

BY VERONICA NAVARRO ESPINOSA
AND BEN BAIN
Bloomberg News

Bond investors who have prevented Spain's Banco Bilbao Vizcaya Argentaria from selling debt since February by demanding record yields are welcoming the lender's Mexican unit.

Yields on Grupo Financiero BBVA Bancomer's \$1 billion of 10-year bonds have dropped 25 basis points, or 0.25 percentage point, to 6.5 percent since the Mexico City-based bank sold the securities on Thursday. Yields on Madrid-based BBVA's euro bonds due in 2013 have soared 202 basis points since they were issued Feb. 7 and touched an all-time high of 6.25 percent last month.

BBVA Bancomer is avoiding contagion from Europe as it benefits from growing demand for credit in Latin America's second-biggest economy. The International Monetary Fund forecast Monday that Mexico's economy will expand 3.9 percent this year, compared with a contraction of 1.5 percent in Spain as Europe's financial crisis deepens. BBVA, Spain's second-biggest lender by assets, is relying on the European Central Bank to fund operations as the country seeks a €100 billion (\$123 billion) bailout to shore up its banks.

"The reports on operations in Mexico are good and the outlook for the economy is good," said Gastón Guerrero, who helps manage about \$300 million of emerging-market debt, including BBVA Bancomer's bonds due in 2022, at San Diego-based Precise Securities. "This gives a certain level of comfort to investors. We like the name. We like the sector."

BBVA Bancomer's bonds yield 390 basis points more than similar-maturity Mexican government

Mexico key for Spain's BBVA

Country contributed the most to earnings in '11



An employee walks in the newly opened office of Banco Bilbao Vizcaya Argentaria (BBVA), Taiwan, July 14, 2012.

REUTERS PHOTO/CHUANG

notes, according to data compiled by Bloomberg. Its BBB rating from Standard & Poor's, the second-lowest investment grade, is in line with Mexico's. The bank sought to take advantage of opportunities to sell bonds amid global economic uncertainty, Bancomer Chief Financial Officer Javier Malagón said. The offering showed investor confidence in the bank and the Mexican economy, he said.

The bank will use proceeds from the bond sale to boost capital

after lending expanded 6.4 percent in the first quarter. Overall lending by Mexican banks is also picking up, with outstanding loans expanding 0.9 percent to 2.52 trillion pesos (\$190 billion) in April from the previous month, the National Banking and Securities Commission said June 11.

Mexico overtook Spain as the market contributing most to BBVA's earnings last year. Profit at BBVA Bancomer rose 0.5 percent to €430 million in the first quarter,

while the parent's dropped 13 percent. BBVA Bancomer's results are reported in euros as part of the parent's operations. Spain, which accounts for 29 percent of BBVA's income, has the highest unemployment rate in Europe, at 23.8 percent, compared with 4.9 percent in Mexico. Mexico cut the amount local banks can lend to their parent to 25 percent from 50 percent in March 2011 as part of an effort to protect the country from the European debt crisis.