

BBVA

BBVA “CEDULAS HIPOTECARIAS” CREDIT STORY AND MORTGAGE BUSINESS

July 2004 Issue

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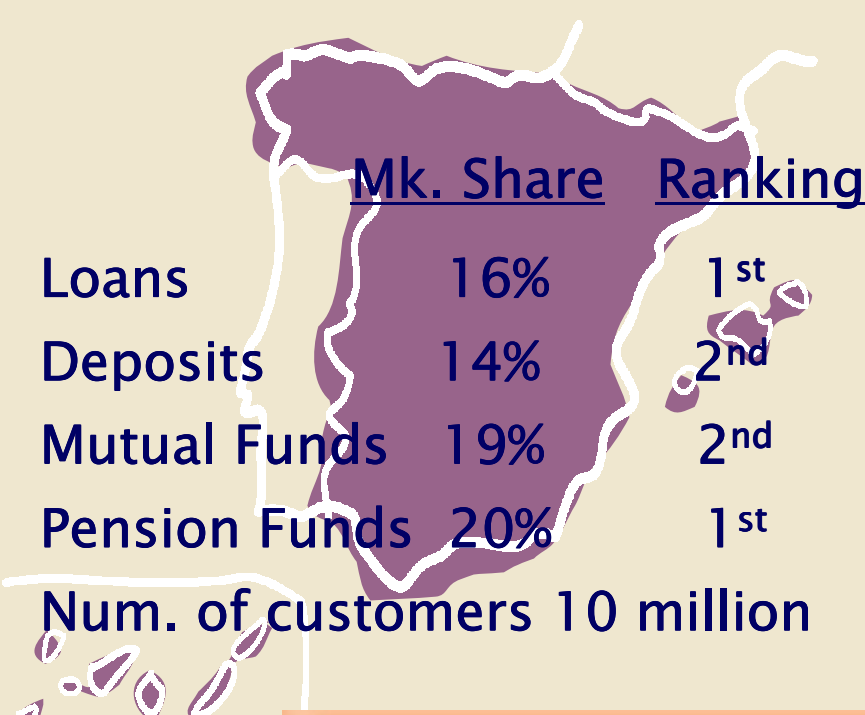
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- **BBVA Overview**
 - Activity and results
 - Spanish mortgage market
 - BBVA mortgage portfolio
 - Conclusions
 - Annex: “Cédulas Hipotecarias”

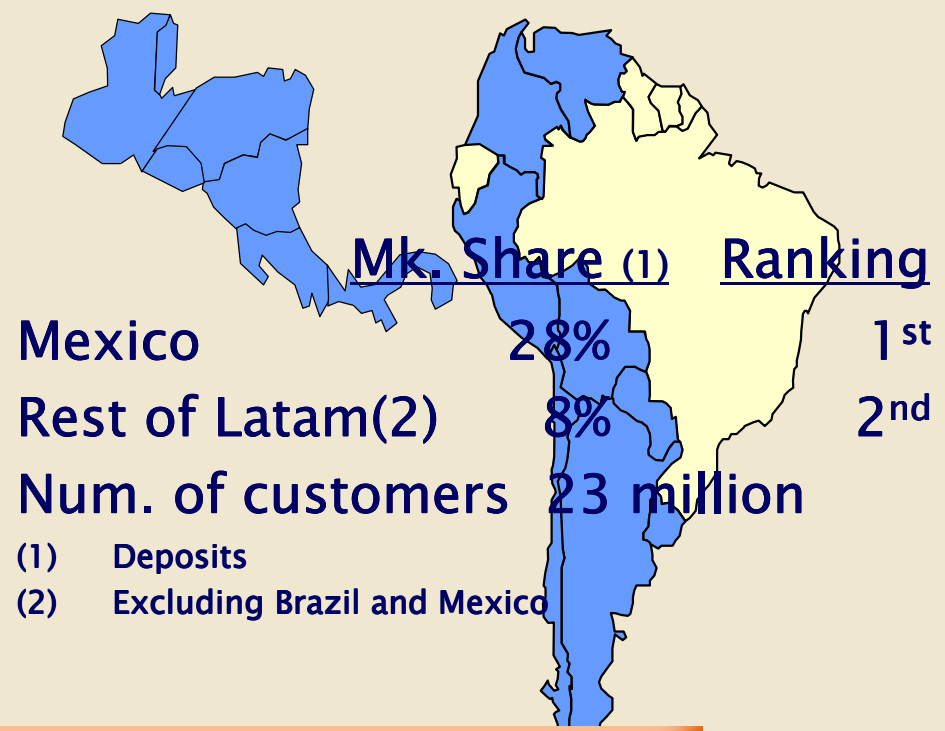
BBVA is a financial services group with a solid strategic focus

Focus on its home markets

Spain



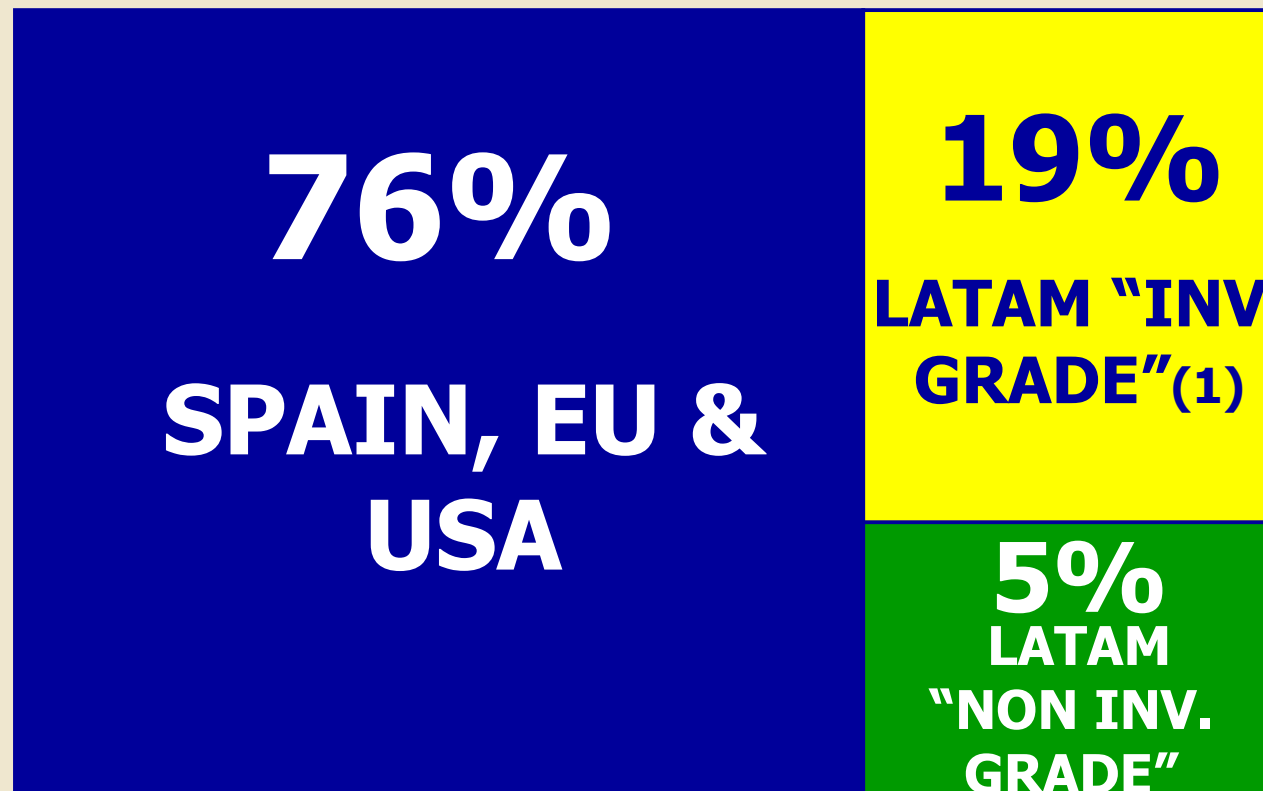
Latin America



33 million customers and presence in 14 Latin American countries

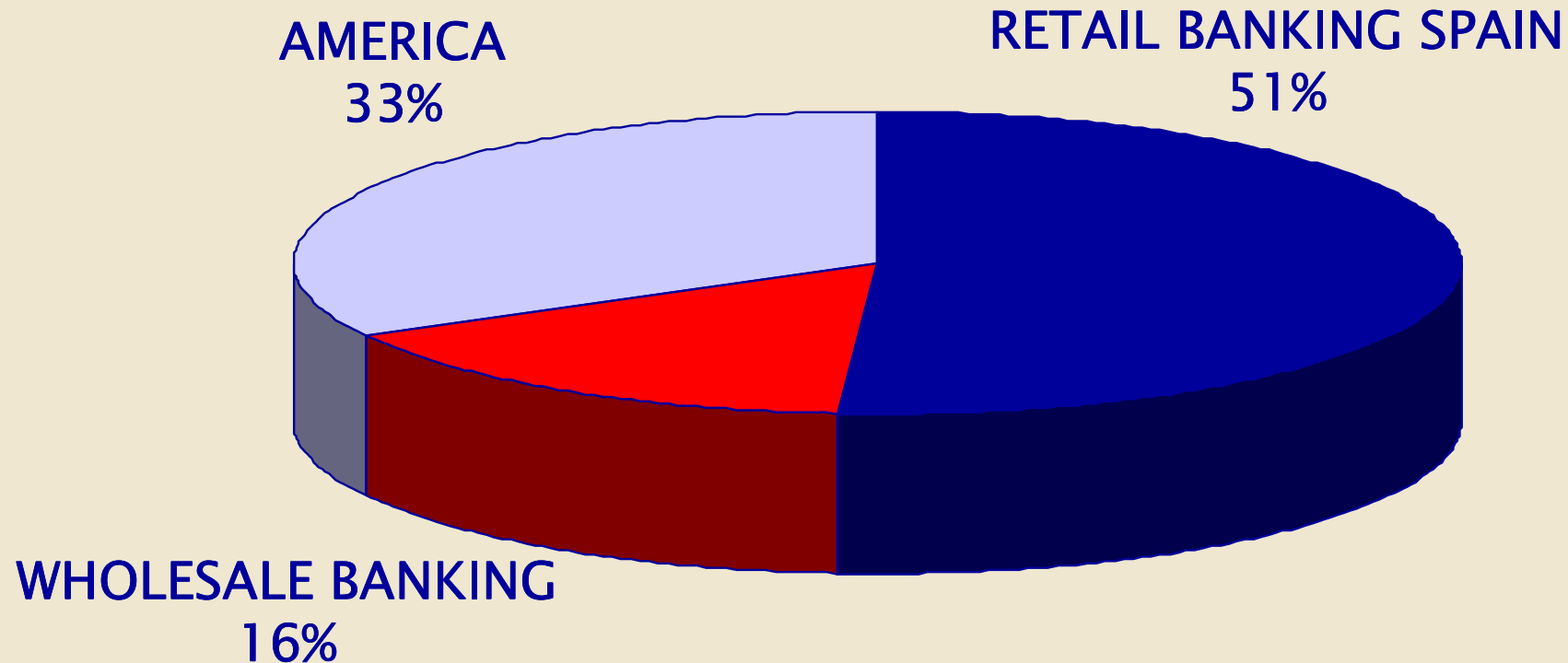
... with a balanced distribution of assets

GROUP ASSETS BREAKDOWN (%)



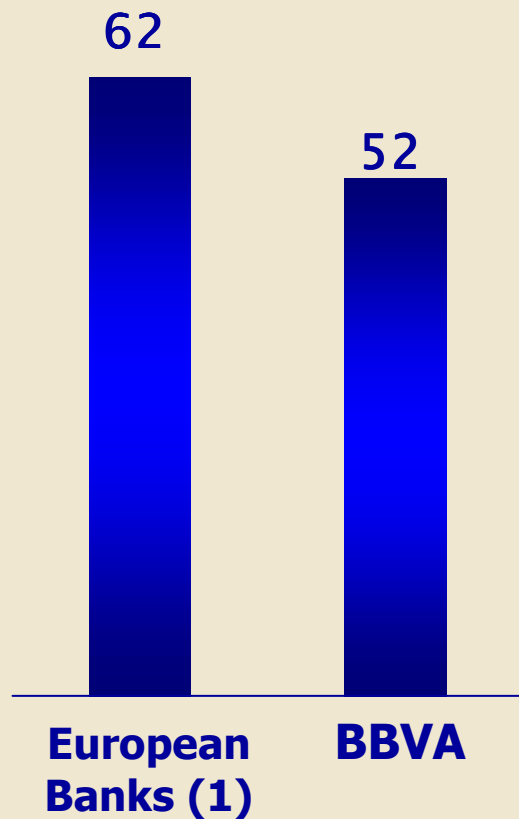
... and a well diversified business mix

Attributable Profit by Business Areas (%)

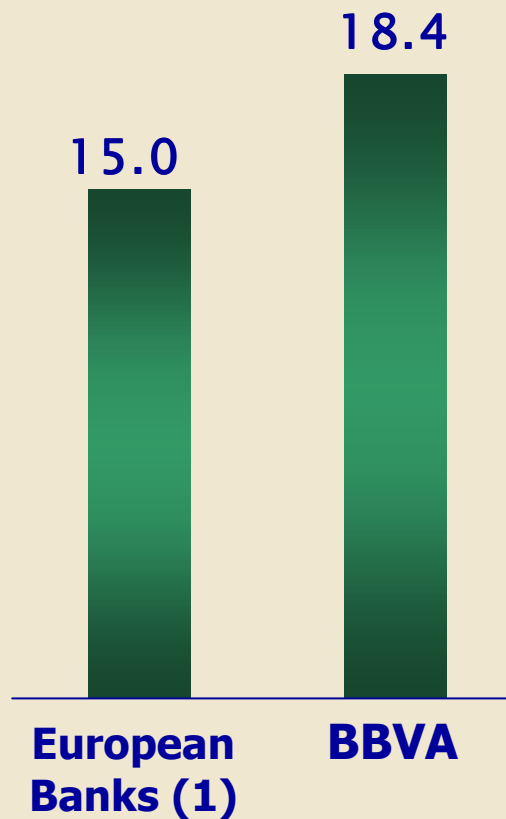


Well positioned against European peers

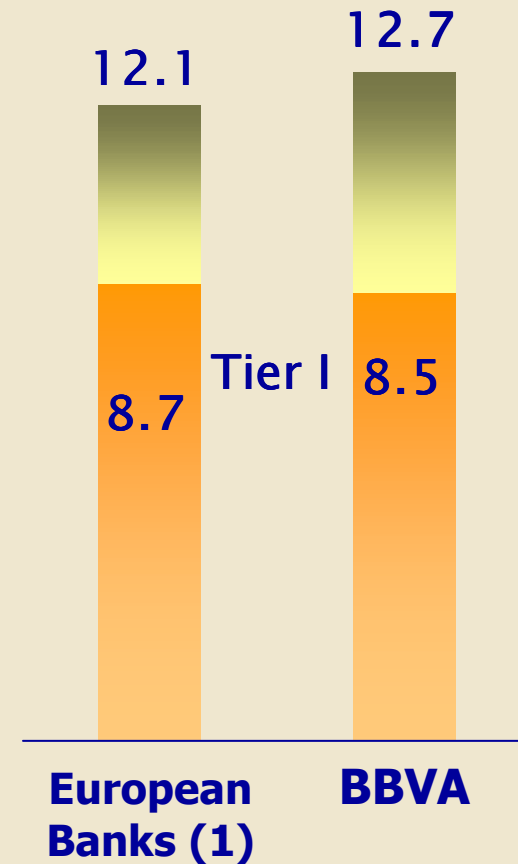
EFFICIENCY % (1)



ROE (%)



BIS RATIO (%)



Data as of December 2003

(1) Average of 17 main European listed Banks

... and solid ratings

MOODY'S									
Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Lloyds	Barclays	BBVA	ABN	B. Intesa	Commerz.	HVB			
	RBS	BNP PAR	Credit Sui.	Dresdner					
		HSBC B.	Deutsche B.						
		ING B.	Fortis B.						
		UBS	San Paolo						
		Unicredito	SOCGEN						
			SCH						

STANDARD & POOR'S									
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
	UBS	Barclays	BBVA	San Paolo	Dresdner	HVB			
		Lloyds	ABN	Credit Sui.		Commerz.			
		RBS	BNPP	SCH		B. Intesa			
			HSBC B.						
			ING B.						
			SOCGEN						
			Unicredito						
			Fortis B.						
			Deutsche B.						

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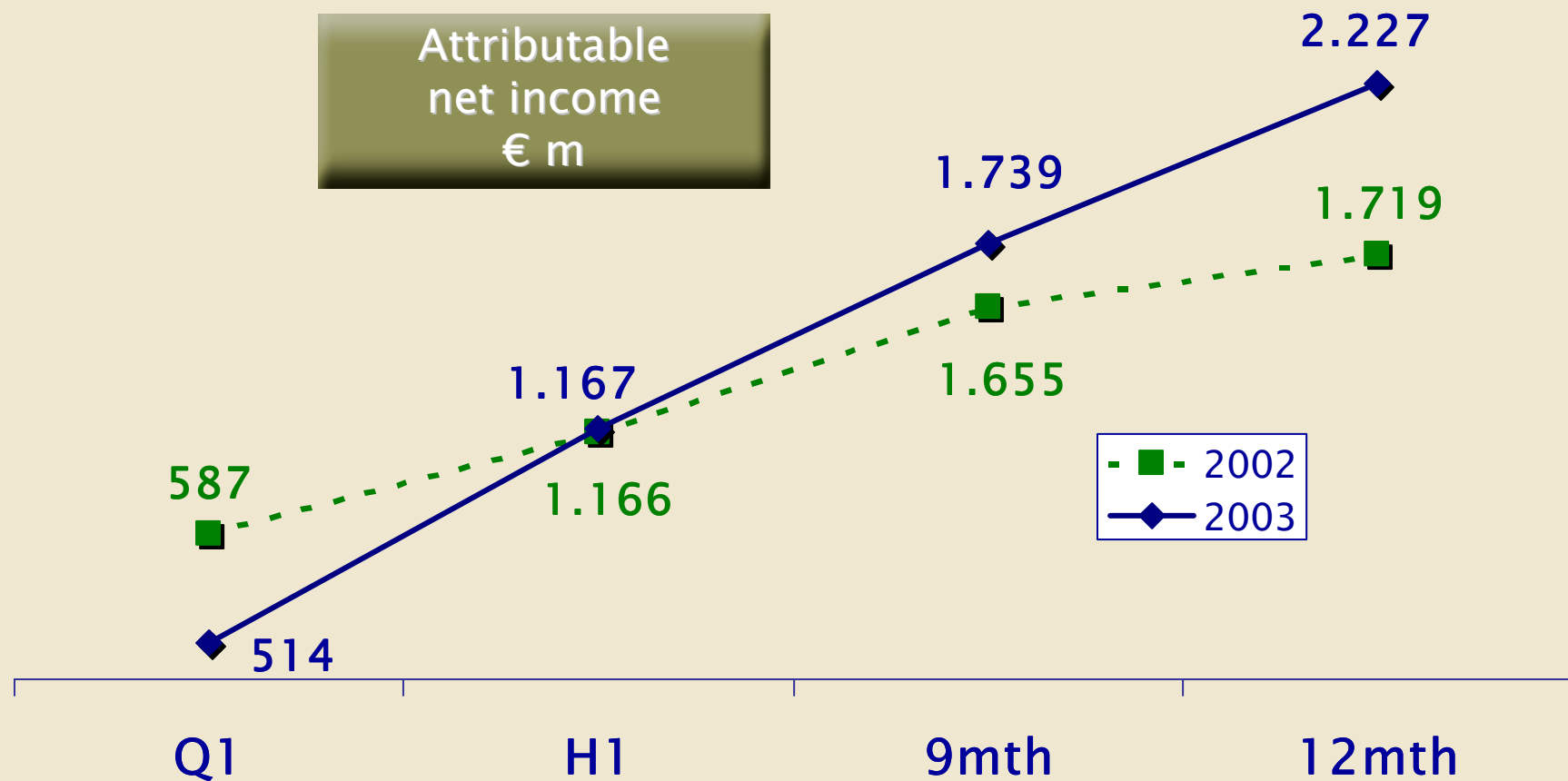
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BBVA strategic issues

In 2002 we drew up a new strategic plan based in three pillars

1. Strengthening of Group fundamentals
2. Corporate culture and organisational changes
3. A value creation model based in profitable growth

Group performance has already improved in 2003



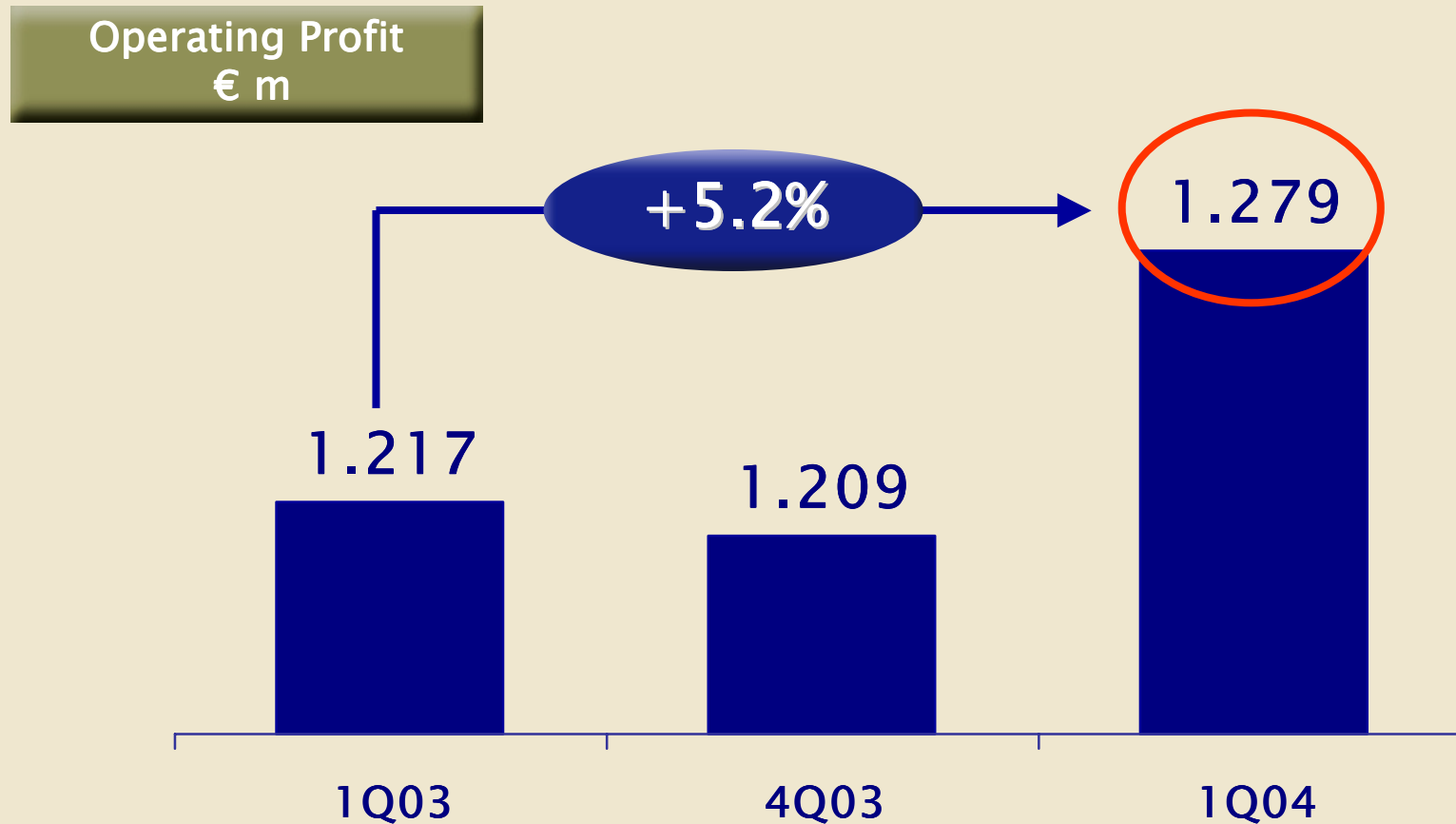
...surpassing its commitment to the market (€ 2.15bn)

This positive trend has been confirmed in 1 Q04 results . . .

BBVA Group Current € m	1 Q03	1 Q04	Chg (%)	Chg. (%) constant fx.
Net interest income	1,650	1,684	+2.1	+9.0
Core Revenues	2,456	2,508	+2.1	+9.0
Ordinary revenues	2,653	2,672	+0.7	+7.3
Operating Profit	1,217	1,279	+5.2	+12.5
Attrib. income	514	667	+29.9	+35.0

Revenue growth compensates the effects
of currency devaluations (13.6%)

. . . supported by a positive evolution
of operating profit

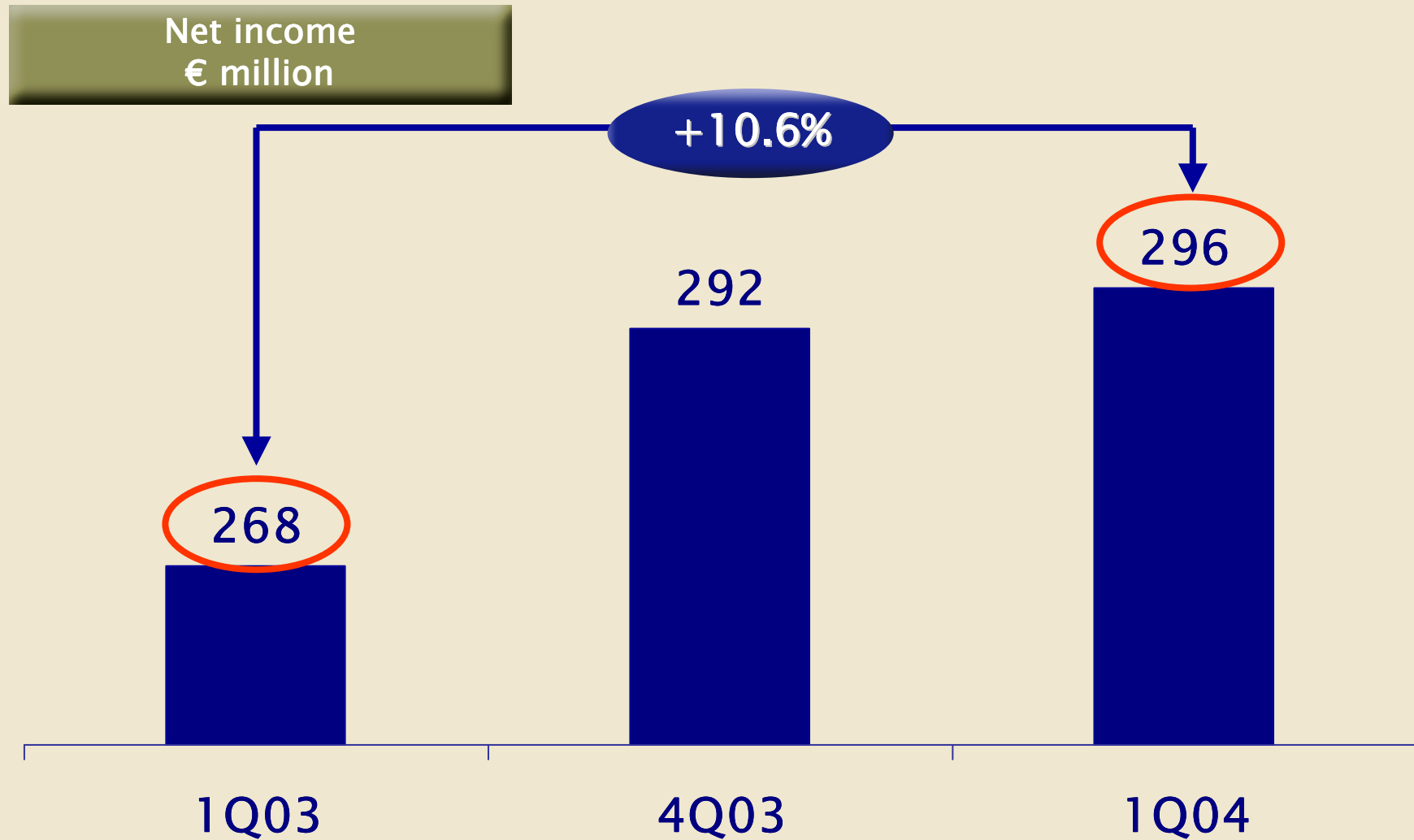


Based on growing earnings from the more recurrent activities (operating profit ex - trading income: +9.3%)

... With healthy growth in results of domestic businesses

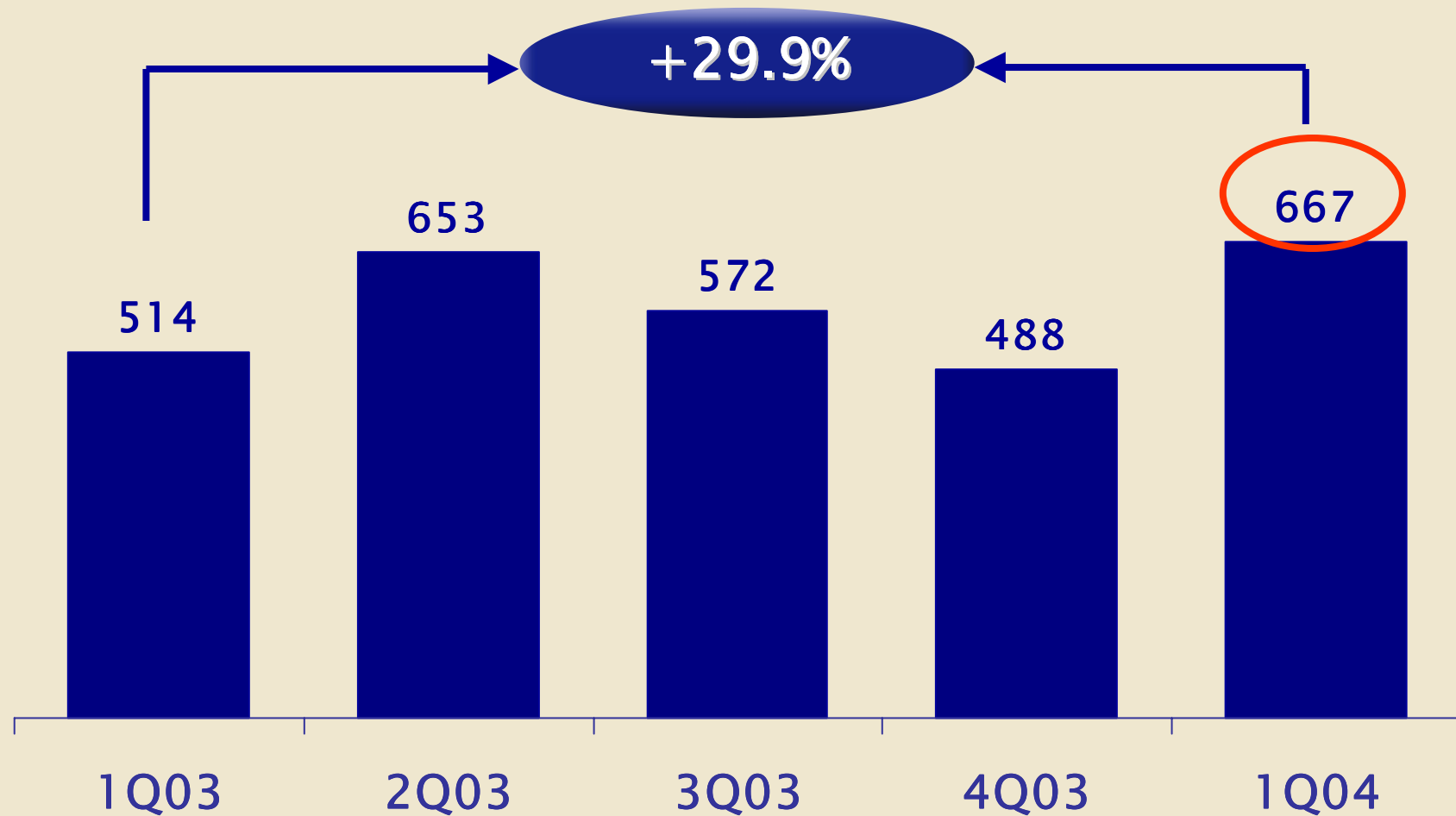
€ million	1 Q03	1 Q04	Chg. %
Net interest income	897	985	9.9
Core revenues	1,274	1,383	8.6
Ordinary revenues	1,402	1,493	6.5
Operating Profit	606	696	15.0

... And a positive evolution of profits in BBVA America

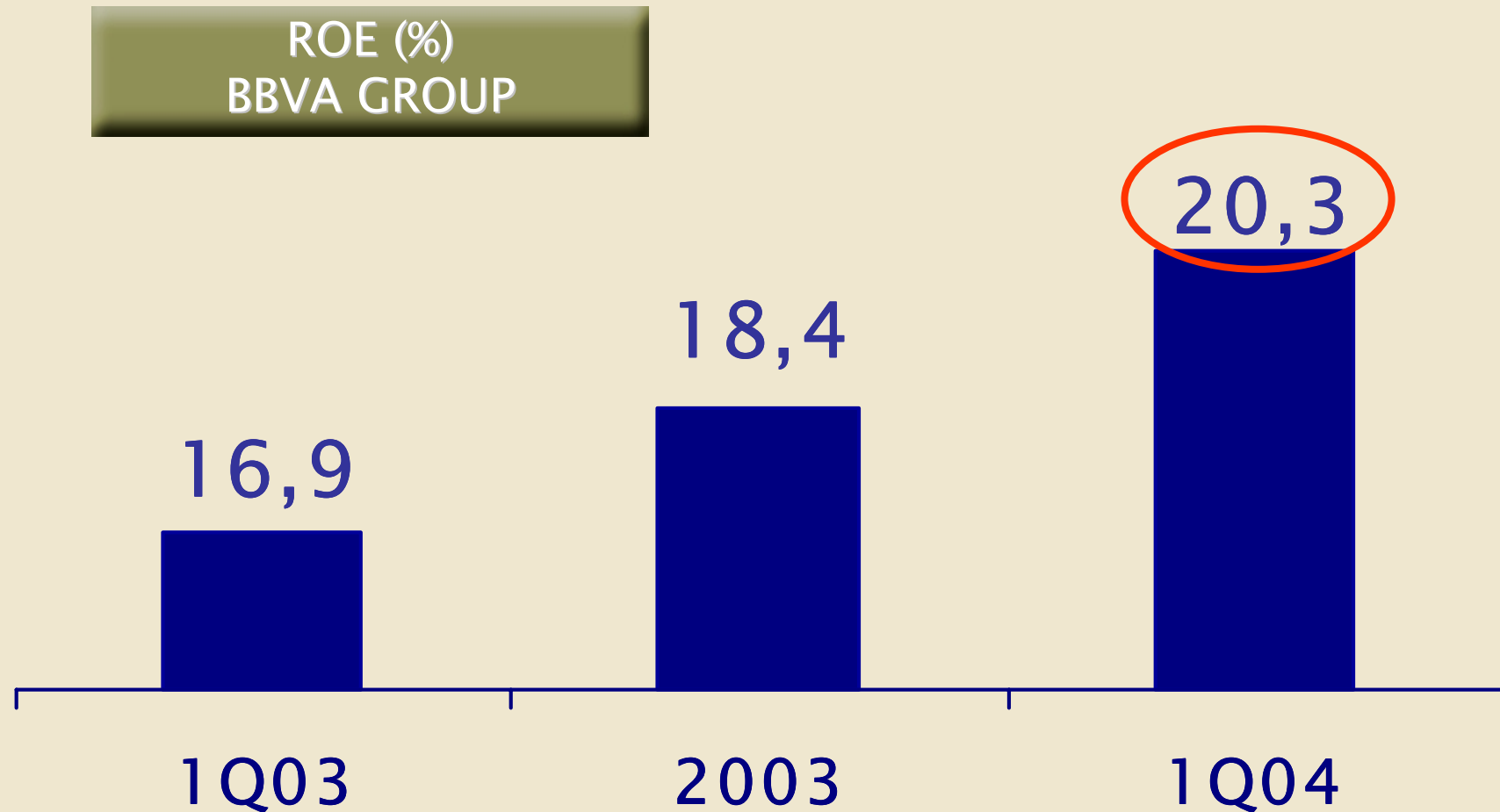


Thus, the Group has produced in 1Q04 the highest net attributable profit in the last eleven quarters

€ million

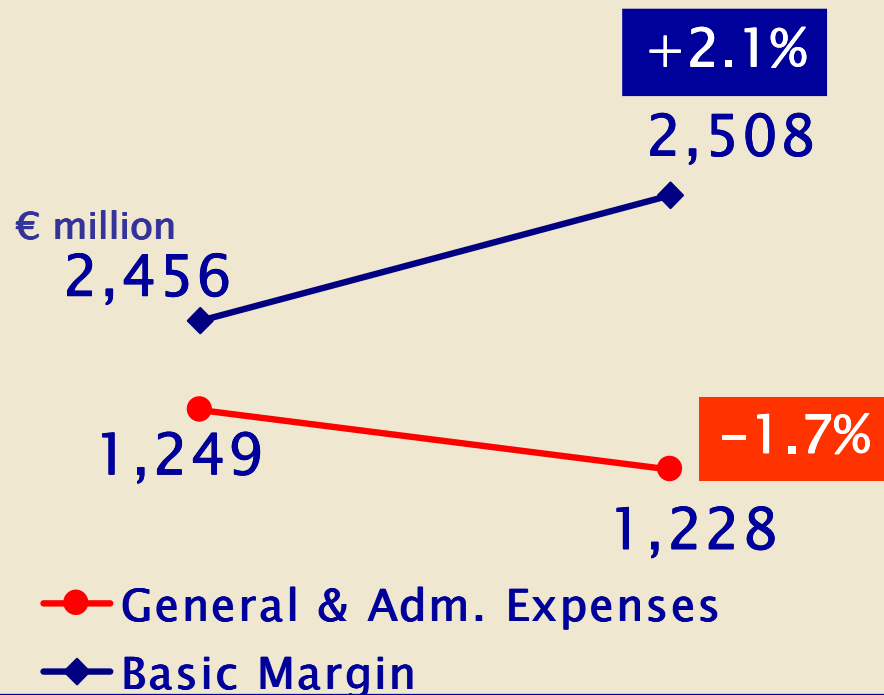


Leading to a further progression in profitability

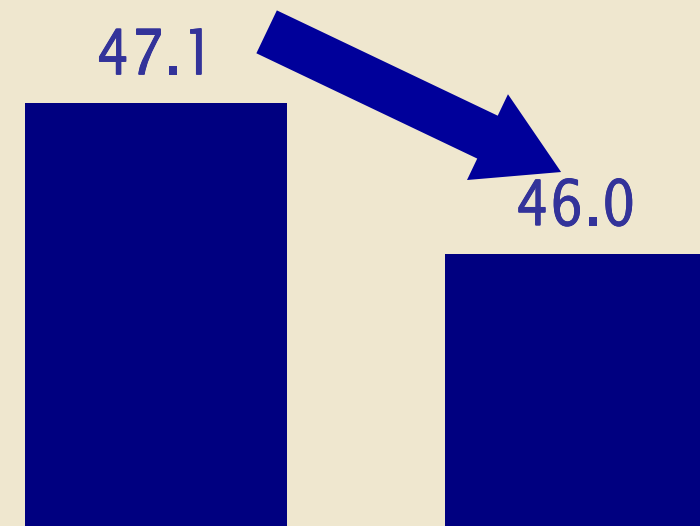


Group efficiency continues to improve

Core Revenues & General Adm. Expenses



Cost/income ratio (%)



1Q03

1Q04

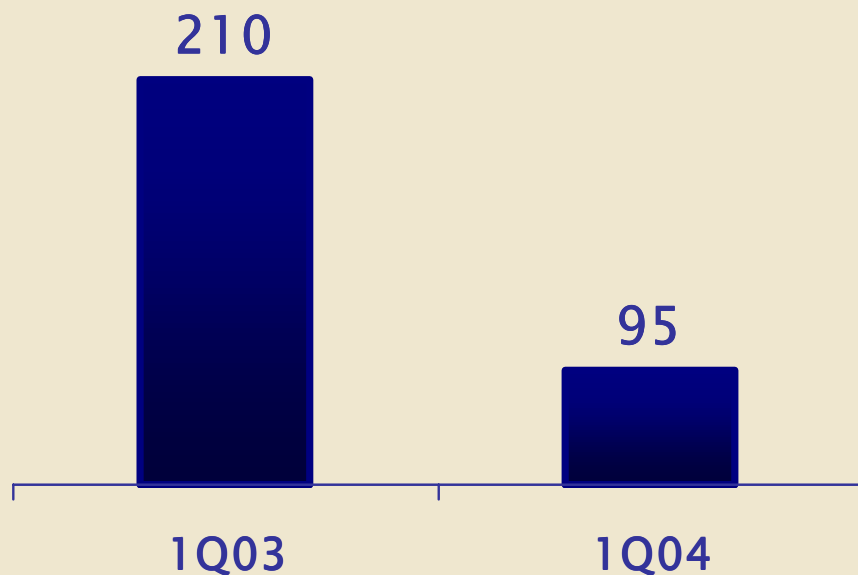
1Q03

1Q04

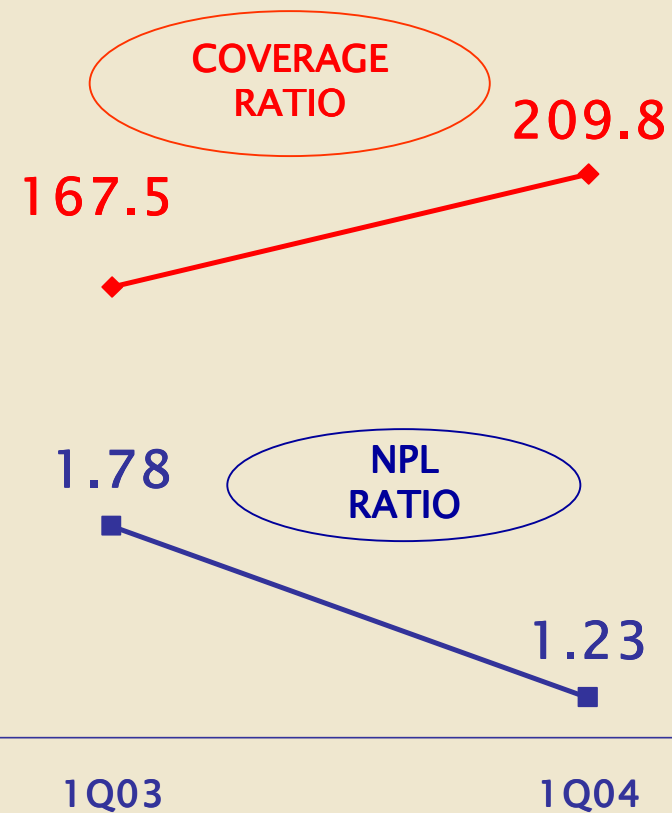
Driven by growth in recurrent revenues

Outstanding asset quality and coverage ratios

Net entries to NPL
(€ million)



NPL ratio and coverage (%)



... with a significant volume of Group special credit reserves

March 2004 (€ mill)

Loan loss “FOCEI” provision	1,035
Loan loss generic provision	1,332
Total	2,367

Active management of structural risks

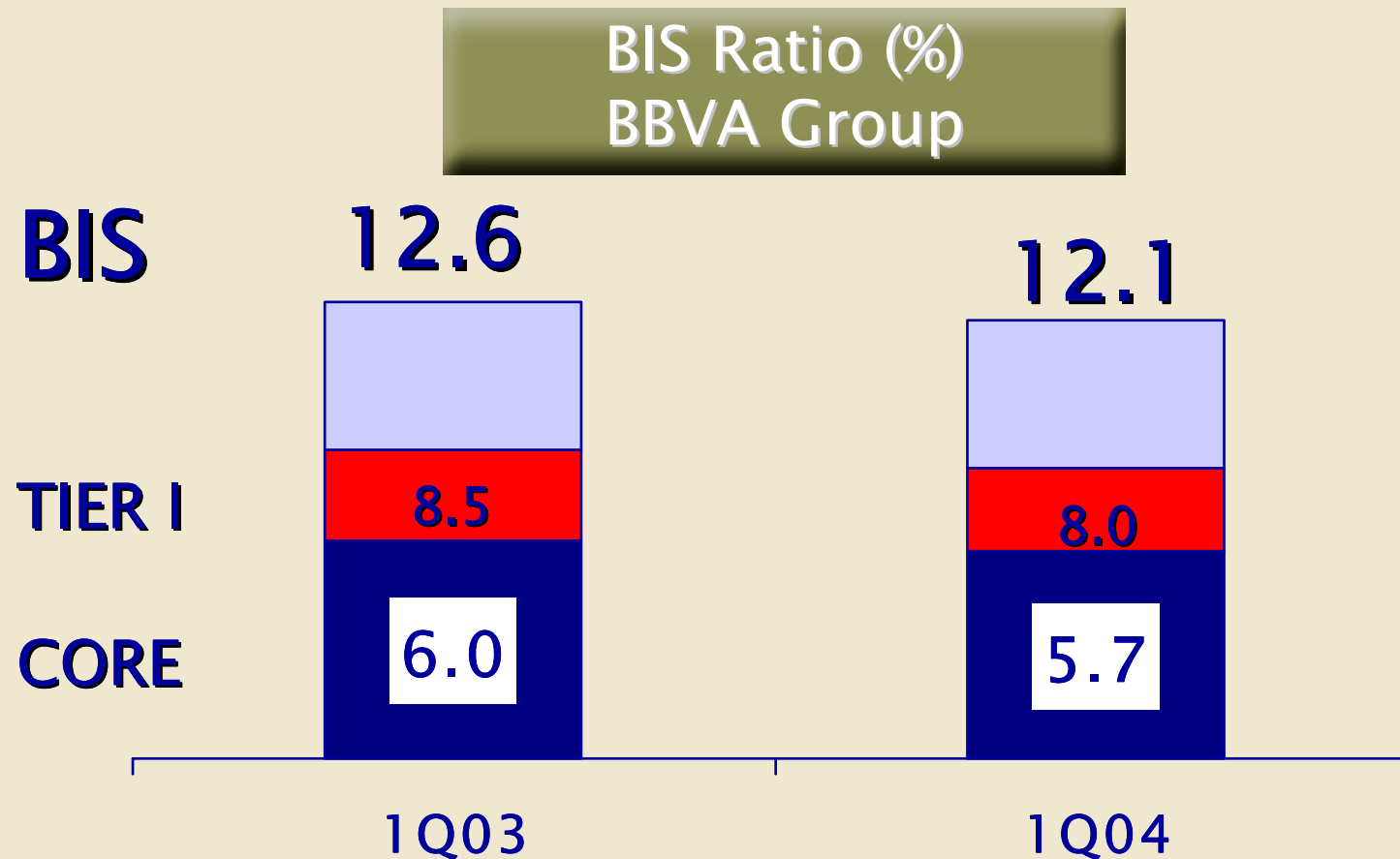
INTEREST RATES

- €24 bn bond portfolio to cover interest rate risk (March 04)
- Short duration: 1.8 years
- 65% of latent capital gains are locked in
- Additionally, €8 bn IRS to hedge the spread 3–12 month euribor

FOREIGN EXCHANGE

- 70% of BV of BBVA América covered at corporate level (March 04)
- “Perfect” hedging in Mexico & Chile (67% and 71% respectively as of March 04)
- Hedge of 2004 results

... while maintaining high levels of capital adequacy



... In line with expectations, after the impact of the BBVA Bancomer transaction

Successful acquisition of BBVA Bancomer minorities

The €2 billion share issue was well-received

1.7 times oversubscribed in record time

High acceptance of share offer

Current holding: 99.7%

Impact of the transaction

Positive impact on EPS from year one

Generating resources by reallocating capital

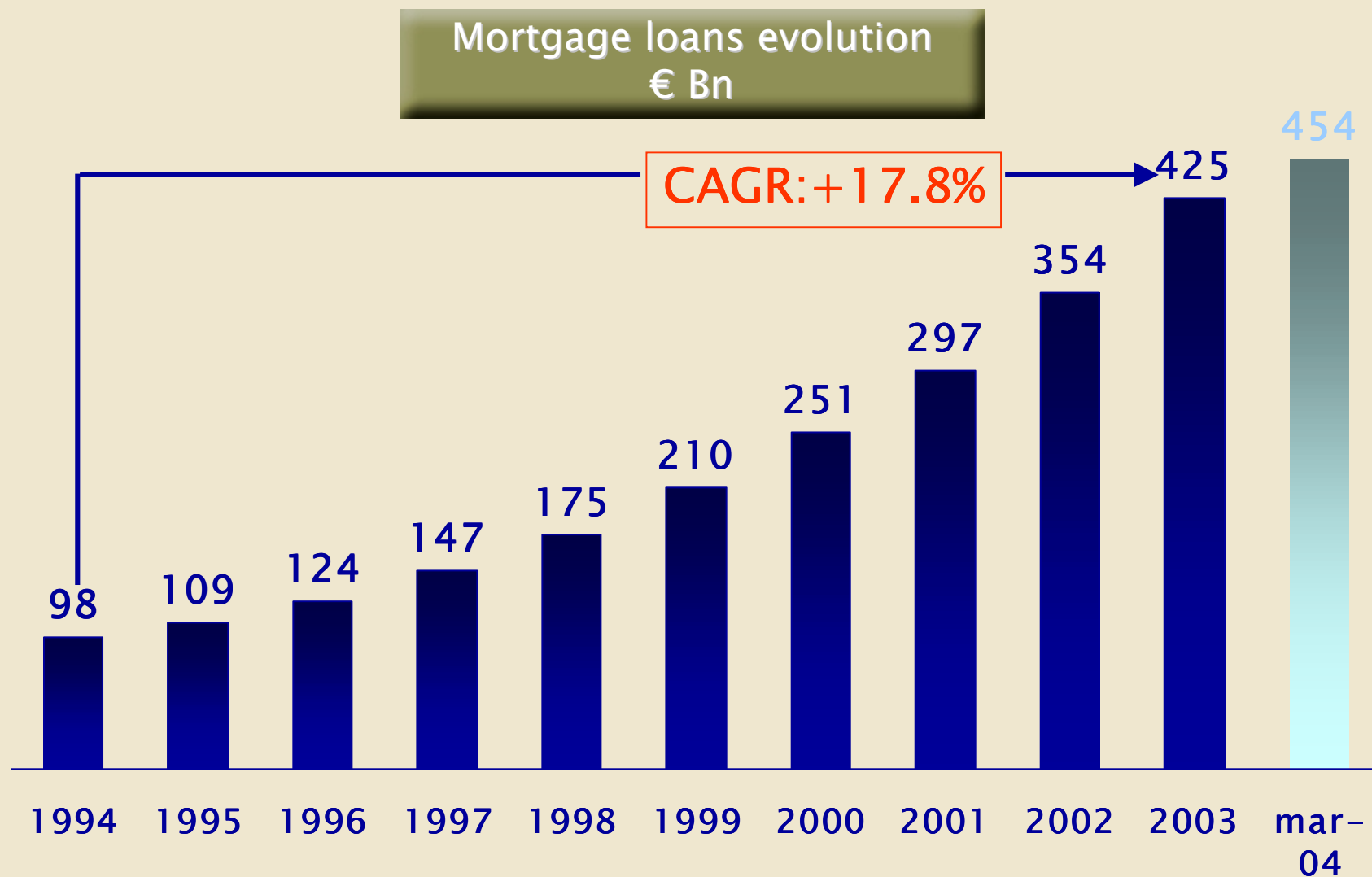
Core Capital of €847 million

Better capital allocation within the Group

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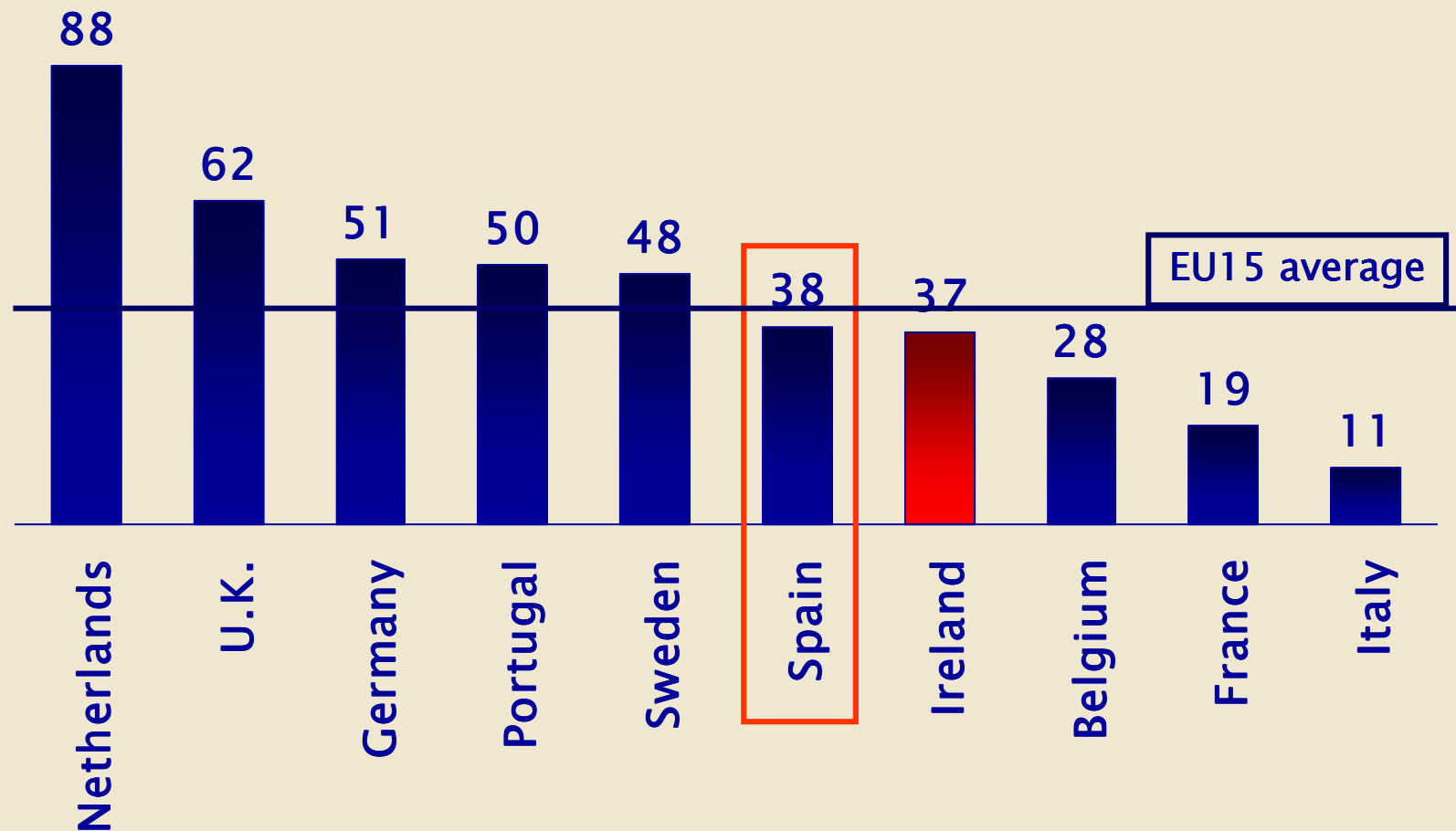
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Strong growth of the Spanish mortgage market in the last years



However, the Spanish Market is still below the European average

Residential mortgage loans * over GDP, % (2002)



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

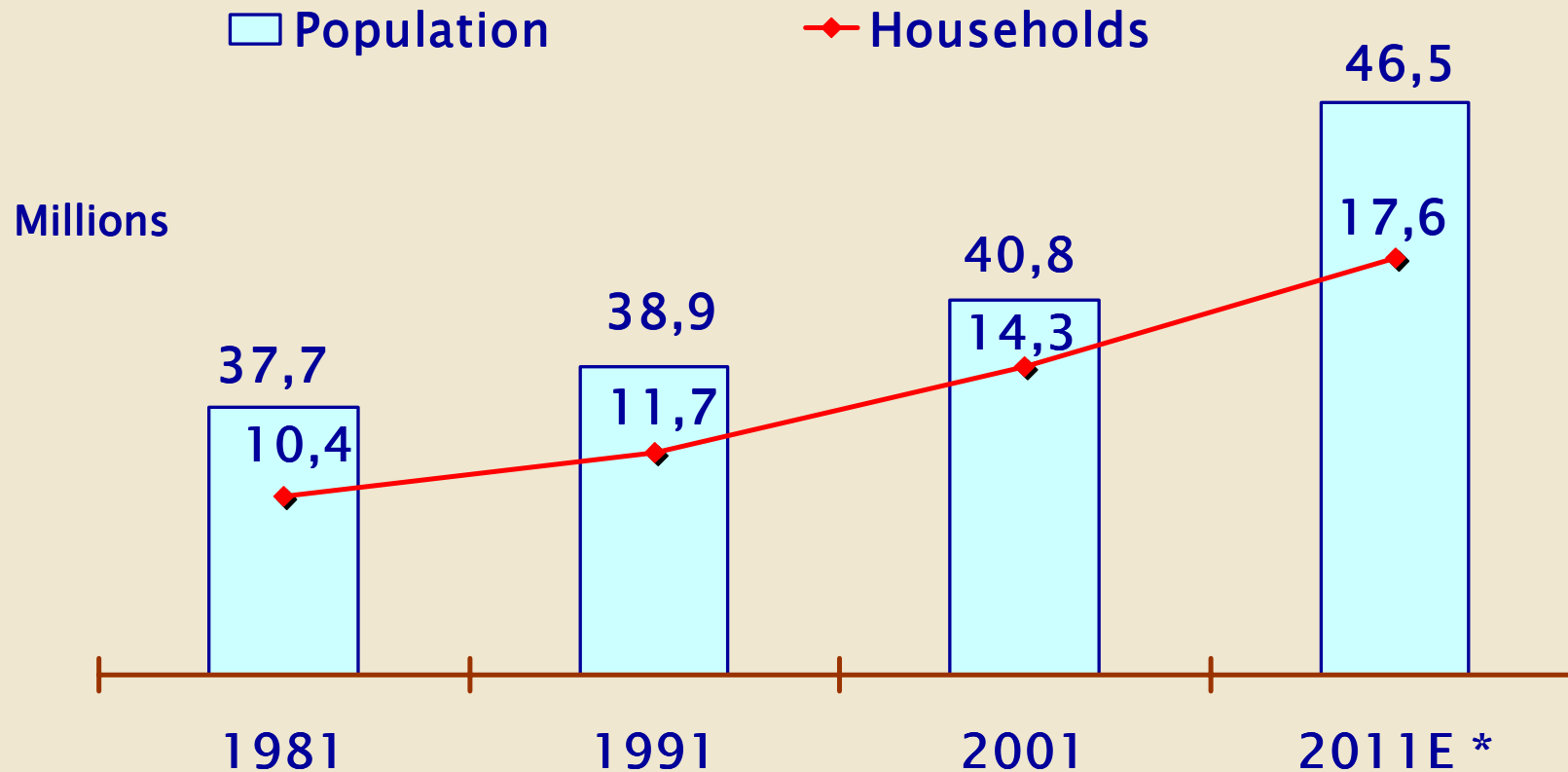
Demographic drivers

- 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

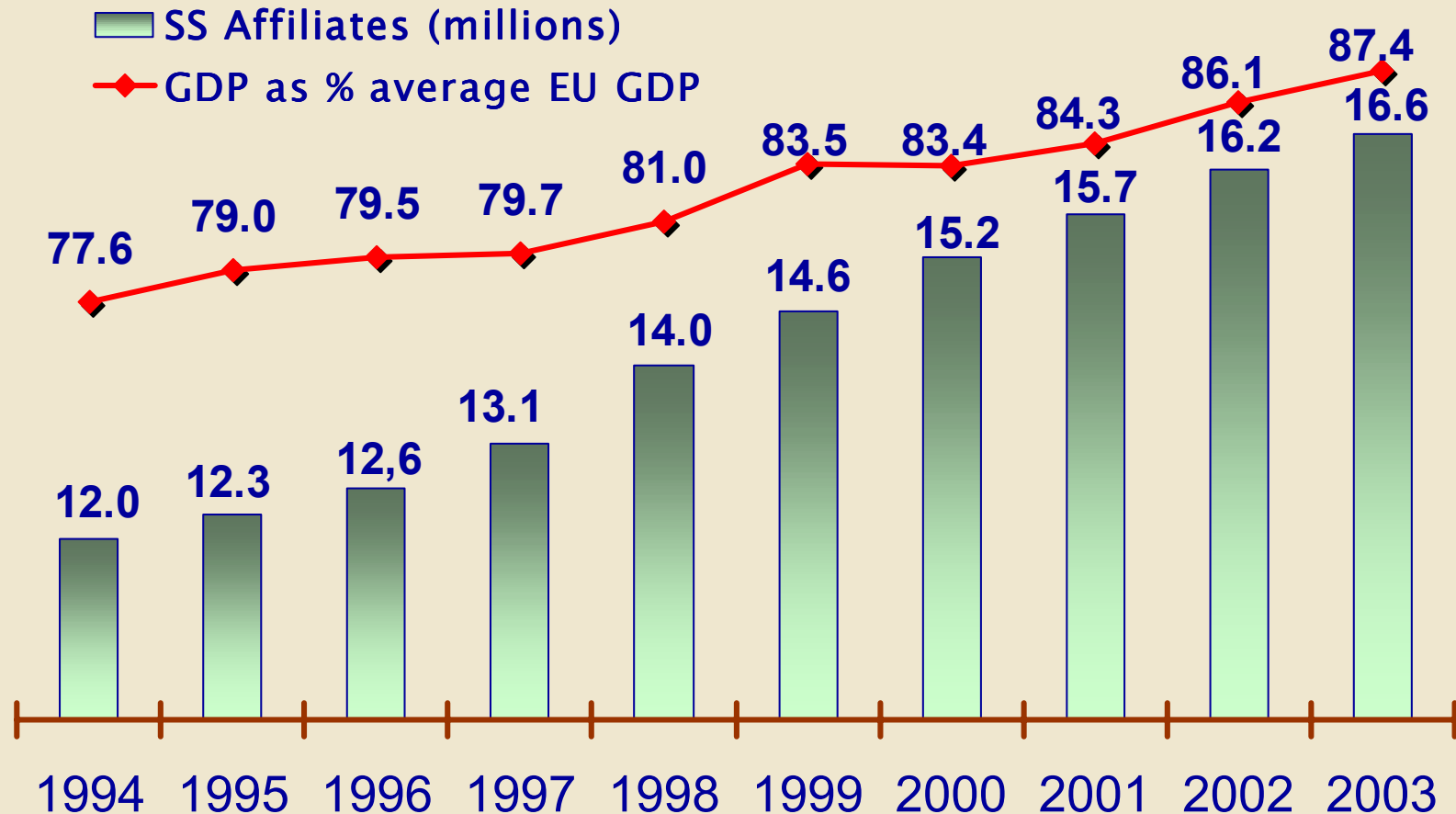
- Better financing conditions: longer maturities and increased product range
- Mortgage payments are more affordable

Healthy growth in population and household formation



2.6 million households created in 10 years (1991–2001) and 3.3 million more expected in the next ten period years

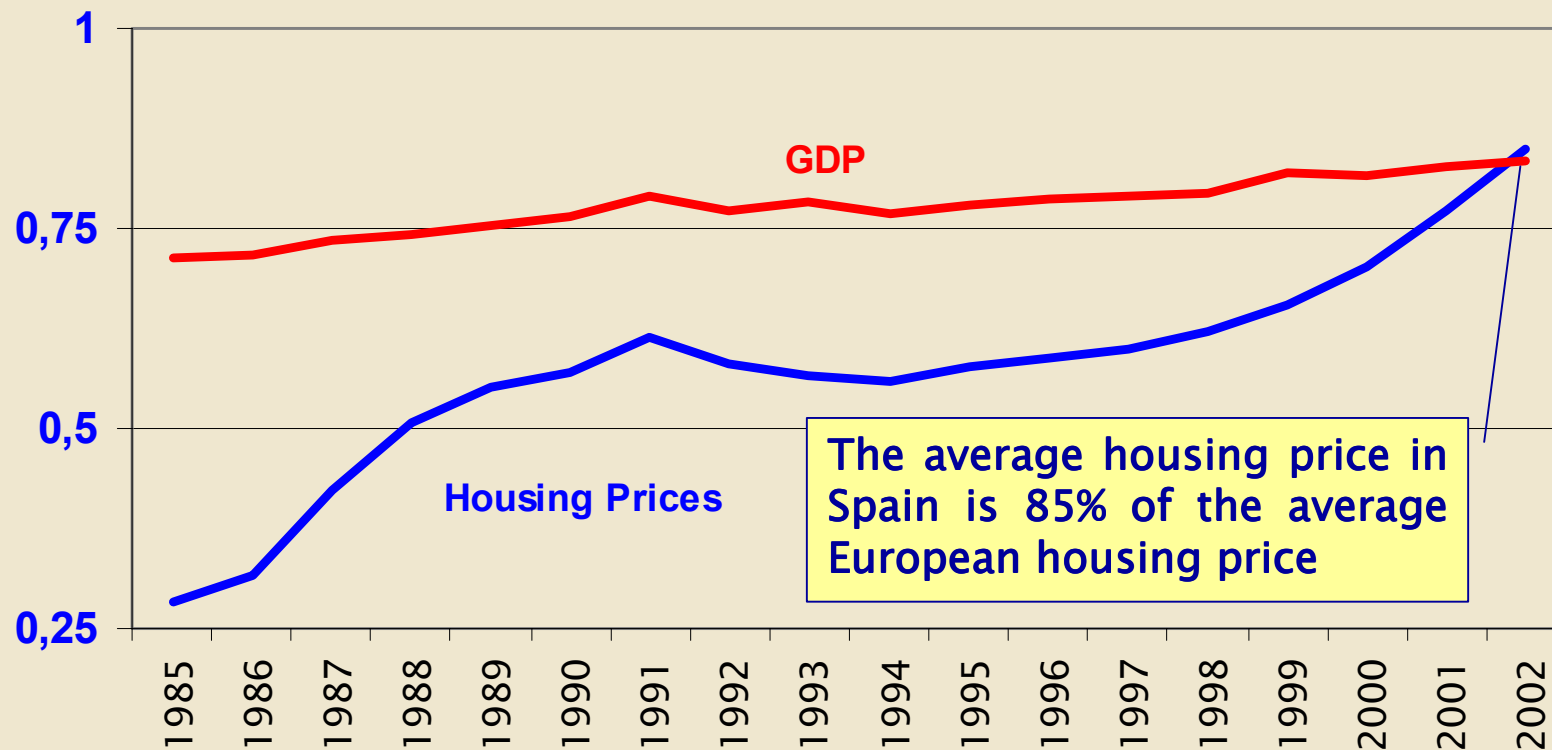
... and a positive trend of employment and GDP per capita



4.6 million jobs created in the last 10 years(1994–2003)

Housing prices: a catch-up process

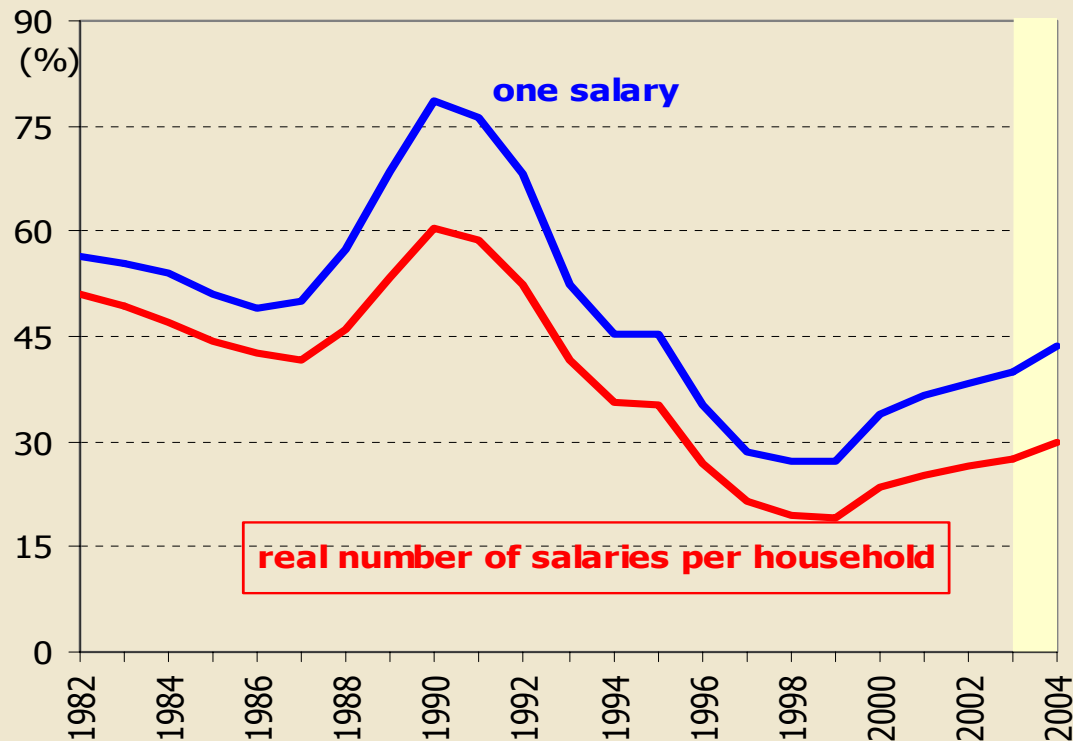
Housing Prices & GDP per capita.
Spain/Europe



Source: BBVA

Outlook for mortgage demand: affordability remains favourable

Affordability Ratio (%)



- The price increases registered in the recent past have been compensated to a significant degree by the fall in mortgage interest rates
- Thus, for a 2003 price increase in house prices of approx. 17%, the affordability ratio only went up around 4%

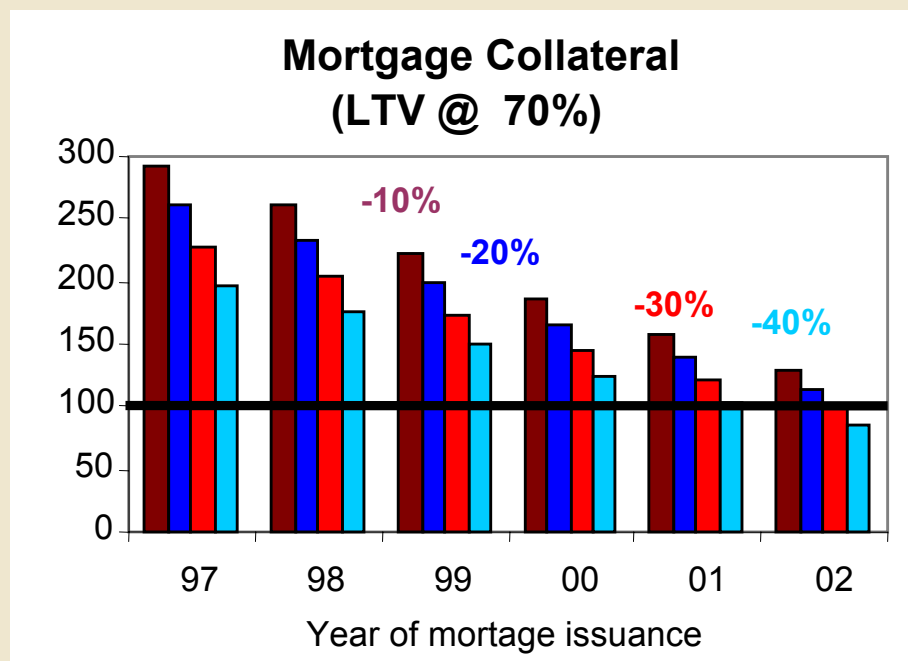
For the average Spanish family with 1.45 members in employment, mortgage payments represent approximately 27.5% of its gross income, assuming interest rates at 4% and a 20-year mortgage

Spanish mortgages are cheap compared to Europe

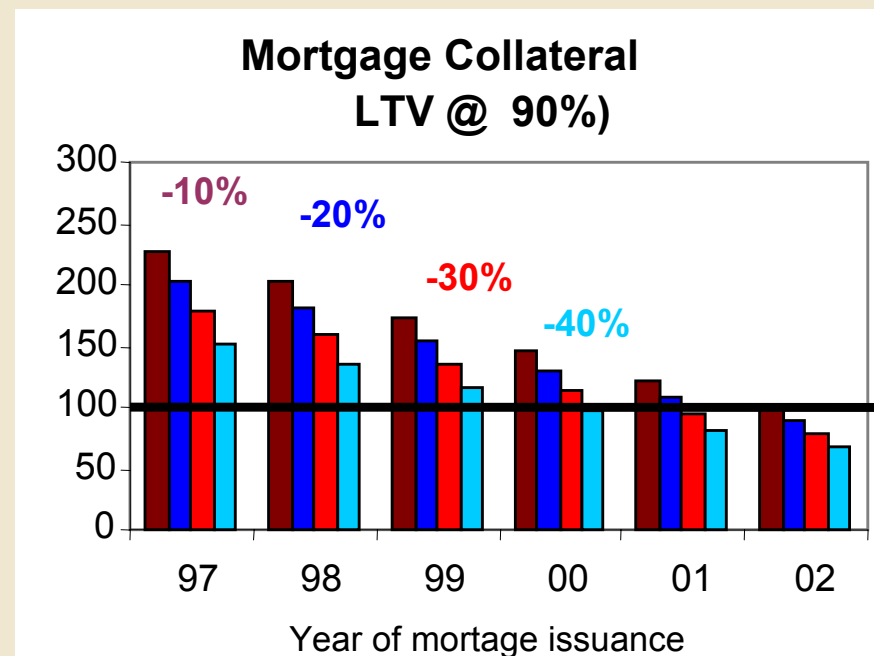
<i>Interest rates on mortgages (excluding fees)</i>	<i>Spain</i>	<i>EU</i>
Within 1 year of initial rate date	3.59%	3.87%
1 to 5 years from initial rate date	3.60%	4.23%
5 to 10 years from initial rate date	5.95%	4.94%
More than 10 years from initial rate date	4.27%	4.90%
<i>Volumes and percentage structure</i>		
<i>New transactions (2003 € millions)</i>	<i>Spain</i>	<i>EU</i>
Within 1 year of initial rate date	8,599	46,304
1 to 5 years from initial rate date	79%	43%
5 to 10 years from initial rate date	19%	18%
More than 10 years from initial rate date	1%	21%
		18%

Sensitivity analysis to falling prices: risks under control

LTV @70%



LTV @ 90%



For the Spanish system, the risk of the market value of mortgaged properties falling below the principal amount only starts to materialise for price falls of 30–40%, for LTV @70% and for mortgages issued after 2002

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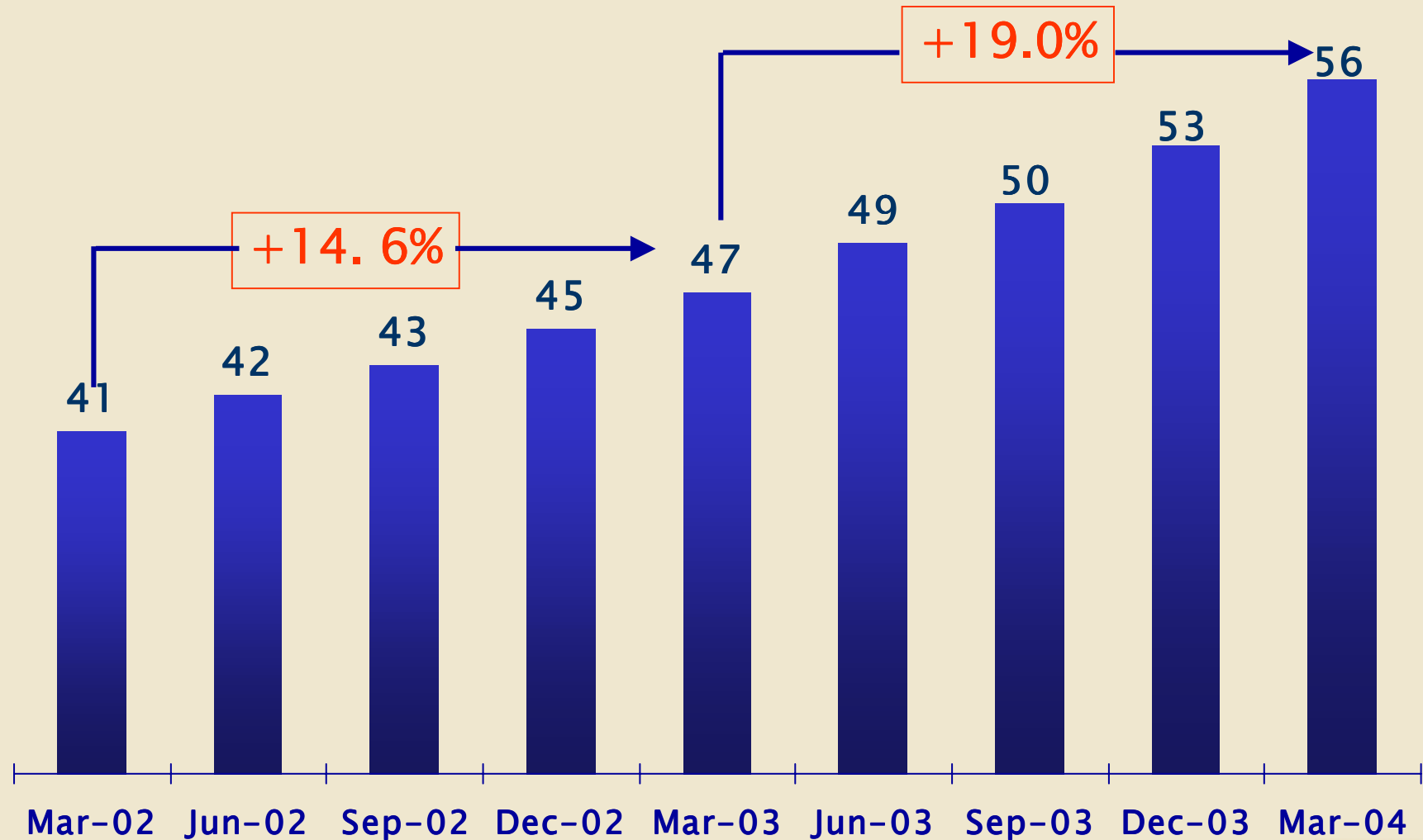
BBVA in the Spanish mortgage market

- Mortgage lending is the core activity in the Spanish Banking System
 - ✓ Outstanding mortgages over private sector loans:
Saving Banks (67%), Banks (48%) and BBVA (53%)
- More than 2/3 of all loans to households are residential mortgages: BBVA 76% vs 66% Spanish Banking System
- BBVA is the leading mortgage player in Spain: 12.2% market share

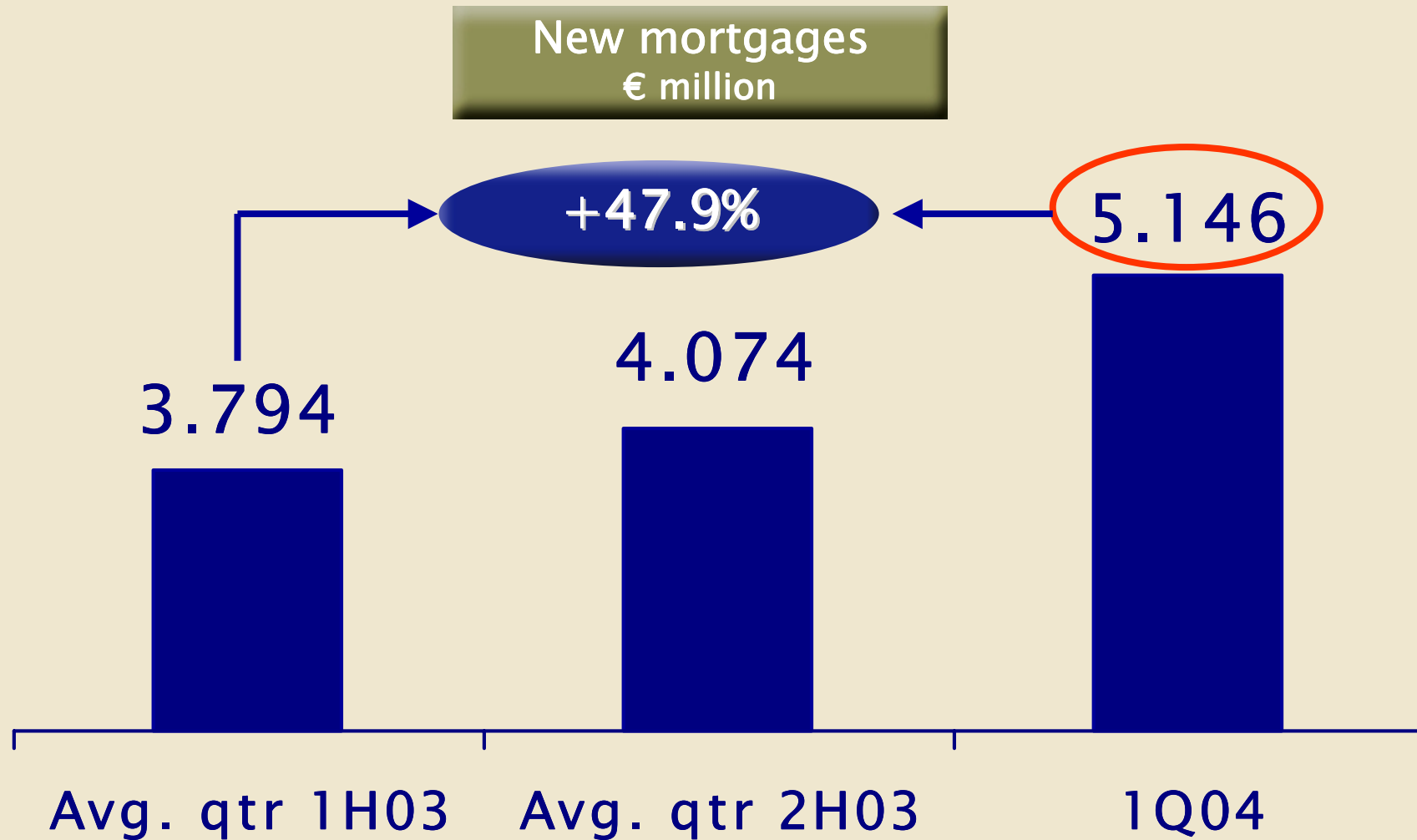
BBVA is the leading mortgage player in Spain, with a strong focus in residential mortgages

BBVA: excellent evolution of its stock of mortgages

Mortgage loans evolution (€ Bn)



...with a record quarter in new residential mortgage production



...and a well diversified mortgage portfolio⁽¹⁾ geographically

Region	%portfolio(1)	%GDP
Catalonia	19.7	18.3
Madrid	19.3	17.3
Andalusia	16.0	13.8
Valencia	11.4	9.8
Canary Is.	5.7	3.9
Castille-Leon	4.2	5.7
Basque C.	3.7	6.7
Balearic Is.	3.6	2.3
Galicia	3.5	5.4
Other	13.1	16.8

(1) Source: INE 2002)

- More than 150.000 homes financed by BBVA during 2003
- 782.000 outstanding mortgages

Key mortgage quality indicators show a low risk profile for BBVA

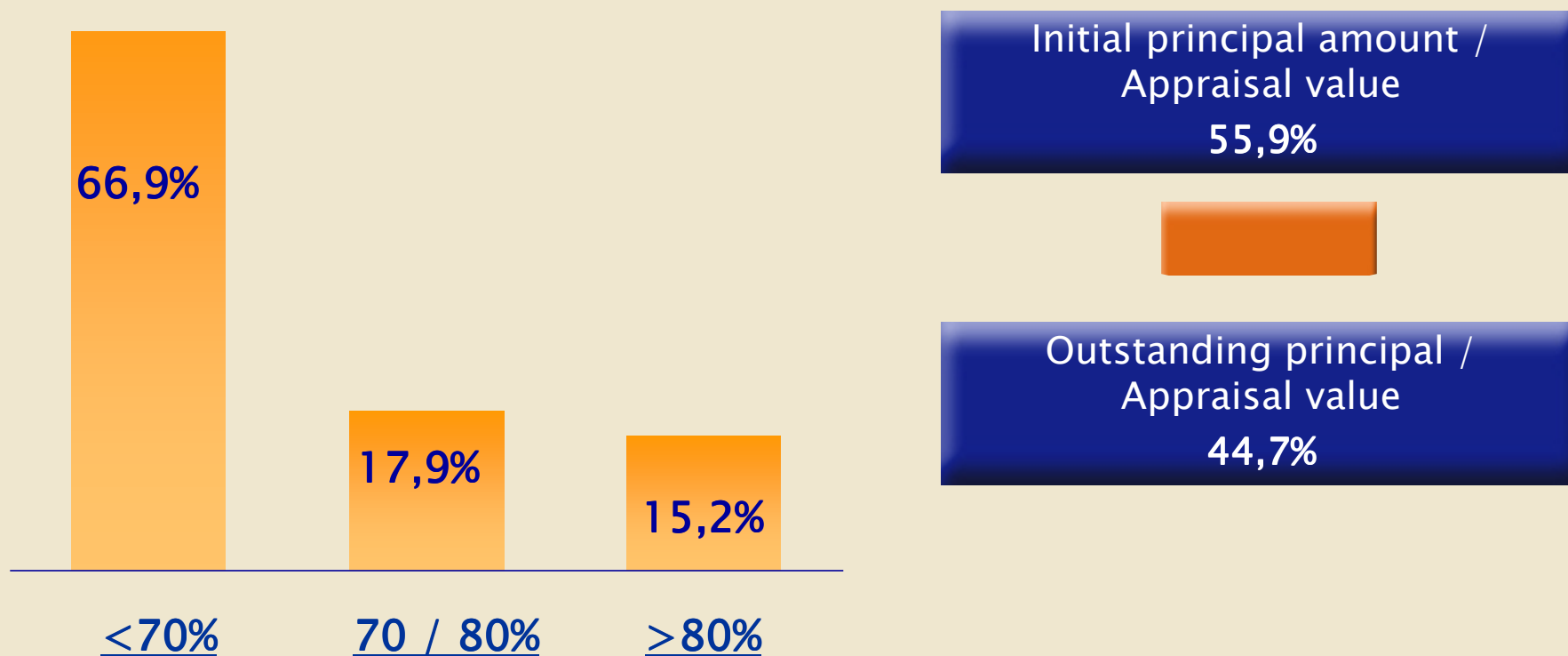
	Total stock	New Production (1)
Average size	54.160 €	102.190 €
Average life (years)	19.1	23
L.T.V. (initial amount)	55.9%	63.5% (2)
L.T.V. (Outstanding amount)	44.7%	61.2% (2)
NPL ratio	0.33%	

(1) 2003 and January to May 2004

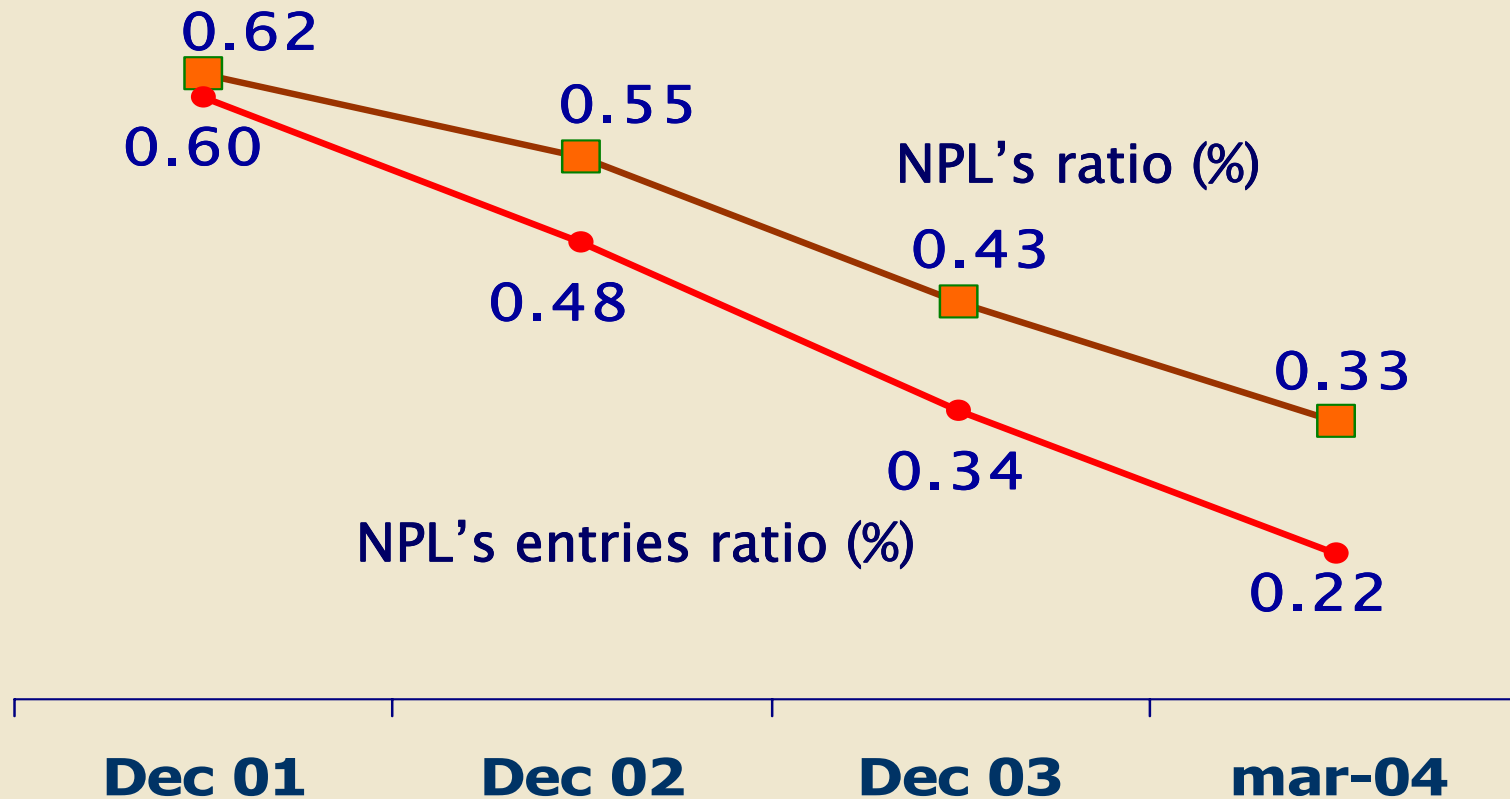
(2) 2002/2003 average data

The L.T.V. is 44.7% for outstanding principal

Current mortgage book structure (1)/ Initial appraisal value

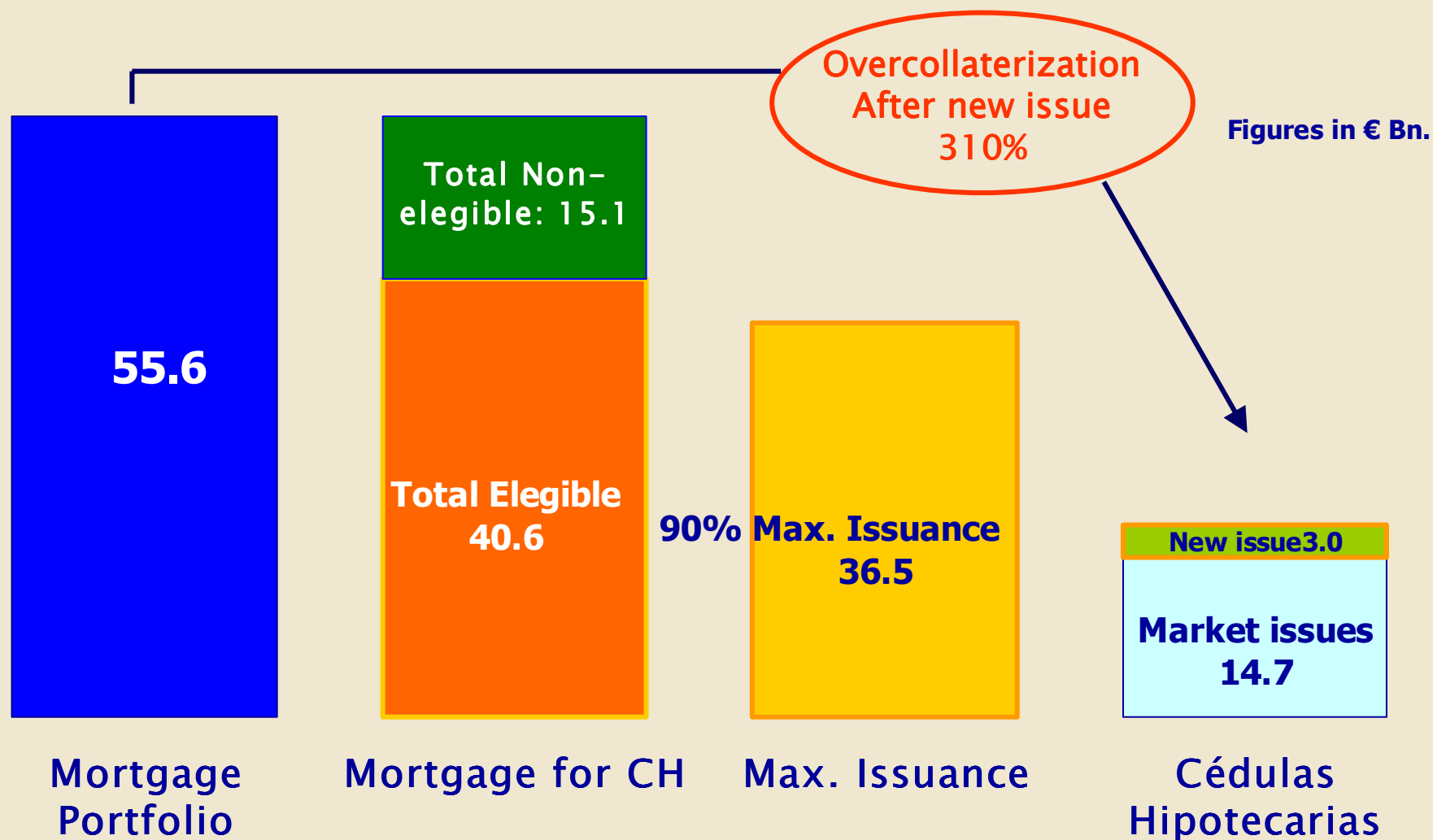


Improvement in the quality of the mortgage portfolio



- High NPL's coverage ratio: 270%
- Powerful and fully implemented credit-analysis tools : credit scoring is integrated throughout the internal approval process

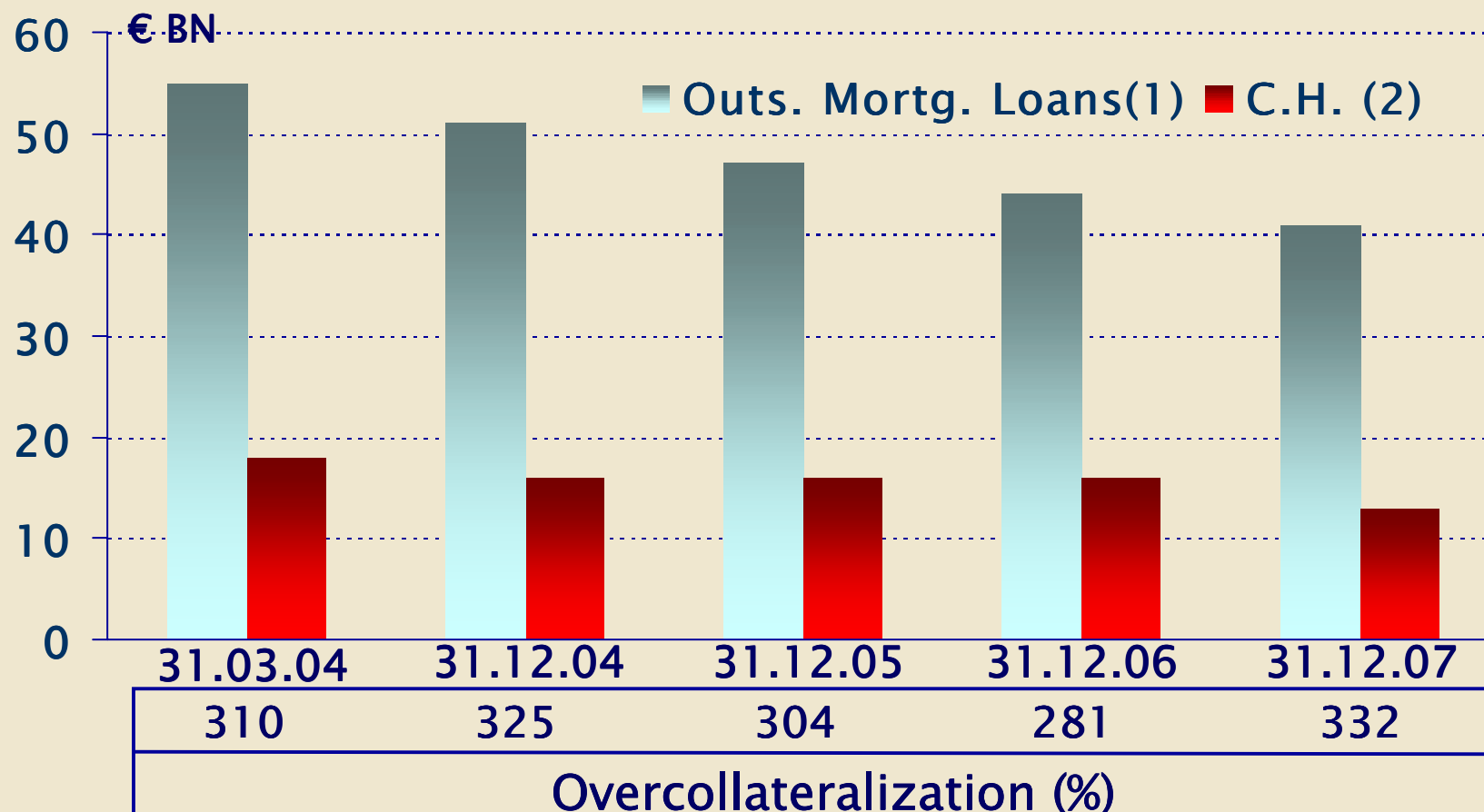
A very strong overcollateralization



(1) Eligible mortgages loans: first mortgages with max. LTV of 80% for residential and 70% for commercial

... Even without increasing the pool of outstanding mortgages

Mortgages loans & C.H.: Maturity matrix 31.03.04 (1)



(1) Without taking into account future mortgage portfolio increases

(2) Including the new CH issue of € 3 Bn

New 2014 CH Issue Main Characteristics

- Issuer: BBVA
- Format: Cédulas Hipotecarias
- Issue Rating: Moody's Aaa
- Amount: 3.000 million €
- Maturity: 10 years
- Lead-Managers: Barclays, BBVA, DB, SG
- Listing: A.I.A.F

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Conclusions

- Significant advance in strategy in 2003, confirmed in 1Q04, 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
- The new 2014 issue completes BBVA “CH” curve
- BBVA “CH” represents an attractive investment alternative

BBVA

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Cédulas Hipotecarias: Overview

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)
- 10% BIS risk weighted
- Overcollateralised: banks cannot issue CHs with value higher than 90% of eligible mortgage loans (monitored by Bank of Spain). LTV must not be higher than 70% (commercial) or 80% (residential)
- 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 senior bond creditors

Cédulas Hipotecarias: Legal Framework (the Mortgage Market Law and Insolvency Law)

- o The first Spanish mortgage law was introduced in 1861 and CH were first introduced in 1869
- o The Mortgage Market Law was last amended in 1981, to promote the development of the mortgage market,
- o 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)
- o New Spanish Insolvency Law:
 - Better protection for CH holders
 - Effective September 1, 2004

Cédulas Hipotecarias: CH Investor (Legal Status)

- Investors of CH have a preferential claim over the entire mortgage book of the issuing bank
- The legislation grants the right for the CH holder to an executory action against the issuer, in the case of failure to pay principal and/or interest
- As there has never been a default on a CH, there is no practical experience with respect to the time horizon for setting the preferential claim granted to CH holders

CH INVESTORS ARE SPECIALLY PRIVILEGED CREDITORS

New Insolvency Law 22/2003 (I)

- 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 Cedula holders

New Insolvency Law 22/2003 (II)

- 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 will be removed (article 71)
- The reintegration period can maximally reach back 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 will be removed

Strengthening the protection of Cédulas holders

Cédulas Hipotecarias: Strengths

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

Cédulas Hipotecarias: Investor Rationale

- A higher yield as compared to many assets of identical rating
- A low solvency ratio (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

BBVA Outstanding Jumbo Cédulas Hipotecarias issues

Issue Date	Maturity	Size (Eur)	Coupon
24-Sep-99	24-Sep-04	1.500.000.000	4,75%
26-Sep-02	26-Sep-07	3.000.000.000	4,25%
10-Jan-99	1-Oct-09	1.000.000.000	5,50%
27-Sep-00	27-Sep-10	1.500.000.000	5,75%
29-Jan-03	29-Jan-13	3.000.000.000	4,25%
15-Mar-04	15-Mar-11	3.000.000.000	3,50%
TOTAL		13.000.000.000	

The new 2014 issue completes BBVA CH curve