

150
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BBVA making the difference



“Outlook for Real Estate and mortgages in Spain”

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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.**



Economic Research Department The Spanish housing market

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

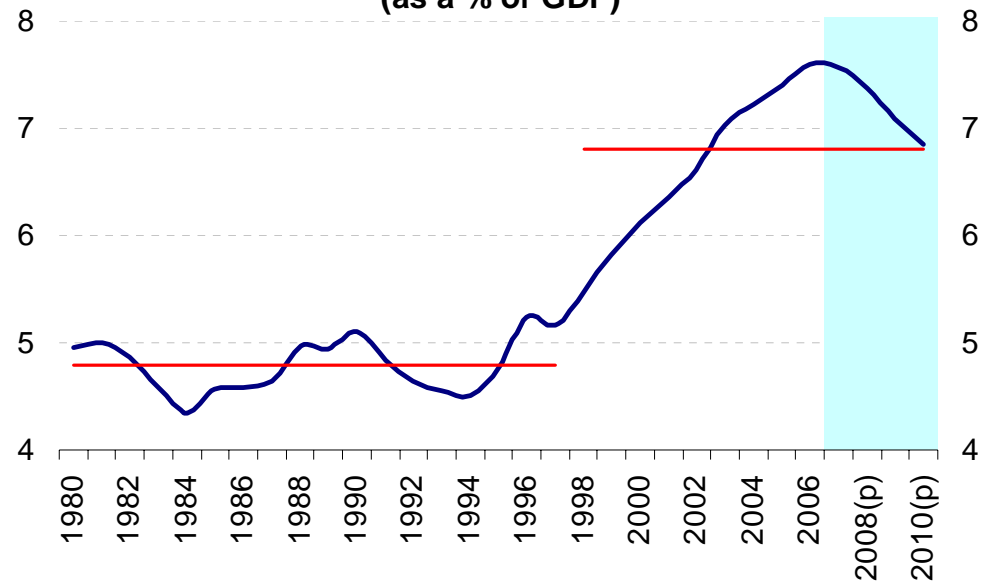
Housing: Share in GDP (%)

	1998-2007	2007
Spain	6.7	7.5
Germany	6.2	5.4
Netherlands	5.8	5.8
Ireland	9.0	8.5
UK	3.1	3.4
Australia*	7.0	6.5
USA	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.

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

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

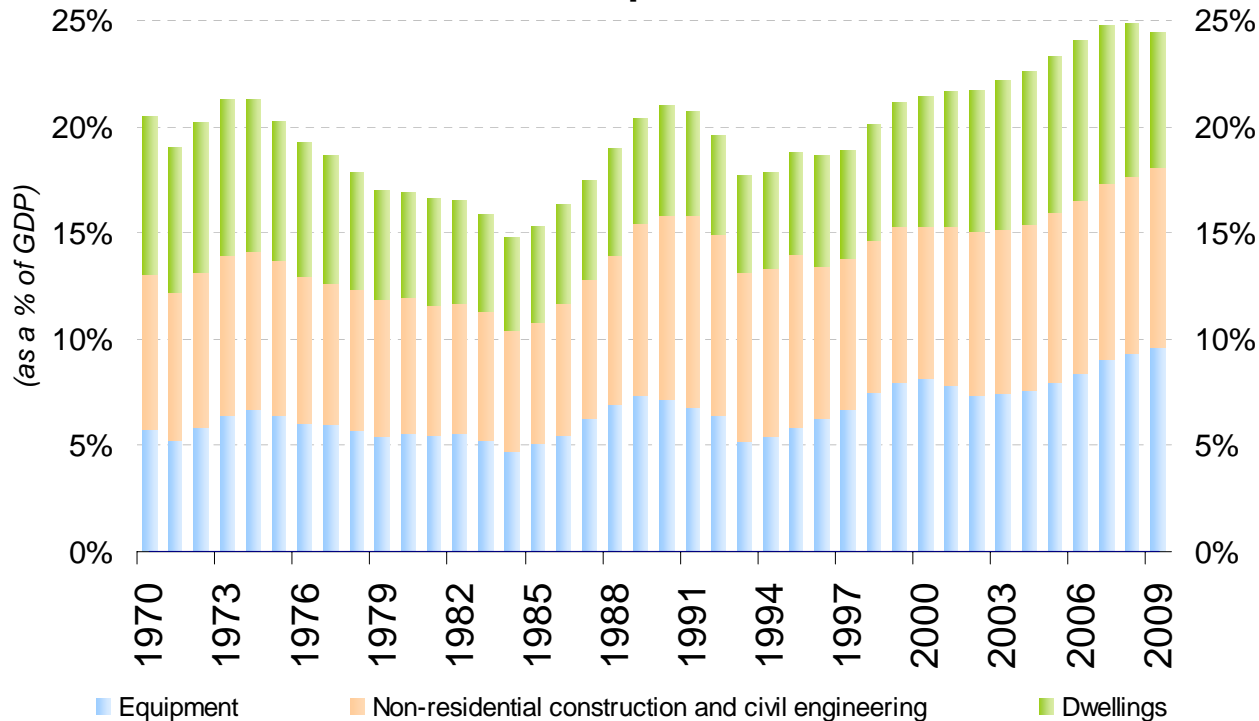
However, in Spain, as in other Mediterranean countries, second homes represent an important part of the housing stock...

...because of their tourist component.



The Spanish economy is not just housing

Gross fixed capital formation



Deviation from historical weight

Dwellings + 1.7 p.p.

Other constructions + 1.0 p.p.

Equipment + 2.6 p.p.

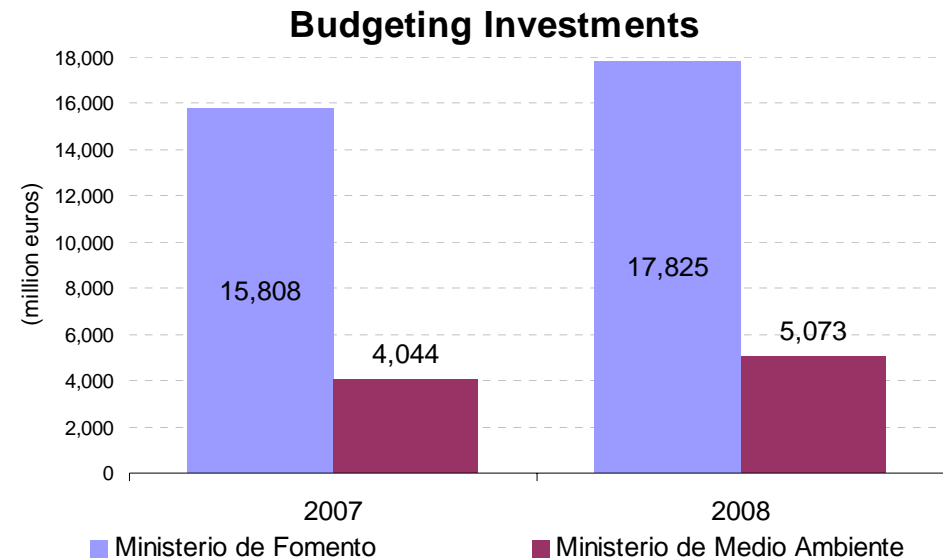
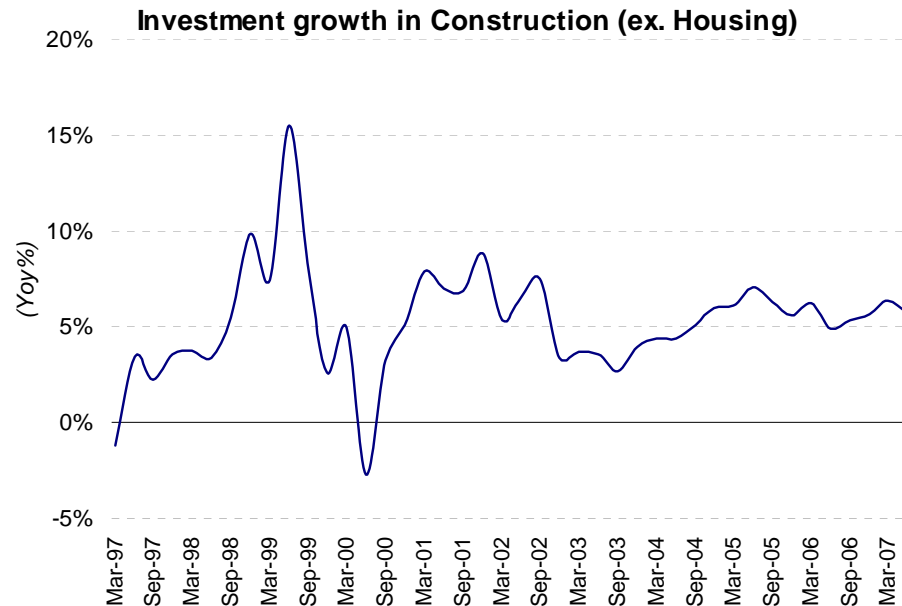
The Spanish economy has experienced higher levels of investment in equipment ...

... than in the housing sector.

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



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

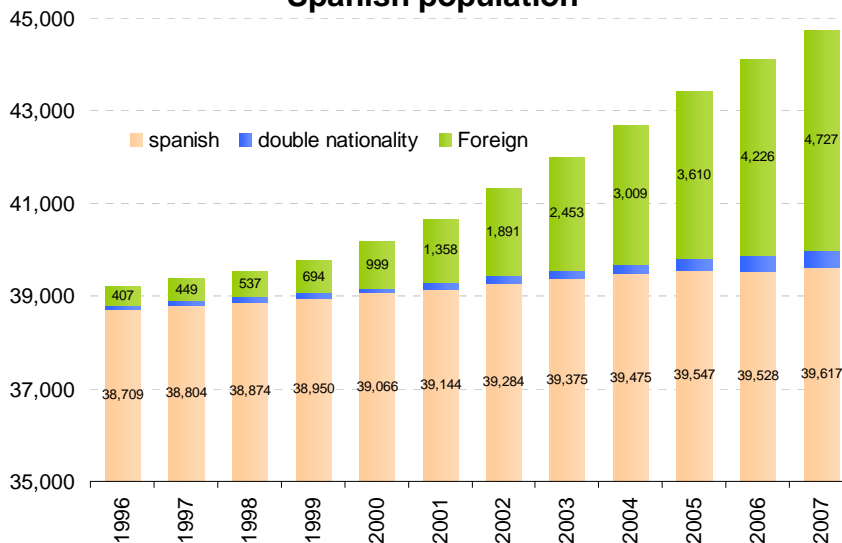


1. The Spanish growth model is not based on housing
2. **A more flexible employment market will give support to the economy**
3. Although households debt levels have increased, they have a solid wealth position
4. The on-going orderly adjustment of the housing market will have a limited impact on the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

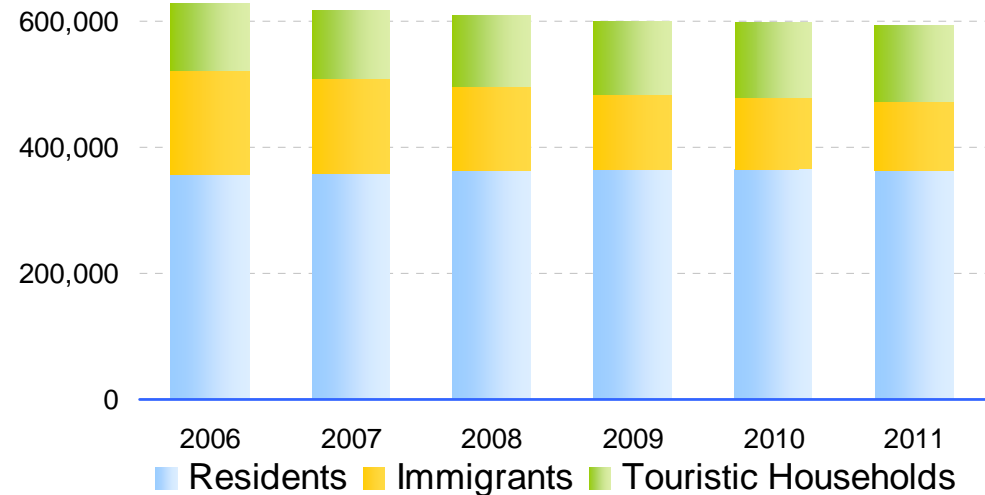


Women, immigration and baby-boomers have increased the Spanish labor force and made it more flexible

Spanish population



Gross household formation projection



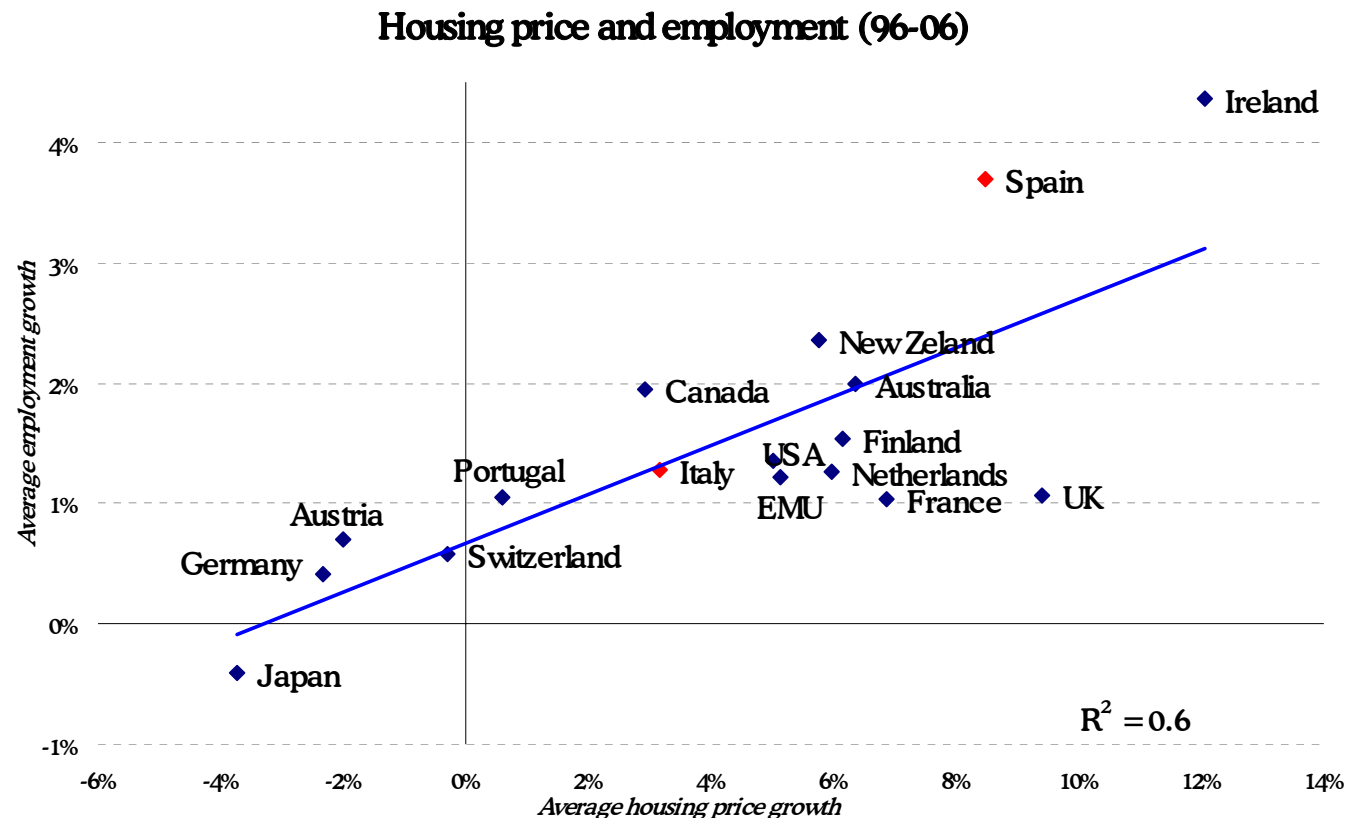
Annex: Medium term potential demand



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

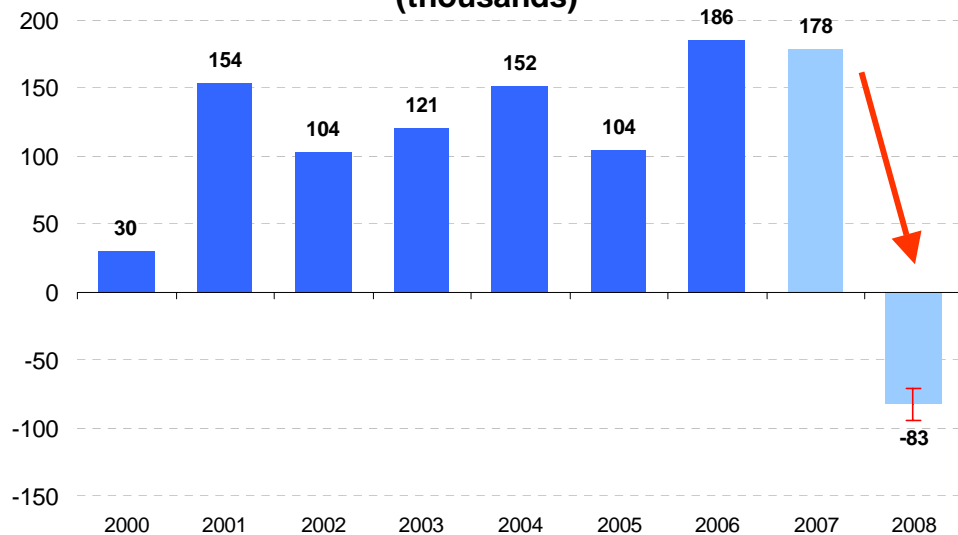


Spanish housing market has experienced a catching up process in line with the Spanish economy



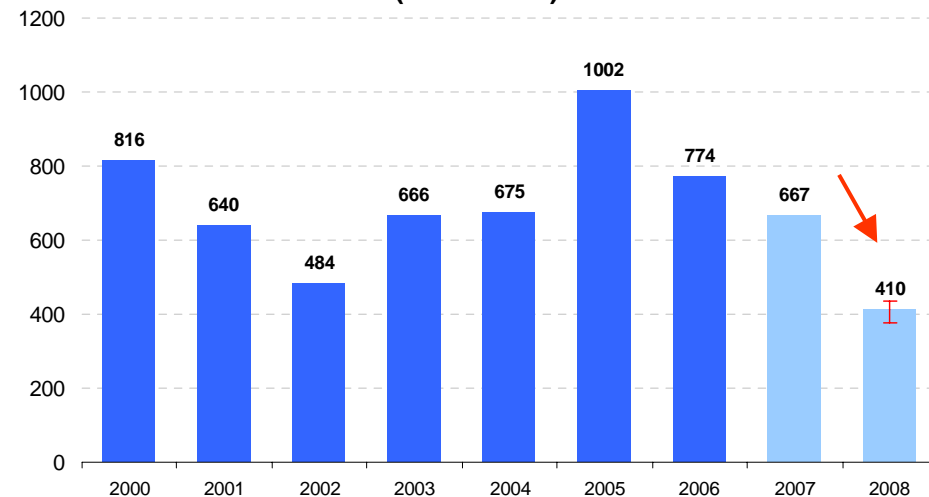
How many jobs will be created?

**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.

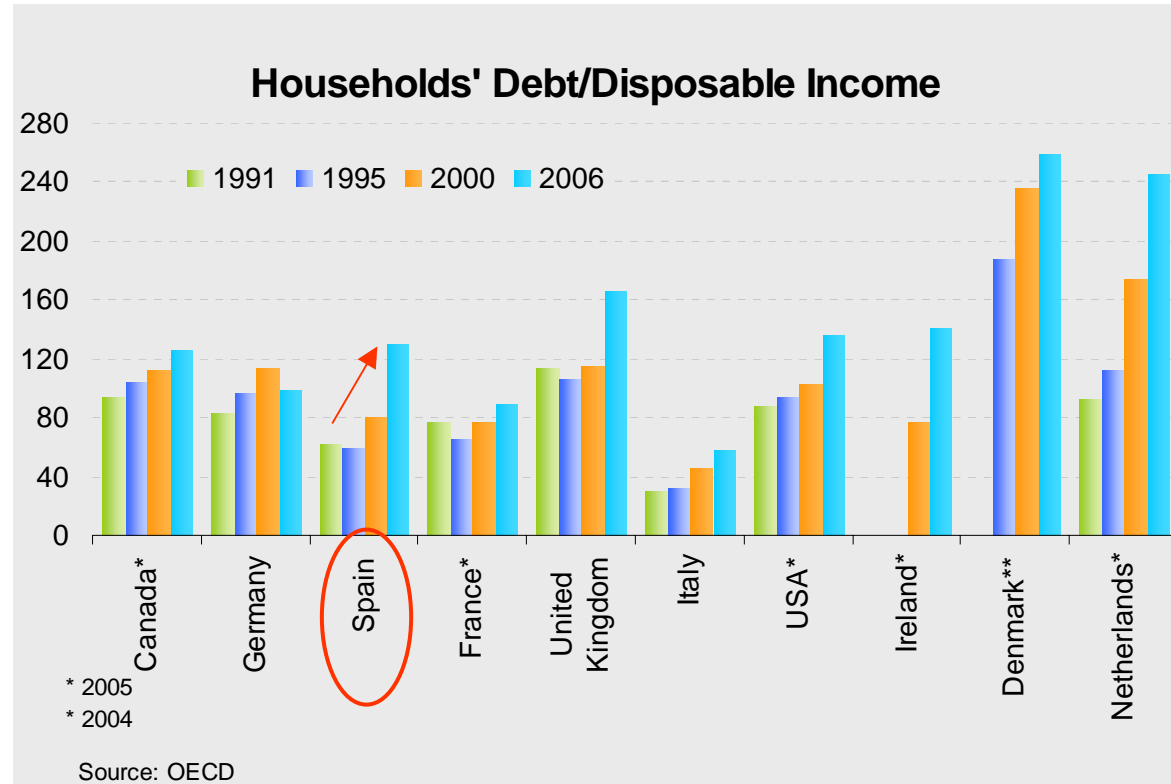


1. The Spanish growth model is not based on housing
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Households debt levels have converged to the levels of developed countries ..

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...

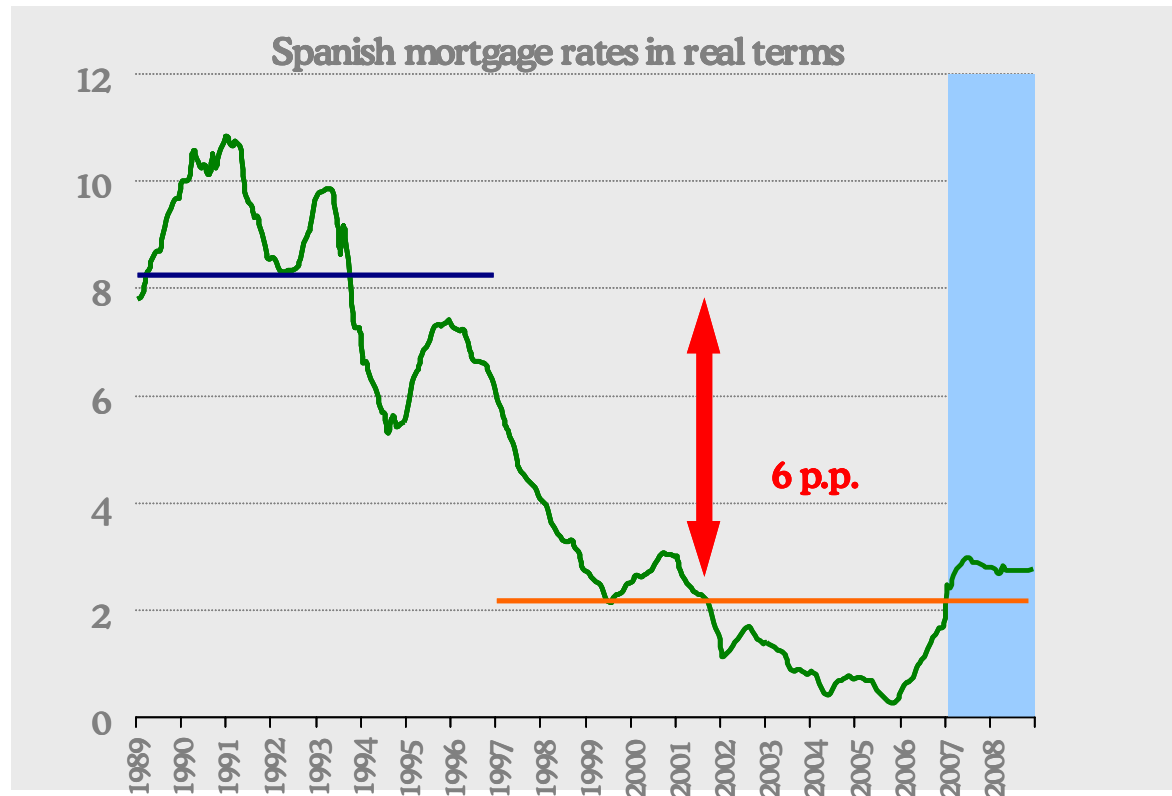
... as well as permanent.

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



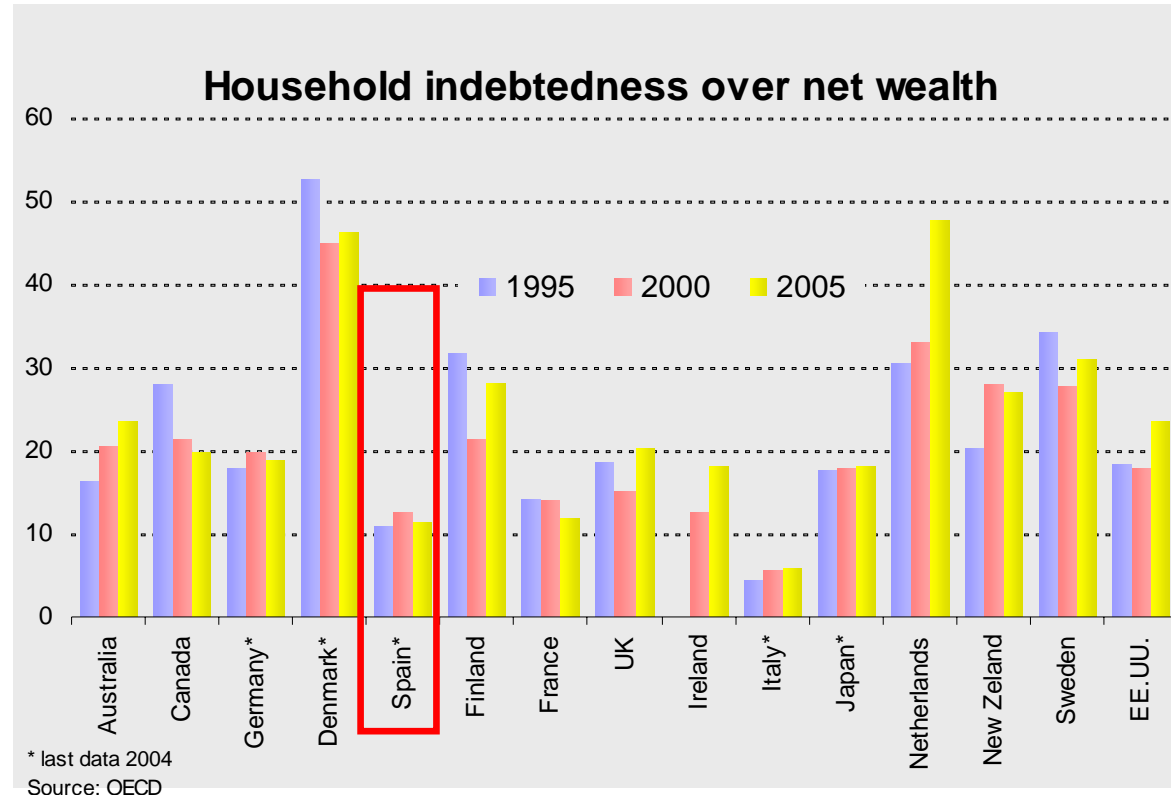
...however, households show a solid wealth position

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

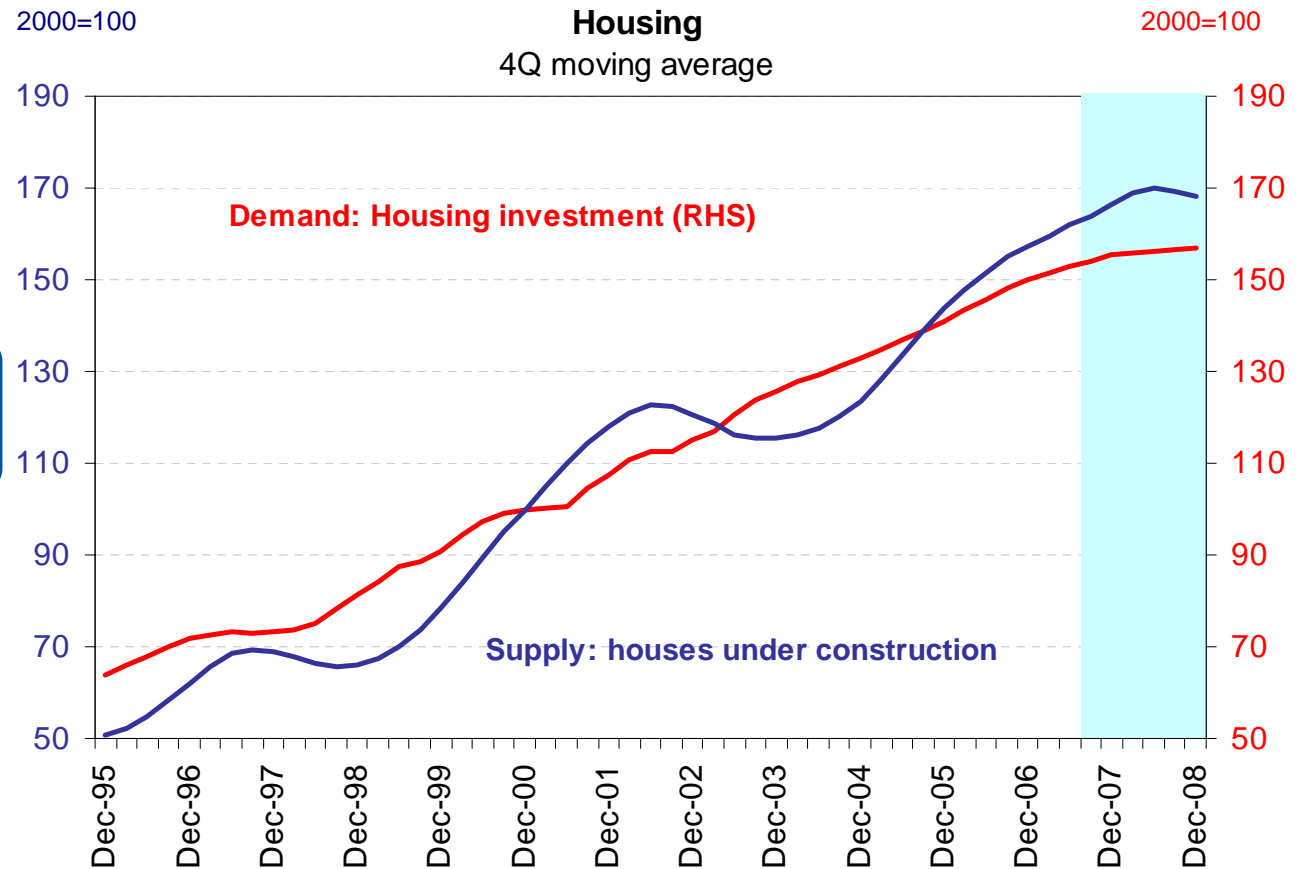




1. The Spanish growth model is not based on housing
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The ongoing orderly adjustment

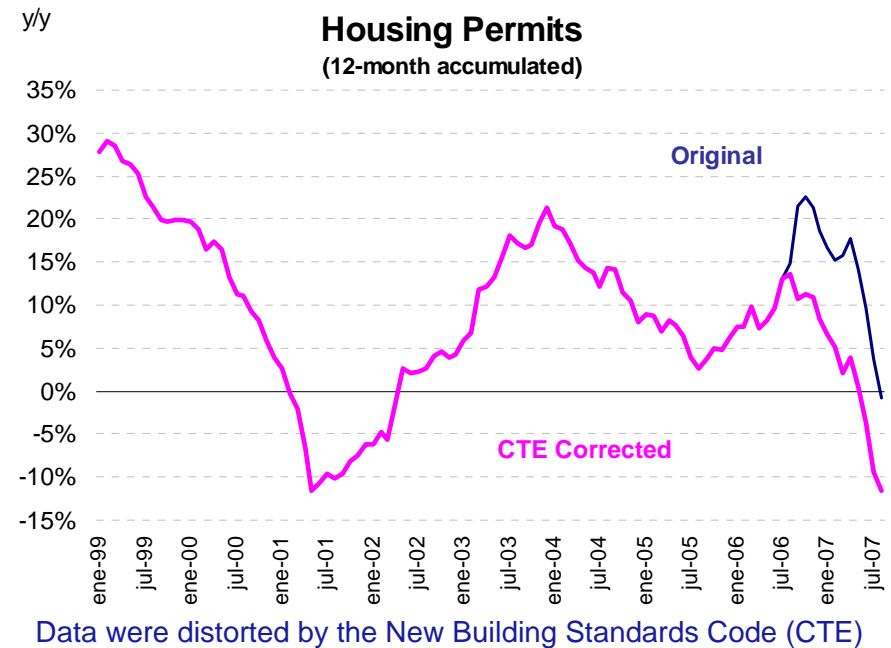
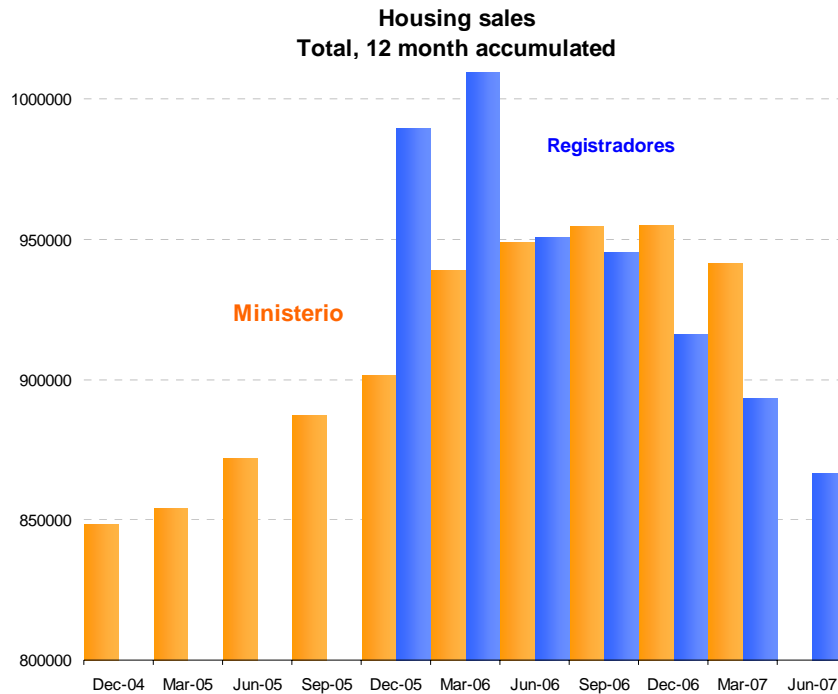


Supply has been more affected by the financial turmoil than demand

Source: INE, Mº Vivienda y SEE BBVA



Housing demand: a year and a half of moderate slowdown

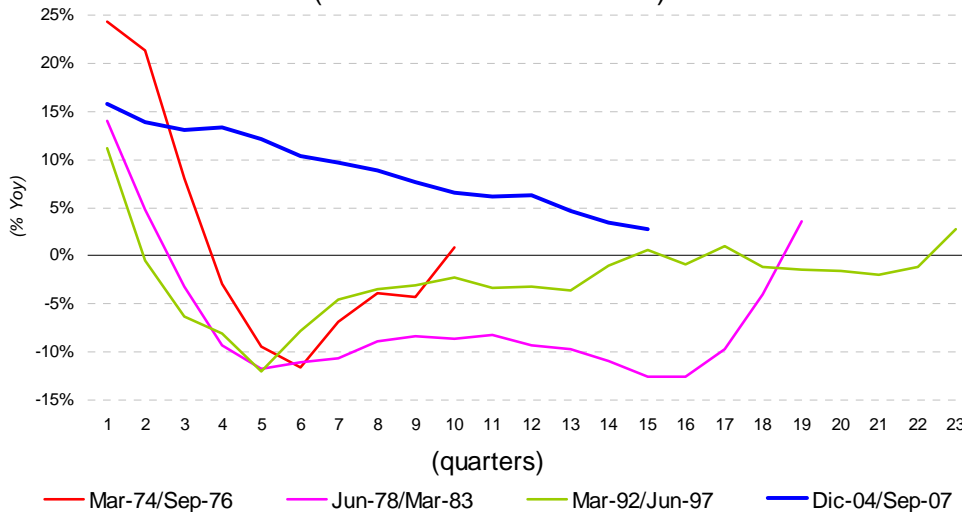


The financial turbulences have triggered an earlier development of the expected adjustment. The stricter financial conditions and the deterioration of confidence have prompted a deceleration of activity

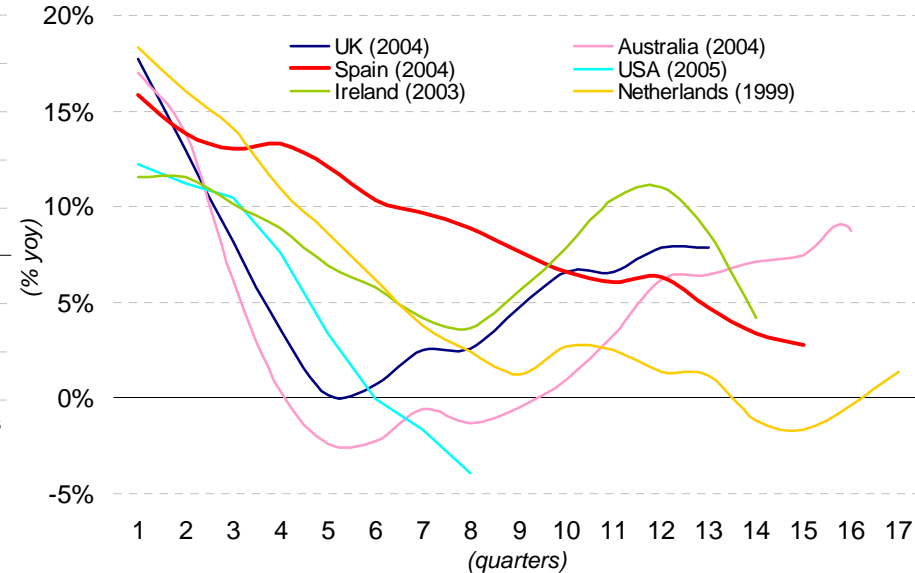


The gradual deceleration is already on its way

Real Housing price in Spain
(Path after each maximum)



Real house prices deceleration path from maximum

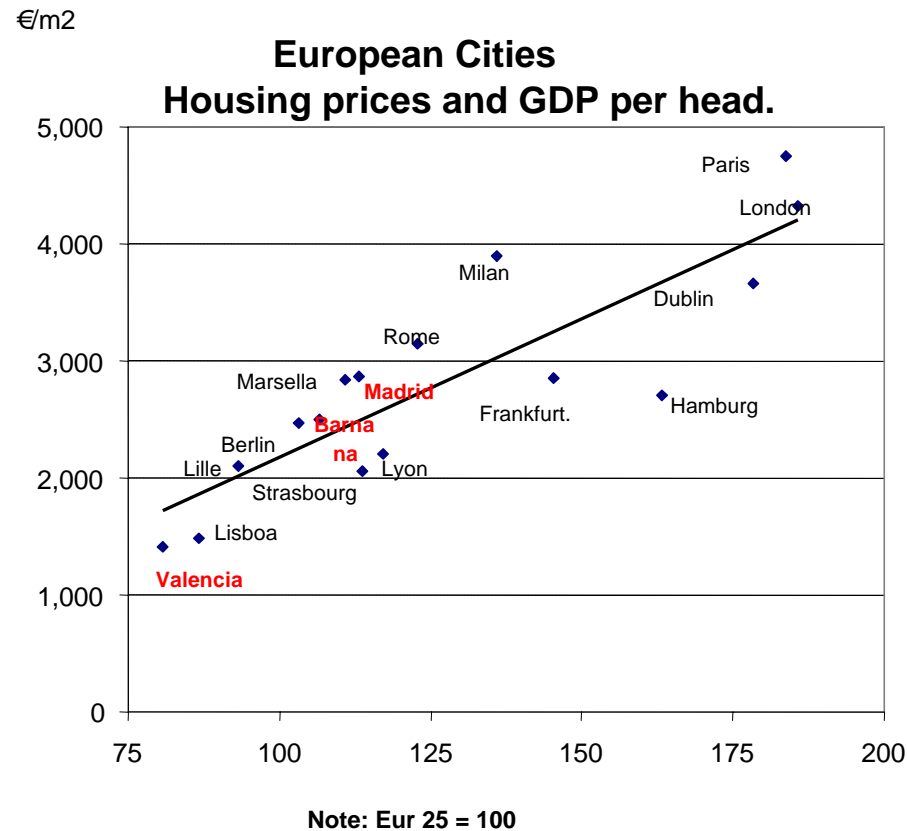


deceleration is the smoothest for the last 30 years.

..and also the smoothest compared to other countries.



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

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**

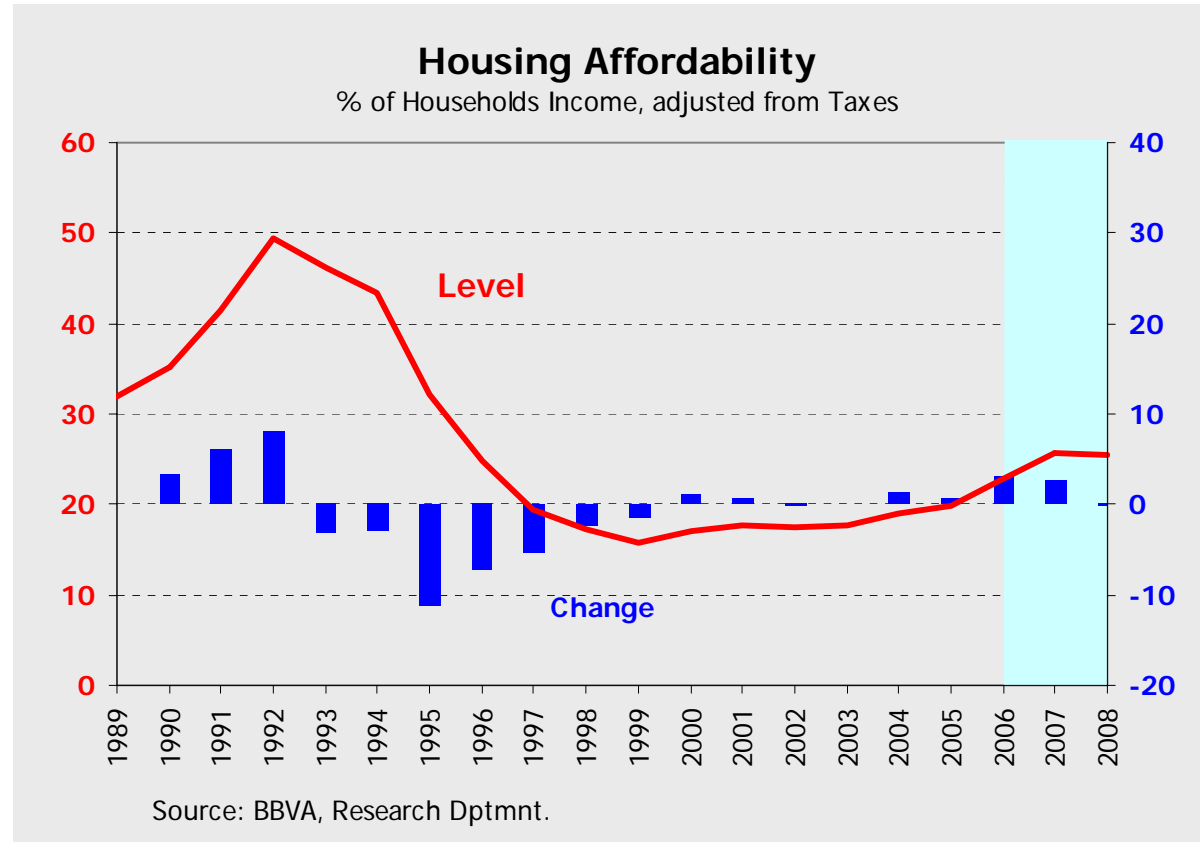
Lower interest rates

Stability in housing
prices

Solid gains in income
per capita



Improvement in housing
affordability



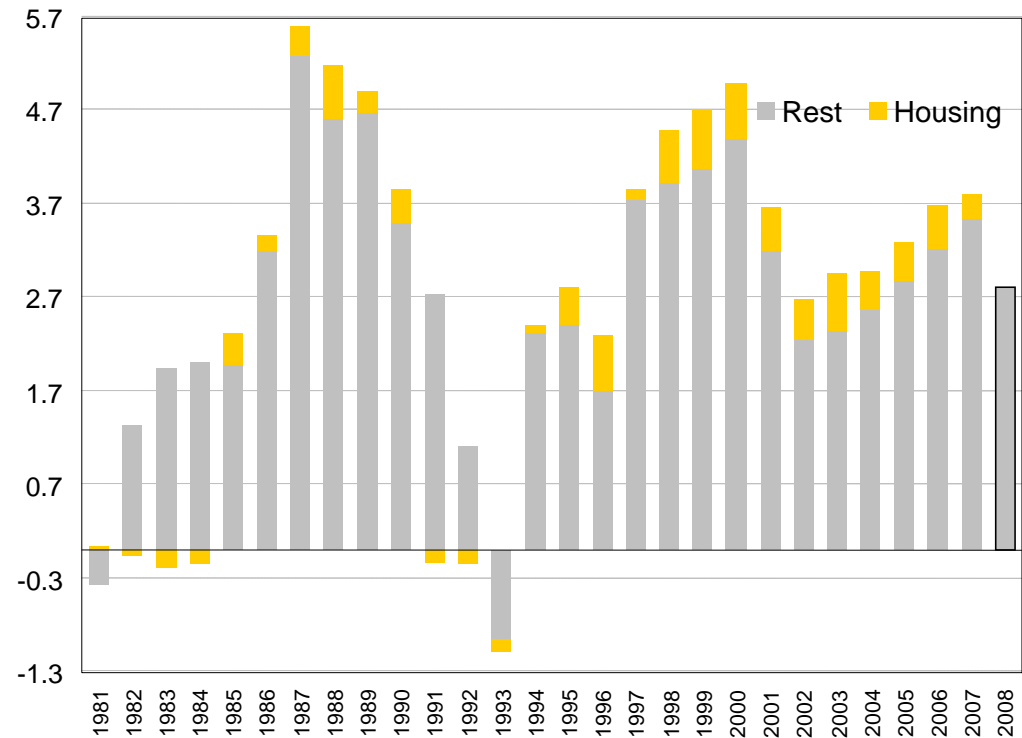


The impact on the economy will be limited:
Although housing will not contribute to economic growth, the Spanish economy will grow close to its potential

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

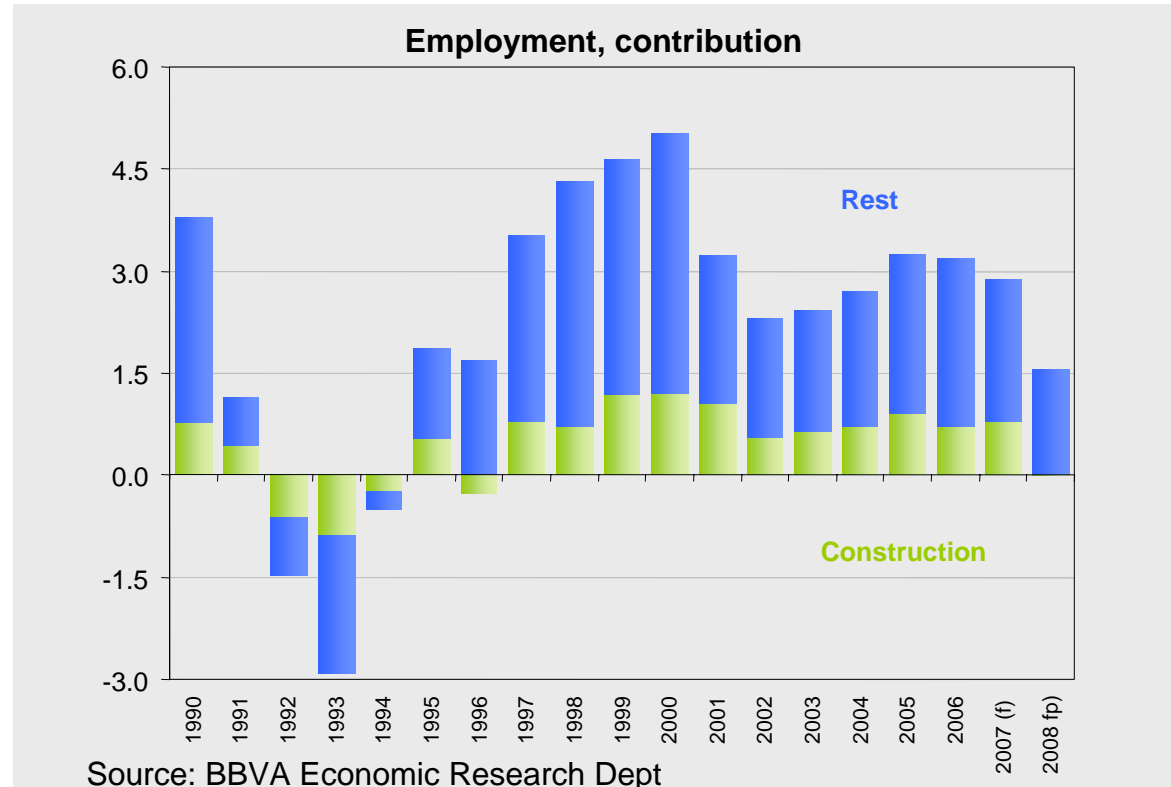


**The impact on the economy will be limited:
.....new employment levels will remain solid**

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





- 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

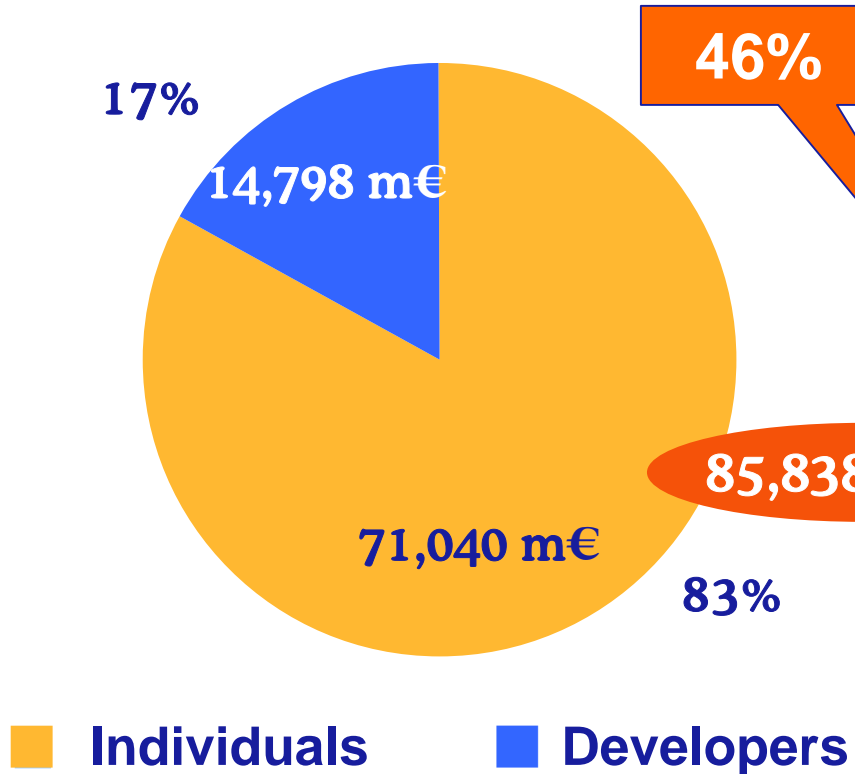


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BBVA mortgage business Portfolio Structure

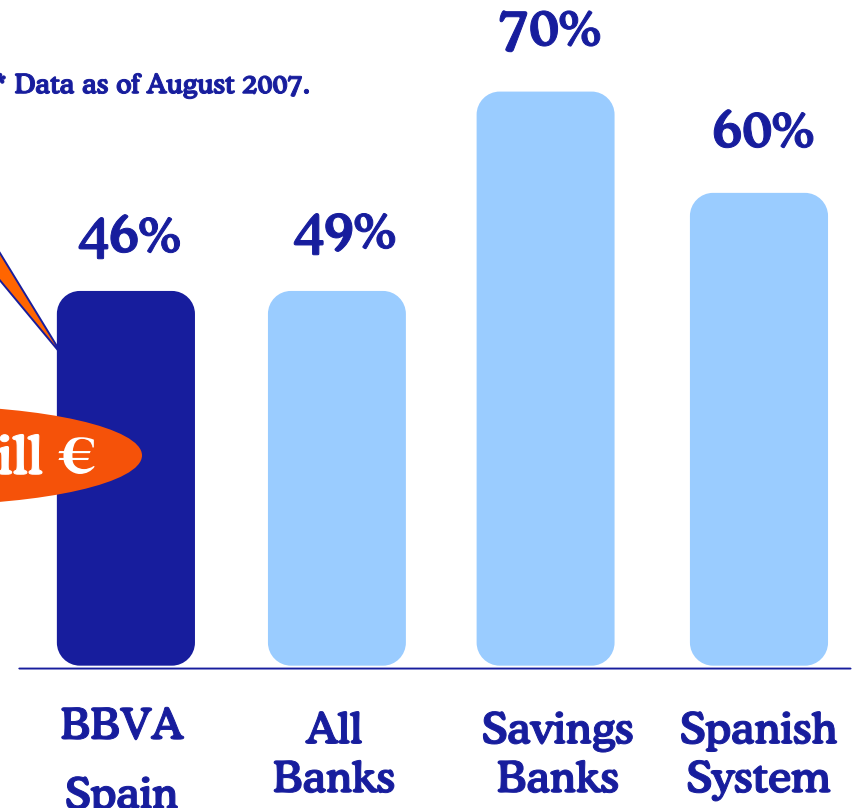
Mortgage portfolio structure



Low exposure to developers

% mortgages/ total loans

* Data as of August 2007.

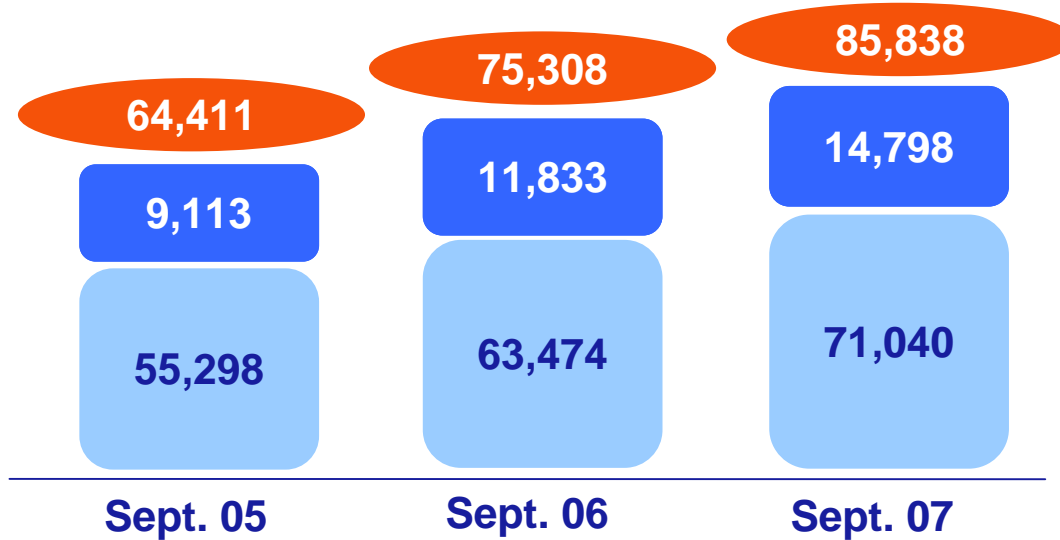


Overall exposure to mortgage loans is less than for the system



BBVA mortgage business Performance

Total Mortgage Loans (€m)



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

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 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.



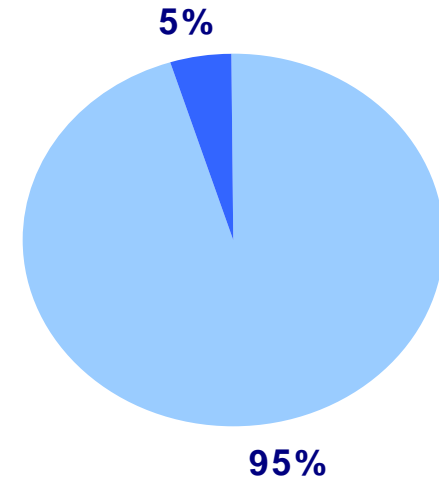
BBVA mortgage business Developers

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**

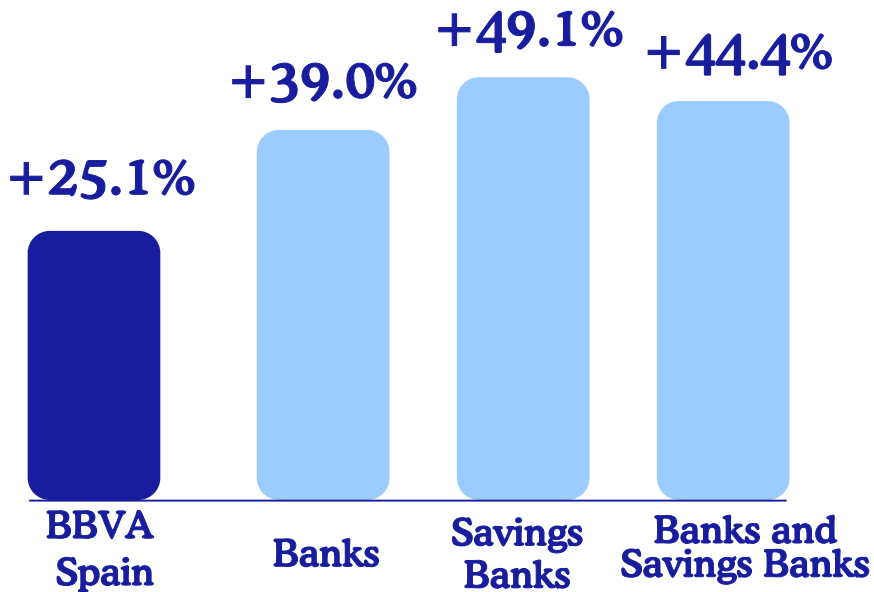


BBVA mortgage business

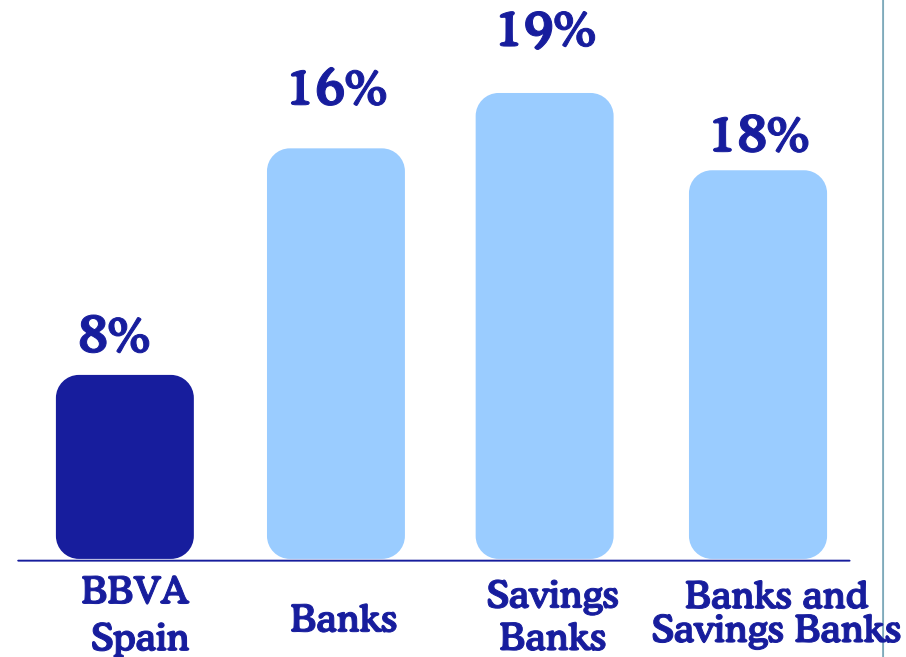
Developers: structure

Loans to Developers

CAGR (Sep06-Sep 07)



Developer's / Domestic Lending



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



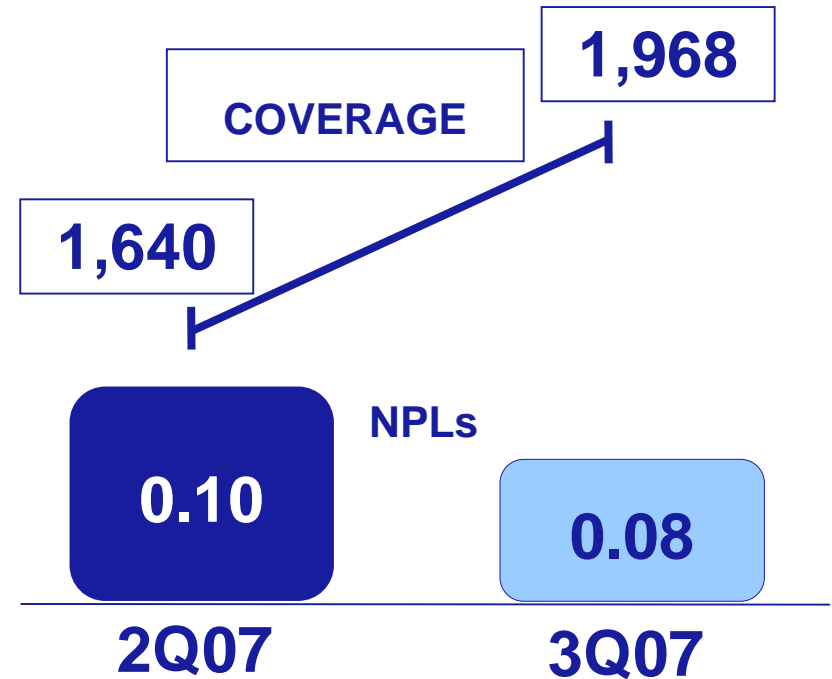
BBVA mortgage business

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:

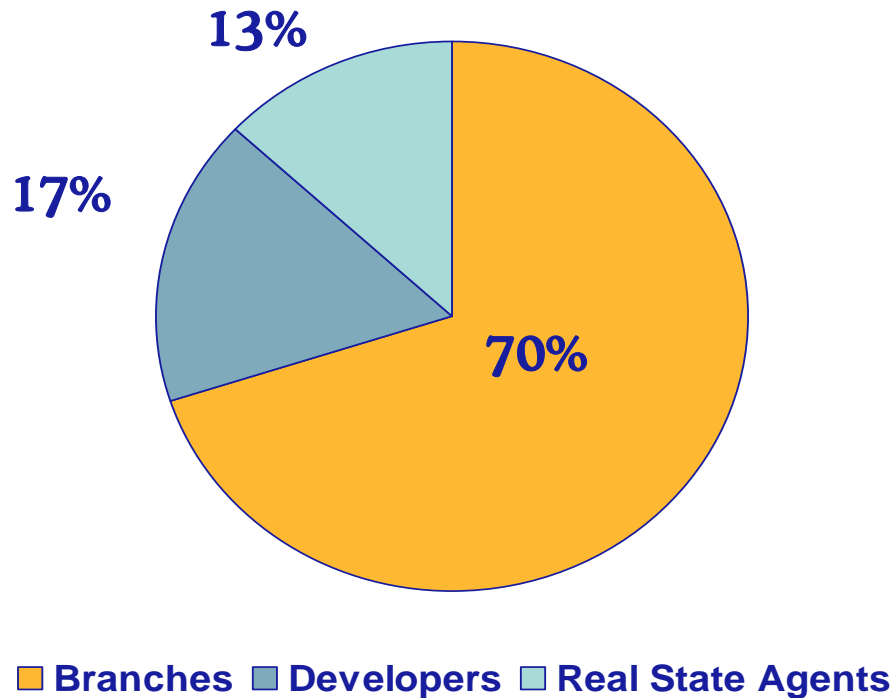
- ✓ **New scenario and new business opportunities**
- ✓ **Maintaining our risk policy standards**
- ✓ **We will be selective and look to expand margins**

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

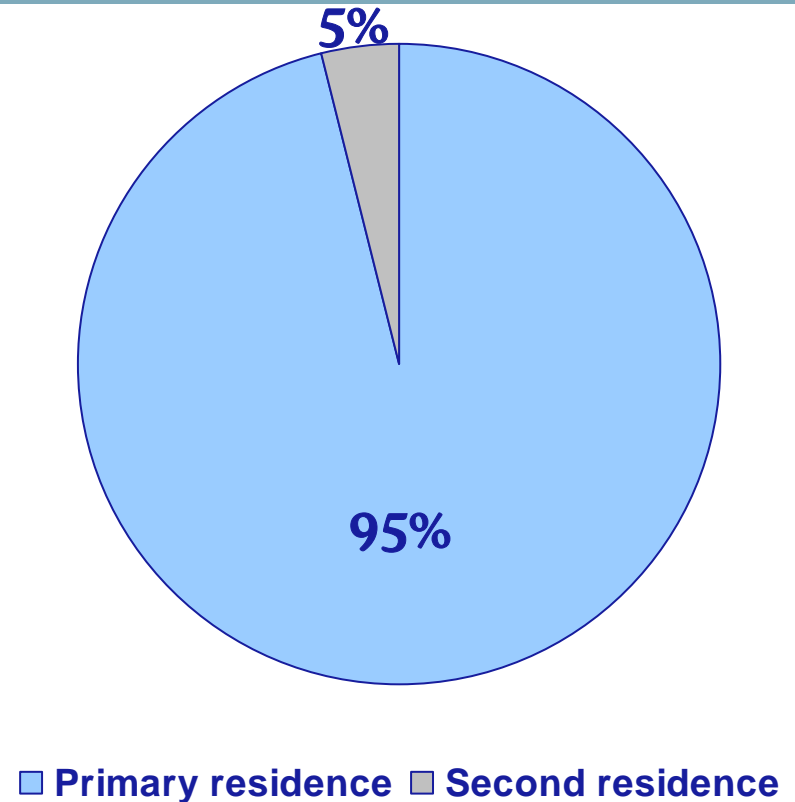


BBVA mortgage business Individuals

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

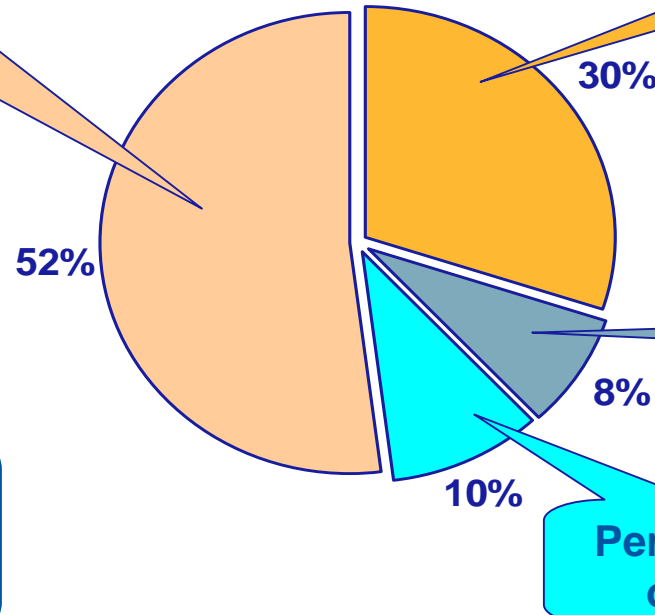


Cross selling::
Safe Instalment: hedging of interest rates
Life insurance: single premium
Home Insurance

Hipoteca blueBBVA



Hipoteca Universal



■ YOUNG SEGMENT ■ IMMIGRANTS
■ 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

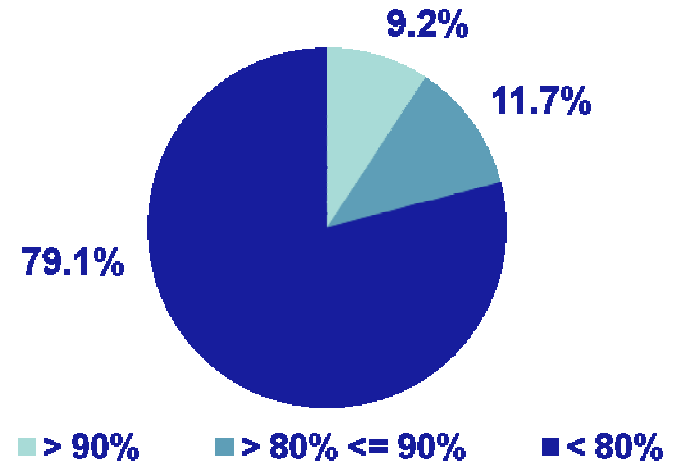
NPL ratio 0.39%

Coverage ratio 275%

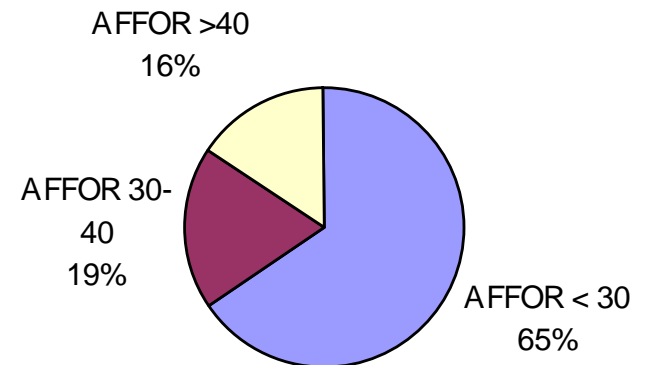
Avg. maturity 19 years

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



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● Annexes

- Structural changes in Spanish economy
- Labor Market
- Real Estate long-term demand
- Households' wealth and income
- The Spanish mortgage market



Economic Research Department

Structural changes of the Spanish economy

Structural changes in the evolution of the main economic indicators

GDP and Employment grew between 1 and 2 percentage points in 2000-07

Interest rates and spreads are affected by the Spanish nominal stabilization and the change of the public sector

Households' Affordability has improved

Corporates are more profitable and their debt burden is lower

Spain			
Annual average in the period	1991-98	2000-07	Change
Real Variables			
Growth (% GDP)	2,3	3,6	1,3
Employment (% yoy)	0,8	3,0	2,1
Population (% yoy)	0,3	1,3	1,0
Real Wages (% yoy)	1,0	-0,1	-1,1
Financial Variables			
<u>Ex post real interest rates</u>			
short term	5,4	-0,1	-5,6
long term	5,5	1,2	-4,3
Spread vs. Germany, 10 years interest rates	2,8	0,1	-2,7
Inflation (% yoy CPI)	4,1	3,3	-0,9
Saldo público (% GDP)	-5,3	0,2	5,5
Deuda Pública (% GDP)	58,4	48,1	-10,3
Housing Market			
Households' Affordability (*)	34,3	19,7	-14,6
Prices, real growth	-0,7	9,0	9,7
Corporate Sector (**)			
<u>Profitability</u>			
own resources (%)	8,3	12,9	4,6
financial leverage (%)	-0,1	4,4	4,6
<u>Debt Burden</u>			
Divided by Gross Value Added	12,7	10,0	-2,7
Divided by Income	4,9	3,3	-1,6

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

(**) Bank of Spain, 2005

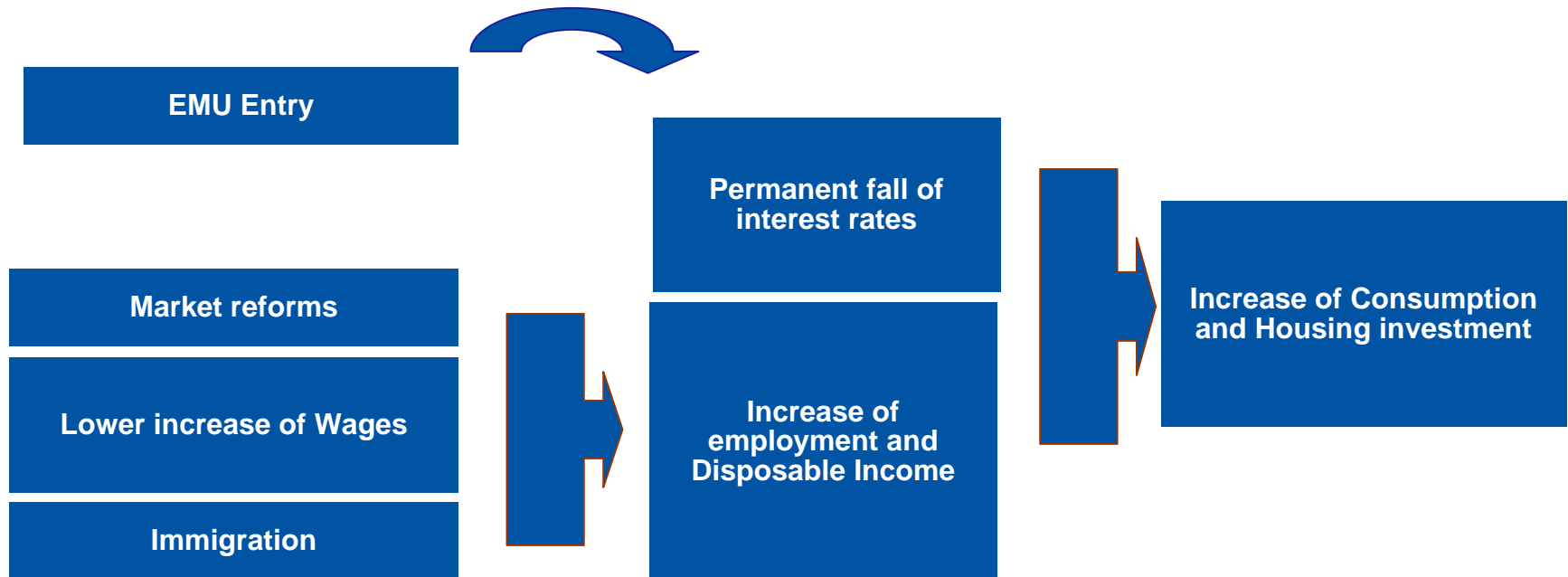
Source: Bank of Spain, INE y BBVA Economic Research Department



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 ...

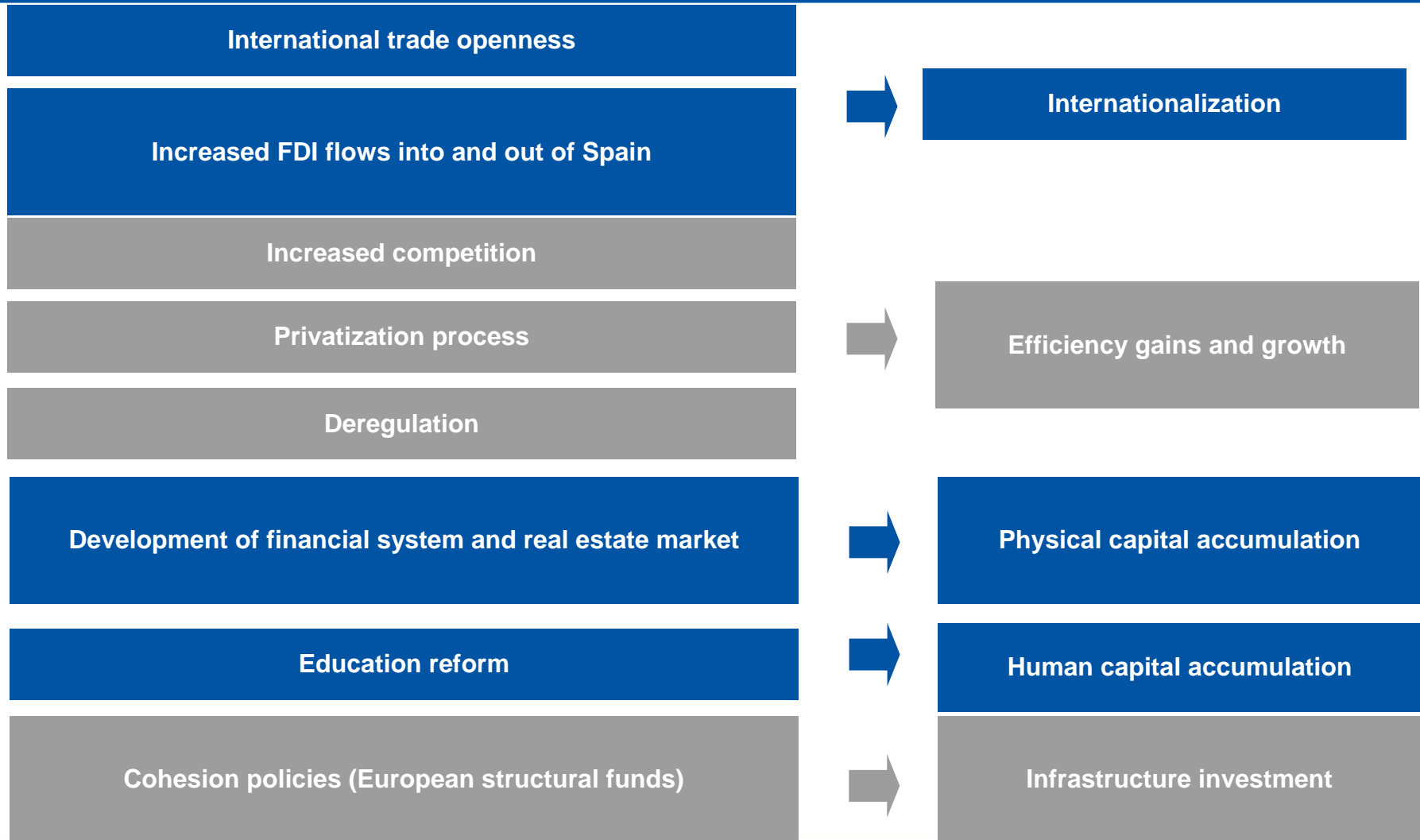


... and over the potential production capacity



Structural changes of the Spanish economy

The economy of European integration



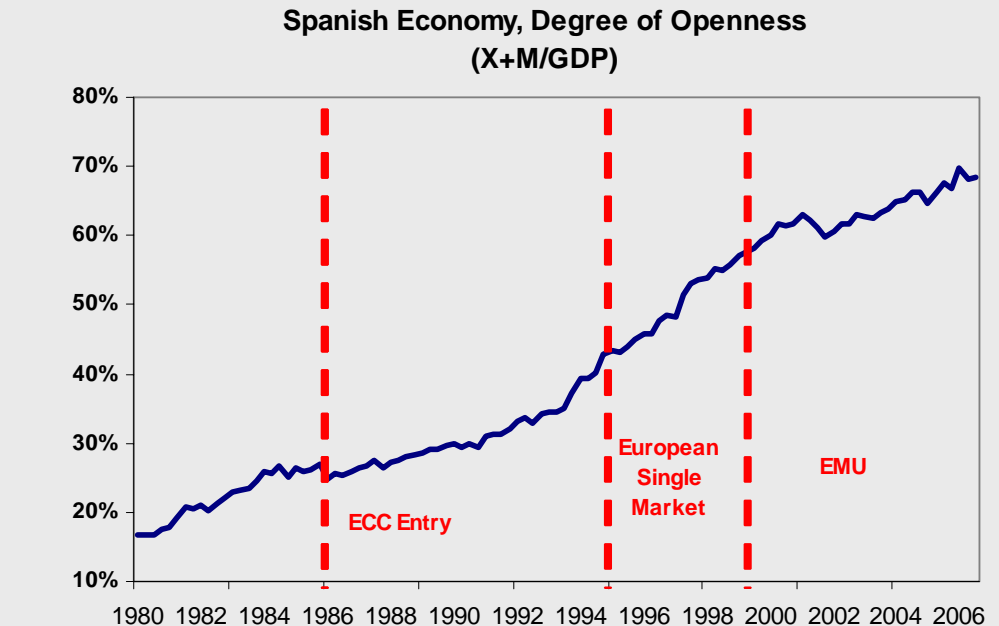


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Structural changes of the Spanish economy

The economy of European integration: greater external openness

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



Source: INE

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

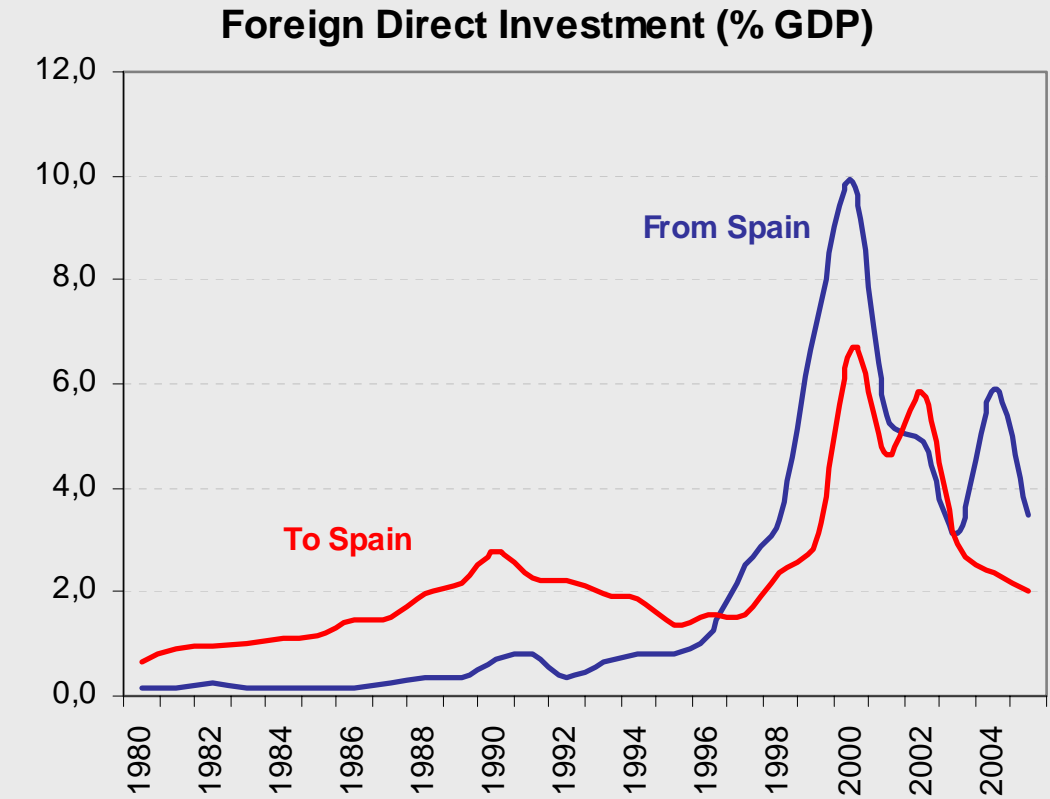


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Structural changes of the Spanish economy

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



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Structural changes of the Spanish economy

The economy of European integration: increasing competition

Electricity sector deregulation



Accumulated decrease in electricity rates for households exceeding 30% (1997-2005).

Telecom liberalization



Reduction of 40% in international call rates (1997-1999)

Banking competition



Mortgage spreads have been reduced towards 0,8% (1993-2005)

Air transport competition



Regular air ticket prices have come down 50% (1995).

Liberalization of professional associations



Rates charged by notaries and property registers have been reduced by 50% (1997)

Labor market



New more flexible contracts (1994, 97, 2000-01)

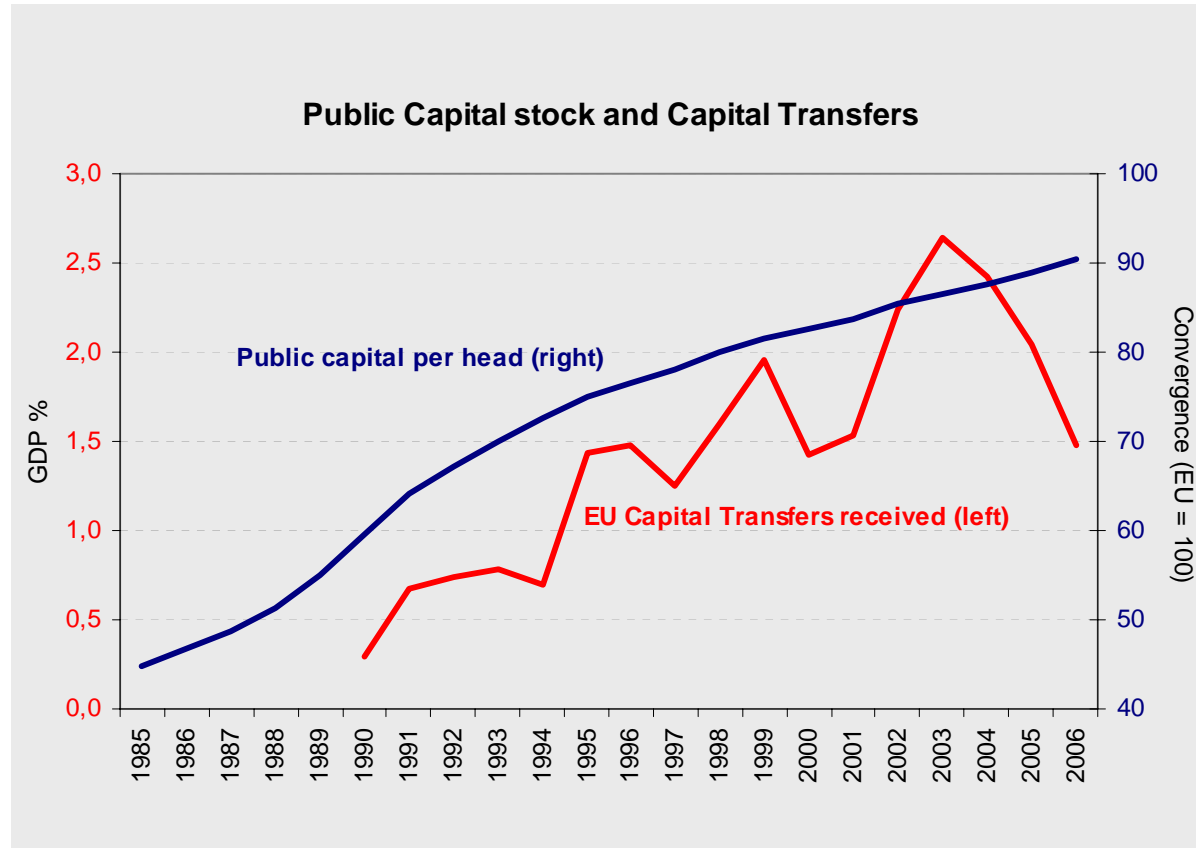


Economic Research Department

Structural changes of the Spanish economy

The economy of European integration: structural funds

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



Economic Research Department

Structural changes of the Spanish economy

The economy of European integration: changing financial conditions

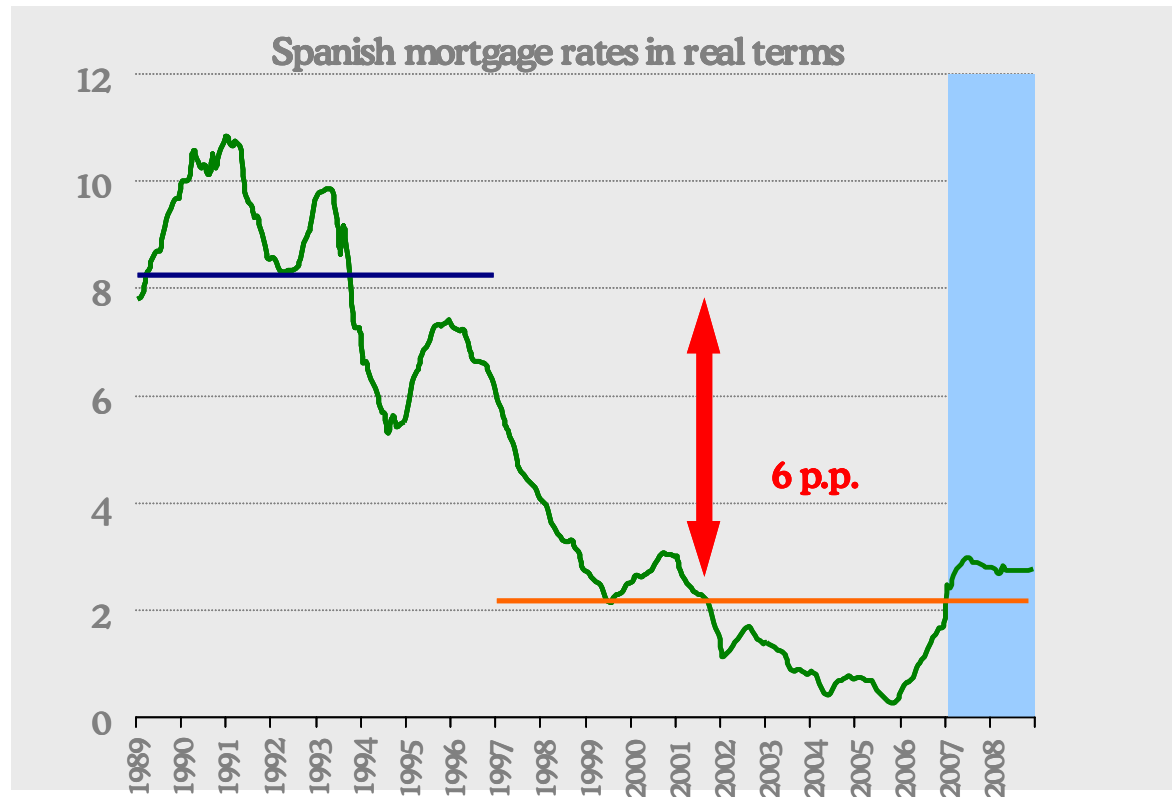
There has been a structural fall in interest rates over the last 20 years.

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



Interest rates are structurally lower in the Spanish economy

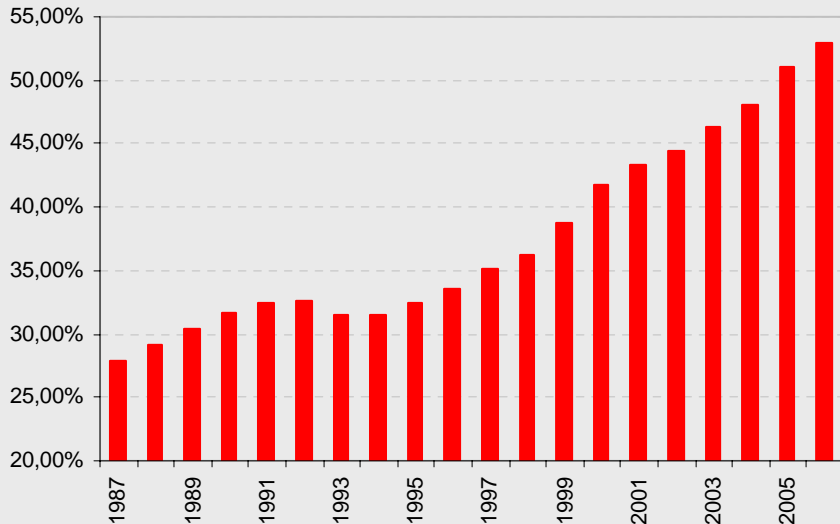


Economic Research Department

Structural changes of the Spanish economy

Demographic factors: Women at work

Female employment rate
16-64



Source: INE y SEE-BBVA

Income earners per household



Source: INE

The increase in the number of income earners per household has improved housing affordability

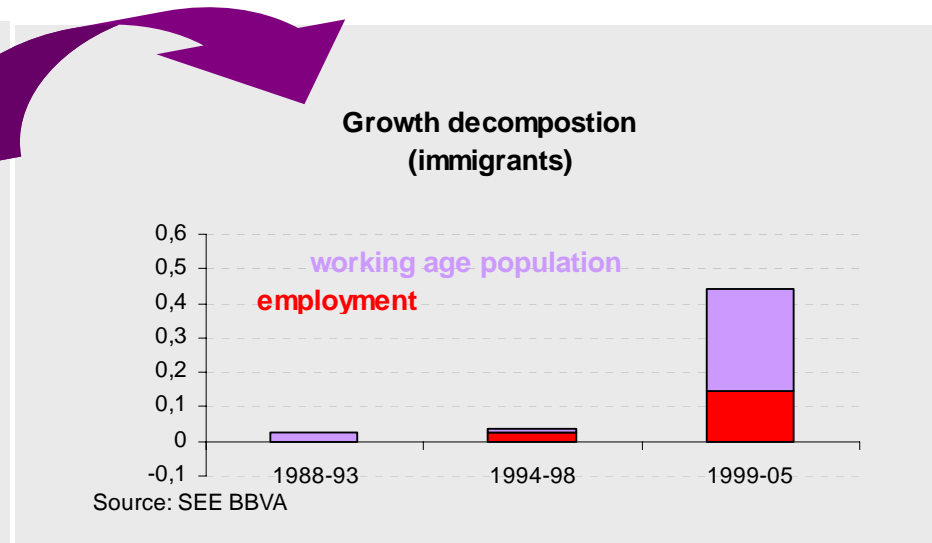
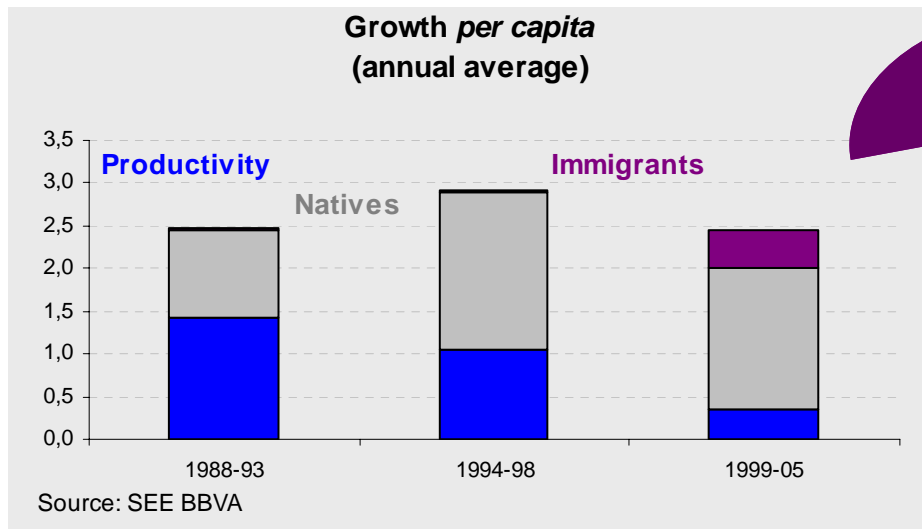


Economic Research Department

Structural changes of the Spanish economy

Demographic factors: Immigration. Reducing the labor market rigidity

Decomposing growth per capita



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.

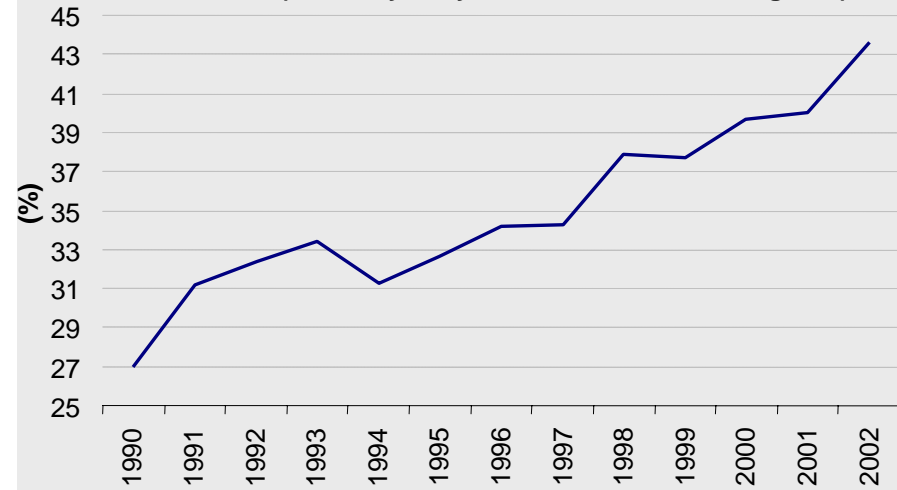


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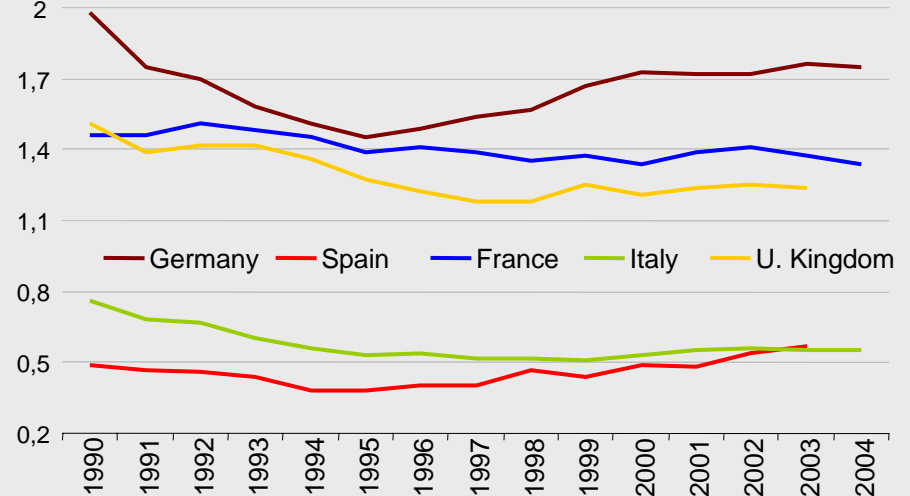
Structural changes of the Spanish economy

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

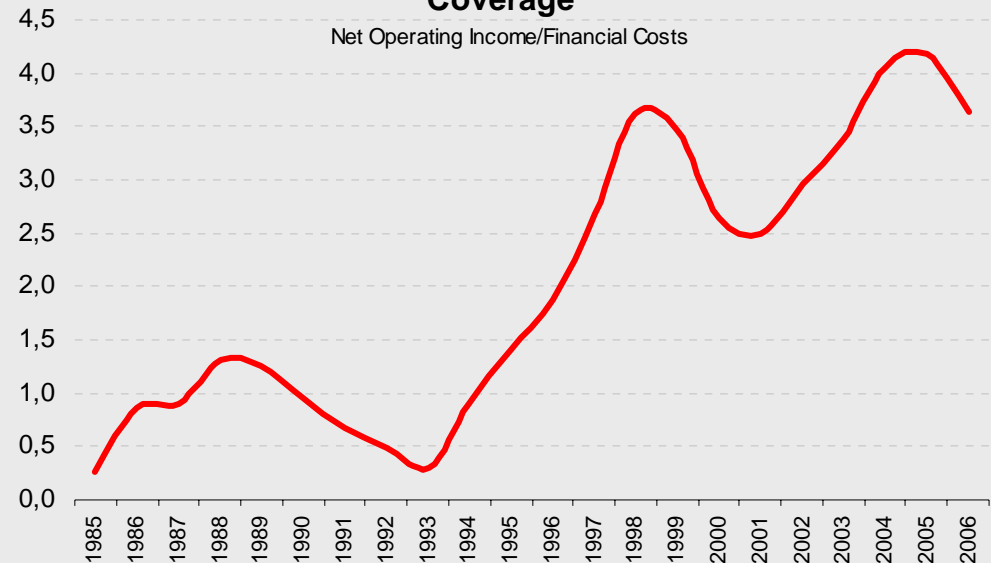
Businesses: comfortable profits

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

Corporates' activities have become more global



Non-Financial Corporations: Financial Costs Coverage



Source: Bank of Spain

Corporates' situation is structurally healthier



● Annexes

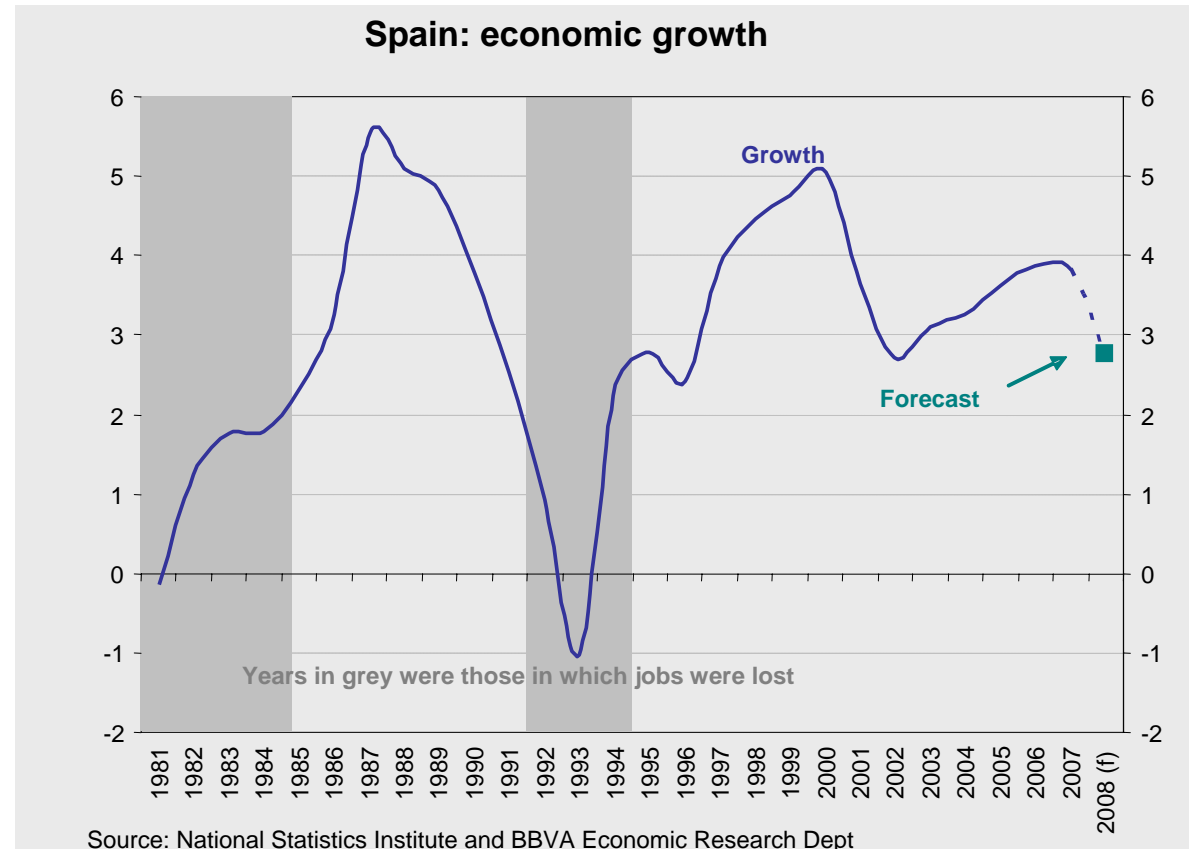
- Structural changes to the Spanish economy
- **Labor Market**
- Real Estate long term demand
- Households' wealth and income
- The Spanish mortgage market



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

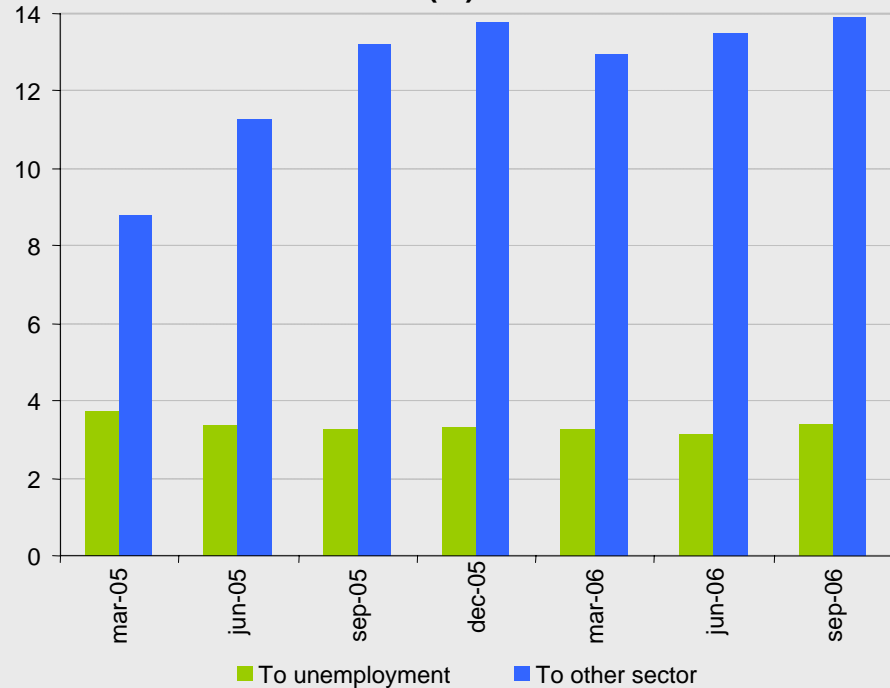




Will the Spanish economy continue to create jobs?

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

In work population. Probability of losing job and changing sector (%)



Source: BBVA Economic Research Dept.



Will the Spanish economy continue to create jobs?

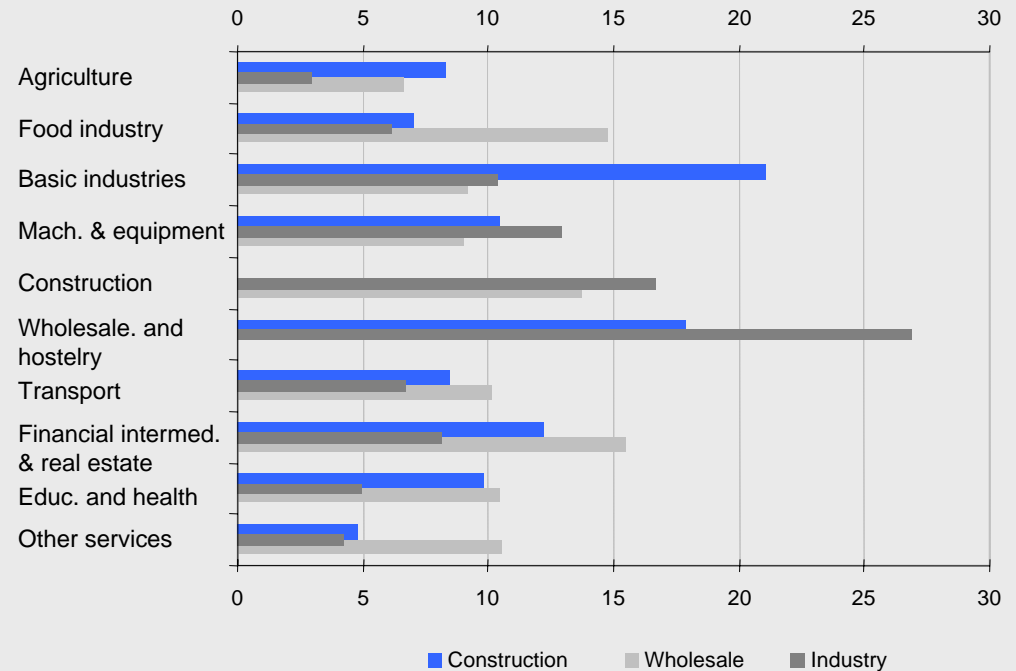
Yes, because those in work have a low probability of becoming unemployed, and there is also inter-sector labour mobility

... 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

Destination of people in work who change sector, by original sector

1999-2006

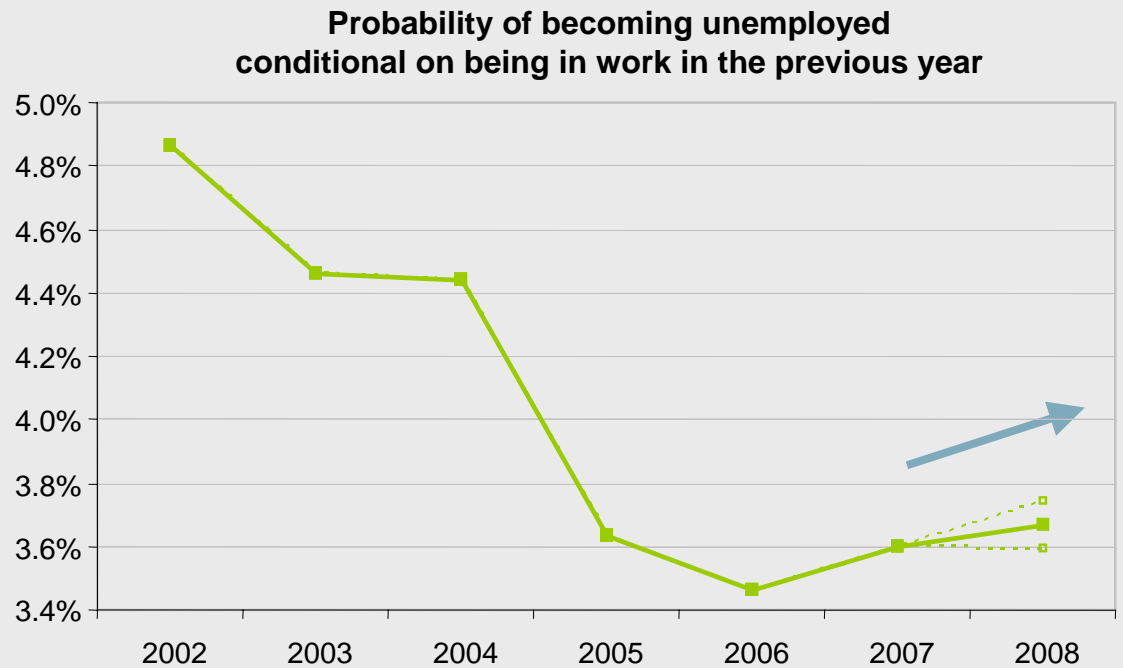


Source: BBVA Economic Research Dept.



How many jobs will be created?

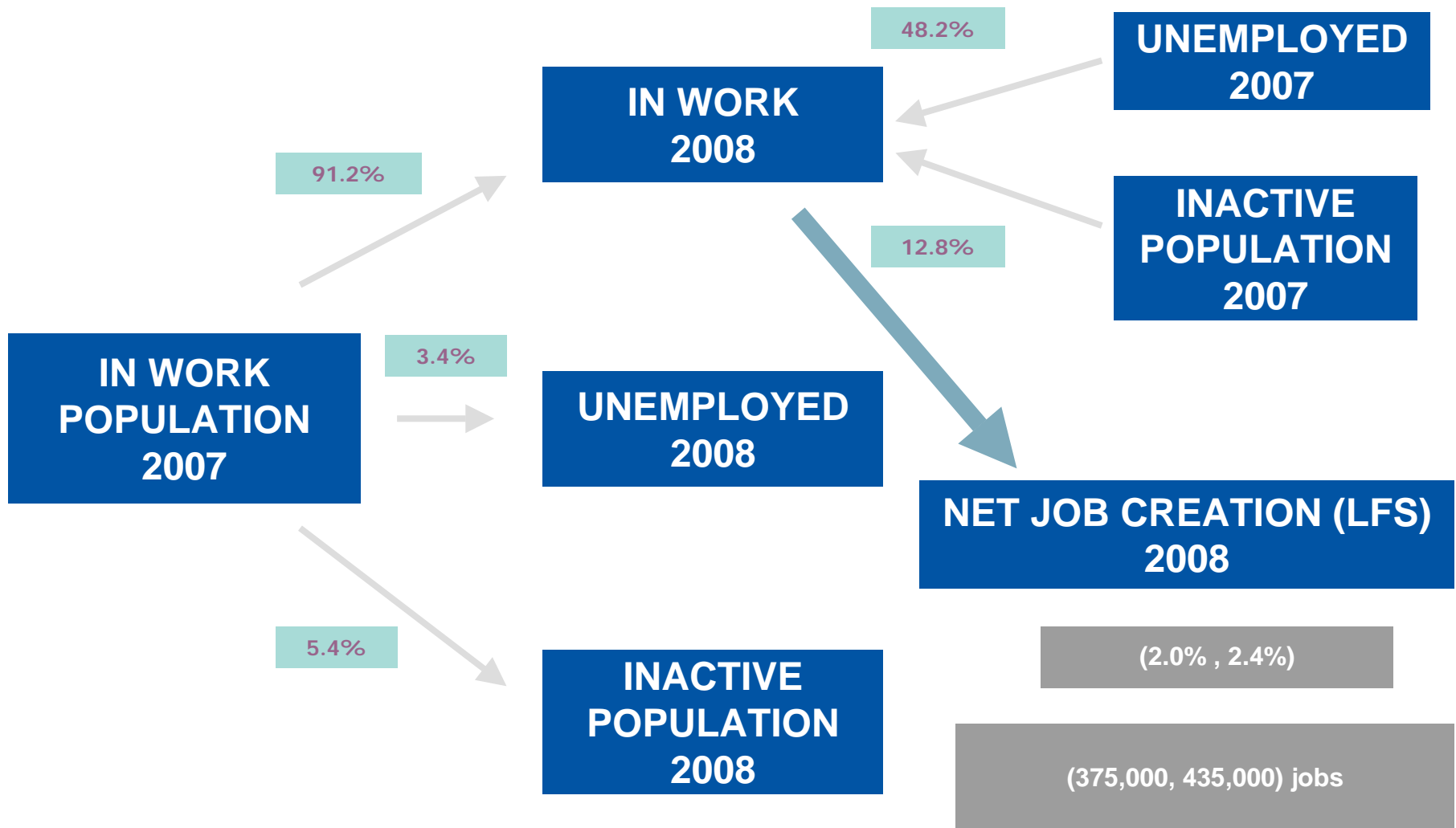
The slowing of economic growth forecast for 2008 is starting to be reflected in the slight increase in the probability of losing a job



Source: BBVA Economic Research Dept

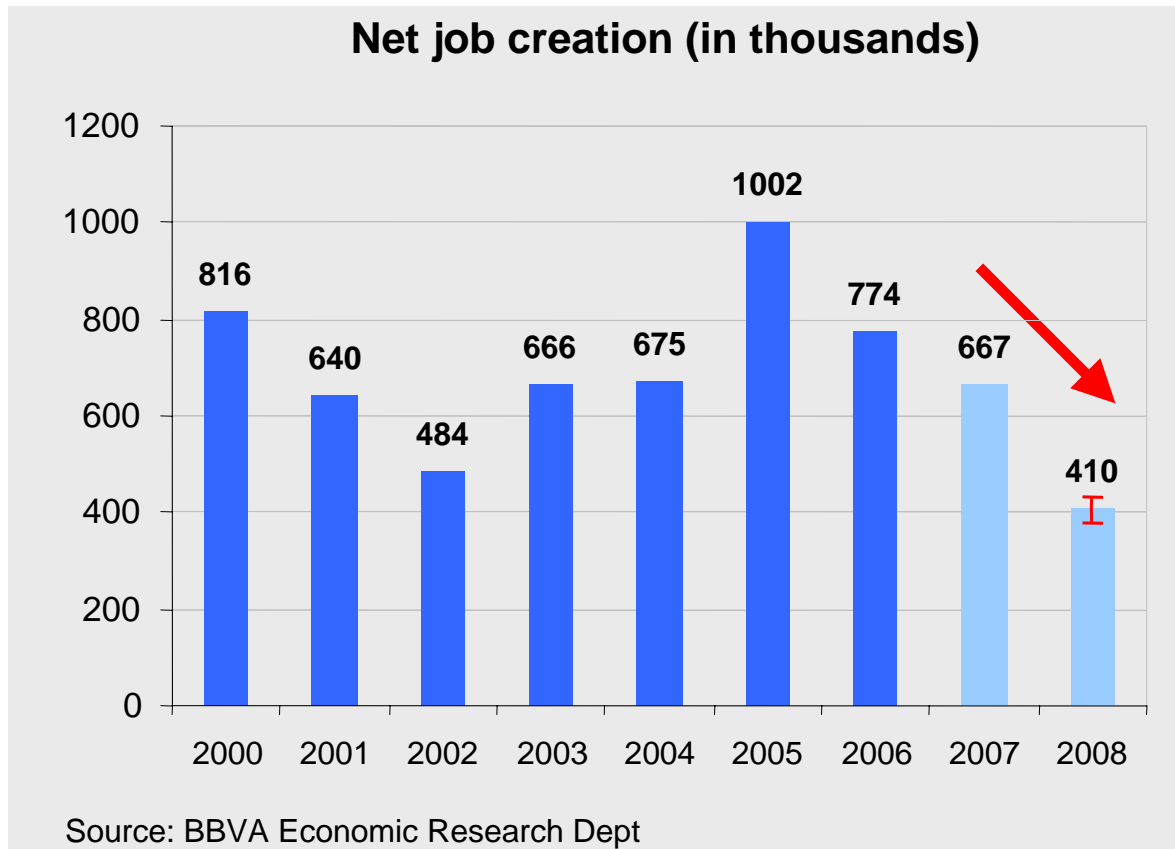


How many jobs will be created?





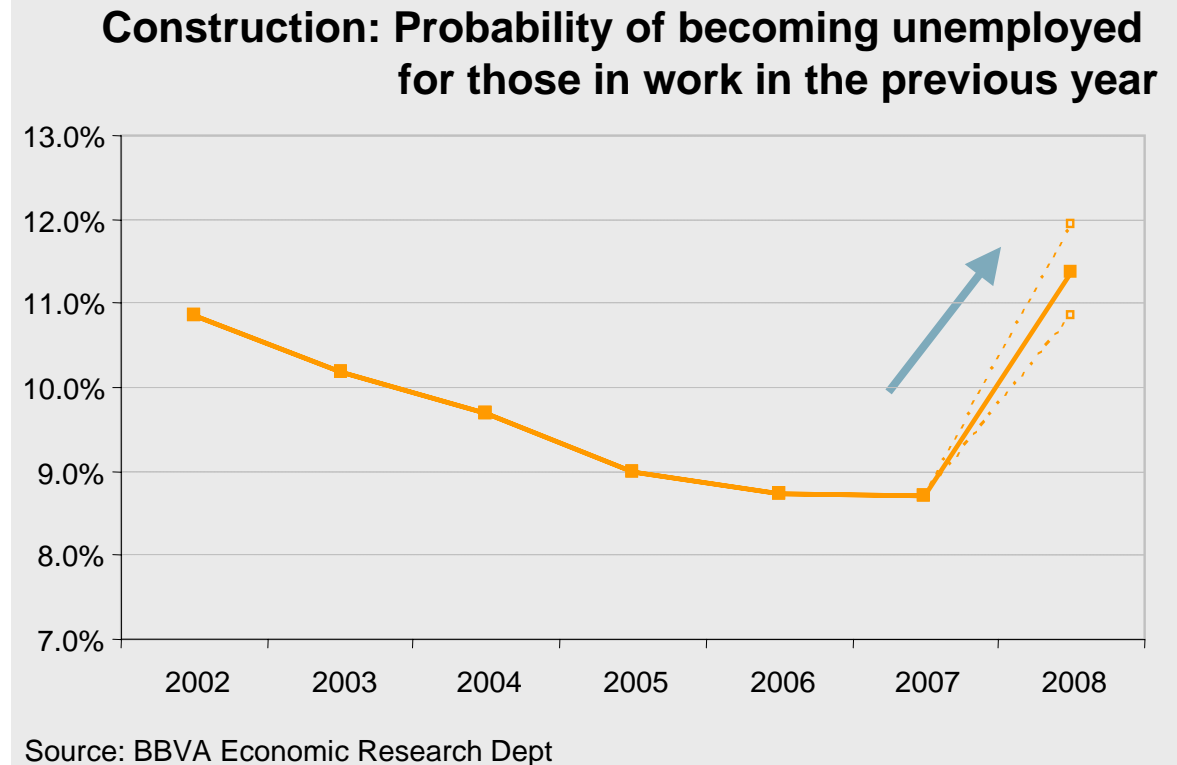
How many jobs will be created?





Construction sector

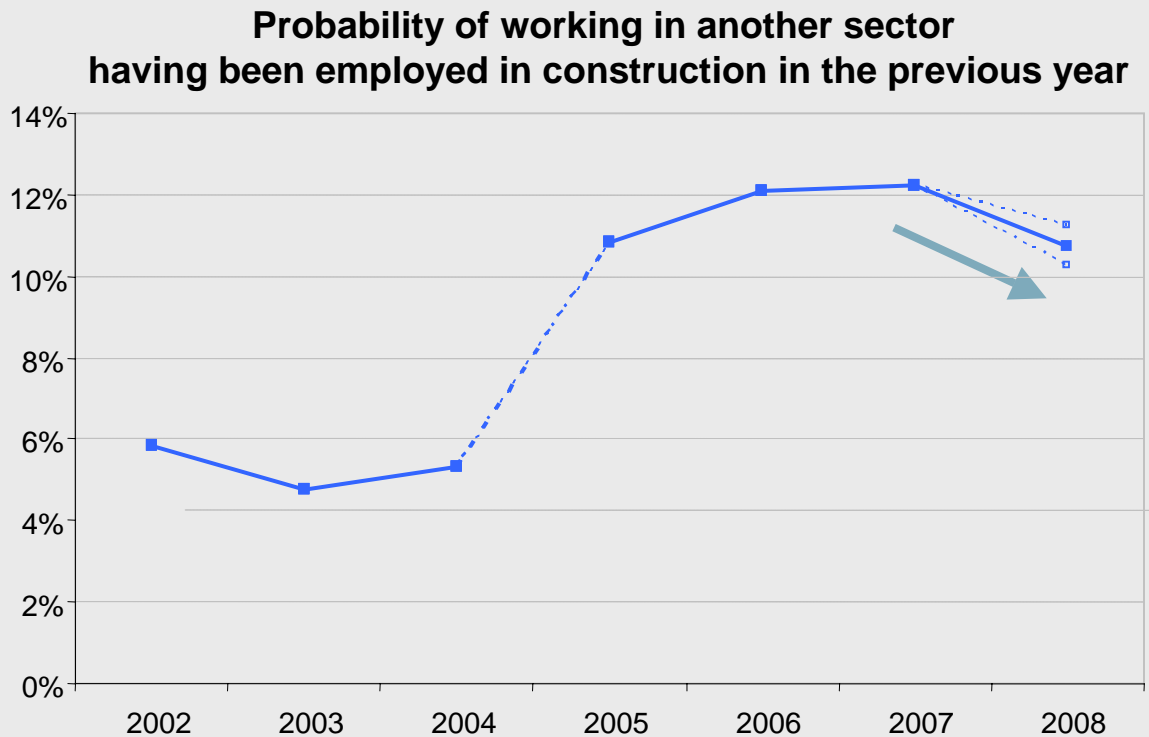
The slowdown in economic growth forecast for 2008 is beginning to be reflected in the probability of more intensive, though controlled, job losses in Construction





Construction sector

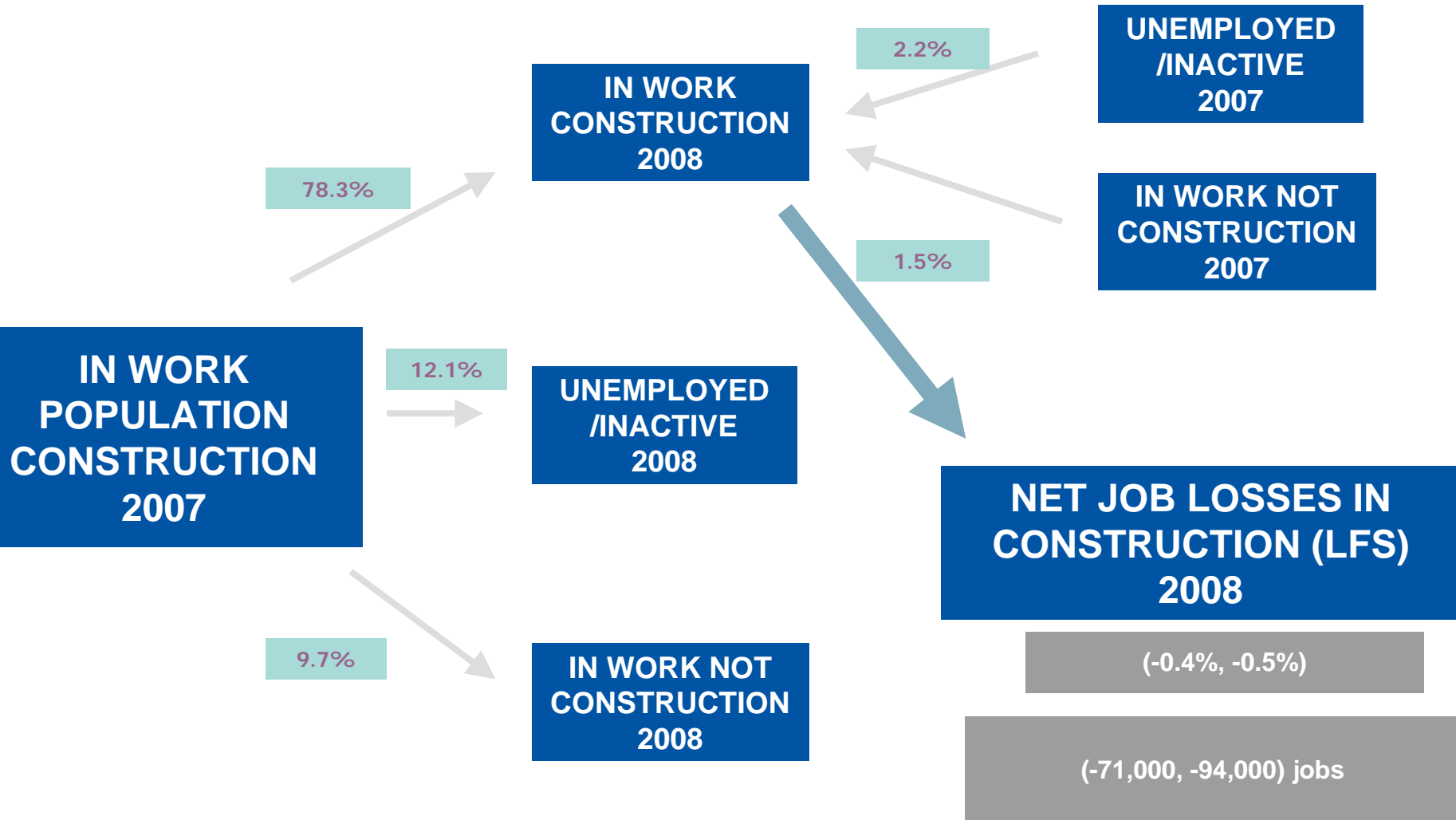
In addition, a reduction in the probability of moving to other economic sectors is also forecast



Source: BBVA Economic Research Dept

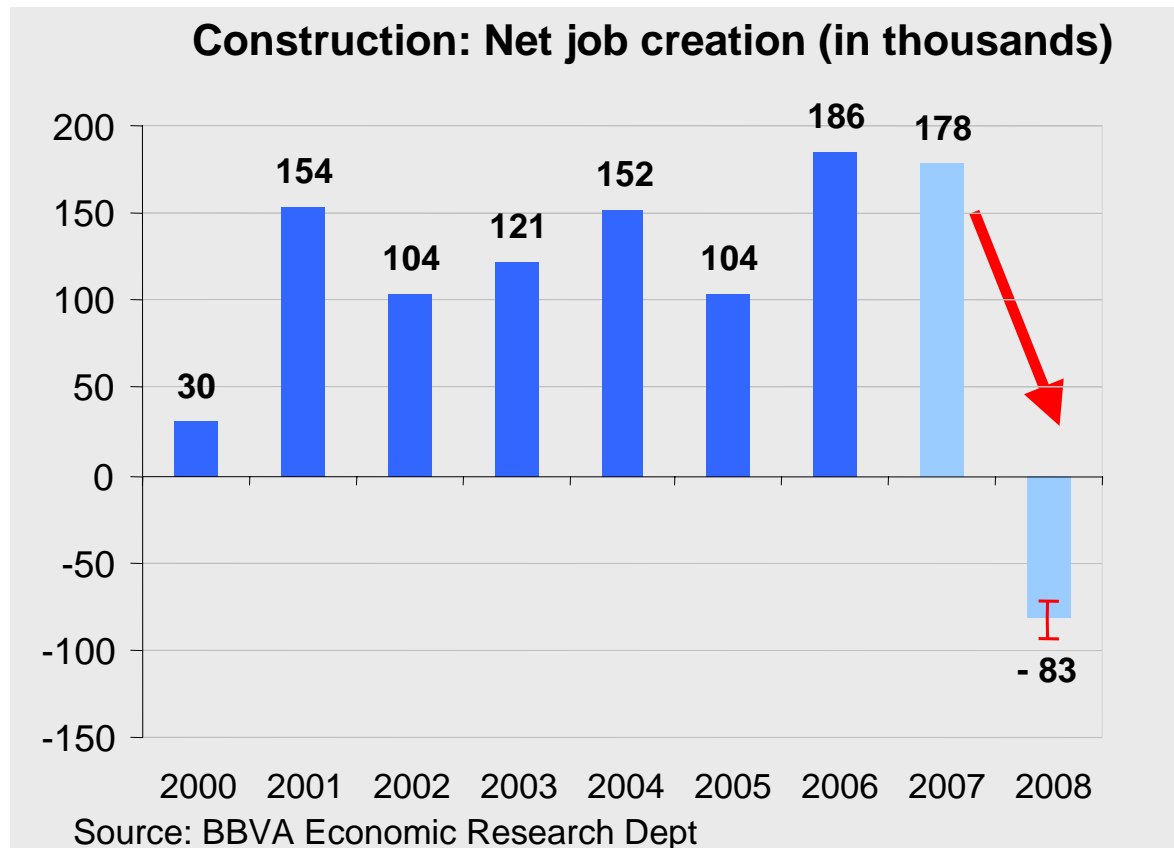


Construction sector





Construction sector





Other sectors will take the lead on growth

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

Employment growth rate by sector

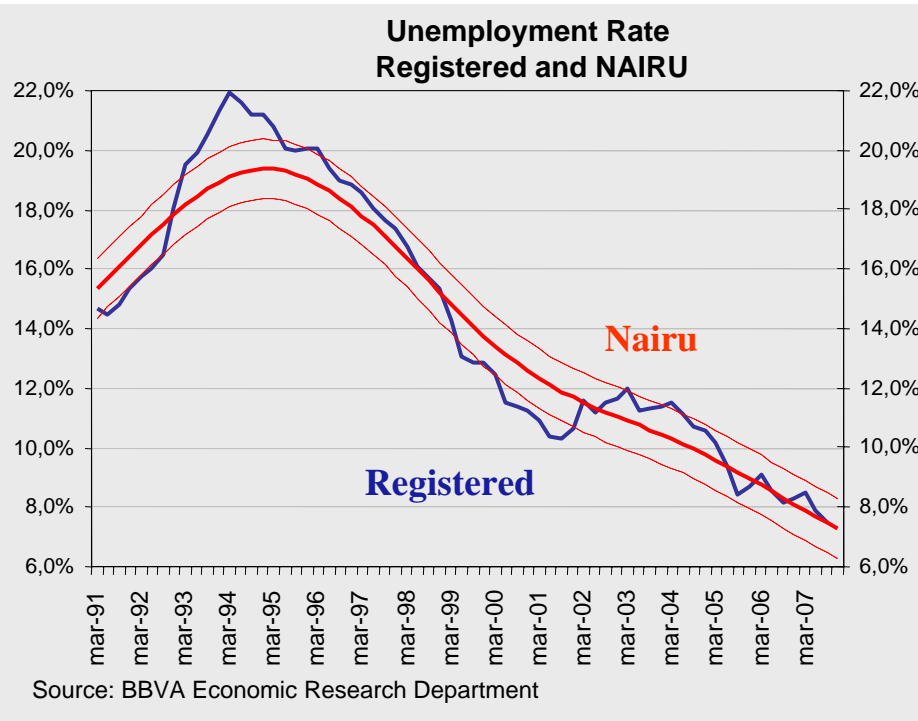
	Weight on Total 3Q2007	Average 2006	Aver. 1Q- 3Q 2007
Total	100.0%	4.1%	3.3%
Agriculture	4.1%	-5.1%	-2.4%
Fishing	0.3%	-14.2%	3.2%
Mining	0.3%	10.3%	-6.2%
Manufactures	15.1%	-0.2%	-0.6%
Energy	0.5%	11.5%	-3.5%
Construction	13.2%	7.9%	7.3%
Commerce	15.5%	3.4%	4.5%
Hostelry	7.5%	8.7%	2.9%
Transport	5.8%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

Source: INE and BBVA Economic Research Department

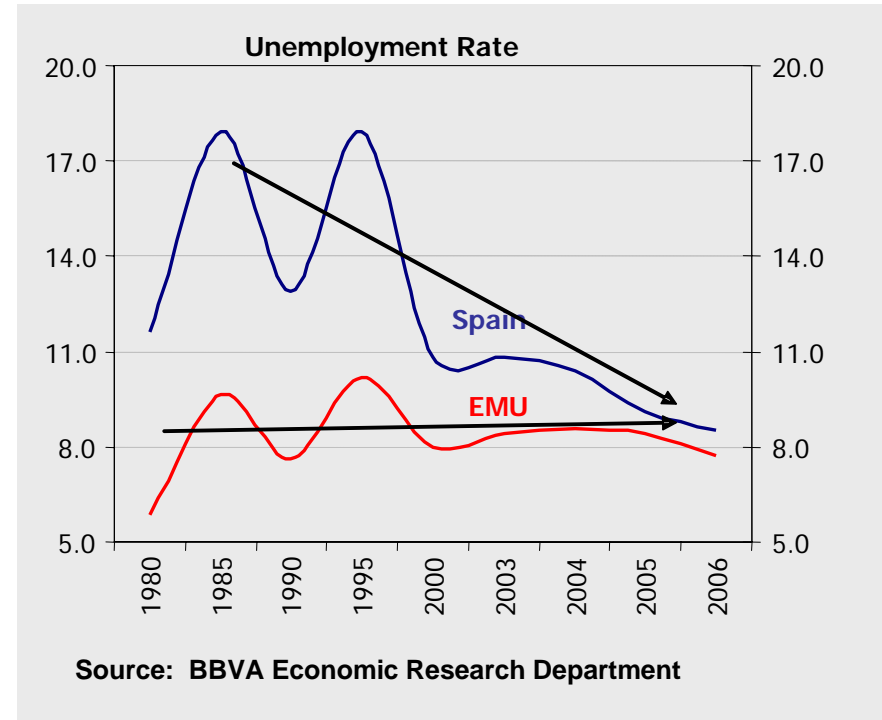
These services will continue creating employment in 2008



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



... particularly in some regions

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



	Unemployment Rate 3Q 2007		
	Total	Men	Women
Total	8,0	6,2	10,5
Andalucía	12,6	9,5	17,3
Aragón	4,9	3,8	6,3
Asturias (Principado de)	7,2	5,9	8,9
Balears (Illes)	4,5	3,6	5,6
Canarias	10,7	8,9	13,3
Cantabria	5,6	4,9	6,4
Castilla y León	7,0	5,1	9,8
Castilla - La Mancha	7,0	4,8	10,5
Cataluña	6,8	5,7	8,2
Comunitat Valenciana	8,7	6,6	11,7
Extremadura	12,4	8,6	17,9
Galicia	6,7	5,8	7,9
Madrid (Comunidad de)	6,0	4,1	8,3
Murcia (Región de)	8,2	6,9	10,3
Navarra (Comunidad Foral de)	4,4	3,0	6,3
País Vasco	6,1	4,7	7,9
Rioja (La)	5,3	3,9	7,4
Ceuta	20,9	15,9	30,2
Melilla	18,3	11,4	29,6

Source: National Statistics Institute (INE)



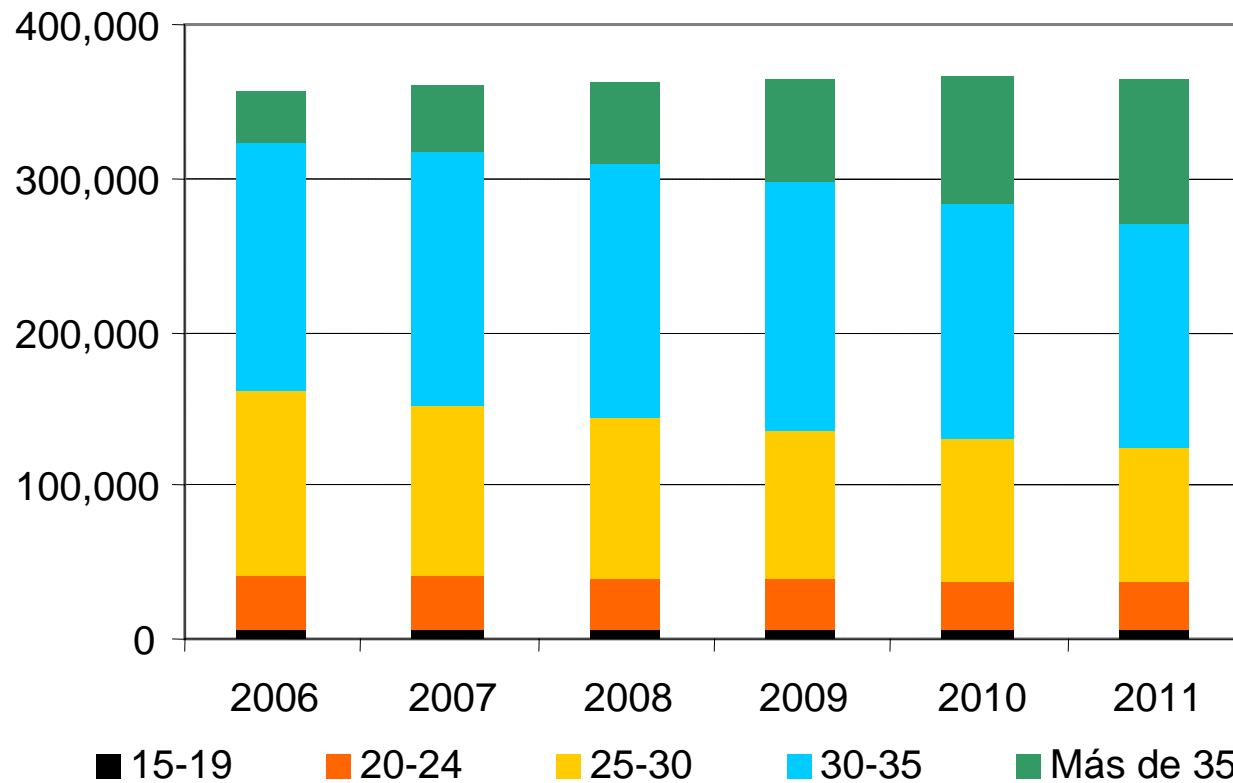
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360.000 resident households will create because of natural population development.

Resident population: New households Gross flow by age

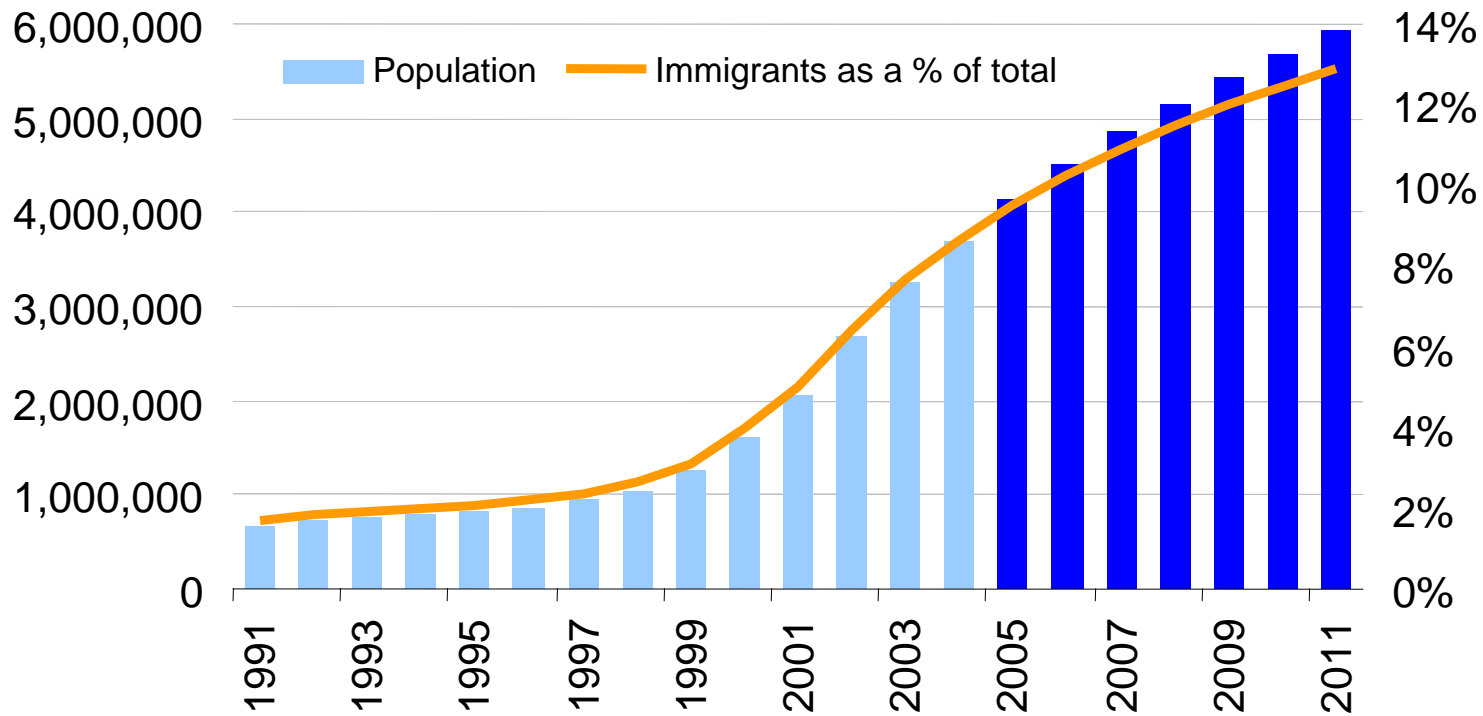


Fuente: BBVA



Immigrants will go on increasing its weight in Spanish population

Immigrant population forecasts

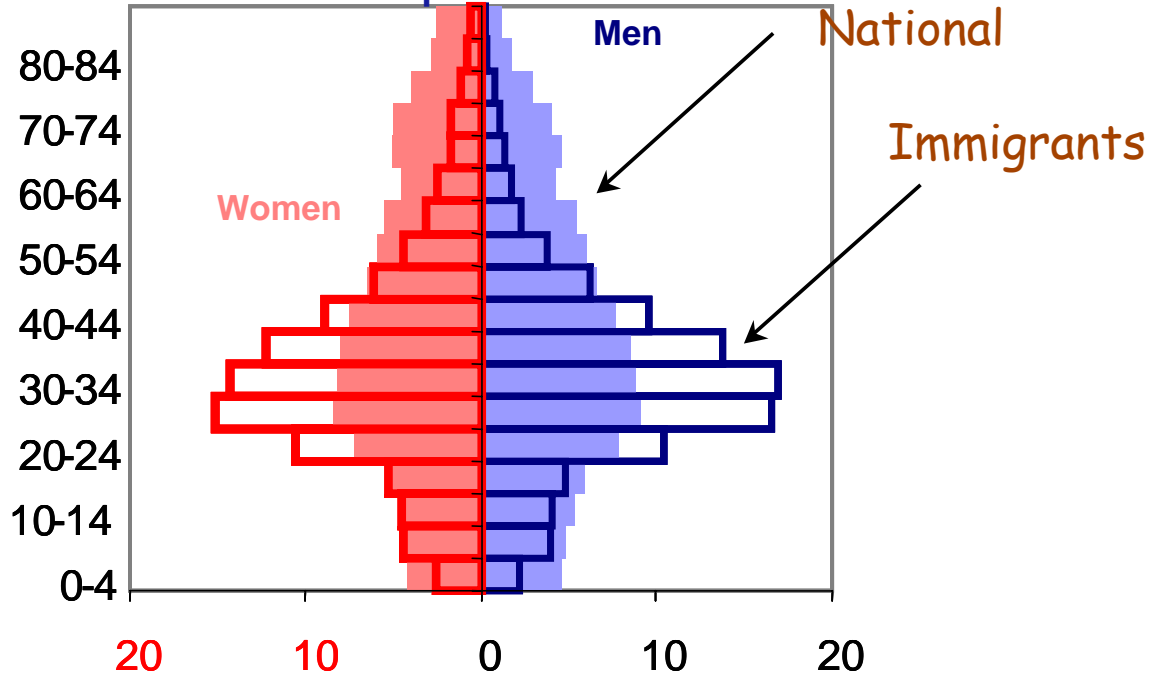


Fuente: INE



Immigrants are mainly in the age cohorts that create more households

Spanish Population pyramid (2003)
Composition



Fuente: INE

<i>Average 1999-2003</i>	Total population	Spanish	Foreigners
Participation rate (*)	54	53	71
Employment rate (*)	47	47	61
Unemployment rate	13	13	15

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

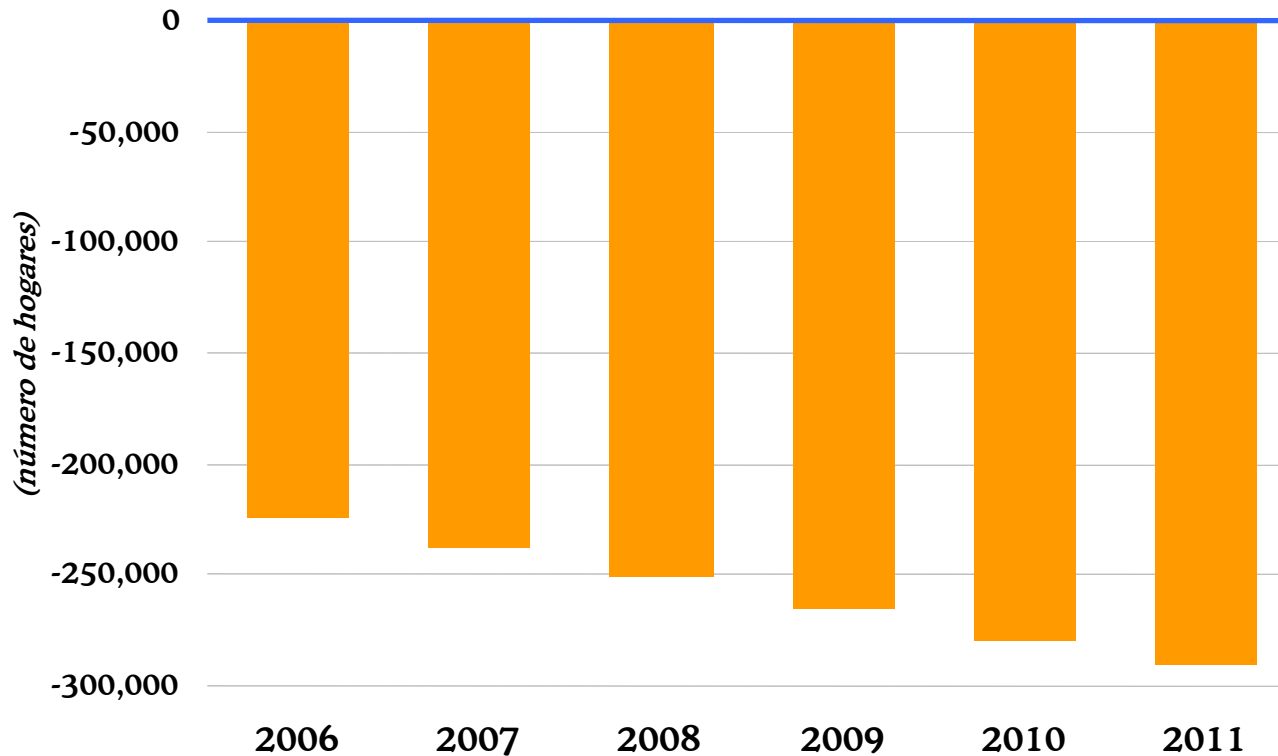
New households Gross Flow			
	Residents	Immigrants	Total
2005	354.793	180.000	534.793
2006	356.888	165.000	521.888
2007	359.618	150.000	509.618
2008	362.566	135.000	497.566
2009	364.988	120.000	484.988
2010	365.525	115.000	480.525
2011	363.661	110.000	473.661
Average			
2005-2011	361.148	139.286	500.434

Fuente: BBVA



Household disintegration could not be balanced with household formation

Household Disintegration process forecast



One third of disintegrated households lives in rural areas.

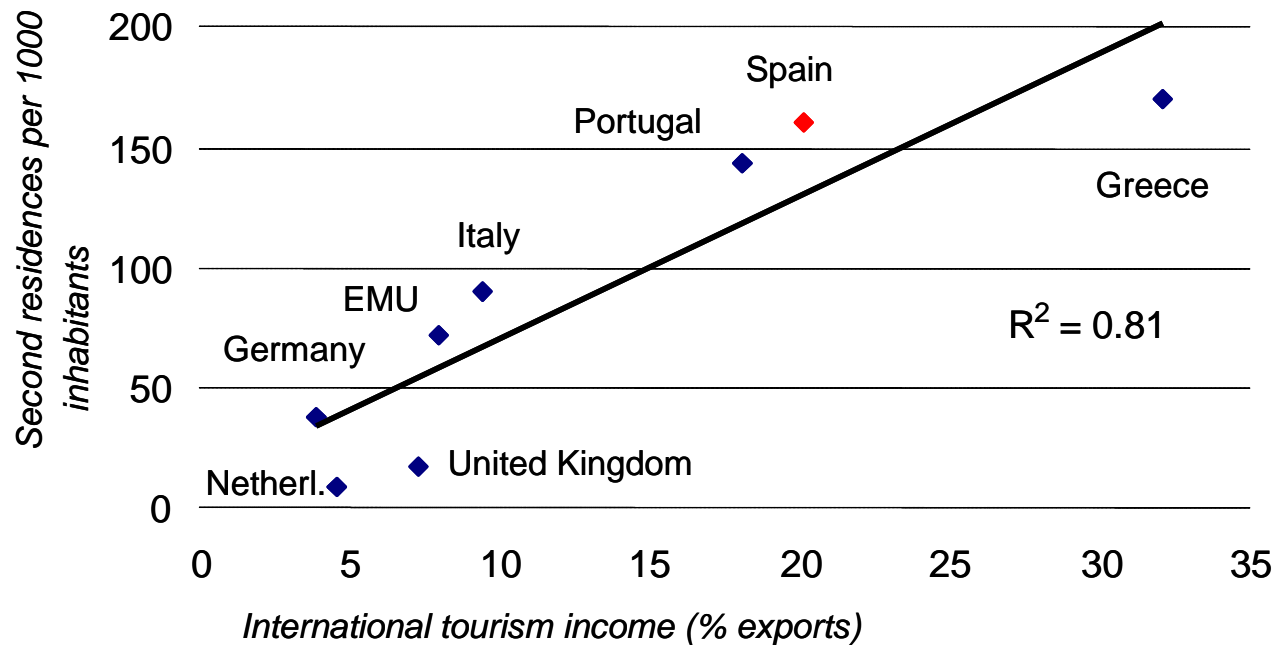
However, rehabilitation will become more important over the years

Fuente: BBVA



Moreover, touristic investment will be an added factor

Second Residences and Tourism

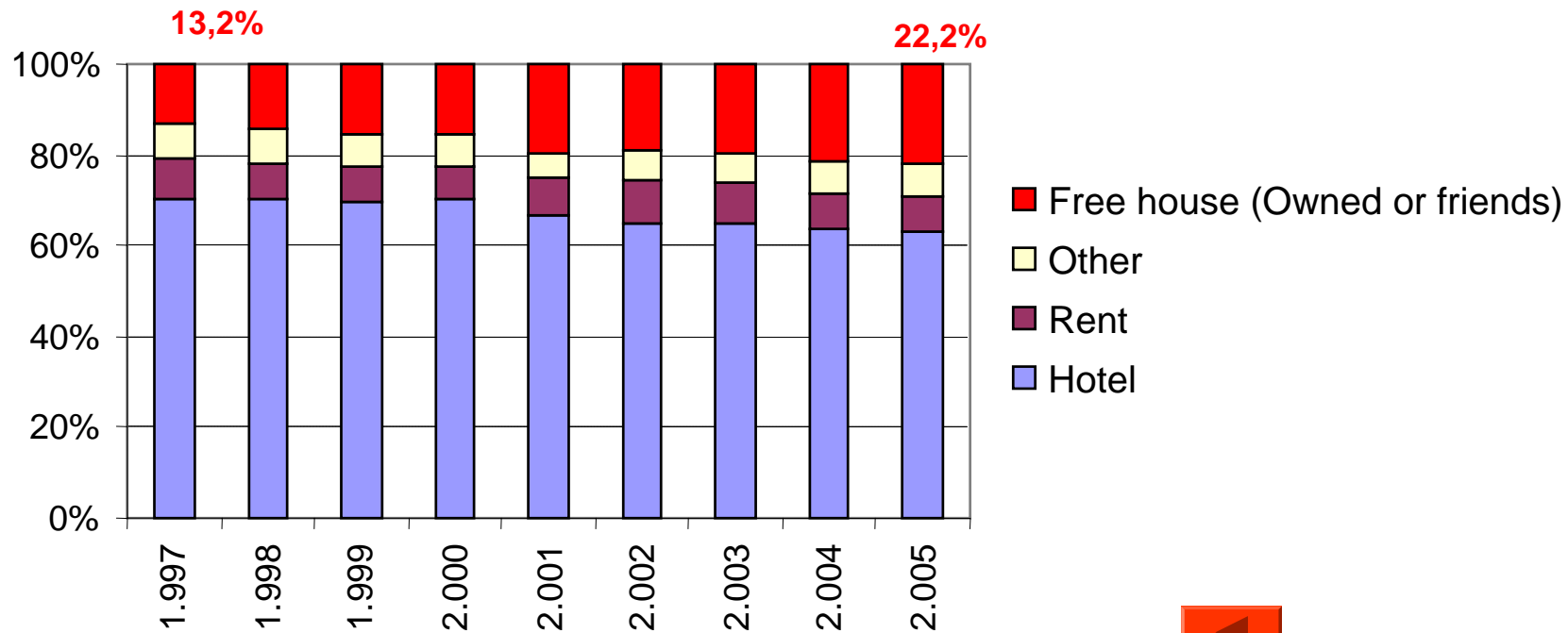


Fuente: BBVA



Foreign tourists are increasingly keen to inhabit their own homes

Foreign tourists accomodation preferences



Fuente: IET





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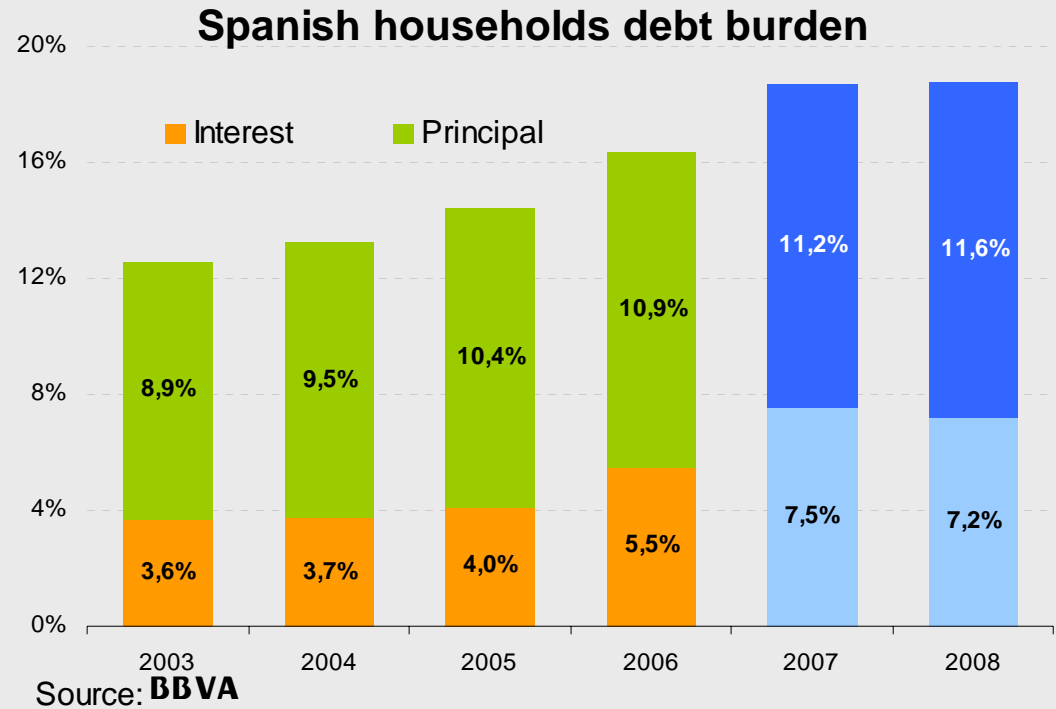
Although the debt burden has increased over the last few years...

Since 2007 an improvement is envisaged due to

Lower interest rates

Stability in housing prices

Solid gains in income per capita

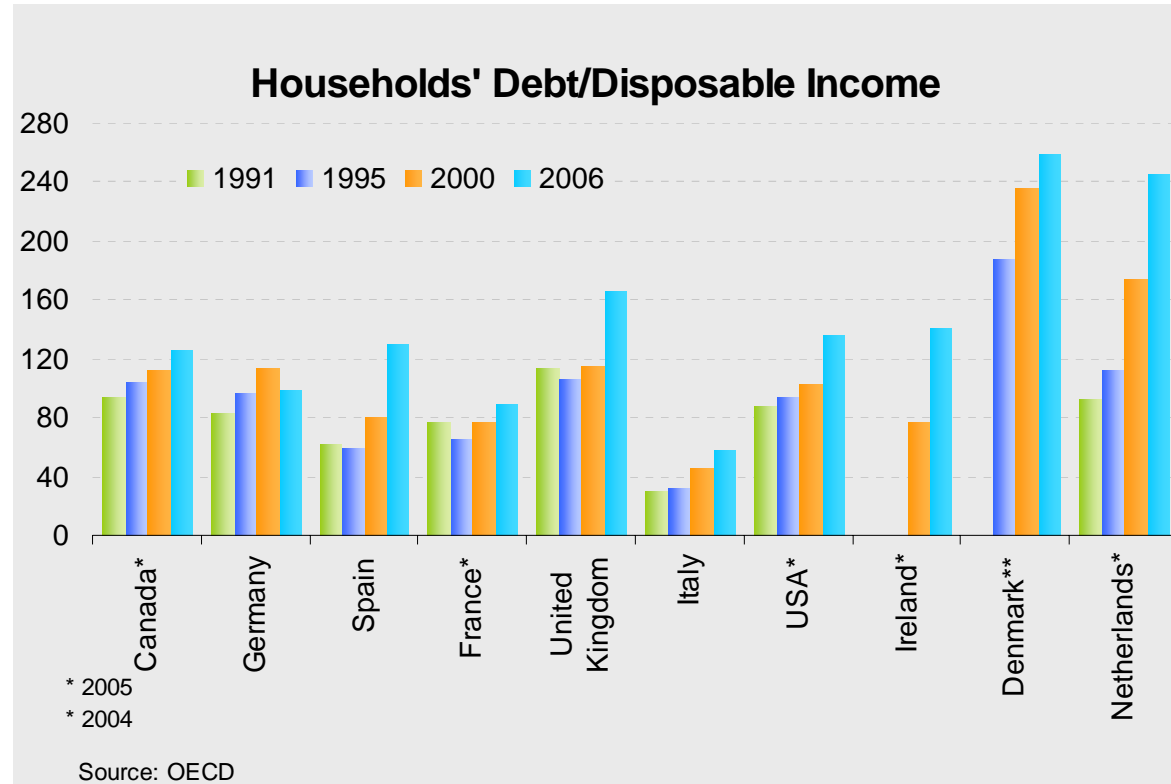


Spanish households will continue affording increases of their debt burden



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

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

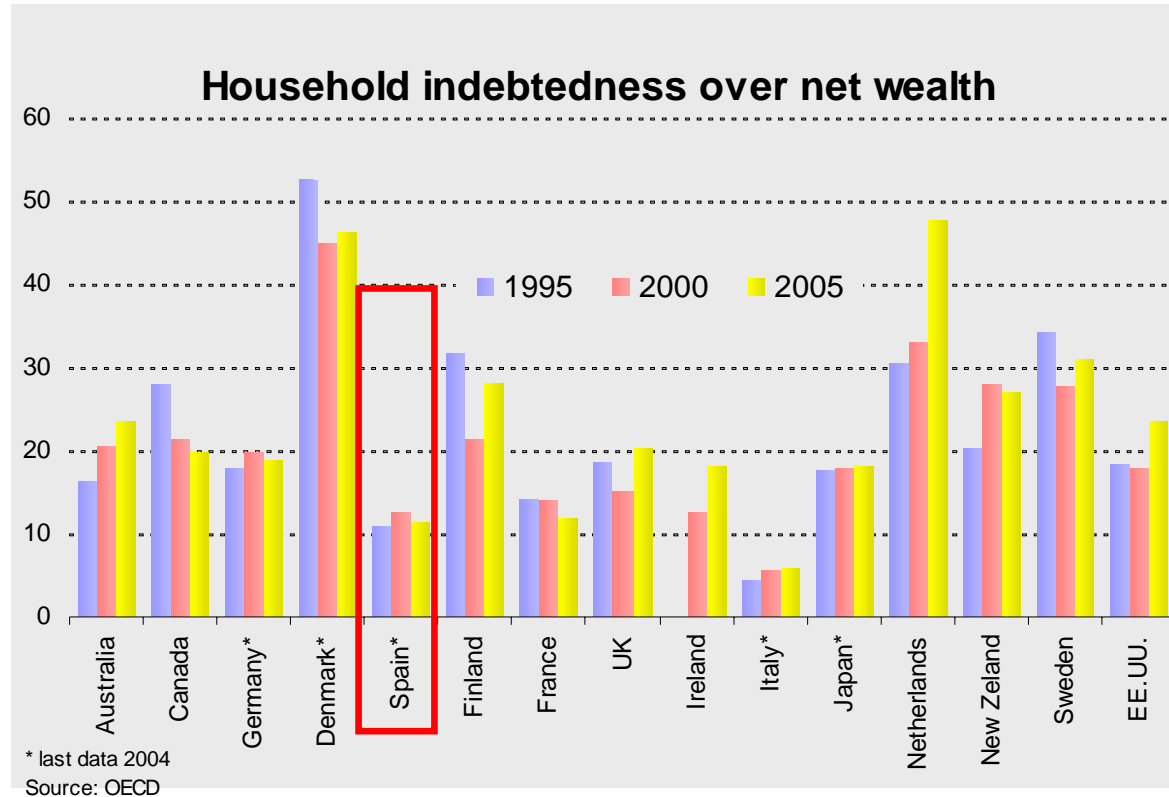




... households show a solid wealth position

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





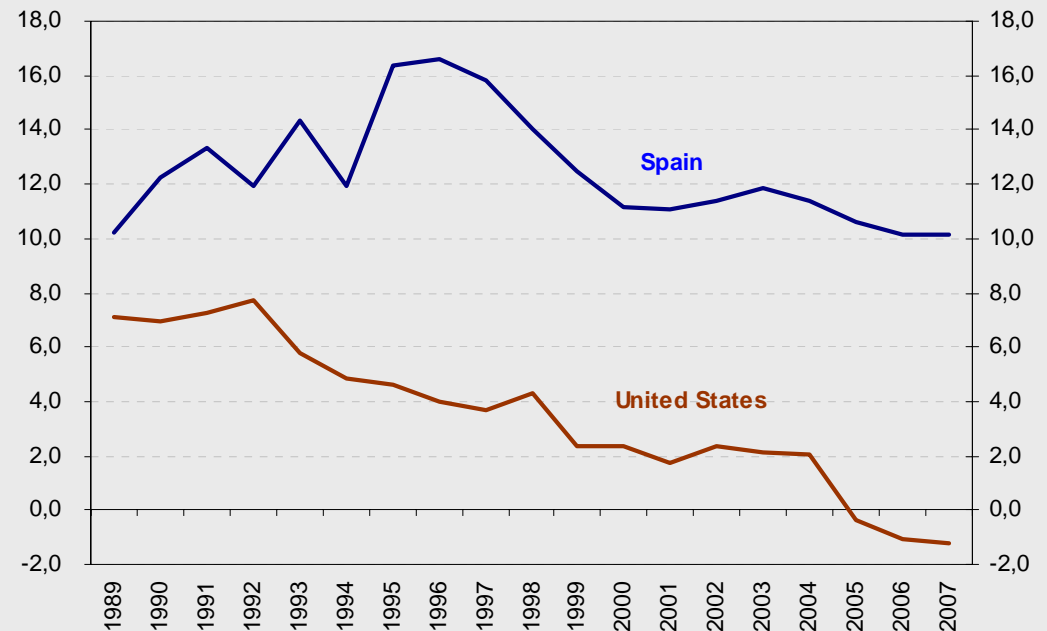
... and a solid savings position

Spanish households savings are experiencing a limited moderation.

Their level is still well above that of the United States households

Households Savings Rate

% of Disposable Household Income



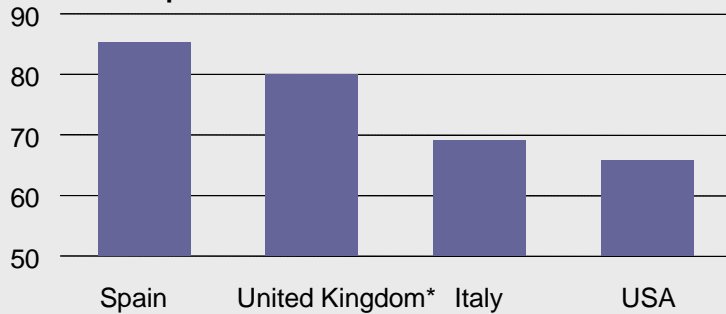
Source: OECD



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The Spanish housing market

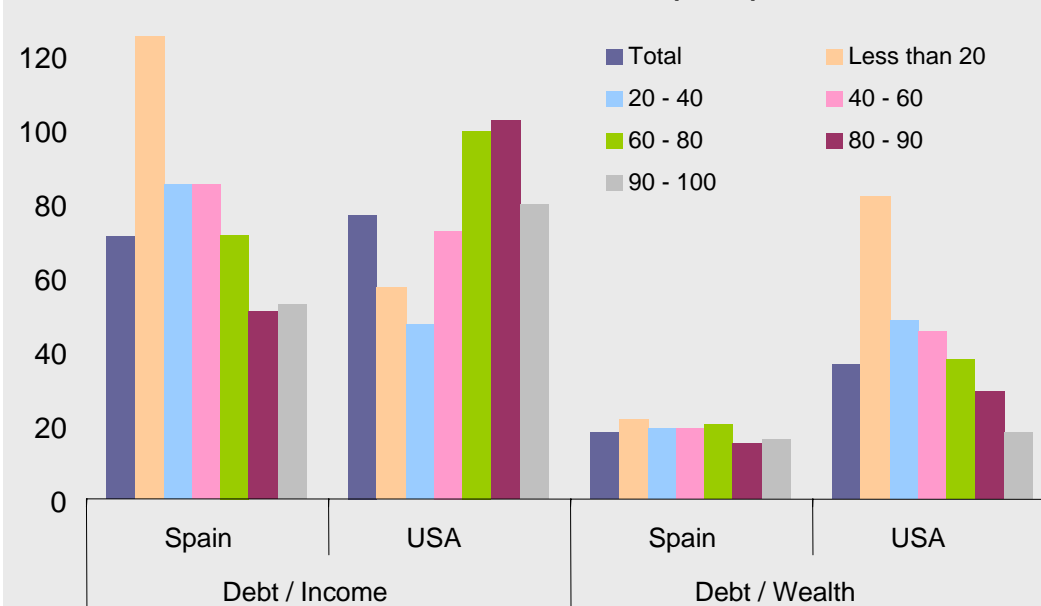
Percentage of debt for buying a house in the lower percentiles of income



* mortgages

Source: Bank of Spain

Debt divided by income and wealth by income
Percentile of indebted households (2002)



In Spain, families with lower income use credits mainly for buying houses, the risk for financial institutions is therefore lower





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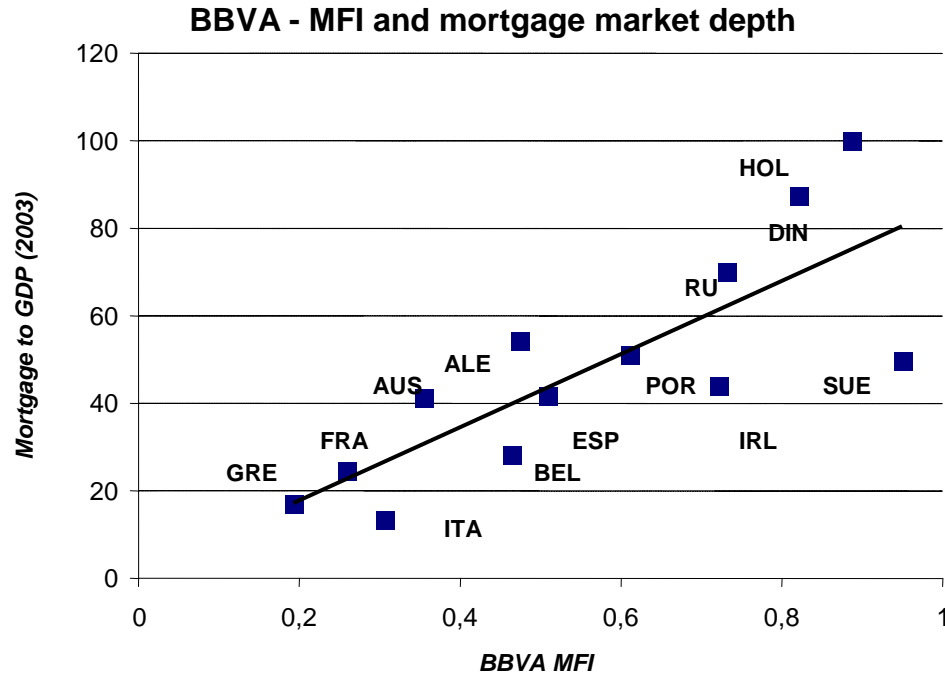


Economic Research Department

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.



$R = 0,6435$

Source: BBVA

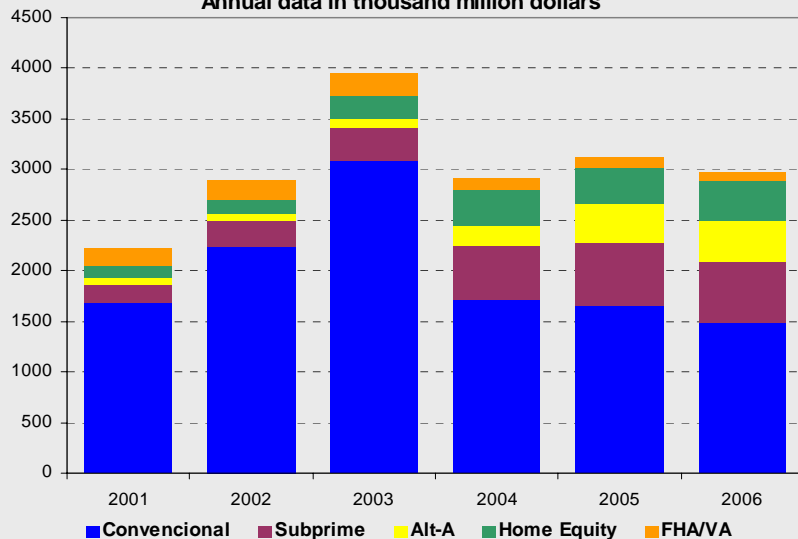
As can be seen in the chart, the more flexible a mortgage market is, the more developed it becomes.



There are important differences between the US and Spanish mortgage markets

1. Product Type

Mortgage lending. Breakdown by segment 1990-2006.
Annual data in thousand million dollars



Source: Inside Mortgage

US: Percentage of 60 days Delinquencies in the first four months of the loan's life

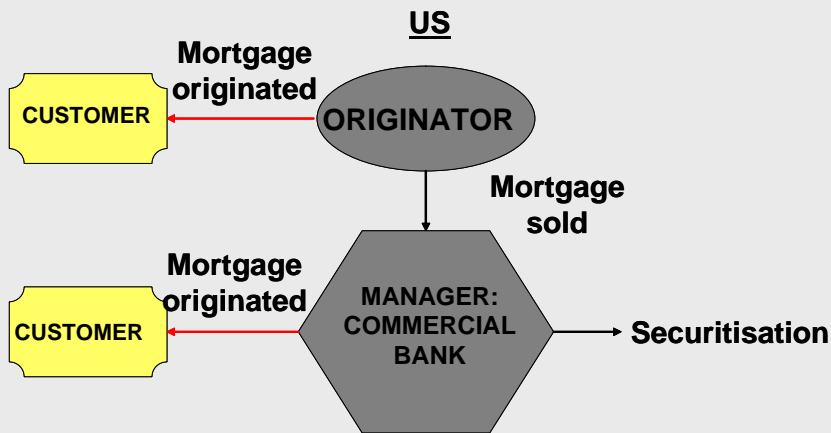


Source: Credit Suisse and LoanPerformance

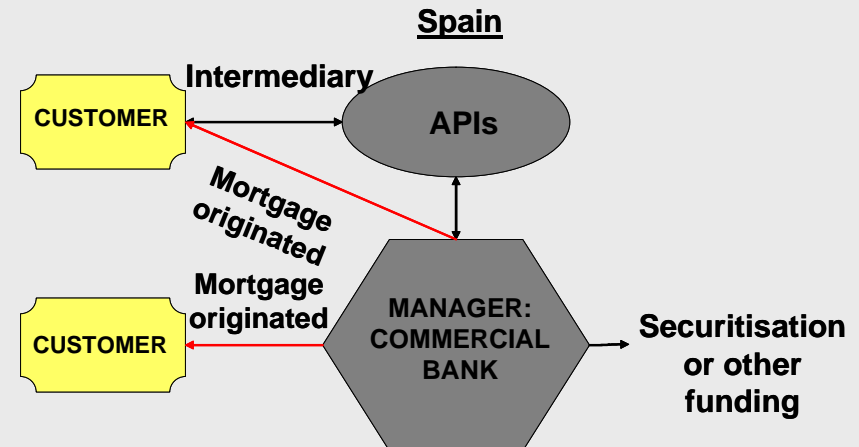
Subprime lending as it is defined in the US does not exist in Spain:
High-risk loans with rising interest rates granted over a very long term are still relatively unknown, so that default rates hikes like those observed in the US have not been registered in the Spanish economy



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.

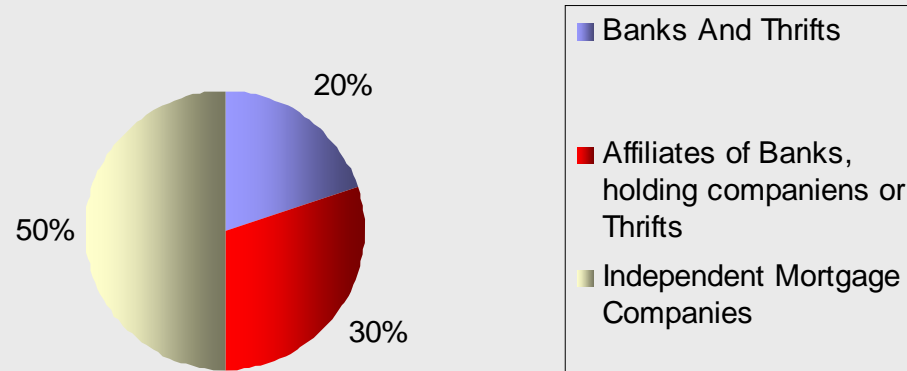


However, in Spain financial entities, such as universal banks, are the main players in this market.



2. Originators

US: Subprime Loans by Originator, 2005



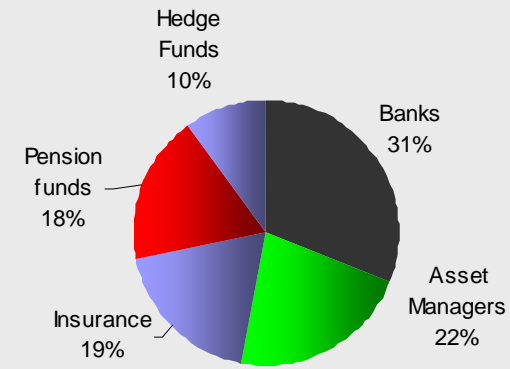
Source: E. Gramlich "Subprime Mortgages: America's Latest Boom and Bust"

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



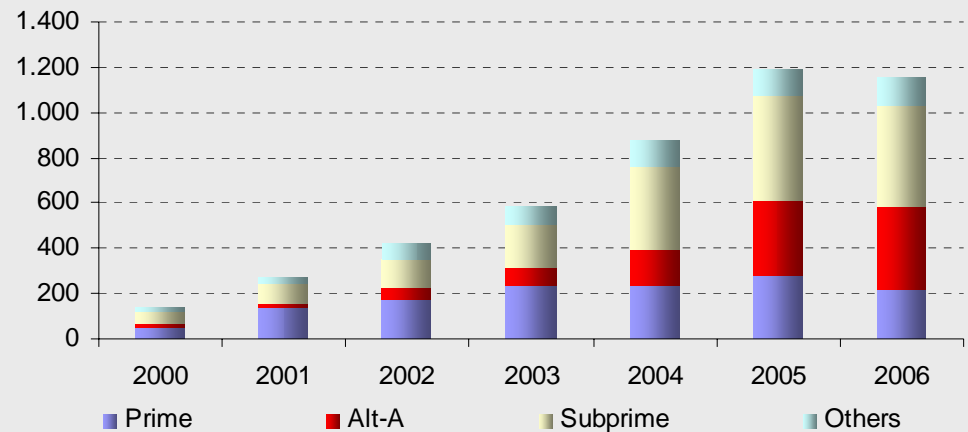
2. Securitizations

**CDO Holders: Riskier Segments
(Not Delta-Adjusted)**



Source: IMF

**US: Private Mortgage-Backed Securities
Issuance (thousands of millions \$)**



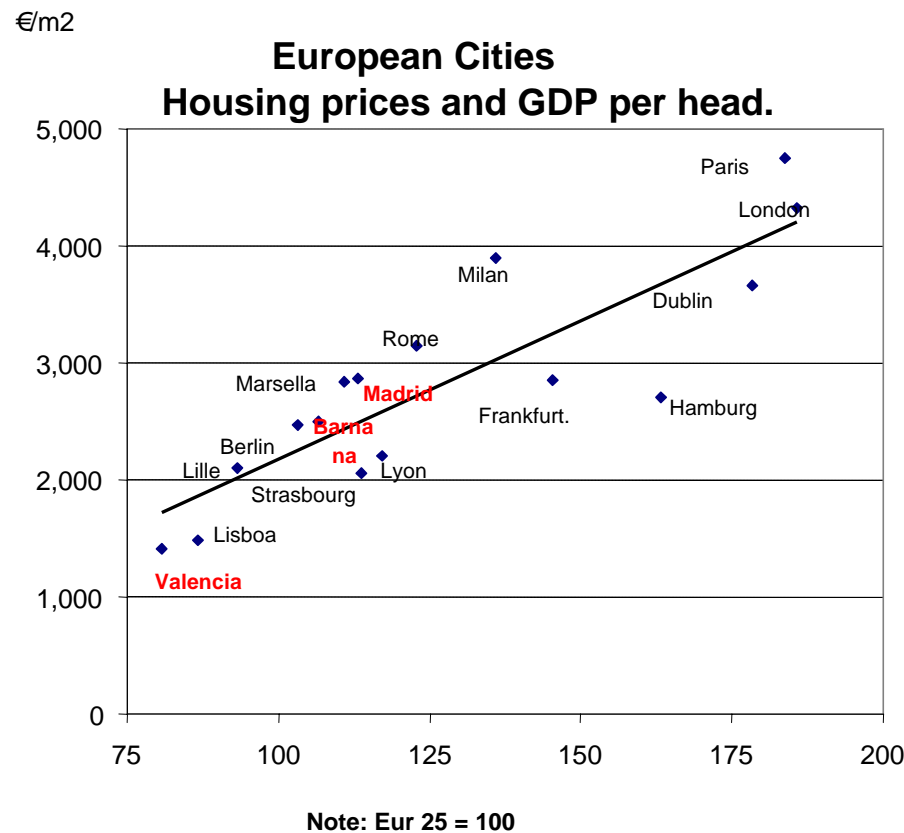
Source: Inside Mortgage Finance and OFHEO

The sophistication of the US mortgage securitisation mechanism creates incentives to grant high risk loans





Catching-up process in prices



Source: Eurostat and local sources

Research Department BBVA

Economic convergence drove to a catching up in housing prices

150
years

adelante



BBVA making the difference