BBVA “Cédulas Hipotecarias”
Credit Story and Mortgage Business

September 2006
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BBVA mortgage portfolio

“Cédulas Hipotecarias”
BBVA is an international financial services group

- Employees: 95,464
- Branches: 7,491
- Countries: 30
- Shareholders: Approx. 1 million
- Market cap: €56bn
- Total assets: €392bn

A full range of financial products & services
... with a solid and focused position in attractive growth markets ...

Spain

<table>
<thead>
<tr>
<th>Mk. Share</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>12.5%</td>
</tr>
<tr>
<td>Deposits</td>
<td>12.4%</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>18.1%</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>18.9%</td>
</tr>
<tr>
<td>Num. of customers:</td>
<td>11 million</td>
</tr>
</tbody>
</table>

Latin America

<table>
<thead>
<tr>
<th>Mk. Share (1)</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>28%</td>
</tr>
<tr>
<td>South America (2)</td>
<td>11%</td>
</tr>
</tbody>
</table>

Num. of customers: 23 million

(1) Deposits
(2) Excluding Brazil
… with a balanced distribution of assets

Group assets breakdown (%)

80% SPAIN, EU & USA

15% LATAM “INVESTMENT GRADE” (Mexico, Chile)

5% LATAM “NON INV. GRADE”
Banking in Spain
Loan portfolio breakdown

- SMEs 19%
- Small businesses 10%
- Large corporates 7%
- Consumer 7%
- Mortgages 43%

... and a low risk, high quality asset profile

46% of Group’s gross loans are secured

Latin America
Loans/total assets

- LOANS 42%

- 44% individuals (20% mortgages)
- 11% Public Sector
- 39% Corporates
... with sound ratings

<table>
<thead>
<tr>
<th>RATINGS: BBVA VS. EUROPEAN BANKS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MOODY'S</strong></td>
</tr>
<tr>
<td>Aaa</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Lloyds</td>
</tr>
<tr>
<td>RBS</td>
</tr>
<tr>
<td>Credit Agricole</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>STANDARD &amp; POOR'S</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>UBS</td>
</tr>
<tr>
<td>BNPP</td>
</tr>
<tr>
<td>Lloyds</td>
</tr>
<tr>
<td>RBS</td>
</tr>
<tr>
<td>Credit Agricole</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>FITCH</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Barclays</td>
</tr>
<tr>
<td>HSBC B.</td>
</tr>
<tr>
<td>RBS</td>
</tr>
</tbody>
</table>
Benefiting from good economic prospects

**GDP growth (%)**

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2006e</th>
<th>2007e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>3.4</td>
<td>3.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Latam</td>
<td>4.4</td>
<td>4.3</td>
<td>3.7</td>
</tr>
</tbody>
</table>

**Spain:**
Delivering faster GDP growth than its European peers

**Latam:**
Best performance in 10 years
- Contained inflation rates
- Currency stability
- Improving country ratings

**Good and stable economic prospects**

Source: BBVA Economic Research Dep.
BBVA has delivered an excellent track record of growing results

Note: 2002 and 2003 Pre-IFRS
Key features of the 2Q06

1. Growth
   - Expansion in USA

2. Transformation
   - New strategy for distribution networks

3. Recurrency
   - Record quarter in core revenues and operating profit
BBVA takes a big step in its US expansion strategy

Two acquisitions for €2.1 bn . . .

Key figures: 31-Mar-06 figures based on documents filed with the SEC and Federal Reserve

($m)

<table>
<thead>
<tr>
<th>Key figures</th>
<th>Assets</th>
<th>Loans</th>
<th>Deposits</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12,583</td>
<td>7,252</td>
<td>10,134</td>
<td>3,814</td>
</tr>
</tbody>
</table>
... making BBVA the top regional bank in Texas

### Top banks in Texas

<table>
<thead>
<tr>
<th>Institution</th>
<th>Branches</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>JP Morgan</td>
<td>419</td>
<td>21.6</td>
</tr>
<tr>
<td>Bank of America</td>
<td>490</td>
<td>13.1</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>554</td>
<td>8.0</td>
</tr>
<tr>
<td>BBVA USA</td>
<td>156</td>
<td>3.0</td>
</tr>
<tr>
<td>Cullent/Frost</td>
<td>108</td>
<td>2.9</td>
</tr>
<tr>
<td>Compass</td>
<td>167</td>
<td>2.7</td>
</tr>
</tbody>
</table>

... financed by the sale of Repsol and BNL
BBVA continues allocating more capital to core businesses

**Economic Capital 2002**
- Industrial Holdings and Corporate Centre: 27%
- Retail Spain: 23%
- Global Businesses: 14%
- Mexico: 13%
- Rest of America: 23%

**Economic Capital 2006**
- Industrial Holdings and Corporate Centre: 15%
- Retail Spain: 25%
- USA: 7%
- Rest of America: 11%
- Global Businesses: 21%

N.B.: Proforma economic capital
New distribution strategy for domestic networks with clear goals

Ensure BBVA leadership in Spain

Pursuing efficiency and elimination of stagnant areas

Focusing the organisation on customers
Evolution of the customer approach

Segmentation

Up to the 90s

Little or no segmentation

During the 90s

Branch / Networks

Today

Customer / Account Manager

Reduction of 750 jobs and increasing the empowerment of the account managers and the network
### Key features of 1H06

- Record quarter for profits, excluding the impact of one-off items
- Based on strong generation of recurrent revenues
- New improvements in efficiency and asset quality, with high profitability
Strong profit growth

Net attrib. profit
(Current €m)

+ 20,2%

EPS: 0.64 (+20.2%)

€3,336 with one-off items (up 84.0%)
... With revenues as the main driver

- Net interest income: 19.7%
- Net fee income: 16.0%
- Insurance: 35.6%

Core revenues (Current €m)

Ordinary revenues ex one-off items: +20.4%
... With good performance of all business areas

(Current €m)

<table>
<thead>
<tr>
<th>Group BBVA</th>
<th>Operating profit</th>
<th></th>
<th></th>
<th>Net attributable profit</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1H06</td>
<td>2005</td>
<td>1H05</td>
<td>1H06</td>
<td>2005</td>
<td>1H05</td>
</tr>
<tr>
<td>Iberian Retail</td>
<td>13.2%</td>
<td>11.0%</td>
<td>10.0%</td>
<td>11.0%</td>
<td>10.3%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Wholesale Business</td>
<td>29.6%</td>
<td>24.1%</td>
<td>14.9%</td>
<td>47.9%</td>
<td>32.6%</td>
<td>22.1%</td>
</tr>
<tr>
<td>Mexico &amp; USA</td>
<td>54.9%</td>
<td>39.7%</td>
<td>33.1%</td>
<td>43.4%</td>
<td>53.7%</td>
<td>62.9%</td>
</tr>
<tr>
<td>South America</td>
<td>51.1%</td>
<td>32.3%</td>
<td>18.6%</td>
<td>37.5%</td>
<td>65.3%</td>
<td>74.5%</td>
</tr>
</tbody>
</table>
Strict management of asset quality

NPL provisions (€m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Specific</th>
<th>Generic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H05</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>1H06</td>
<td>30%</td>
<td>70%</td>
</tr>
</tbody>
</table>

NPL ratio & coverage (%)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>NPL ratio</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q05</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>3Q05</td>
<td>0.98</td>
<td></td>
</tr>
<tr>
<td>4Q05</td>
<td>0.94</td>
<td></td>
</tr>
<tr>
<td>1Q06</td>
<td>0.90</td>
<td></td>
</tr>
<tr>
<td>2Q06</td>
<td>0.82</td>
<td></td>
</tr>
</tbody>
</table>

... whilst managing other structural risks
Strength of Group fundamentals

Cost/income ratio incl. depreciation, ex one-off items

- 2.1 pp

ROE ex one-off items

- 0.2 pp

1H05 1H06

46.4 44.3

36.0 35.8
And appropriate levels of solvency

Capital base
(\%)

<table>
<thead>
<tr>
<th></th>
<th>Core capital</th>
<th>Tier 1</th>
<th>BIS Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun. 05</td>
<td>5.8</td>
<td>7.6</td>
<td>12.2</td>
</tr>
<tr>
<td>Dec. 05</td>
<td>5.6</td>
<td>7.5</td>
<td>12.0</td>
</tr>
<tr>
<td>Jun. 06</td>
<td>6.0</td>
<td>7.6</td>
<td>11.3</td>
</tr>
</tbody>
</table>
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“Cédulas Hipotecarias”
Strong growth of the Spanish mortgage market in the last years

Mortgage loans evolution (€ Bn)

Source: Bank of Spain and Spanish Mortgages As.
However, the Spanish Market has still room for growth.

Residential mortgage loans * over GDP, % (2005)

* Source: European Mortgage Federation
Real state market “boom” drivers

**Macro drivers**
- Interest rate decrease
- Structural adjustment to a low and stable interest rate environment
- Positive GDP evolution and job creation
- Improvement of personal income

**Demographic drivers**
- Acceleration in household formation
- Decrease in household members per home (higher home demand for the same number of inhabitants)
- More than one income per home (improvement of the family access to a new home)
- Foreign demand: Immigration and tourism

**Sector drivers**
- Better financing conditions: longer maturities and increased product range
- Mortgage payments are more affordable
Spain: growth in population and household formation

* Source: BBVA Economic Research Department

6 million jobs created in the period 1994-2005
Housing prices: a catch-up process

During the late 90's, Spanish house prices have grown faster than in other EU countries, as house prices converged from very low levels to European average.
Outlook for mortgage demand: affordability remains favourable

Affordability ratio (%)
(net debt payments/gross salary, adjusted by fiscal mortgage benefits)

Source: BBVA
Mortgage market prospects

- The Spanish real state market will continue with its soft landing throughout 2006. Housing prices will be aligned with inflation gradually.

- 700,000 new housing units will start in 2006. This figure is still above last year's average.

- Demographics, foreign investment and low interest rates will support real estate growth in Spain.

- Mortgage financing conditions will still be attractive even if interest rates raise by 50 bp.

- The effect in households disposable income will be limited as household income will also increase in 2006.
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“Cédulas Hipotecarias”
BBVA in the Spanish mortgage market

- Mortgage lending is the core activity in the Spanish Banking System
  - Outstanding mortgages over private sector loans:
    Saving Banks (71%), Banks (51%) and BBVA (55%)

- 73% of BBVA mortgage portfolio are loans to households

- BBVA is the leading mortgage player in Spain: 12% market share

BBVA is the leading mortgage player in Spain, with a strong focus in residential mortgages
BBVA: excellent evolution of its stock of mortgages

Mortgage loans evolution (€ Bn)

- June 2004: 58 Bn
- September 2004: 60 Bn
- December 2004: 63 Bn
- March 2005: 66 Bn
- June 2005: 70 Bn
- September 2005: 73 Bn
- December 2005: 77 Bn
- March 2006: 80 Bn
- June 2006: 83 Bn

+22% Increase

+18% Increase
...and a well diversified mortgage portfolio(1) geographically

<table>
<thead>
<tr>
<th>Region</th>
<th>%portfolio(1)</th>
<th>%GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalonia</td>
<td>19.8</td>
<td>18.3</td>
</tr>
<tr>
<td>Madrid</td>
<td>19.4</td>
<td>17.4</td>
</tr>
<tr>
<td>Andalusia</td>
<td>16.2</td>
<td>13.8</td>
</tr>
<tr>
<td>Valencia</td>
<td>11.6</td>
<td>9.7</td>
</tr>
<tr>
<td>Canary Is.</td>
<td>5.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Castille-Leon</td>
<td>4.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Basque C.</td>
<td>3.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Galicia</td>
<td>3.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Balearic Is.</td>
<td>3.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Other</td>
<td>12.9</td>
<td>17.0</td>
</tr>
</tbody>
</table>

(1) Source: INE

121,000 homes financed in 2005 and a stock of 846,400 outstanding mortgages

(1) Loans to households
Key mortgage quality indicators show a low risk profile for BBVA

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average size</td>
<td>67,000 €</td>
</tr>
<tr>
<td>Average maturity (years)</td>
<td>22</td>
</tr>
<tr>
<td>L.T.V. (1) (Outstanding amount)</td>
<td>49%</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>0.26%</td>
</tr>
</tbody>
</table>

155,000 € average size of 1S06 production and a L.T.V. of 63%

(1) Valuation basis on initial property value
Strong focus on first residence mortgages

BBVA 2005 new Mortgages

- 1ST Residence: 87%
- 2ND Residence: 5%
- Other: 8%

Age of mortgage customers

- < 35 years
- > 35 years
Very low levels of NPLs

Powerful and fully implemented credit-analysis tools: credit scoring is integrated throughout the internal approval process.
A very strong overcollateralization

30/06/06

81

Total Non-elegible: 21
Total Elegible: 60
90%

Max. Issuance: 55
Market issues: 34.7

Overcollateralization: 235%

Figures in € Bn.

(1) Eligible mortgages loans: first mortgages with max. LTV of 80% for residential and 70% for commercial
(2) Excluding securitisations
... Even without increasing the pool of outstanding mortgages

Mortgage loans & C.H.: Maturity matrix 30.06.06 (1)

<table>
<thead>
<tr>
<th>Date</th>
<th>Outs. Mortg. Loans(1)</th>
<th>C.H. (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.06.06</td>
<td>235</td>
<td>30.06.06</td>
</tr>
<tr>
<td>30.06.07</td>
<td>218</td>
<td>30.06.07</td>
</tr>
<tr>
<td>30.06.08</td>
<td>223</td>
<td>30.06.08</td>
</tr>
<tr>
<td>30.06.09</td>
<td>216</td>
<td>30.06.09</td>
</tr>
<tr>
<td>30.06.10</td>
<td>262</td>
<td>30.06.10</td>
</tr>
</tbody>
</table>

Overcollateralization (%)

(1) Without taking into account future mortgage portfolio increases
Conclusions

- Significant advances in strategy in the last years with strong focus in profitable growth
- Strengthening of the Group fundamentals
- BBVA remains the leader in the Spanish residential mortgage market, with a low risk profile and an excellent protection
- BBVA “CH” represents an attractive investment alternative
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“Cédulas Hipotecarias”
Cédulas Hipotecarias (CH) are:

- On balance sheet secured obligations issued by regulated Spanish financial institutions
- Secured on an issuer’s entire mortgage loan book (residential and commercial, excluding those mortgages collaterals to Mortgage Bonds or Mortgage Participations)
- 10% BIS risk weighted
- Overcollateralized: monitorized by Bank of Spain, issuers cannot issue CHs with value higher than 90% of eligible mortgage loans: Those duly insured first lien mortgages with LTV not higher than 70% (commercial) or 80% (residential) after the appraisal of officially qualified appraiser by Bank of Spain
- 25% investment ratio according to the EU investment directive
- Eligible collateral to the European Central Bank
- If mortgage collateral not enough to repay, CH Creditors are to be treated pari passu with unsubordinated bond creditors
Cedulas Hipotecarias: overview (ii)

**Strengths:**

- Investors of CH have a preferential claim over other creditors in a default scenario over collateral assets
- High degree of security: reduced severity of loss, generally two notches above senior debt rating
- Substantial overcollateralization & generally high quality of cover assets
- Stringent eligibility criteria underpinned by sound legal framework
- Rigorous and timely supervision by Bank of Spain
Cedulas Hipotecarias: overview (iii)

**Investor Rationale:**

- A higher yield as compared to many assets of identical rating
- Risk weighting under BIS I (10% vs 20% for banks)
- In Germany, Spain, France: benefit of the Art. 22 /4 of the European Investment Directive: Institutional investors’ investment ratio of 25% instead of usual 5% limit
- An eligible collateral to the Central Bank
- An asset class of high liquidity
- A regulated environment
Legal framework (i): the Mortgage Market Law and Insolvency Law

- The Mortgage Market Law currently in force, was amended in 1981, to promote the development of the mortgage market,
- Key elements of the mortgage market law:
  - Extension of CH issuance to all financial institutions regulated by the Bank of Spain (BoS)
  - Clear specification of the types of secured bonds (CH included) which regulated mortgage lenders can issue
  - Establishment of a rigorous regulatory and supervisory framework
  - (Monitored by the Ministry of Economy and supervised by the BoS)
- New Spanish Insolvency Law:
  - Better protection for CH holders
  - Effective September 1st, 2004
Legal framework (ii): recent developments

- New Insolvency Law 22/2003 effective September 2004, has strengthened the protection of cédulas’ holders in case of insolvency of the issuer
- Extension of application of Law 19/2003 and its tax regime to direct issuance made by credit entities: Income obtained by non-Spanish resident holders (other than a holder acting through a permanent establishment in Spain or obtained through a tax haven territory as defined in R.D. 1080/1991 of 5 July) will be exempt from taxation in Spain provided that the holder complies with the applicable identification formalities required by law
- New rating methodology by Standard and Poor’s for Spanish covered bonds (Cédulas Hipotecarias and Territoriales): from now on Cédulas Hipotecarias and Territoriales may be rated up to five notches higher than an issuer’s counterparty credit rating and may even reach AAA in cases where the probability of cédulas payment interruption, in the case of issuer insolvency, is extremely remote
Legal framework (iii): new Insolvency Law 22/2003

- The new law clarifies and improves the regime applicable to holders of Cédulas Hipotecarias in case of insolvency of the issuer
- Credit under cédulas is acknowledged as special privilege credit (article 90.1)
- Acknowledges the priority of the cédulas holders with respect to employees and fiscal authorities from the amounts obtained from the assets which cover the cédulas
- Uninterrupted services of Interest: Interest will continue being paid up to the proceeds from the backing assets (mortgages)
- No recourse to default or to cancel the cédulas while interest and principal continue to be paid

Strengthening the protection of cédulas holders
The retroactivity period rule has been replaced by a reintegration rule: the risk of the retroactivity of the insolvency as well as the risk of being declared null any transaction carried out during such a period has been removed (article 71)

The reintegration period can reach back a maximum of 2 years from the date of the insolvency being declared, and only on those transactions causing damage to the social assets

Therefore the risk of the cédulas investors to become senior unsecured creditors due to moving back the date of insolvency has been removed
European covered bonds: a comparison (i)

<table>
<thead>
<tr>
<th>Capital markets</th>
<th>Germany German Pfandbrief</th>
<th>Spain Cédulas Hipotecarias</th>
<th>France Obligations Foncières</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jumbos</td>
<td>Since 1995</td>
<td>First Jumbo in March 1999, issued by BBVA</td>
<td>Minimum issues size for Jumbo format</td>
</tr>
<tr>
<td>Liquidity/ market making</td>
<td>High liquidity</td>
<td>Rather similar to other covered bonds</td>
<td>Similar to Pfandbrief</td>
</tr>
<tr>
<td>Eligibility for repo with ECB</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Rating</td>
<td>Generally Triple-A rating from at least one rating agency</td>
<td>Moody's up to 2 notches above the senior rating of the issuer with AAA included / S&amp;P's up to 5 notches, AAA included / Fitch up to 3 notches higher, no AAA</td>
<td>Obligations Foncières or Communales are designed to be Triple-A</td>
</tr>
<tr>
<td>Investors</td>
<td>Institutional investors mainly</td>
<td>Spanish domestic retail customers in the past, institutional investors mainly since 1999</td>
<td>Mainly institutional investor</td>
</tr>
<tr>
<td>Market Expectations</td>
<td>Decreasing market</td>
<td>Growing market</td>
<td>Growing market</td>
</tr>
</tbody>
</table>

Investors: Institutional investors mainly | Spanish domestic retail customers in the past, institutional investors mainly since 1999 | Mainly institutional investor
## European covered bonds: a comparison (ii)

<table>
<thead>
<tr>
<th></th>
<th>Germany (German Pfandbrief)</th>
<th>Spain (Cédulas Hipotecarias)</th>
<th>France (Obligations Foncières)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ranking of the mortgages</strong></td>
<td>First ranking mortgages, have to be within the 60% LTV ratio</td>
<td>First ranking mortgages on the properties, contracted in the Spanish domestic market</td>
<td>First ranking mortgage</td>
</tr>
<tr>
<td><strong>Loans to foreign countries</strong></td>
<td>Yes, public loans to EEA, mortgage loans to EEA and Switzerland</td>
<td>Rather domestic loans</td>
<td>Yes, mortgage loans to EEA Public loans to EEA</td>
</tr>
<tr>
<td><strong>Trustee</strong></td>
<td>Yes, independent trustee</td>
<td>Not</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Supervision</strong></td>
<td>BAFIN</td>
<td>Bank of Spain</td>
<td>Commission Bancaire and independent controller</td>
</tr>
<tr>
<td><strong>Effect on balance sheet</strong></td>
<td>Loan remain on the bank's balance sheet</td>
<td>Loans remain on the bank's balance sheet</td>
<td>Loans remain on the bank's balanced sheet</td>
</tr>
<tr>
<td><strong>Statutory preferential right in bankruptcy</strong></td>
<td>Preferential claim</td>
<td>In the event of a bankruptcy, CH enjoy a specially privileged preferential right over the segregated issuer’s mortgage book</td>
<td>OF have preferential claim over all other creditors (including the state) until fully reimbursed</td>
</tr>
</tbody>
</table>
## European covered bonds: a comparison (iii)

<table>
<thead>
<tr>
<th></th>
<th>Germany German Pfandbrief</th>
<th>Spain Cédulas Hipotecarias</th>
<th>France Obligations Foncières</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialist bank principle</td>
<td>No, main issuers are German mortgage banks and Landesbanks</td>
<td>No, all Spanish banks are allowed to issue Cédulas Hipotecarias</td>
<td>Yes, issuers will be special purpose financial institutions (Societes de Credit foncier)</td>
</tr>
<tr>
<td>Refinancable through Pfandbriefe</td>
<td>Mortgage loans and public-sector loans</td>
<td>Mortgage loans and public-sector loans</td>
<td>Mortgage loans and public-sector loans</td>
</tr>
<tr>
<td>Collateral pool</td>
<td>Yes, two separate collateral pools for public-sector and mortgage Pfandbriefe</td>
<td>CHs can only be issued for an amount equal to 90% of the eligible mortgages book value, legal overcollateralisation is at least 11%</td>
<td>Yes, one single pool of assets</td>
</tr>
<tr>
<td>Mortgage &quot;Pfandbrief&quot;</td>
<td>Yes</td>
<td>Yes, bonds secured on the issuer’s entire book of mortgage</td>
<td>Theres only one type of Ofs</td>
</tr>
<tr>
<td>Public &quot;Pfandbrief&quot;</td>
<td>Yes</td>
<td>Yes (Cédulas Territoriales)</td>
<td>Theres only one type of Ofs</td>
</tr>
<tr>
<td>Relative lending limit for mortgage &quot;Pfandbriefe&quot;</td>
<td>60% of lending value</td>
<td>80% housing, 70% commercial of the appraisal value</td>
<td>60% of the lending value exemptions possible</td>
</tr>
</tbody>
</table>
European covered bonds (iv): legislated vs private law governed covered bond

Regular Covered Bonds:
- Debt instrument secured against a pool of assets whereby the prior claim on cover assets, asset quality, cash flow adequacy and counterparty risk are determined by a legal framework
  - Classical style: Austria, Denmark, Finland, Germany, Luxembourg
  - Subsidiary style: France, Ireland
  - Without operational asset segregation: Spain

Structured Covered Bonds:
- Regular covered bonds, which are structurally enhanced
  - Repackaged covered bonds: AYTCED, TDA, IMCEDI
  - Contractually enhanced covered bonds: CIFEUR, CFF, KA, BAWAG

Replicated Covered Bonds:
- Debt instrument secured against a pool of assets whereby the prior claim on cover assets, asset quality, cash flow adequacy and counterparty risk are mainly regulated under private law (HBOS, ABN Amro, CDEP)
European covered bonds (v): legislated vs private law governed covered bond

Regular Covered Bonds
Asset allocation
Assets remain on balance sheet
Specific asset allocation – varies Eg:
- Germany: cover assets are maintained in separate cover registers
- France: assets are transferred to a special entity (Sociétés de Crédit Foncier (SCF))
- Spain: no operational segregation, all mortgages serve as collateral

Structuring
In order to achieve a certain target rating, regular covered bonds frequently benefit from structural enhancements
- Repackaging: AYTOED, CEDTDA, IMCEDI
- Contractual enhancements: CFF, CIFEUR, KA, BAWAG

Asset pool
There is legislation which allows the use of mortgage loans, public sector loans and ship loans (depending on jurisdictions)

Investor perception
Substitute for governments bonds and debt issues from supras, agencies and sub-sovereigns

Risk weight
Risk weight: 10% in most countries except Italy and the UK

Replicated Covered Bonds
Asset allocation
Assets remain on balance sheet
Specific asset allocation – varies Eg:
- UK: assets are segregated through the transfer to a separate entity (LLP – Limited Liability Partnership)
- Netherlands: assets are transferred to a special entity and pledged to an independent trustee, guaranteeing prior access to assets in case of insolvency

Structuring
Use of traditional securitisation methods to replicate the commercial and risk profile of the regular model
Allows greater flexibility in structuring offerings

Asset pool
Restrictions are subject to contractual prescriptions – so far the focus is on prime residential mortgages

Investor perception
Substitute for governments bonds and debt issues from supras, agencies and sub-sovereigns

Risk weight 20%
Market overview (i): annual supply total covered bonds and cedulas

Includes all covered bonds (Public loans and Mortgages) at or over equiv. €1bn with at least three market-makers.

Source: Barclays Capital
# Market overview (ii): total Spain outstanding

<table>
<thead>
<tr>
<th>Spanish Issuer</th>
<th>Total Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (bn)</td>
</tr>
<tr>
<td>AyT</td>
<td>€ 47.7</td>
</tr>
<tr>
<td>BBVA</td>
<td>€ 34.7</td>
</tr>
<tr>
<td>La Caixa</td>
<td>€ 23.3</td>
</tr>
<tr>
<td>BSCH</td>
<td>€ 22.7</td>
</tr>
<tr>
<td>Caja Madrid</td>
<td>€ 19.0</td>
</tr>
<tr>
<td>TDA</td>
<td>€ 16.8</td>
</tr>
<tr>
<td>Banesto</td>
<td>€ 13.3</td>
</tr>
<tr>
<td>IM Cedulas</td>
<td>€ 10.0</td>
</tr>
<tr>
<td>Popular</td>
<td>€ 7.5</td>
</tr>
<tr>
<td>Sabadell</td>
<td>€ 7.5</td>
</tr>
<tr>
<td>BCL</td>
<td>€ 3.5</td>
</tr>
<tr>
<td>Caixa Catalunya</td>
<td>€ 1.8</td>
</tr>
<tr>
<td>Banco Pastor</td>
<td>€ 1.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>€ 208.8</strong></td>
</tr>
</tbody>
</table>

Includes all covered bonds (Public Loans and Mortgages) at or over equiv. €1bn with at least three market-makers.

Source: Barclays Capital
Market overview (iii): covered bond market issuance

BBVA is the leading financial institution as a Cédulas originator being AyT a multicontributor of structured Cédulas originated by different Spanish savings banks.
Market overview (iv): development of outstanding volume and average size

Although with a smaller total outstanding amount, Cédulas Hipotecarias issuance is growing at a higher rate than Pfandbriefe, which holds in a mature stage.
Despite the tightening process experimented by the Cédulas Hipotecarias, its spread is still wider than the one of the Pfandbriefe
Market overview (vi): credit term structure of selected issuers

Spanish Cédulas

German Pfandbriefe

Note: As of H1 2006
BBVA presents a balanced overcollateralisation rate compared to the other CH’s peers.
BBVA’s Cedulas (i): BBVA’s funding structure

2005

2.0% PREF

CH (1)

33.0%

45.9%

14.4%

(1) Cédulas Hipotecarias

2006e

40.4%

41.7%

13.3%

4.5%

(1) Cédulas Hipotecarias
BBVA’s Cedulas (ii): maturity profile
BBVA’s Cedulas (iii): CH’s spread trend

Asset swap spread bps

Source: Barclays Capital