilean peso	642.67	18.0	8.9	18.1	720.46	4.7
Colombian peso	2,754.82	17.9	2.0	16.3	2,949.85	10.8
Peruvian new sol	4.0329	2.8	(2.4)	11.0	4.1195	2.5
Venezuelan bolivar	2,583.98	(7.9)	0.5	1.0	2,645.50	(13.3)
US dollar	1.2042	3.0	0.4	13.1	1.2626	(3.0)

(1) Expressed in currency/euro.

## > Interest rates (Quarterly average)

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

euros for the income statement, the overall impact continues to be slightly negative although less than in previous quarters. The bolivar fell 13.3% against the euro, the US dollar 3.0% and the Argentine peso

1.8%. The Mexican peso held steady while the Colombian peso rose 10.8%, the Chilean peso 4.7% and the Peruvian sol rose 2.5%.