

BBVA

Acquisition of Granahorrar: *Pursuing profitable growth*



1st November 2005

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- Colombia: advancing in the right direction
- Granahorrar: an opportunity in a growing market
- Creation of value
- Conclusions

Terms of the transaction

Outline

- Acquisition of 98.8% of Granahorrar by BBVA Colombia, the largest mortgage bank in the country

Price

- € 348 m / COP 970,000 m

Valuation

- 8.7 PER05e and 2.2 P/BV

Financing

- 100% cash

Calendar

- Estimated closing: December 2005
- Approvals required: Colombian and Spanish regulators

Transaction Rationale

Acquisition of Granahorrar and full integration with BBVA Colombia

- Favourable macroeconomic prospects, on the back of higher political stability

- Strong recovery of financial system

- BBVA's consolidates its leading position in Colombia and achieves leadership in mortgage market

- High visibility of synergies

- Attractive price

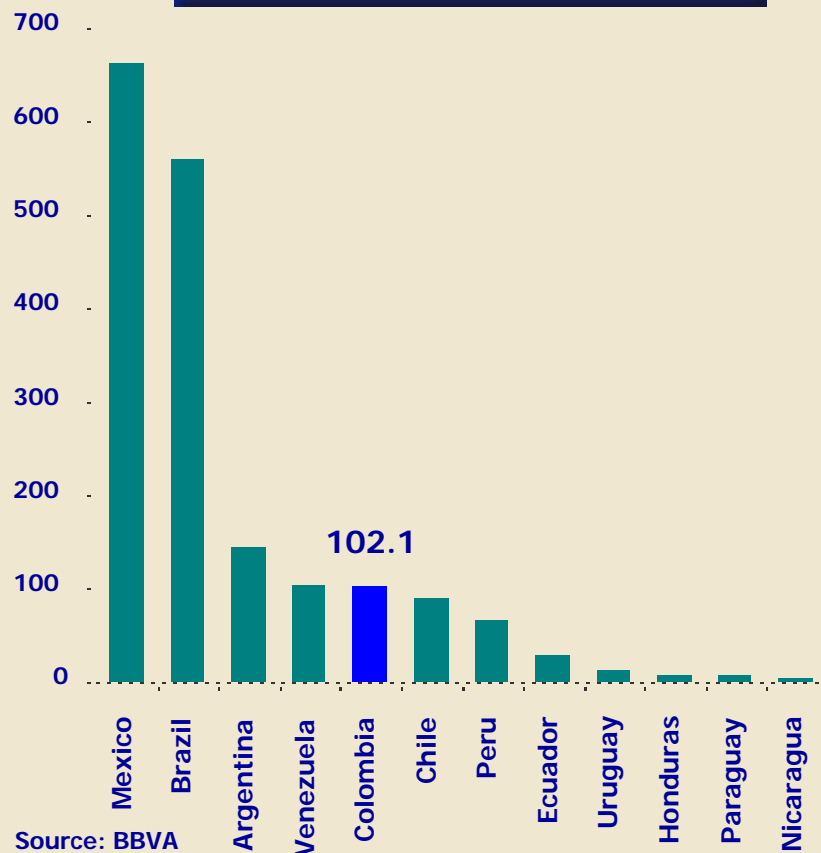
The operation makes strategic sense and does not modify BBVA's risk profile

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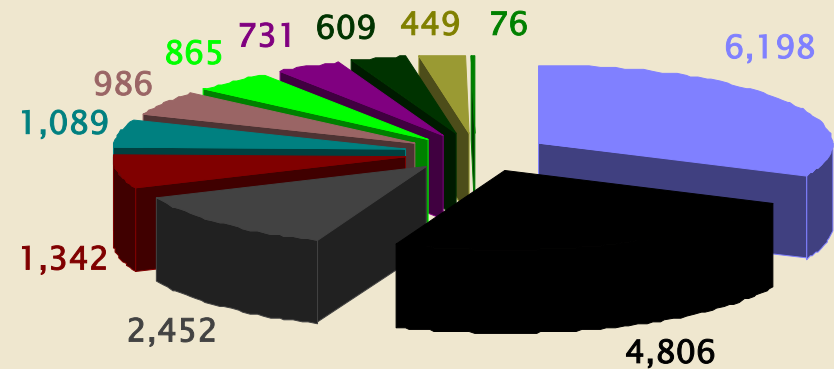
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Colombia: a country with critical mass and significant natural resources

GDP 2004 (US\$ bn)



Exports in the last 12 months (US\$ million)

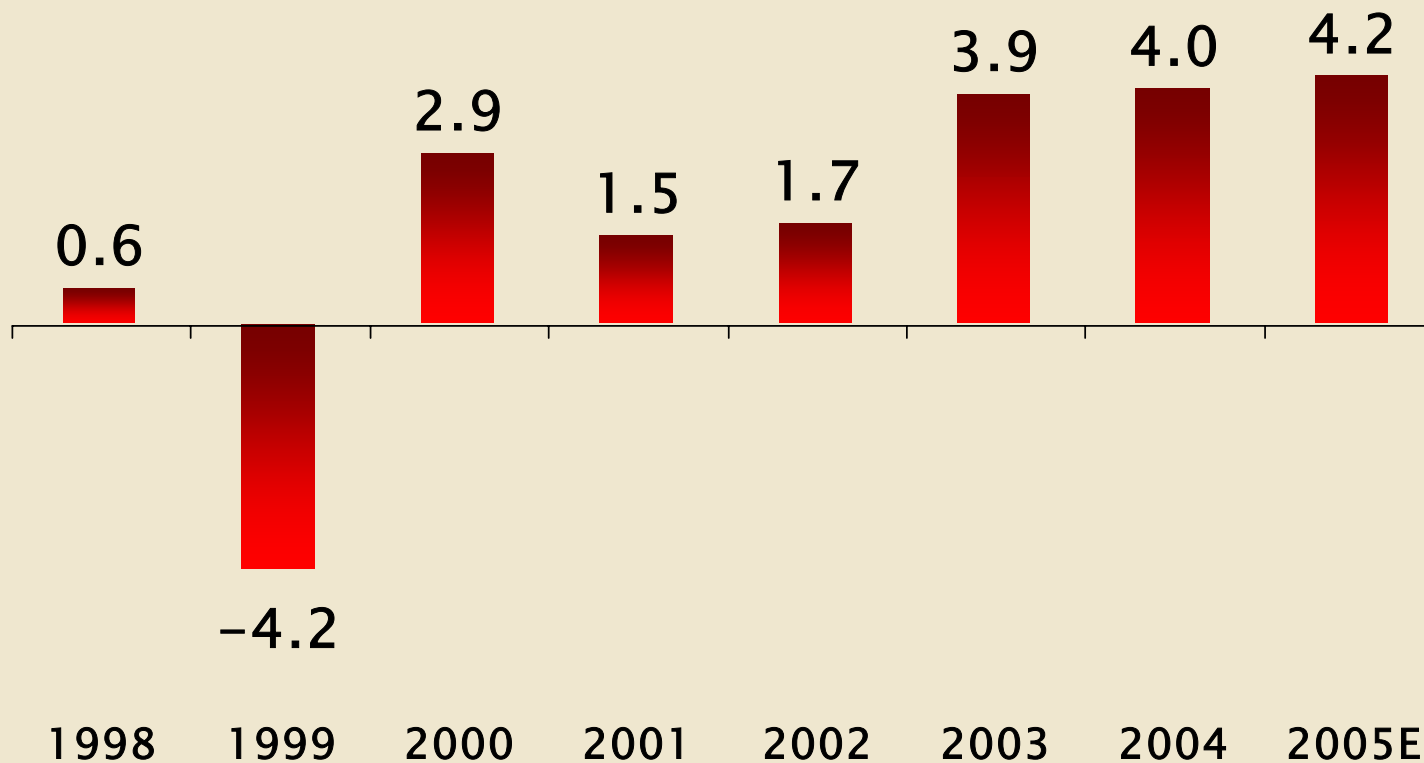


Source: DANE – Retail outlets – DEE BBVA Colombia

- Industrials
- Coal
- Agric-industrial
- Flowers
- Other agricultural
- Emeralds
- Oil
- Coffee
- Other mining
- Ironnickel
- Banana

... consolidating its economic and growth performance

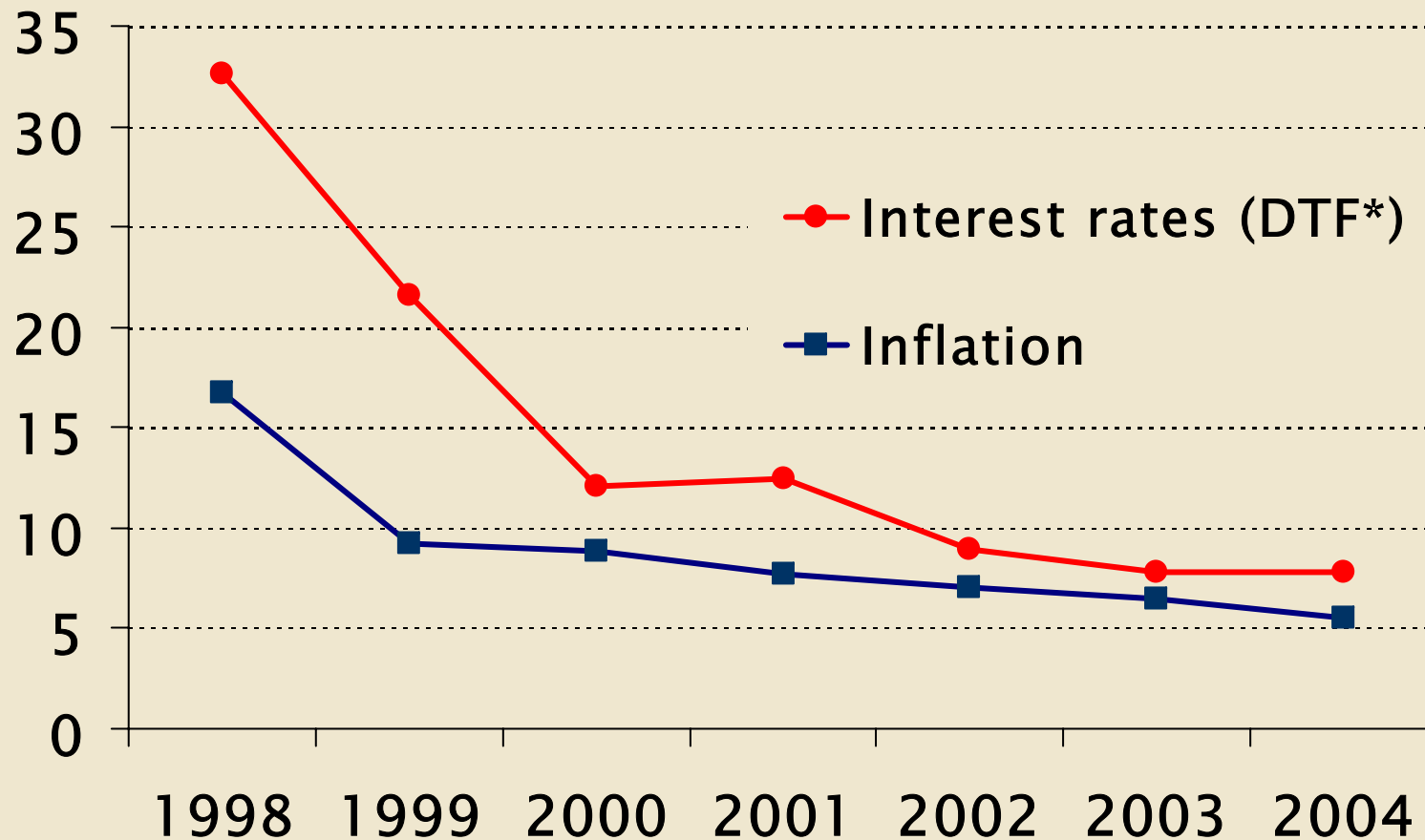
GDP growth (%)



... in a more stable political environment

... stable interest rates and lower inflation

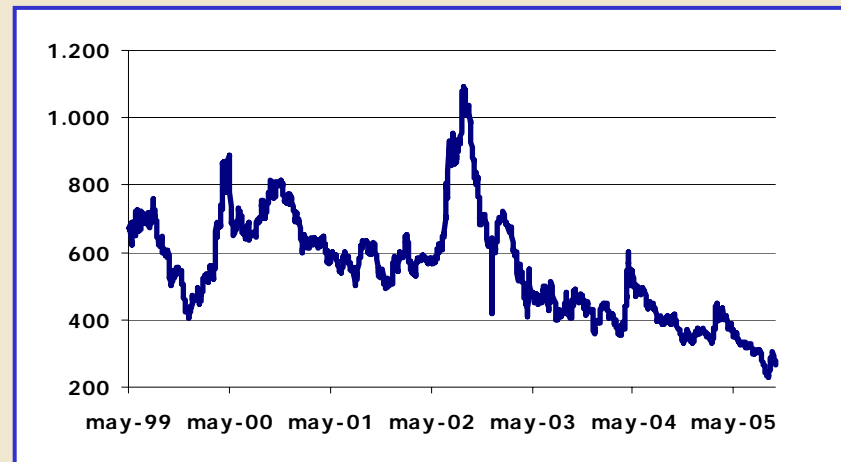
Evolution of inflation and interest rates



The market has recognised the improvement

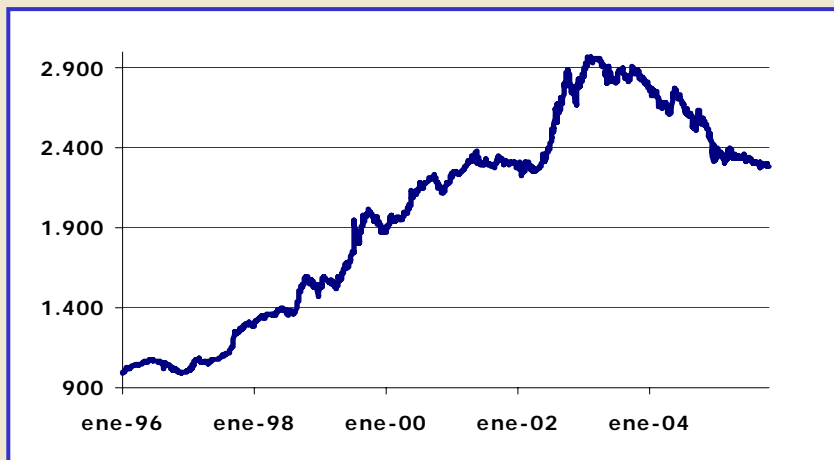
- 143 bp lower country risk spread in 12 months
- Colombian stockmarket rose 94.3% in last year (the highest in Latam)
- Colombian peso gained 20% against the USD over last two years

Spread on sovereign risk



Source: JP Morgan

Exchange rate



10 Source: Bloomberg

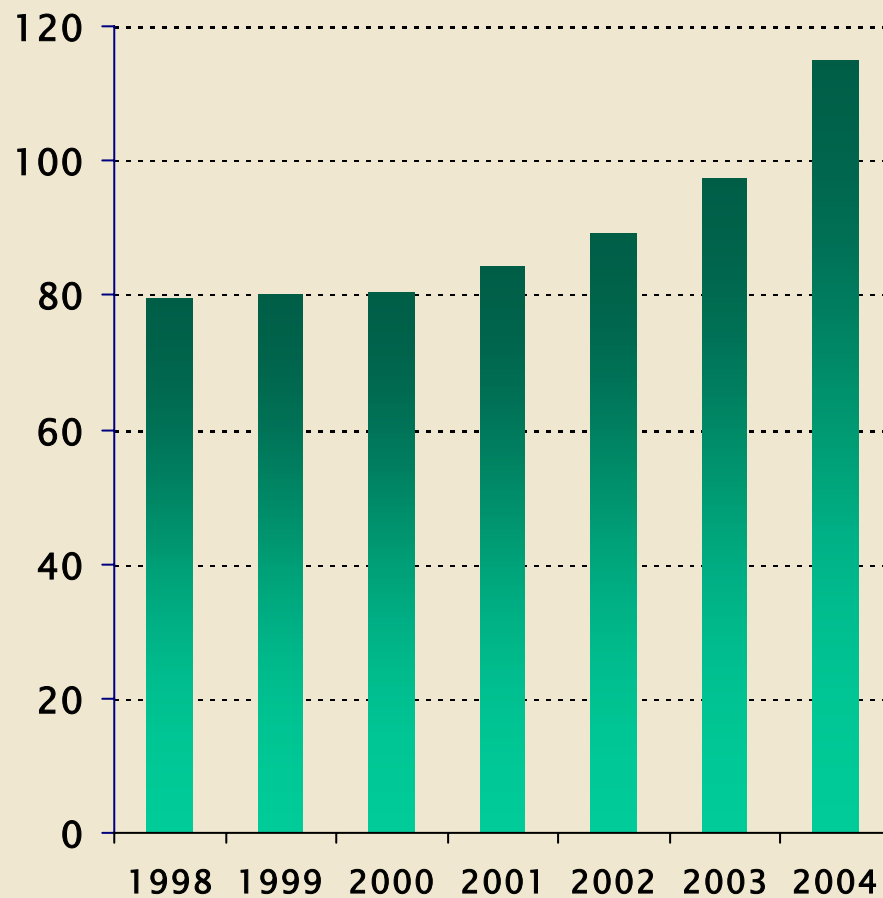
Colombian stock index



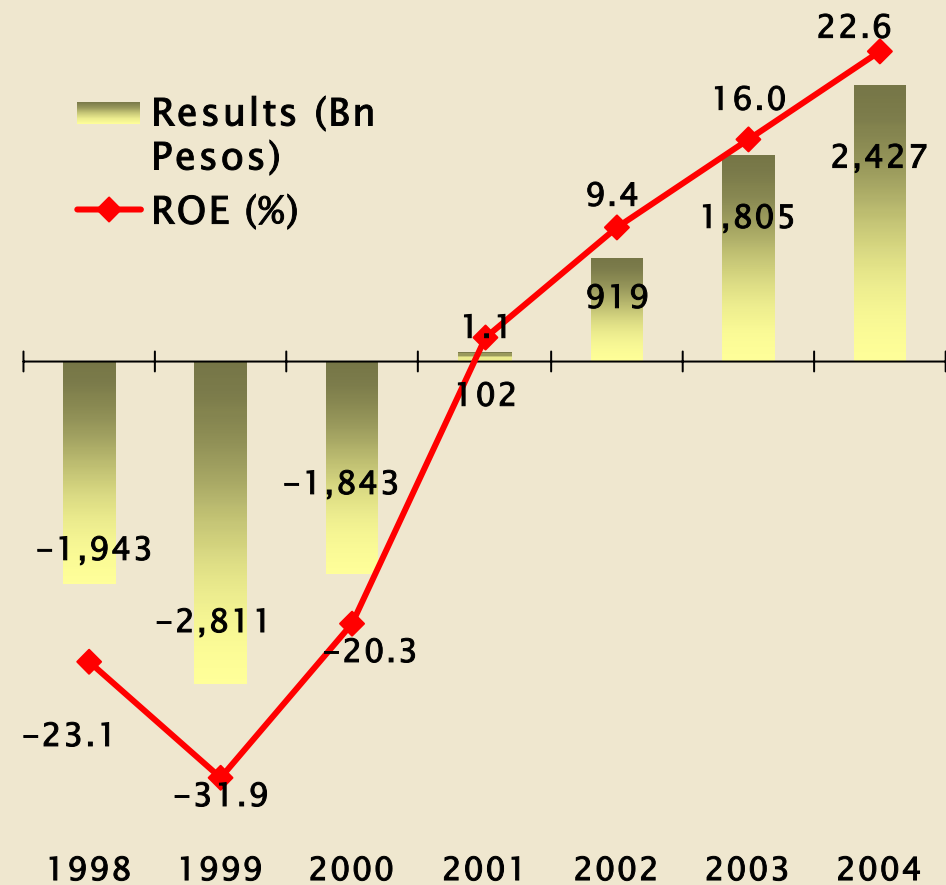
Source: Bloomberg

In this context, the Colombian banking system is posting a remarkable recovery

Total assets (bn pesos)

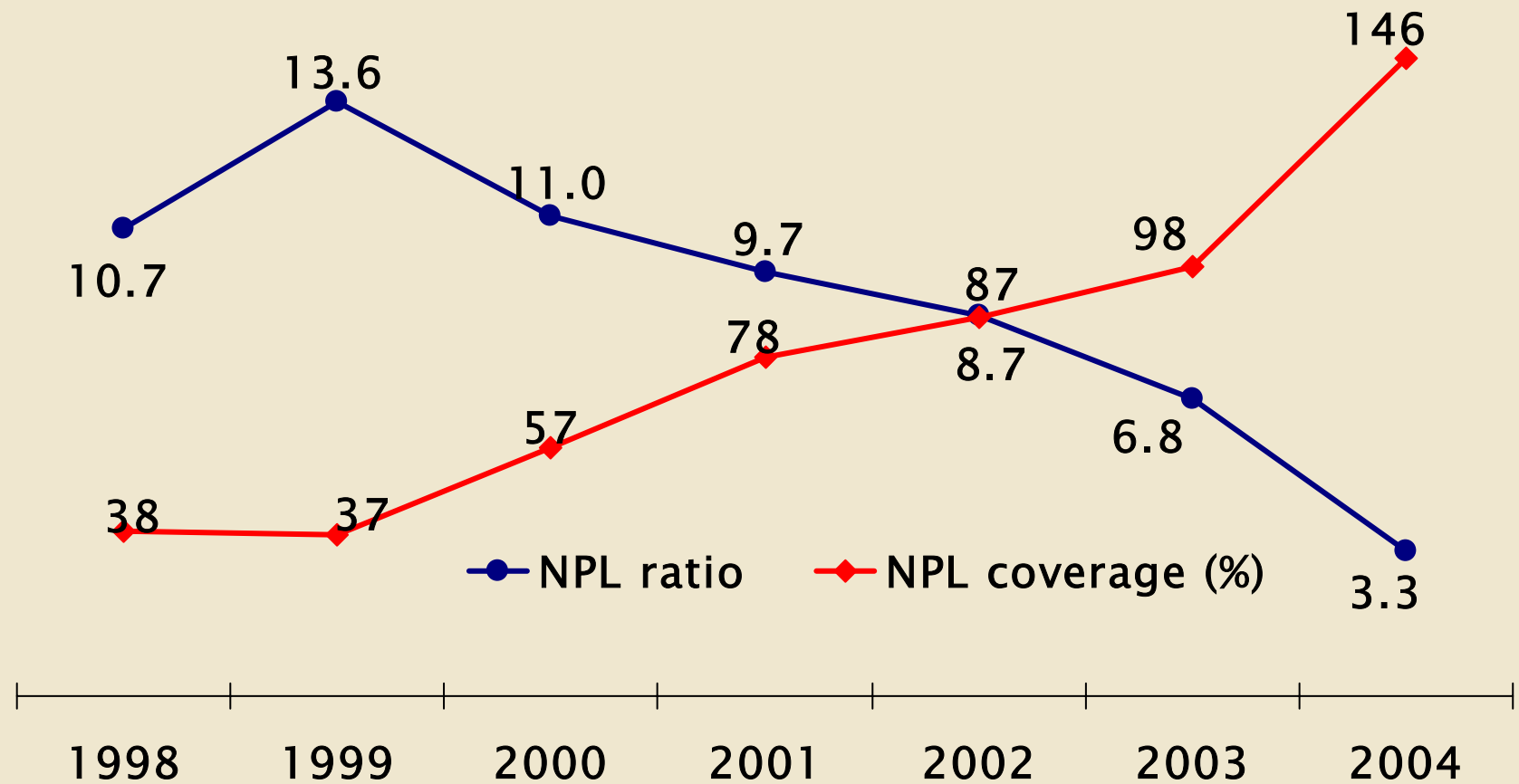


Net profit and ROE



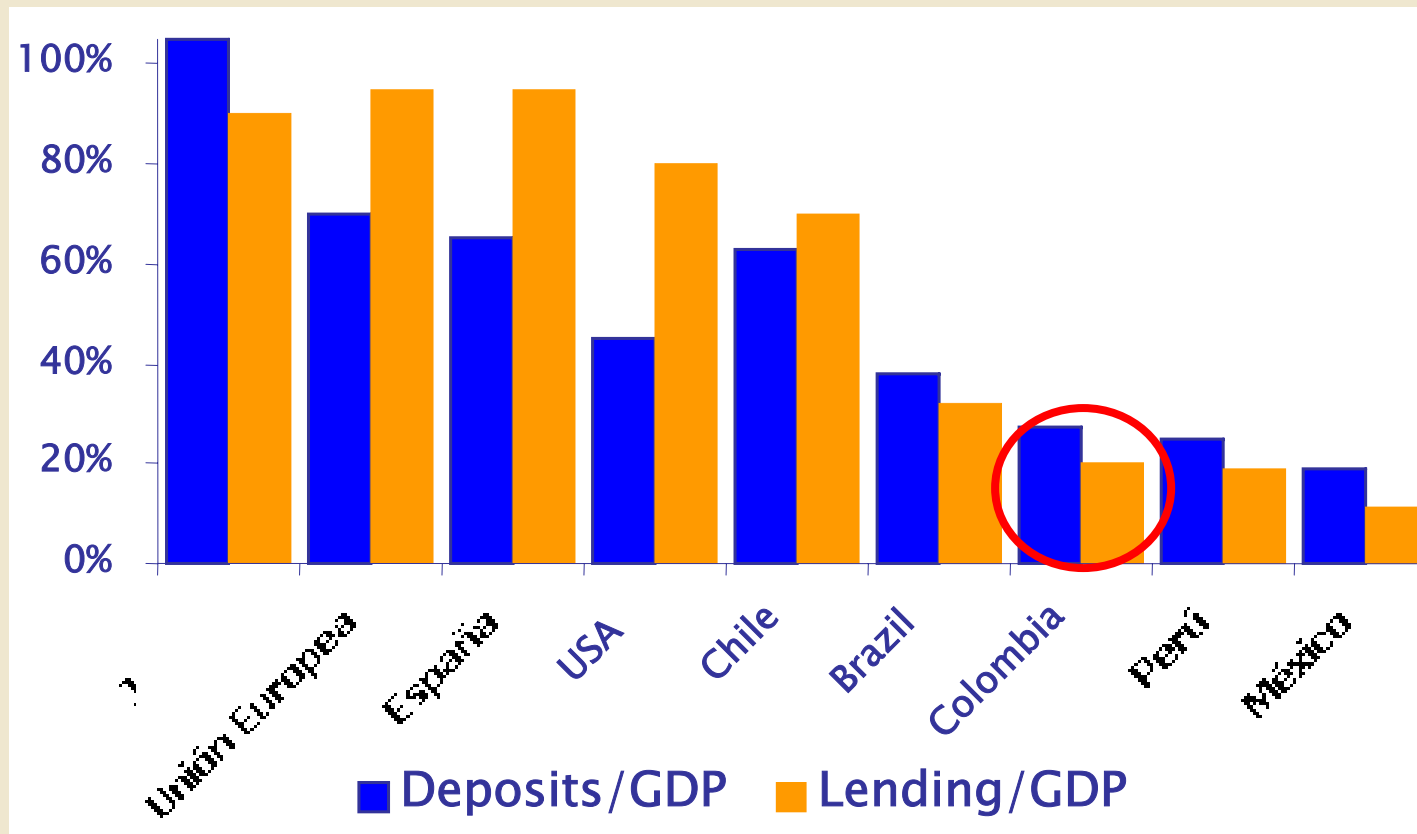
Additionally, a clear improvement in asset quality

NPL ratio & coverage



High growth potential due to low banking penetration ...

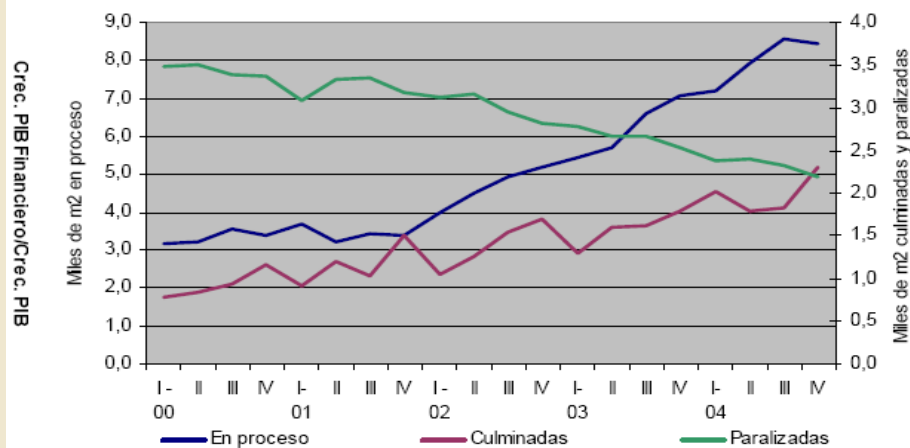
Banking penetration (% GDP)



Recovery of financial system thanks to positive economic developments and good outlook

... mainly in mortgage business: high growth potential

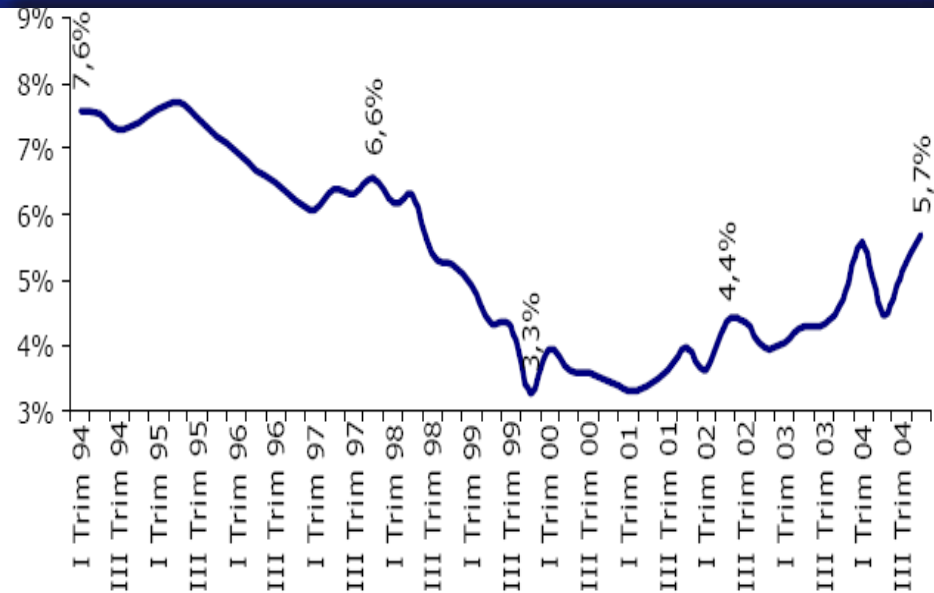
Housing starts



Fuente: DANE

Nota: Corresponde a las ciudades de Bogotá, Medellín, Cali, Barranquilla, Bucaramanga, Pereira y Armenia

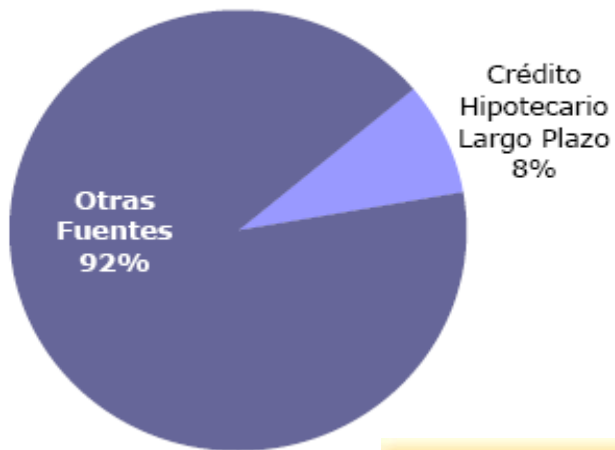
% Construction/GDP



- Construction plays a key role in Uribe's policy: a main driver for the economy with social implications
- Housing construction up 21% in 2004, whilst home ownership of 20% is below Latam average
- Mortgage loans have grown 29% in the last six months

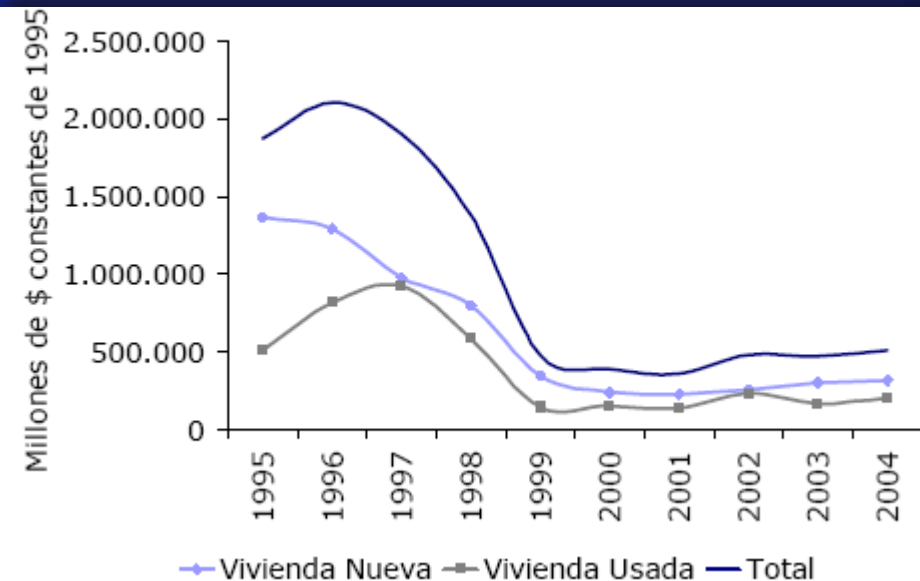
... and low levels of housing finance

Distribution and size of real estate market – 2004



Approx. €600m

Mortgage financing



- The level of bank finance for the housing market is very low
- Low levels of borrowing by households: significant potential for mortgage growth compared to pre-crisis situation

New legislation in place

- ▶ In 2004 amendments to the law for the enforcement of collateral guarantees has come into full effect
- ▶ Systems of maturity payments regulated by the government
- ▶ Cost of loans linked to inflation and not bank rate (DTF, local short-term interest rates)
- ▶ Secondary market for mortgage financing has generated more than \$2.2 billion in securitized assets
- ▶ Tax relief on mortgages (AFC, VIS and TIPs) (1)

(1) AFC: Ahorro Fomento Construcción (Savings related to construction)
VIS: Viviendas Interés Social (Social housing scheme)
TIPs: Títulos Hipotecarios (Mortgage certificates)

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Granahorrar (GA): key features

GRANAHORRAR

Balance sheet and P&L highlights (US\$ Mn)

Dec. 2004

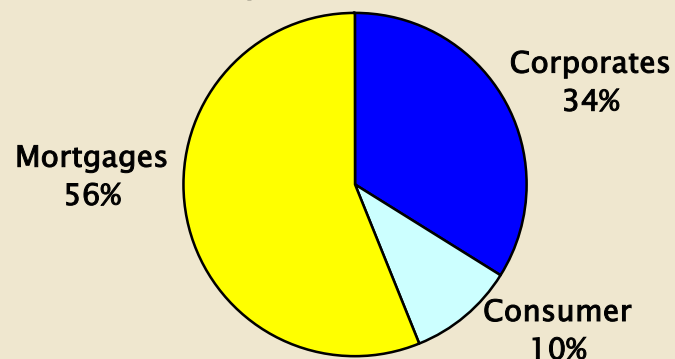
Securities portfolio	498
Loans (gross)	750
TOTAL ASSETS	1,579
Customer deposits	1,079
Equity	208
Net profit	39

Significant Ratios (%)

Dec. 2004

NPLs	3.2%
NPLs Coverage	172%
Solvency	14.1%
Cost to income	56%
ROE	20.9%
ROA	2.75%

Loan portfolio breakdown



Portfolio concentrated on mortgages

- Medium-size public sector bank (3.4% market share)
- Specialising in mortgages (15.2% market share)
- Healthy portfolio thanks to securitization and divestments made since 2002
- Mortgage portfolio represents 56% of loans
- Customer funds: 57% saving deposits

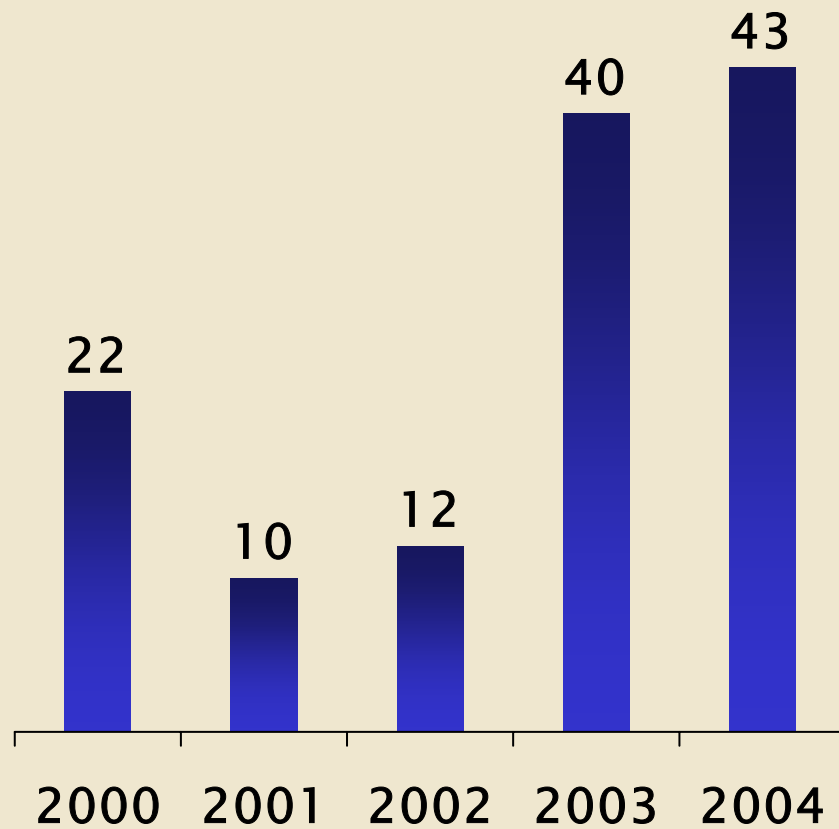
Leadership in the mortgage business

- GA: first bank in housing finance with 15.2% market share
- More than 20 years experience in mortgage business
- Knowledge of the developer market (main source of residential mortgages with 65% subrogation)
- Large mortgage-related customer base (60,000) with strong cross-selling potential

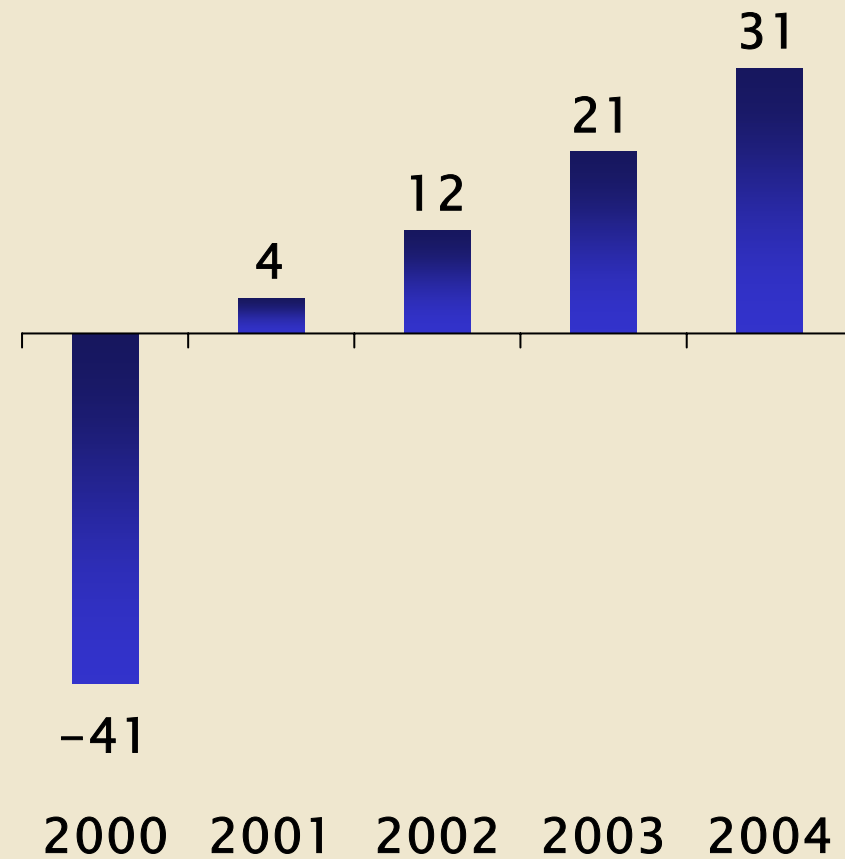
BBVA Colombia jumps in the mortgage league table to number one position with 21.2% market share

GA: positive evolution of results

Operating Profit €m (Constant €)



Net Profit €m (Constant €)



Granahorrar: an ideal vehicle to capture this attractive opportunity

Mortgage
Know-how

Sector leader, extensive experience, good image and customer base

Customer
base

Extensive customer base, cross-selling potential

Distribution
channels

Competitive branch network, ATMs and salesforce

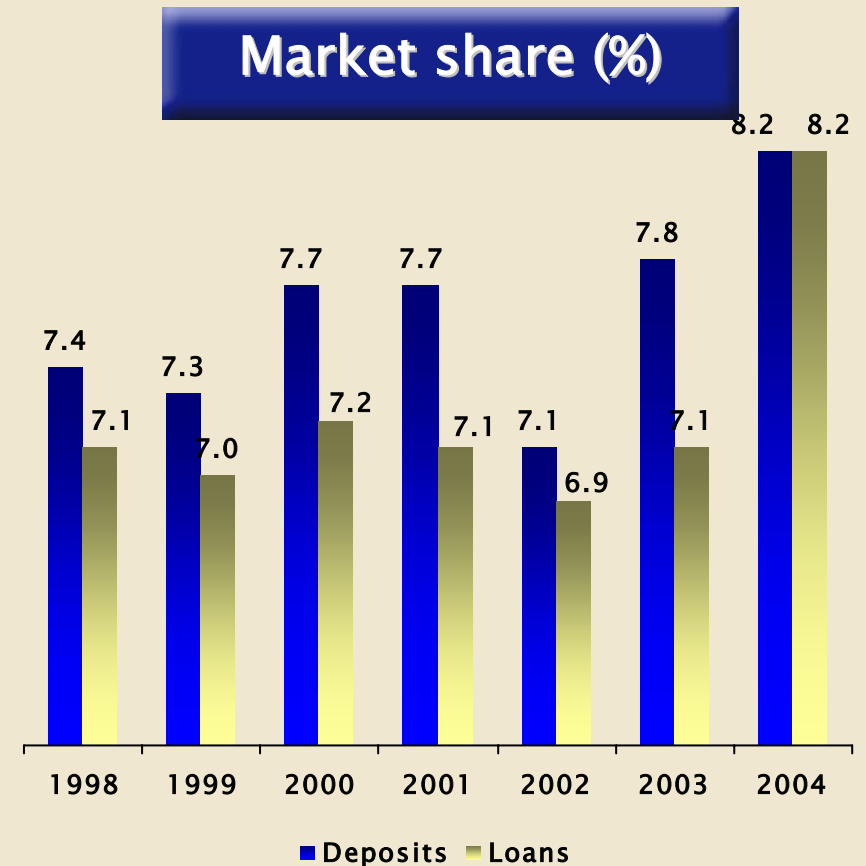
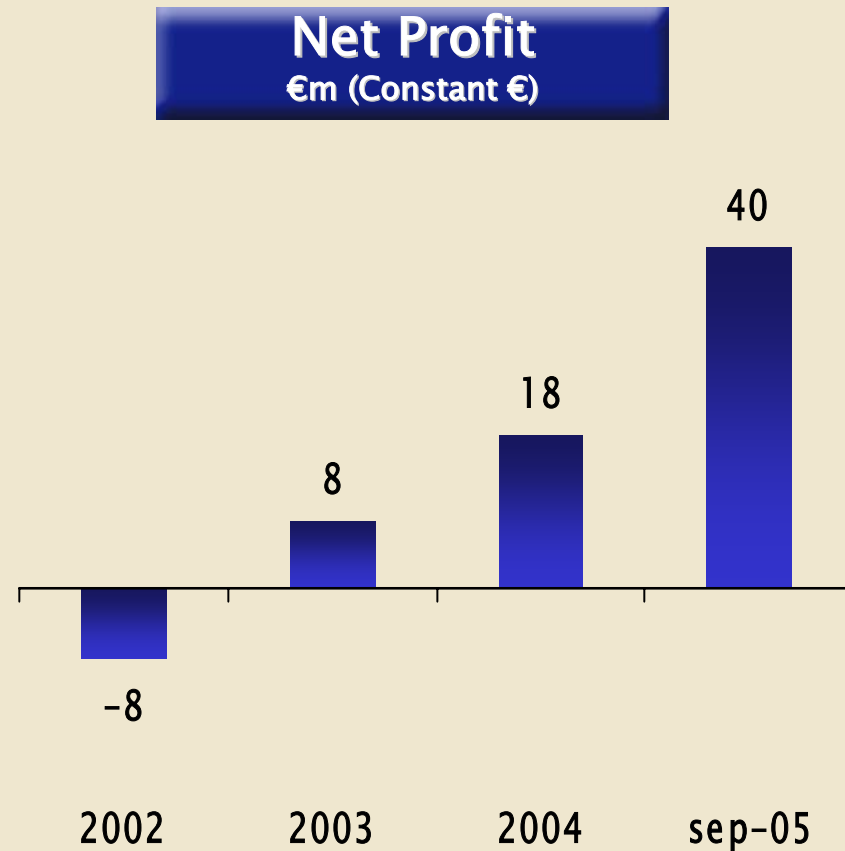
Efficient
structure

Low cost base compared to competitors

Healthy
balance sheet

Solvency ratio 14.1%, 172% NPLs coverage

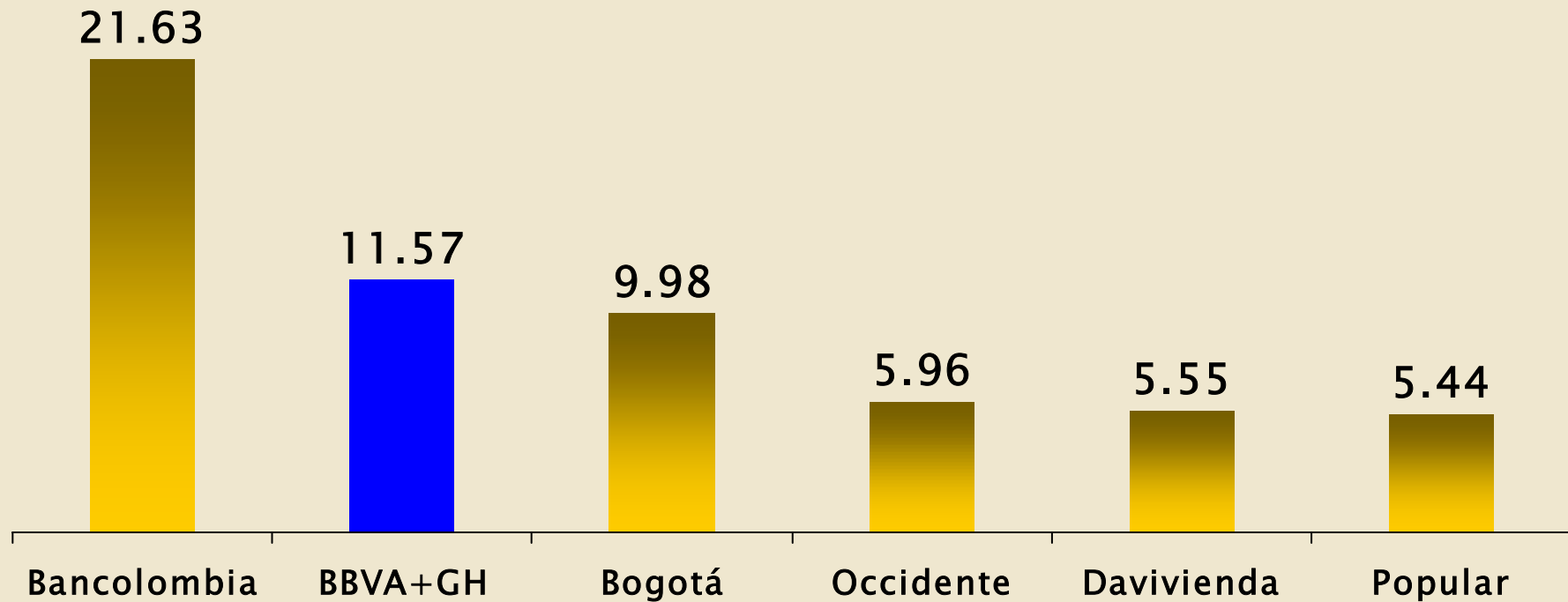
BBVA Colombia: important progress in the last two years



After a difficult 1999–2002, the recovery initiated in 2003 is confirmed

After the acquisition, BBVA Colombia consolidates its position as one of the country's leading banks

Market share in loans Sept. 05(%)

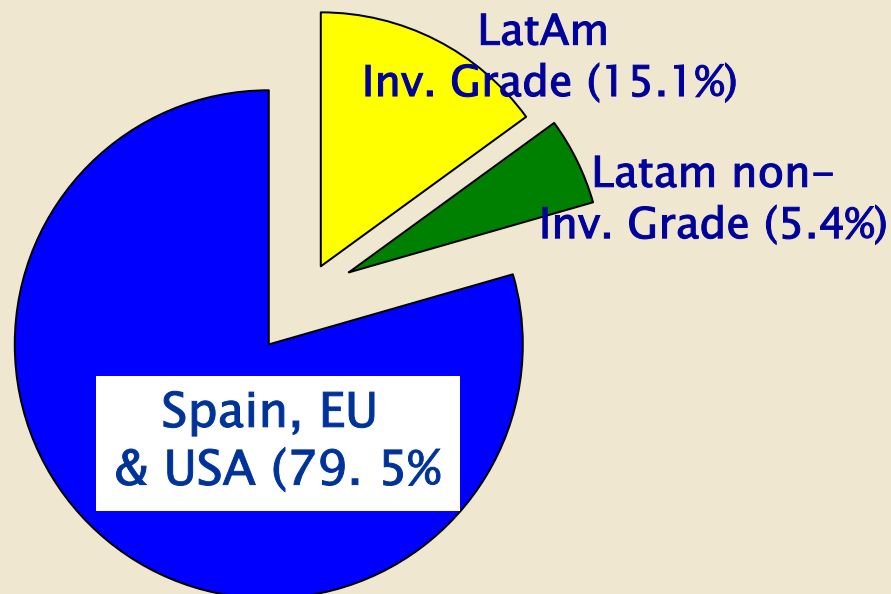


Source: Superintendencia Bancaria of Colombia

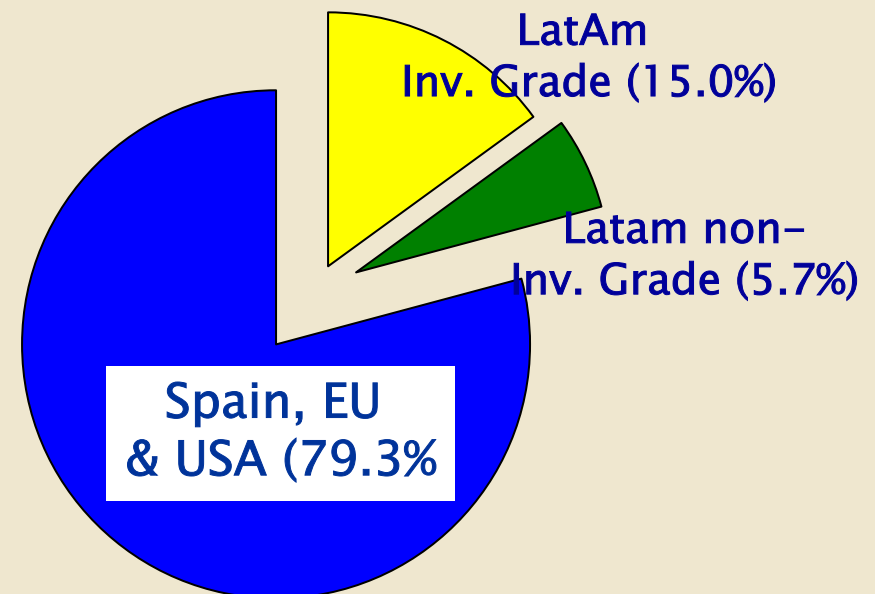
BBVA: the transaction does not significantly change the distribution of assets

Assets breakdown (%)

30/06/05



30-Jun-05 (promemoria with Granahorrar)



Unaltered risk profile

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Substantial synergies

Cost synergies
NPV: €208m

- Rationalise structure: staff and branches
- Improve GA funding cost

Revenue synergies
NPV: €10m

- Loss of residual customers / recovery of business over time through loyalty programs
- Cross-selling
- Higher commission income from GA customer base

Restructuring costs:
Investments/provisions
NPV: -€59m

- Implementing Group technology platform
- Overhaul branches / corporate image

NPV of net synergies: €159m

A transaction that generates value

EPS accretive from first year

Impact on BBVA	2006E	2007E	2008E
EPS	+0.27%	+0.53%	+0.67%

- ROI (E): 16% by 2008
- Core capital consumption: 14 bp

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Conclusions

- ❑ Favourable macroeconomic prospects and recovery of the Colombian banking system
- ❑ BBVA confirmed as leader of mortgage business and second Colombian bank
- ❑ Substantial synergies and attractive price
- ❑ Transaction is EPS accretive from first year