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years

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# “Outlook for Real Estate and mortgages in Spain”

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Jose Luis Escriva - Chief Economist

Xavier Argenté – Head of Spanish Banking Business

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- **The outlook for the real estate market in Spain**
- **The BBVA mortgage business**



- 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.



# Economic Research Department The Spanish housing market

Structurally, Housing has increased its weight converging to the levels of developed countries

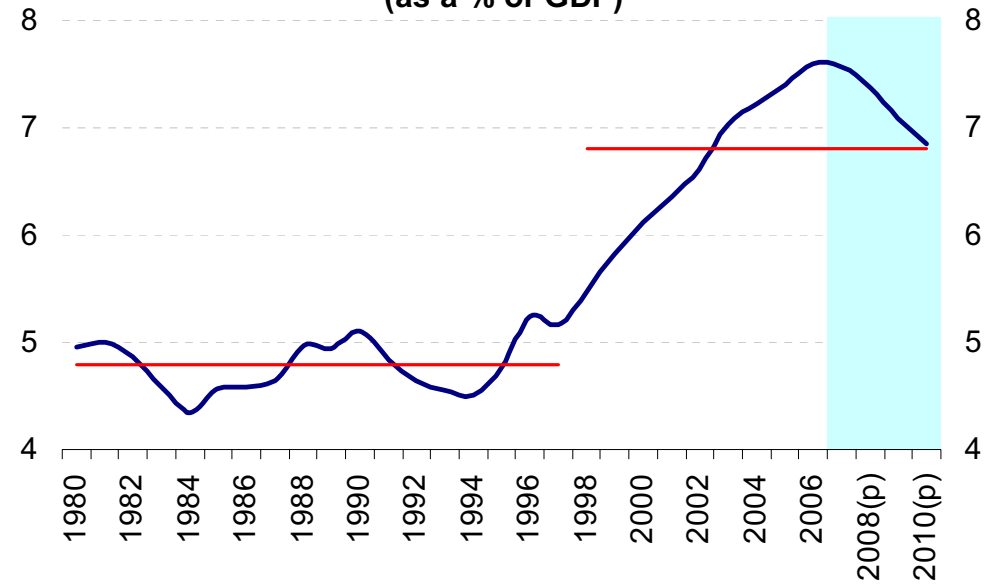
## Housing: Share in GDP (%)

	1998-2007	2007
<b>Spain</b>	6.7	7.5
<b>Germany</b>	6.2	5.4
<b>Netherlands</b>	5.8	5.8
<b>Ireland</b>	9.0	8.5
<b>UK</b>	3.1	3.4
<b>Australia*</b>	7.0	6.5
<b>USA</b>	4.8	4.2

\* last data 2005  
Source: AMECO

## Housing investment

(as a % of GDP)







# Economic Research Department The Spanish housing market

Principal Housing stock is becoming comparable to other developed countries.

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

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

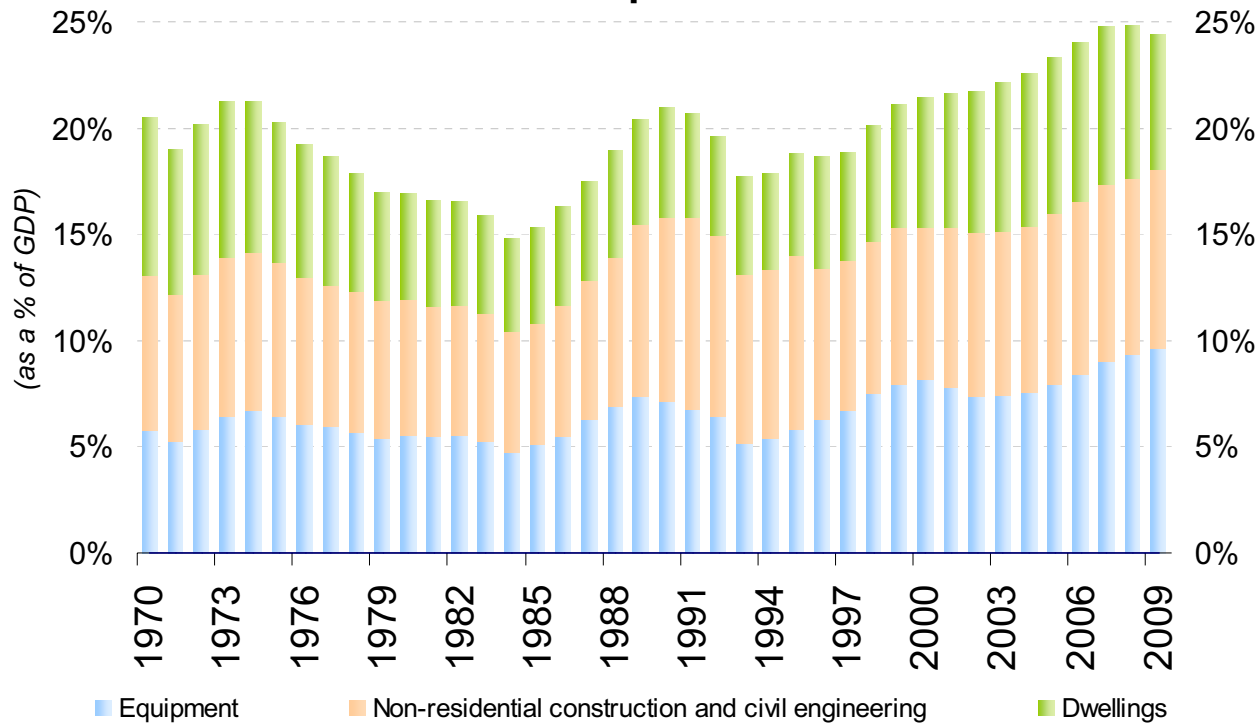
However, in Spain, as in other Mediterranean countries, second homes represent an important part of the housing stock...

...because of their tourist component.



**The Spanish economy is not just housing**

**Gross fixed capital formation**



**Deviation from historical weight**

<b>Dwellings</b>	<b>+ 1.7 p.p.</b>
<b>Other constructions</b>	<b>+ 1.0 p.p.</b>
<b>Equipment</b>	<b>+ 2.6 p.p.</b>

The Spanish economy has experienced higher levels of investment in equipment ...

... than in the housing sector.

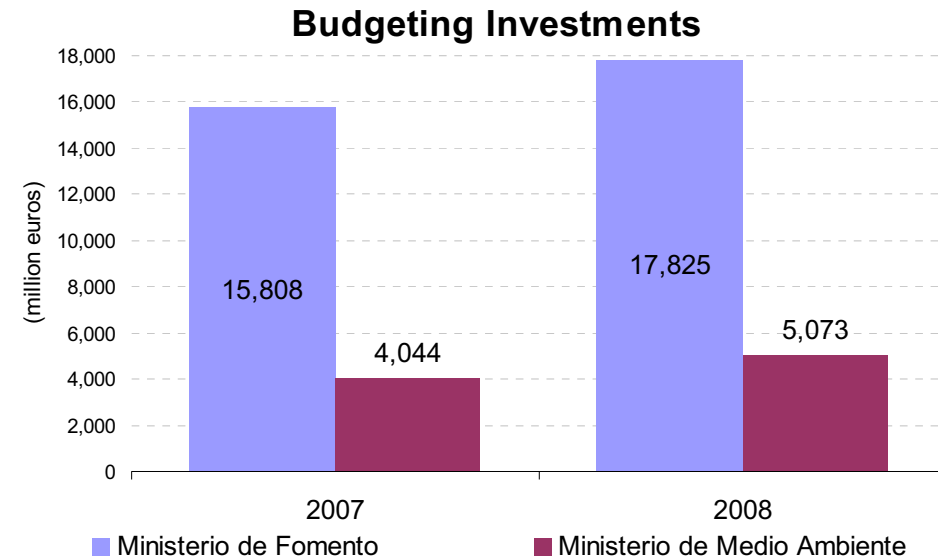
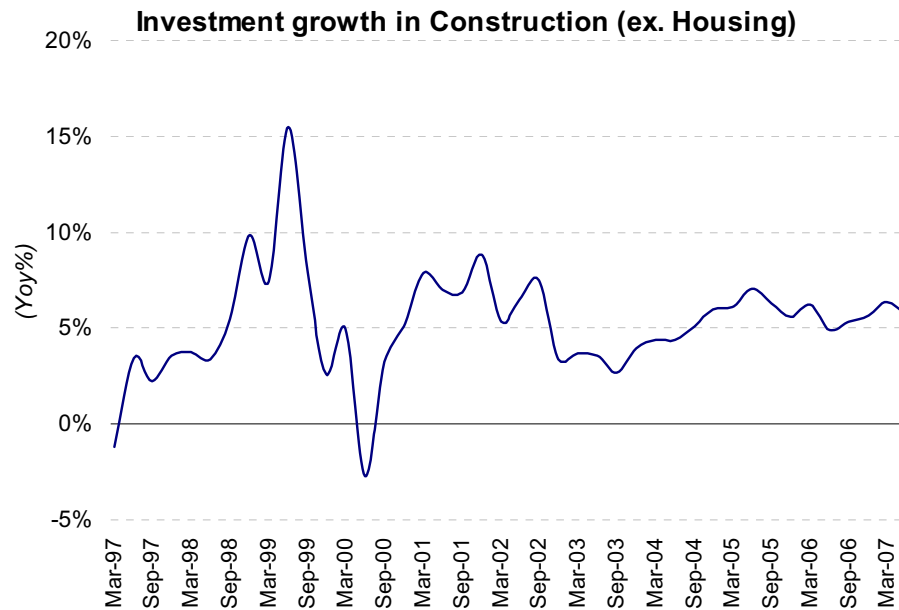
Annex: Changes in the Spanish Economy during the last decade.





# Economic Research Department The Spanish housing market

Moreover, Construction (ex. Housing) represents more than half the investment and its outlook performance is better



Source: Seopan

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

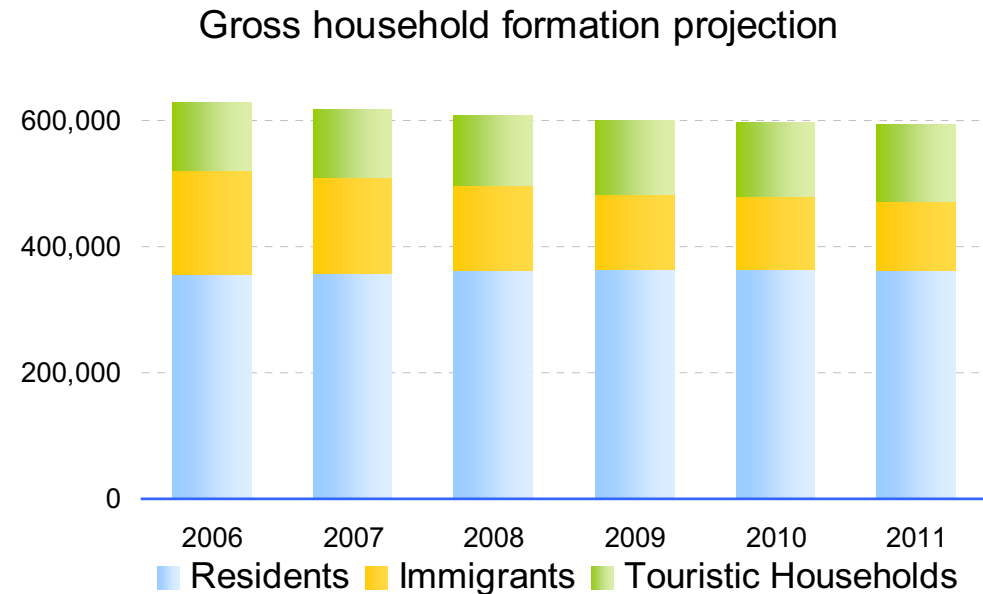
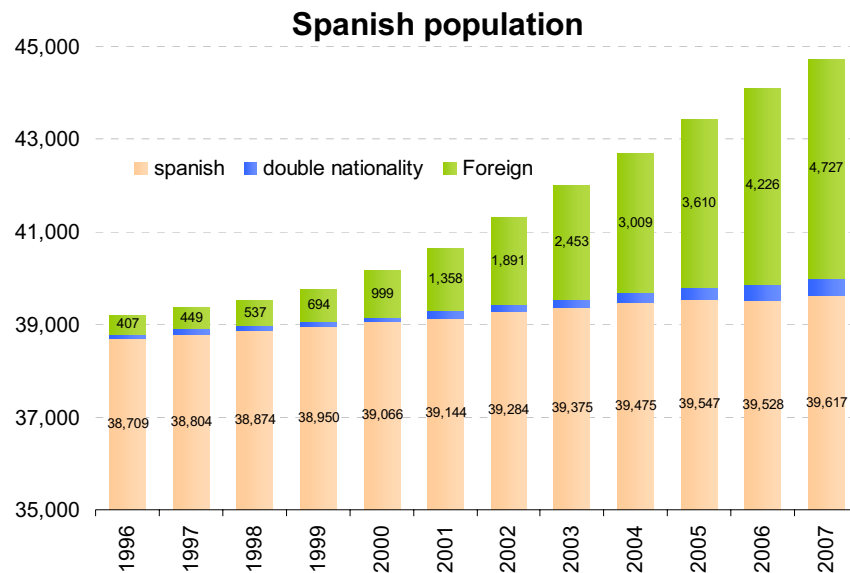


1. The Spanish growth model is not based on housing
- 2. A more flexible employment market will give support to the economy**
3. Although households debt levels have increased, they have a solid wealth position
4. The on-going orderly adjustment of the housing market will have a limited impact on the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



# Economic Research Department The Spanish housing market

Women, immigration and baby-boomers have increased the Spanish labor force and made it more flexible



Annex: Medium term potential demand



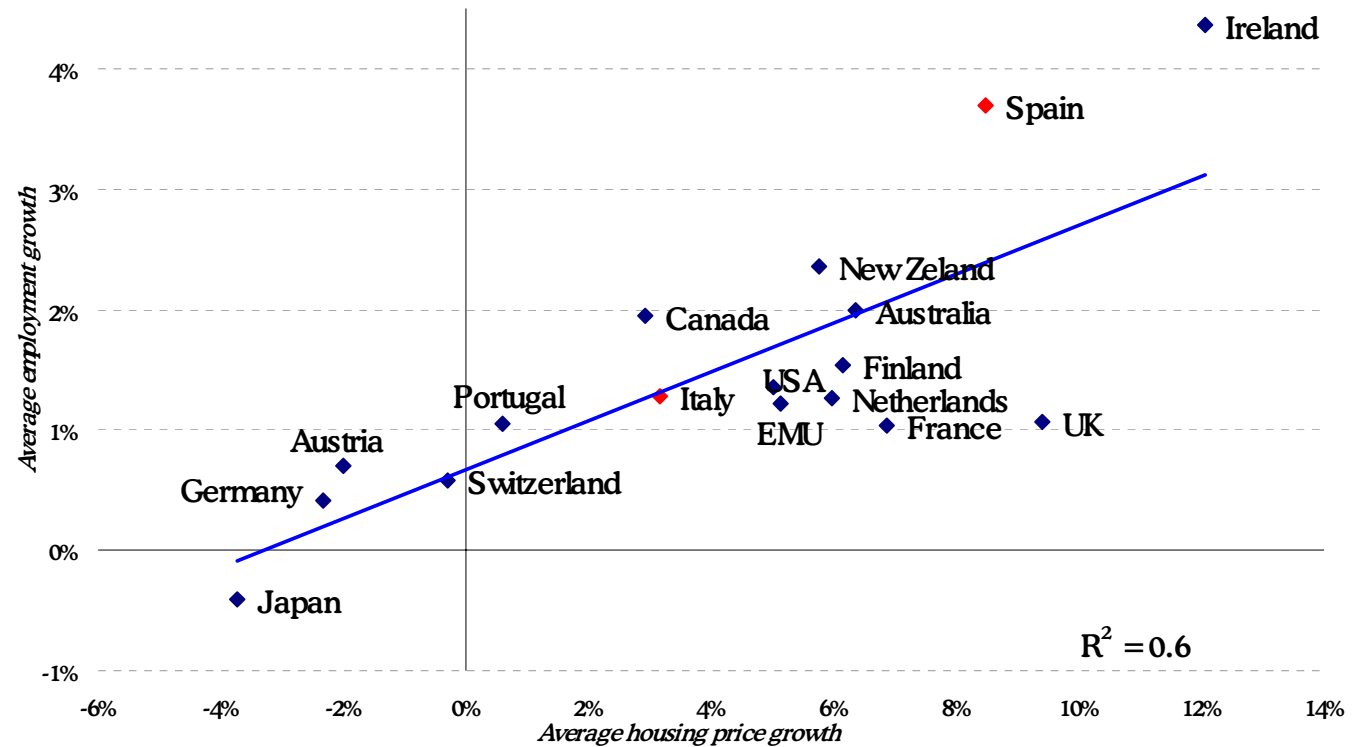
The Potential formation of new Households will remain strong over the next five years.



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

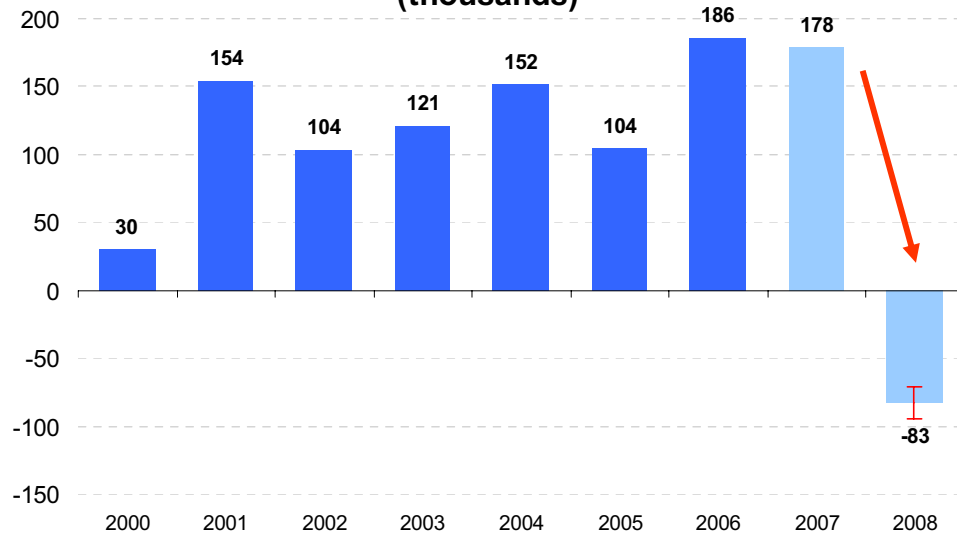
Housing price and employment (96-06)





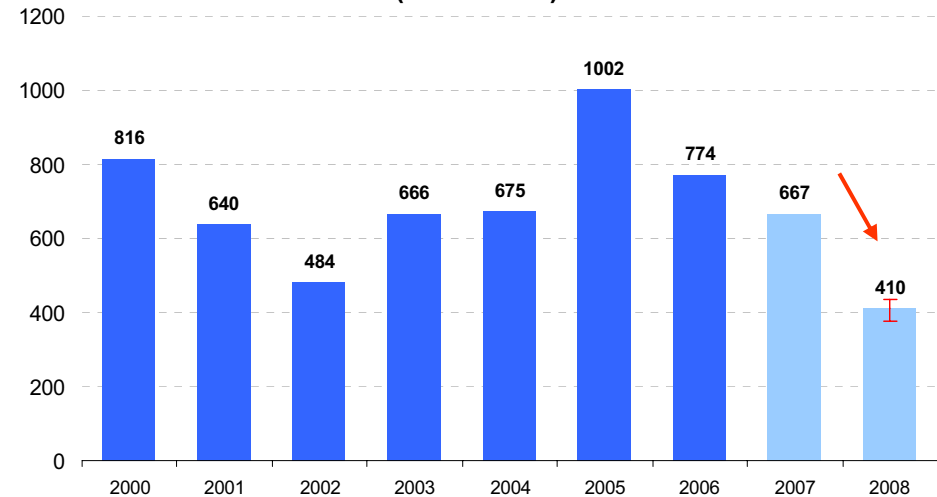
## How many jobs will be created?

Construction. Net job creation  
(thousands)



Source: SEE BBVA

Spain. Net job creation  
(thousands)



Source: SEE BBVA



Annex: A more flexible  
labour market

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



1. The Spanish growth model is not based on housing
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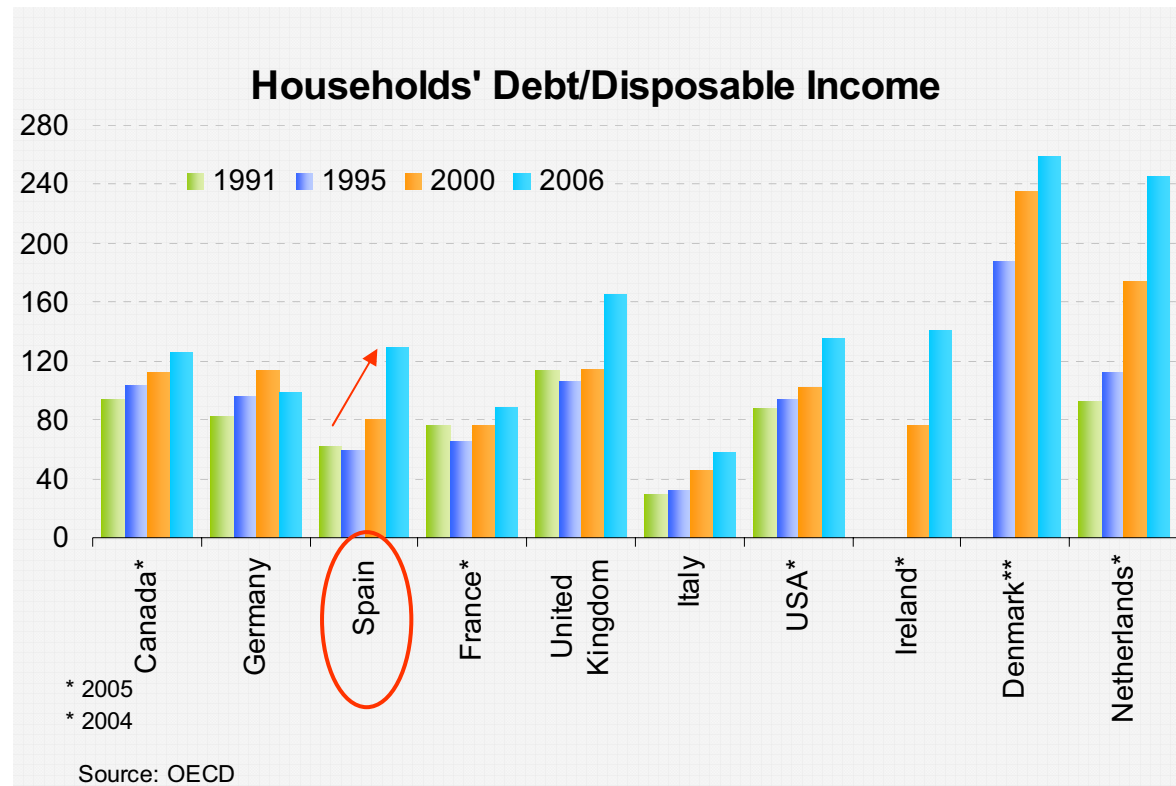




# Economic Research Department The Spanish housing market

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





# 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...

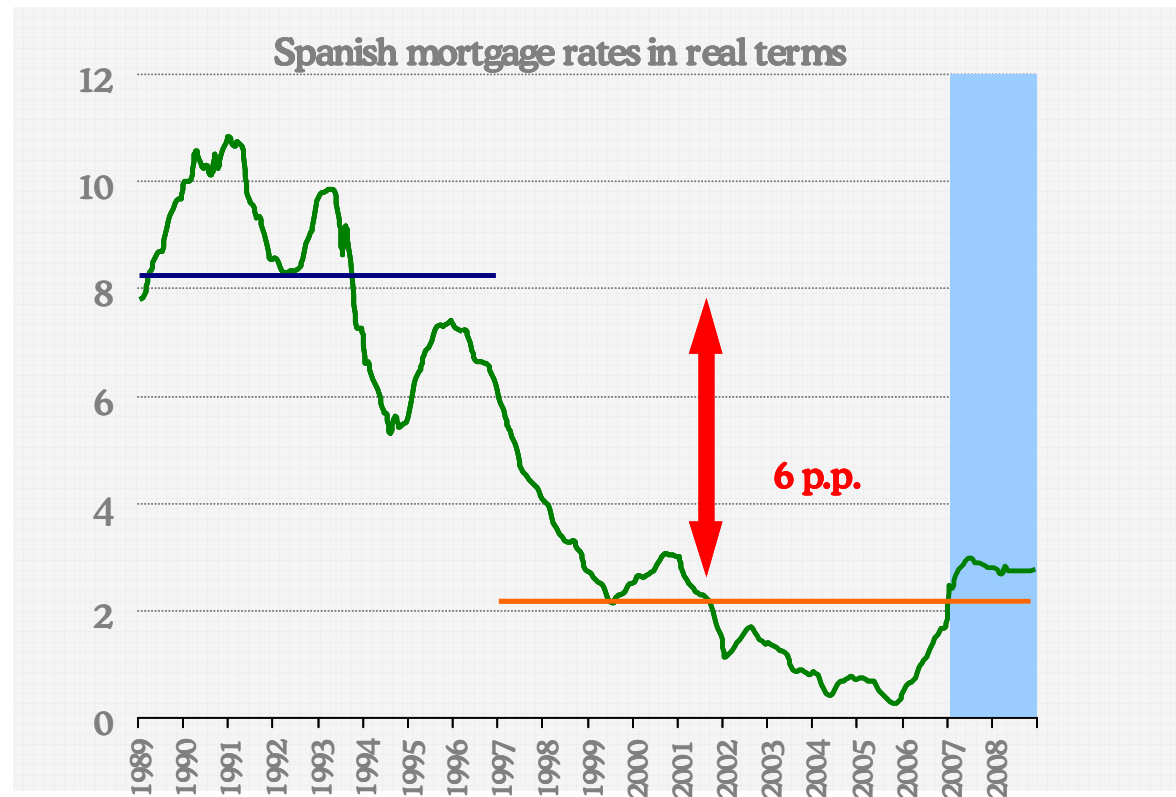
... as well as permanent.

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

Global interest rate	1,9
Country risk	3,3
Banking competition	0,8



Annex: Spanish mortgage market



Interest rates are structurally lower in the Spanish economy



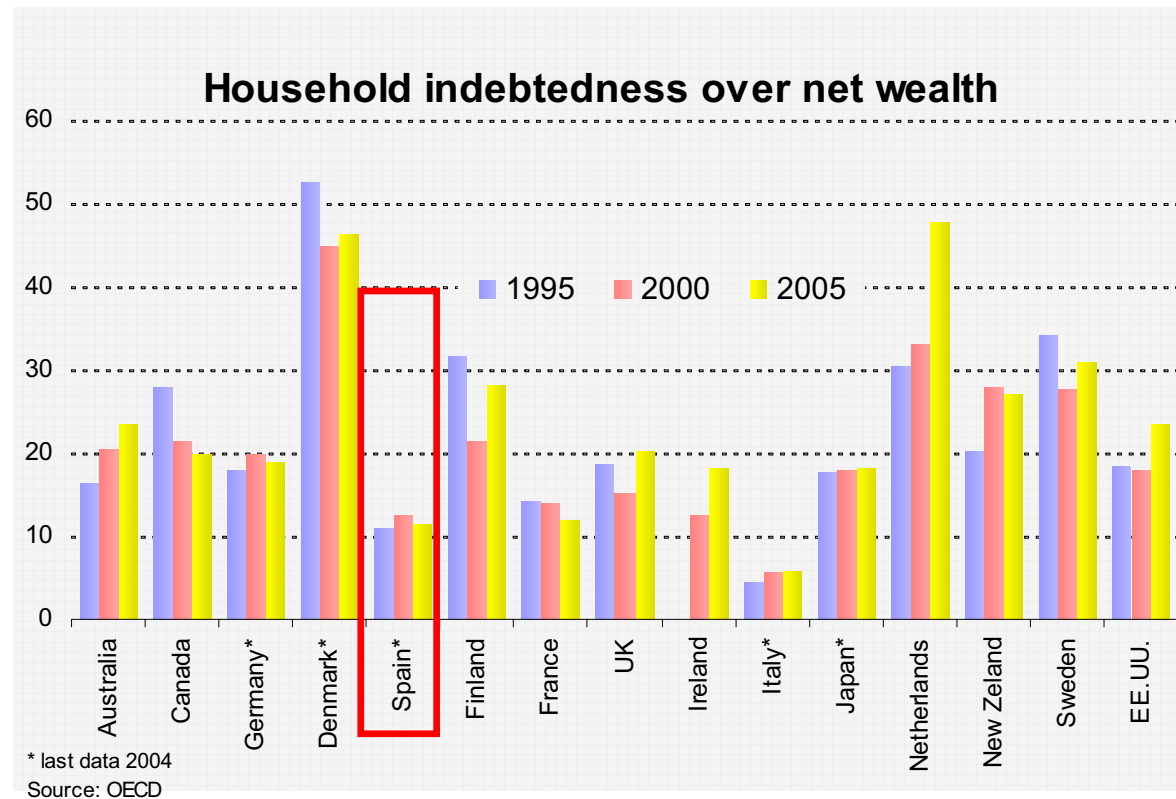
...however, households show a solid wealth position

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

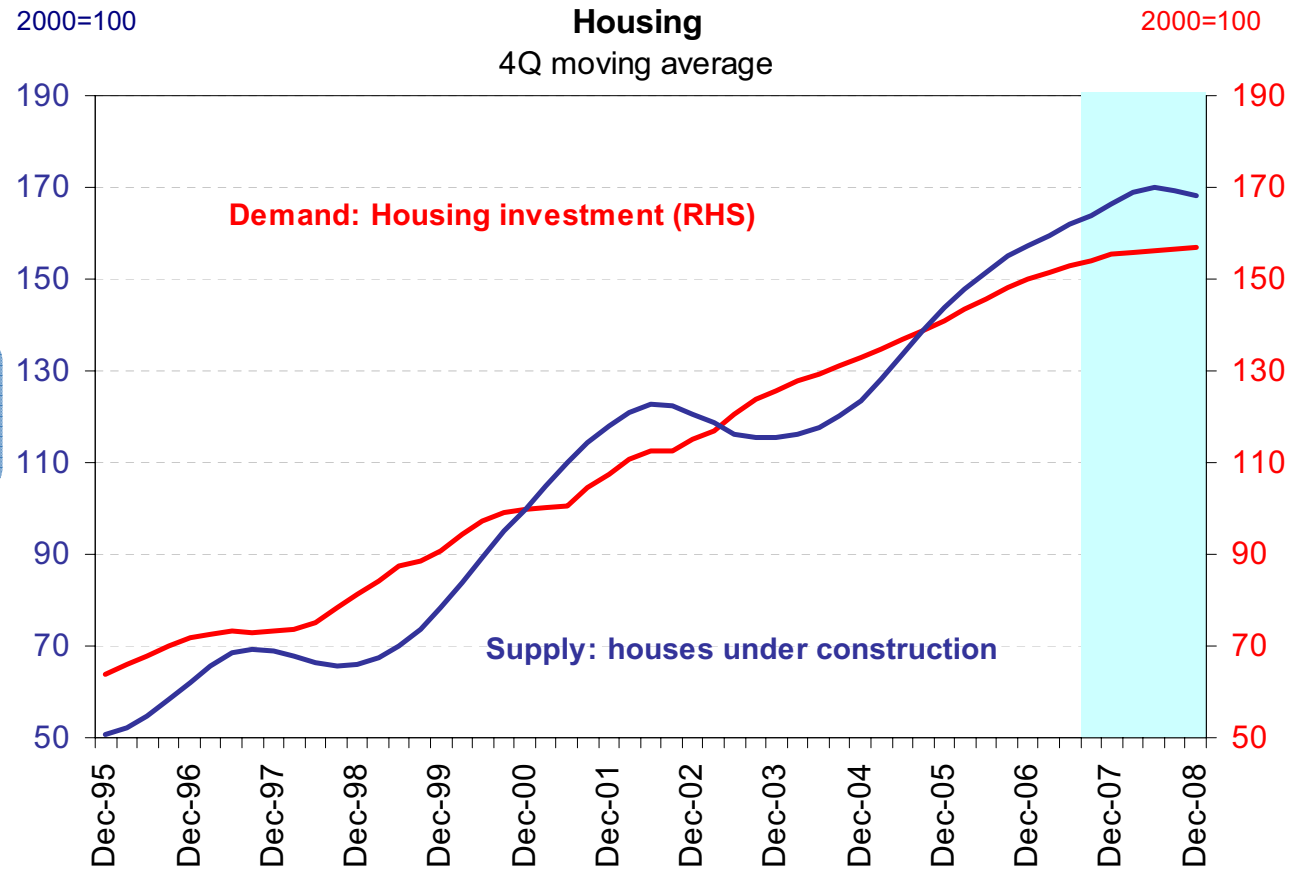




1. The Spanish growth model is not based on housing
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## The ongoing orderly adjustment



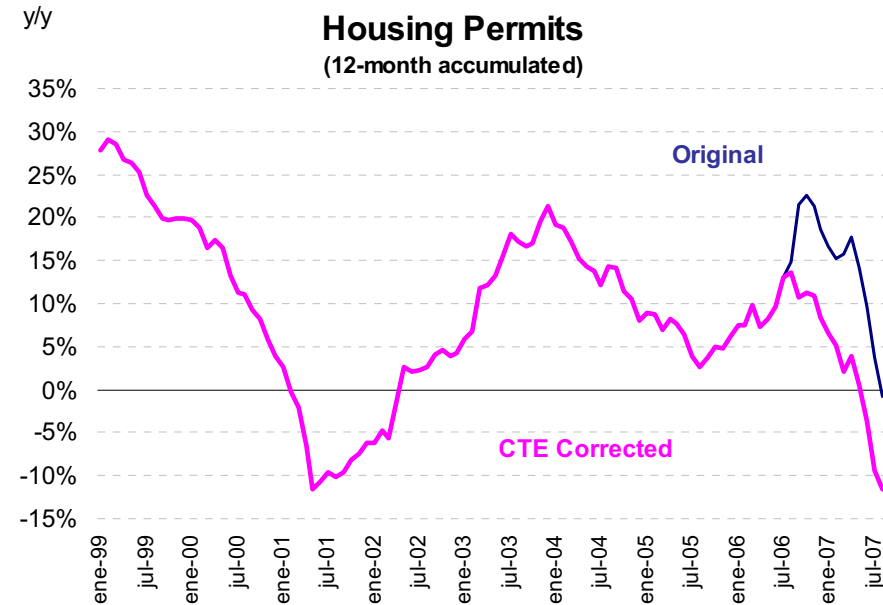
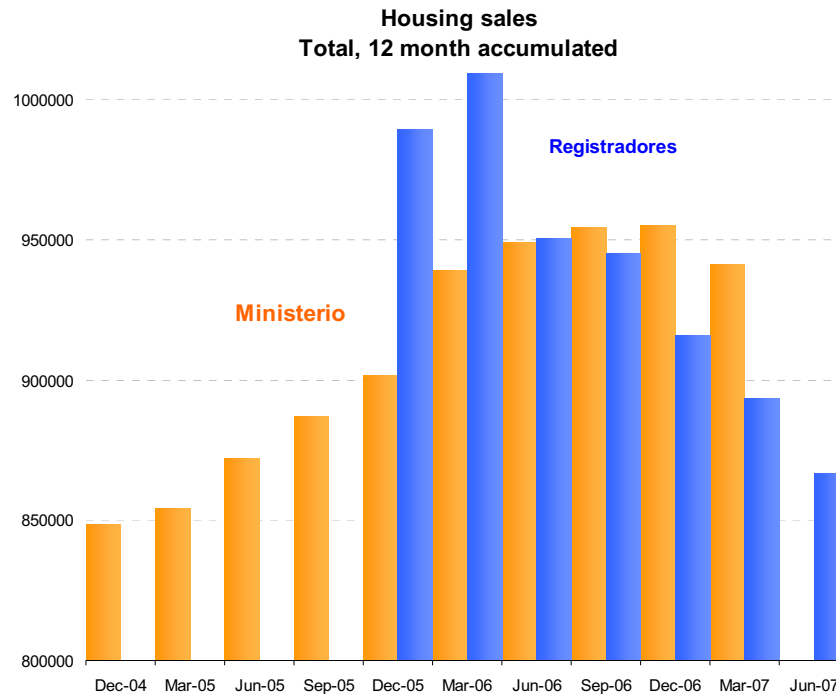
Supply has been more affected by the financial turmoil than demand

Source: INE, Mº Vivienda y SEE BBVA



# Economic Research Department The Spanish housing market

## Housing demand: a year and a half of moderate slowdown



Data were distorted by the New Building Standards Code (CTE)

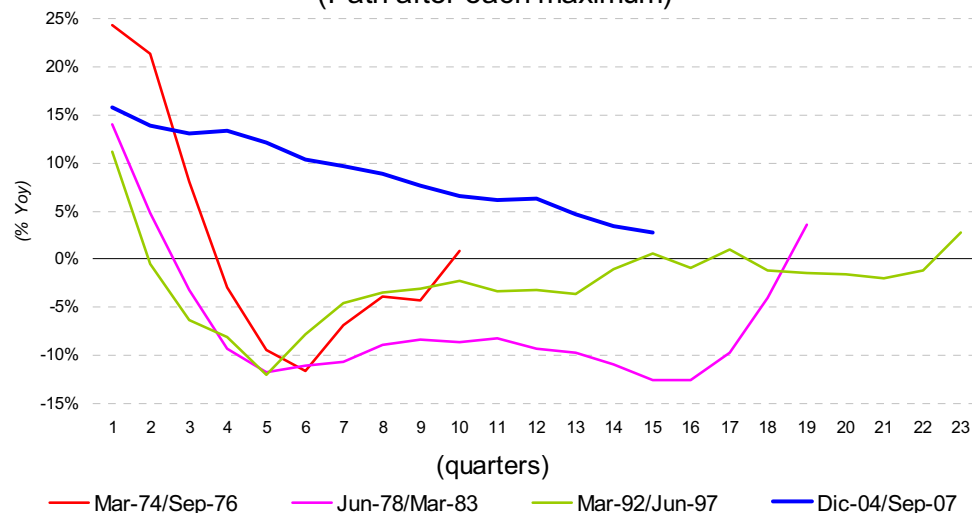
The financial turbulences have triggered an earlier development of the expected adjustment. The stricter financial conditions and the deterioration of confidence have prompted a deceleration of activity



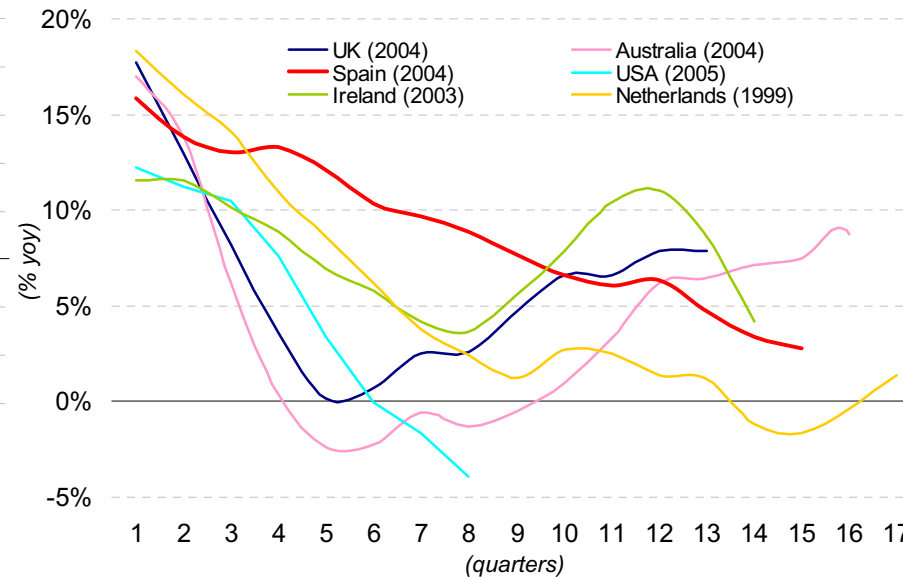


### The gradual deceleration is already on its way

#### Real Housing price in Spain (Path after each maximum)



#### Real house prices deceleration path from maximum

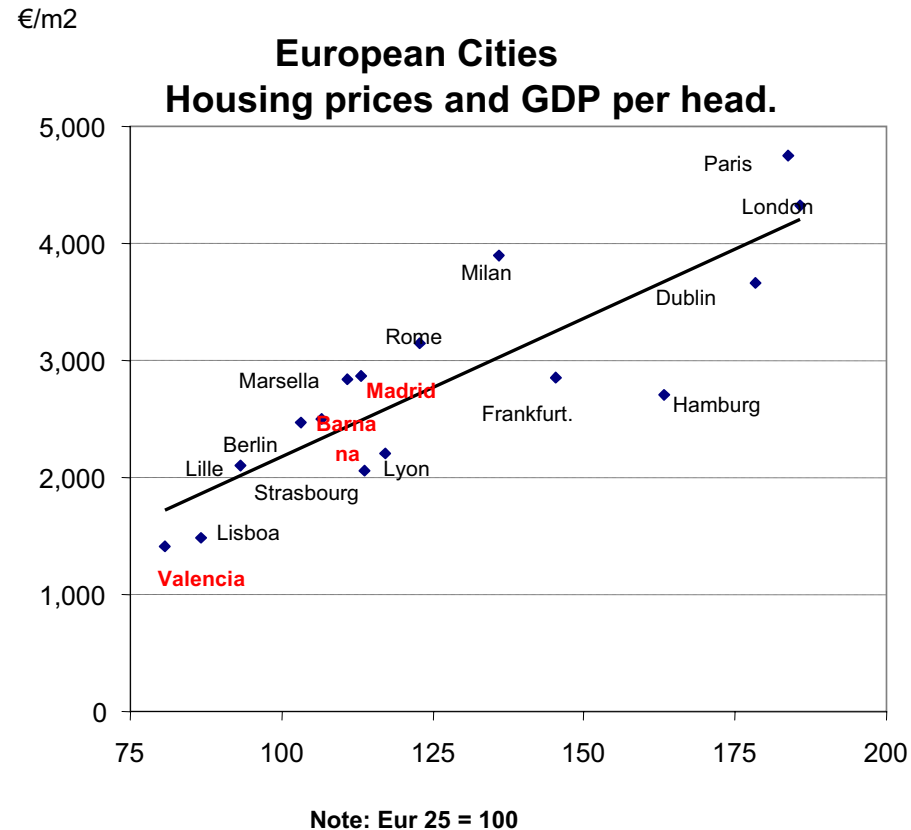


deceleration is the smoothest for the last 30 years.

..and also the smoothest compared to other countries.



**Catching-up process in prices**



Source: Eurostat and local sources

Research Department BBVA

**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

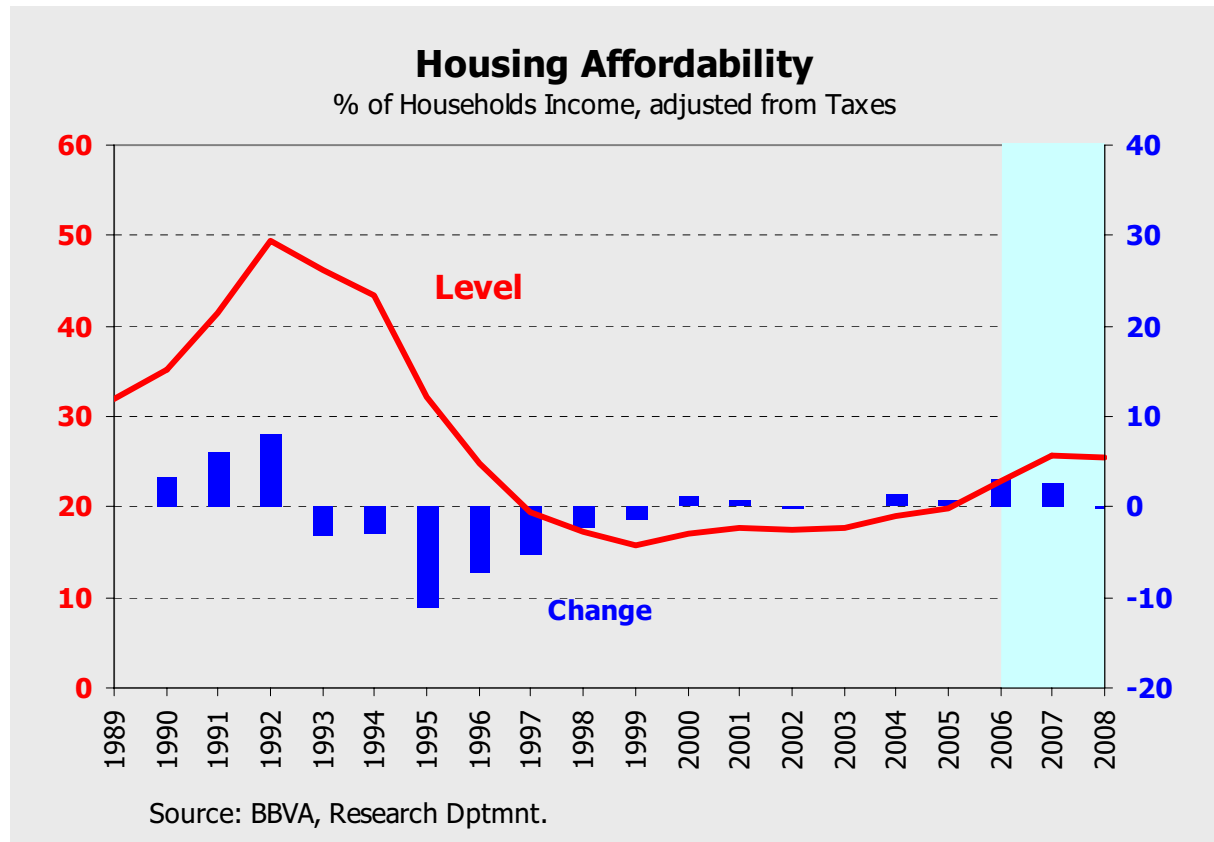
	2006	2007	2008	2009
<b><u>RESIDENTIAL MARKET</u></b>				
<b>Housing investment</b>	<b>6.4</b>	<b>3.5</b>	<b>0.0</b>	<b>-1.5</b>
<b>Building permits</b>	<b>911</b>	<b>675</b>	<b>550</b>	<b>550</b>
<b>Housing price</b>	<b>10.4</b>	<b>5.5</b>	<b>1.4</b>	<b>-1.9</b>

Housing market deceleration will follow its orderly path and will have a very limited impact on the economy. What are the main supports?



# Economic Research Department The Spanish housing market

Impact on the economy will be limited :  
Housing affordability will not deteriorate further





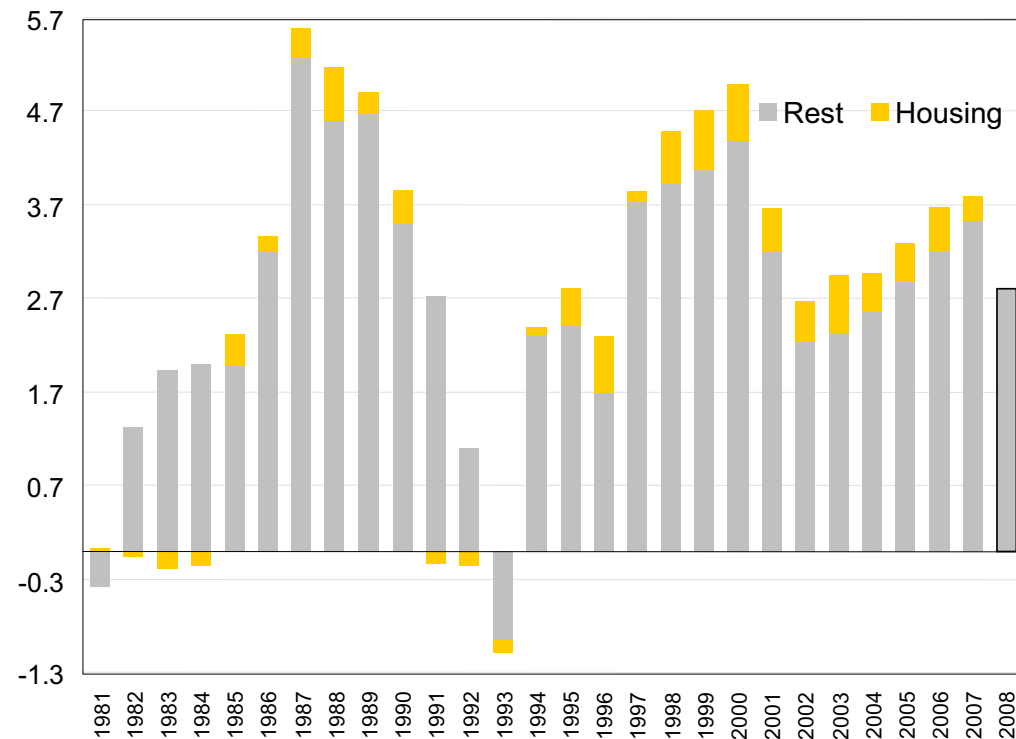
# Economic Research Department The Spanish housing market

**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



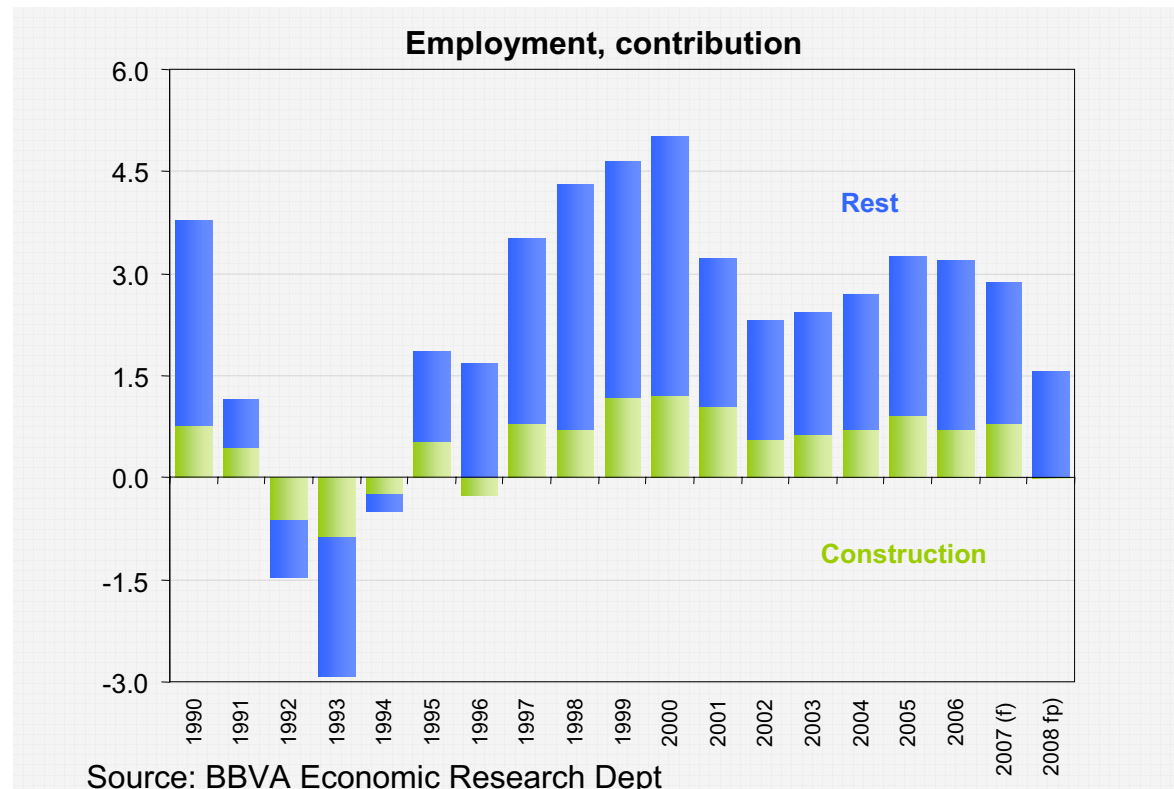
# Economic Research Department The Spanish housing market

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







- 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

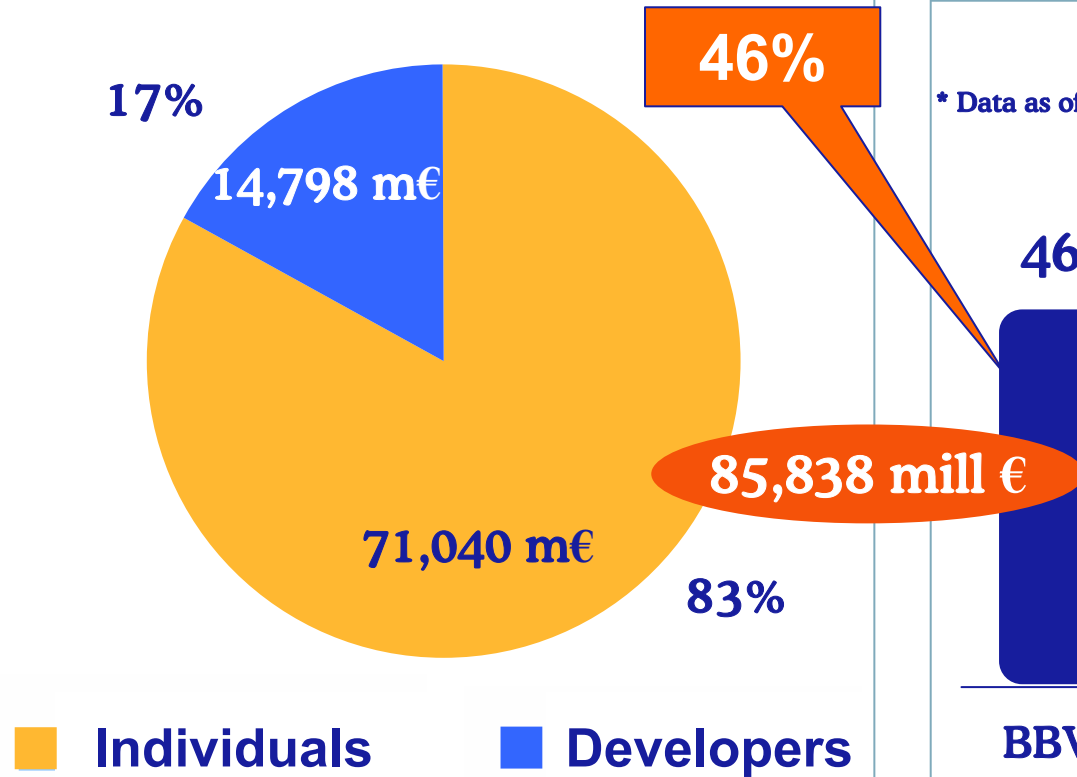


- The outlook for the real estate market in Spain
- **The BBVA mortgage business**



# BBVA mortgage business Portfolio Structure

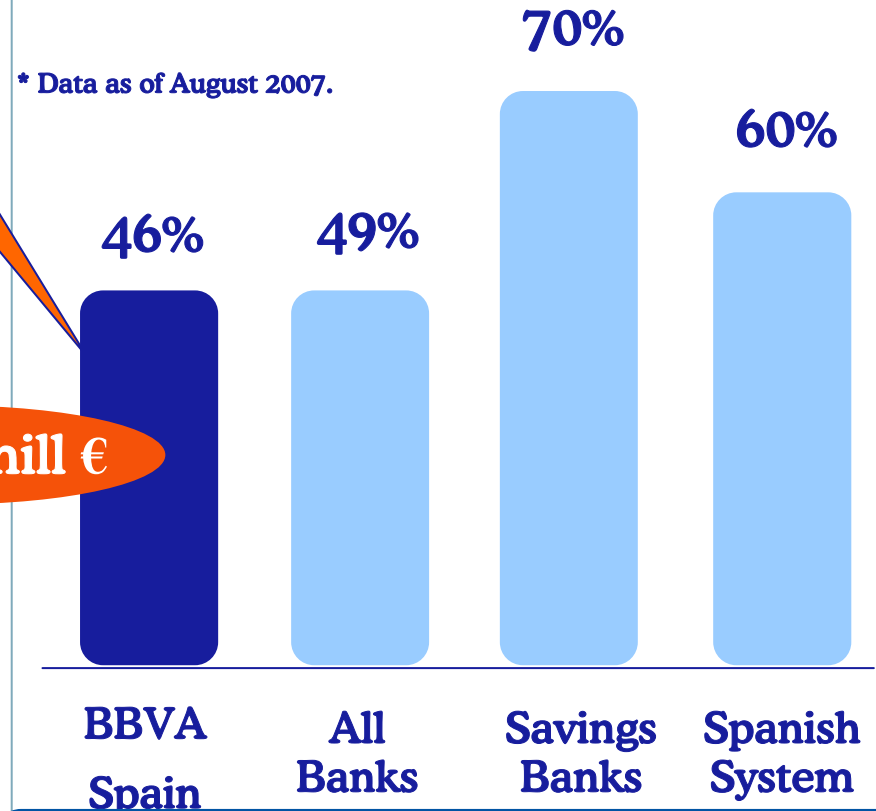
### Mortgage portfolio structure



Low exposure to developers

### % mortgages/ total loans

\* Data as of August 2007.

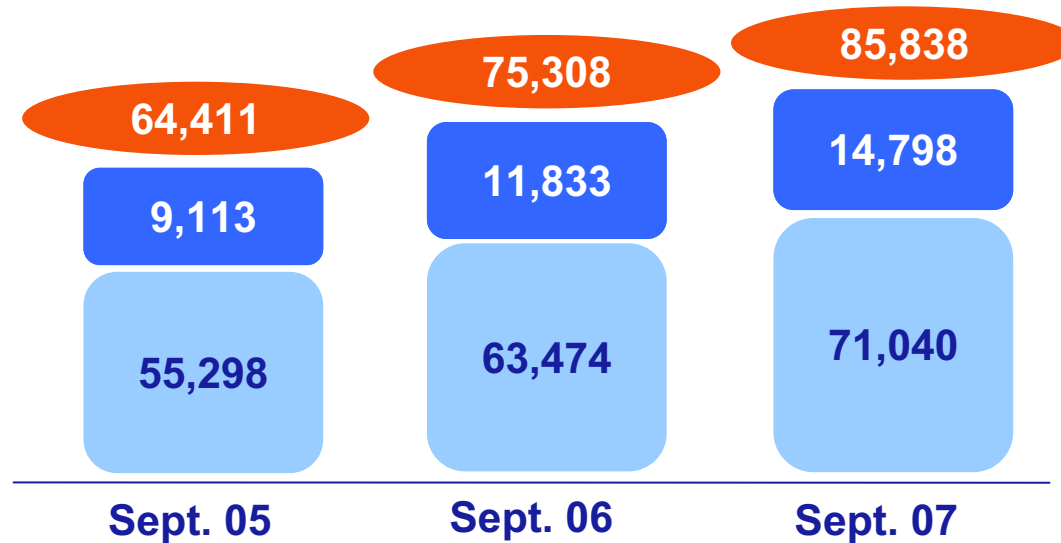


Overall exposure to mortgage loans is less than for the system



# BBVA mortgage business Performance

## Total Mortgage Loans (€m)



(YoY %)	Sept. 05	Sept. 06	Sept. 07
Individual mortgage loans	19.1	14.7	11.9
Morgage loans to developers	32.7	29.8	25.1
<b>Total mortgage loans</b>	<b>20.9</b>	<b>16.9</b>	<b>14.0</b>

**Gradual slowdown in individual mortgage loans, resulting from a conservative approach to risks and pricing**



# BBVA mortgage business Strategic highlights

**Mortgage business will continue to be a priority and is a core bundling product for BBVA**

**Continued focus on 1<sup>st</sup> 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.**



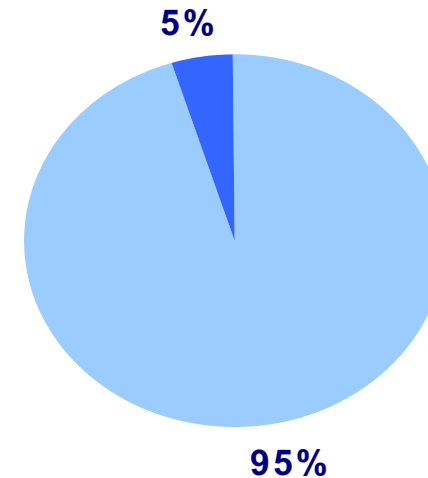
# BBVA mortgage business Developers

## 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

## Loan Breakdown: 95% primary residence



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

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

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

**2006 contribution to Retail Banking:**  
✓ 39.430 mortgages, with a total value of €4.185 mm  
✓ An average of 6.4 products per mortgage.





# BBVA mortgage business

## Developers: market view & BBVA customer base

**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**

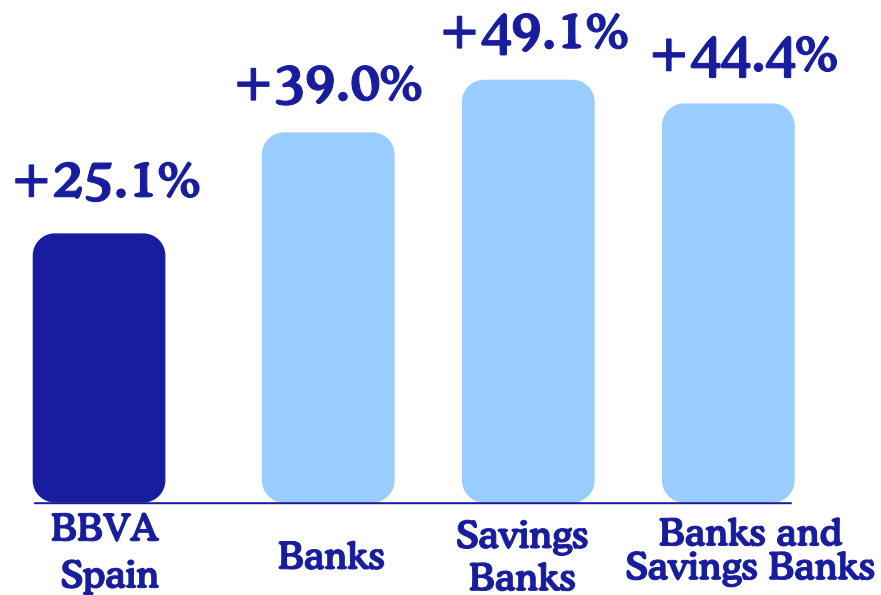


# BBVA mortgage business

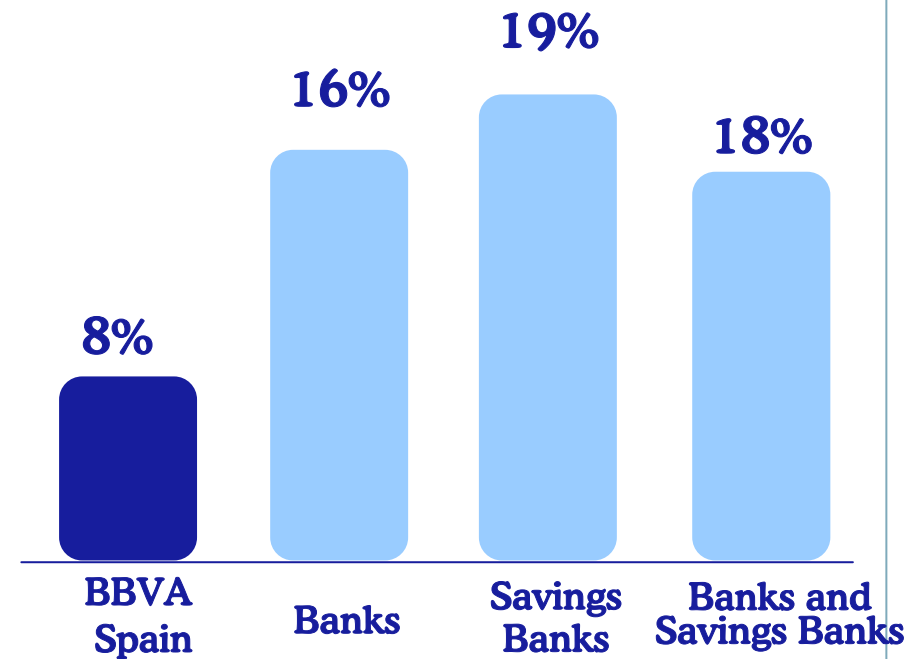
## Developers: structure

### Loans to Developers

CAGR (Sep06-Sep 07)



### Developer's / Total Mortgages



Loan selection criteria: individual assessment of risk and feasibility as well as risk and credit profile of the developer → resulting in market share loss

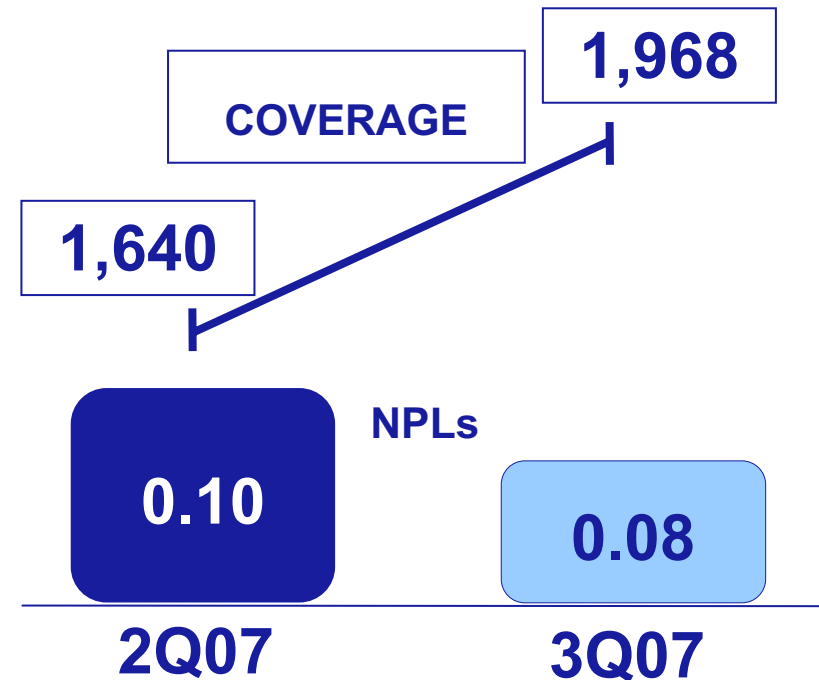


# BBVA mortgage business Developers: low risk profile

## 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 (%)



Portfolio concentrated in well established developers in a highly fragmented sector where 95% are small and locally based



# BBVA mortgage business

## Developers: conclusions

**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:**

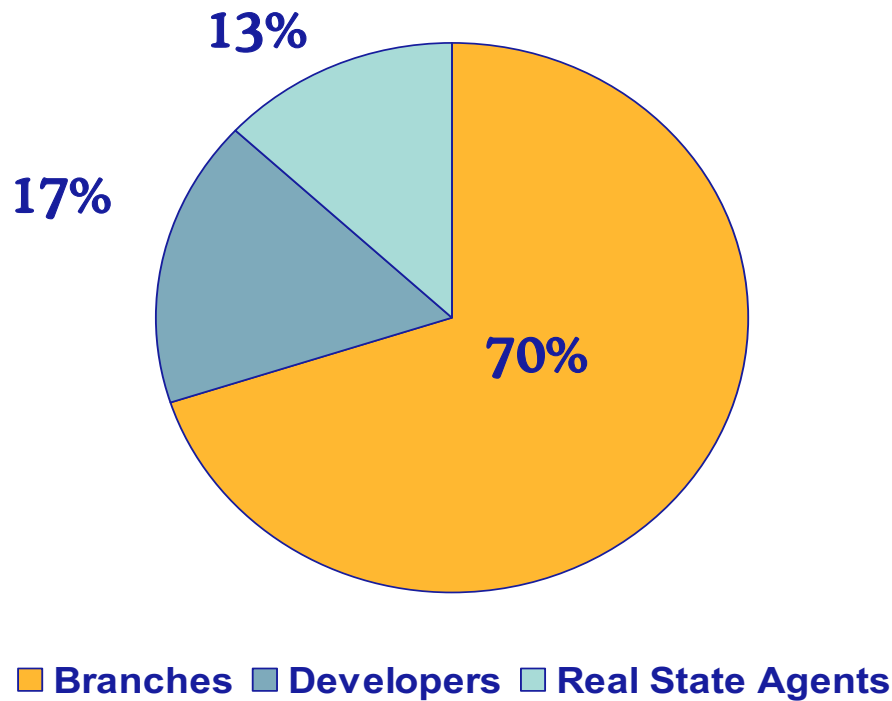
- ✓ **New scenario and new business opportunities**
- ✓ **Maintaining our risk policy standards**
- ✓ **We will be selective and look to expand margins**

**Risk policy based on investing with careful selection of projects and customers**

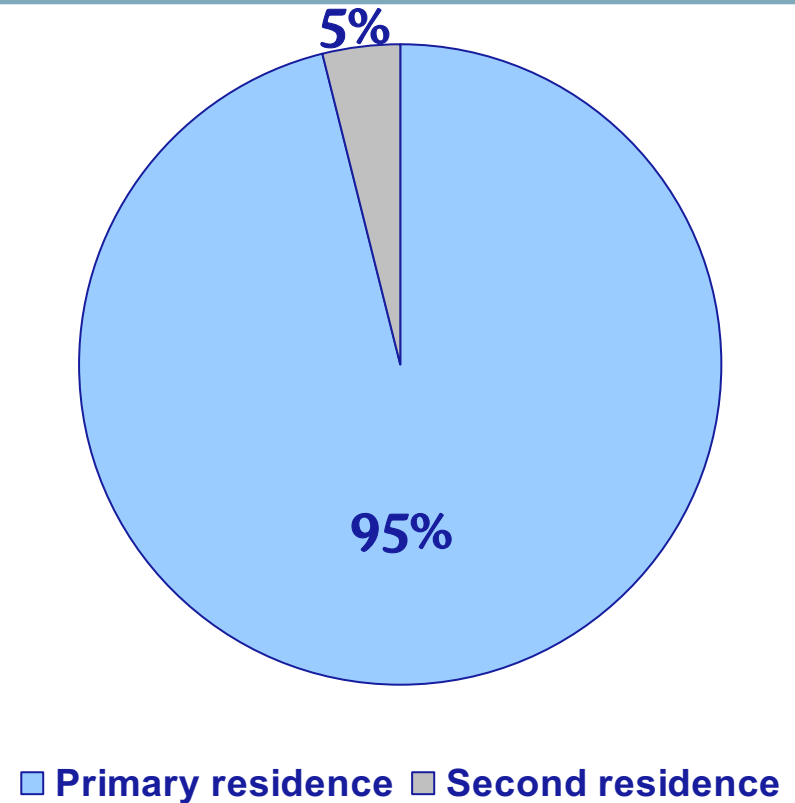


# BBVA mortgage business Individuals

### New loan production source



### Home mortgage loans



**BBVA network grants a high proportion of new loans**

**Focus on primary residence**

- Data as Sep 2007.



# BBVA mortgage business Individuals: production structure

**Hipoteca Fácil:**  
Single product with best attributes

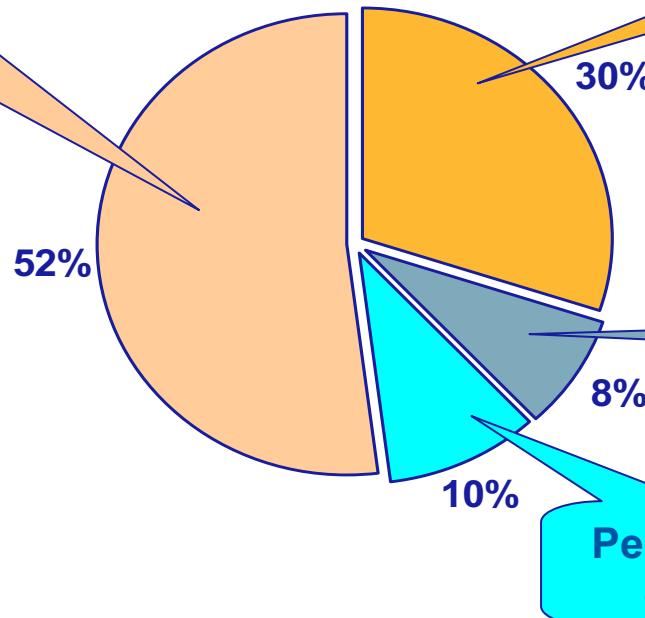


**Cross selling:**  
Safe Instalment: hedging of interest rates  
Life insurance: single premium  
Home Insurance

**Hipoteca blueBBVA**



**Hipoteca Universal**



■ YOUNG SEGMENT 
 ■ INMIGRANTS  
■ HIGH NET WORTH 
 ■ MASS MARKET

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



# BBVA mortgage business Individuals: low risk profile

## Portfolio highlights

No of loans 890,525

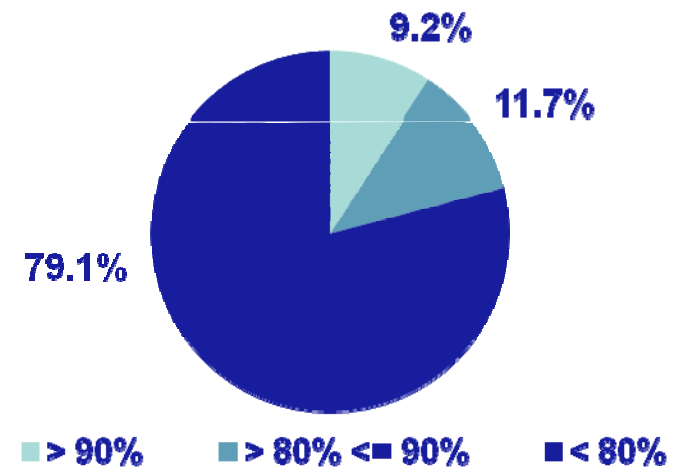
NPL ratio 0.39%

Coverage ratio 275%

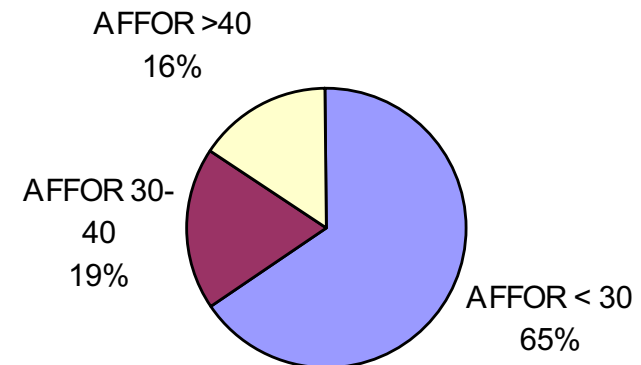
Avg. maturity 19 years

Avg. mortgage size €158,420  
2007 production

## % LENDING BY LTV (avg. 53.3%)



## AFFORDABILITY (av 26.3%)



LTV calculated on historical appraisals



# BBVA mortgage business

## Individuals: 2008 focus

**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



150  
years

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**BBVA** making the difference