BBVA making the difference
“Outlook for Real Estate and mortgages in Spain”

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Xavier Argenté – Head of Spanish Banking Business

BBVA making the difference
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The outlook for the real estate market in Spain

The BBVA mortgage business

Annexes
1. The Spanish growth model is not based on housing

2. A more flexible employment market will give support to the economy

3. Although households debt levels have increased, they have a solid wealth position

4. The on-going orderly adjustment of the housing market will have a limited impact on the overall economy.
Structurally, Housing has increased its weight converging to the levels of developed countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>6.7</td>
<td>7.5</td>
</tr>
<tr>
<td>Germany</td>
<td>6.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Ireland</td>
<td>9.0</td>
<td>8.5</td>
</tr>
<tr>
<td>UK</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Australia*</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>USA</td>
<td>4.8</td>
<td>4.2</td>
</tr>
</tbody>
</table>

* last data 2005

Source: AMECO
Economic Research Department
The Spanish housing market

Principal Housing stock is becoming comparable to other developed countries.

### Housing stock and population

<table>
<thead>
<tr>
<th></th>
<th>Houses per 1.000 Hab</th>
<th>Principal Houses per 1.000 Hab</th>
<th>Other Housing per 1.000 Hab</th>
<th>Square meters per Inhabitants</th>
<th>Principal square meters per Inhabitants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>472.5</td>
<td>434.4</td>
<td>38.1</td>
<td>42.2</td>
<td>38.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>469.1</td>
<td>448.3</td>
<td>20.8</td>
<td>51.1</td>
<td>48.8</td>
</tr>
<tr>
<td>France</td>
<td>476.9</td>
<td>395.6</td>
<td>81.3</td>
<td>42.9</td>
<td>35.6</td>
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<tr>
<td>Greece</td>
<td>503.5</td>
<td>333.5</td>
<td>169.9</td>
<td>42.8</td>
<td>28.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>415.9</td>
<td>406.9</td>
<td>9.0</td>
<td>40.8</td>
<td>39.9</td>
</tr>
<tr>
<td>Italy</td>
<td>458.6</td>
<td>368.7</td>
<td>89.9</td>
<td>40.4</td>
<td>32.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>489.0</td>
<td>345.8</td>
<td>143.1</td>
<td>40.6</td>
<td>28.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>433.1</td>
<td>416.2</td>
<td>16.9</td>
<td>36.8</td>
<td>35.4</td>
</tr>
<tr>
<td>Spain</td>
<td>509.8</td>
<td>349.4</td>
<td>160.4</td>
<td>47.2</td>
<td>32.3</td>
</tr>
<tr>
<td>Mediterranean countries</td>
<td>482.7</td>
<td>356.9</td>
<td>125.8</td>
<td>42.9</td>
<td>31.7</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>468.1</strong></td>
<td><strong>395.9</strong></td>
<td><strong>72.2</strong></td>
<td><strong>41.8</strong></td>
<td><strong>35.4</strong></td>
</tr>
</tbody>
</table>

Source: European Statistics, INE, INSEE, DESTATIS, UK Census, INE (Portugal), and BBVA

However, in Spain, as in other Mediterranean countries, second homes represent an important part of the housing stock...

...because of their tourist component.
The Spanish economy is not just housing

The Spanish economy has experienced higher levels of investment in equipment... than in the housing sector.

Deviation from historical weight

- Dwellings + 1.7 p.p.
- Other constructions + 1.0 p.p.
- Equipment + 2.6 p.p.

Annex: Changes in the Spanish Economy during the last decade.

Gross fixed capital formation

(as a % of GDP)

- Equipment
- Non-residential construction and civil engineering
- Dwellings
Moreover, Construction (ex. Housing) represents more than half the investment and its outlook performance is better.

The Spanish economy faces moderation with the soundest fiscal position for recent decades with a fiscal surplus of 1.2% of GDP in 2007 and 0.9% in 2008.
1. The Spanish growth model is not based on housing

2. A more flexible employment market will give support to the economy

3. Although households debt levels have increased, they have a solid wealth position

4. The on-going orderly adjustment of the housing market will have a limited impact on the overall economy.
Women, immigration and baby-boomers have increased the Spanish labor force and made it more flexible.

Annex: Medium term potential demand

The Potential formation of new Households will remain strong over the next five years.
Employment growth is one of the key factors behind the housing boom.

Spanish housing market has experienced a catching up process in line with the Spanish economy.
How many jobs will be created?

### Spain. Net job creation (thousands)

- 2000: 816
- 2001: 640
- 2002: 484
- 2003: 666
- 2004: 675
- 2005: 1002
- 2006: 774
- 2007: 667
- 2008: 410

Source: SEE BBVA

### Construction. Net job creation (thousands)

- 2000: 30
- 2001: 104
- 2002: 121
- 2003: 152
- 2004: 104
- 2005: 186
- 2006: 178
- 2007: -83
- 2008: -150

Source: SEE BBVA

However, Spanish employment growth will remain being the highest of the developed countries in the next years.

Annex: A more flexible labour market
1. The Spanish growth model is not based on housing
2. A more flexible employment market will give support to the economy
3. Although households debt levels have increased, they have a solid wealth position
4. The on-going orderly adjustment of the housing market will have a limited impact on the overall economy.
Households debt levels have converged to the levels of developed countries..

Despite the increase in disposable income, household debts have grown at a higher pace.

Source: OECD
Economic Research Department

Structural changes of the Spanish economy

…..due to the structural fall in the financing cost……

There has been a structural fall in interest rates over the last 20 years.

This has been more intense in the Spanish Economy...

… as well as permanent.

Contributions to the decrease of mortgage rates (p.p.)

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global interest rate</td>
<td>1.9</td>
</tr>
<tr>
<td>Country risk</td>
<td>3.3</td>
</tr>
<tr>
<td>Banking competition</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Interest rates are structurally lower in the Spanish economy
The Spanish housing market...however, households show a solid wealth position

The financial turbulences and the housing market deceleration caused only a marginal effect on wealth...

...Spanish households show a moderate ratio of indebtedness over net wealth

Annex: Households’ wealth and income

Household indebtedness over net wealth

Source: OECD

* last data 2004
1. The Spanish growth model is not based on housing

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4. The on-going orderly adjustment of the housing market will have a limited impact on the overall economy.
Supply has been more affected by the financial turmoil than demand.
Housing demand: a year and a half of moderate slowdown

The financial turbulences have triggered an earlier development of the expected adjustment. The stricter financial conditions and the deterioration of confidence have prompted a deceleration of activity.
The gradual deceleration is already on its way.

Real Housing price in Spain
(Path after each maximum)

Real house prices deceleration path from maximum

Deceleration is the smoothest for the last 30 years.

..and also the smoothest compared to other countries.
There is not a fundamental overvaluation of housing prices in Spain. Demography, interest rates and income have supported the increase in prices during the last decade.
The gradual deceleration is already on its way

### Projections

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESIDENTIAL MARKET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing investment</td>
<td>6.4</td>
<td>3.5</td>
<td>0.0</td>
<td>-1.5</td>
</tr>
<tr>
<td>Building permits</td>
<td>911</td>
<td>675</td>
<td>550</td>
<td>550</td>
</tr>
<tr>
<td>Housing price</td>
<td>10.4</td>
<td>5.5</td>
<td>1.4</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

Housing market deceleration will follow its orderly path and will have a very limited impact on the economy. What are the main supports?
Impact on the economy will be limited:
Housing affordability will not deteriorate further

- Lower interest rates
- Stability in housing prices
- Solid gains in income per capita
- Improvement in housing affordability

Source: BBVA, Research Dptmnt.
The impact on the economy will be limited: Although housing will not contribute to economic growth, the Spanish economy will grow close to its potential.

On average, the housing sector has contributed to Spanish growth by 0.5 percentage points in the period 2001-2006. This figure is below the 2.4 pp for the rest of the economy.

Housing will have a null contribution in 2007, moderating slightly from the 0.3 pp of 2006.

Spain, contributions to growth

Source: BBVA Research Dept.
The impact on the economy will be limited:

...new employment levels will remain solid

Employment in the construction sector accounts for 13% of the total.

In 2008, employment will grow a 1.5%, 1.4 pp less than in 2007, but still far from a scenario of employment destruction.

Thus, new jobs will be created in non-construction sectors.

Source: BBVA Economic Research Dept.
The most likely outcome is that the gradual deceleration of the Spanish Real Estate sector will continue in the near future.

The sector is already in a process of a smooth slowdown, and their medium term strengths are significant.

The Spanish economy has built important supports that will buffer the impact of the current situation.
The outlook for the real estate market in Spain

The BBVA mortgage business

Annexes
BBVA mortgage business
Portfolio Structure

Mortgage portfolio structure

- **Low exposure to developers**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Amount (m€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>83%</td>
<td>71,040</td>
</tr>
<tr>
<td>Developers</td>
<td>17%</td>
<td>14,798</td>
</tr>
</tbody>
</table>

| Total            | 100%       | 85,838      |

% mortgages/ total loans

- **Overall exposure to mortgage loans is less than for the system**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Amount (m€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBVA Spain</td>
<td>46%</td>
<td>71,040</td>
</tr>
<tr>
<td>All Banks</td>
<td>49%</td>
<td>46%</td>
</tr>
<tr>
<td>Savings Banks</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Spanish System</td>
<td>60%</td>
<td></td>
</tr>
</tbody>
</table>

* Data as of August 2007.
## Total Mortgage Loans (€m)

<table>
<thead>
<tr>
<th></th>
<th>Sept. 05</th>
<th>Sept. 06</th>
<th>Sept. 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indivivual mortgage loans</td>
<td>19.1</td>
<td>14.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Mortage loans to developers</td>
<td>32.7</td>
<td>29.8</td>
<td>25.1</td>
</tr>
<tr>
<td>Total mortgage loans</td>
<td>20.9</td>
<td>16.9</td>
<td>14.0</td>
</tr>
</tbody>
</table>

### Gradual slowdown in individual mortgage loans, resulting from a conservative approach to risks and pricing
Mortgage business will continue to be a priority and is a core bundling product for BBVA

Continued focus on 1st residence mortgages

Risk policies with proven track record through credit scoring tools

Risk adjusted pricing: adjusting for segment and channel

In a slower market, we will remain selective combining tailored products with risk adjusted pricing.
Developer Mortgages

**ORIGINATION UNIT** specialized in REAL ESTATE DEVELOPERS. The business generated is booked within Financial Service's accounts.

**ACQUISITION CHANNEL** which supplies individual mortgages and new clients to the Retail Banking unit in Spain.

Moderate exposure to DEVELOPERS:
- 17% of TOTAL MORTGAGE LENDING
- 8% of TOTAL SPANISH BOOK

Contributing €3,419 million individual mortgage loans, 22% of the total loan growth of Spain and Portugal YTD.

This unit generated 17% of individual mortgage revenues in 3Q07.

2006 contribution to Retail Banking:
- 39,430 mortgages, with a total value of €4.185 mm
- An average of 6.4 products per mortgage.
Moderation of housing demand in 2007, while employment creation continues to be a supporting factor.

Affordability remains at acceptable levels, despite recent deterioration.

The soft-landing adjustment currently in progress will translate into a gradual deceleration of activity.

Profile of BBVA developer customer:
- Many developers use to be local companies …
- … They have diversified in the recent past:
  Products - Markets – Businesses …
- … They have improved their solvency and marketing processes
Loan selection criteria: individual assessment of risk and feasibility as well as risk and credit profile of the developer → resulting in market share loss
## BBVA mortgage business
Developers: low risk profile

### Portfolio highlights
- No of active customers: 5,786
- Top 100 customers account for just 30.5% of the portfolio
- 40% of lending is located in province capitals and in population centres > 100,000 inhabitants

### NPL and Coverage ratios (%)

<table>
<thead>
<tr>
<th></th>
<th>2Q07</th>
<th>3Q07</th>
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</thead>
<tbody>
<tr>
<td>NPLs</td>
<td>0.10</td>
<td>0.08</td>
</tr>
<tr>
<td>Coverage</td>
<td>1,640</td>
<td>1,968</td>
</tr>
</tbody>
</table>

Portfolio concentrated in well established developers in a highly fragmented sector where 95% are small and locally based.
The market is cooling down with supply and demand coming closer: In BBVA we are adjusting to the current conditions.

BBVA enjoys strong liquidity solvency and position which is a key advantage in the current market situation:

- New scenario and new business opportunities
- Maintaining our risk policy standards
- We will be selective and look to expand margins

Risk policy based on investing with careful selection of projects and customers.
BBVA mortgage business
Individuals

New loan production source

- 70% from Branches
- 13% from Developers
- 17% from Real State Agents

Home mortgage loans

- 95% Primary residence
- 5% Second residence

BBVA network grants a high proportion of new loans
Focus on primary residence

- Data as Sep 2007.
Three types of consumers: Young Segment, Immigrants, High Net Worth, Mass Market.

**Segmented product offering:**
- Better risk and pricing
- Differentiated commercial approach

**Some offerings:**
- Hipoteca Fácil: Single product with best attributes
- Hipoteca Universal: Personalized offering
- BlueBBVA
- Hipoteca Fácil BBVA: Safe Installment, hedging of interest rates, life insurance: single premium, home insurance

**Cross selling:**
- Safe Installment: hedging of interest rates
- Life insurance: single premium
- Home Insurance

**30%**
- Young Segment

**52%**
- Immigrants

**8%**
- High Net Worth

**10%**
- Mass Market
BBVA mortgage business
Individuals: low risk profile

Portfolio highlights

No of loans 890,525
NPL ratio 0.39%
Coverage ratio 275%
Avg. maturity 19 years
Avg. mortgage size €158,420

2007 production

% LENDING BY LTV (avg. 53.3%)

- > 90% 79.1%
- > 80% <= 90% 11.7%
- < 80% 9.2%

AFFORDABILITY (av 26.3%)

- AFFOR > 40 16%
- AFFOR 30-40 19%
- AFFOR < 30 65%

LTV calculated on historical appraisals

BBVA making the difference.
Implementation of RAROC for all mortgage loans

Fostering of products tailored to specific segments

Improvement of the Sales and Production process:
  - Higher efficiency
  - Higher sales force resources
  - Better customer advice

Higher cross-sell for individual mortgage loans

Data as of September 2007
The outlook for the real estate market in Spain

The BBVA mortgage business

Annexes
Annexes

- Structural changes in Spanish economy
- Labor Market
- Real Estate long-term demand
- Households’ wealth and income
- The Spanish mortgage market
### Structural changes in the evolution of the main economic indicators

**Spain**

<table>
<thead>
<tr>
<th>Annual average in the period</th>
<th>1991-98</th>
<th>2000-07</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (% GDP)</td>
<td>2.3</td>
<td>3.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Employment (% yoy)</td>
<td>0.8</td>
<td>3.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Population (% yoy)</td>
<td>0.3</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Real Wages (% yoy)</td>
<td>1.0</td>
<td>-0.1</td>
<td>-1.1</td>
</tr>
<tr>
<td><strong>Financial Variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ex post real interest rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>short term</td>
<td>5.4</td>
<td>-0.1</td>
<td>-5.6</td>
</tr>
<tr>
<td>long term</td>
<td>5.5</td>
<td>1.2</td>
<td>-4.3</td>
</tr>
<tr>
<td>Spread vs. Germany, 10 years interest rates</td>
<td>2.8</td>
<td>0.1</td>
<td>-2.7</td>
</tr>
<tr>
<td>Inflation (% yoy CPI)</td>
<td>4.1</td>
<td>3.3</td>
<td>-0.9</td>
</tr>
<tr>
<td>Saldo público (% GDP)</td>
<td>-5.3</td>
<td>0.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Deuda Pública (% GDP)</td>
<td>58.4</td>
<td>48.1</td>
<td>-10.3</td>
</tr>
<tr>
<td><strong>Housing Market</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households’ Affordability (*)</td>
<td>34.3</td>
<td>19.7</td>
<td>-14.6</td>
</tr>
<tr>
<td>Prices, real growth</td>
<td>-0.7</td>
<td>9.0</td>
<td>9.7</td>
</tr>
<tr>
<td><strong>Corporate Sector (</strong>)**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>own resources (%)</td>
<td>8.3</td>
<td>12.9</td>
<td>4.6</td>
</tr>
<tr>
<td>financial leverage (%)</td>
<td>-0.1</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Debt Burden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Divided by Gross Value Added</td>
<td>12.7</td>
<td>10.0</td>
<td>-2.7</td>
</tr>
<tr>
<td>Divided by Income</td>
<td>4.9</td>
<td>3.3</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

(*) % of disposable income to pay the monthly payment after taxes and weighted by wages per households and loan term

(***) Bank of Spain, 2005

Source: Bank of Spain, INE y BBVA Economic Research Department
Structural changes of the Spanish economy

Impulses to the Spanish economy

The Spanish economy has grown more than that of EMU as a result of specific impulses over the expenditure side of the economy...

EMU Entry

- Permanent fall of interest rates
- Increase of employment and Disposable Income
- Increase of Consumption and Housing investment
- Market reforms
- Lower increase of Wages
- Immigration

... and over the potential production capacity
Structural changes of the Spanish economy

The economy of European integration

- International trade openness
- Increased FDI flows into and out of Spain
- Increased competition
- Privatization process
- Deregulation
- Development of financial system and real estate market
- Education reform
- Cohesion policies (European structural funds)

Internationalization
Efficiency gains and growth
Physical capital accumulation
Human capital accumulation
Infrastructure investment
The economy of European integration: greater external openness

Full trade liberalization, progressive mobility of capital and adherence to EMU in 1999.

The degree of external openness has experienced a structural increase since 1980.

Source: INE
The economy of European integration: greater external openness

Large inflow of FDI (automobile, food, retail, banking) initially with even larger outflow later (banking, telecom, utilities)

Source: Bank of Spain, INE and BBVA
The economy of European integration: increasing competition

<table>
<thead>
<tr>
<th>Sector/Industry</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity sector deregulation</td>
<td>Accumulated decrease in electricity rates for households exceeding 30% (1997-2005).</td>
</tr>
<tr>
<td>Telecom liberalization</td>
<td>Reduction of 40% in international call rates (1997-1999)</td>
</tr>
<tr>
<td>Banking competition</td>
<td>Mortgage spreads have been reduced towards 0.8% (1993-2005)</td>
</tr>
<tr>
<td>Air transport competition</td>
<td>Regular air ticket prices have come down 50% (1995).</td>
</tr>
<tr>
<td>Liberalization of professional associations</td>
<td>Rates charged by notaries and property registers have been reduced by 50% (1997)</td>
</tr>
<tr>
<td>Labor market</td>
<td>New more flexible contracts (1994, 97, 2000-01)</td>
</tr>
</tbody>
</table>
Public investment, financed to a large extent via European Funds, has allowed the public capital stock to reach 90% of the EU average (40% in 1986).

The change experienced by the public capital per head can be considered structural.
There has been a structural fall in interest rates over the last 20 years.

This has been more intense in the Spanish Economy...

... as well as permanent.

**Contributions to the decrease of mortgage rates (p.p.)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global interest rate</td>
<td>1.9</td>
</tr>
<tr>
<td>Country risk</td>
<td>3.3</td>
</tr>
<tr>
<td>Banking competition</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**Spanish mortgage rates in real terms**

Interest rates are structurally lower in the Spanish economy
Demographic factors: Women at work

The increase in the number of income earners per household has improved housing affordability.
The growing weight of immigrants in employment and working age population generates a contribution to growth of 0.4 pp during the period 1999-2005.

Immigrants are increasing activity and employment rates of the Spanish economy.
Research & Development

R&D expenses per capita in Spain vs. the four main EU countries (Germany, Italy, France and United Kingdom)

Corporate R&D expenses (GDP%)

Spanish R&D is experiencing a slow catching up process
Economic Research Department
Structural changes of the Spanish economy

Businesses: comfortable profits

Spanish economy has solid roots, such as the strong corporate profits

Corporates’ activities have become more global

Corporates’ situation is structurally healthier

Non-Financial Corporations: Financial Costs Coverage
Net Operating Income/Financial Costs

Source: Bank of Spain
Annexes

- Structural changes to the Spanish economy
- Labor Market
- Real Estate long term demand
- Households’ wealth and income
- The Spanish mortgage market
Will the Spanish economy continue to create jobs?

Yes, based on past experience ...

The forecasted scenario does not reach growth thresholds which involve net loss of jobs.

Will the Spanish economy continue to create jobs?

Yes, because those in work have a low probability of becoming unemployed, and there is also inter-sector labour mobility.

Source: BBVA Economic Research Dept.
Yes, because those in work have a low probability of becoming unemployed, and there is also inter-sector labour mobility

... and also in construction

Over 20% of those in employment in the construction sector who change to work in a different sector move to basic industries, and 18% go into wholesale and retail trade and hotels/restaurants
The slowing of economic growth forecast for 2008 is starting to be reflected in the slight increase in the probability of losing a job.

The graph shows the probability of becoming unemployed conditional on being in work in the previous year from 2002 to 2008. The probability decreases from 5.0% in 2002 to 3.4% in 2007, but starts to increase again in 2008.

Source: BBVA Economic Research Dept
How many jobs will be created?

- **IN WORK POPULATION 2007**: 91.2%
- **UNEMPLOYED 2008**: 48.2%
- **INACTIVE POPULATION 2007**: 12.8%
- **NET JOB CREATION (LFS) 2008**: (375,000, 435,000) jobs
- **IN WORK POPULATION 2007**: 3.4%
- **UNEMPLOYED 2008**: 5.4%
- **INACTIVE POPULATION 2008**: 5.4%
- **INACTIVE POPULATION 2007**: (2.0%, 2.4%)
How many jobs will be created?

Net job creation (in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Jobs Created (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>816</td>
</tr>
<tr>
<td>2001</td>
<td>640</td>
</tr>
<tr>
<td>2002</td>
<td>484</td>
</tr>
<tr>
<td>2003</td>
<td>666</td>
</tr>
<tr>
<td>2004</td>
<td>675</td>
</tr>
<tr>
<td>2005</td>
<td>1002</td>
</tr>
<tr>
<td>2006</td>
<td>774</td>
</tr>
<tr>
<td>2007</td>
<td>667</td>
</tr>
<tr>
<td>2008</td>
<td>410</td>
</tr>
</tbody>
</table>

Source: BBVA Economic Research Dept
The slowdown in economic growth forecast for 2008 is beginning to be reflected in the probability of more intensive, though controlled, job losses in Construction.
In addition, a reduction in the probability of moving to other economic sectors is also forecast.
Construction sector

IN WORK POPULATION CONSTRUCTION 2007

78.3%

12.1%

9.7%

IN WORK CONSTRUCTION 2008

2.2%

1.5%

UNEMPLOYED /INACTIVE 2007

IN WORK NOT CONSTRUCTION 2007

NET JOB LOSSES IN CONSTRUCTION (LFS) 2008

(-0.4%, -0.5%) (-71,000, -94,000) jobs
Construction sector

Construction: Net job creation (in thousands)

Source: BBVA Economic Research Dept
Other sectors will take the lead on growth

<table>
<thead>
<tr>
<th>Employment growth rate by sector</th>
<th>Weight on Total 3Q2007</th>
<th>Average 2006</th>
<th>Aver. 1Q-3Q 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>4.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.1%</td>
<td>-5.1%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.3%</td>
<td>-14.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Mining</td>
<td>0.3%</td>
<td>10.3%</td>
<td>-6.2%</td>
</tr>
<tr>
<td>Manufactures</td>
<td>15.1%</td>
<td>-0.2%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Energy</td>
<td>0.5%</td>
<td>11.5%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Construction</td>
<td>13.2%</td>
<td>7.9%</td>
<td>7.3%</td>
</tr>
<tr>
<td><strong>Commerce</strong></td>
<td><strong>15.5%</strong></td>
<td><strong>3.4%</strong></td>
<td><strong>4.5%</strong></td>
</tr>
<tr>
<td>Hostelry</td>
<td>7.5%</td>
<td>8.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Transport</td>
<td>5.8%</td>
<td>3.7%</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Financial Intermediation</strong></td>
<td><strong>2.5%</strong></td>
<td><strong>3.4%</strong></td>
<td><strong>5.9%</strong></td>
</tr>
<tr>
<td><strong>Business Services</strong></td>
<td><strong>9.9%</strong></td>
<td><strong>10.7%</strong></td>
<td><strong>9.6%</strong></td>
</tr>
<tr>
<td>General Government</td>
<td>6.1%</td>
<td>2.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Education</td>
<td>5.1%</td>
<td>1.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td><strong>6.2%</strong></td>
<td><strong>4.1%</strong></td>
<td><strong>4.8%</strong></td>
</tr>
<tr>
<td><strong>Social Activities</strong></td>
<td><strong>4.1%</strong></td>
<td><strong>3.0%</strong></td>
<td><strong>3.6%</strong></td>
</tr>
<tr>
<td>Personal Services</td>
<td>3.8%</td>
<td>11.4%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Source: INE and BBVA Economic Research Department

The higher employment growth rates were registered in the catering business, education, personal services and particularly in business services.

The strong evolution of employment in business services is in line with the dynamism of business activities.

These services will continue creating employment in 2008.
The Spanish labor market has already reached low unemployment rates...

The Spanish unemployment rate is at its minimum, below the ‘natural’ levels

Therefore, the rate of creation of new jobs will not be as high as in the last few years
The regions that represent two thirds of GDP register unemployment rates below the national average.

Male unemployment rate is at its minimum, below 5% in Aragón, Baleares and Navarra.

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8,0</td>
<td>6,2</td>
<td>10,5</td>
</tr>
<tr>
<td>Andalucía</td>
<td>12,6</td>
<td>9,5</td>
<td>17,3</td>
</tr>
<tr>
<td>Aragón</td>
<td>4,9</td>
<td>3,8</td>
<td>6,3</td>
</tr>
<tr>
<td>Asturias (Principado de)</td>
<td>7,2</td>
<td>5,9</td>
<td>8,9</td>
</tr>
<tr>
<td>Balears (Illes)</td>
<td>4,5</td>
<td>3,6</td>
<td>5,6</td>
</tr>
<tr>
<td>Canarias</td>
<td>10,7</td>
<td>8,9</td>
<td>13,3</td>
</tr>
<tr>
<td>Cantabria</td>
<td>5,6</td>
<td>4,9</td>
<td>6,4</td>
</tr>
<tr>
<td>Castilla y León</td>
<td>7,0</td>
<td>5,1</td>
<td>9,8</td>
</tr>
<tr>
<td>Castilla - La Mancha</td>
<td>7,0</td>
<td>4,8</td>
<td>10,5</td>
</tr>
<tr>
<td>Cataluña</td>
<td>6,8</td>
<td>5,7</td>
<td>8,2</td>
</tr>
<tr>
<td>Comunitat Valenciana</td>
<td>8,7</td>
<td>6,6</td>
<td>11,7</td>
</tr>
<tr>
<td>Extremadura</td>
<td>12,4</td>
<td>8,6</td>
<td>17,9</td>
</tr>
<tr>
<td>Galicia</td>
<td>6,7</td>
<td>5,8</td>
<td>7,9</td>
</tr>
<tr>
<td>Madrid (Comunidad de)</td>
<td>6,0</td>
<td>4,1</td>
<td>8,3</td>
</tr>
<tr>
<td>Murcia (Región de)</td>
<td>8,2</td>
<td>6,9</td>
<td>10,3</td>
</tr>
<tr>
<td>Navarra (Comunidad Foral de)</td>
<td>4,4</td>
<td>3,0</td>
<td>6,3</td>
</tr>
<tr>
<td>País Vasco</td>
<td>6,1</td>
<td>4,7</td>
<td>7,9</td>
</tr>
<tr>
<td>Rioja (La)</td>
<td>5,3</td>
<td>3,9</td>
<td>7,4</td>
</tr>
<tr>
<td>Ceuta</td>
<td>20,9</td>
<td>15,9</td>
<td>30,2</td>
</tr>
<tr>
<td>Meliilla</td>
<td>18,3</td>
<td>11,4</td>
<td>29,6</td>
</tr>
</tbody>
</table>

Source: National Statistics Institute (INE)
Annexes

- Structural changes of the Spanish economy
- Labor Market
- Real Estate long term demand
- Households’ wealth and income
- The Spanish mortgage market
360,000 resident households will create because of natural population development.

Resident population: New households
Gross flow by age

Fuente: BBVA
Immigrants will go on increasing its weight in Spanish population

Immigrant population forecasts

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Immigrants as a % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>1993</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>1995</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>1997</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>1999</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>2001</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>2003</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>2005</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>2007</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>2009</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
<tr>
<td>2011</td>
<td>1,000,000</td>
<td>0%</td>
</tr>
</tbody>
</table>

Fuente: INE
Immigrants are mainly in the age cohorts that create more households.

Average 1999-2003

<table>
<thead>
<tr>
<th></th>
<th>Total population</th>
<th>Spanish</th>
<th>Foreigners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation rate (*)</td>
<td>54</td>
<td>53</td>
<td>71</td>
</tr>
<tr>
<td>Employment rate (*)</td>
<td>47</td>
<td>47</td>
<td>61</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>13</td>
<td>13</td>
<td>15</td>
</tr>
</tbody>
</table>

Fuente: INE y BBVA

(*) respecto a los mayores de 16 años
Immigrant population will contribute with around 140,000 households

### Spain: Population and households
**Forecast 2005-2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>Residents</th>
<th>Immigrants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>354.793</td>
<td>180.000</td>
<td>534.793</td>
</tr>
<tr>
<td>2006</td>
<td>356.888</td>
<td>165.000</td>
<td>521.888</td>
</tr>
<tr>
<td>2007</td>
<td>359.618</td>
<td>150.000</td>
<td>509.618</td>
</tr>
<tr>
<td>2008</td>
<td>362.566</td>
<td>135.000</td>
<td>497.566</td>
</tr>
<tr>
<td>2009</td>
<td>364.988</td>
<td>120.000</td>
<td>484.988</td>
</tr>
<tr>
<td>2010</td>
<td>365.525</td>
<td>115.000</td>
<td>480.525</td>
</tr>
<tr>
<td>2011</td>
<td>363.661</td>
<td>110.000</td>
<td>473.661</td>
</tr>
</tbody>
</table>

**Average 2005-2011**

|          | 361.148 | 139.286 | 500.434 |

Fuente: BBVA
Household disintegration could not be balanced with household formation

One third of disintegrated households lives in rural areas.

However, rehabilitation will become more important over the years.

Household Disintegration process forecast

Fuente: BBVA
Moreover, touristic investment will be an added factor.
Foreign tourists are increasingly keen to inhabit their own homes.

**Foreign tourists accommodation preferences**

- **Free house (Owned or friends)**: 13.2%
- **Other**: 22.2%
- **Rent**: 19.7%
- **Hotel**: 35.8%

*Fuente: IET*
Annexes

- Structural changes of the Spanish economy
- Labor Market
- Real Estate long term demand
- Households’ wealth and income
- The Spanish mortgage market
Although the debt burden has increased over the last few years…

Since 2007 an improvement is envisaged due to

- Lower interest rates
- Stability in housing prices
- Solid gains in income per capita

Spanish households will continue affording increases of their debt burden.
Economic Research Department

The Spanish housing market

... and households´ indebtedness has reached high levels ...

Despite the increase of the disposable income, household debts have grown at a higher pace.

Households' Debt/Disposable Income

Source: OECD
... households show a solid wealth position

The financial turbulences and the housing market deceleration caused only a marginal effect on wealth...

... Spanish households show a moderated ratio of indebtedness over net wealth

**Household indebtedness over net wealth**

- Australia
- Canada
- Germany*
- Denmark*
- Spain*
- Finland
- France
- UK
- Ireland
- Italy
- Japan*
- Netherlands
- New Zealand
- Sweden
- EE.UU.

* last data 2004
Source: OECD
Spanish households savings are experiencing a limited moderation. Their level is still well above that of the United States households.
In Spain, families with lower income use credits mainly for buying houses, the risk for financial institutions is therefore lower.
Annexes

- Structural changes of the Spanish economy
- Labor Market
- Real Estate long term demand
- Households’ wealth and income
- The Spanish mortgage market
Flexible mortgage markets have been more efficient translating financial improvements to its clients.

BBVA has elaborated an index measuring mortgage market flexibility through four factors: (i) market completeness, (ii) LTV, (iii) average term and (iv) Mortgage Equity Withdrawal (MEW) development.

As can be seen in the chart, the more flexible a mortgage market is, the more developed it becomes.

Source: BBVA
There are important differences between the US and Spanish mortgage markets

1. Product Type

Subprime lending as it is defined in the US does not exist in Spain: High-risk loans with rising interest rates granted over a very long term are still relatively unknown, so that default rates hikes like those observed in the US have not been registered in the Spanish economy.

Source: Credit Suisse and LoanPerformance
2. Originators

In the US, there are a multitude of small local originators or brokers. These securitize or sell the mortgage loan on to another agent once it has been granted.

However, in Spain financial entities, such as universal banks, are the main players in this market.
The entities that register the higher default rate in Spain, “Establecimientos Financieros de Crédito” are not widespread in the Spanish market, accounting for only the 2% of the housing credit.
The sophistication of the US mortgage securitisation mechanism creates incentives to grant high risk loans.
Economic convergence drove to a catching up in housing prices

Source: Eurostat and local sources

Research Department BBVA
BBVA making the difference