Acquisition of Granahorrar: Pursuing profitable growth

1st November 2005
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- Terms and summary of the transaction
- Colombia: advancing in the right direction
- Granahorrar: an opportunity in a growing market
- Creation of value
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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 Granahorrra 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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Colombia: a country with critical mass and significant natural resources

GDP 2004 (US$ bn)

Exports in the last 12 months (US$ million)

Source: BBVA

Source: DANE - Retail outlets - DEE BBVA Colombia
... consolidating its economic and growth performance

GDP growth (%)


0.6 2.9 1.5 1.7 3.9 4.0 4.2

-4.2

... in a more stable political environment
... stable interest rates and lower inflation

*Local short term 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

Source: Bloomberg

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[Graphs showing exchange rate and Colombian stock index over time]

*Source: JP Morgan*
In this context, the Colombian banking system is posting a remarkable recovery.
Additionally, a clear improvement in asset quality

![NPL ratio & coverage](image)

- NPL ratio
- NPL coverage (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>NPL ratio</th>
<th>NPL coverage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>57</td>
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<td>2002</td>
<td>87</td>
<td></td>
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<tr>
<td>2003</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>146</td>
<td>3.3</td>
</tr>
</tbody>
</table>
High growth potential due to low banking penetration …

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

Source: BBVA
... mainly in mortgage business: high growth potential

- 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

- 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

**Distribution and size of real estate market – 2004**

- Otras Fuentes 92%
- Crédito Hipotecario Largo Plazo 8%

**Approx. €600m**

**Mortgage financing**

- Vivienda Nueva
- Vivienda Usada
- Total

- [Graph showing mortgage financing trends from 1995 to 2004]
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

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 €)

2000 2001 2002 2003 2004

Operating Profit:
- 2000: 22
- 2001: 10
- 2002: 12
- 2003: 40
- 2004: 43

Net Profit:
- 2000: -41
- 2001: 4
- 2002: 12
- 2003: 21
- 2004: 31
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(%)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancolombia</td>
<td>21.63%</td>
</tr>
<tr>
<td>BBVA+GH</td>
<td>11.57%</td>
</tr>
<tr>
<td>Bogotá</td>
<td>9.98%</td>
</tr>
<tr>
<td>Occidente</td>
<td>5.96%</td>
</tr>
<tr>
<td>Davivienda</td>
<td>5.55%</td>
</tr>
<tr>
<td>Popular</td>
<td>5.44%</td>
</tr>
</tbody>
</table>

Source: Superintendencia Bancaria of Colombia
BBVA: the transaction does not significantly change the distribution of assets

Assets breakdown (%)

Spain, EU & USA (79.5%)

LatAm Inv. Grade (15.1%)

Latam non-Inv. Grade (5.4%)

30/06/05

30-Jun-05 (promemoria with Granahorrar)

Spain, EU & USA (79.3%)

LatAm Inv. Grade (15.0%)

Latam non-Inv. Grade (5.7%)
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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