

# *BBVA “Cédulas Territoriales”*

## *Investor presentation*

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July 2007



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## Overview and financial performance

BBVA Public Sector business

BBVA Funding Strategy

*“Cedulas Territoriales”*

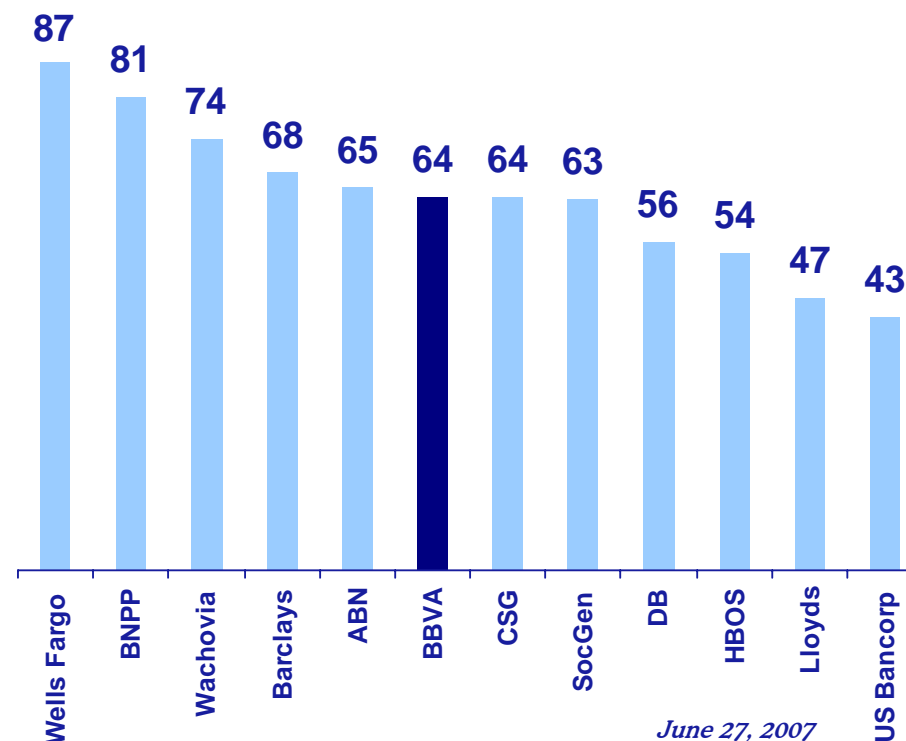
Appendix

# BBVA, an international retail banking group ...

**BBVA**

Total assets	€447 bn
Net Income	€4,736 m
Employees	100,427
Branches	7,508
Countries	33
# Customers	40 m

## Market capitalisation (€bn)



... offering a full range of products and services

...with strong credit rating

## Long term ratings

**Moody's**

**Aa1**

**S&P**

**AA-** Positive Outlook

**Fitch**

**AA-** Positive Outlook

## “Cédulas Territoriales” ratings\*

**Moody's**

**Aaa**

**S&P**

**AAA**

# BBVA enjoys a strong position in attractive growth markets: from the home market, Spain ...

**BBVA**

**The Spanish economy maintains better prospects than Europe**

(%) GDP growth

	2006	2007e	2008e
<b>Spain</b>	3.9	3.8	3.1
<b>Europe</b>	2.8	2.7	2.4

<u>BBVA</u>	<u>Market share</u>	<u>Ranking</u>
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Loans	11.7%	1st
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Deposits	11.9%	2nd
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Mutual Funds	16.6%	2nd
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Pension Funds	18.3%	1 <sup>st</sup>
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Branches	8.5%	
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**Number of customers: 11 million**

Source: BBVA estimates

## ... to Latin America

### Sound macroeconomic environment

(%) GDP growth	2006	2007e	2008e
<b>Mexico</b>	4.7	3.6	3.8
<b>South America*</b>	5.3	4.8	4.3

\* Excluding Brazil

Source: BBVA Economic Research Department

### Mexico

Loans 30.0% 1st

Deposits 26.6% 1st

Pension Funds 17.1% 2nd

Number of Customers: 13.8 m

### South America\*

Loans 10.4% 2nd

Deposits 10.4% 1st

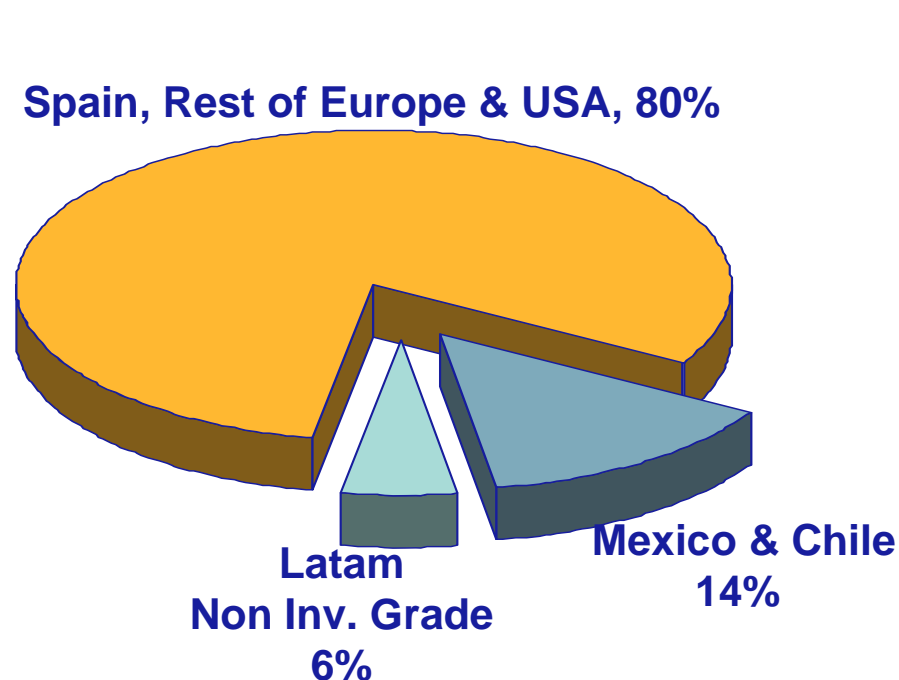
Pension Funds 24.2% 1st

Number of Customers: 8.5 m

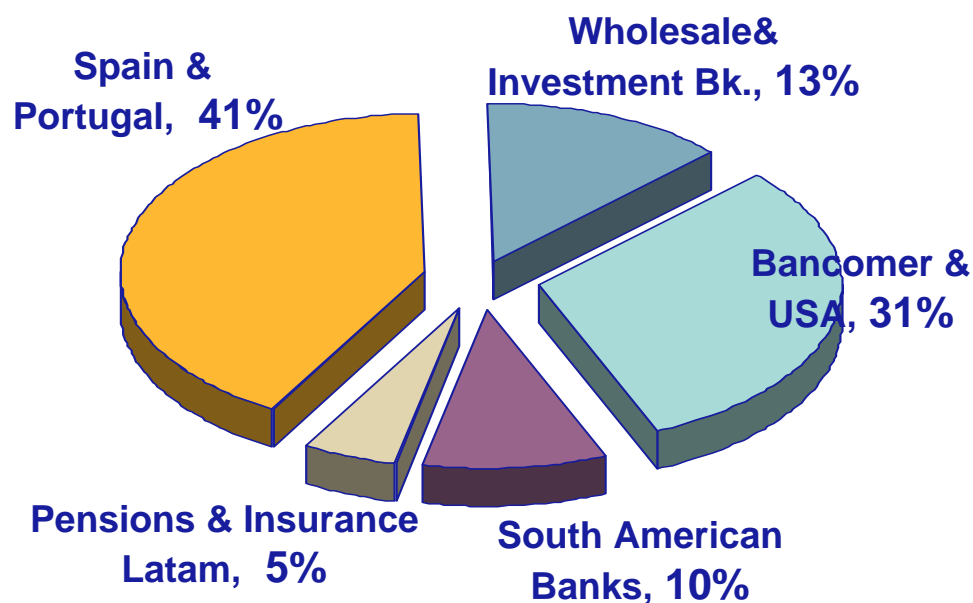
Source: BBVA estimates

# Balanced distribution of assets and profits

Group assets distribution (%)



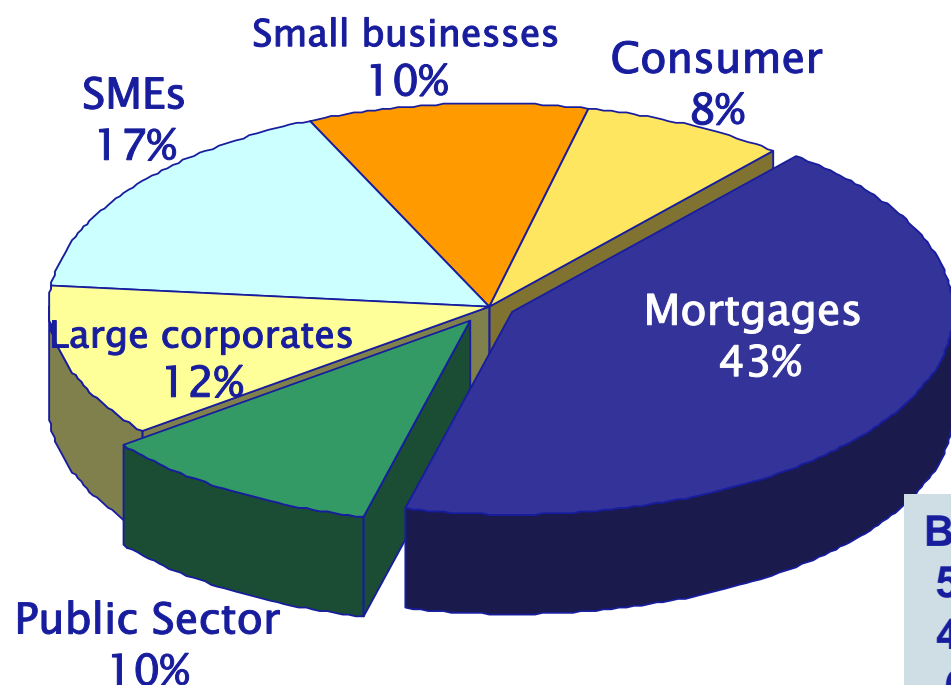
Net attributable profit distribution (%)



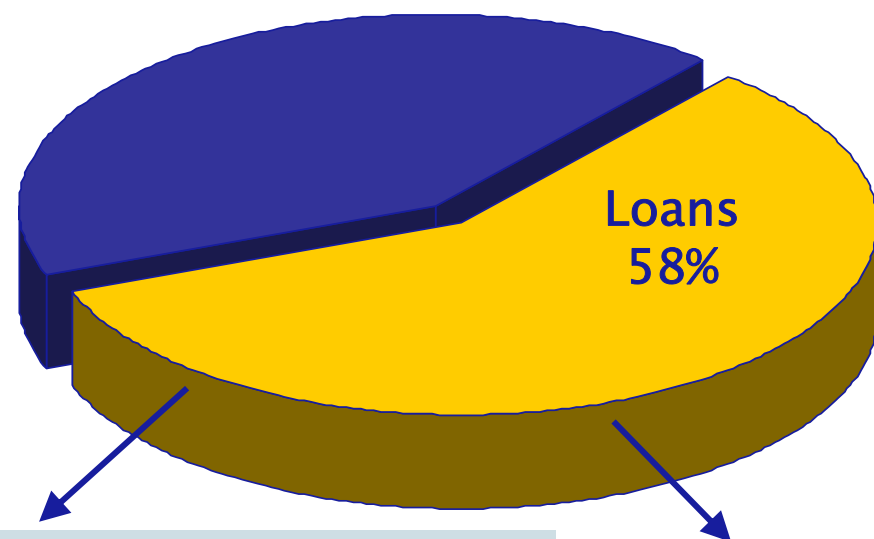


# High quality and low risk profile of the loan portfolio in Spain and Latin America

**Spain**  
**Loan portfolio distribution**



**Latin America**  
**Loans/total assets**

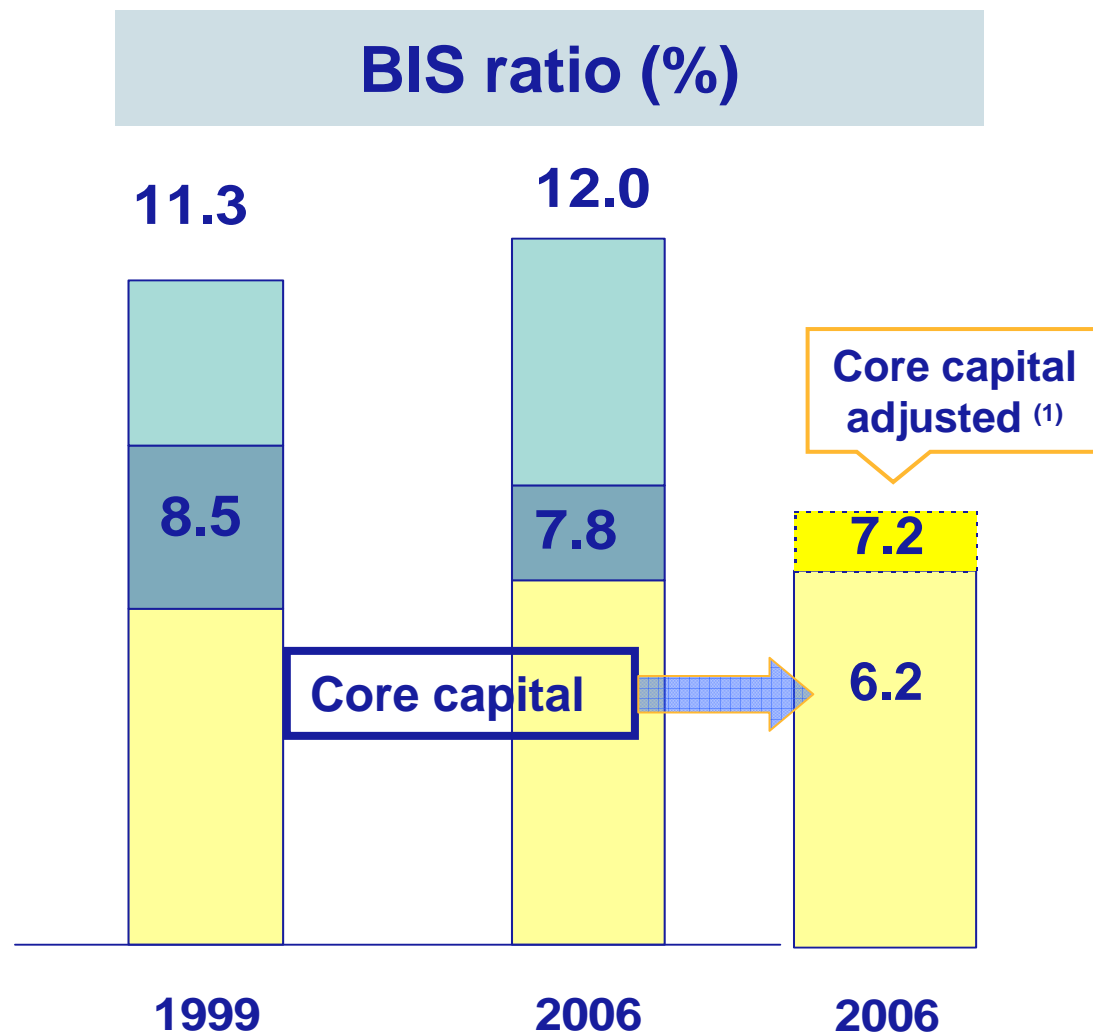


**By Segments**  
50% individuals (23% mortgages)  
42% Corporates & SMEs  
6% Public Sector

66% in Mexico

**50% of loan portfolio in Spain is secured**

# Strong capital position



## Additionally:

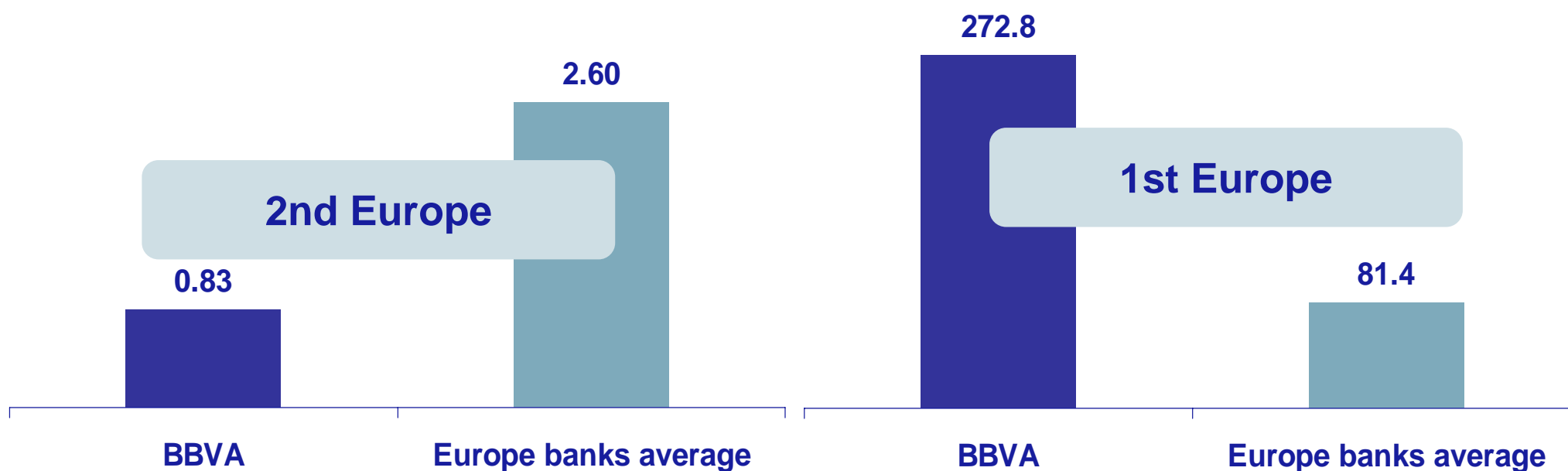
- €3.0bn unrealized capital gains
- Full coverage of pension fund liabilities

(1) Including generic provisions net of expected losses in core capital.  
1999 data Pre-IFRS

# Moderate risk profile and superior coverage ratio **BBVA**

NPL ratio  
(%)

Coverage ratio  
(%)



**95% assets  
investment grade**

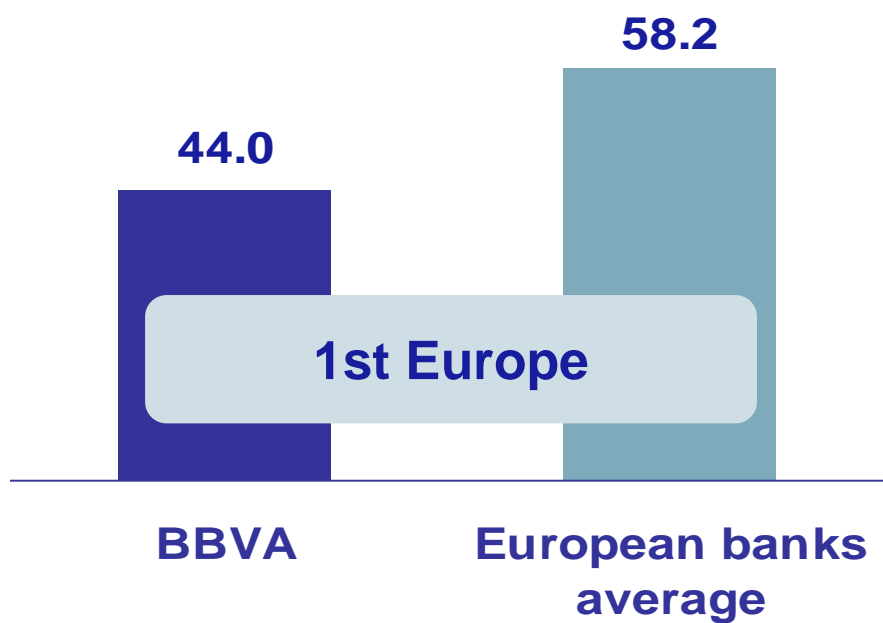
**44% of lending  
collateralized**

Full year 2006

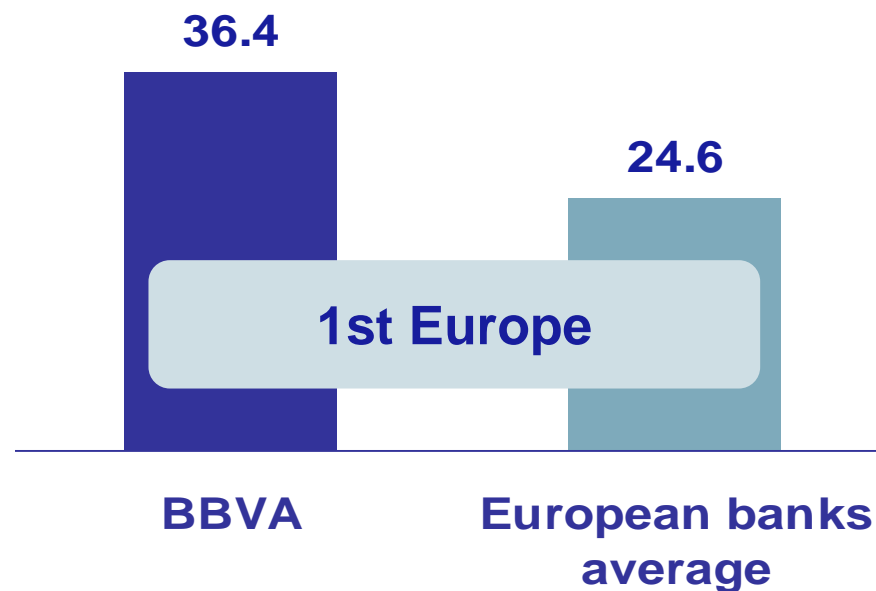
## ... and best in class efficiency and profitability

**BBVA**

Cost: income ratio (%)



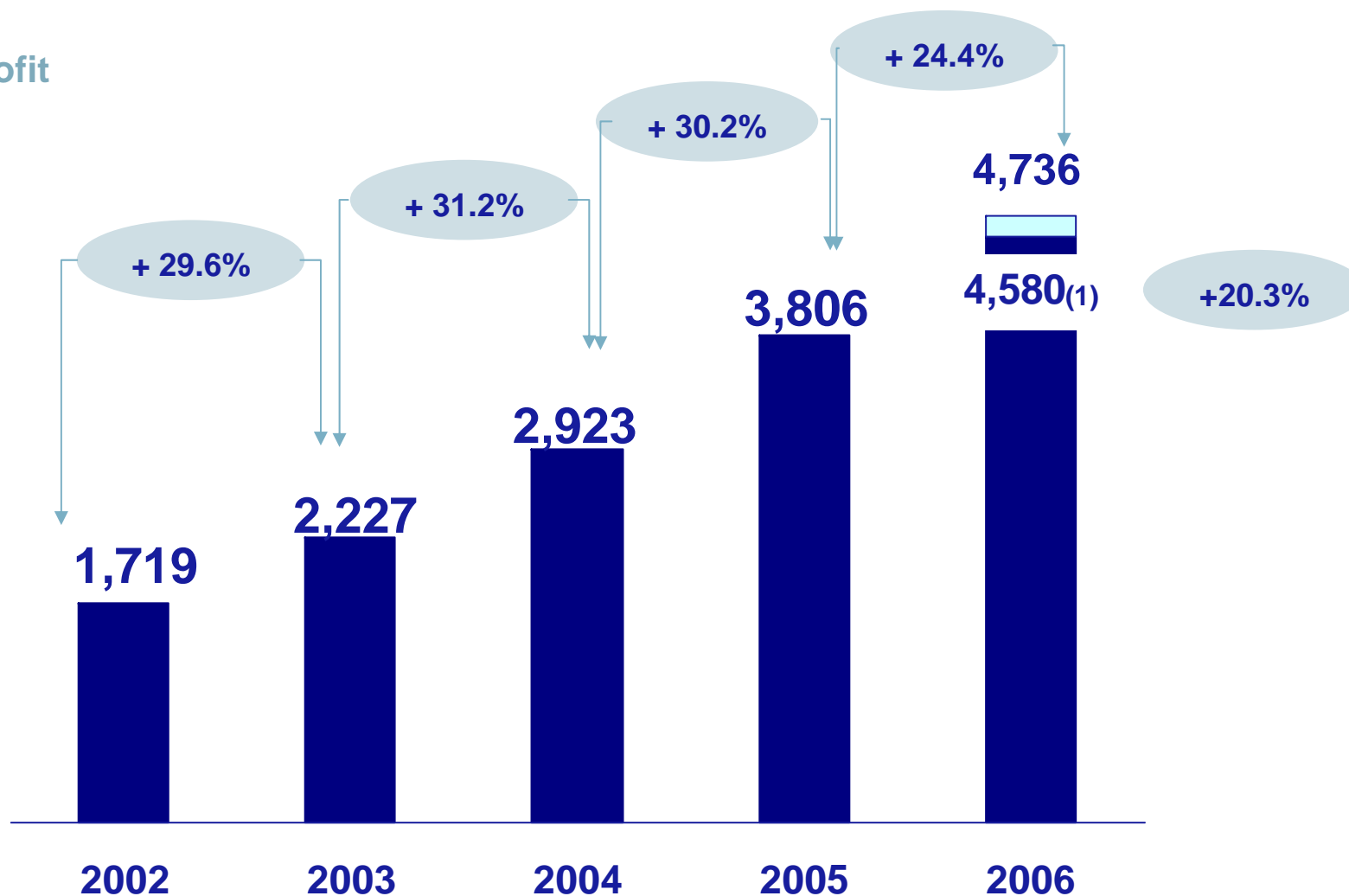
ROE (%)



Full year 2006 excluding one-offs items

# 2006: a year of record profit for BBVA

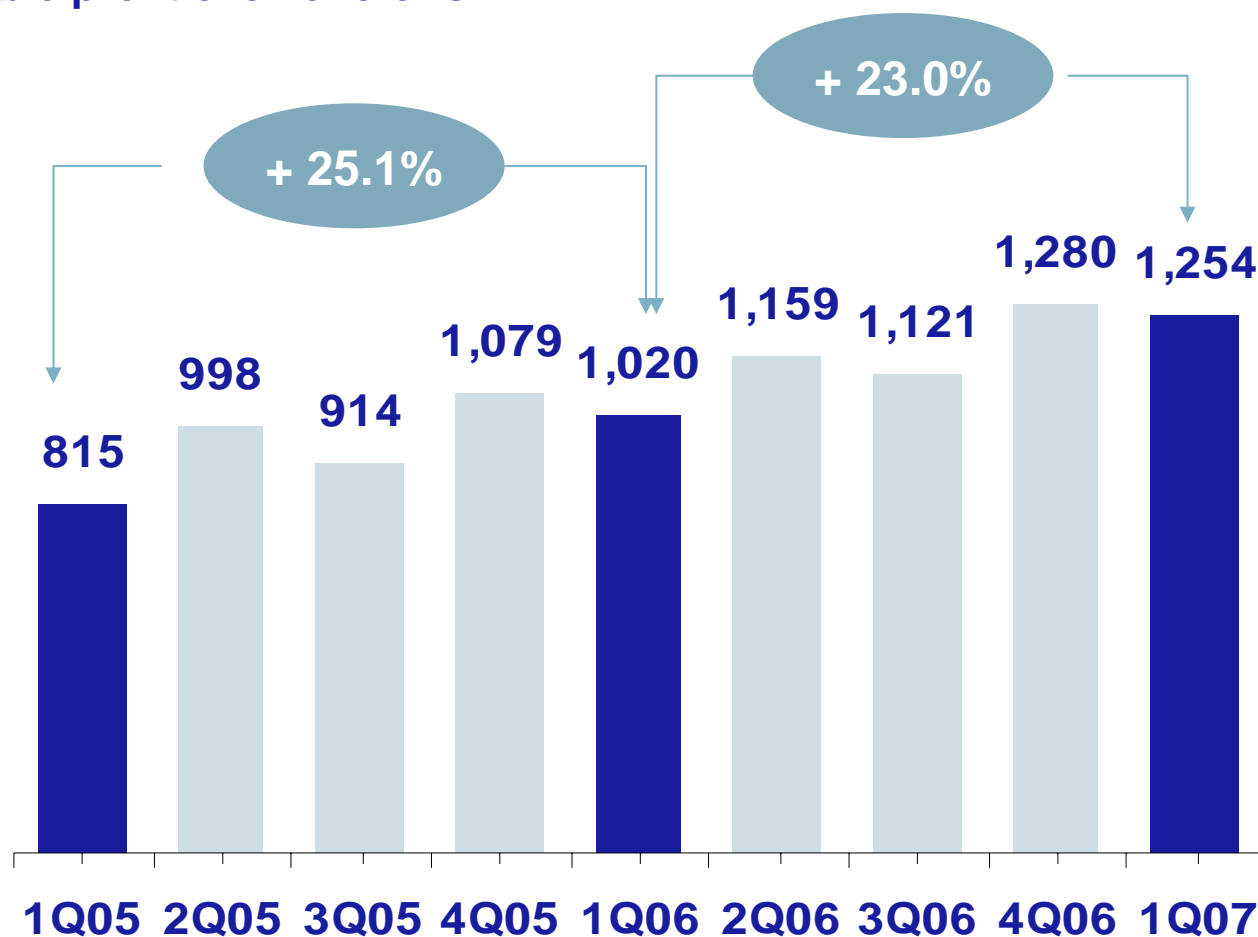
Net attributable profit  
(€m)



(1) Excluding one-offs

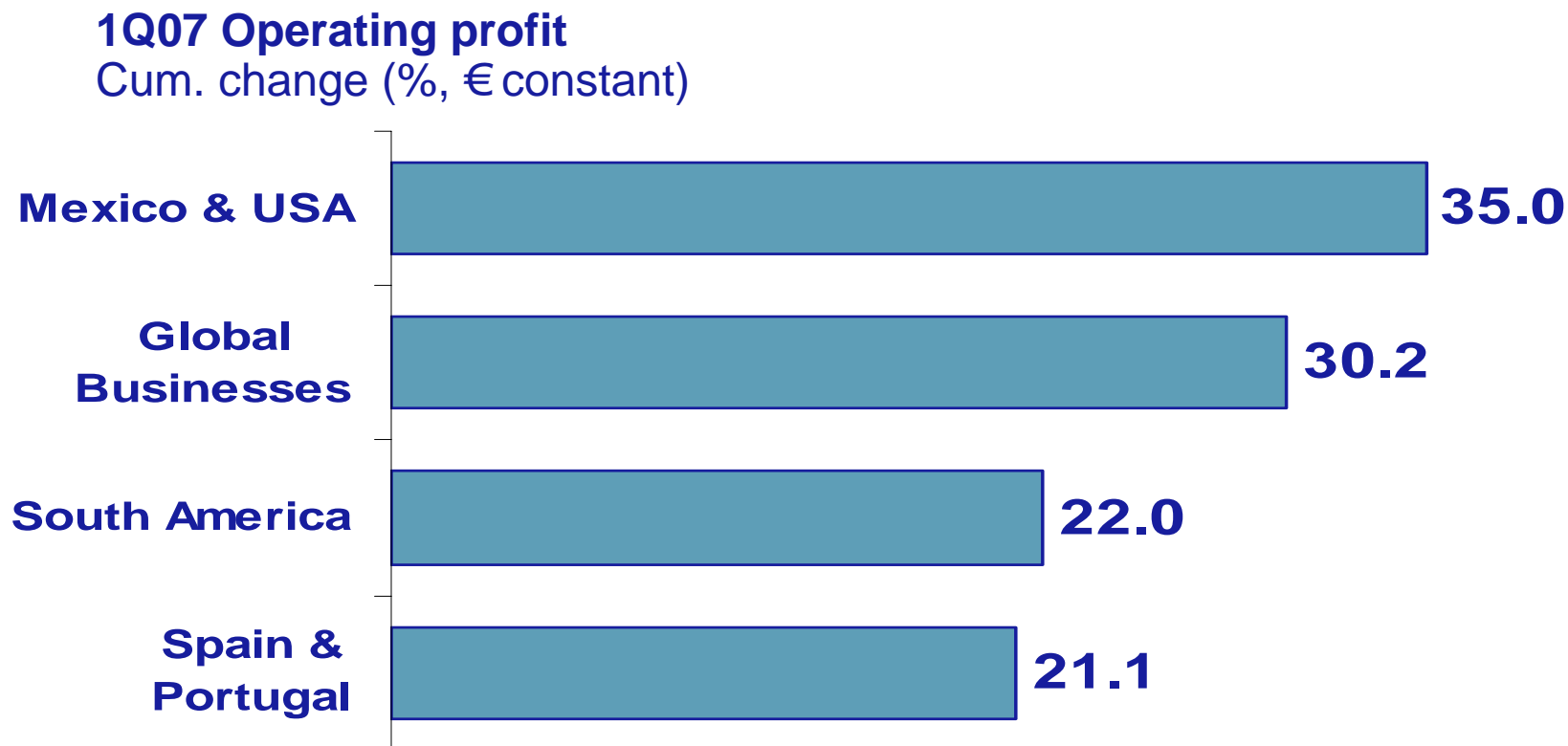
# 2007 has started on a strong note

Net attributable profit excl. one-offs  
(€m)



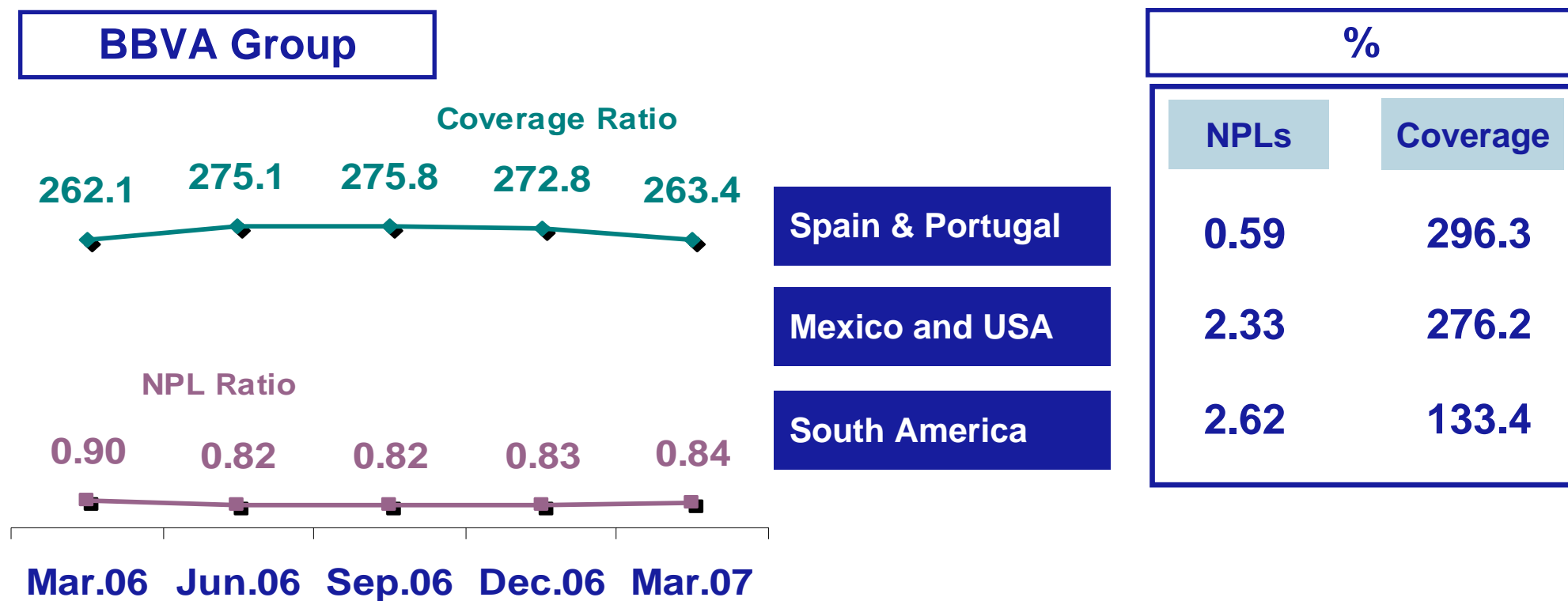
**+31.1% in constant euros**

# With all business areas contributing



**All Business Areas grow above 20% at the operating profit level**

# 1Q07: Excellent asset quality and coverage ratio



**71% of loan-loss provisions are generic**



# BBVA Highlights

**BBVA**

High Profitability		ROE	34.7%
High efficiency		Efficiency	42.4%
Excellent asset quality		NPL Ratio	0.84%
		Coverage	263%
Solvency		BIS Ratio	11.6%
		Ratings	AA- / Aa1

Data as of March 2007

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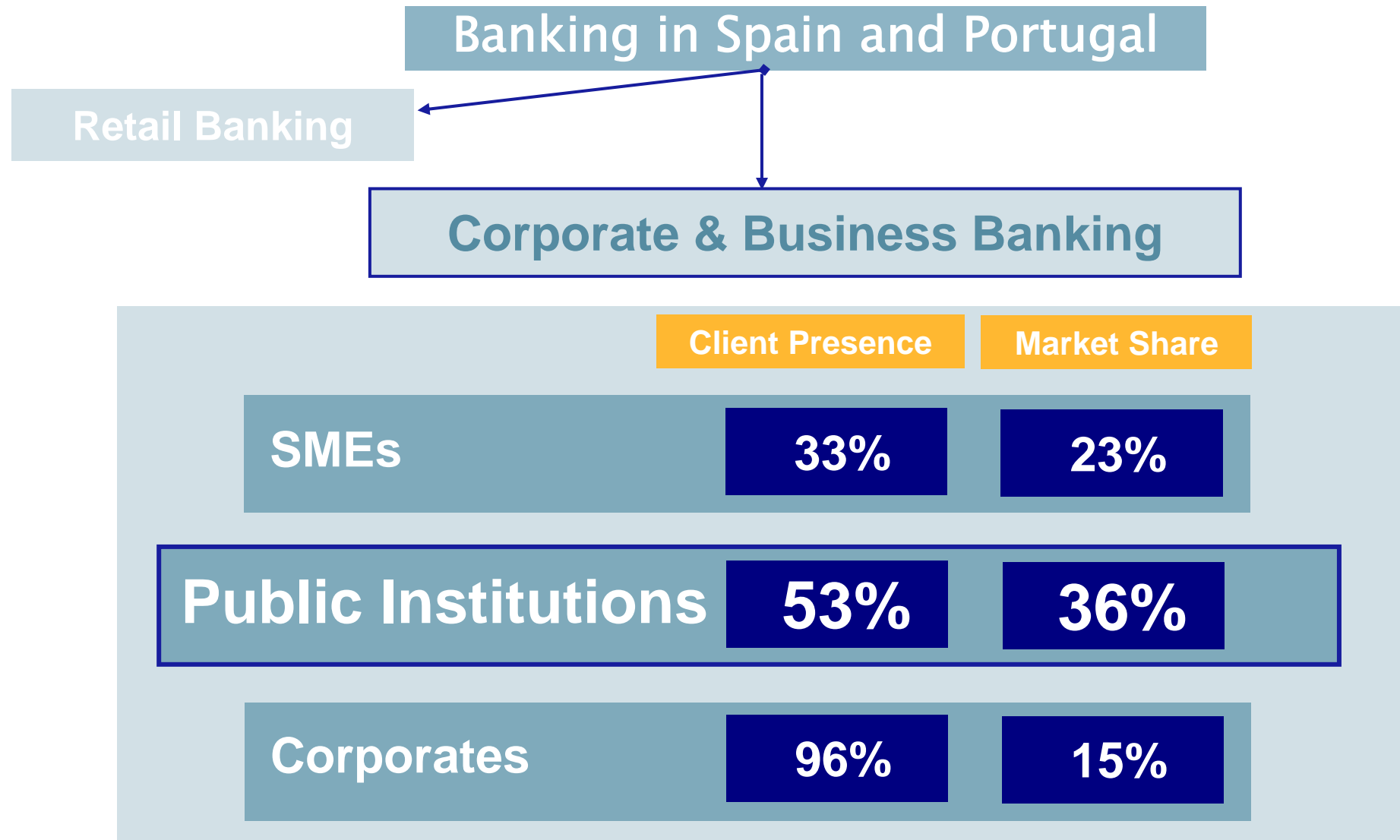
Overview and financial performance

## **BBVA Public Sector business**

BBVA Funding Strategy

*“Cedulas Territoriales”*

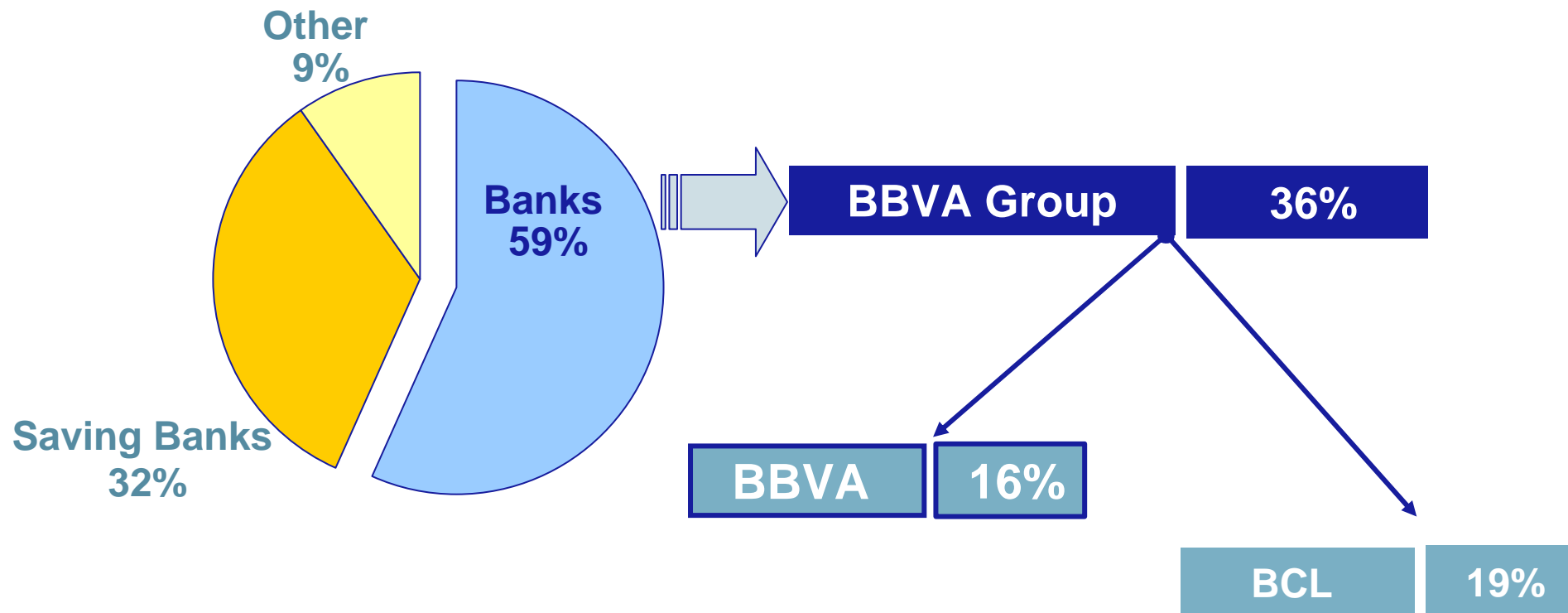
Appendix



# BBVA is the leading player in Spanish Public Sector business

**BBVA**

## Public Sector loans market share (%)



**BBVA is the market leader in lending to the public sector in Spain, based on :**

- **Business model of integral relationship banking, offering a full range of financial products and services, including high value added services such as project finance, tax collection services and specialized internet portals**
- **Strong nationwide presence**
- **BBVA Group manages the public sector business through BBVA and its specialist subsidiary Banco de Crédito Local (same management and risk policies but separate portfolios)**

More than 6,000 clients, covering all areas of the Spanish Public Sector

1

## Central Administration

- Government Departments, Autonomous Entities
- Public Enterprises

2

## Regional Governments

- Regional Governments
- Public Enterprises, Autonomous Entities at regional level

3

## Local Administration

- Provincial Administration
- Municipalities
- Public Enterprises, Autonomous Entities at local level

## Specialized network

- 52 branches in Spain, nationwide coverage
- 2 branches in Belgium
- 2 branches in Portugal

**Account manager approach for client management**

**Segment specific expertise**

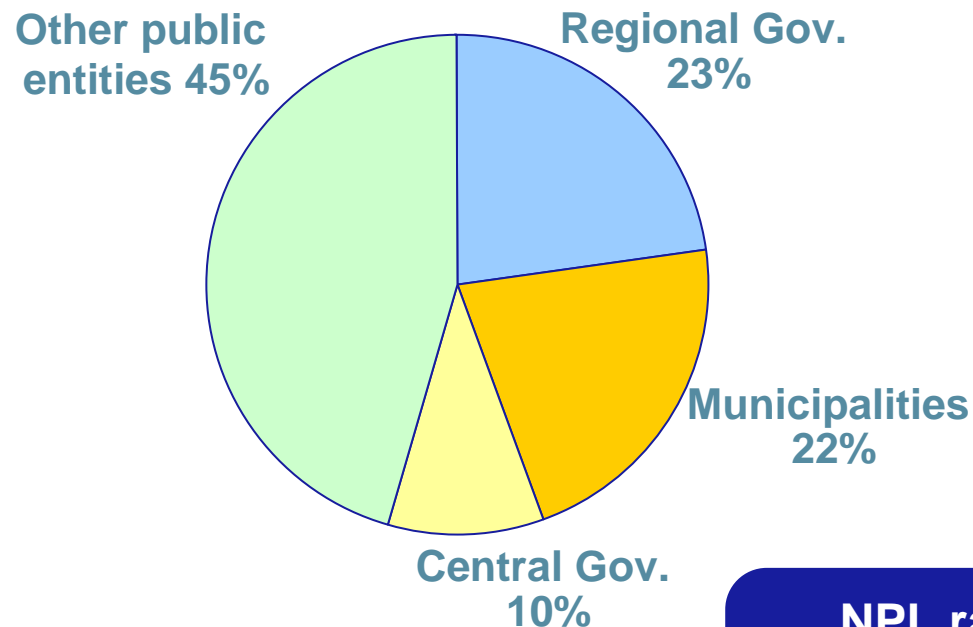
**Highly trained and experienced staff**

**High cross-sell ratios**

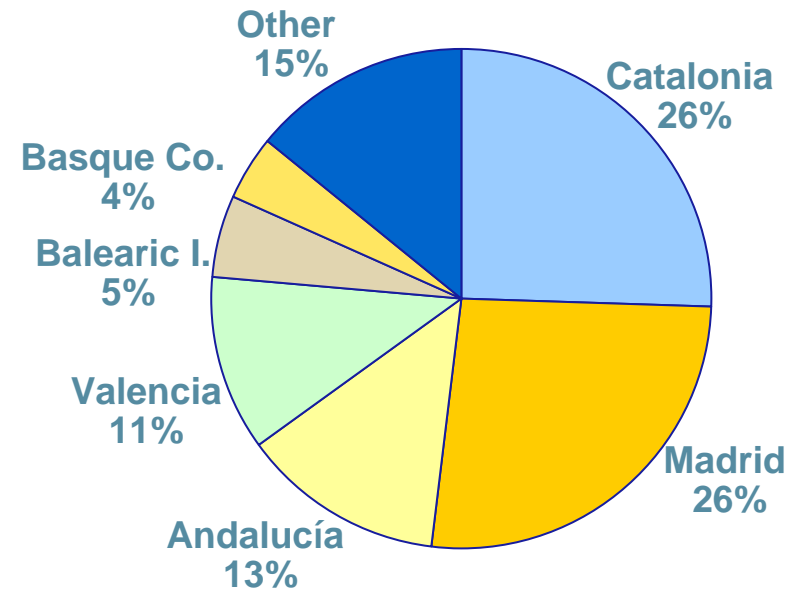
# A diversified and good quality portfolio

## BBVA Public Sector business Loan structure (%)

**By type of borrower**



**By region**



**NPL ratio** 0.08%

**NPLs Coverage** 154%

Data as of March 2007



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# BBVA's wholesale funding approach

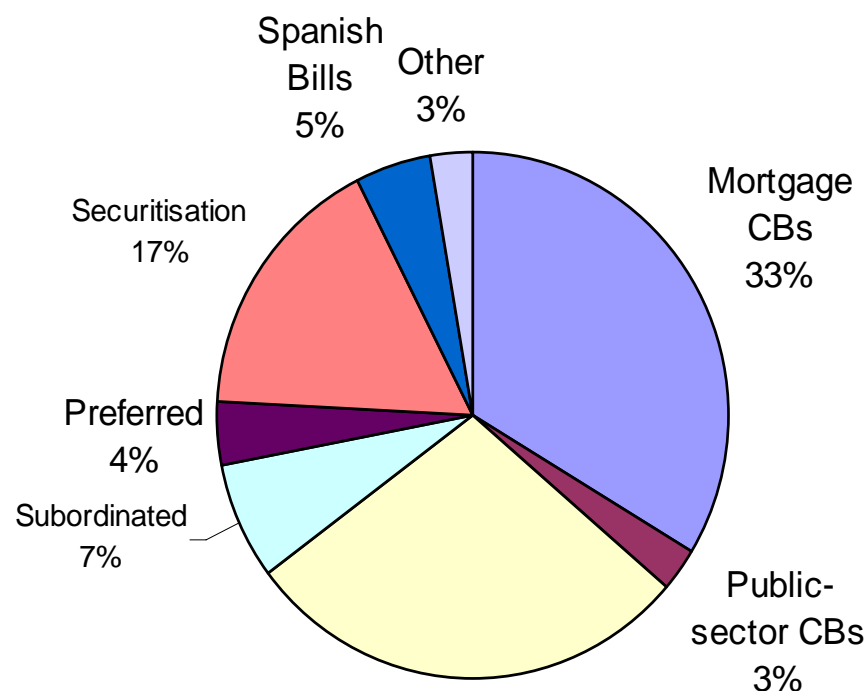
- Diversification by tenor, instruments and market:
  - ✓ Short term: Spanish bills (“pagarés”), CP
  - ✓ Medium term: Euromarket, GMTN, private placements
  - ✓ Long term: “Cedulas hipotecarias” (Covered bonds), senior debt, capital instruments
- Liquid benchmarks are established by maturities
- Smooth maturity profile
- A policy of independence and coordination of funding needs. Group subsidiaries fund themselves independently, without support from the parent
- Transparency and communication with market participants. High quality of disclosed information

# BBVA: a diversified funding structure

## Total stock (30/06/07 €Bn)

Mortgage CBs	39.0
Public Sector CBs	3.4
Senior debt (MTN)	33.1
Subordinated debt	8.3
Preferred shares	4.5
Spanish bills	5.9
Securitisations	19.5
Other (1)	3.2
<b>Total</b>	<b>116.4</b>

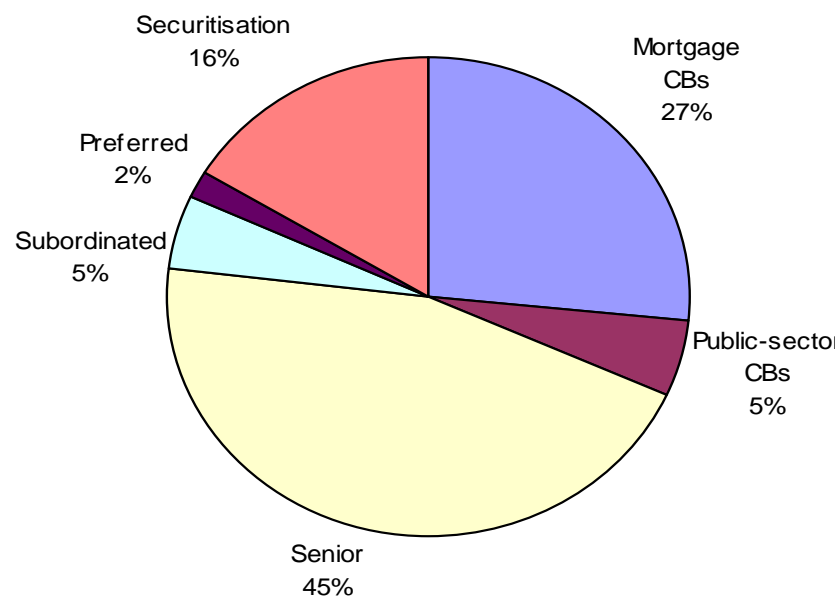
## Total Stock Distribution (30/06/07)



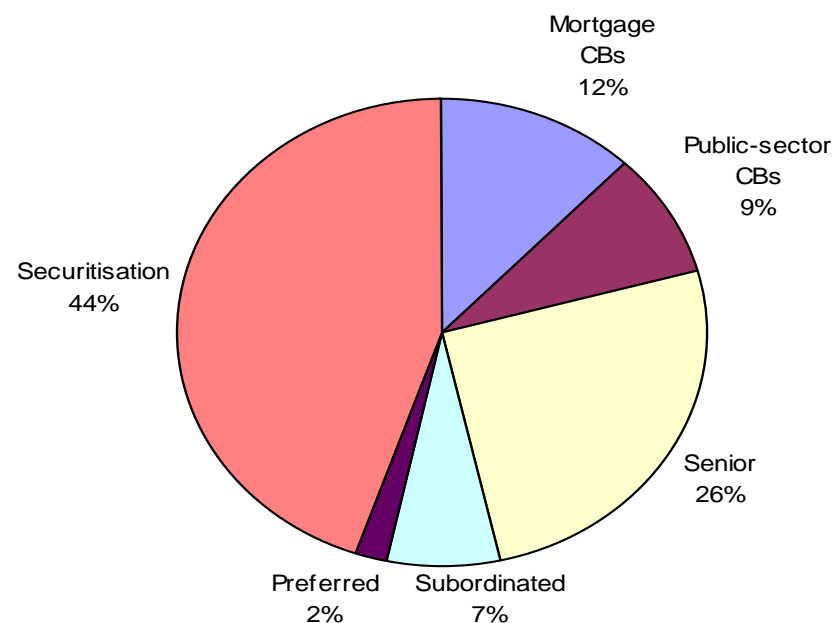
(1) USCDs, ECDs Eurodeposits and Private Placements

# Issuance structure

## Issued 2006



## Issued 2007 YTD

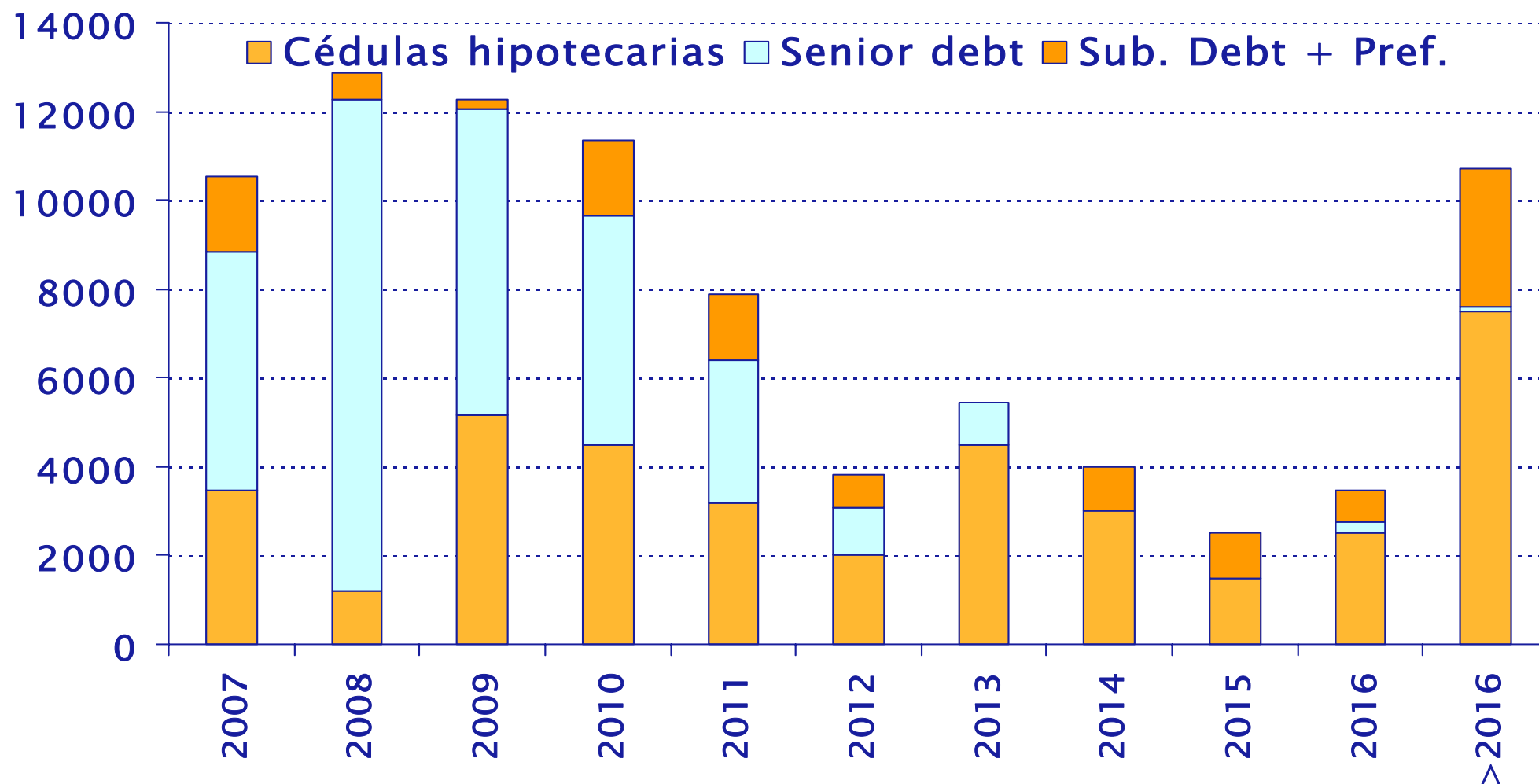


### New initiatives:

- Securitisations playing a more important role
- Increasing presence in the US bond market
- Broader investor base for capital instruments
- New ECP programme

# Maturity profile

BBVA funding maturity matrix

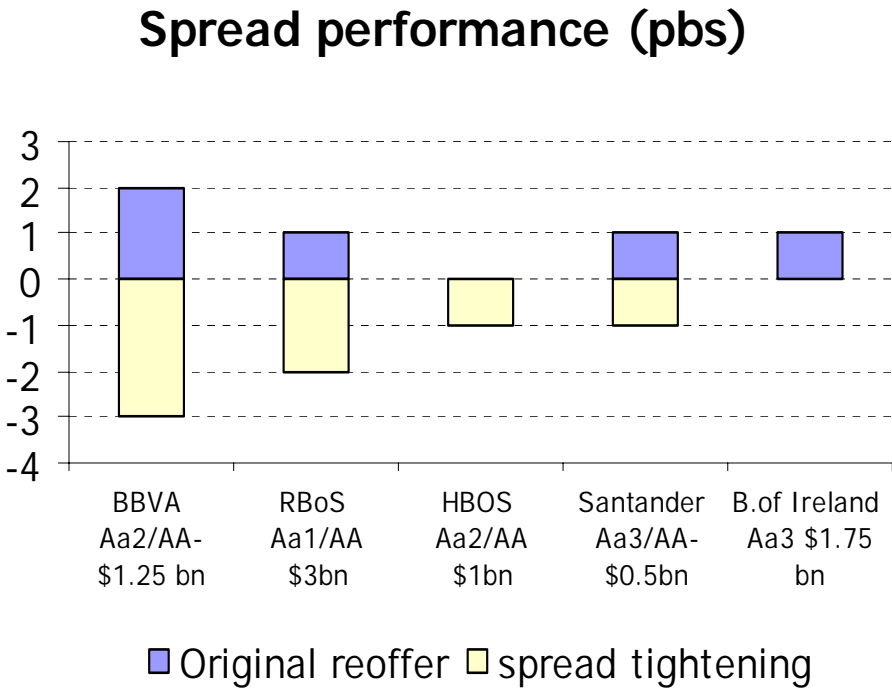


Date	Issuer	Structure	Rating	Size	Maturity	Launch	
						Price	Current Spread
abr-06	BBVA	Senior	Aa2/AA-	\$1.25bn	2Years	3m\$L + 2bps	3m\$L - 1bps
abr-06	BBVA	Senior	Aa2/AA-	\$4bn	3Years	3m\$L + 7bps	3m\$L + 2bps
mar-07	BBVA	Tier 1	Aa3/A	\$600m	Perpetual NC5	T+134bps	T+134bps
mar-07	BBVA	Senior	Aa2/AA-	\$1bn	2Years	3m\$L + 1bps	3m\$L + 2bps
mar-07	BBVA	Senior	Aa2/AA-	\$2bn	3Years	3m\$L + 5bps	3m\$L + 6bps

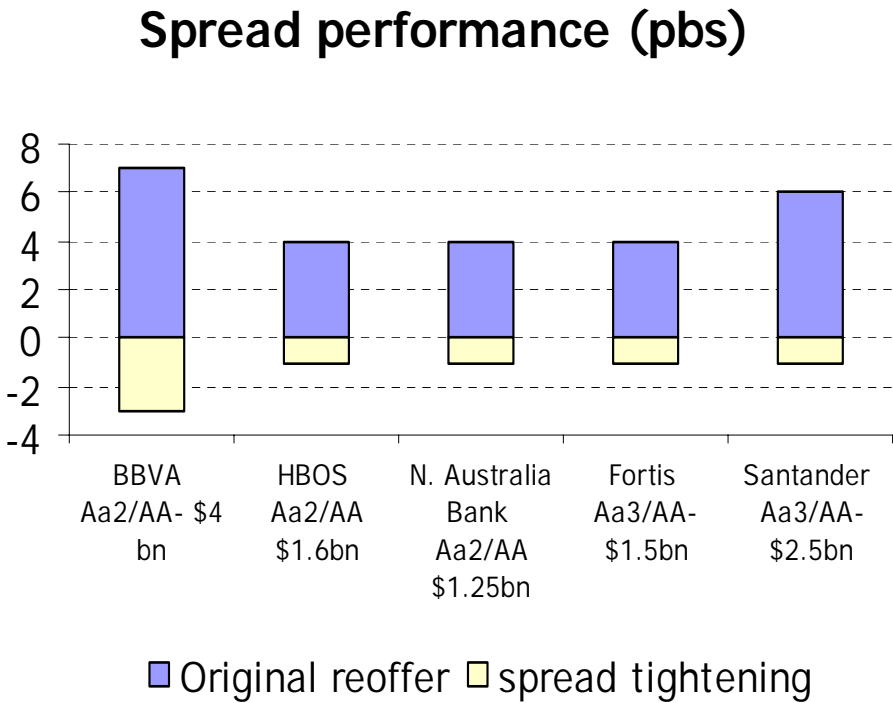
- BBVA has accessed the USD market for senior and Tier 1 in the past 3 years, totalling US\$8.8 bn
- Transactions have been well structured and well received by investors

## BBVA´s secondary performance vs peers

BBVA senior FRN \$1.25 bn 2yrs (April 2006)



BBVA senior FRN \$4bn 3yrs (April 2006)



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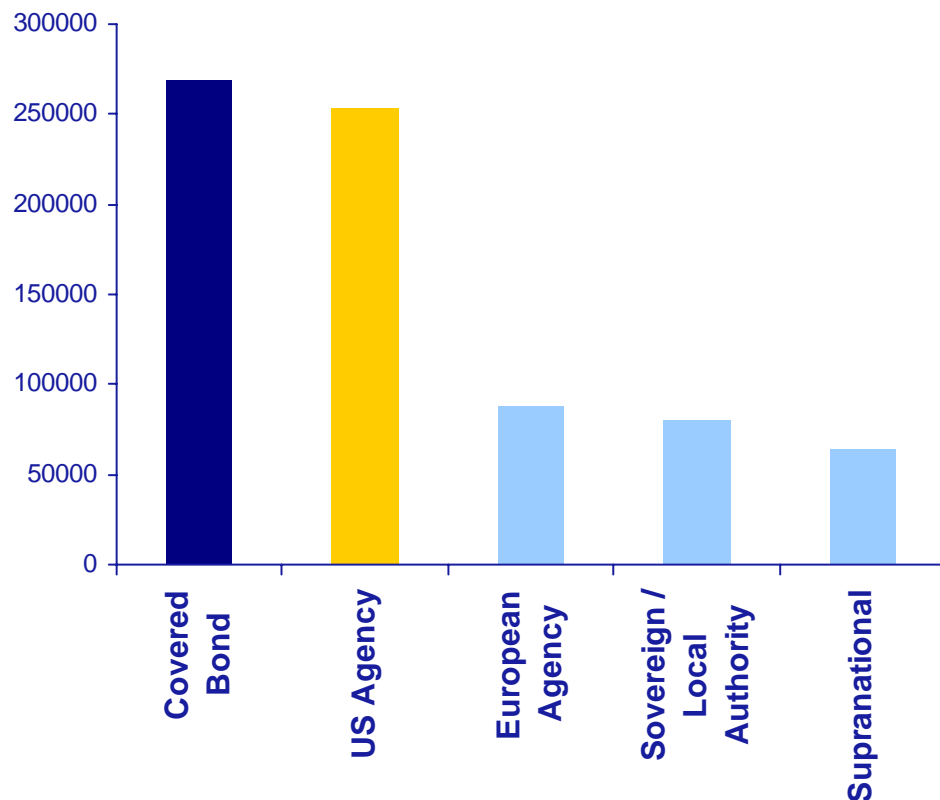
***“Cedulas Territoriales”***

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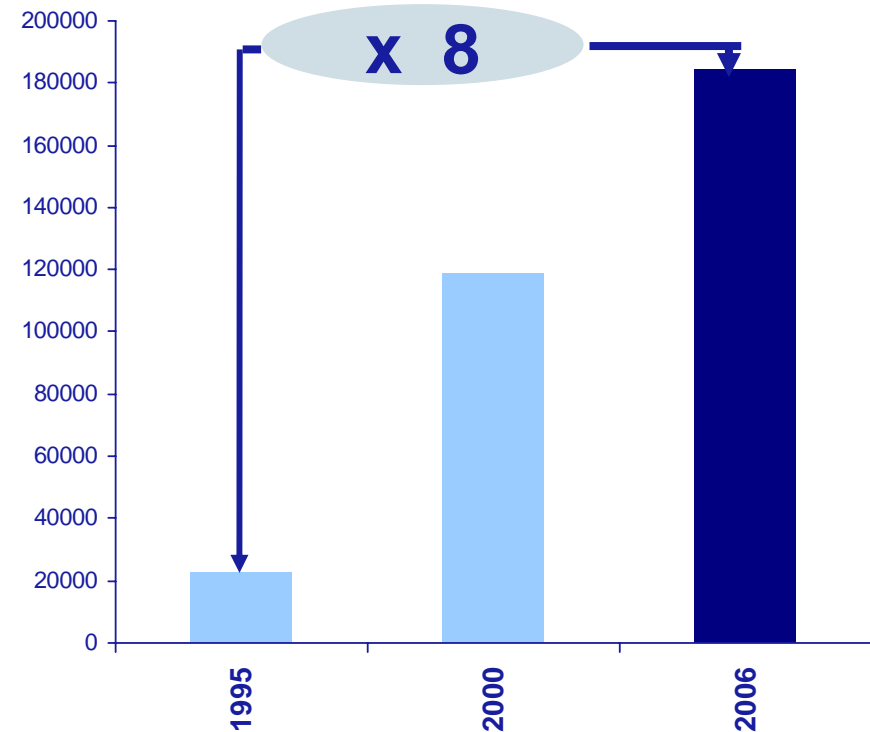
# Covered bonds are today the most active AAA instrument

## AAA Asset Classes by public new issue volume in 2006



Source: Citigroup/DealogicBondware, 2006 Public Issuance

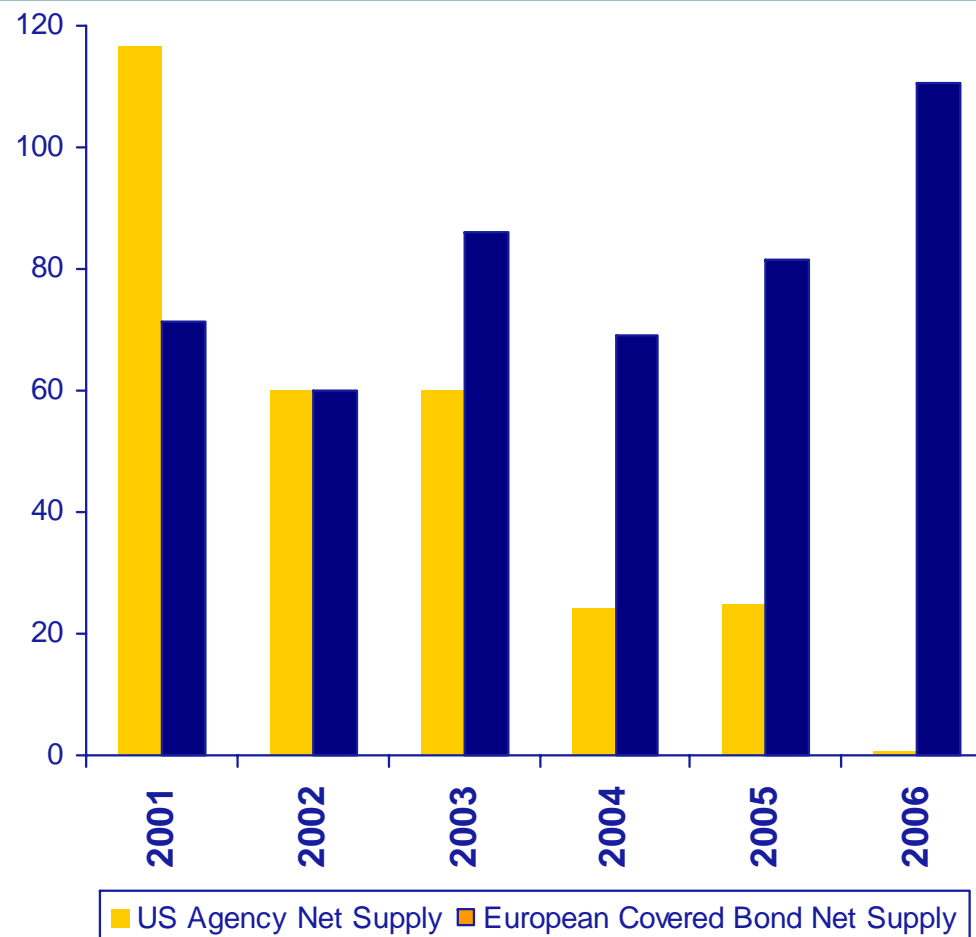
## Jumbo Covered Bonds Issuance



Source: Barclays Capital

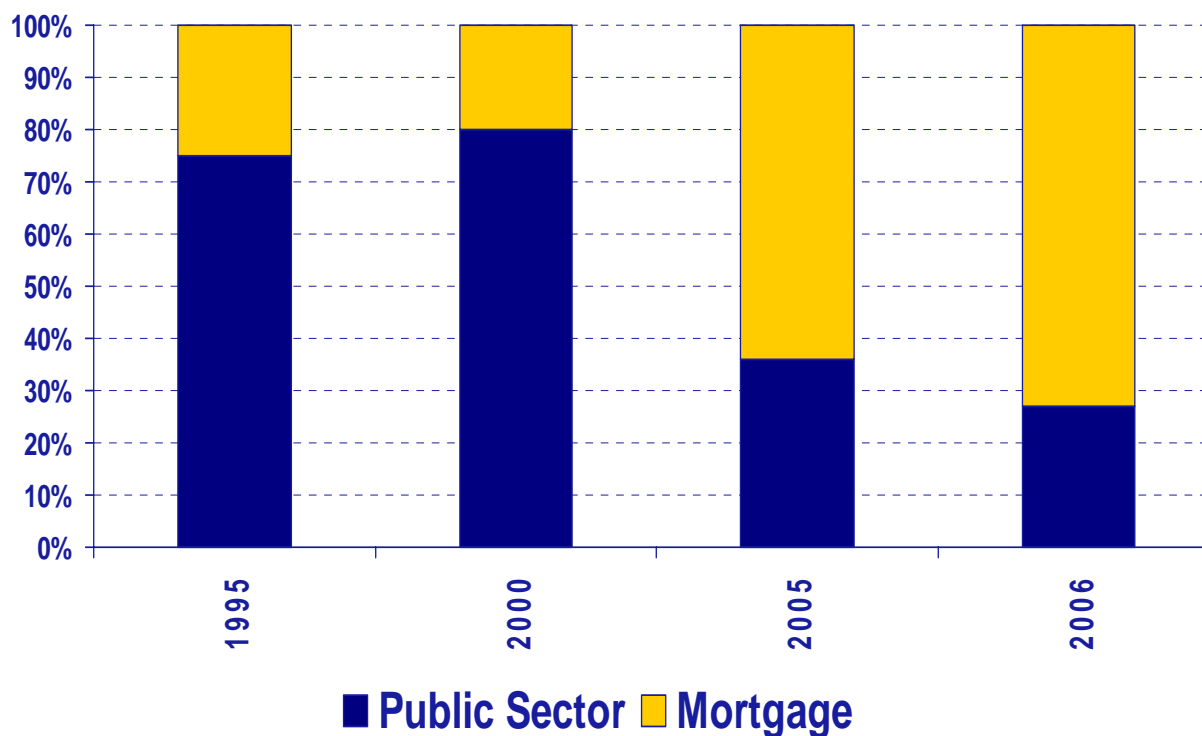
# In terms of net issuance, covered bonds outstrip US agencies

## Net supply of US Agency paper vs. Net Supply of European Covered Bonds



# Public sector covered bonds represent just 27% of new issuance

## Breakdown of Benchmark Issuance by Collateral type



# Definition Cedulas Territoriales (CTs)

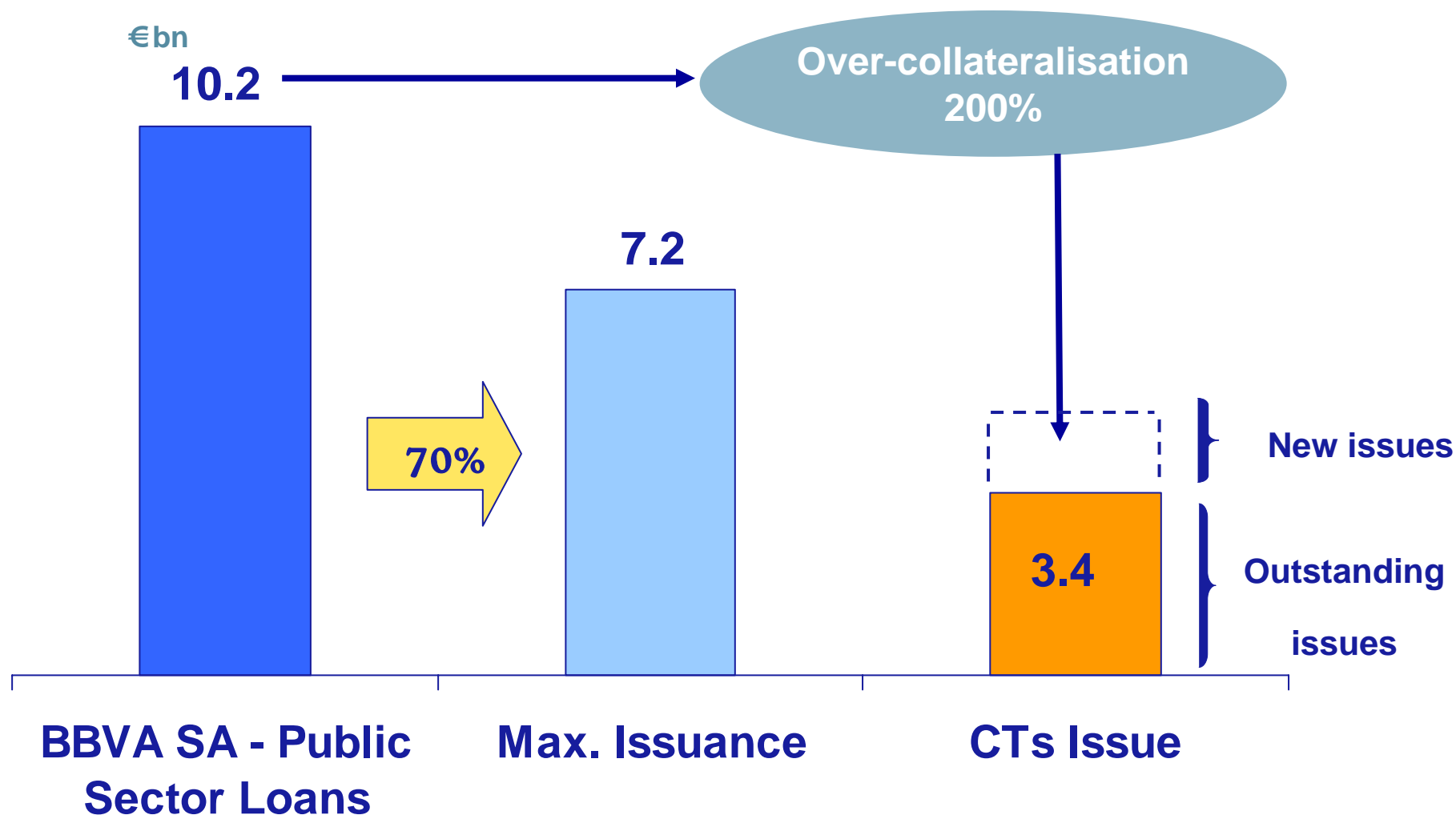
- **The CTs are full recourse to BBVA**
- CTs holders have a priority security claim over the Cover Pool: BBVA's entire public-sector loan and credit book
- The CTs holders are classified by the Law in the category "special-privileged creditors" in respect of any amount due under the CTs
- CTs cannot be terminated merely on the grounds of the existence of insolvency proceedings. The collateral and the proceeds thereof will be reserved, by provision of law, for the settlement of such special-privileged credit rights
- The maximum amount of outstanding CTs that an issuer is allowed to issue may not exceed 70% of the Cover Pool.
- This translates into a minimum 43% over-collateralisation required by law, the highest level in any European jurisdiction

# European covered bonds: a comparison

	<u>Spain</u> <u>Cédulas</u>	<u>Germany</u> <u>German Pfandbrief</u>	<u>France</u> <u>Obligations Foncières</u>	<u>UK</u> <u>Structured CB</u>
Over-collateralisation	Minimum <b>43%</b>	Minimum <b>2%</b>	Over-collateralisation is required but level is not explicitly defined	Minimum <b>7.5%</b> (additional over-coll. may be needed particular risks in case of bankruptcy of the seller)
Eligible Assets	EAA Public Sector Loans and Credits (no bonds). No cover asset register: priority claims against total public-sector pool + full senior recourse to all the assets of the issuer	Public Sector Loans and Bonds.	No separation between public and mortgage cover asset pool required	Types not fully standardised: prime mortgages, buy-to-let, self-certified. First-lien residential mortgages
Substitution Assets	No	Derivatives (max 12% of cover pool, in NPV terms). Claims against certain banks(max. 10%)	Deposits and Loans to credit institutions. Other CBs. Promissory notes. Max 15%	Bank Deposits. Triple-A RMBS tranches, government securities. Short-term notes. Max 10%
Risk-weighting	10%	10%	10%	20%
Supervision and framework	Bank of Spain, Ministry of Economy	BAFIN (German Banking supervisor)	Commission Bancaire	No explicit covered bond legal framework
Effect on balance sheet	Loans remain on the bank's balance sheet	Loans remain on the bank's balance sheet	Loans remain on the bank's balance sheet	True Sale
Statutory preferential right in bankruptcy	Preferential claim on the entire public sector loan portfolio. If cover pool is insufficient, CTs rank pari-passu with senior unsecured debt	Segregation of cover pool in case of insolvency	No recourse to parent company	Administrative expenses and derivatives payments rank prior to amounts due on covered bonds
External Support	Not regulated, but very likely. In the past Bank of Spain stepped in where banks were in stress	Not regulated	Not regulated	Absent. Certain thresholds trigger replacement of servicer ahead of issuer's default






# BBVA's Cédulas Territoriales, very strong over-collateralisation

**BBVA**



Data as of March 2007

# BBVA Cédulas Territoriales: Strengths

<b>Ratings</b>		<b>Moody's: Aaa Standard &amp; Poor's: AAA</b>
<b>Quality of the security portfolio</b>		<b>Loans to the Public Sector</b>
<b>Over-collateralisation</b>		<b>Legal minimum of 43%</b>
<b>Risk weighting</b>		<b>10% BIS</b>
<b>Liquid Asset Class</b>		<b>Provided by the main Agency market trading desks</b>

# Deal summary

- **Issuer:** BBVA S.A.
- **Issuer's rating:** Aa1 (Moody's)
  - AA- Positive Outlook (S&P)
  - AA- Positive Outlook (Fitch)
- **Rating of the notes: Aaa (Moody's) AAA (S&P)**
- **Status of the Notes :** Cédulas Territoriales. Covered bonds secured by the BBVA's Public Sector loan book
- **Tenor:** 10 years
- **Coupon:** Semiannual fixed rate
- **Book runners:** Citigroup, Goldman Sachs and Lehman Brothers
- **Joint lead manager:** BBVA
- **Documentation:** Stand Alone 144a/Reg S
- **Settlement:** DTC
- **Listing:** LSE



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Balance (million euros)	2005	2006	Change (%)
Total assets	392,389	411,916	5.0
Customer lending (Gross)	222,413	262,969	18.2
On-balance sheet customer funds	259,200	283,645	9.4
Total customer funds	403,087	425,709	5.6
Equity	17,302	22,318	29.0
Shareholders' funds	13,036	18,210	39.7
<b>Income (million euros)</b>			
Net interest income	7,208	8,374	16.2
Ordinary revenues	13,024	15,701	20.6
Operation Profit	6,823	8,883	30.2
Pre tax profit	5,592	7,030	25.7
Net attributable profit	3,806	4,736	24.4

<b>Significant ratios</b>	<b>2005</b>	<b>2006</b>
ROE (Net attributable profit/average equity)	37.0	37.6
ROA (Net profit/ATA)	1.12	1.26
Efficiency ratio including depreciation and amortization	46.7	42.6
NPL ratio	0.94	0.83
NPL coverage ratio	252.5	272.8
<b>Capital adequacy ratios (BIS)</b>		
Total	12.0	12.0
Tier I	7.5	7.8
Core capital	5.6	6.2
<b>Data per share and market capitalisation</b>		
Net attributable profit	1.12	1.39
Dividend	0.531	0.637
Book value	3.84	5.13
Market capitalisation	51,134	64,788
<b>Other information</b>		
Number of shares	3,391	3,552
Number of employees	94,681	98,553
Number of branches	7,410	7,585

# *BBVA “Cédulas Territoriales” Credit Story and Public Sector Business*

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July 2007

