

150
years

adelante



BBVA making the difference



adelante.

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**

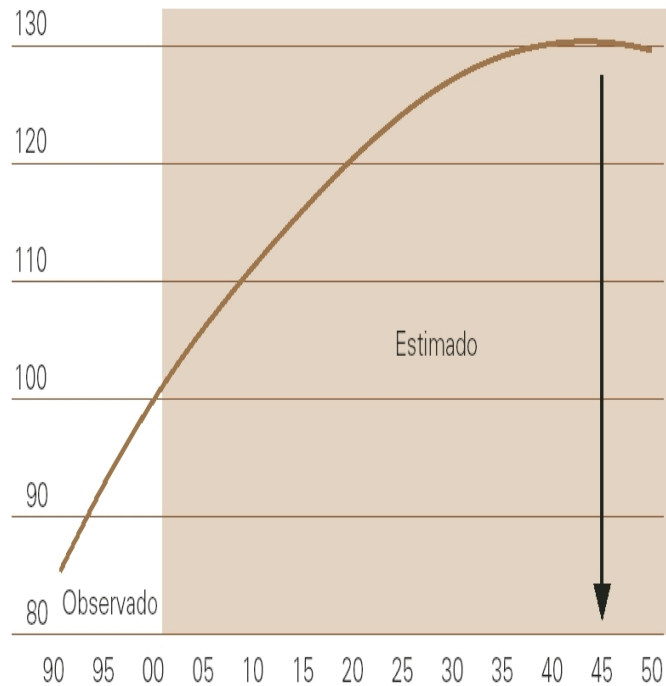


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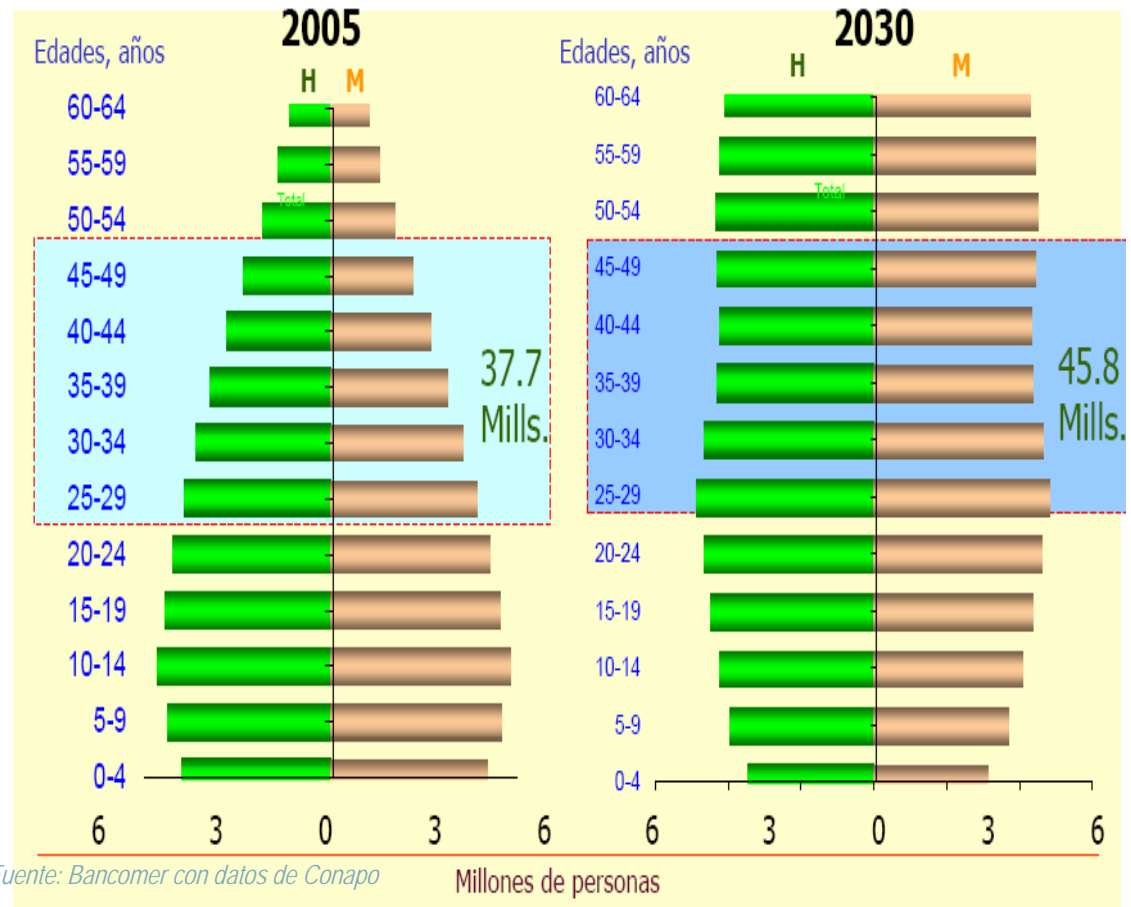


Population growth and household increase will continue bolstering housing demand

Población Total Millones de personas



Fuente: BBVA Bancomer con datos de Conapo



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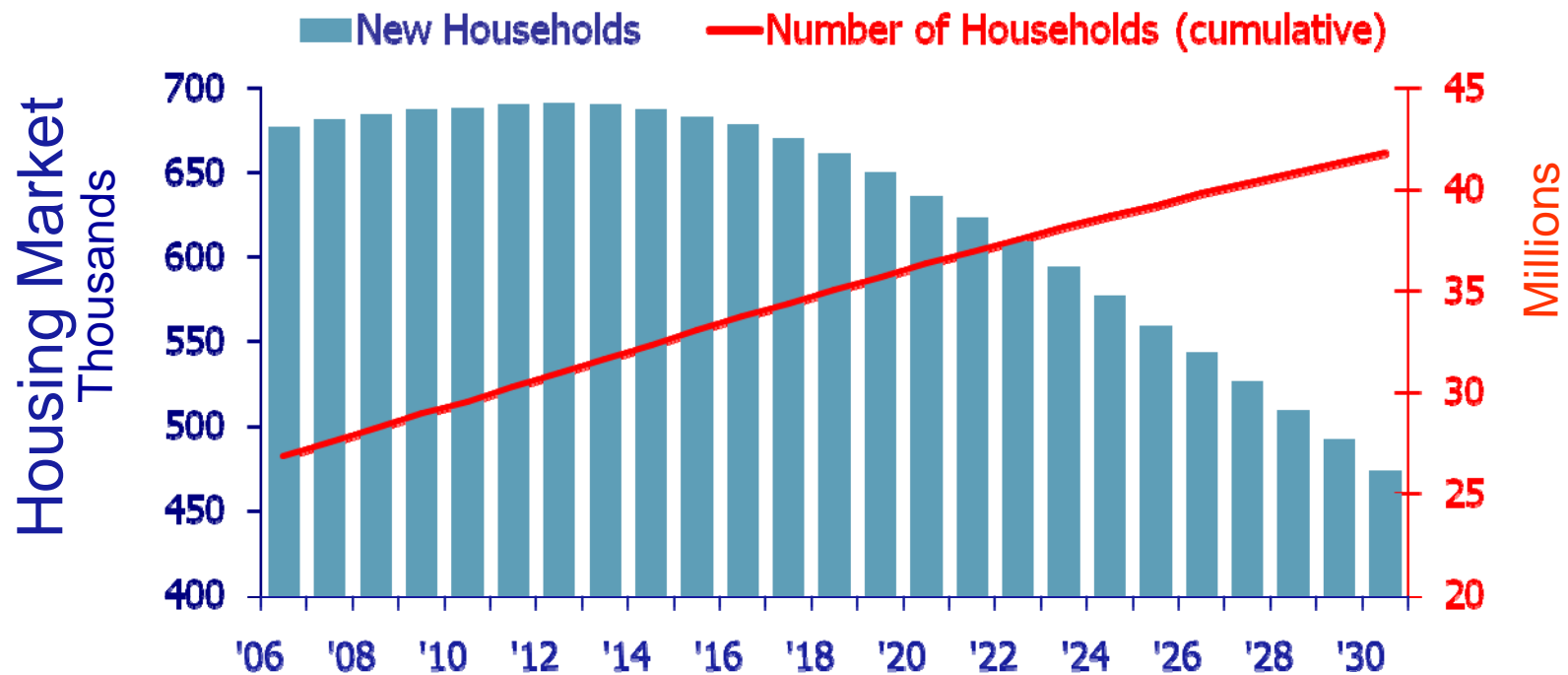
Millones de personas



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



There is still great potential for growth in Mexico's mortgage market

	Mexico (2005)	USA (2005)	Spain (2005)	Canada (2005)	Chile (2005)
Population (millions)	100.4	299.8	43.3	31.0	16.3
Households (millions)	25.9	115.3	13.0	14.0	4.7
Housing (millions)	25.3	125.7	21.0	17.6	5.6
Household Average Size (persons)	4.1	2.5	3.0	2.3	3.5
Housing-Households (millions)	-0.3	10.4	8.0	3.6	0.9
Mortgage Credit / GDP (% , 2005)	11.0	69.0	51.9	42.6	16.7

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

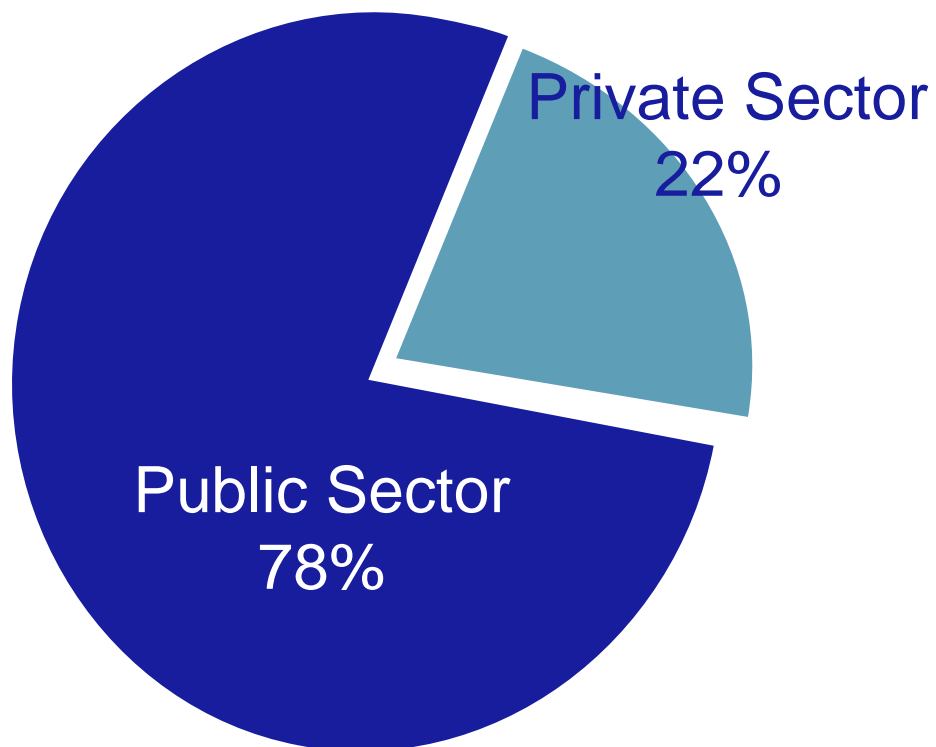
- Banks
- Sofoles



The Public Sector is the main player in terms of volume

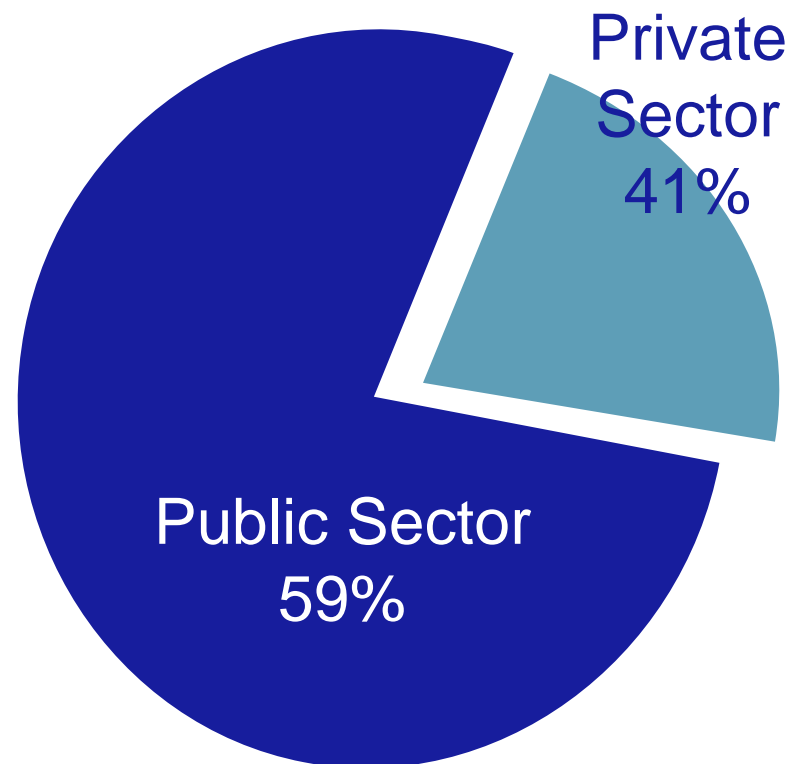
Market share

(Number of new credits)



Market share

(Credit Balance: MXN 224 bn)



New mortgages and balances for 2006



Housing segment structure

Housing Segment	Monthly salary (US\$)	Lenders (1)	
		Public	Private
“Economic”	< 564	FONHAPO	
“Social”	564 – 1,224	INFONAVIT & FOVISSTE	SOFOLes
“Middle”	1,224 – 3,765		
“Residential”	> 3,765		BANKS

(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)



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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 processe



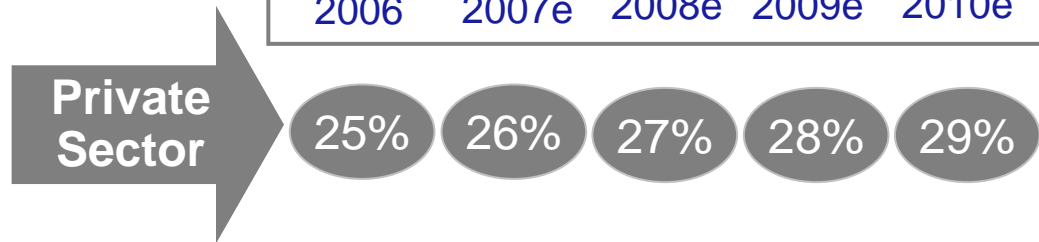
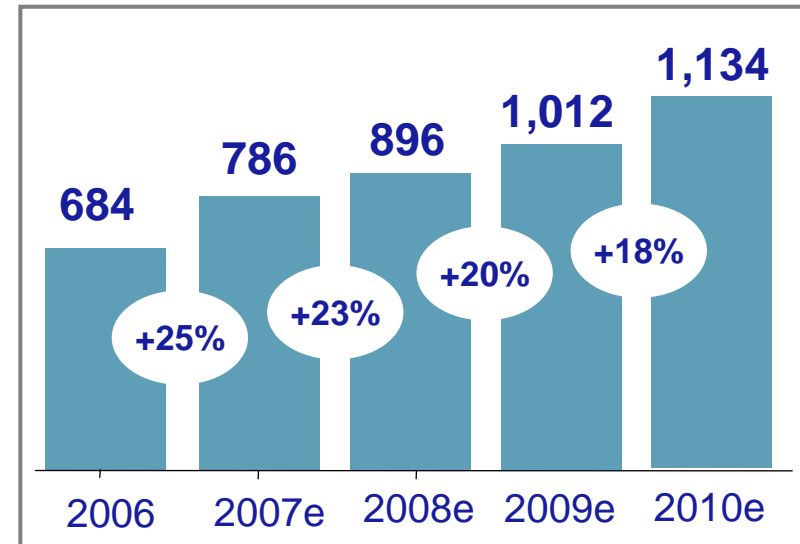
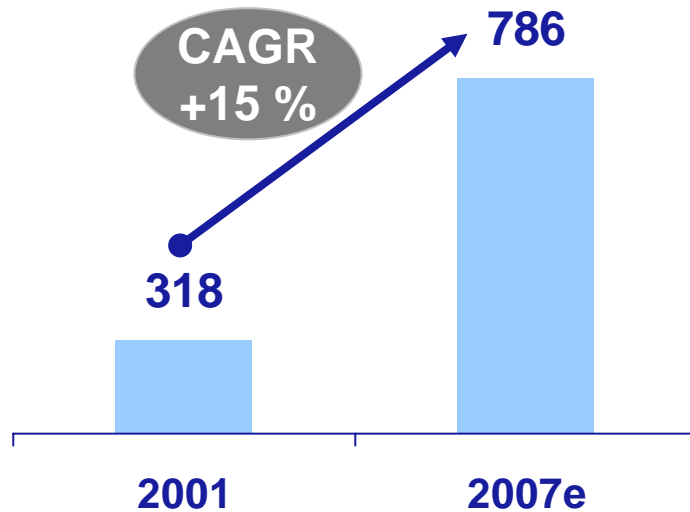
Perspectives for the mortgage market in Mexico are optimistic

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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BBVA Bancomer mortgage portfolio highlights

Number of mortgages under management 353,000

Average loan rate 12.67%

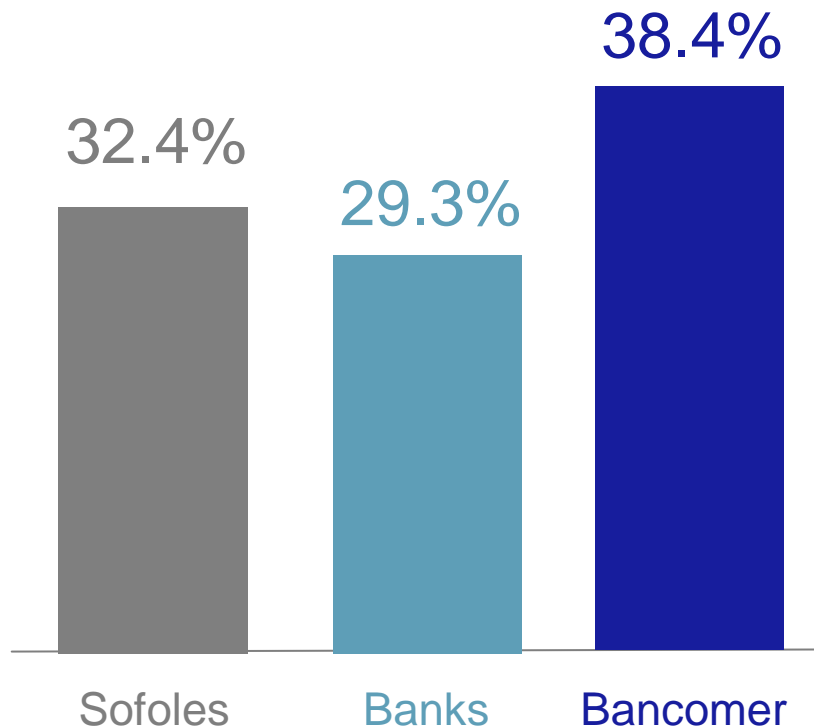
Maturity 15.8 years

LTV new origination (2007) 77%

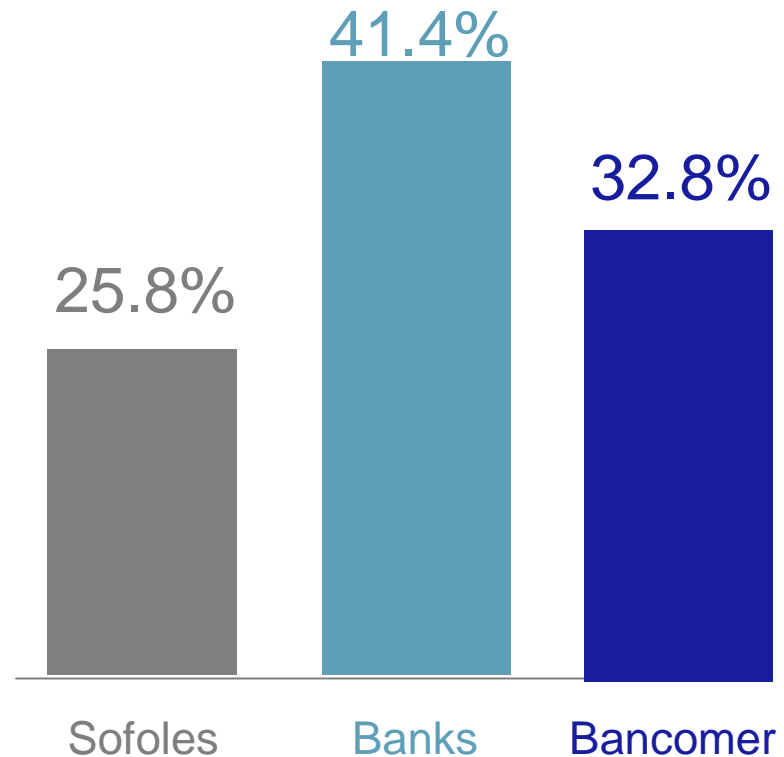


Bancomer holds the largest market share in Mexico... Larger than all banks or all sofoles put together

Market Share
(number of new mortgages)



Market Share
(balance of new mortgages)



New mortgages as of september 2006



We have ambitious business goals for the next three years

Mortgage portfolio:

+ 3x

Market share:

> 30%

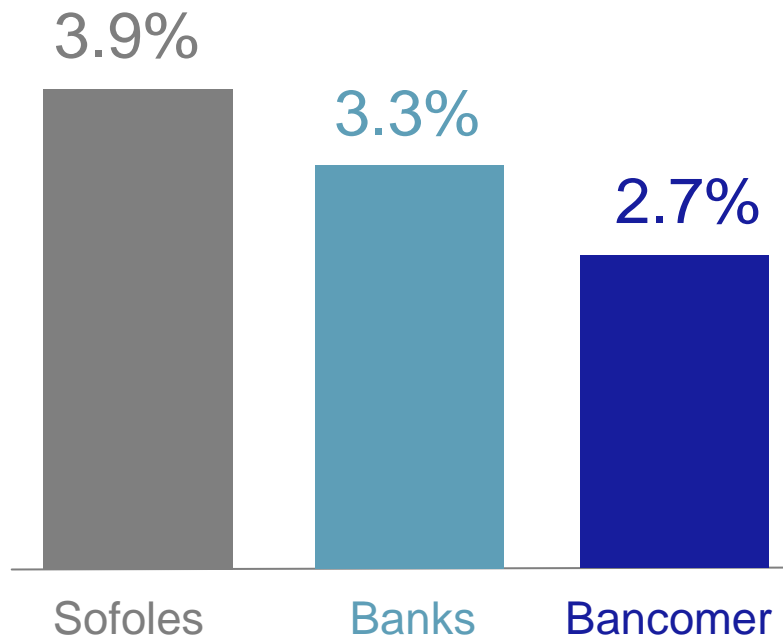


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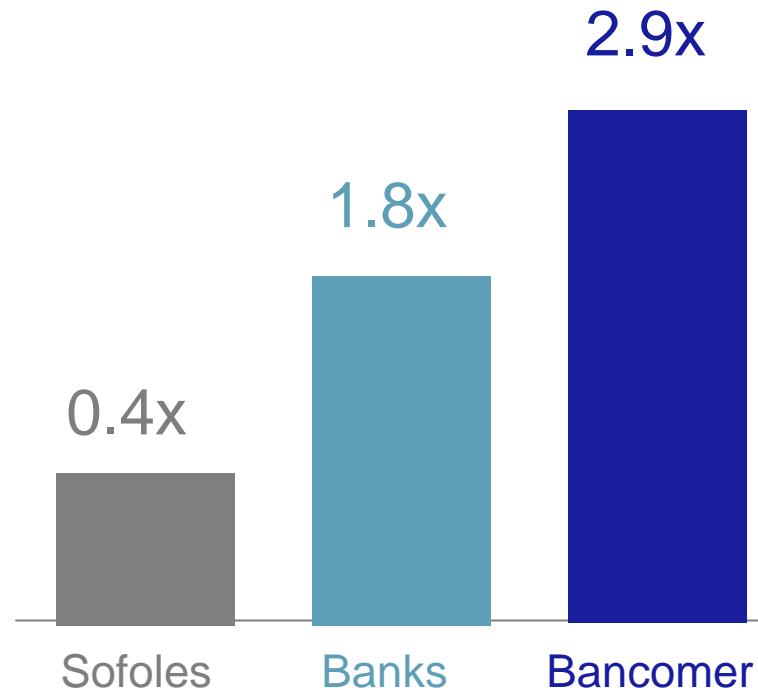


Compared to our peers we have very healthy fundamentals

NPL Ratio



Coverage Ratio



Figures as of June 2006



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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



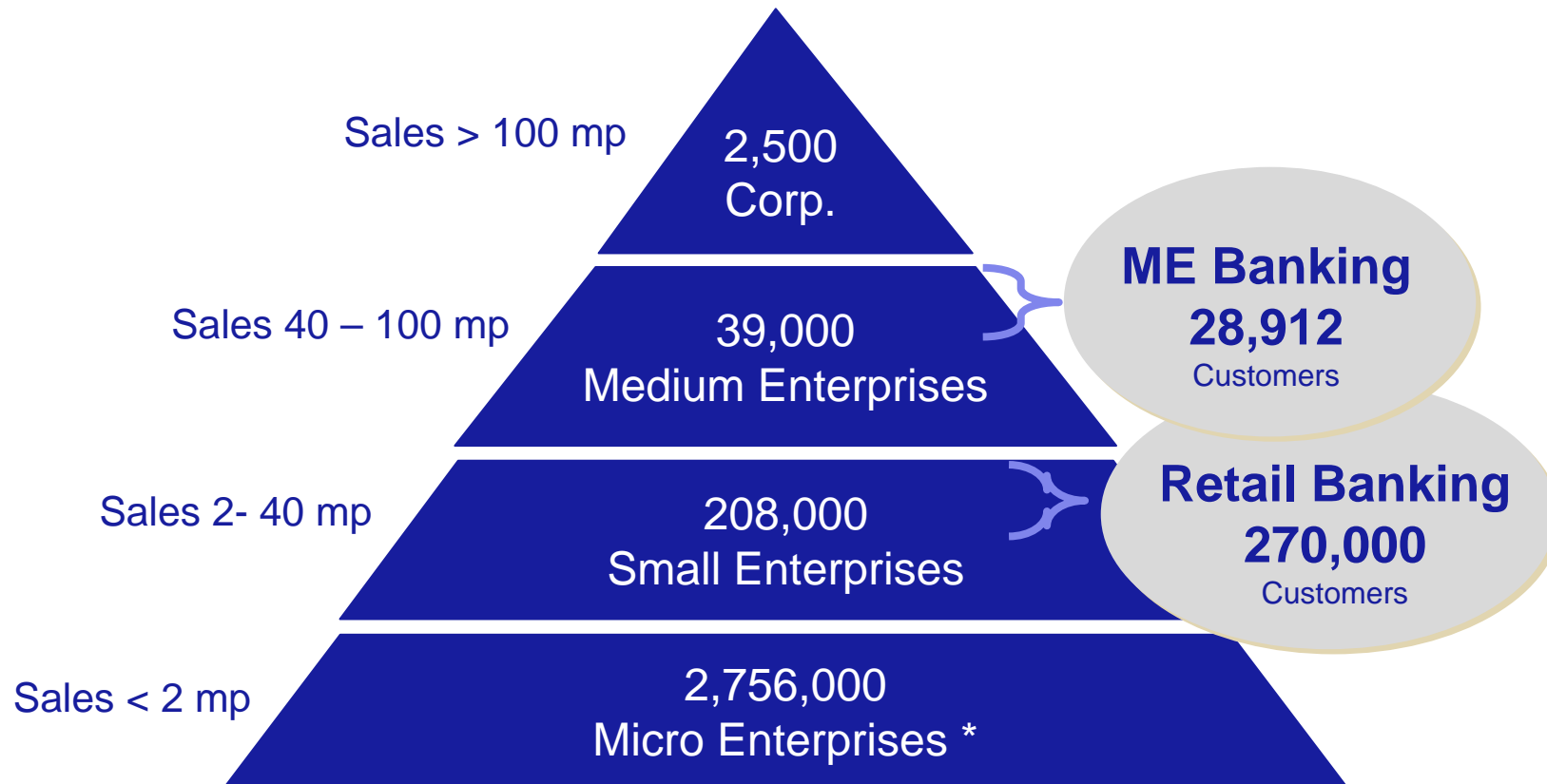
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- **Micro, Small, and Medium Enterprises**
 - **SME's market in Mexico**
 - **Track Record for Bancomer**
 - **Potential Market and Growth Strategy**



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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

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





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

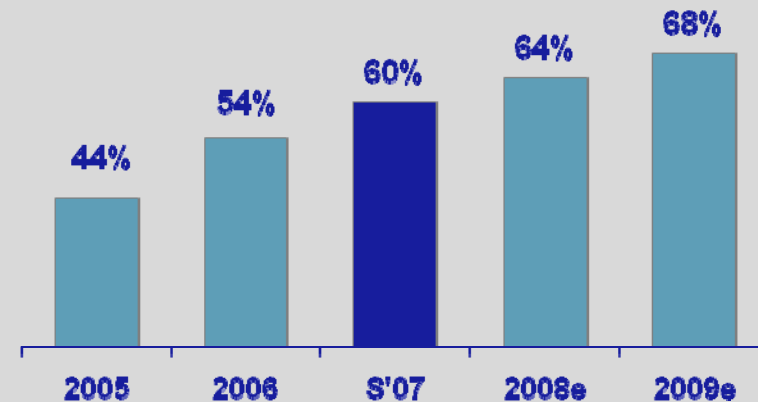
- POS's
- CIE
- DEM
- TIB/MDB
- Multipayments
- (Internet Solution)

Dispersion

- Payroll
- DIE

ME Banking Unit

Customers with 5 or more products or services



We develop long term relationships with our customers



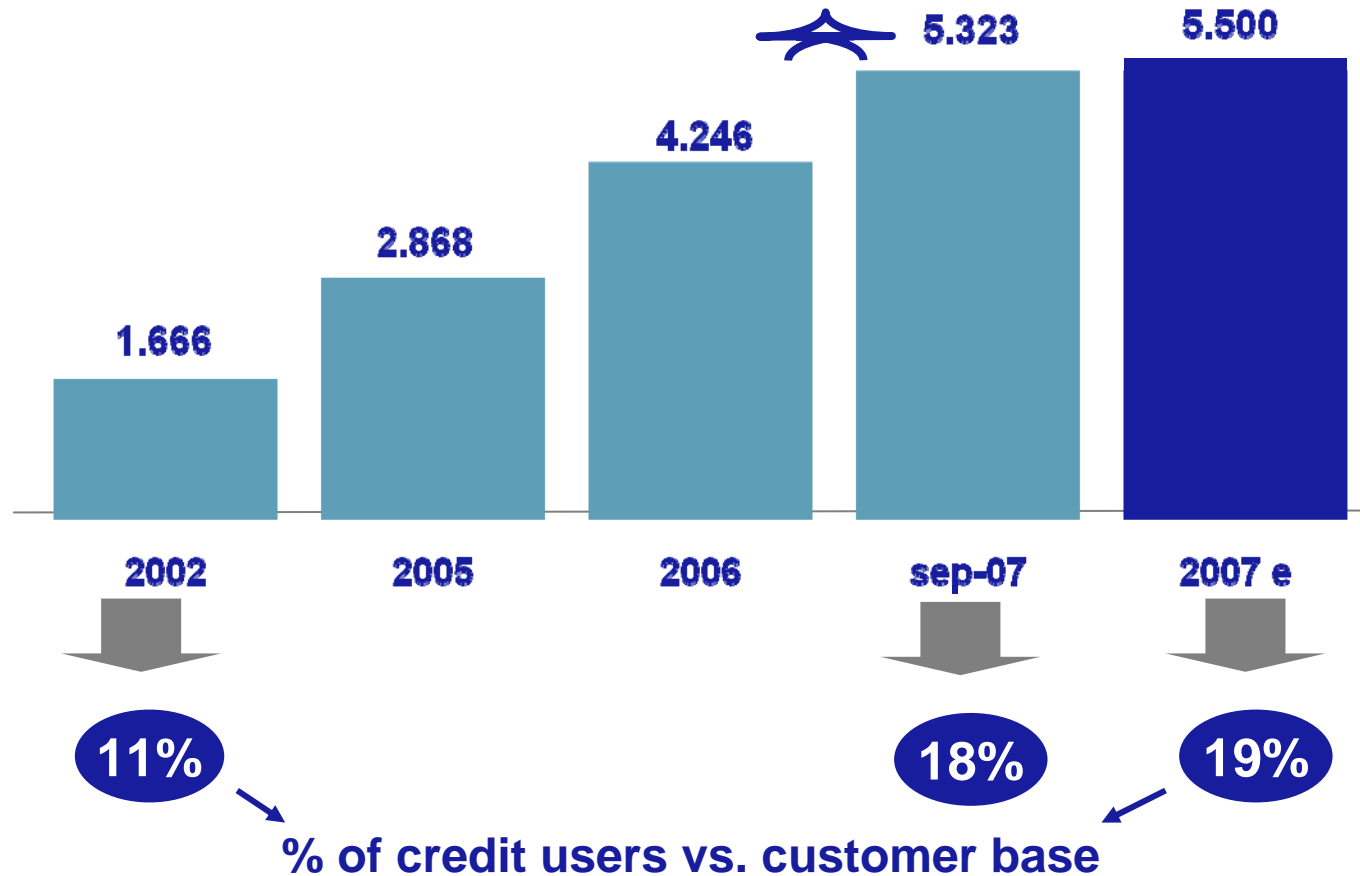
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We have supported economic activity by increasing the number of Medium Enterprises with credit

Medium Enterprises with Credit

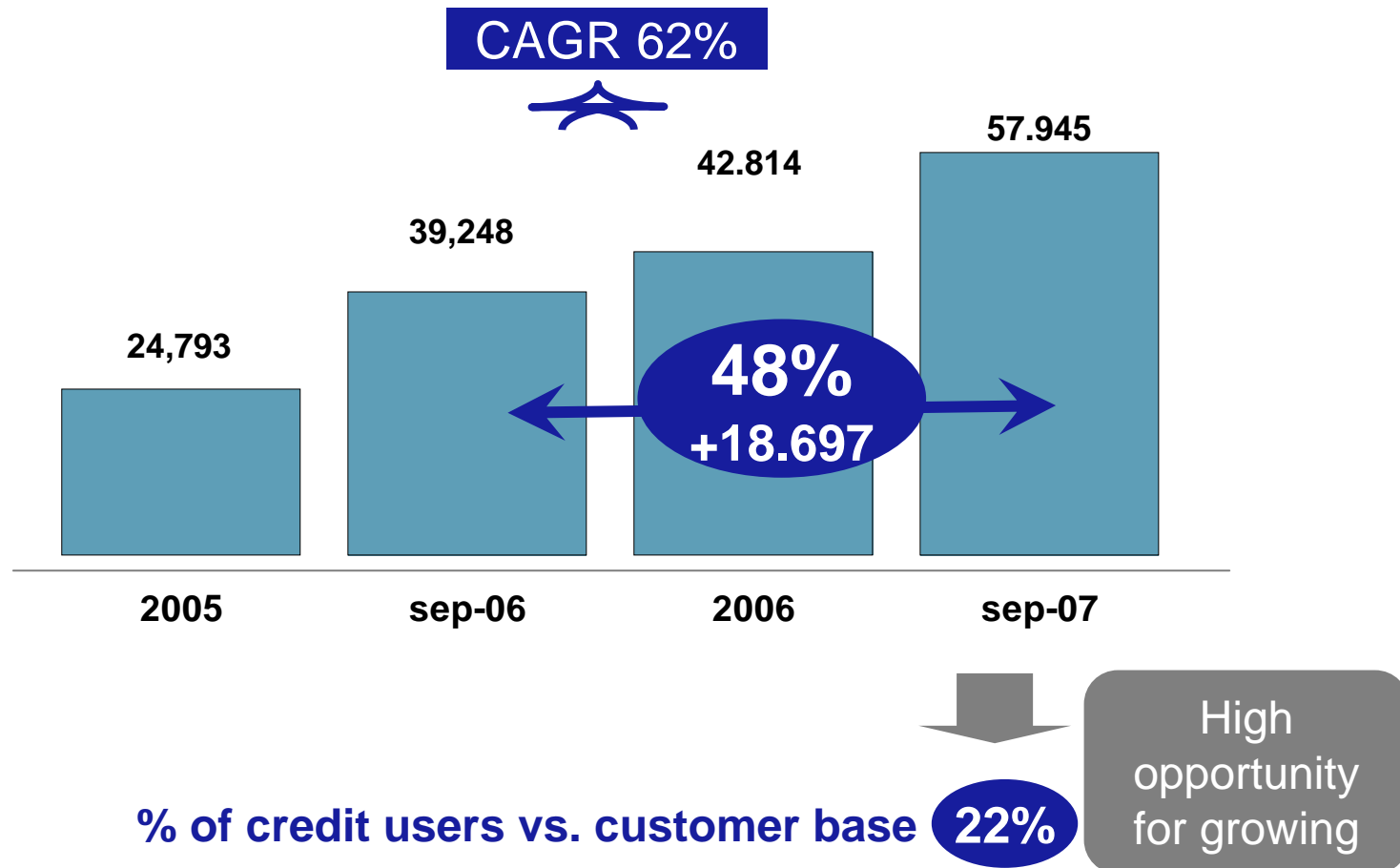
CAGR (2005-2007) 38%





...as well as increasing the number of Micro and Small Enterprises with credit

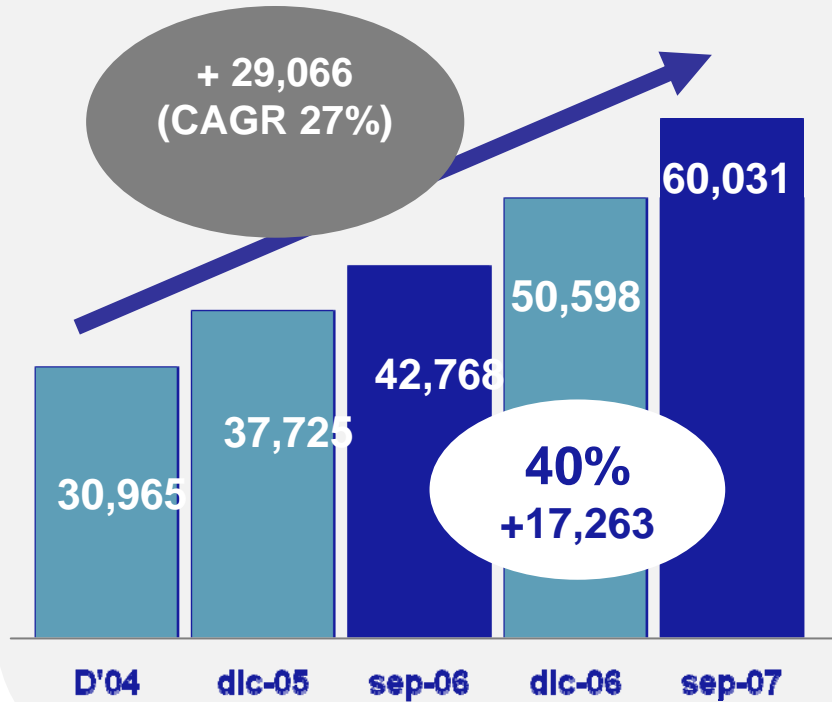
Micro and Small Enterprises with Credit



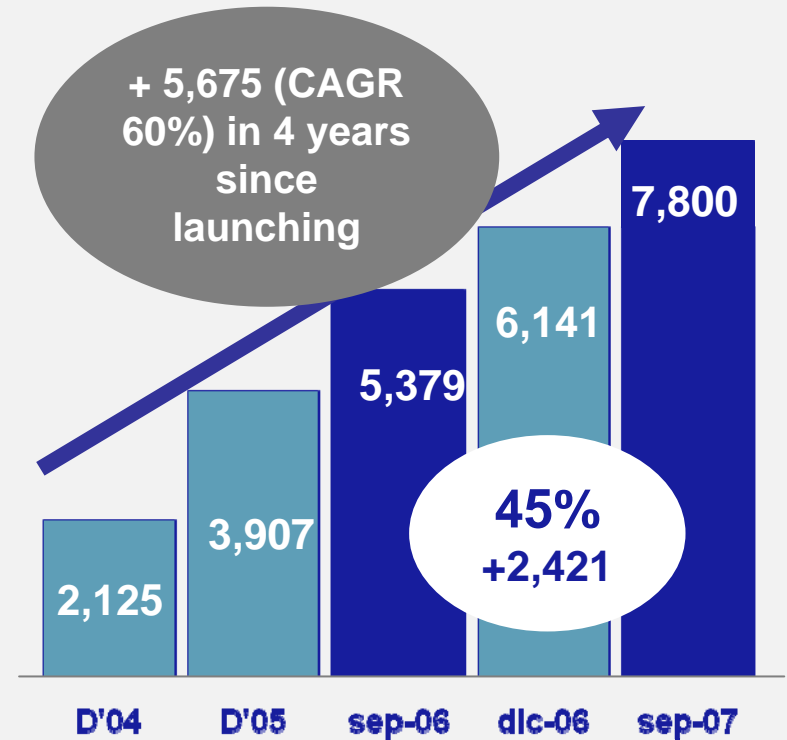


Annual growth of 40% in performing loans to Medium Enterprises and 45% to Micro and Small Enterprises in the last twelve months

ME Segment



Micro and Small Enterprises



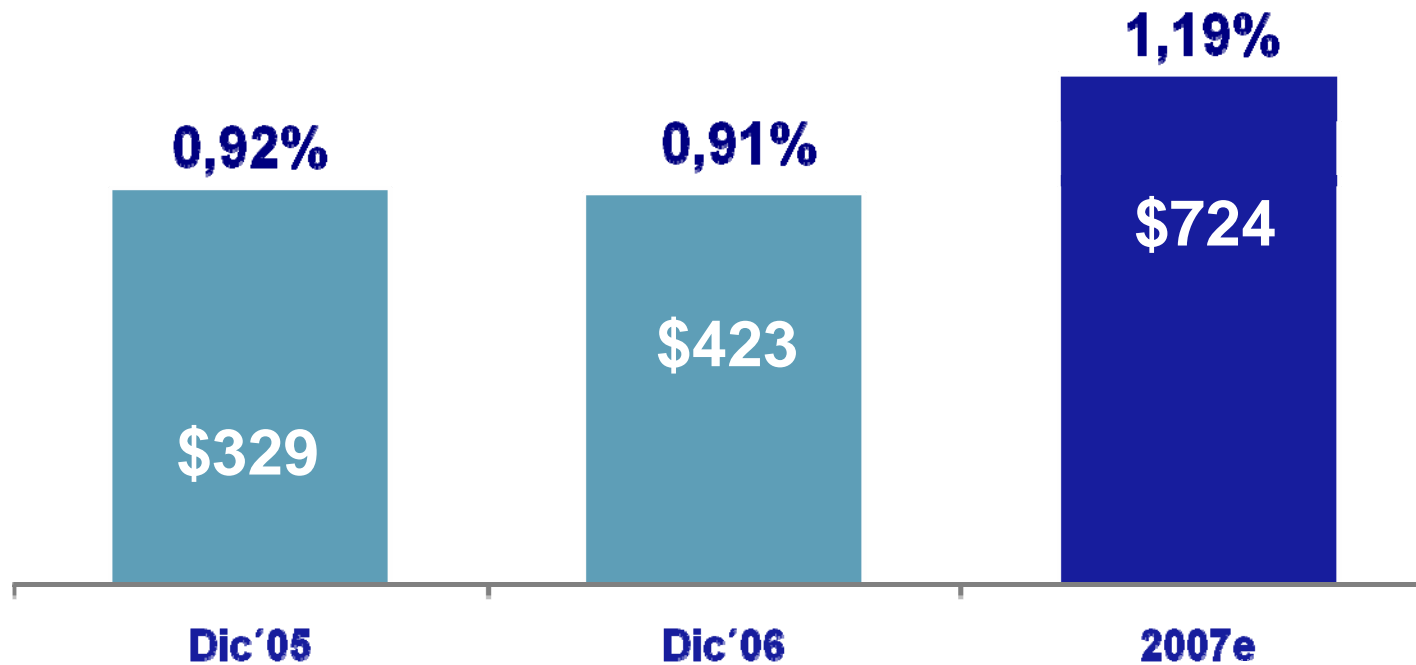
New revolving balance of \$44,554 for ME's in the last twelve months

Millions of Pesos



We have managed to keep on growing maintaining credit quality

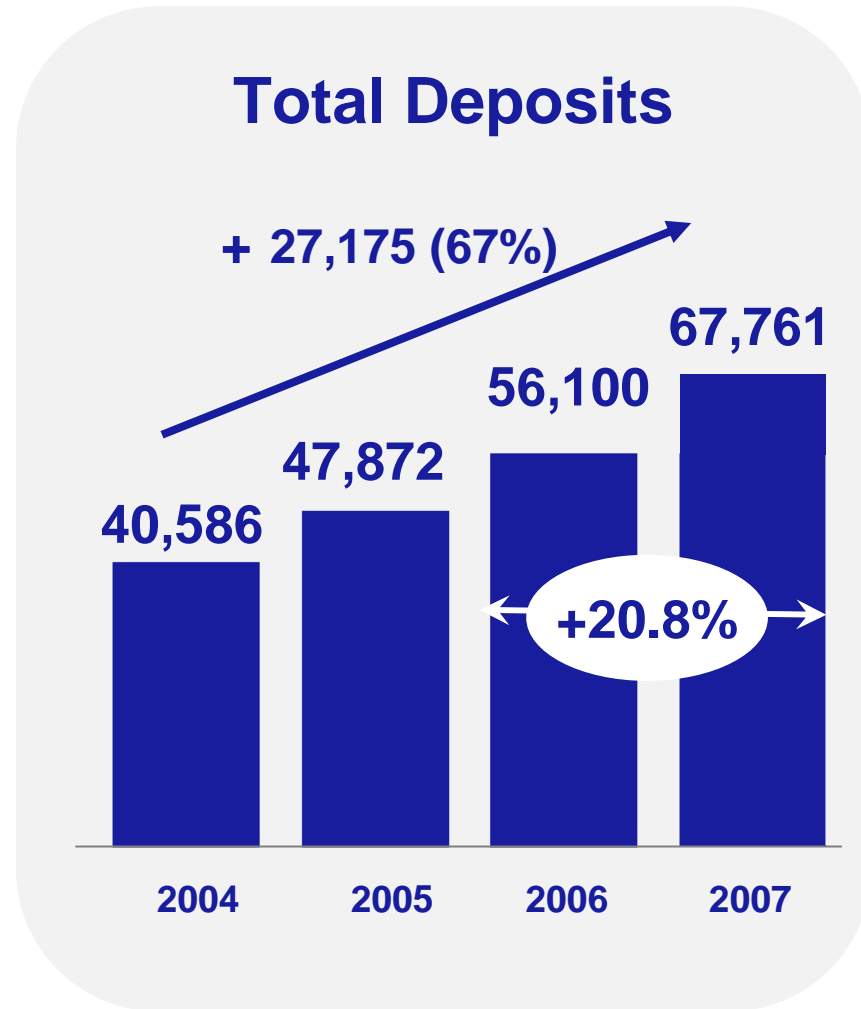
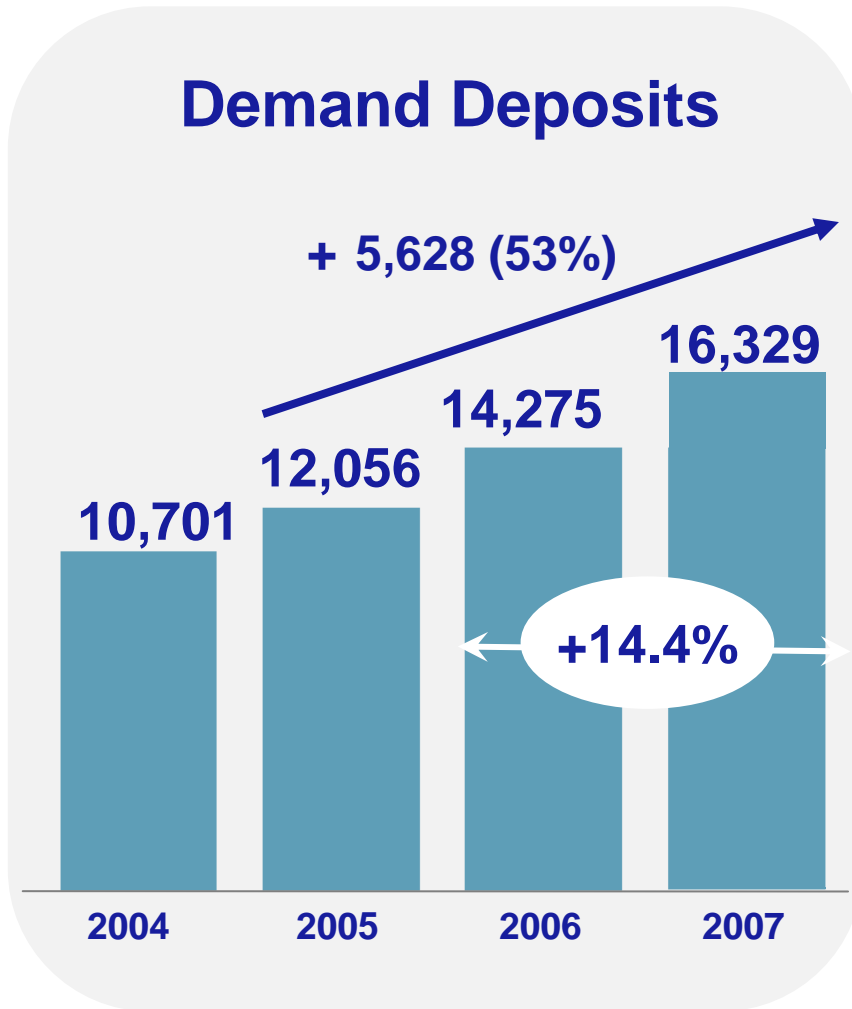
NPL Ratio for Micro, Small, and Medium Enterprises



NPL Balances in millions of Pesos



Deposits from Medium Enterprises show a growing trend and represent an important contribution to

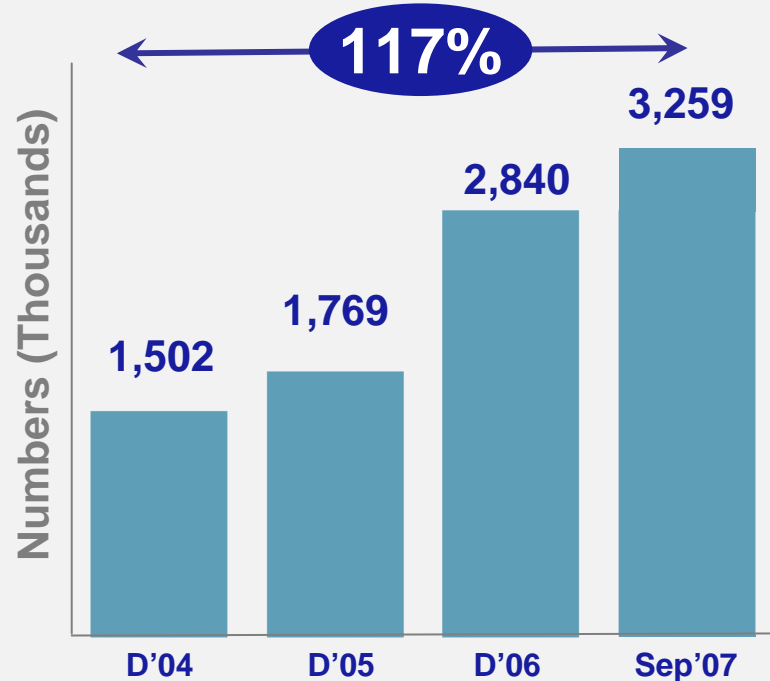


Millions of Pesos

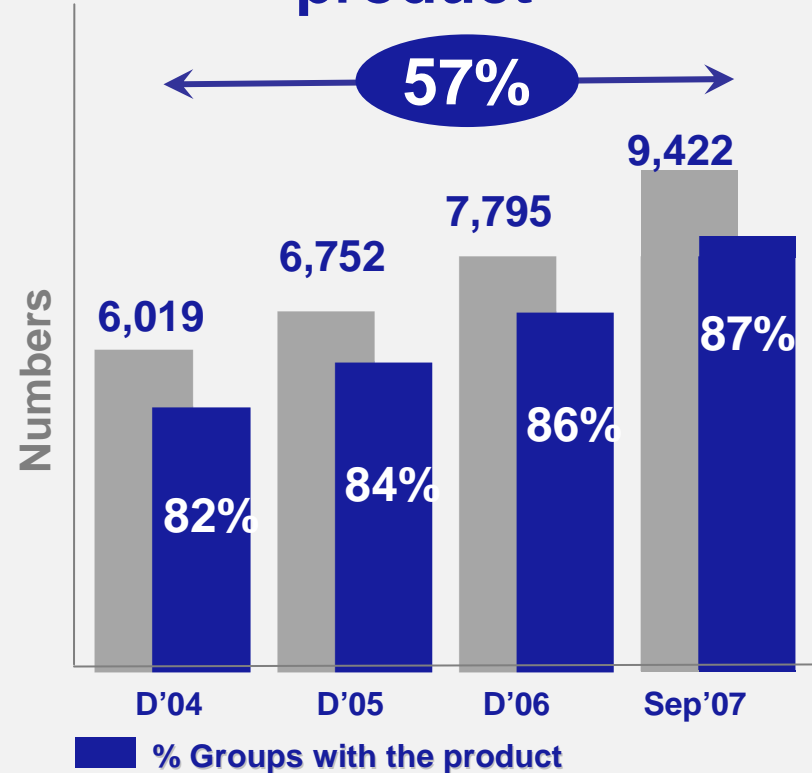


Cash Management is one of our most popular services for Medium Enterprises

Newly assigned products



Customers with the product

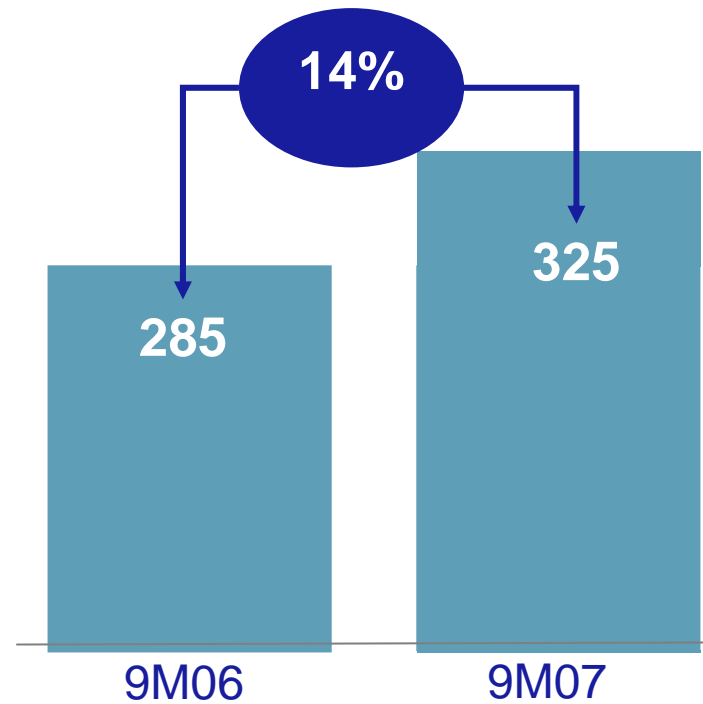


Electronic Banking includes Cash Windows and Bancomer.com



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



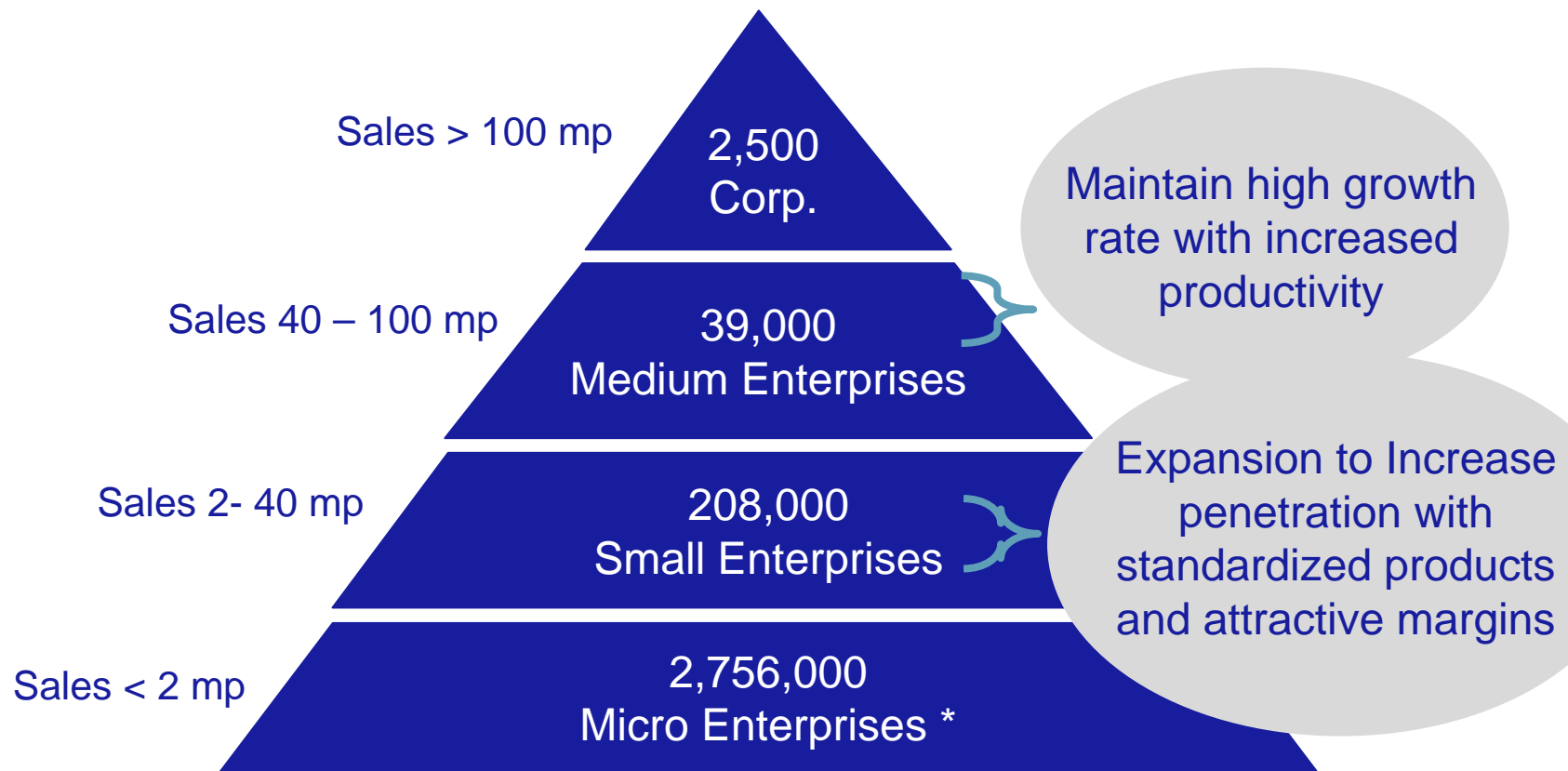
Figures in thousands



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Our growth strategy will be focused on Micro and Small Enterprises ...



* Micro Enterprises include individuals with business activity

Source: SIEM / INEGI



... 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

150
years

adelante



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