BBVA making the difference
Eduardo Osuna, Head of Mortgage Banking

Miguel Rivera, Head of Strategic Planning

New Business Opportunities in Mexico:
Mortgages and SME’s

BBVA making the difference.
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Mortgage Banking

Micro, Small, and Medium Enterprises
Mortgage Banking
- Demographic Potential
- Potential Mortgage Growth
- Positioning of BBVA Bancomer
- Credit Risk
- Concluding Remarks

Micro, Small, and Medium Enterprises
• Mortgage Banking
  • Demographic Potential
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• Micro, Small, and Medium Enterprises
Population growth and household increase will continue bolstering housing demand

Fuente: Bancomer con datos de Conapo
A steady growth of housing demand is expected in the years to come …

Household Creation
(annual flows and accumulated)

Creation of new households = potential housing demand

Source: Conapo

BBVA making the difference.
There is still great potential for growth in Mexico’s mortgage market

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>100.4</td>
<td>299.8</td>
<td>43.3</td>
<td>31.0</td>
<td>16.3</td>
</tr>
<tr>
<td>Households (millions)</td>
<td>25.9</td>
<td>115.3</td>
<td>13.0</td>
<td>14.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Housing (millions)</td>
<td>25.3</td>
<td>125.7</td>
<td>21.0</td>
<td>17.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Household Average Size (persons)</td>
<td>4.1</td>
<td>2.5</td>
<td>3.0</td>
<td>2.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Housing-Households (millions)</td>
<td>-0.3</td>
<td>10.4</td>
<td>8.0</td>
<td>3.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Mortgage Credit / GDP (% , 2005)</td>
<td>11.0</td>
<td>69.0</td>
<td>51.9</td>
<td>42.6</td>
<td>16.7</td>
</tr>
</tbody>
</table>

Source: BBVA Bancomer with census data from different countries, Bank of Mexico, INEGI
The main players in Mexico’s mortgage market come both from the Public and the Private Sector.

**Public Sector**
- Infonavit Credits
- Fovissste
- Orevis
- Pemex

**Private Sector**
- Banks
- Sofoles
The Public Sector is the main player in terms of volume

**Market share**
(Number of new credits)

- **Public Sector**: 78%
- **Private Sector**: 22%

**Market share**
(Credit Balance: MXN 224 bn)

- **Public Sector**: 59%
- **Private Sector**: 41%

*New mortgages and balances for 2006*
## Housing segment structure

<table>
<thead>
<tr>
<th>Housing Segment</th>
<th>Monthly salary (US$)</th>
<th>Lenders (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Economic”</td>
<td>&lt; 564</td>
<td>Public FONHAPO Private INFONAVIT &amp; FOVISSTE SOFOLes BANKS</td>
</tr>
<tr>
<td>“Social”</td>
<td>564 – 1,224</td>
<td></td>
</tr>
<tr>
<td>“Middle”</td>
<td>1,224 – 3,765</td>
<td></td>
</tr>
<tr>
<td>“Residential”</td>
<td>&gt; 3,765</td>
<td></td>
</tr>
</tbody>
</table>

(1) **FONHAPO**: Trust fund that finances low income housing for families earnings less than four times the minimum Wage financing through tax and by World Bank  
**INFONAVIT**: Mandated pension programme for private pension workers, funded by a 5% levy on wages  
**FOVISSTE**: Mandated pension programme for public sector workers, funded by a 5% levy on public employee wages  
**SOFOLes**: Private companies, funded mainly by SHF (“Sociedad Hipotecaria Federal”, public entity)

Source: Sedesol (Ministry of Social Development), INEGI (Statistic National Agency)
Mortgage Banking
- Demographic Potential
- **Potential Mortgage Growth**
- Positioning of BBVA Bancomer
- Credit Risk
- Concluding Remarks

Micro, Small, and Medium Enterprises
Characteristics of the Mexican mortgage market

- It is a first mortgage market explained by the income distribution and age structure of the population
- 80% of individual mortgages are sold through developers
- Low refinancing ratios, high cost of changing of mortgage provider
- Intensive use of unemployment insurance and/or Infonavit warranty
- Funding availability: demand for securitisations both from local and international investors
- Some inefficiencies associated to a young market
  - Higher costs associated with mortgage underwriting and collection processes
Perspectives for the mortgage market in Mexico are optimistic

1. Significant housing deficit (unsatisfied demand)
2. Strong commitment of the Government to developing the housing market: collaboration of Infonavit and Banks
3. Positive demographic profile
4. Employment sustainability and economic growth
5. Increasing average income of Mexican households
6. Improvement of the affordability ratio
7. Fiscal incentives
Both Public and Private Sectors have been very active in mortgage credits for housing

Total Mortgages (1)

(1) Thousands of houses acquired through mortgage credit per year

Source: Conafovi, 2007 internal estimates
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Micro, Small, and Medium Enterprises
<table>
<thead>
<tr>
<th>BBVA Bancomer mortgage portfolio highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of mortgages under management</td>
</tr>
<tr>
<td>Average loan rate</td>
</tr>
<tr>
<td>Maturity</td>
</tr>
<tr>
<td>LTV new origination (2007)</td>
</tr>
</tbody>
</table>
Bancomer holds the largest market share in Mexico… Larger than all banks or all sofoles put together

**Market Share (number of new mortgages)**

- Sofoles: 32.4%
- Banks: 29.3%
- Bancomer: 38.4%

**Market Share (balance of new mortgages)**

- Sofoles: 25.8%
- Banks: 41.4%
- Bancomer: 32.8%

New mortgages as of September 2006
We have ambitious business goals for the next three years.

Mortgage portfolio: + 3x

Market share: > 30%
● Mortgage Banking
  • Demographic Potential
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● Micro, Small, and Medium Enterprises
Compared to our peers we have very healthy fundamentals.

**NPL Ratio**
- Sofoles: 3.9%
- Banks: 3.3%
- Bancomer: 2.7%

**Coverage Ratio**
- Sofoles: 0.4x
- Banks: 1.8x
- Bancomer: 2.9x

Figures as of June 2006
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Micro, Small, and Medium Enterprises
Concluding remarks

- Demographic bonus with steady housing needs in the long run
- Government policies oriented to bolster housing
- More competition among mortgage financing institutions
- BBVA Bancomer’s excellent market positioning
- Mortgage financing growth focused on less risky segments of the population
Mortgage Banking

Micro, Small, and Medium Enterprises
  - SME’s market in Mexico
  - Track Record for Bancomer
  - Potential Market and Growth Strategy
Mortgage Banking

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Micro, Small and Medium enterprises in Mexico account for more than 50% of GDP and 70% of employment.

*Micro Enterprises include individuals with business activity*

Source: SIEM / INEGI
We cater to the SME segment through a specialized Business Unit: 6 Divisions, 88 offices, and 471 sales executives plus 233 executives for micro-businesses in retail banking.

Offices located in all States

- North (13)
- North-east (14)
- West (14)
- Metro-north (16)
- Metro-south (17)
- South-east (14)

Plus 233 executives for micro-businesses
We offer a wide variety of specialized products to our customers

Credit
• Liquid Credit
• Credit for suppliers
• Leasing
• Fixed assets financing
• Foreign trade
• Derivatives

Deposits
• Demand deposits
• Bancomer.com
• Mutual Funds
• Time deposits
• Money Market

Services
• Tax payment
• Corporate cards
• Trusts

Collection
• POS’s
• CIE
• DEM
• TIB/MDB
• Multipayments
  • (Internet Solution)

Dispersion
• Payroll
• DIE

ME Banking Unit
Customers with 5 or more products or services

We develop long term relationships with our customers
Mortgage Banking

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We have supported economic activity by increasing the number of Medium Enterprises with credit.

Medium Enterprises with Credit

CAGR (2005-2007) 38%

% of credit users vs. customer base

11% 18% 19%
...as well as increasing the number of Micro and Small Enterprises with credit

Micro and Small Enterprises with Credit

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>sep-06</th>
<th>2006</th>
<th>sep-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>24,793</td>
<td>39,248</td>
<td>42,814</td>
<td>57,945</td>
</tr>
</tbody>
</table>

CAGR 62%

% of credit users vs. customer base: 22%

High opportunity for growing

+18.697
Annual growth of 40% in performing loans to Medium Enterprises and 45% to Micro and Small Enterprises in the last twelve months

**ME Segment**

- New revolving balance of $44,554 for ME’s in the last twelve months

- + 29,066 (CAGR 27%)

**Micro and Small Enterprises**

- New revolving balance of $7,800

- + 5,675 (CAGR 60%) in 4 years since launching

- + 29,066 (CAGR 27%)
We have managed to keep on growing maintaining credit quality

NPL Ratio for Micro, Small, and Medium Enterprises

Dic’05: 0.92%, $329
Dic’06: 0.91%, $423
2007e: 1.19%, $724

NPL Balances in millions of Pesos
Deposits from Medium Enterprises show a growing trend and represent an important contribution to income.

### Demand Deposits

- **2004**: 10,701
- **2005**: 12,056
- **2006**: 14,275
- **2007**: 16,329

Total Growth: +5,628 (53%)  
Growth Rate: +14.4%

### Total Deposits

- **2004**: 40,586
- **2005**: 47,872
- **2006**: 56,100
- **2007**: 67,761

Total Growth: +27,175 (67%)  
Growth Rate: +20.8%

*Millions of Pesos*
Cash Management is one of our most popular services for Medium Enterprises

Newly assigned products

<table>
<thead>
<tr>
<th>Year</th>
<th>Numbers (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>D'04</td>
<td>1,502</td>
</tr>
<tr>
<td>D'05</td>
<td>1,769</td>
</tr>
<tr>
<td>D'06</td>
<td>2,840</td>
</tr>
<tr>
<td>Sep'07</td>
<td>3,259</td>
</tr>
</tbody>
</table>

117% increase

Customers with the product

<table>
<thead>
<tr>
<th>Year</th>
<th>Numbers</th>
<th>% Groups with the product</th>
</tr>
</thead>
<tbody>
<tr>
<td>D'04</td>
<td>6,019</td>
<td>82%</td>
</tr>
<tr>
<td>D'05</td>
<td>6,752</td>
<td>84%</td>
</tr>
<tr>
<td>D'06</td>
<td>7,795</td>
<td>86%</td>
</tr>
<tr>
<td>Sep'07</td>
<td>9,422</td>
<td>87%</td>
</tr>
</tbody>
</table>

57% increase

Electronic Banking includes Cash Windows and Bancomer.com
The increase in the number of payroll customers is one of our strategic goals due to high cross selling potential.

Number of affiliates per year in Micro, Small, and Medium Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td>9M06</td>
<td>285</td>
</tr>
<tr>
<td>9M07</td>
<td>325</td>
</tr>
</tbody>
</table>

Figures in thousands.
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Our growth strategy will be focused on Micro and Small Enterprises …

- **Sales < 2 mp**
  - 2,756,000 Micro Enterprises *
- **Sales 2- 40 mp**
  - 208,000 Small Enterprises
- **Sales 40 – 100 mp**
  - 39,000 Medium Enterprises
- **Sales > 100 mp**
  - 2,500 Corp.

*Micro Enterprises include individuals with business activity
Source: SIEM / INEGI

- Maintain high growth rate with increased productivity
- Expansion to Increase penetration with standardized products and attractive margins
... differentiating service according to the specific needs of each segment

Small and Micro Enterprises

- Take advantage of the huge opportunity with aggressive sales force expansion
- We will cater this market with standardized products

Medium Enterprises

- Focus on increasing customers with credit and cross selling of products
- Our product strategy consists in customizing solutions according to the needs of each customer
- Increasing productivity of each Executive
We have ambitious business goals for the next three years.

Micro, Small, and Medium Enterprises portfolio:

+2.5x
BBVA making the difference