

150  
years

adelante



**BBVA** making the difference



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# Ignacio Deschamps

## General Manager Mexico

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*“Growing on a leading franchise”*

**BBVA** making the difference.



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- Track record and market positioning
- Stability and growth potential
- Innovation and Transformation
- Opportunities



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# Bancomer has delivered an outstanding track record

## CAGR 2004-07<sup>(1)</sup>

- 1 Leading the credit “boom”
- 2 Strategic focus in retail mass market
- 3 Strengthening of the deposit franchise
- 4 Superior financial results
- 5 Excellent fundamentals

Total loans +42%

Loans to individuals +66%  
Loans to SMEs & Businesses +32%

Demand Dep. + Mut. Funds +36%

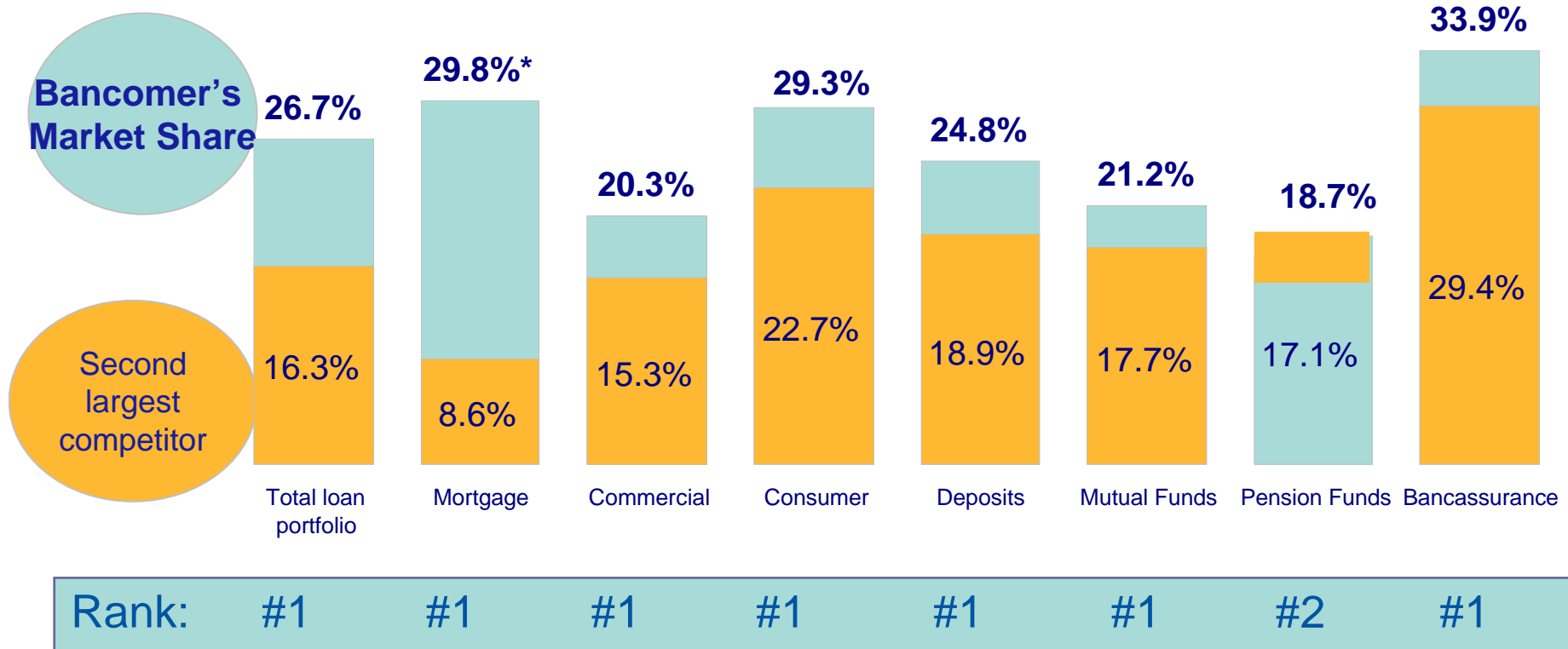
Net profit +27%

Efficiency Ratio	44.3%	→	34.4%
NPL Ratio	2.94%	→	2.32%
Coverage Ratio	267.5%	→	250.4%

(1) 2004-September' 07 annualised



# Bancomer is the clear market leader in Mexico



As of June 2007 Source: Comision Nacional Bancaria y de Valores. \* Including Sofoles



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Macro stability and unique  
market opportunities foster  
our growth in the future

**BBVA** making the difference.



# Mexico has become a more modern, stable and strong country ...

**Over the last two decades, Mexico has reinvented itself**

**Trade agreements  
& free capital flows**

**Deregulation &  
legal framework**

**Privatization &  
fiscal discipline**

**Fully independent  
Central Bank**

**Low and stable inflation and economic cycles**

**Exports have shifted away from commodities  
towards value added industrial goods**

**Stable exchange rate and no current account  
vulnerability**

**Strong fiscal position and public debt mainly in  
pesos with longer maturities**

**Sound and well capitalized banking system and a  
well developed financial system**

**Steep increase in domestic saving ratios and credit  
to the private sector**



## ...whilst recent structural reforms brighten the macroeconomic outlook

### Fiscal Reform

- Improves even more the fiscal position
- Surge in public investment in infrastructure: (+1% GDP in 2008) and large incentives to private investment
- 2007-2012: positive contribution to economic growth from higher investment: +0.6% of GDP and + 700,000 new jobs

### Public workers pension reform (ISSSTE):

- Substitute “pay as you go” system for individual accounts and capitalization
- Contingent liabilities reduced from 57% to 35% GDP

% change	<u>2007e</u>	<u>2008e</u>	<u>2009e</u>
<b>GDP</b>	<b>3.0</b>	<b>3.4</b>	<b>3.7</b>
<b>Internal demand</b>	<b>4.1</b>	<b>4.3</b>	<b>4.6</b>
<b>Job Creation</b> (000's)	<b>800</b>	<b>700</b>	<b>800</b>

The Mexican economy shows today greater resilience based on:

1. Developing its domestic demand
2. Increasingly flexible and competitive economy
3. Stronger financial system

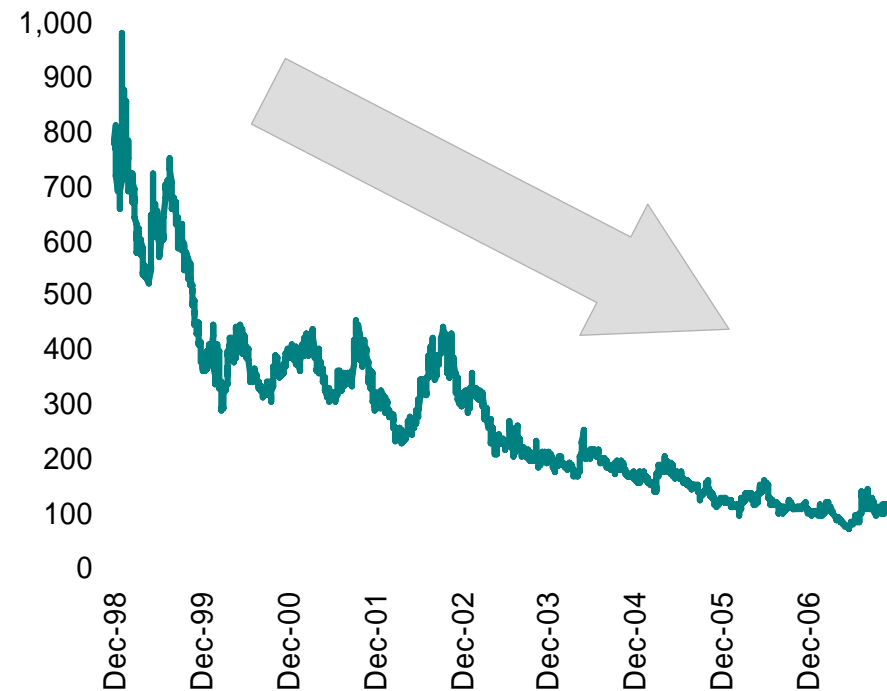


# The structural improvement has been gradually recognized in sovereign ratings and market spreads

## Mexico sovereign credit ratings\*

Investment Grade	S&P	Moody's
	AAA	Aaa
AA+ / AA / AA-	Aa1 / Aa2 / Aa3	
A+ / A / A-	A1 / A2 / A3	
2007 BBB+	Baa1	2007
2005 BBB	Baa2	2005
2002 BBB-	Baa3	2002
2000 BB+	Ba1	2000
1995 BB	Ba2	1995
BB-	Ba3	
B+ / B / B-	B1 / B2 / B3	

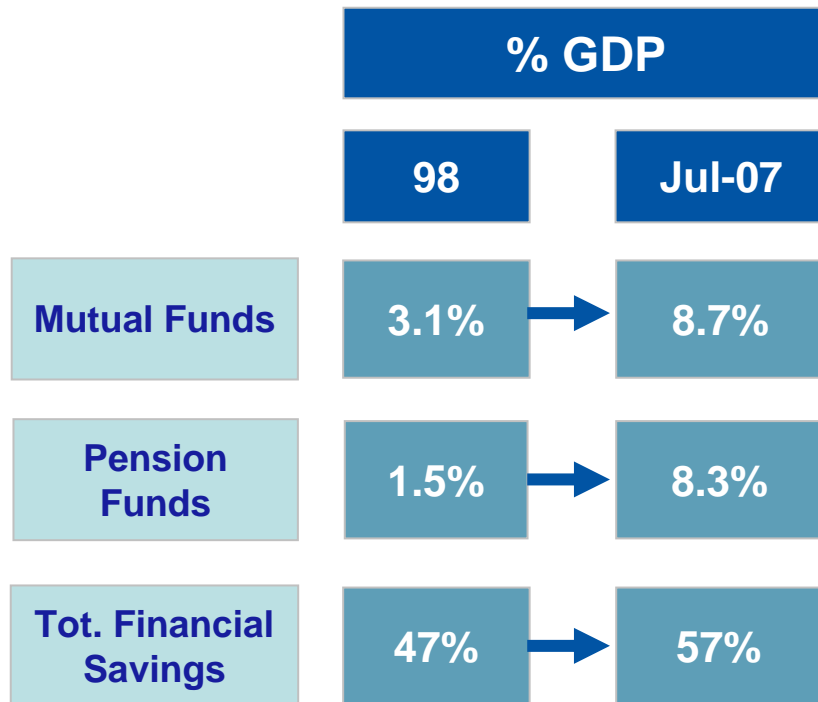
## EMBI + Mexico (bp)



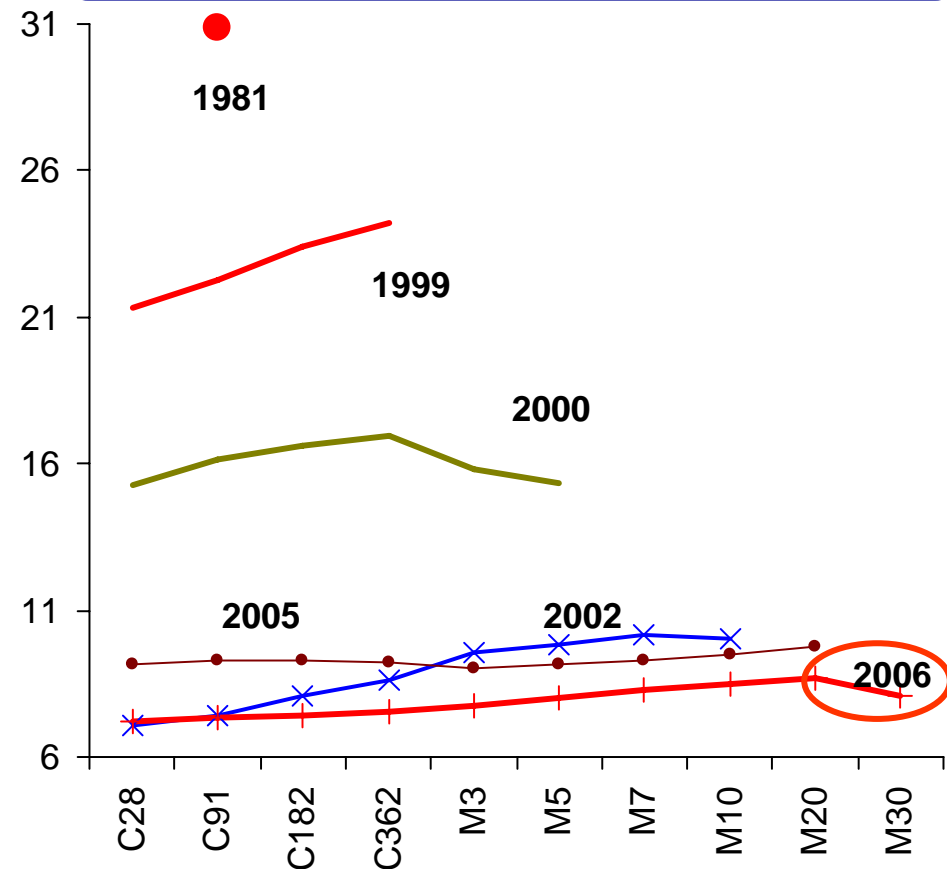
\*Global scale foreign currency long term debt



# Legal changes and capital markets development have strengthened the Mexican financial system



Interest rate curve evolution  
(fixed interest rate, %)





## Mexico offers unique opportunities for business: low credit and financial services penetration...

	Deposits / GDP (%)	Loans /GDP (%)	Mortgages /GDP (%)	Consumer /GDP (%)	Mutual funds /GDP (%)
Mexico	17	13	9	6	8
BRIC countries	48	25	3	7	15
Developed Countries	97	139	61	11	39

Source: WEO, IFS, Institutos de Estadística Nacionales

**Lower penetration ratios than BRIC countries**

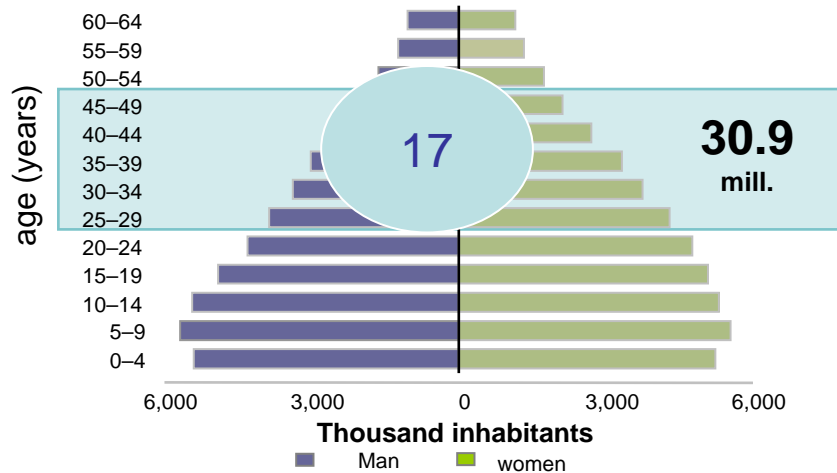
Notes:

Mutual Funds / GDP of BRIC: excludes China. Mutual Funds / GDP of Developed Countries: includes US, UK, Germany, France, Italy, Spain and Japan  
Consumer / GDP: BRIC, excludes China. Consumer / GDP: Developed countries considers only: US, UK, Germany, France, Italy, Spain



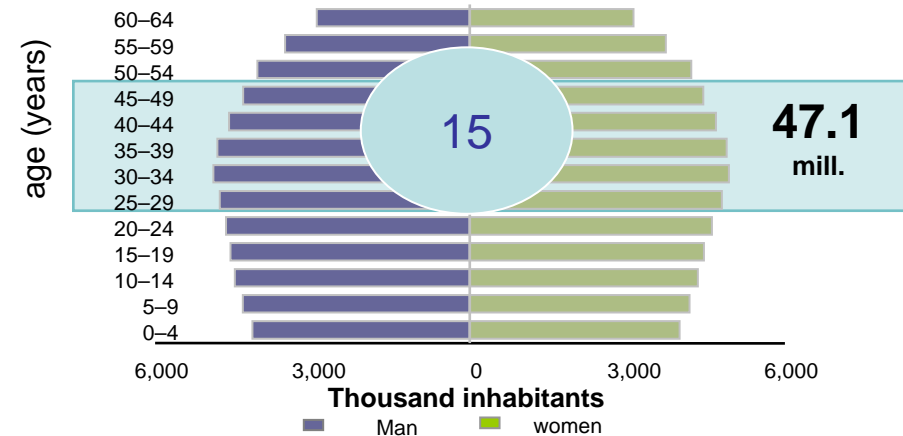
... especially when considering its very favourable population dynamic

Population pyramid 2000



+

Population pyramid 2025



32m people to bank over the next 20 years:  
17m un-banked today and 15m to reach 25-50 age bracket

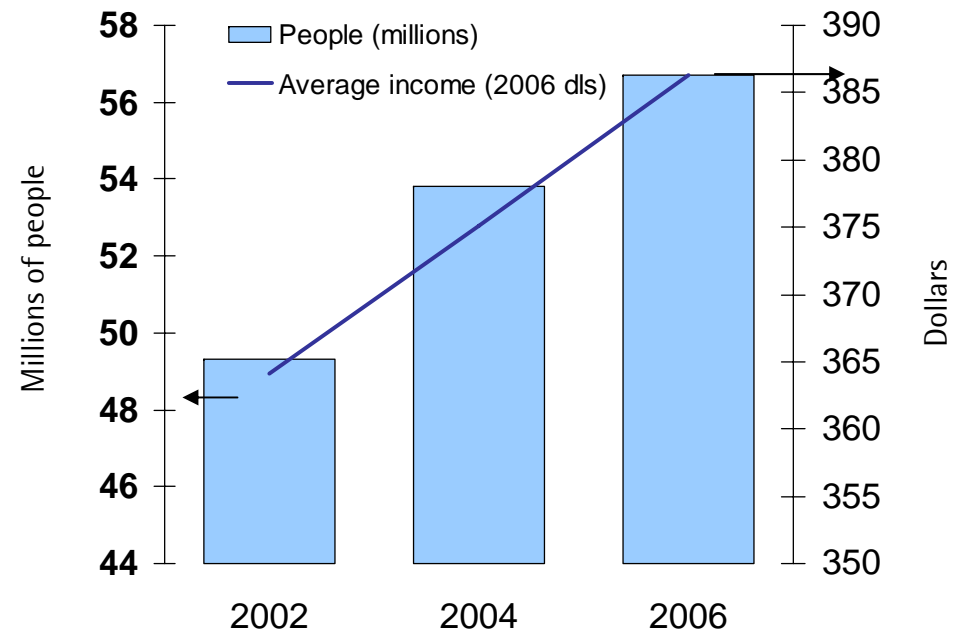


## ...and the opportunity arising from the expansion of the number of wage earners and their income

In the next 20 years:

- Low-wage earning population (15-34 years old) will fall 6.1% or 2.3 million
- Higher-wage earning population (35-54 years old) will rise 35% or 8.6 million

Wage earners: number of people and monthly average income







- Track record and market positioning
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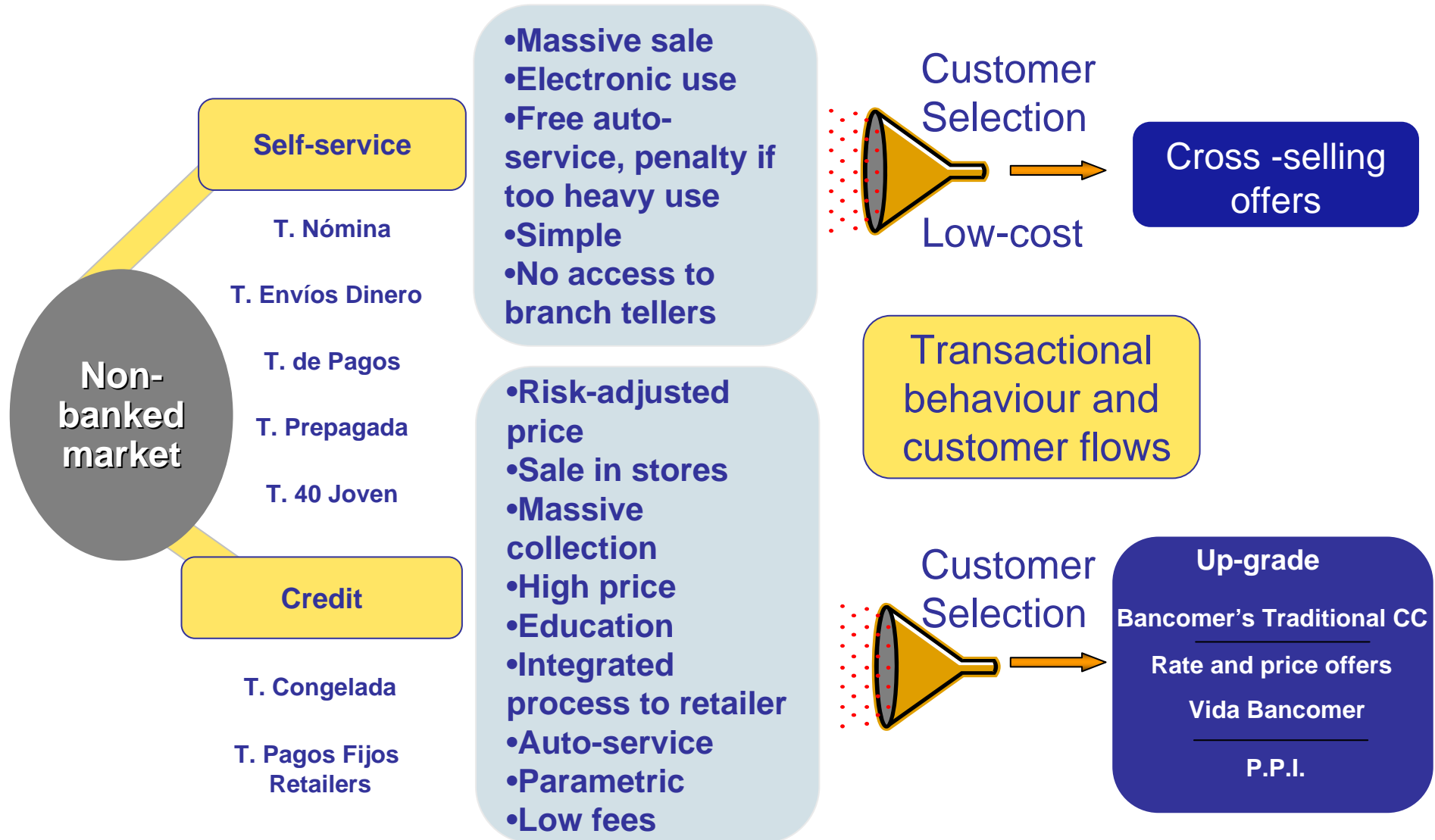


# Innovation as a lever to increase BBVA Bancomer leadership

- 1 Banking the un-banked
- 2 Segmentation
- 3 Cross-selling
- 4 Consumer loans and cards
- 5 Mortgages
- 6 Small business and SME's
- 7 Payment Systems
- 8 Pension funds - Afore
- 9 Project Finance
- 10 Asset quality



# 1.- Bancomer has developed a complete strategy to increase penetration to underserved segments...

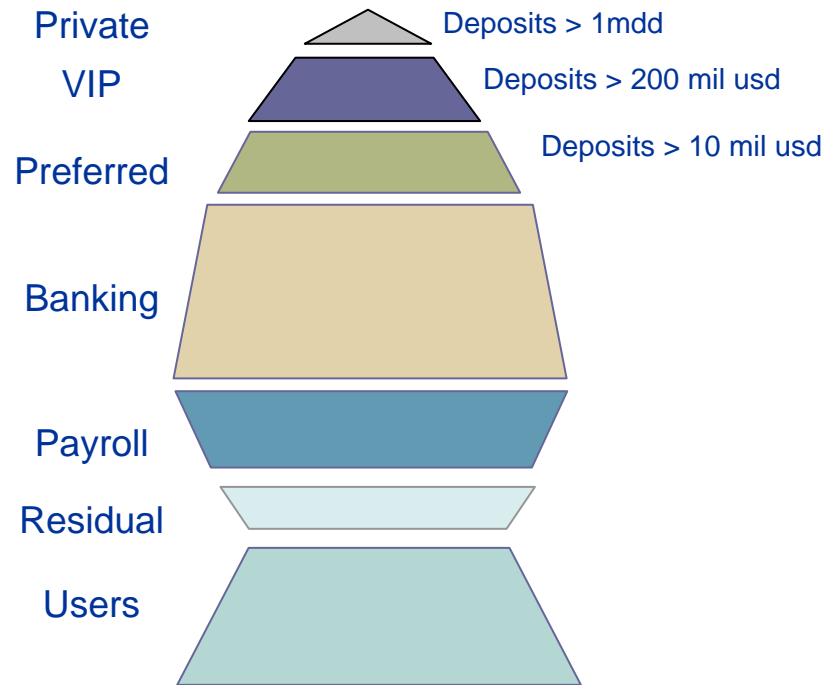


Private labeled credit cards



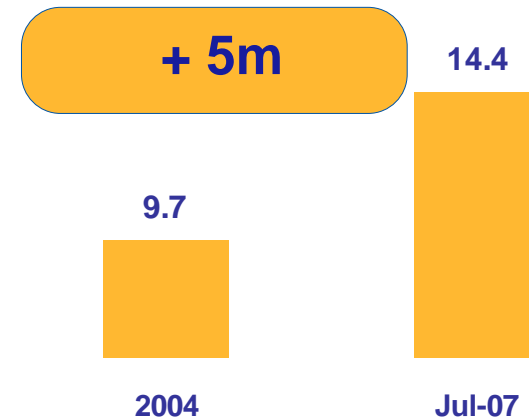
## 2.- Segmentation: complete differentiation of its large & expanding customer base to drive cross-selling

July 07 - 14.4m Customers

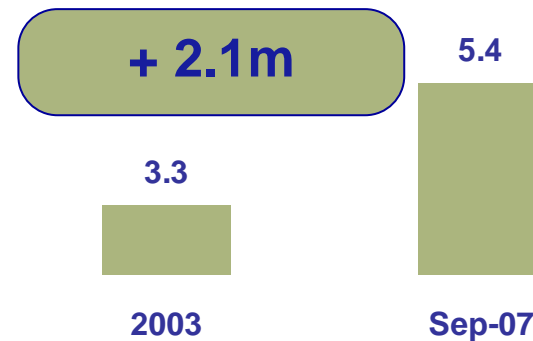


Customer segmentation to drive cross-sell

Number of customers (millions)



Payroll customers (millions)





### 3. Cross selling: increasing bundling in branch customers segments with special focus on profitable products

	% of total customers	% of total deposits	Products / customer	Penetration Mutual Funds	Penetration Retail Loans
Private	0.1	13.3	4.6	85%	59%
VIP	0.2	19.6	3.8	65%	47%
Preferred	3.4	22.7	2.5	34%	42%
Banking	46.9	32.7	2.0	3%	30%



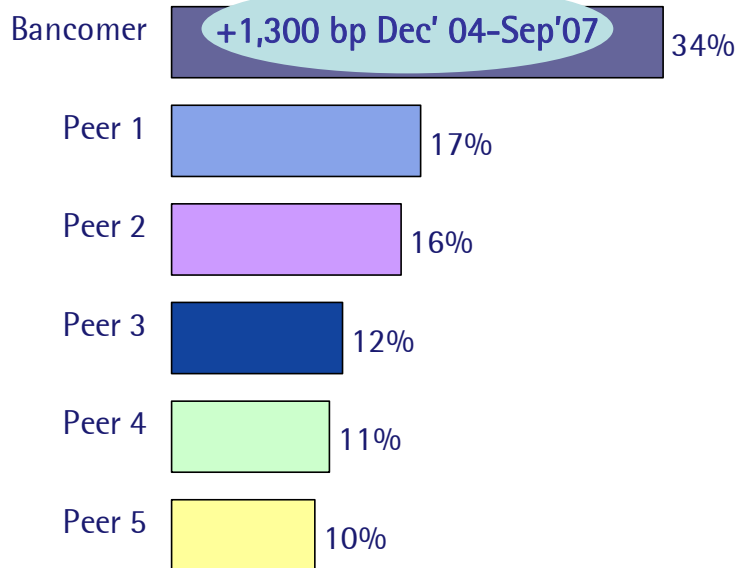
# 4. Consumer lending: new ideas to create customer solutions and grow above peers

Creditón Nomina

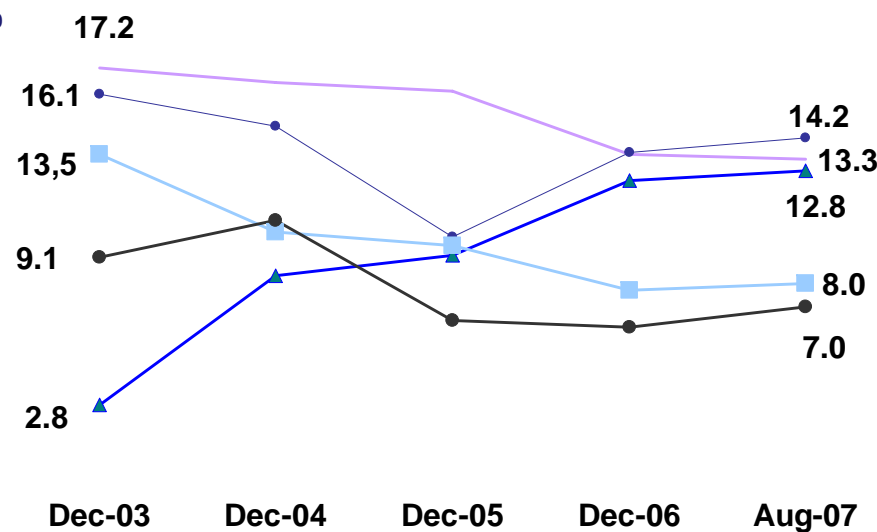
Personal Credit PPI

Automobile financing  
Finanzia

Consumer credit market share



New auto loan portfolio market share<sup>1</sup>



<sup>1</sup> Source: JATO

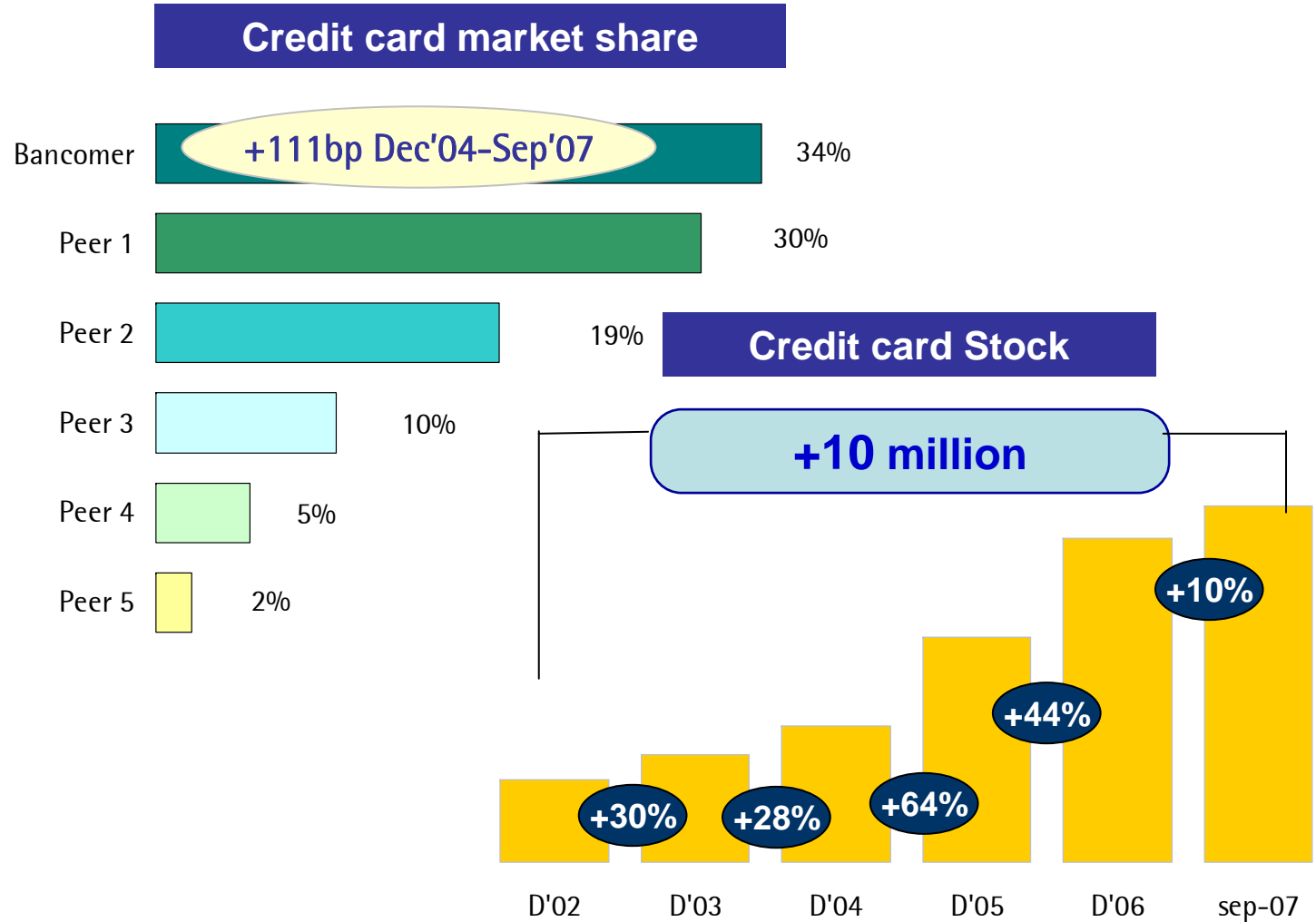
\* Auto-makers financials

\*\* Banks



# 4. Credit cards: constant innovation taking advantage of our technology and critical mass

- Tarjeta Instantánea 2007
- Tarjeta Platinum 2006
- Vida Bancomer 2005
- Tarjeta Congelada 2004
- Tarjeta Mini (Latam) 2003
- Chip 1998
- Meses sin intereses 1997

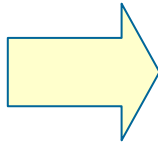


Source: BBVA Bancomer

Key to bancarise mass retail segments

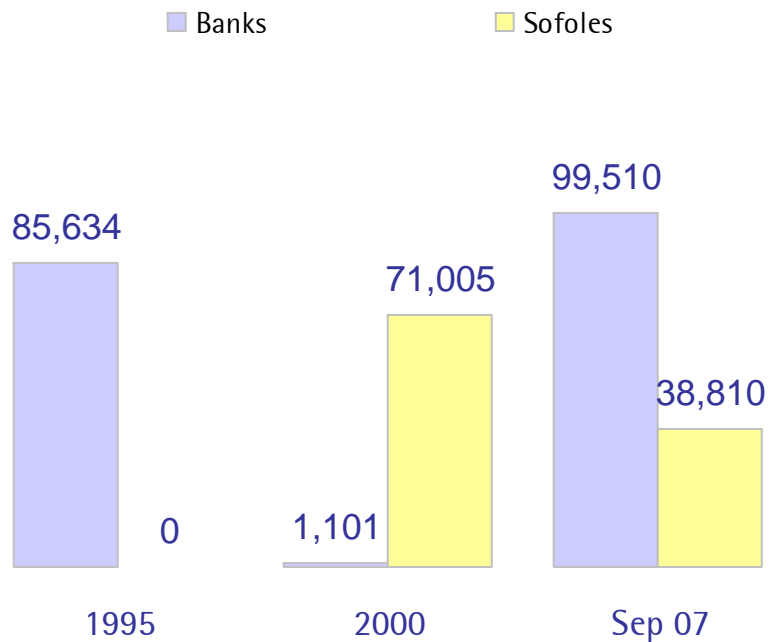


# 5.- Mortgages: the acquisition of Hipotecaria Nacional has transformed the mortgage business

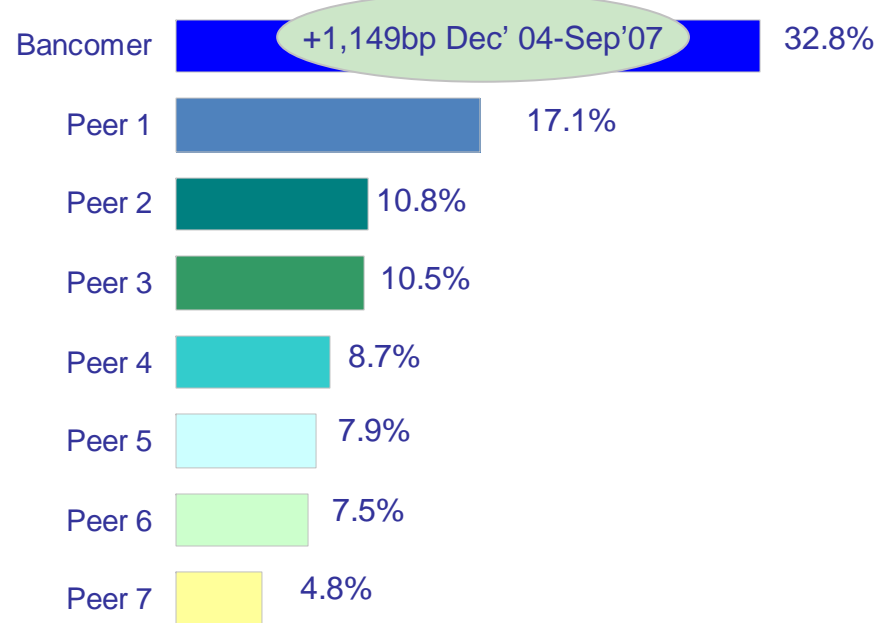


**Strong competitive advantages**  
**Complete change in market structure**

**New mortgages (#)**



**New mortgages market share**



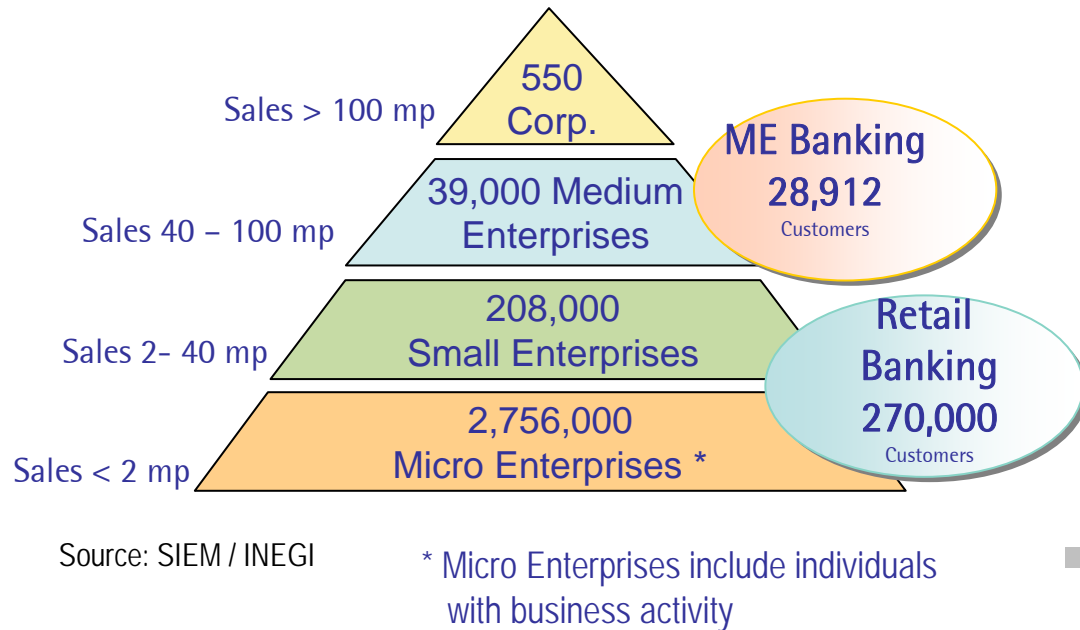
**Current housing deficit of 4.3 million homes**  
**1.1 million mortgages estimated in 2009**



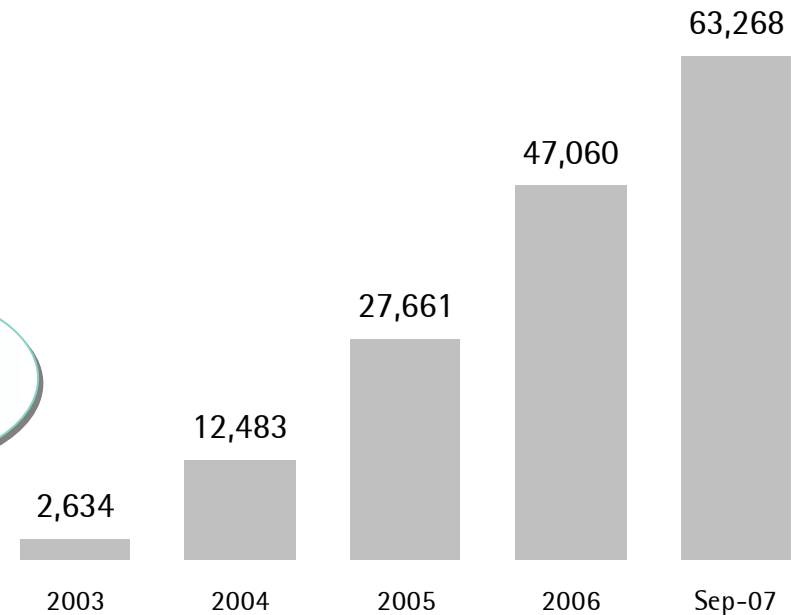


## 6. Small business and SME's: Bancomer has built a specialized network for this segment, a market with enormous potential

### Market size



### Companies with credit



**58% of clients have more than 5 families of products with Bancomer**



# 7. Payment systems: making use of technology to deliver more efficient payment systems

Tarjeta 40



Pagobus



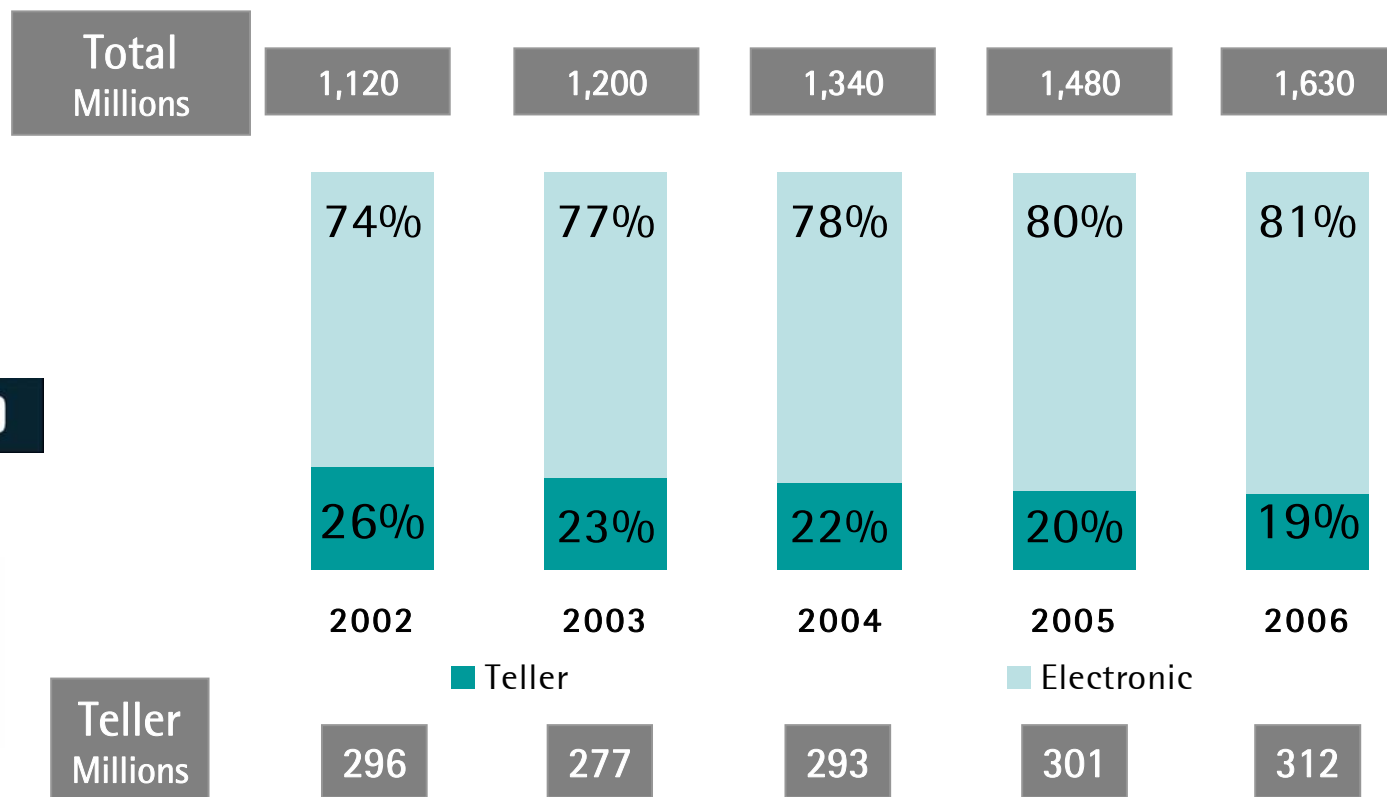
Celopago



Telepeaje



## Number of transactions

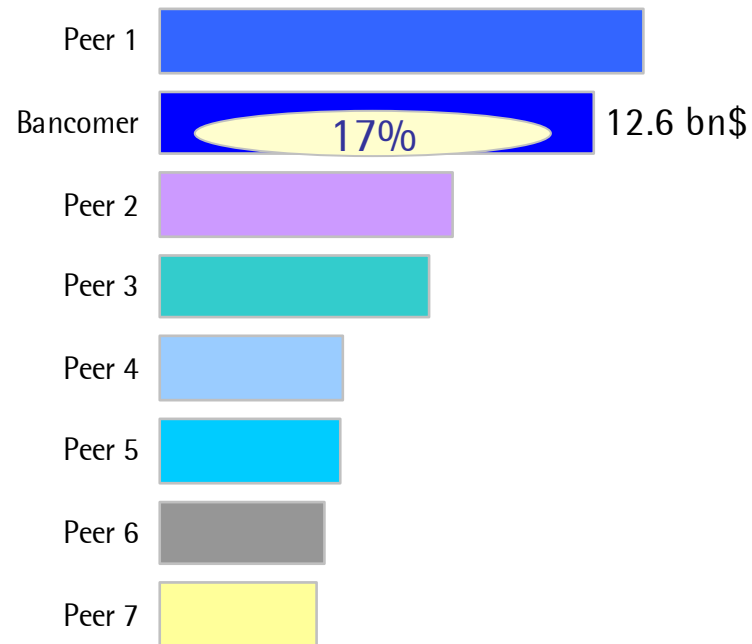




## 8. Pension Funds - Afore: keeping first positions in a highly competitive market

### Market Share

Assets under management (bn \$)



2006: aggressive pricing strategy to increase market share

2007: First Afore to change fee base; from inflows to balances

- Transparency in fee cost to workers
- Potential increase in Afore's net income explained by:
  1. Fee charge to idle retirees
  2. Higher income from higher balances

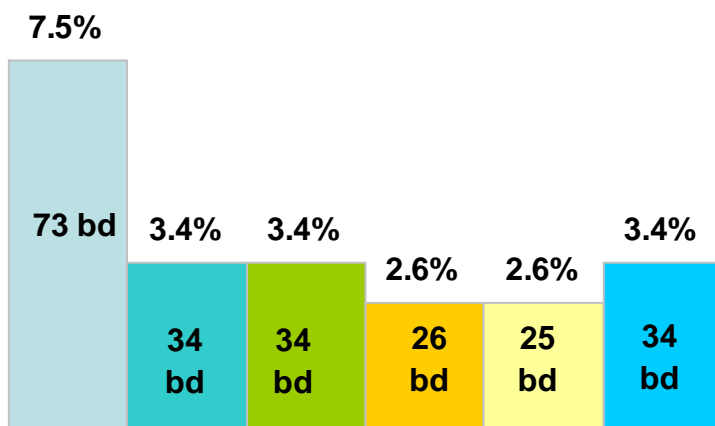
With the new fee scheme, Bancomer has become the third cheapest administrator in the system, key for attracting new participants



# 9. Project Finance: combination of innovation and experience gives strong presence in this market

## Total investment in infrastructure (2007-2012, % GDP)

**Total: \$226 bn, 23% of GDP**



■ Hydrocarbon production    ■ Electricity  
■ Oil refining and derivatives    ■ Telecommunications  
■ Highways    ■ Others

## Innovation and Experience: Highlights

- Leadership in structuring and issuance of toll road bonds, 43% market share
- 2006: Largest refinancing operation for energy plants (\$1.7 bn)
- 2005: First syndicated loan with payment based on Airport Tariffs “TUA”
- 2004: First mortgage structured transaction
- 2003: First issuance a full wrap bond

## Main infrastructure financing in 2008

**Highways: \$ 3.9 bn**

**Energy: \$ 7.7 bn**

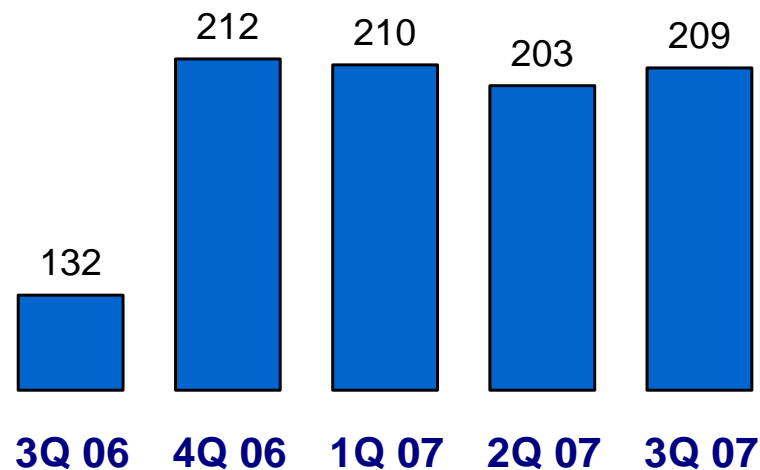
Thousand of million pesos. Source: Plan Nacional de Infraestructura 2007-2012, escenario base.  
 \* Total needs to be financed through public and private resources



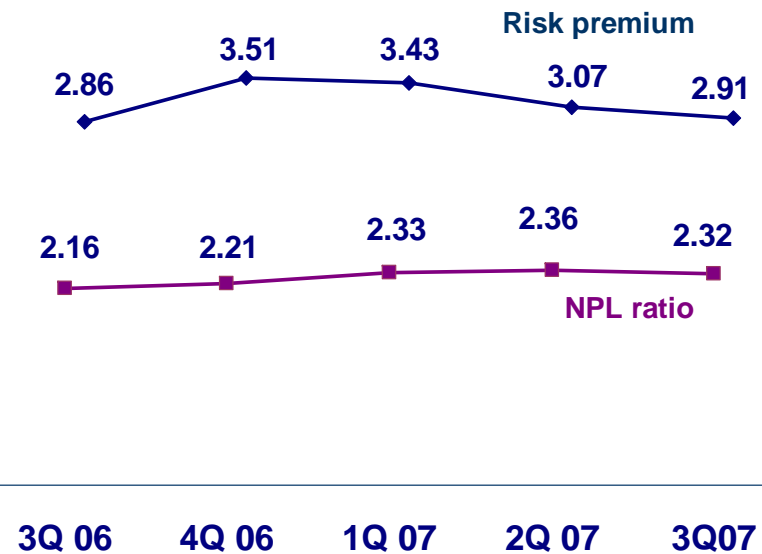
## 10. Credit quality: constant upgrades in risk modeling tools derive in positive results

Provisions, NPL ratio and risk premium have stabilized in recent quarters as a result of an active and strict risk management

Provisions (constant €m)



NPL & Risk premium (%)



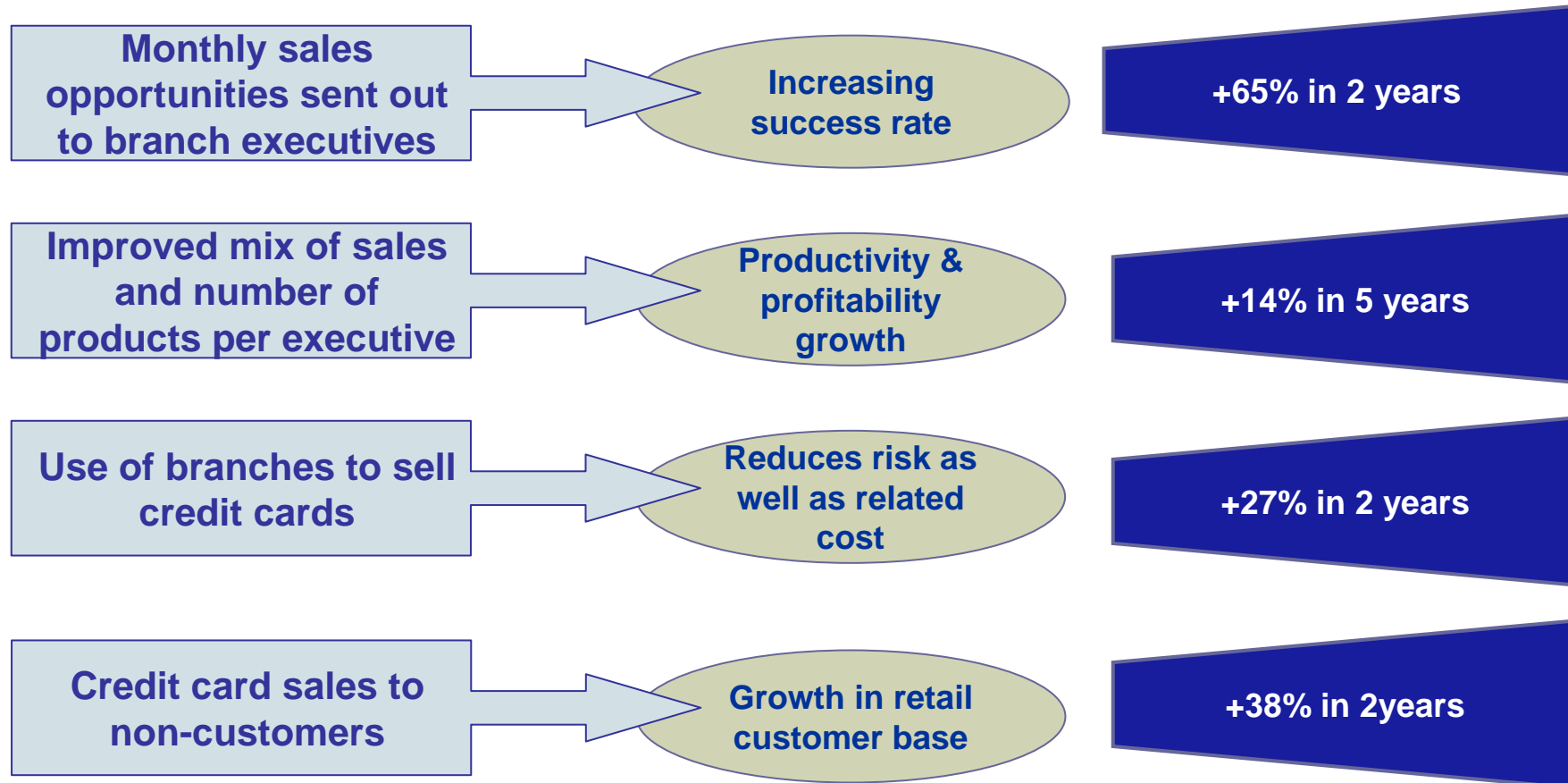


Transformation of our ways  
of working to become  
more efficient

**BBVA** making the difference



# Transformation of retail branches from transaction points to points of sale





## Transformation of incentives and of strategic focus resulting in higher network productivity...

### Sale mix per executive

	<b>2001</b>	<b>2007</b>	<b>CAGR</b>
Demand deposits	53%	32%	4%
Credit	6%	22%	44%
Direct Debiting	9%	24%	33%
Insurance	24%	14%	5%
Other	8%	8%	14%
<b>Monthly products</b>	<b>A</b>	<b>B</b>	<b>14%</b>





... using our spaces to sell and transform users into customers



Special sales force



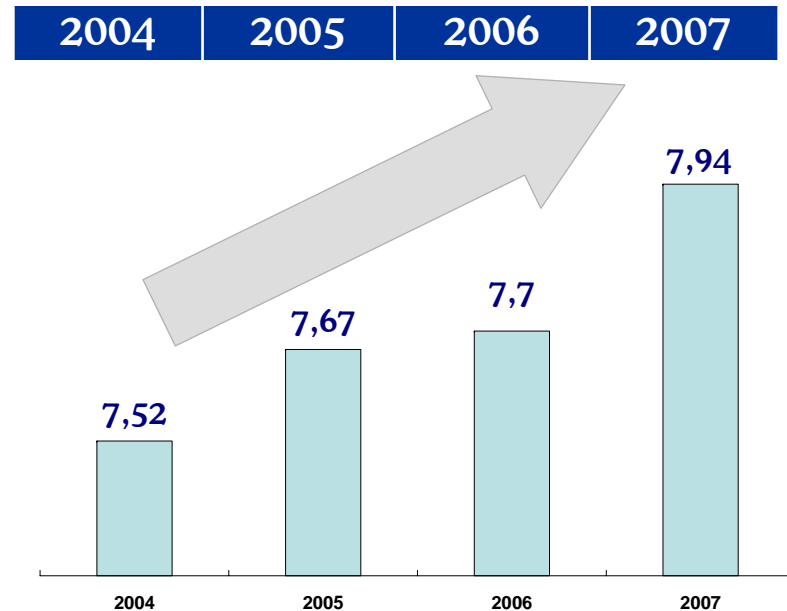
# Transformation of branches to an automated system aimed at reducing queuing time for customers and service quality

## % of branches in time of promised service

Preferred 10 min 99%  
Customers 15 min 98%  
Companies 15 min 98%  
Users: reasonable time but higher



## Survey: Customer Satisfaction



More than 440 branches with new system



# Garantías Bancomer is the most tangible example of our commitment to continue improving the service



Garantía de aclaraciones



Garantía contra fraude



Garantía entrega de TDC



Garantía reposición TDC



Garantía pago domiciliado

Garantía de alertamiento



Garantía dispersión nómina



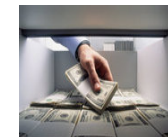
Garantía Cash Windows



Garantía Kit's nómina



Garantía depósito remesas





- Track record and market positioning
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**We have ambitious business goals for the next three years**

## **Clients and loan portfolio**

**Retail customer base:  
+ 4 million to 18 million clients**

**Consumer portfolio: 2.5 x  
Mortgage portfolio: 3x**

**Higher penetration with SMEs:  
Loan portfolio growth: 2.5x**

**Bottom line cruising speed around 20% (2008-2010)**



# Conclusions

**BBVA Bancomer has consolidated its position as the Mexican banking leader**

**Strong financial results and highly profitable franchise**

**Significant increase of the loan portfolio focusing in the most profitable segments**

**Innovation as a lever to expand market leadership**

**High growth potential: unique opportunities for the banking system**

**BBVA Bancomer continues to grow above its peers**

150  
years

adelante



**BBVA** making the difference