Mexico’s Financial System and the Impact of the Global Recession

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BBVA Bancomer
The George Washington University
The Center for Latin American Issues
1) BBVA Group

2) BBVA Bancomer

3) Mexico, Economic Outlook

4) Mexico, Banking System
BBVA has developed a strong process of international expansion since 1995...

* Acquisition assisted by the FDIC
Increasing its global presence

More than 46 million of clients in 32 countries
BBVA is positioned among the most important banks of Europe.

Market Capitalization
(€ Billions, 31st December 09)
BBVA is one of the strongest banks at international level

<table>
<thead>
<tr>
<th>Its strength is based on ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low leverage</td>
</tr>
<tr>
<td>Quality of earnings</td>
</tr>
<tr>
<td>Comfortable liquidity</td>
</tr>
<tr>
<td>Recurrent revenues</td>
</tr>
<tr>
<td>High asset quality</td>
</tr>
<tr>
<td>Strict cost control</td>
</tr>
<tr>
<td>No subprime portfolio</td>
</tr>
<tr>
<td>Core capital generation</td>
</tr>
<tr>
<td>Recognized solvency</td>
</tr>
<tr>
<td>Special effort in provisioning</td>
</tr>
</tbody>
</table>

... leading to high profitability
Focus on “core” businesses

- Recurrent earnings
- Deliberate strategy to reduce market share in higher risk segments

Long-term vision

- Based on the customer relationship
- Importance of principles

Prudent management of balance sheet

- Financed with stable funds from retail customers
- Low leverage
- Transparency (all on balance sheet)
With transformation as the main lever driver of the business productivity and efficiency

Branches

Automation of servicing

Multichannel strategy

Point of sale

Net

New ATMs

One customer for the bank

One bank for the customer

Multichannel CRM
<table>
<thead>
<tr>
<th>EARNINGS</th>
<th>FUNDAMENTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>Efficiency</td>
</tr>
<tr>
<td>+8.9%</td>
<td>40.4%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>ROE</td>
</tr>
<tr>
<td>+17.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Net attributable</td>
<td>NPA ratio</td>
</tr>
<tr>
<td>profit</td>
<td>4.3%</td>
</tr>
<tr>
<td>(excl. one-offs)</td>
<td>Coverage</td>
</tr>
<tr>
<td>2009: US $ 7,578m</td>
<td>57%</td>
</tr>
<tr>
<td>2008: US $ 7,426m</td>
<td></td>
</tr>
</tbody>
</table>

Cost of risk*: 1.15%

* 2009 cost of risk before one-offs
Exchange rate: End of period 1.4406
Excellent positioning in diverse markets

Net attributable profit (%)

- **Spain & Portugal**: 52.2%
- **Mexico**: 29.9%
- **South America**: 19.2%
- **USA**: -23.5%
- **WB&AM**: 22.2%
USA: moving further ahead

With an strategy able to generate value in the long term
BBVA Compass, an excellent franchise

1st regional bank in the Sunbelt

Loans: US $49bn

Deposits: US $46bn

785 branches in 8 states

15th largest US commercial bank

100 million population potential market

Population growth 2005-2015: 10.4% vs average of 6.0%

Exchange rate: End of period 1.4406
Agenda

1) BBVA Group

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BBVA Bancomer is the leader of the Mexican banking system

Market Share (%)

BBVA Bancomer

2nd largest competitor

<table>
<thead>
<tr>
<th>Category</th>
<th>BBVA Bancomer</th>
<th>#1</th>
<th>#1</th>
<th>#1</th>
<th>#1</th>
<th>#1</th>
<th>#1</th>
<th>#2</th>
<th>#1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>26.5%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.7%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>28.0%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Commercial</td>
<td>21.4%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Consumer</td>
<td>29.7%</td>
<td>24.9%</td>
<td>24.9%</td>
<td>24.9%</td>
<td>24.9%</td>
<td>24.9%</td>
<td>24.9%</td>
<td>24.9%</td>
<td>24.9%</td>
</tr>
<tr>
<td>Deposits</td>
<td>25.5%</td>
<td>20.5%</td>
<td>20.5%</td>
<td>20.5%</td>
<td>20.5%</td>
<td>20.5%</td>
<td>20.5%</td>
<td>20.5%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>21.6%</td>
<td>16.5%</td>
<td>16.5%</td>
<td>16.5%</td>
<td>16.5%</td>
<td>16.5%</td>
<td>16.5%</td>
<td>16.5%</td>
<td>16.5%</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>18.2%</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.7%</td>
<td>18.7%</td>
</tr>
<tr>
<td>Insurance</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
<td>44.0%</td>
</tr>
</tbody>
</table>

Source: CNBV, SHF, CONSAR, AMIIS y AMIB. Figures as of December 2009
1 Gross Loans
2 Includes Sofoles, excludes securitizations
3 Data as of September 2009
With presence in all Mexican States, being leader in 27 out of 32

Leader in deposits 2009

Municipalities  566

# 1 in 27 States

# 2 in 5 States
With the widest network to cater its customers

Customers (million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>8.9</td>
<td>15.7</td>
</tr>
</tbody>
</table>

No. Branches

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>1,653</td>
<td>1,797</td>
</tr>
</tbody>
</table>

No. Employees

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>25,230</td>
<td>26,597</td>
</tr>
</tbody>
</table>
BBVA Bancomer with a positive result even under a stress scenario

Stress Scenario

GDP: -6.6%
(2009, annual average)

Consumer + CC
(12M09-12M08)
-15.4%

BBVA BANCOMER

Net fees and commissions
US $1,552m
+4.6%

Operating Income
US $4,781m
+5.4%

Expenses
US $2,234m
-0.6%

Net Attributable Profit
US $1,958m

Recurrent financial results, despite lower income and high provisioning

Exchange rate: End of period 1.4406. NOTE: y-o-y % change in constant exchange rate.
Maintaining a strong solvency:
Deposit funded franchise with a high capital ratio

**Loans / Deposits (%)**
- **107%** (Dec.08)
- **106%** (Mar.09)
- **105%** (Jun.09)
- **104%** (Sep.09)
- **100%** (Dec.09)

**Capitalization Ratio (%)**
- **15.3%** (Dec.08)
- **15.9%** (Mar.09)
- **16.1%** (Jun.09)
- **14.9%** (Sep.09)
- **15.0%** (Dec.09)

Well above minimum requirement
With a proactive risk management and prudent provisioning delivered more stable Risk Premium and Delinquency Ratio.

**Provisions / Avg loan portfolio (%)**

<table>
<thead>
<tr>
<th></th>
<th>Bancomer</th>
<th>Peer Group (5 largest banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec.07</td>
<td>3.02</td>
<td>4.07</td>
</tr>
<tr>
<td>Mar.08</td>
<td>2.93</td>
<td>4.62</td>
</tr>
<tr>
<td>Jun.08</td>
<td>2.97</td>
<td>5.2</td>
</tr>
<tr>
<td>Sep.08</td>
<td>3.18</td>
<td>5.92</td>
</tr>
<tr>
<td>Dec.08</td>
<td>3.54</td>
<td>6.59</td>
</tr>
<tr>
<td>Mar.09</td>
<td>4.04</td>
<td>7.21</td>
</tr>
<tr>
<td>Jun.09</td>
<td>4.57</td>
<td>7.48</td>
</tr>
<tr>
<td>Sep.09</td>
<td>4.90</td>
<td>6.82</td>
</tr>
<tr>
<td>Dec.09</td>
<td>4.97</td>
<td>5.29*</td>
</tr>
</tbody>
</table>

*Local accounting standards, without expected loss provisioning

NOTE: Market of 5 banks includes Banamex, Santander, Banorte, HSBC, Scotiabank with data in local accounting standards.

Delinquency Ratio **4.3%**

Coverage Ratio **130%**

Approaching the peak

The only bank in Mexico using an internal model for loss credit provisioning
Segmentation by type of client

Structure

15.7 million customers

Individuals
- Retail Banking
  - 1,779
  - 57
- Mortgage Banking
  - 991
  - 291
- Relationship Banking
  - 37
  - 3

Companies
- Corporate Banking
  - 991
- Government Banking
  - 37
  - 3
- Mortgage Banking
  - 991
  - 81
- Middle-Market
  - 291
- Retail Banking
  - 1,779
  - 57

1 Single network of offices

BBVA Bancomer February 2010
1) BBVA Group
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Why was the Mexican Economy so heavily affected by the global crisis?

Mexico has a very open economy which is highly integrated with the US.
Additionally, Remittances and Foreign Direct Investment constitute important links between the US and Mexico.

**Remittances as % of GDP (2008)**

**FDI as % of total (flows, average 2000-2008)**
How did Mexico face the crisis? ...with strengths built along time

A Nominal stability contributed to maintain real disposable income

Inflation has been contained at low levels

Low & stable interest rates helped to improve households & firms´ expenditure capacity
Low inflation, together with a good performance of the labor market compared to the decline of real GDP growth, has kept relatively high households’ purchasing power.
How did Mexico face the crisis? ...with strengths built through time

Fiscal and monetary policy took countercyclical measures

**Monetary Policy**

Short—term rates (real, ex post) were negative

**Fiscal Policy**

For the very first time, a countercyclical policy was implemented to mitigate recession
B

Sound economic policies grated support from international authorities, while the financial sector smoothed the crisis

Liquidity provision policy

The assured availability of low-cost USD funding have contribute to reduce liquidity tensions

Banking System soundness

It has not been a credit channel interruption
Strong economic links to the US will support the cyclical recovery, but challenges remain down the road: increasing trend potential growth

The efficiency of an economy increases with reforms oriented to achieving a more favourable business environment
Mexican cyclical recovery will be more intense than the US upturn. It is the window of opportunity to boost the necessary reforms to increase our potential.
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Prior to the global crisis, Mexican credit expansion was very dynamic. In 2002-03, bank credit began to grow again, after the pesos crisis (1995). Consumption credit was the first to recovery, then mortgages and credit to firms was the last one.
In relative terms to economic growth, Mexican credit expansion was the fastest in Latin America.

Bank Credit to Private Sector and GDP
(Real growth rate 2003-2007)

Source: BBVA based in national sources
The recent credit increase was the largest in the past decade

The recent expansion has grown on sound fundamentals (proper lending standards, institutions with high capital levels and adequate supervision and regulation) vs. 1990-94 episode

![Bar chart showing Increase of Domestic Credit to Private Sector (Percentage of GDP)]

Source: World Bank
In fact, bank credit to GDP ratio increased in spite of the strong recession. This outcome compares favorable with respect to the 1994 crisis and explains why this time around the banking sector acted as a buffer.
Despite the great economic recession, banking credit only lost speed for demand reasons (unemployment, confidence, etc)

Bank Credit and GDP by Sectors
(Annual Real Growth Rate)

Source: INEGI and Bank of Mexico
The solvency of the Mexican banking system was never an issue

Reasons:

• No exposure to toxic assets

• High capital levels

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1 Latest observation available in the year. Source: IMF.
• Most of the funding comes from deposits in local currency
• High level of loan-loss reserves
• Adequate regulation and supervision

*Total deposits include deposits in resident banks and their agencies and branches abroad and does not incorporate interbank deposits. Source: Bank of Mexico.
Relatively low levels of bank non-performing loans are a result of adequate lending standards and a mild deterioration in employment growth.

Nonperforming Loans / Total Loans

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.3</td>
</tr>
<tr>
<td>2008</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Provisions to Nonperforming (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>138.1</td>
</tr>
<tr>
<td>2005</td>
<td>241.3</td>
</tr>
<tr>
<td>3T09</td>
<td>163.8</td>
</tr>
<tr>
<td>Nov-09e/</td>
<td>166.0</td>
</tr>
</tbody>
</table>

Source: ABM and BANXICO

Source: CNBV
Looking forward, the banking sector is ready to increase credit as demand for it grows, which could be over 10% by the end of the year.

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding loans</td>
<td>&gt; +10%</td>
</tr>
<tr>
<td>* Housing</td>
<td>&gt; +15%</td>
</tr>
<tr>
<td>* SMEs</td>
<td>&gt; +20%</td>
</tr>
</tbody>
</table>

Source: ABM with information from a representative sample of banks. Nominal rate, end of period.

*Includes credit to firms, SMEs, public sector and financial entities.
• Approvals of new banking licenses and specialized banks
Banks are investors in infrastructure

70% more ATMs vs. dec 2004
180% more POS Terminals vs. dec 2004

Source: ABM and Bank of Mexico
Products of consumption credit (credit and debit cards) are the main instruments to the bancarization.

**Credit Cards**

(Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>02</th>
<th>05</th>
<th>3T09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Debit Cards**

(Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>02</th>
<th>05</th>
<th>3T09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30</td>
<td></td>
<td>60</td>
</tr>
</tbody>
</table>

Source: ABM and Bank of Mexico
Since 2003, more than 15 millions of clients have been incorporated to traditional banking services

Number of banking clients
(Millions)

Source: BBVA Bancomer with CNBV data
Huge potential for banking services

For demographics reasons and under bank clients

Age (years)

<table>
<thead>
<tr>
<th>Age range</th>
<th>2005</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>6,000</td>
<td>3,000</td>
</tr>
<tr>
<td>5-9</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>10-14</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>15-19</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20-24</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>25-29</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30-34</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>35-39</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>40-44</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>45-49</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50-54</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>55-59</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>60-64</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

- 2005: 6,000 thousand inhabitants
- 2025: 3,000 thousand inhabitants

Increase:
- 2005 to 2025: +15 million
- 2005: +32 million
- 2025: +47 million
Conclusions

- Macro economic recovery is in track, more in the US than in Europe and very clearly in emerging economies.

- The Mexican economy was overly exposed to the global crisis (open and highly linked to US), and now it is being pushed up by the US recovery.

- The banking sector was a strength for the economy in this recession: high level of solvency, liquidity and credit supply. Banks do not need public support.

- The performance of bank credit has been very positive compared with other similar episodes and economies. Despite the deep recession, credit penetration has been maintained. The lower rate of credit growth was mainly due to demand factors.

- Mexico offers a huge potential for financial services. Drivers: demographics and under banks clients.

- BBVA and BBVA Bancomer have an adequate business model, global crisis tested it. It shows…. **ADELANTE**
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