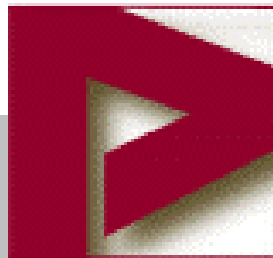


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Group**

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**April 2003**



# HIGHLIGHTS

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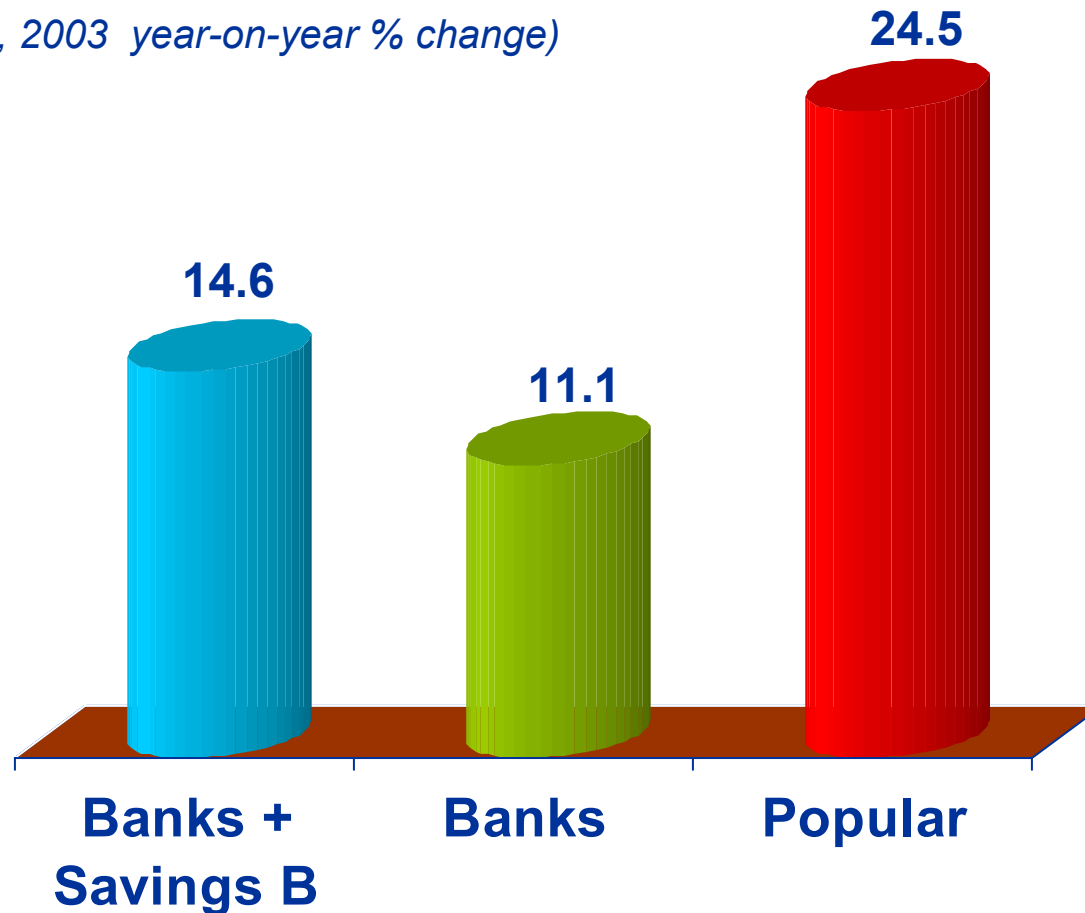
- ▶ **Market share gain**
- ▶ **Improvement in asset quality**
- ▶ **Customer base expansion**
- ▶ **Quality client base expansion**
- ▶ **New business line development**
- ▶ **Strong Revenues & EPS growth**
- ▶ **Best Cost/Income ratio in Spain & Europe**
- ▶ **Best ROE in Spain & Europe**
- ▶ **BNC Acquisition**
- ▶ **Best performing stock**

# MARKET SHARE GAIN

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## LOANS TO PRIVATE-SECTOR RESIDENTS

*(February 28, 2003 year-on-year % change)*



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# MARKET SHARE GAIN

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## CORE LOAN BUSINESS (Residents only)

*(Accumulated % change)*

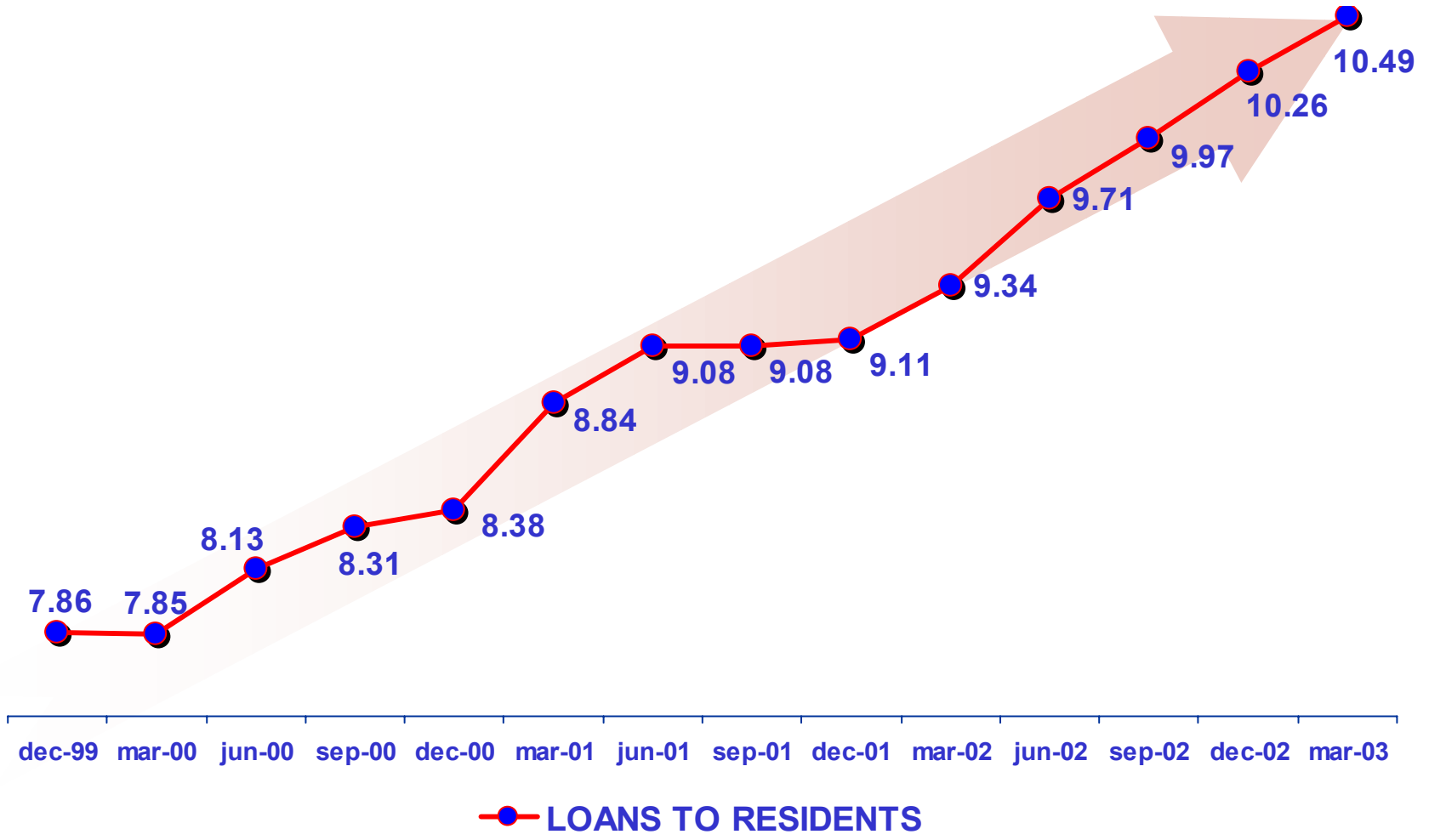
	<i>Sept.-02</i>	<i>Dec.-02</i>	<i>March-03</i>
<b>Bill discounting</b>	<b>(6.0)</b>	<b>6.5</b>	<b>6.5</b>
<b>Mortgage</b>	<b>35.3</b>	<b>36.8</b>	<b>36.3</b>
<b>Personal &amp; overdrafts</b>	<b>8.1</b>	<b>6.9</b>	<b>7.5</b>
<b>Leasing</b>	<b>9.2</b>	<b>10.3</b>	<b>12.5</b>
<b>TOTAL CORE LOAN PORTFOLIO</b>	<b>17.0</b>	<b>19.8</b>	<b>21.1</b>
<i>Excluding NPLs, REPOs &amp; Advances to Social Security &amp; BPH</i>			
<b>Total resident lending</b>	<b>20.7</b>	<b>23.0</b>	<b>23.5</b>

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# MARKET SHARE GAIN

**Banco Popular**

## MARKET SHARE OVER COMMERCIAL BANKS



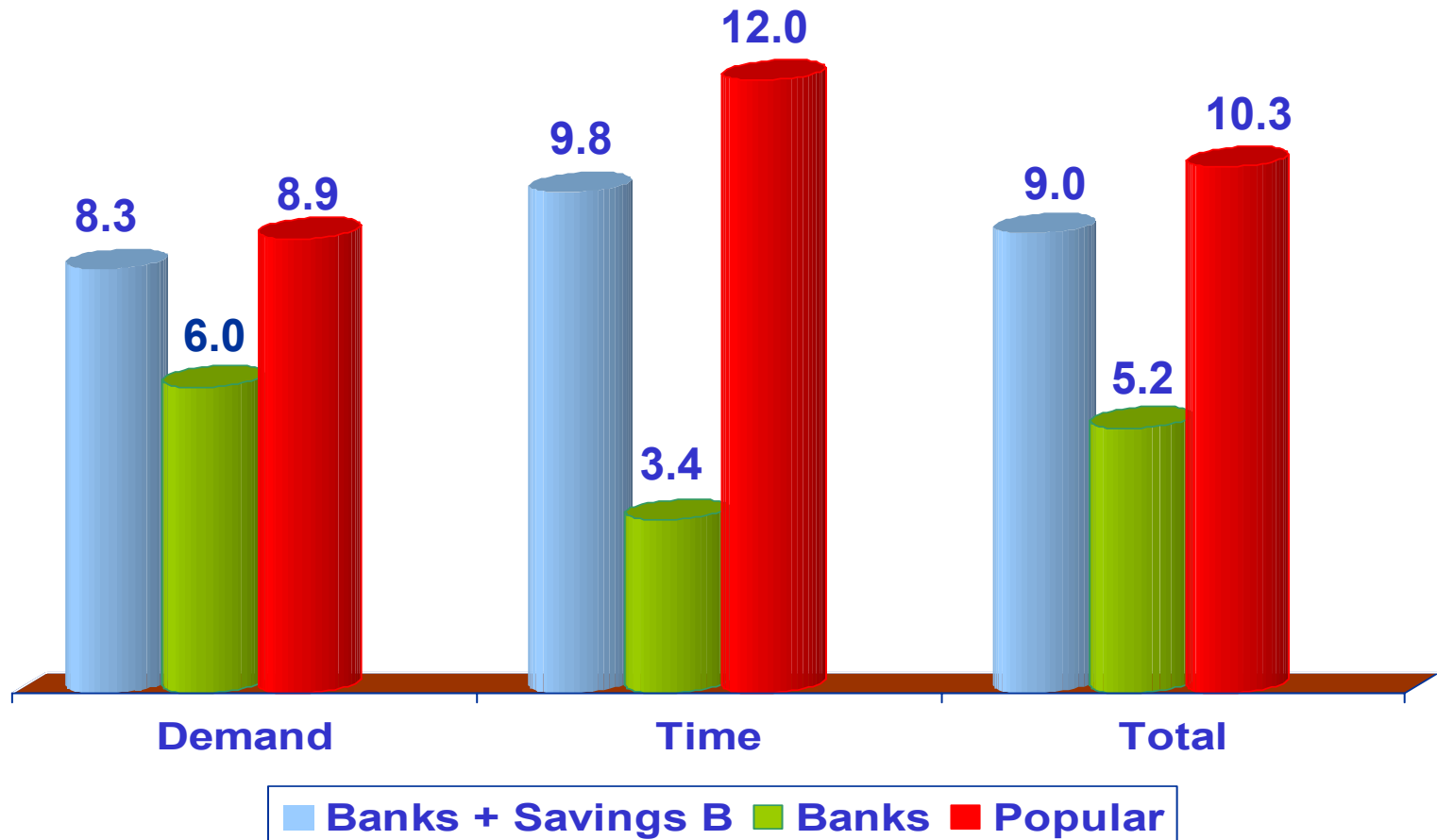
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# MARKET SHARE GAIN

**Banco Popular**

## GROWTH OF DEPOSITS OF PRIVATE-SECTOR RESIDENTS

*(February 28, 2003 year-on-year % change)*



# MARKET SHARE GAIN

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## CORE RESIDENT-CUSTOMER DEPOSITS

*(Accumulated % change)*

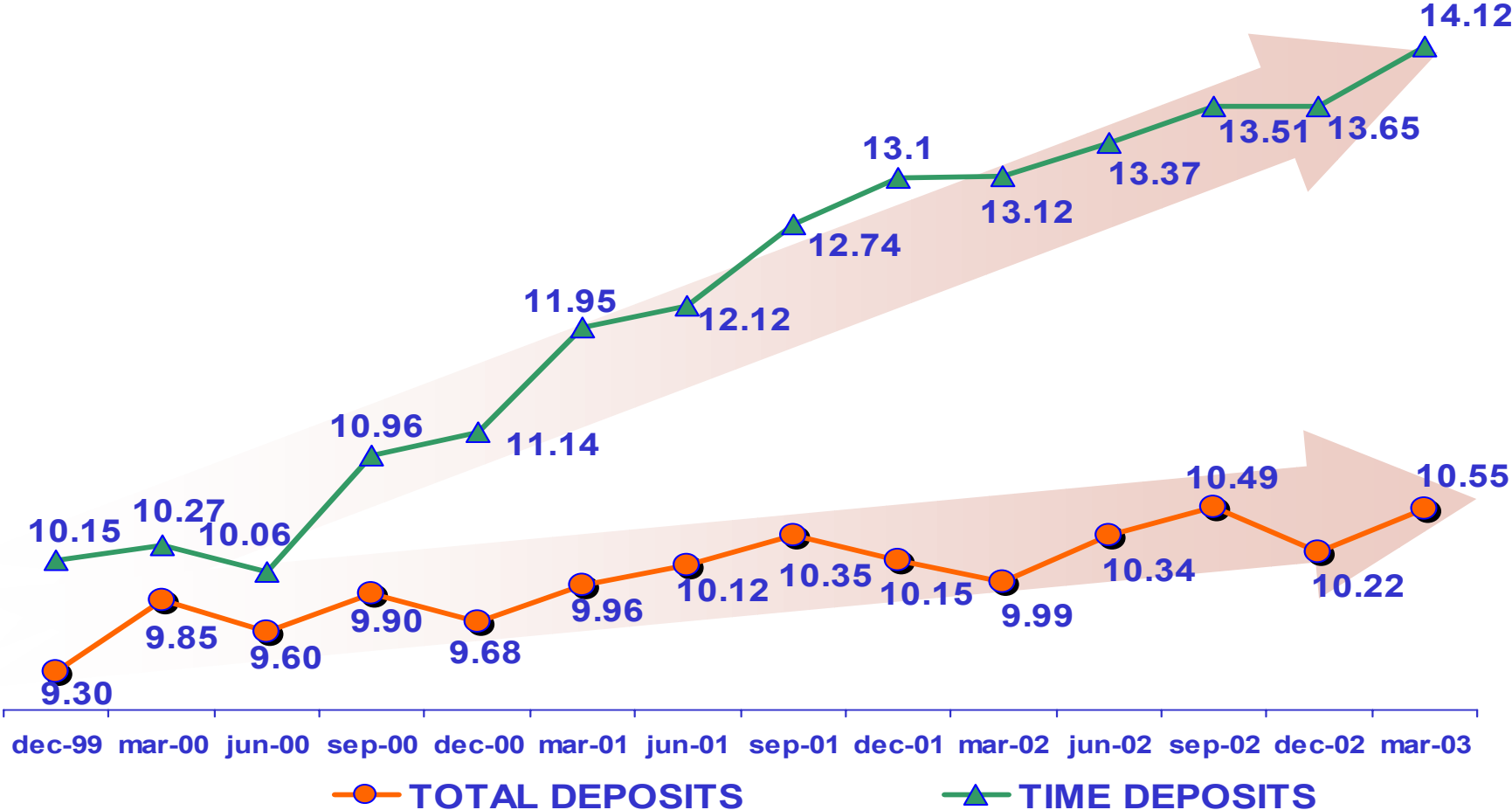
	<i>Sept.-02</i>	<i>Dec.-02</i>	<i>March-03</i>
<b>Demand deposits</b>	<b>8.6</b>	<b>4.7</b>	<b>7.3</b>
<b>Time deposits</b>	<b>9.5</b>	<b>9.8</b>	<b>11.7</b>
<b>Customers commercial paper</b>	<b>135.8</b>	<b>71.4</b>	<b>54.8</b>
<b>TOTAL</b>	<b>14.9</b>	<b>10.3</b>	<b>12.0</b>

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# MARKET SHARE GAIN

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## MARKET SHARE OVER COMMERCIAL BANKS



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# MARKET SHARE GAIN

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## MAJOR PRODUCTS MARKET SHARE

*(Accumulated % change)*

	Growth rate <i>March-03</i>		Market share <i>Dec.-02</i>	Of total loans
	As reported	Like for like		
Bill discounting	7.3	7.3	10.8	12.4
Mortgage loans	43.7	37.1	4.8	49.3
Personal loans & overdrafts	9.0	8.9	4.1	30.2
Leasing	14.4	12.5	9.7	6.0
Factoring	11.1	11.1	6.9	0.9
Pension funds*	0.9	0.9	6.8	
Mutual funds	5.3	5.3	3.5	

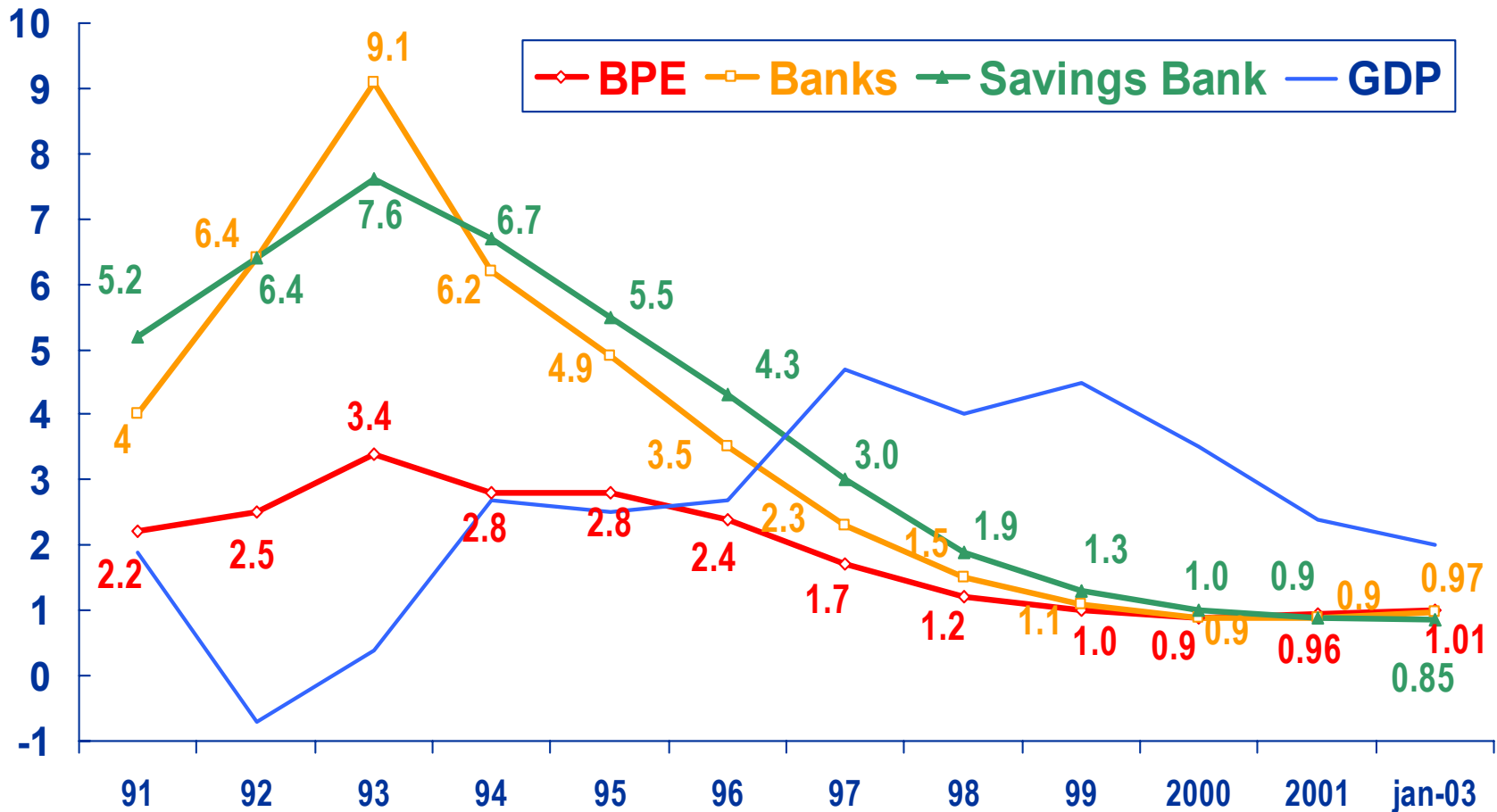
\* Assets in private/individual accounts

# IMPROVEMENT IN ASSET QUALITY

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## LOAN PORTFOLIO QUALITY

Nonperforming loans / Credit to private-sector resident borrowers (%)

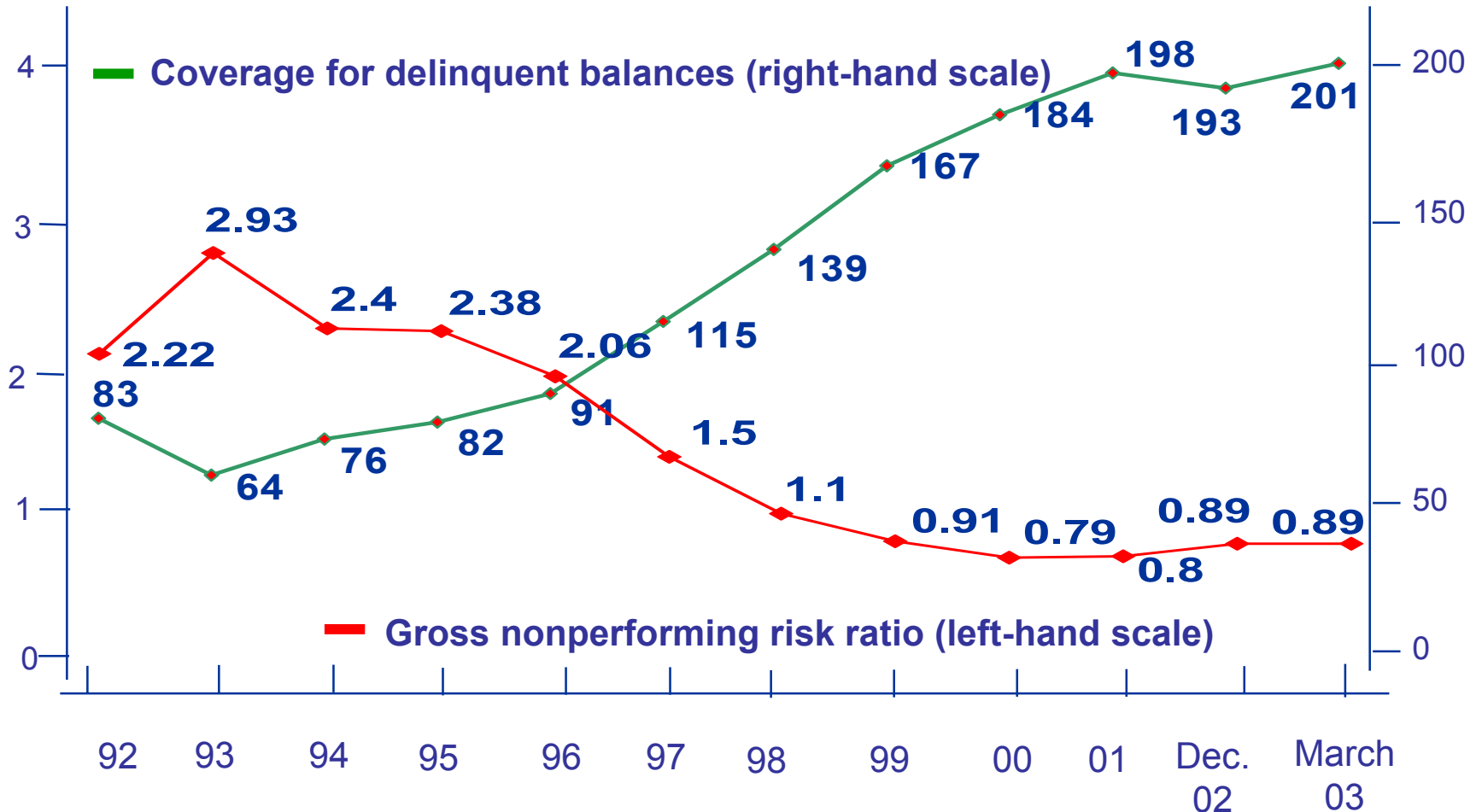


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# IMPROVEMENT IN ASSET QUALITY

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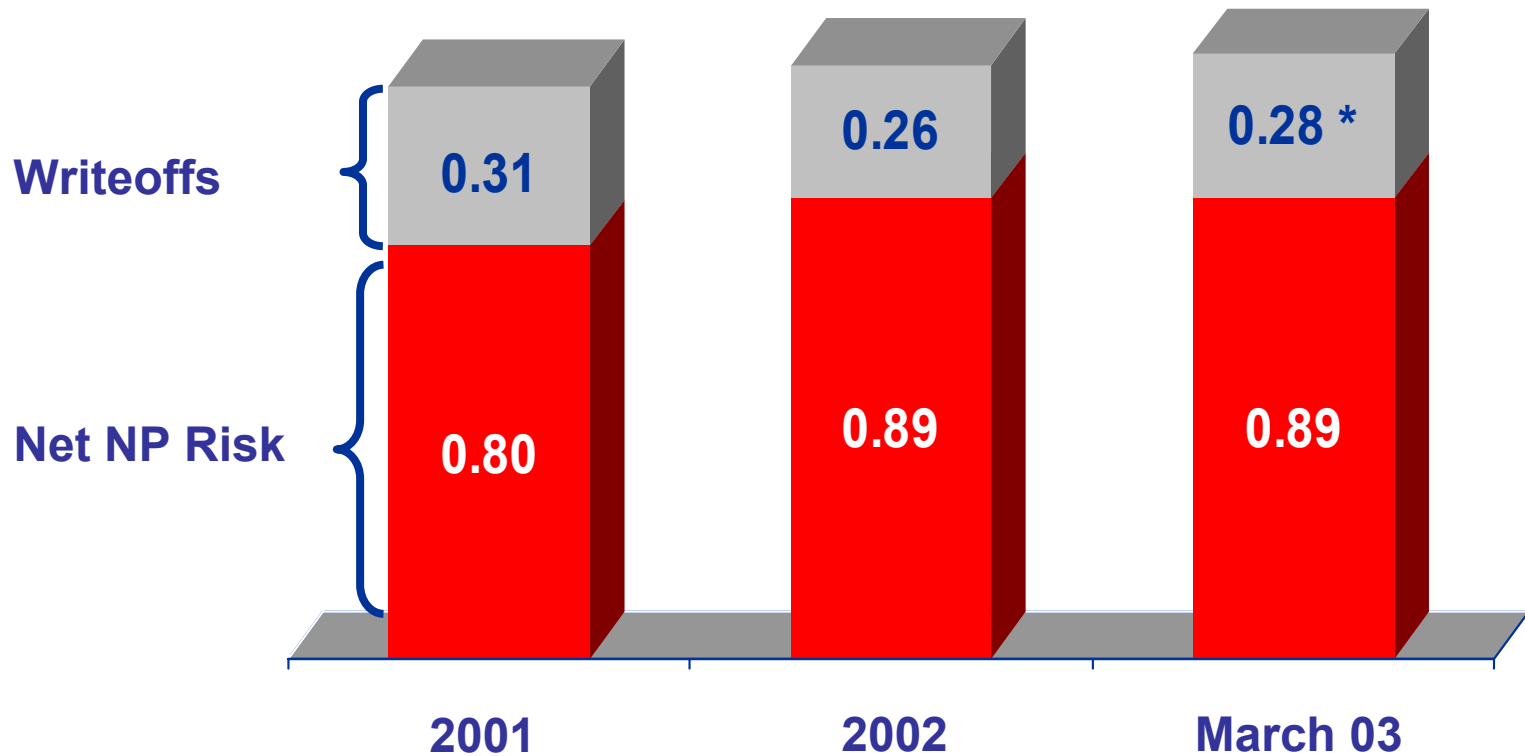
## VARIATION IN THE NON PERFORMING RISK RATIO AND COVERAGE FOR DELINQUENT BALANCES



# IMPROVEMENT IN ASSET QUALITY

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## NON PERFORMING RISK (bps)



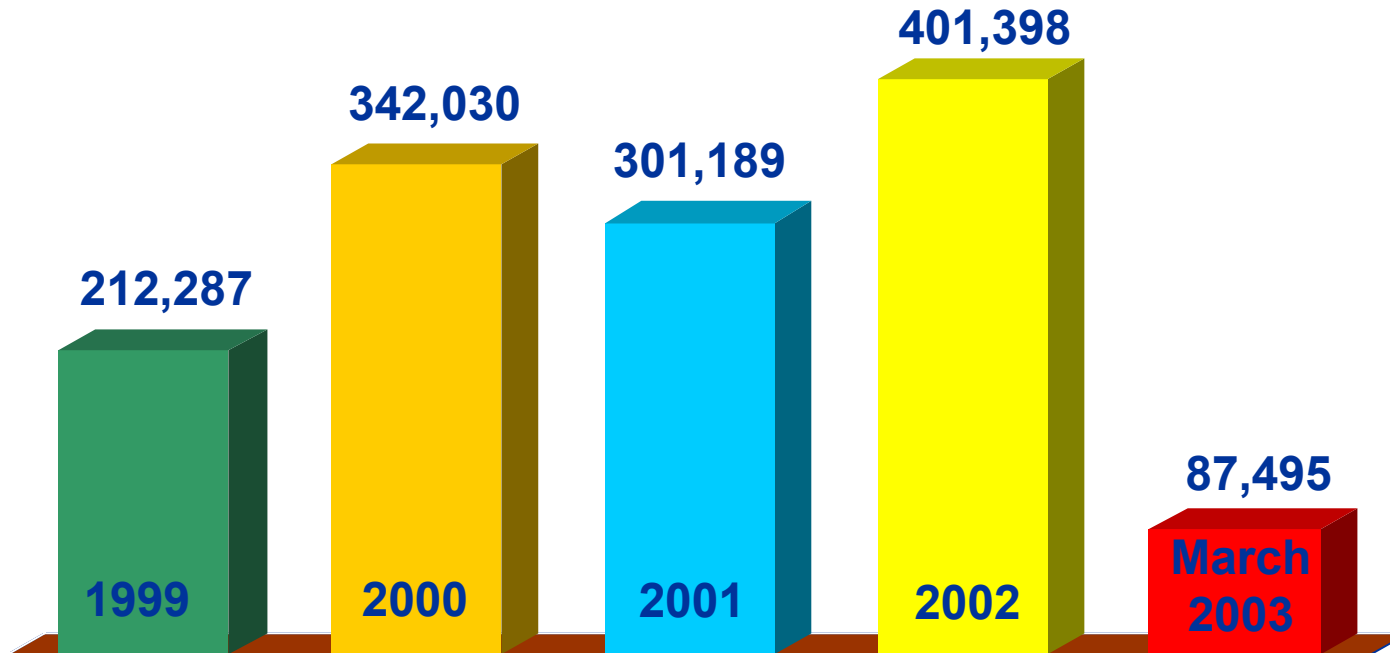
\* Annualized

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# CUSTOMER BASE EXPANSION

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## NET NEW CLIENTS



**Total number of clients: 4,740,703**

**Individuals: 4,380,775**

**Corporate: 359,928**

**y-o-y %  
8.92**

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# QUALITY CLIENT BASE EXPANSION<sup>14</sup>

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## AFFINITY GROUPS

*(Euro million)*

	No. of clients	On- & off-B/S AuM	Loans
<b>SME Affinities Change</b>	<b>64,403 29.2%</b>	<b>1,079 31.8%</b>	<b>3,645 66.8%</b>
<b>Individuals-Affinity Change</b>	<b>398,705 7%</b>	<b>4,592 14%</b>	<b>3,197 29%</b>

# NEW BUSINESS LINE DEVELOPMENT

## Banco Popular

### CARDS BUSINESS PLACEMENT GROWTH

(March 31, 2003)



**Credit \***



**Debit**



**Other  
Affinity**



**Petrol**

**TOTAL**

**Retailers**

	Number		Turnover		In use %	
	Number	y-o-y %	€ thou.	y-o-y %	2003	2002
Credit *	1,066,220	15.1	576,003	7.9	54.7	60.7
Debit	1,368,977	11.6	578,273	11.9	43.2	43.7
Other Affinity	970,591	12.4	55,575	26.1	20.5	20.7
Petrol	1,202,081	(1.8)	69,583	27.3	30.8	28.3
<b>TOTAL</b>	<b>4,607,869</b>	<b>8.7</b>	<b>1,279,433</b>	<b>11.3</b>	<b>35.3</b>	<b>31.6</b>
<b>Retailers</b>	<b>112,779</b>	<b>0.8</b>	<b>1,058,663</b>	<b>9.8</b>	<b>44.8</b>	<b>42.2</b>

\* Excl. revolving "Hop" card

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# NEW BUSINESS LINE DEVELOPMENT

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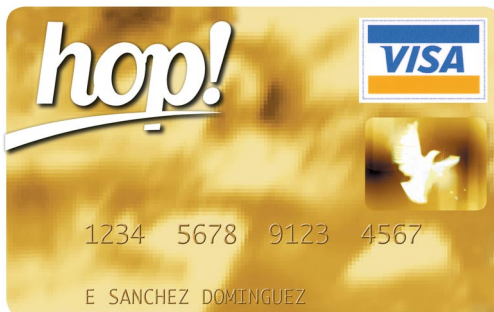
## CARDS BUSINESS

### NEW REVOLVING CARD "HOP"

- ▶ **LAUNCHED 13 MONTHS AGO**  
Initial target 2002: 50,000 cards

- ▶ **CURRENT VOLUMES:**

Number of cards:	150,903
Total credit limits:	492,8 million euros
Total lending:	137,5 million euros
Target lending o/outstanding:	40%



# STRONG REVENUES GROWTH

**Banco  
Popular**

	2002				2003
	1st. quarter	1st. half	9 mos.	Year	1st. quarter
<i>(Accumulated % change)</i>					
<b>Net interest revenue</b>	<b>20.6</b>	<b>17.9</b>	<b>16.1</b>	<b>13.5</b>	<b>8.8</b>
<b>Fees for services</b>	<b>(3.9)</b>	<b>(1.4)</b>	<b>0.7</b>	<b>0.9</b>	<b>7.1</b>
<b>Ordinary revenue</b>	<b>12.2</b>	<b>11.0</b>	<b>10.6</b>	<b>8.9</b>	<b>7.3</b>
<b>Operating costs</b>	<b>5.2</b>	<b>4.7</b>	<b>4.9</b>	<b>4.5</b>	<b>3.6</b>
<b>Operating income</b>	<b>18.6</b>	<b>16.7</b>	<b>15.9</b>	<b>13.1</b>	<b>9.7</b>
<b>Income before taxes</b>	<b>24.7</b>	<b>23.3</b>	<b>22.7</b>	<b>23.8</b>	<b>9.0</b>
<b>Net income attributable</b>	<b>11.3</b>	<b>11.4</b>	<b>11.6</b>	<b>12.1</b>	<b>8.6</b>

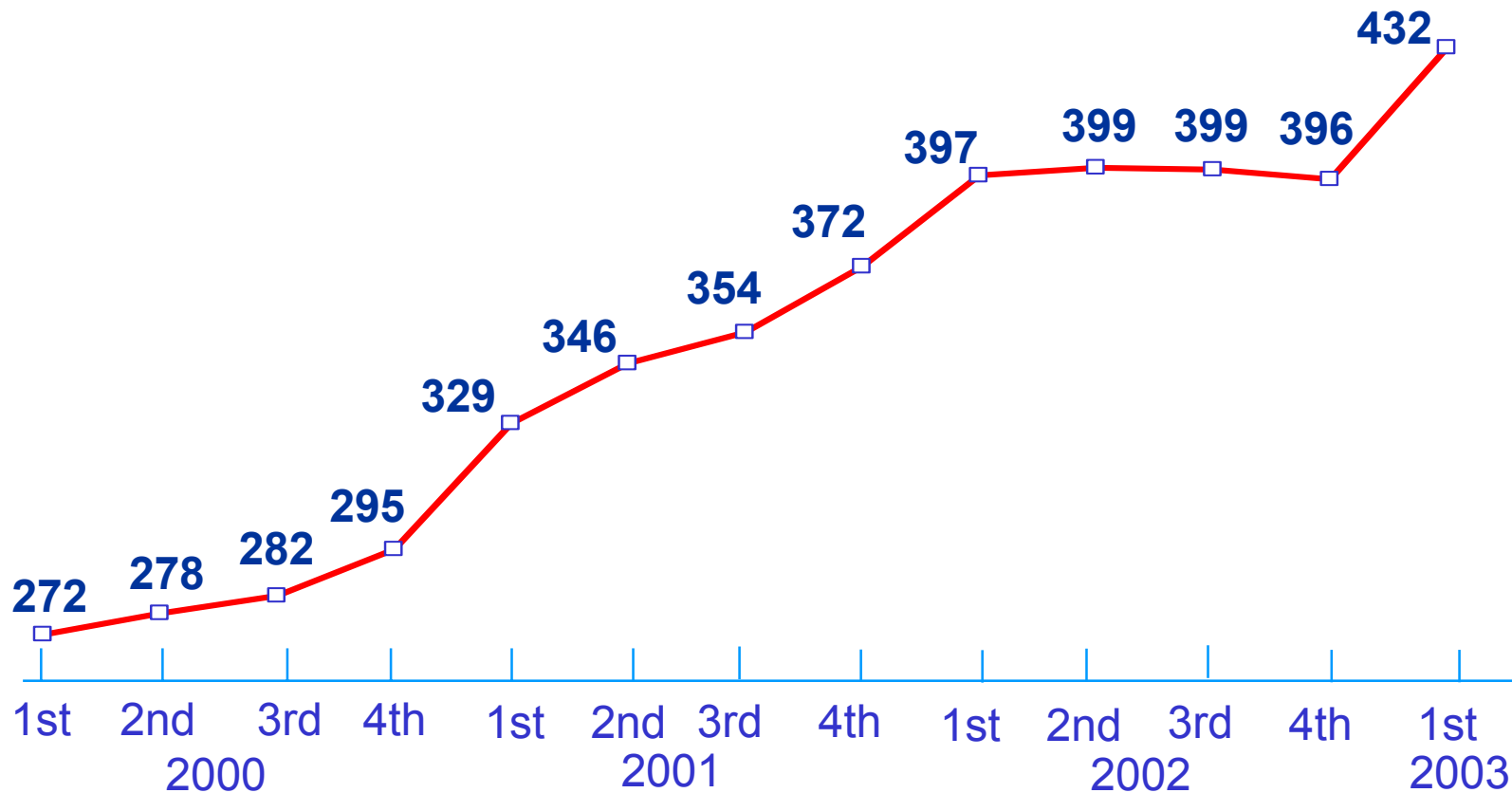
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# STRONG REVENUES GROWTH

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## NET INTEREST REVENUE (Quarter standalone)

*(Euro million)*



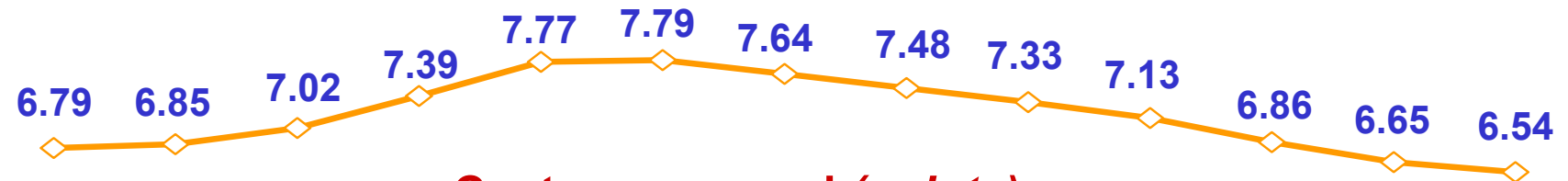
**Staying on the upbeat**

# STRONG REVENUES GROWTH

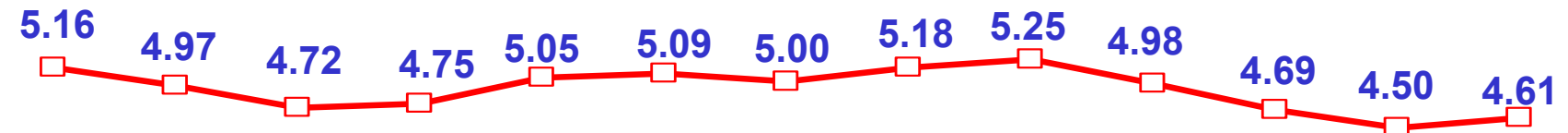
**Banco  
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## QUARTERLY CUSTOMER SPREAD

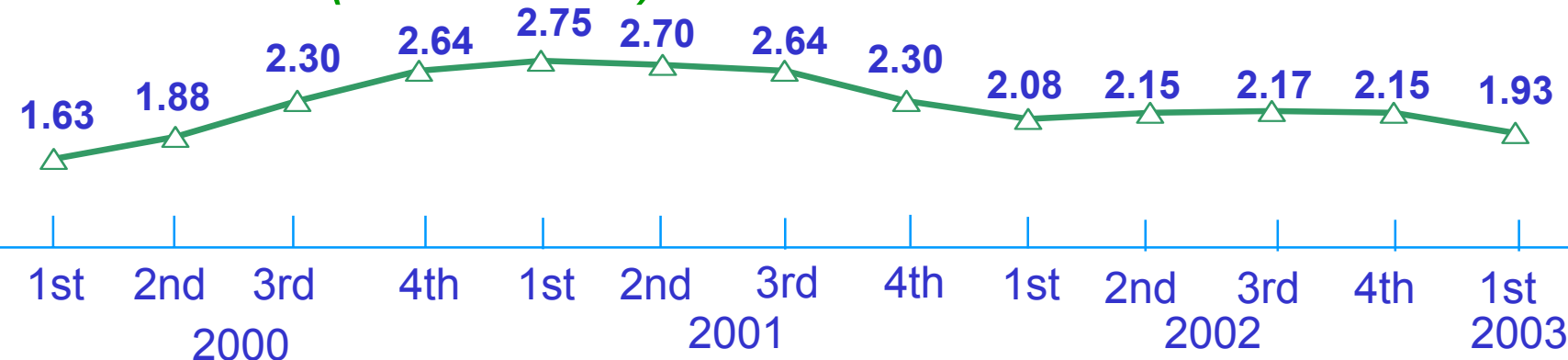
**Credit yield (annualized %)**



**Customer spread (points)**



**Cost of funds (annualized %)**



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# STRONG REVENUES GROWTH

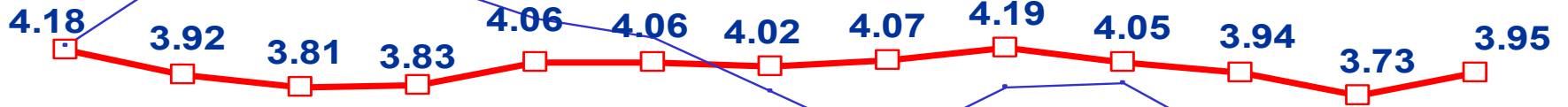
**Banco Popular**

## NET INTEREST MARGIN

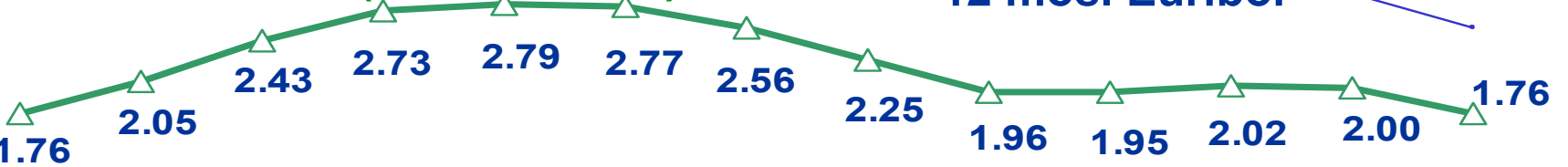
*Asset yield (annualized %)*



## Net Interest Margin



*Cost of liabilities (annualized %)*



12 mos. Euribor

1st 2nd 3rd 4th 1st 2nd 3rd 4th 1st 2nd 3rd 4th 1st  
2000 2001 2002 2003

# OFFSET SPREAD PRESSURE

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## EFFECT ON YIELDS AND COSTS

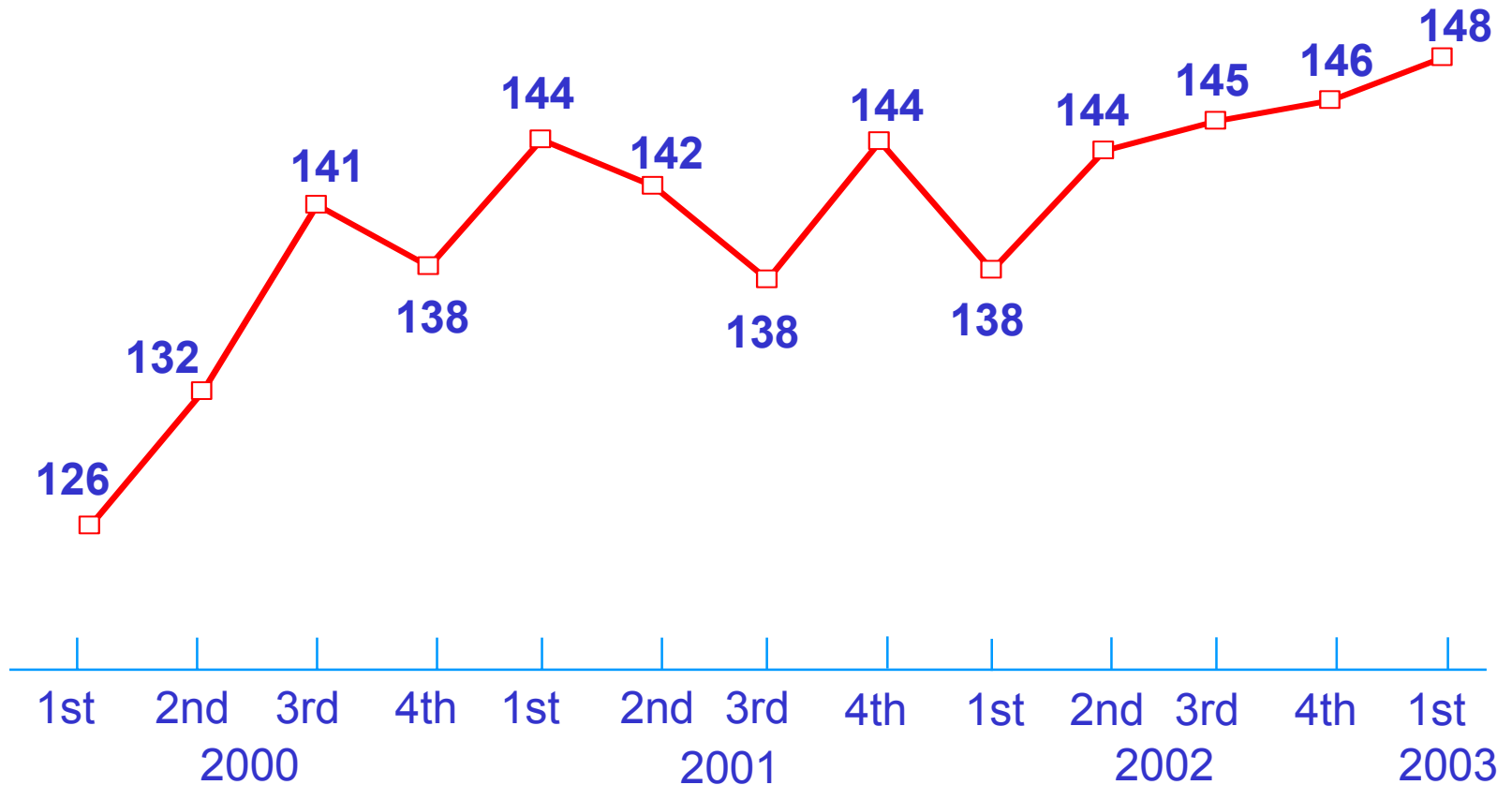
From Base To	Sep 01/ Dec 01	Dec 01/ Mar 02	Mar 02/ Jun 02	Jun 02/ Sep 02	Sep 02/ Dec 02	Dec 02/ Mar 03
Bill discounting	-0.17	-0.23	-0.18	-0.07	-0.17	-0.28
Mortgages	-0.17	-0.25	-0.21	-0.16	-0.17	-0.24
Consumer	-0.32	-0.15	-0.06	-0.13	-0.16	-0.25
Overdrafts	-0.12	-0.21	-0.07	-0.12	-0.13	-0.37
Leasing	-0.17	-0.22	-0.12	-0.12	-0.17	-0.17
<b>TOTAL</b>	<b>-0.20</b>	<b>-0.22</b>	<b>-0.16</b>	<b>-0.15</b>	<b>-0.17</b>	<b>-0.28</b>
Demand Deposits	-0.17	--	0.05	--	-0.18	-0.06
Time Deposits	-0.38	-0.18	0.02	0.04	-0.14	-0.26
Commercial Paper	-0.56	-0.17	0.10	0.03	-0.28	-0.41
<b>TOTAL</b>	<b>-0.29</b>	<b>-0.05</b>	<b>0.03</b>	<b>0.04</b>	<b>-0.20</b>	<b>-0.15</b>
<b>Differential</b>	<b>+0.09</b>	<b>-0.17</b>	<b>-0.19</b>	<b>-0.19</b>	<b>+0.03</b>	<b>-0.13</b>

# STRONG REVENUES GROWTH

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## FEEES FOR SERVICES (Quarter standalone)

*(Euro million)*



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# STRONG REVENUES GROWTH

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## FEES FOR SERVICES

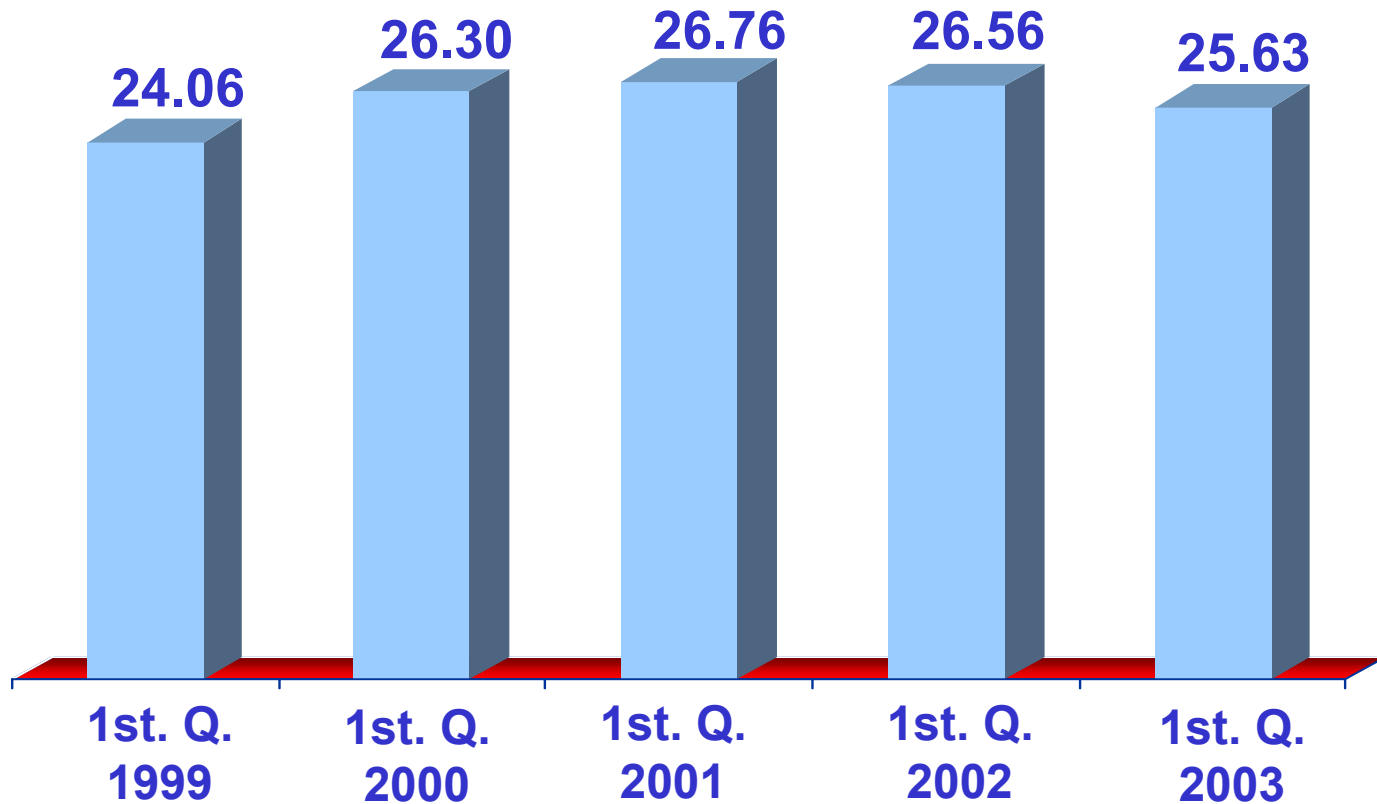
### Year-on-year % change

	<i>March-02</i>	<i>Dec.-02</i>	<i>March-03</i>	<i>As % of total fees</i>
Loan-related fees	(3.4)	(2.1)	(1.1)	12.2
Fees from guarantees	12.5	16.1	17.3	10.2
Collection & card-related	6.8	6.0	3.5	39.6
Customer financial asset mgt.	(2.7)	(3.0)	(2.1)	23.0
Mutual funds	(5.8)	(6.1)	(2.4)	14.9
Other AM	3.7	3.2	(1.4)	8.1
Account mgt. Fees	15.6	12.8	8.9	8.0
Other (inc. Inv. Banking)	(71.4)	(46.7)	114.9	7.0
<b>TOTAL</b>	<b>(3.9)</b>	<b>0.9</b>	<b>7.1</b>	<b>100</b>

# BEST ROE

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**ROE (%)**



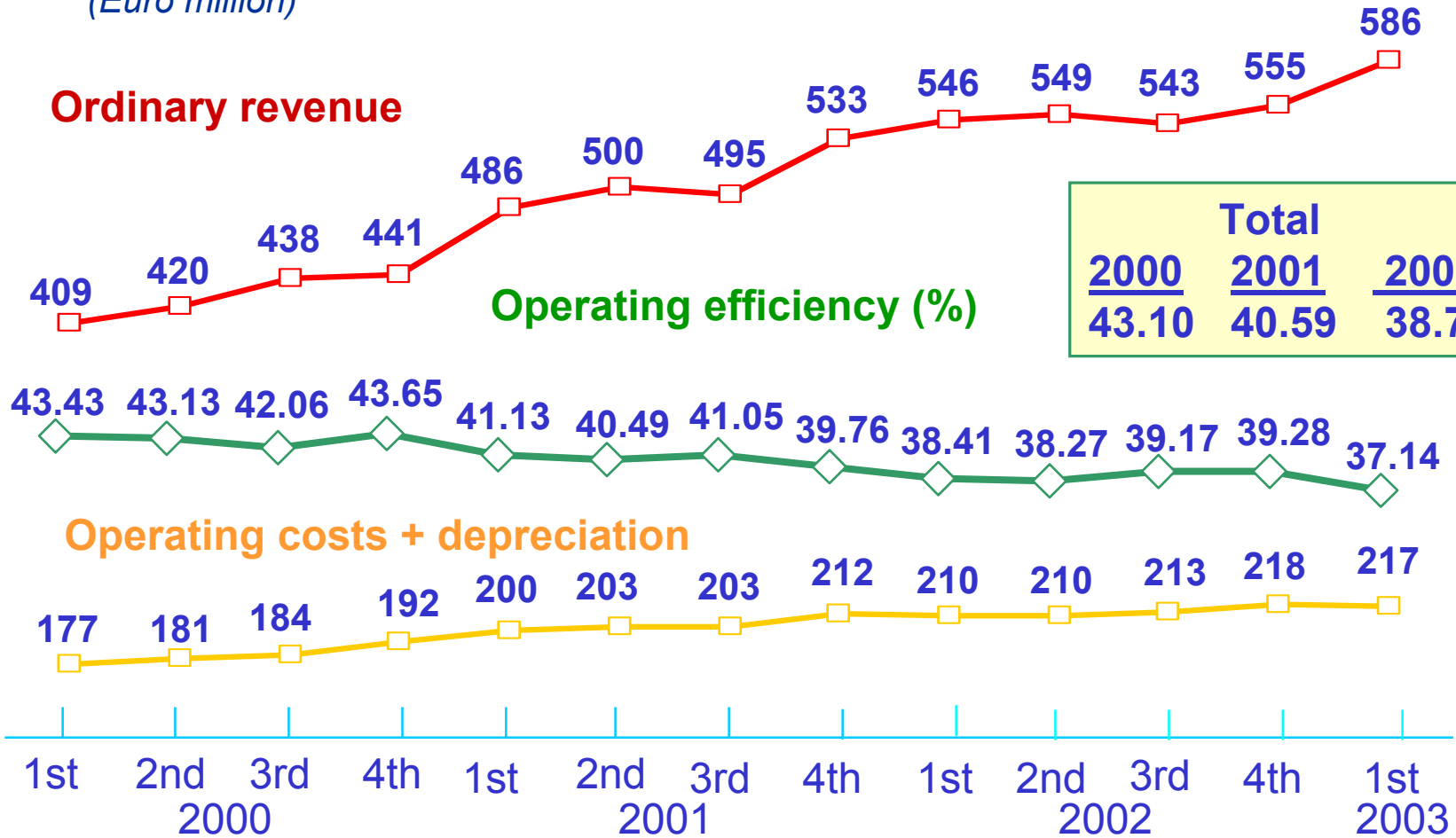
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# BEST COST/INCOME RATIO

**Banco Popular**

## COST/INCOME RATIO

(Euro million)

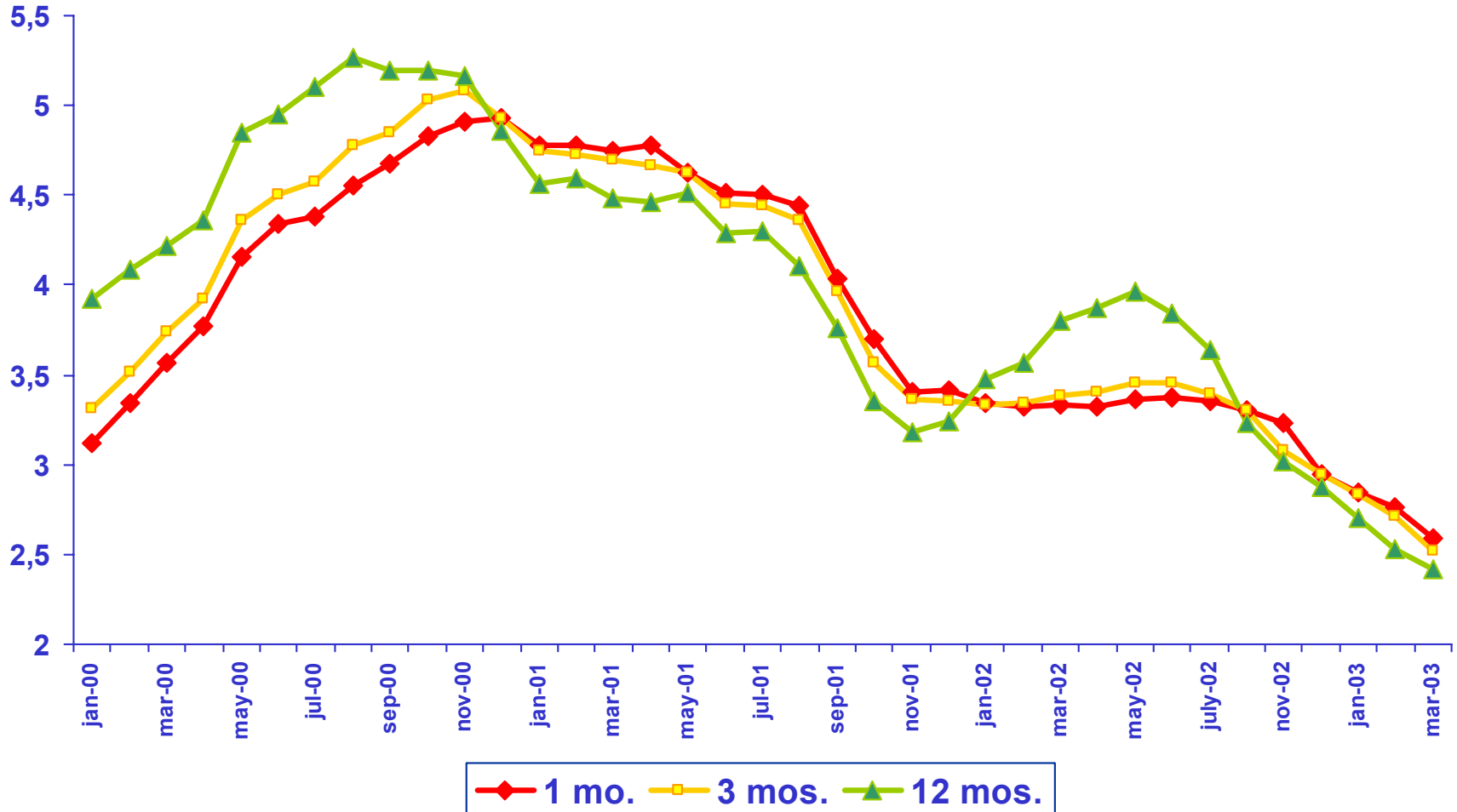


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# OFFSET PRESSURE ON SPREAD

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AVE. RATE TRANSACTED

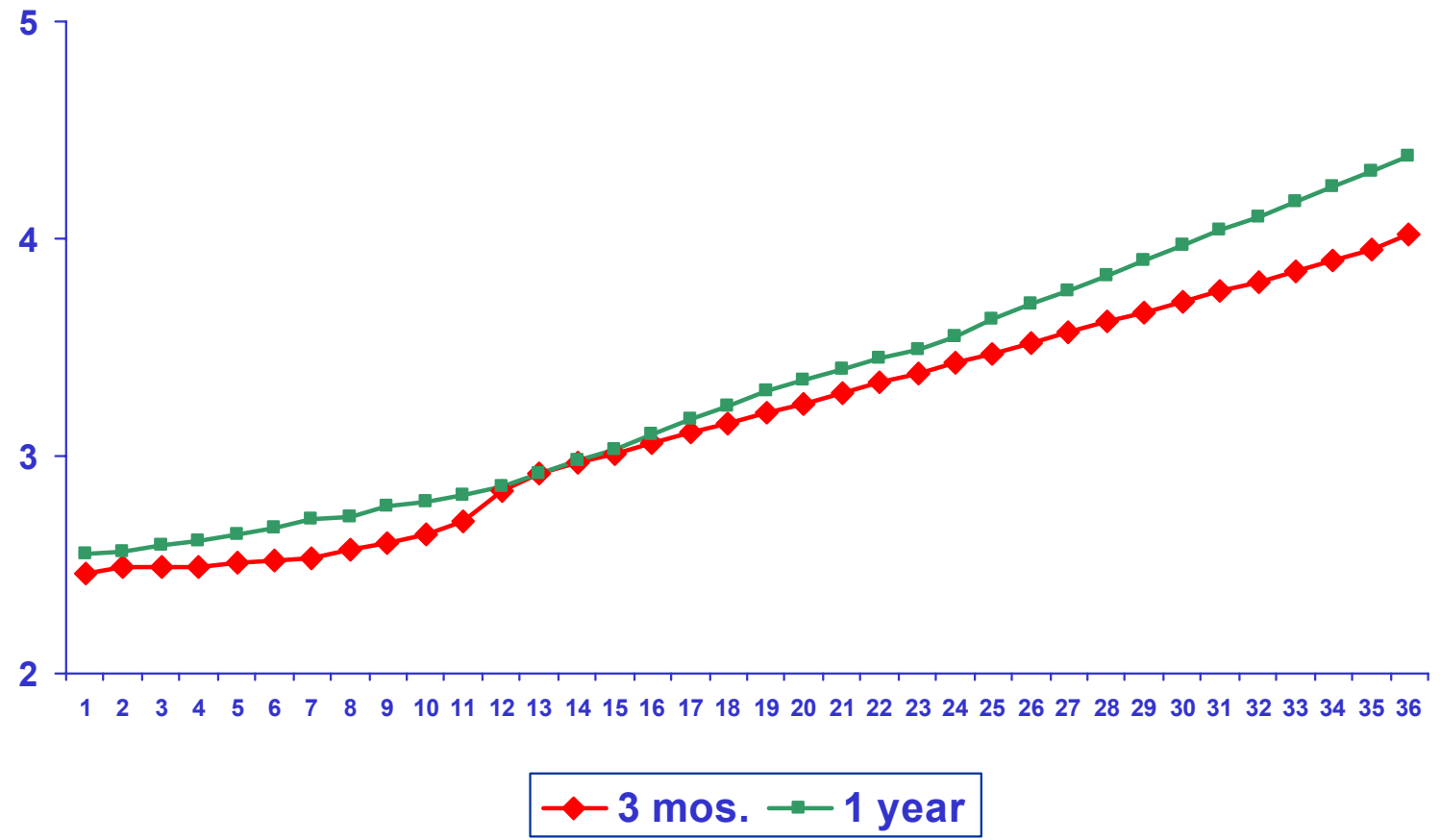


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# OFFSET PRESSURE ON SPREAD

Banco Popular

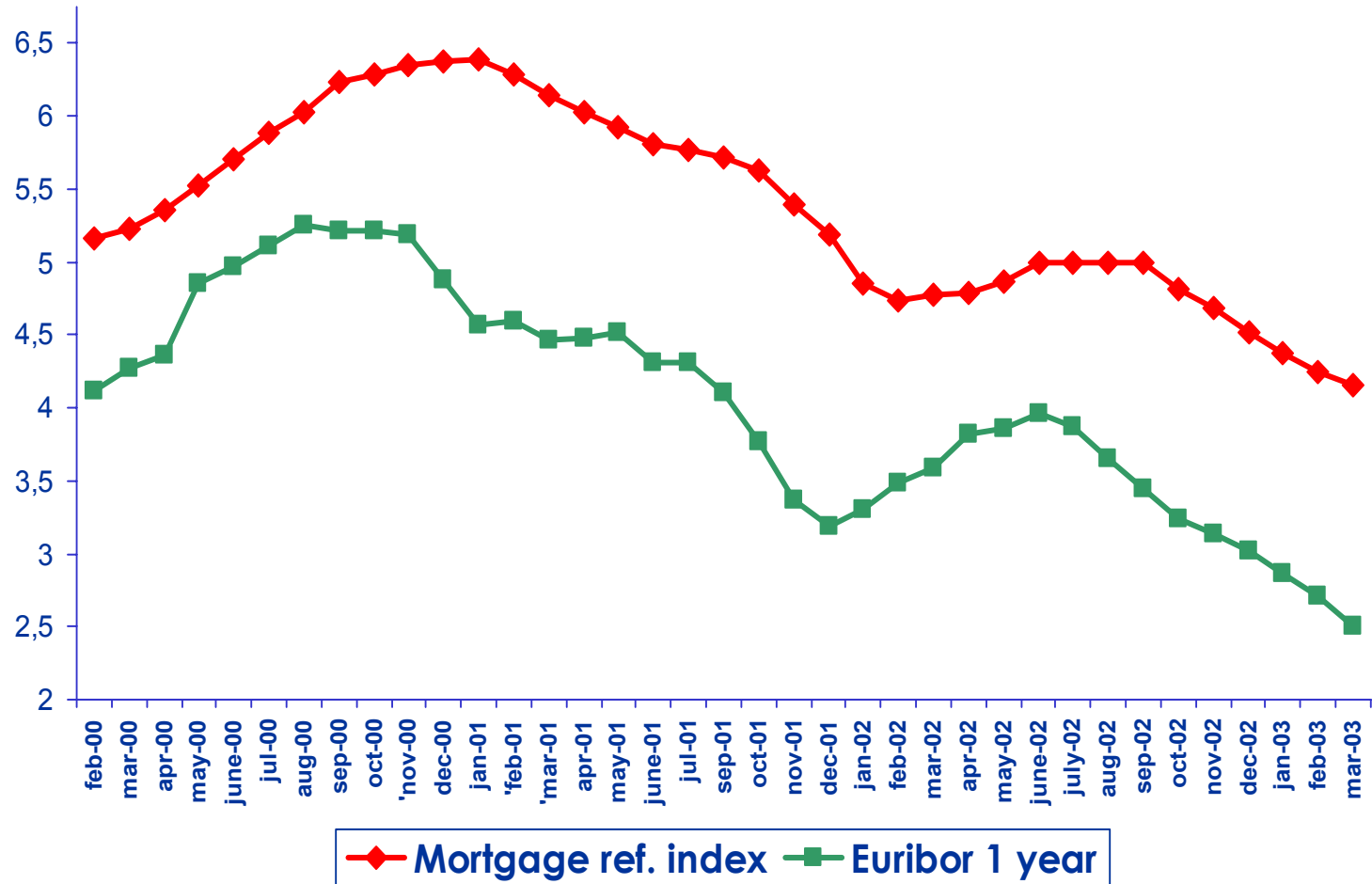
## CURVES OF IMPLICIT INTEREST RATES



# OFFSET PRESSURE ON SPREAD

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## MORTGAGE REFERENCE INDEX



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# OFFSET PRESSURE ON SPREAD

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## DURATION

Holding Period 365

*(March 31, 2003)*

	Amount MM Euros	Interest Rate %	NPV MM Euros	Duration Days	NPV MM Euros	Duration Days
<b>SENSITIVE ASSETS</b>	<b>41,038.0</b>	<b>4.92</b>	<b>41,859.4</b>	<b>203.91</b>	<b>38,514.8</b>	<b>120.32</b>
MONETARY MARKET	6,646.2	2.76	6,687.5	47.47	6,598.1	36.04
LOANS	33,431.4	5.38	34,154.8	171.40	31,534.8	137.87
SECURITIES	960.4	3.81	1,017.1	2,324.07	381.9	126.97
<b>SENSITIVE LIABILITES</b>	<b>30,302.1</b>	<b>2.63</b>	<b>30,482.2</b>	<b>87.16</b>	<b>29,490.9</b>	<b>66.08</b>
MONETARY MARKET	15,063.0	2.77	15,140.8	69.83	14,676.6	47.47
CUSTOMER DEPOSITS	12,697.3	2.45	12,785.7	113.59	12,294.6	90.94
SECURITIES	2,541.8	2.76	2,555.6	57.67	2,519.7	53.16
<b>EQUITY</b>	<b>3,208.0</b>		<b>11,377.2</b>	<b>516.70</b>		

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# OFFSET PRESSURE ON SPREAD

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## SENSITIVITY TO INTEREST RATES

For an 100 bps. Interest-Rate Move

Total Revenue Sensitivity\*  $\pm$  Euros 16.6 million

$\pm$  0.71% Total Revenues

$$* (PV_a * (1 - DUR_a)) - (PV_l * (1 - DUR_l))$$

# BNC ACQUISITION

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## BNC's PROFILE

	<b>2002</b>	<b>2001</b>	<i>% change</i>
Net interest revenue	79,756	69,529	14.7
Fees for services	20,414	18,325	11.4
Asset trading & exch. profits	2	(1,102)	100.2
Ordinary revenue	100,172	86,752	15.5
Operating costs	50,750	45,829	10.7
Depreciation	5,997	5,745	4.4
Other operating income/expenses	5,596	1,609	247.8
Operating income	49,021	36,787	33.2
Provisions	13,975	10,186	37.2
Associated companies income	(42)	(395)	(89.2)
Income before taxes	35,004	26,206	33.6

# BNC ACQUISITION

**Banco  
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## BNC's PROFILE

	2002	2001	% change
Customer funds	2,892.6	2,638.2	9.9
Loans & discounts			
As reported	2,868.6	2,652.4	8.2
Ex-securitization	3,099.9	2,652.4	16.9
No. of branches	111	107	
No. of employees	921	815	
Cost/income ratio	56.7%	59.4%	

# BEST PERFORMING STOCK

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■ BANCO POPULAR  
■ EUROBANKS Index



**Staying on the upbeat**

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# **Mortgage market view**

# MORTGAGE MARKET VIEW

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## GENERAL STRATEGY

- 1. Gain market share**
- 2. Maintain high credit quality standards**
- 3. Systematically optimise cost/income ratio:**
  - **Keep profitability (spreads) high**
  - **Cost always proportional to income**
- 4. High Tier 1 equity to keep low cost of funding**
- 5. Maintain flexible balance sheet**

# MORTGAGE MARKET VIEW: MAIN TRENDS ALONG 2003

36

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## REAL ESTATE DEMAND

- ▶ Home demand to stay high but slowing down
- ▶ Tourist housing for locals: moderately strong
- ▶ Some tourist real estate for foreigners: recession
- ▶ Overall office offer in excess of demand
- ▶ Industrial buildings demand beginning to slacken
- ▶ Retail premises: slightly increasing demand
- ▶ Major entertainment & commercial: stand-by

## REAL ESTATE VALUES (PRICES)

- ▶ Home prices up around 8 %
- ▶ Second housing for locals: prices up 3 to 10 %
- ▶ Tourist developments for foreigners: stagnant
- ▶ Office prices: 0 to 8 % down
- ▶ Industrial buildings: prices stabilizing
- ▶ Commercial real estate: flattish

# MORTGAGE MARKET VIEW: MORTGAGE LOAN RISKS IN 2003

38

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- ▶ **Home mortgage loans: very low risk**
- ▶ **Second housing for locals: low risk**
- ▶ **Second housing for foreigners: medium to high risk**
- ▶ **Office developments: high risk in many locations**
- ▶ **Industrial buildings: increasing risk**
- ▶ **Commercial & Entertainment malls: high risk**

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## IN RESIDENTIAL

Home demand is (will be) strong because...

- ▶ 12 month Euribor will stay low in 2003
- ▶ Unemployment is not going to grow much
- ▶ Sustained demographic pressure from 30ers
- ▶ Consolidation of low layer demand from immigrants
- ▶ Still high stock of old low quality housing

But growth will be lower and more selective

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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**Residential prices grow 12 % p.a. during last three years**

➔ **Land prices fast growth**

➔ Baby-boomers

➔ Low interest rates

➔ **Strong demand**

➔ Longer loan maturities

➔ Immigration

➔ Foreigners



**Shift from lease  
to purchase**

➔ **Revaluation expectations**

**NO, speculative bubble**



**No risk of a value collapse**

**YES, excessive prices**



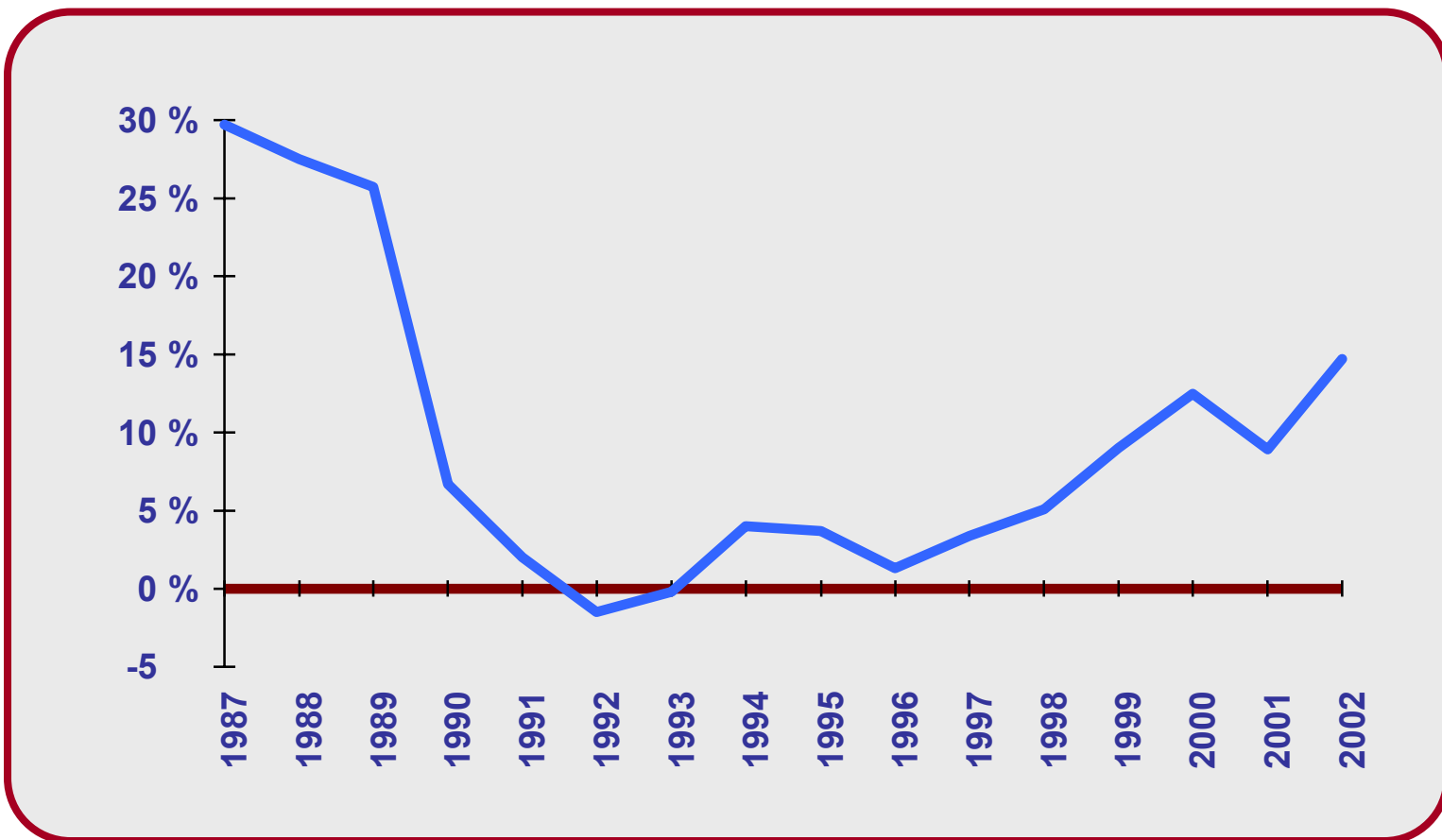
**High values will dampen demand growth**

**Staying on the upbeat**

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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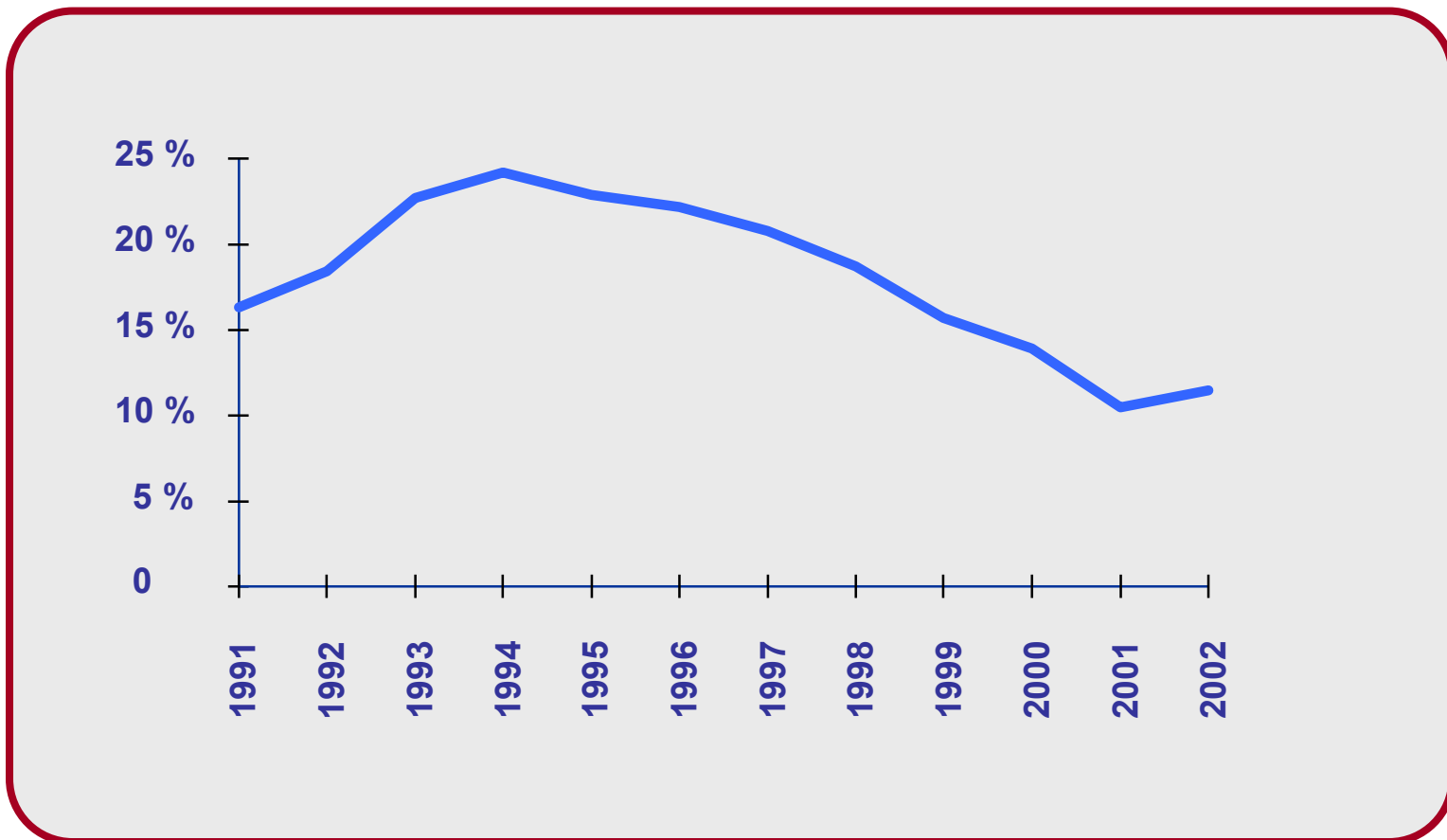
## YEARLY RESIDENTIAL PRICES



# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## UNEMPLOYMENT RATE

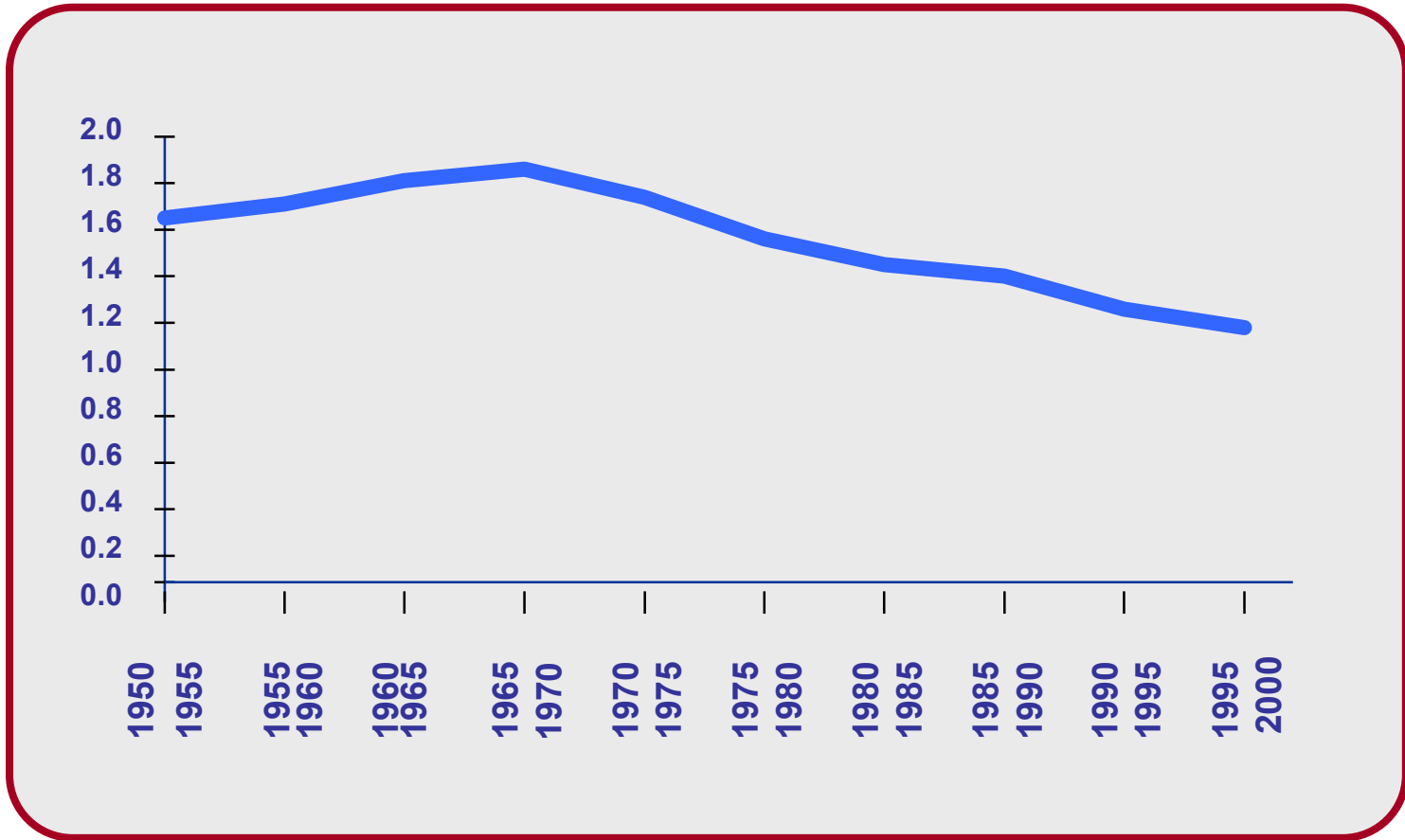


Source: INE

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## NET BIRTH RATES

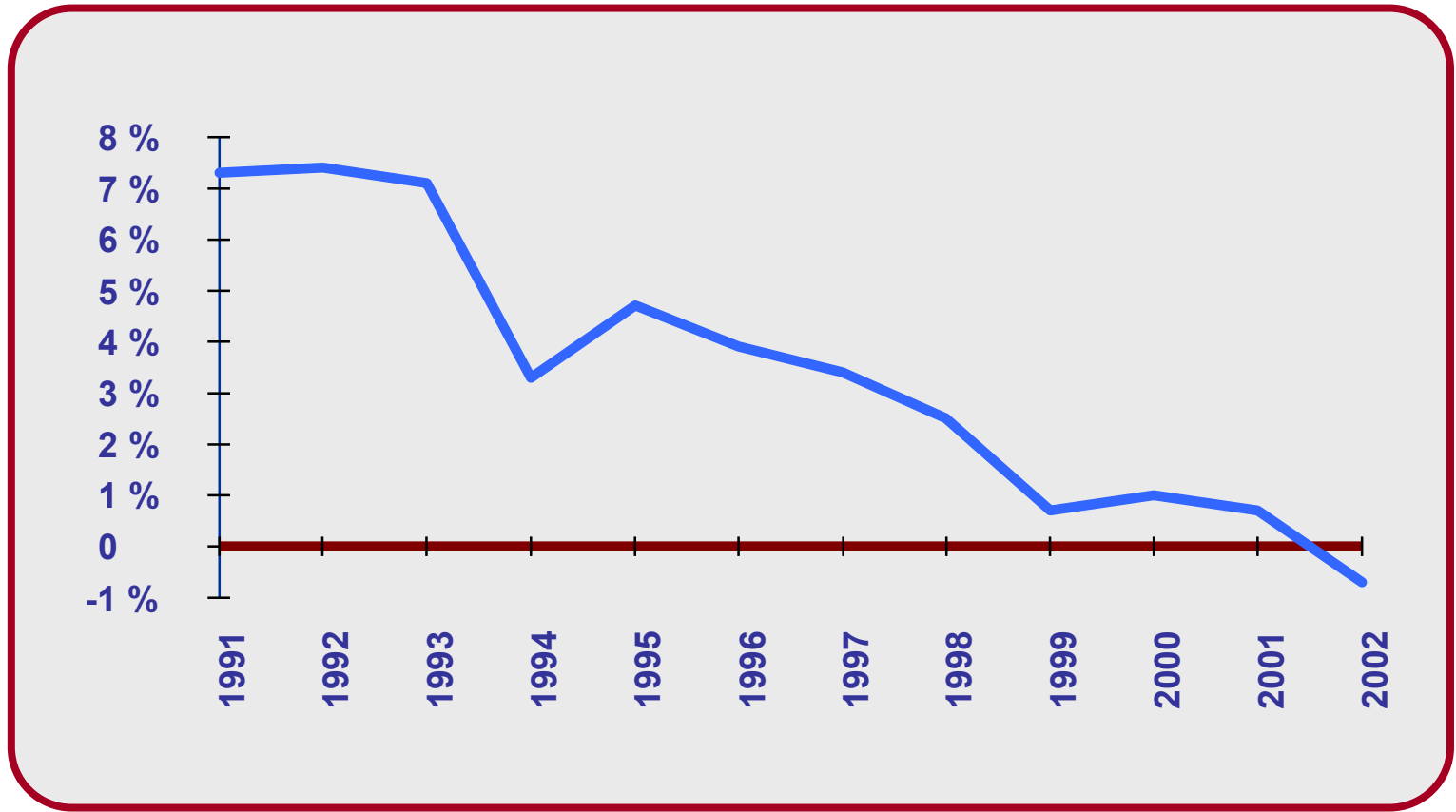


Source: INE, ANUARIO ESTADISTICO DE ESPAÑA

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## REAL INTEREST RATES

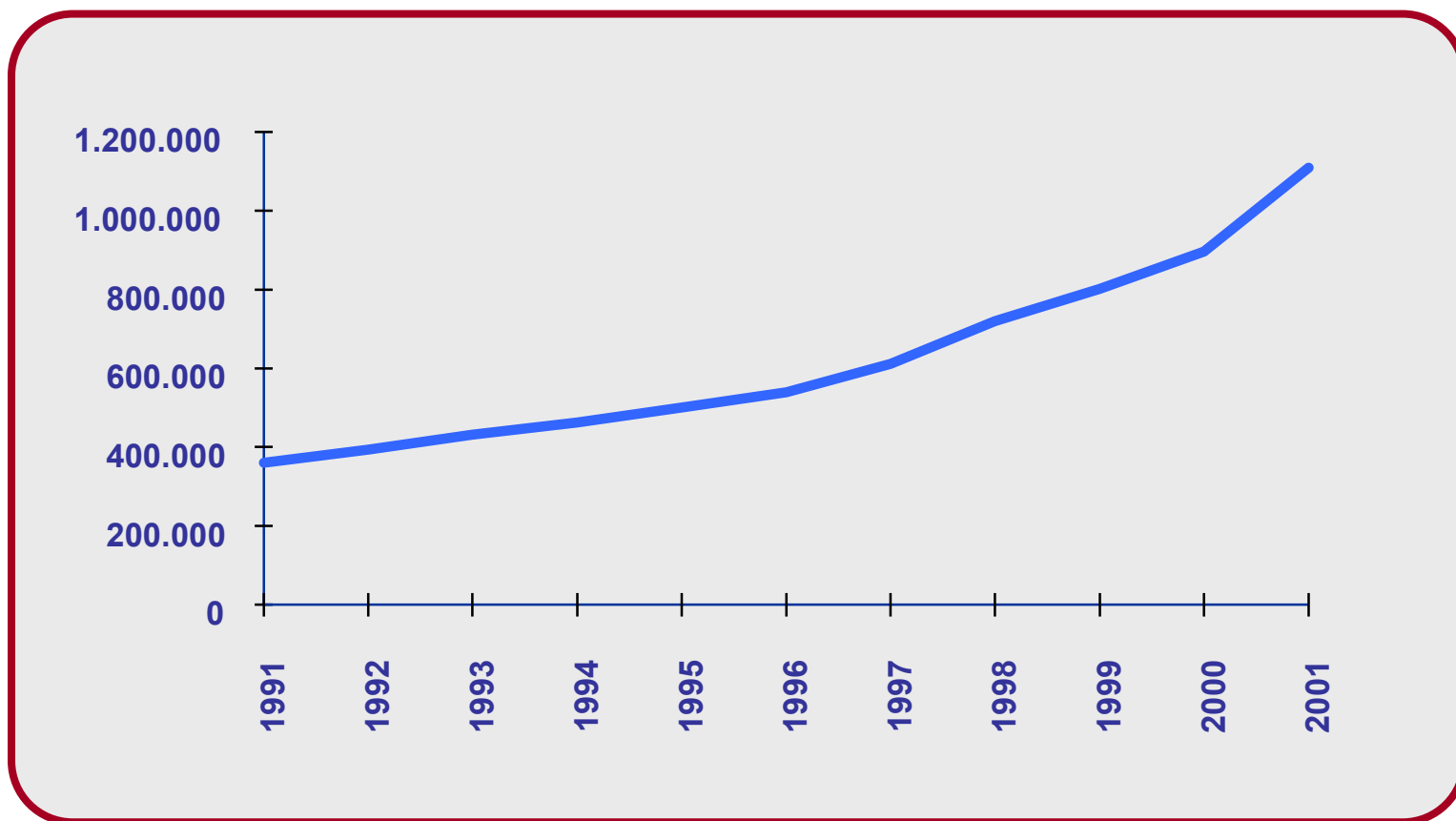


Source: INE, BANCO DE ESPAÑA

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## NON NATIONALS WITH RESIDENCE IN SPAIN



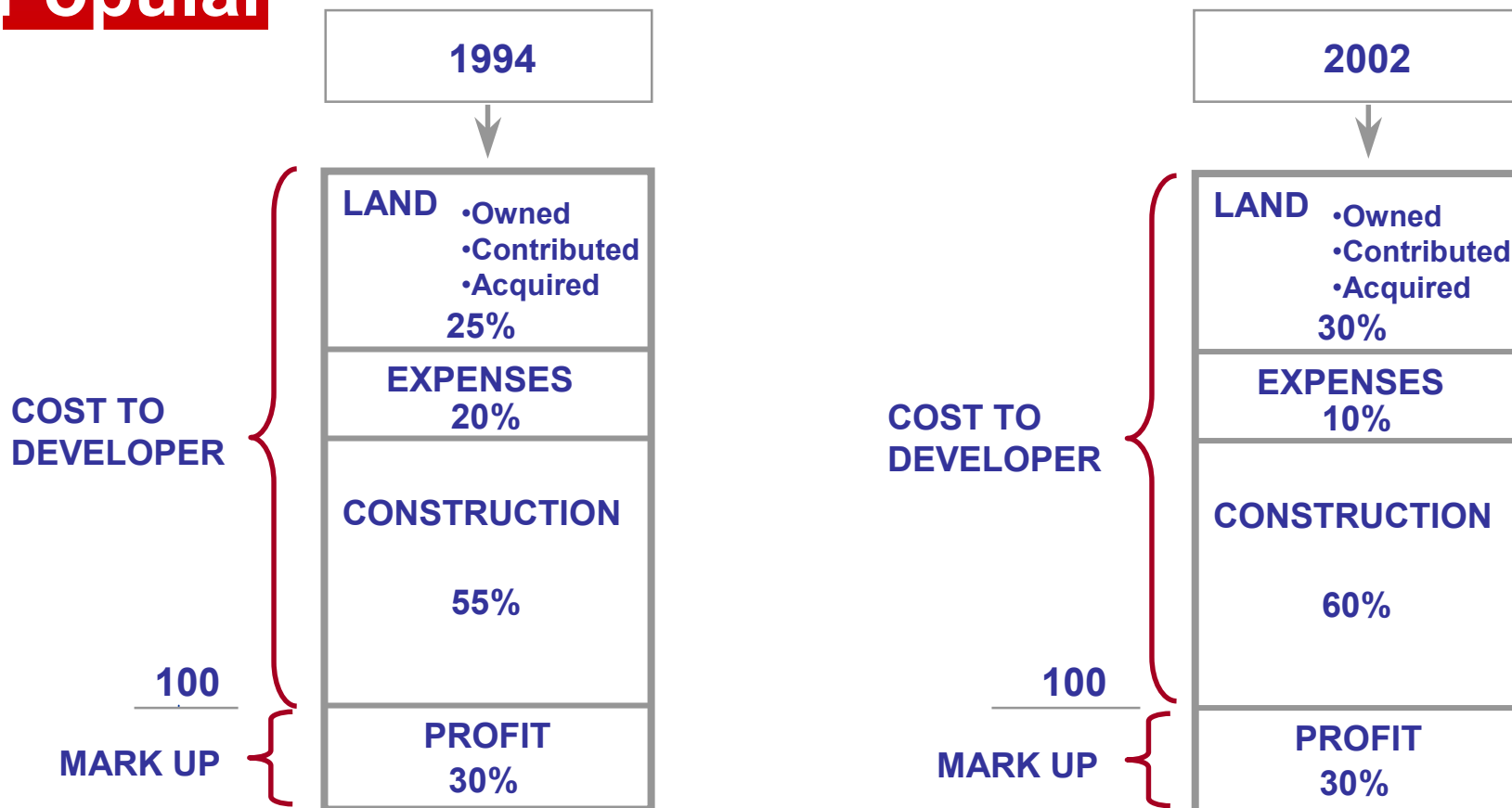
Source: INE, BOLETIN MENSUAL DE ESTADISTICA

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# MORTGAGE MARKET VIEW: Current Market Conditions for Residential Real Estate Developers

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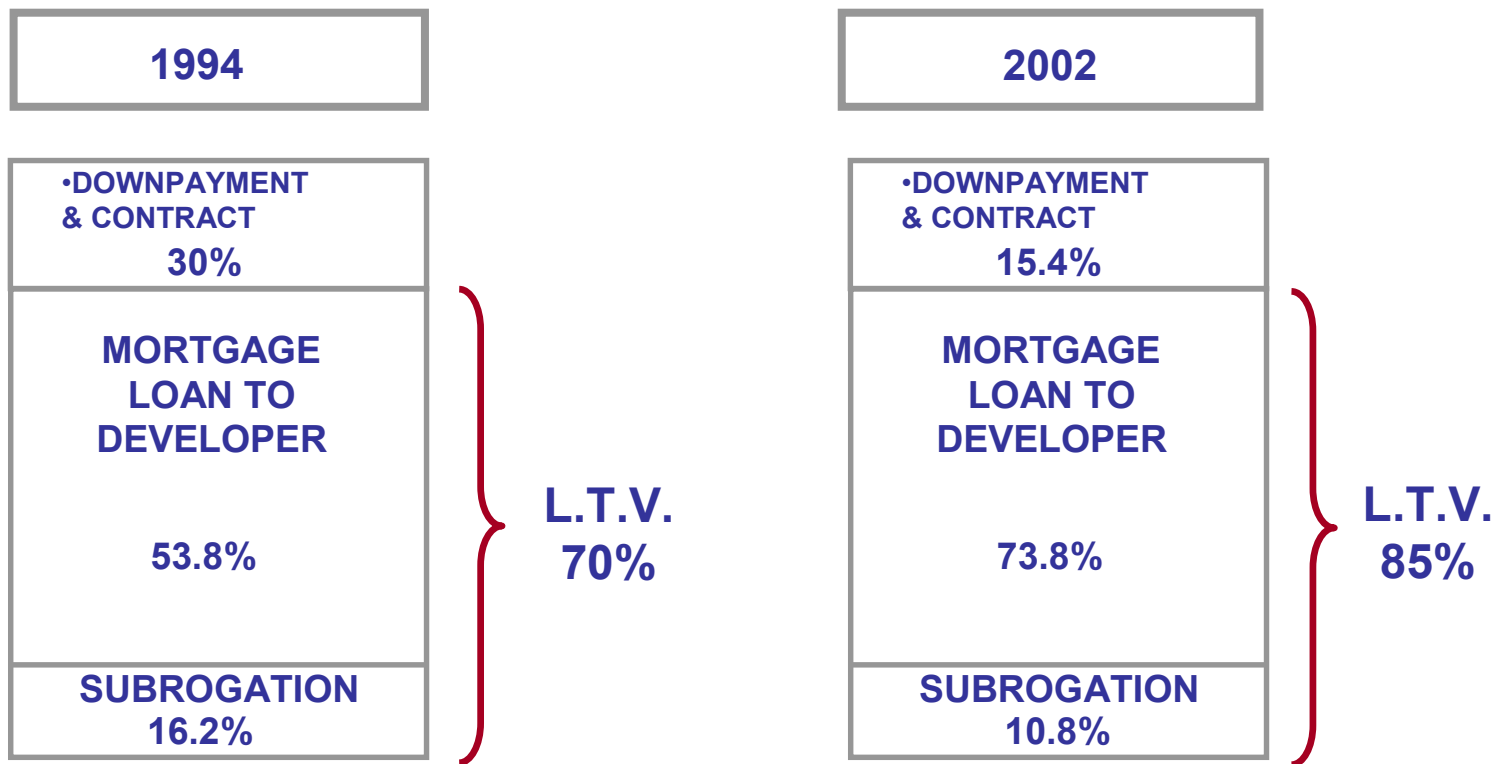
## FINAL PRICE COMPONENTS



# MORTGAGE MARKET VIEW: Current Market Conditions for Residential Real Estate Developers

**Banco Popular**

## FINAL PRICE FUNDING



# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## IN OTHER RESIDENTIAL PROPERTIES

**Second residence demand for locals stays moderately firm...**

- ▶ **GDP/capita increasing**
- ▶ **Low interest rates**
- ▶ **Distrust of financial markets: cultural bias**
- ▶ **No interest in buying to lease**

**Tourist housing for foreigners with difficulties...**

- ▶ **Some areas affected by problems in Germany**
- ▶ **Lower tourist visitors and uncertainty**
- ▶ **Still demand for middle to high quality properties**

# MORTGAGE MARKET VIEW: CURRENT MARKET CONDITIONS

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## **In Office buildings:**

Progressive price corrections...

- GDP slowdown
- Sharp price increases since 1998
- Fast development growth since 1996
- High excess offer not yet covered by demand in next 2 years
- Lease rents already falling in non-prime locations
- Prices firm in prime locations

## **In Industrial buildings:**

Period of transition...

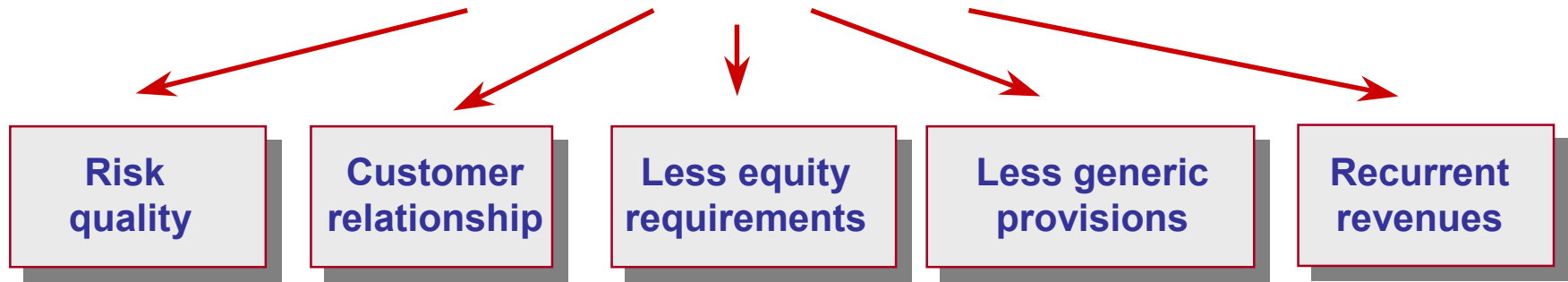
- Depressed industrial activity has slowed down demand
- Developments did not go up as sharp as in other property
- Prices are still increasing in consolidated estates
- Demand will resume growth path after industrial recovery

# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

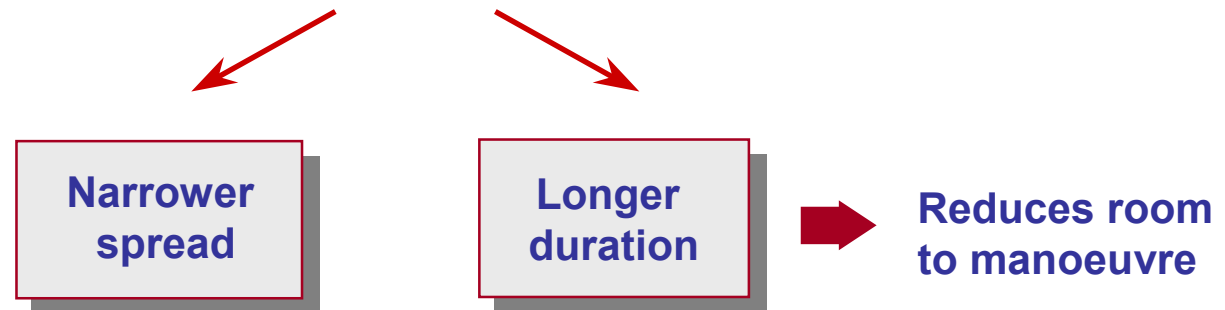
50

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## Comparative advantages of mortgage loans



## But...they have some disadvantages...



# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## MORTGAGE LOAN GROWTH

High growth in order to...

- ▶ Help market share gain
- ▶ Increase customer loyalty (cross selling)
- ▶ Gain new customers
- ▶ Cater for current customer's requirements
- ▶ Feed net interest revenue growth

But...

- ▶ 48% of Popular's loan book are mortgage loans
- ▶ And excessive mortgage weight reduces flexibility

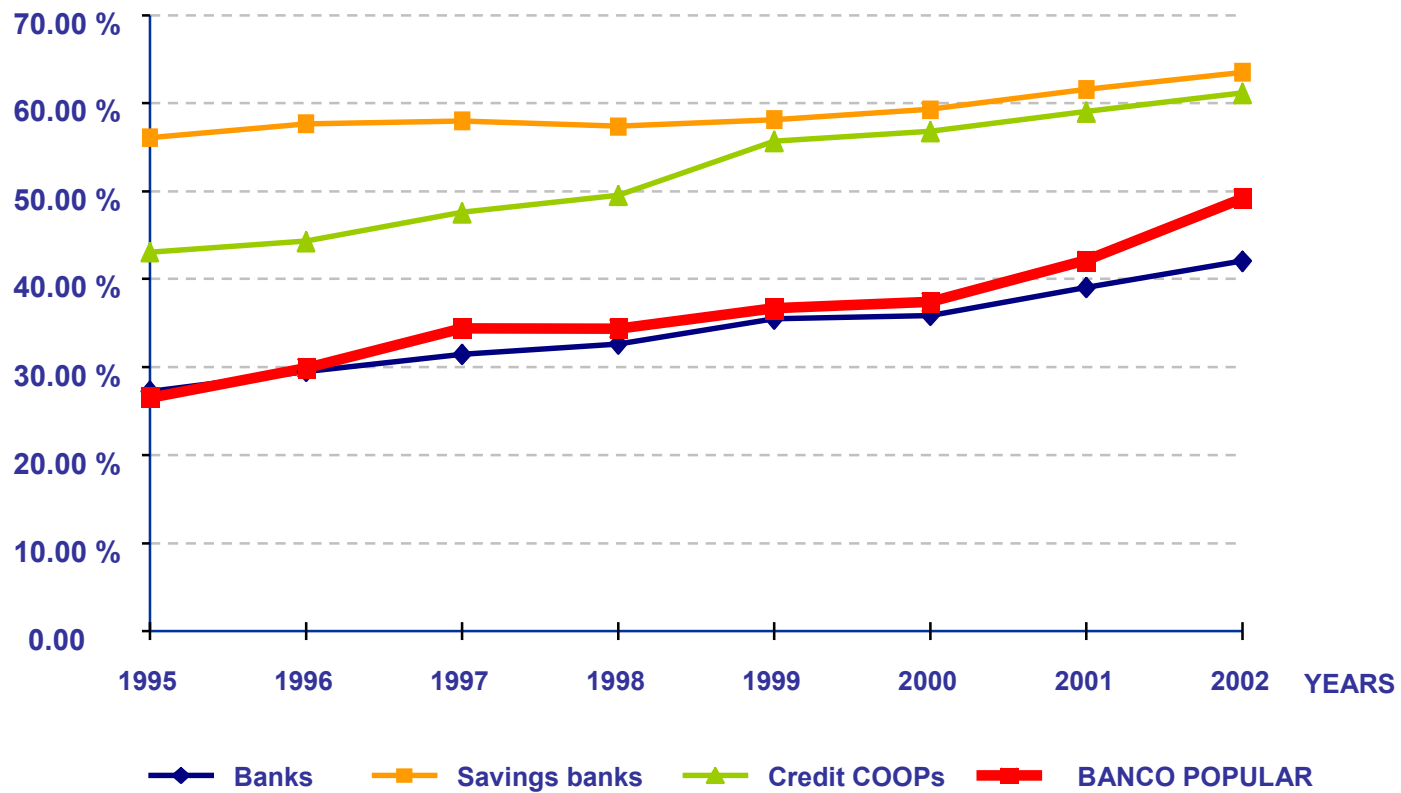
So...

- ▶ We will shift growth to the corporate sector
- ▶ We might go for securitising mortgage loans

# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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**% MORTGAGE LOANS/TOTAL LOAN PORTFOLIO**



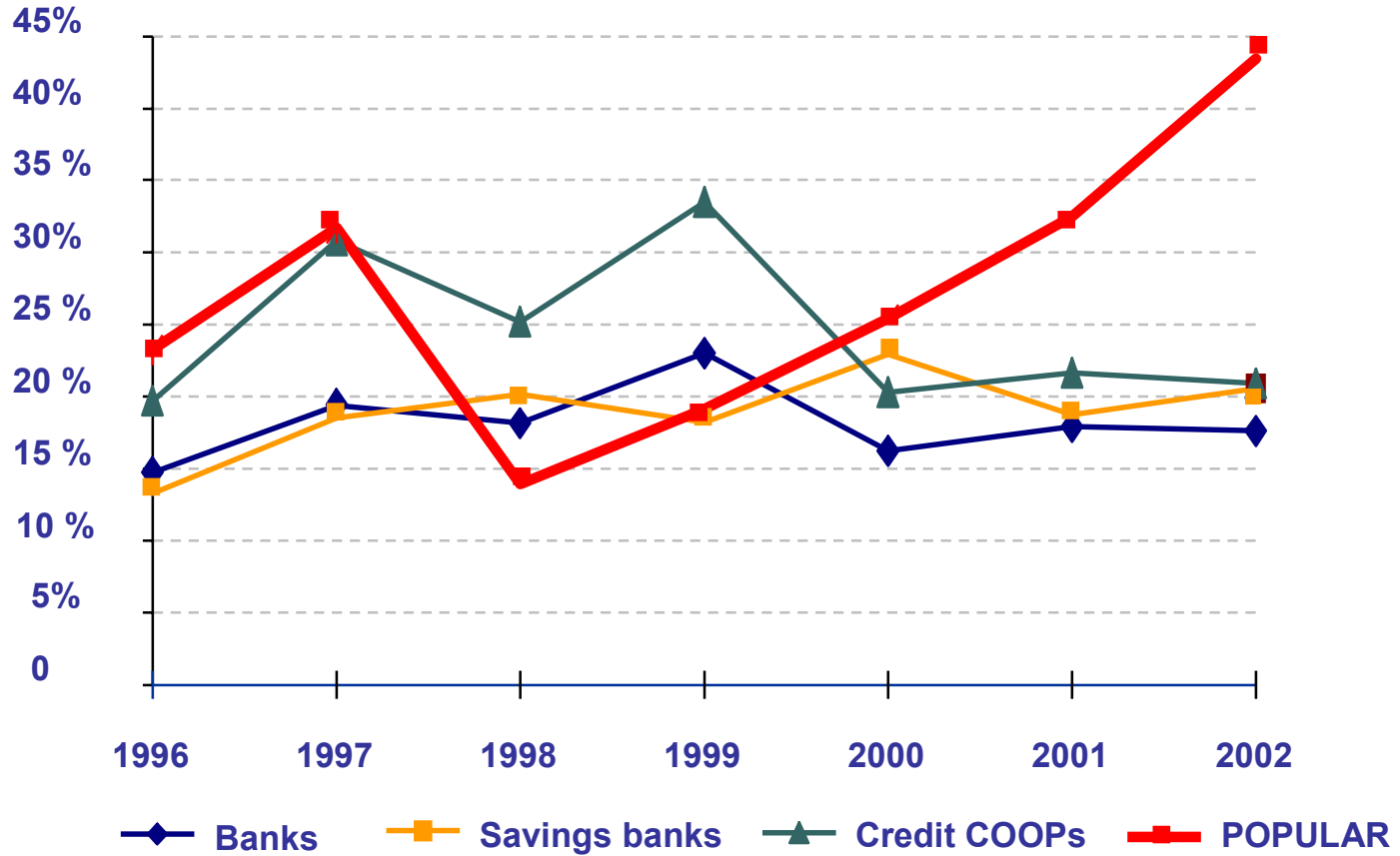
Source: Bank of Spain / BOLETIN ESTADISTICO

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# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## ANNUAL GROWTH IN MORTGAGE LOANS



Source: BANK OF SPAIN

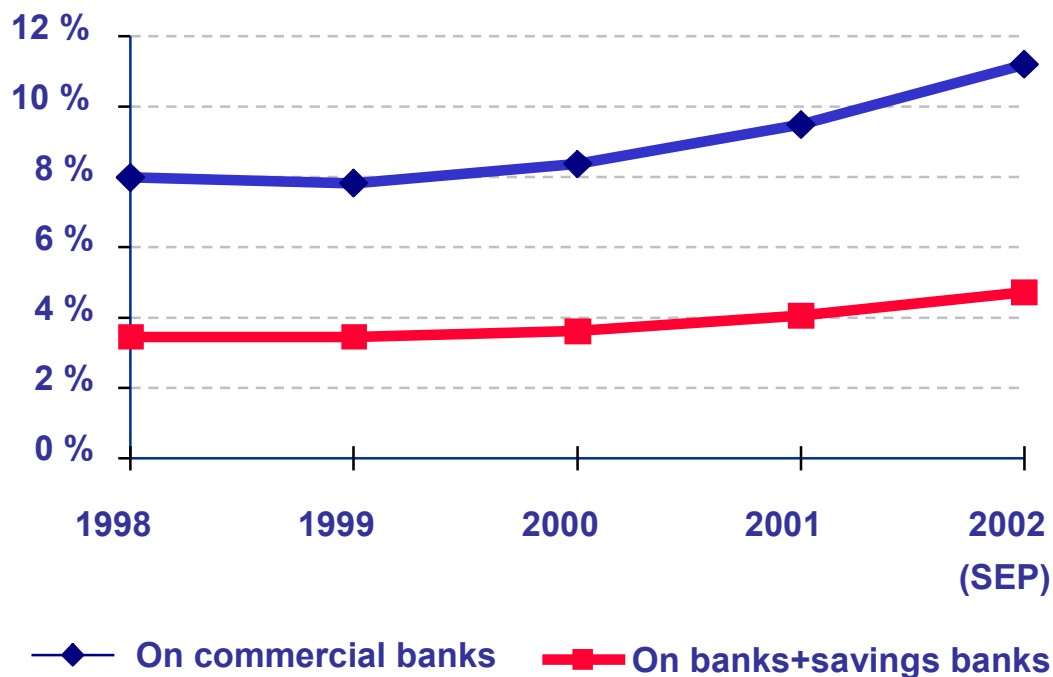
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# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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**POPULAR'S MARKET SHARE IN MORTGAGE LOANS \***



Source: Bank of Spain & BPE

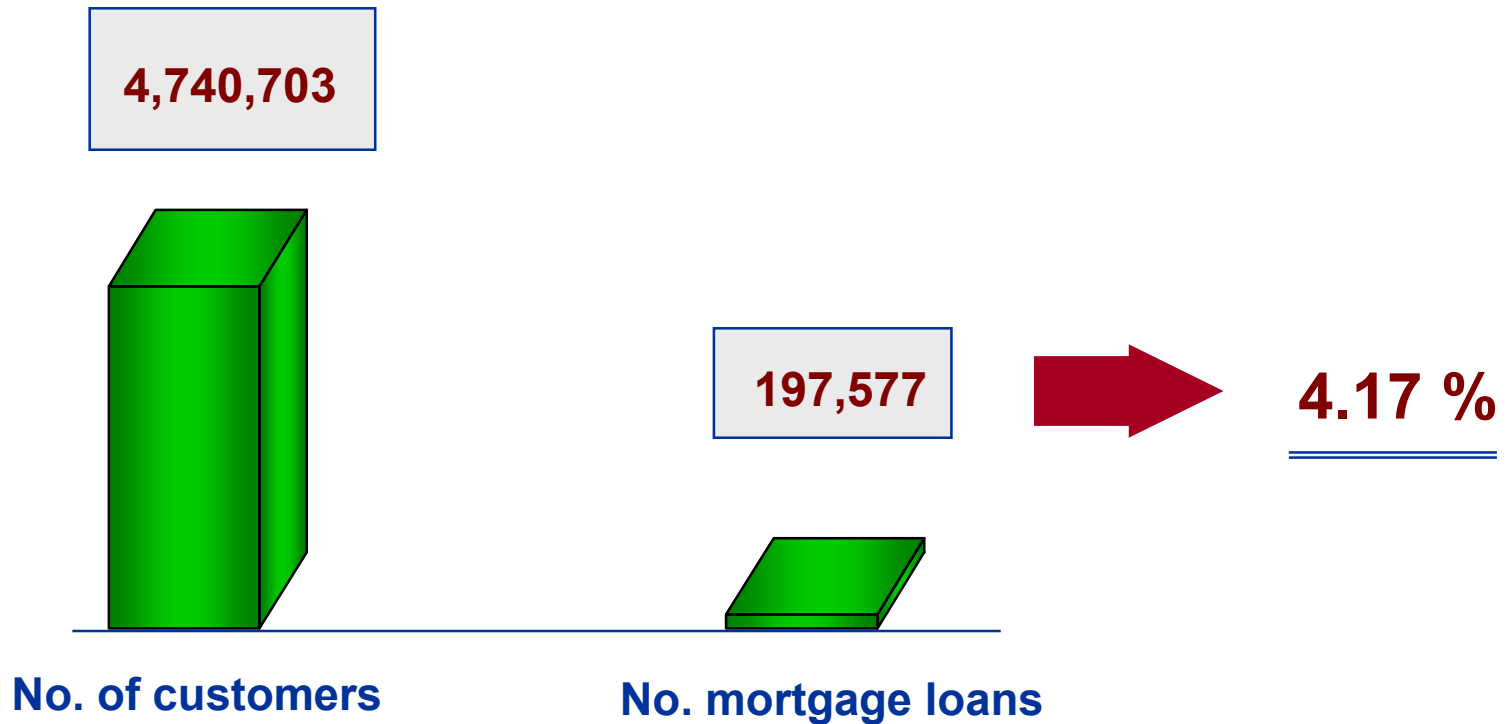
\* As per Bank of Spain: Transactions with a tangible collateral

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# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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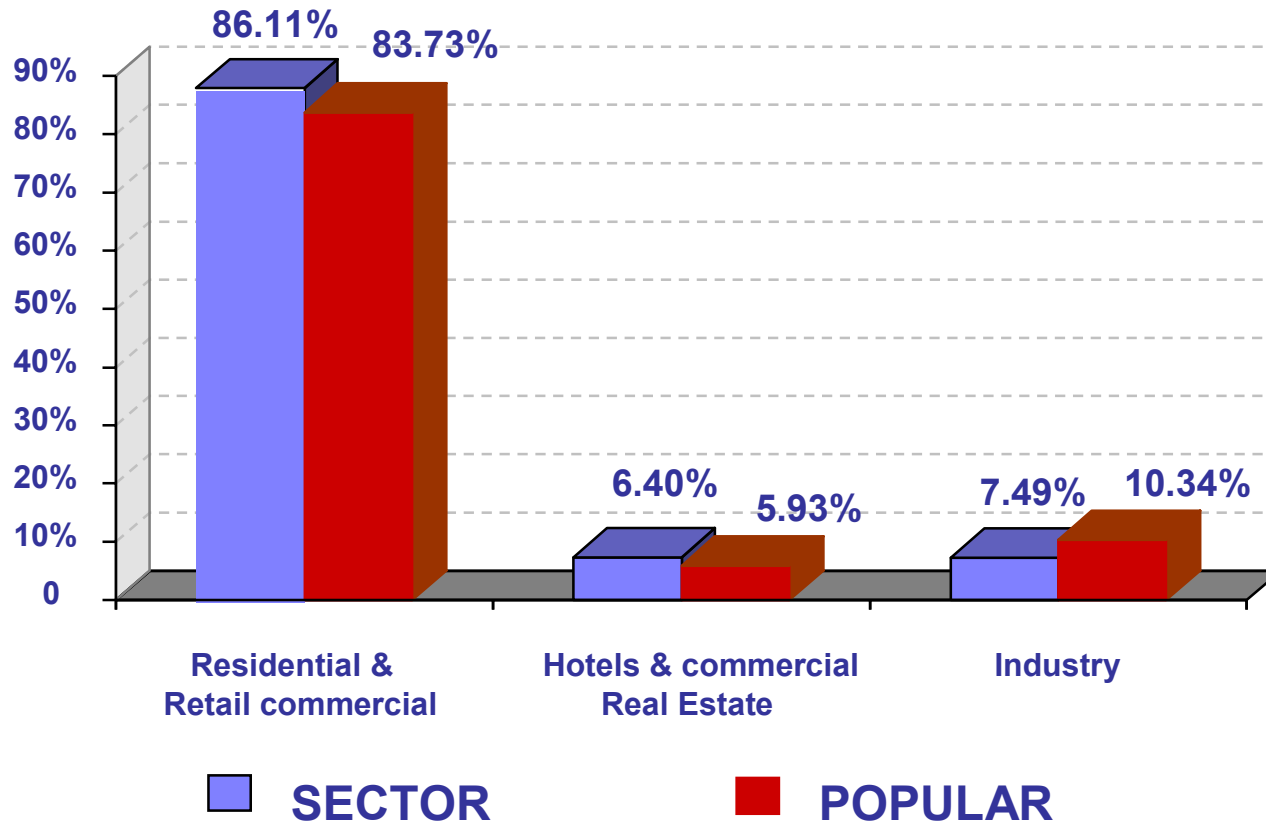
## GROWTH POTENTIAL WITH EXISTING CUSTOMERS



# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## BREAKDOWN OF MORTGAGE LOANS AS % OF AMOUNTS



Source: Bank of Spain & BPE

# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## BREAKDOWN OF MORTGAGE LOANS BY SIZE

**NEW TRANSACTIONS (3 mo.)**

**AVERAGE VALUE 112,259 €**

**MATURITY IN PORTFOLIO 18.5 YEARS**

**CURRENT PORTFOLIO**

**AVERAGE VALUE 85,091 €**

**MATURITY IN PORTFOLIO 13.9 YEARS**

**PORTFOLIO AT INCEPTION**

**AVERAGE VALUE 123,698 €**

**MATURITY IN PORTFOLIO 16.5 YEARS**

Source: Banco Popular

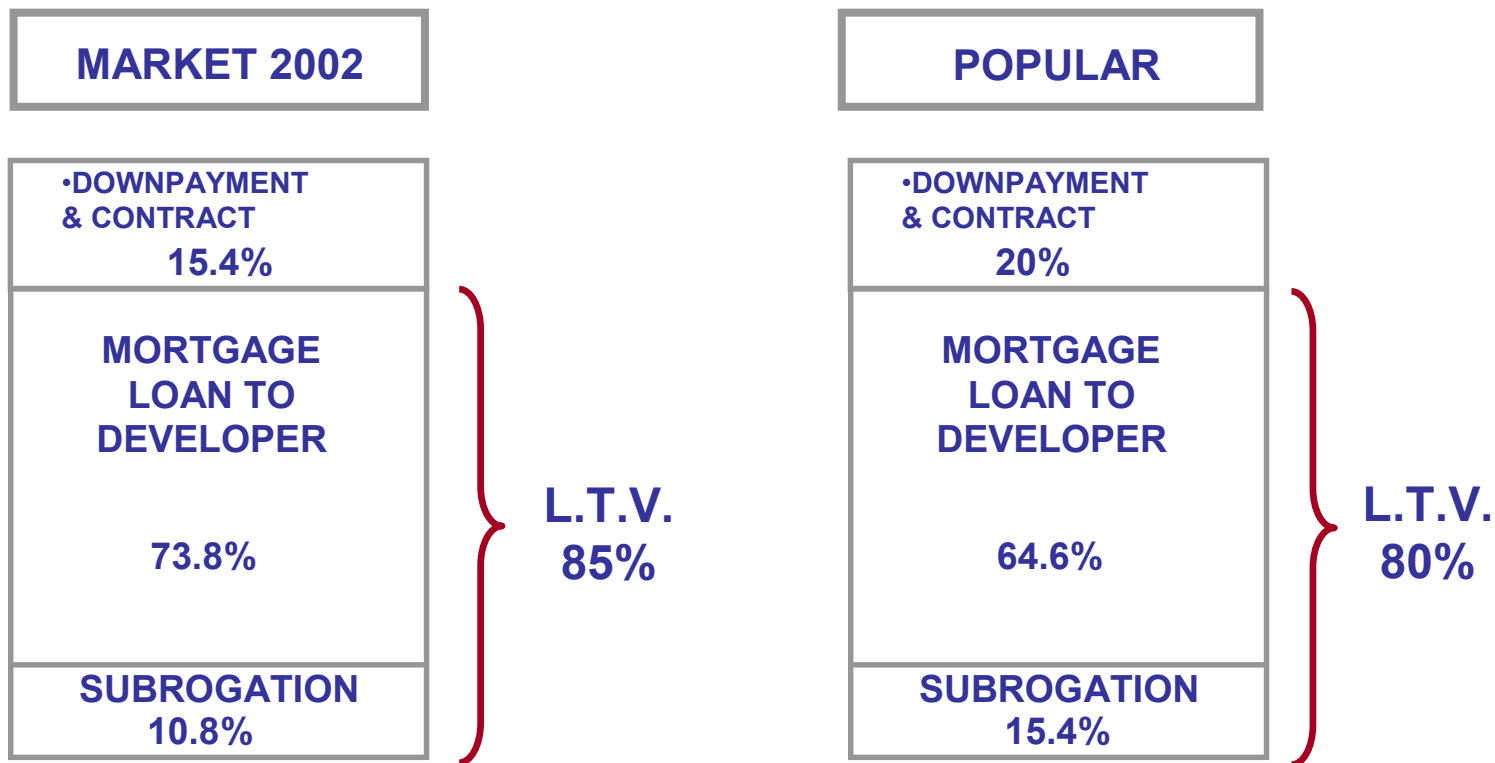
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# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## FINAL PRICE FUNDING



# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## **LOANS TO DEVELOPERS: Additional requirements**

### **Development project:**

- ▶ **Good location**
- ▶ **Price/quality balance**
- ▶ **Adequate size of houses**
- ▶ **Favourable market**
- ▶ **No competing projects**

### **Sales:**

- ▶ **Minimum % of pre-loan sales**
- ▶ **Marketing strategy**

### **Developer:**

- ▶ **Experience**
- ▶ **Financial soundness**
- ▶ **Additional guarantees**
- ▶ **Other developments**
- ▶ **Liquidity**

### **Builder:**

- ▶ **Experience**
- ▶ **Closed price contract**

# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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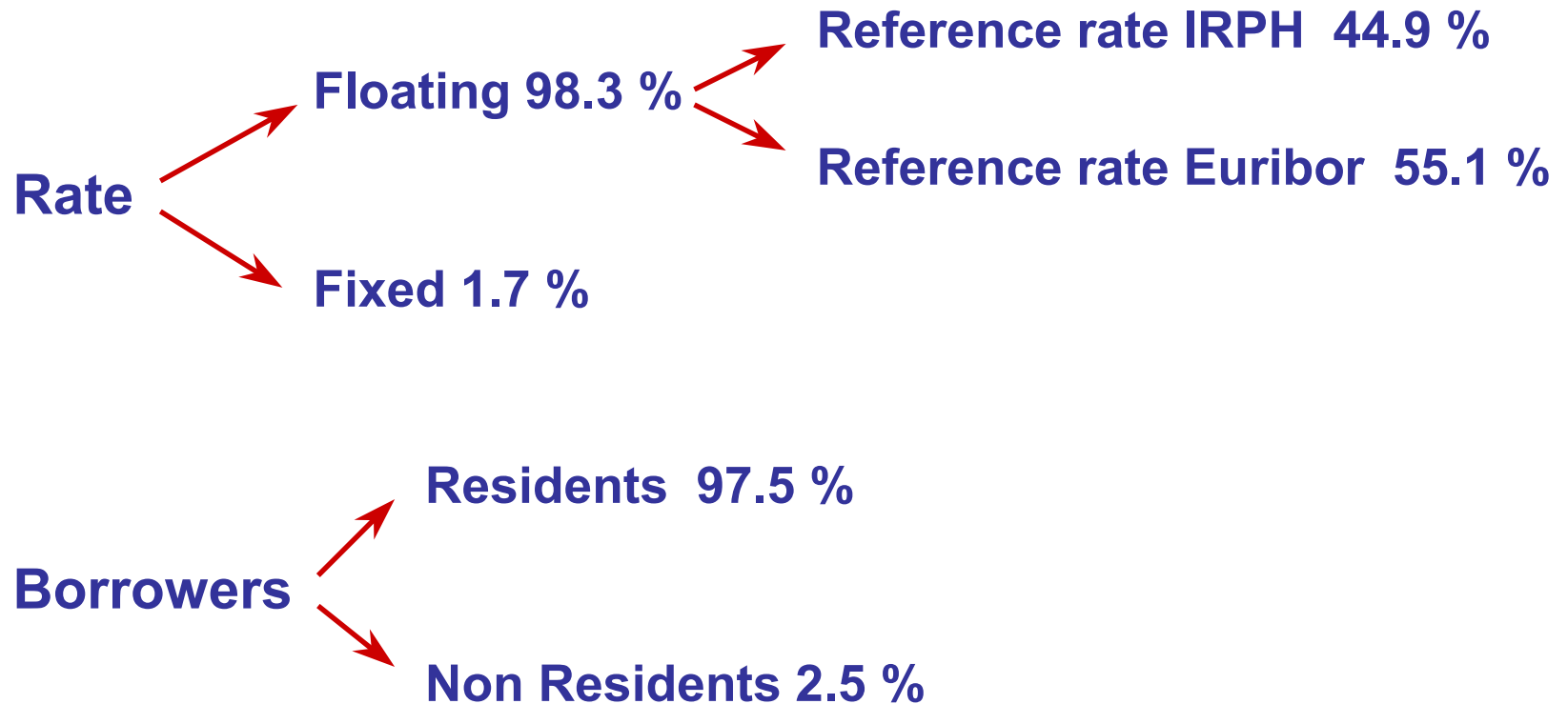
## LOANS TO PRIVATE INDIVIDUALS

	Lending stance	L.T.V.	Other guarantees
<b>Homes</b>	High Priority	< 80 %	If > 35 % dispos. income
<b>Local secondary</b>	Selective locations	< 50 - 60 %	
<b>Foreign secondary</b>	Very restrictive	< 50 %	Lien on other assets
<b>Office buildings</b>	Virtually No	--	Pre-leased
<b>Industrial buildings</b>	Restrictive	< 50 %	High solvency
<b>Commercial malls</b>	NO	NO	NO

# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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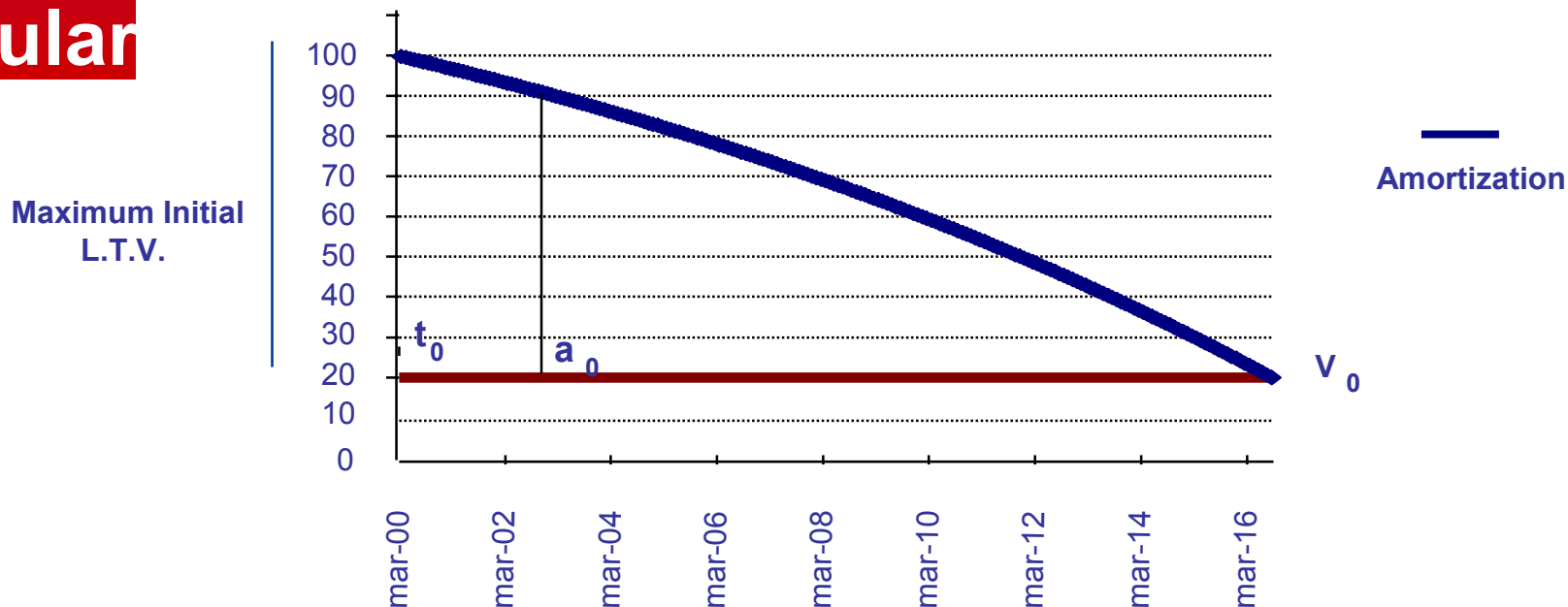
**Some features of Popular's mortgage loans  
to private individuals**



# MORTGAGE MARKET VIEW: BANCO POPULAR'S STRATEGY

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## L.T.V. of Loan Portfolio



Maturity at inception  $V_0 - t_0 = 16.5$  years

Maturity in portfolio  $V_0 - a_0 = 13.9$  years

Value increase of portfolio: 33%

Home mortgages  
maximum  
L.T.V. 51.8 %

Overall portfolio  
L.T.V. 48.4 %

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# Banco Popular



## BANCO POPULAR ESPAÑOL

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