

A world map with a grid overlay, showing continents in a light color against a dark background.

# European Banks & Financials Conference

## Morgan Stanley



## Banco Popular Group



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## ▶ Core Business Growth

▶ Funding Strength

▶ Earnings

▶ Economic Environment



# Core Business Growth

(€ million)	31.12.07	? %
Total assets managed	125,109	14.5
On-balance sheet total assets	107,169	16.9
Total equity	6,224	12.6
Funds managed:	104,284	14.4
On-balance sheet funds	86,344	17.5
Other intermediated funds	17,940	1.6
Lending to customers (gross)	88,108	13.9
Contingent risks	12,315	9.2
<hr/>		
Customers (thousands)	6,748	2.3
Employees	15,037	7.0
Branches	2,531	3.6



# Core Business Growth

- MAJOR LOAN CATEGORIES

	<u>Dec. 07</u>		Jun. 07	Dec. 06
	Growth rate %	% of total	Growth rate %	Growth rate %
Bill discounting	2,8(*)	8,8	14,4	12,5
Mortgage loans	11,4	53,7	13,6	16,2
Loans & overdrafts	22,8	33,2	25,2	20,9
Leasing	4,6	4,3	3,7	6,1
<b>TOTAL</b>	<b>13,8</b>	<b>100,0</b>	<b>16,8</b>	<b>16,7</b>

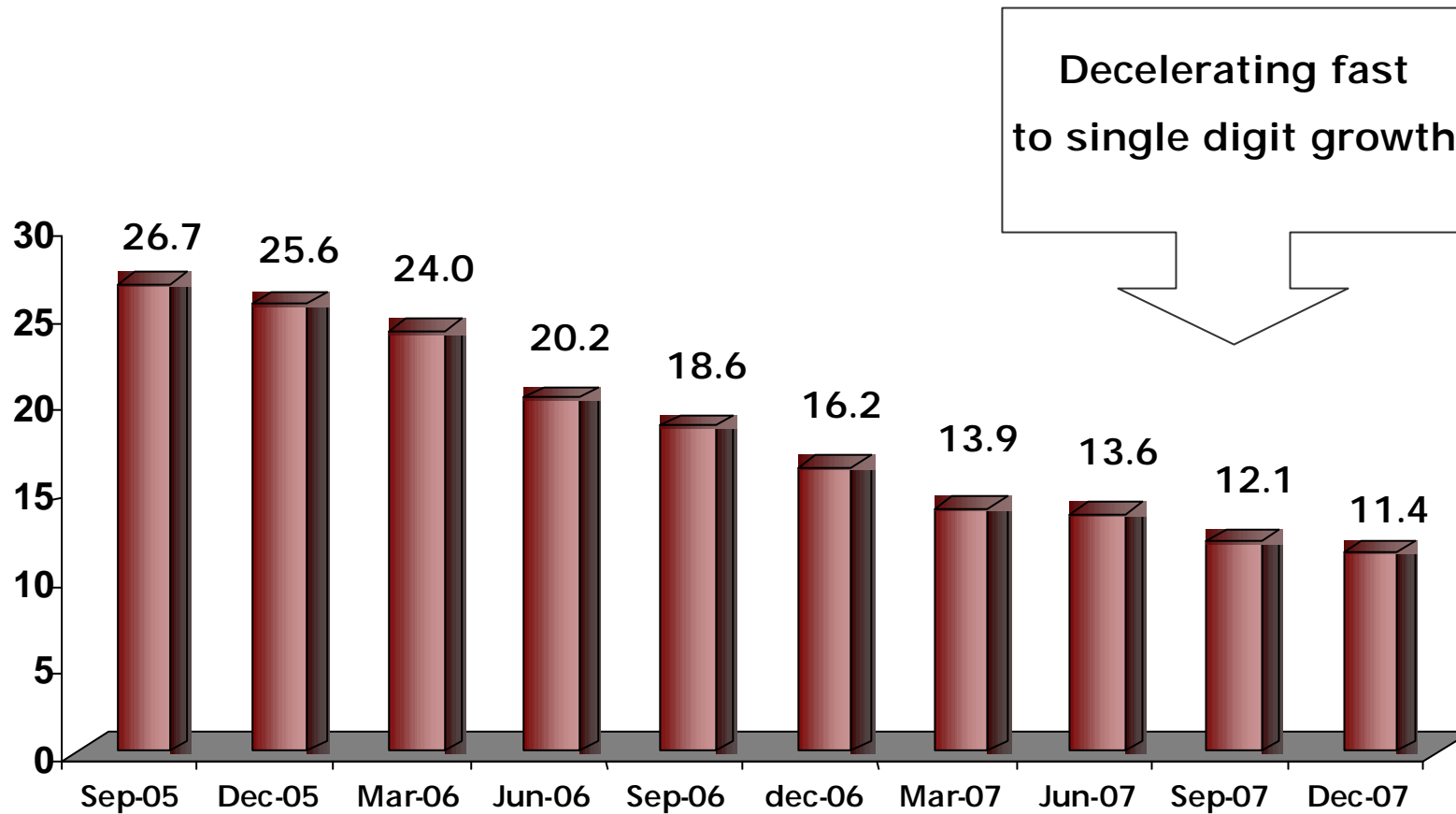
Note All loans except NPLs & Repos

(\*) Underlying growth: 7.5%



# Core Business Growth

- MORTGAGE LOAN GROWTH (Y-on-Y %)





## Core Business Growth

Total loans for Residential Developments \*  
€ 4,994 million in loans to 1,810 names

### Of which

- More than 55 % of loan value is completed over 75 %
- 52 % of loan value is in developments sold over 50 %
- Average LTV is 58.2 %

*(\*) As of sept-07. Loans to developments greater than € 1 million*



# Core Business Growth

## Outstanding mortgage loans to individuals

✓ Average affordability is 27.3 % (as a percent of disposable income)

## Conservative leverage over residential value

	LTV
Mortgage loans	55,24%
Residential mortgage loans	58,24%
Residential mortgage to individuals loans	60,55%

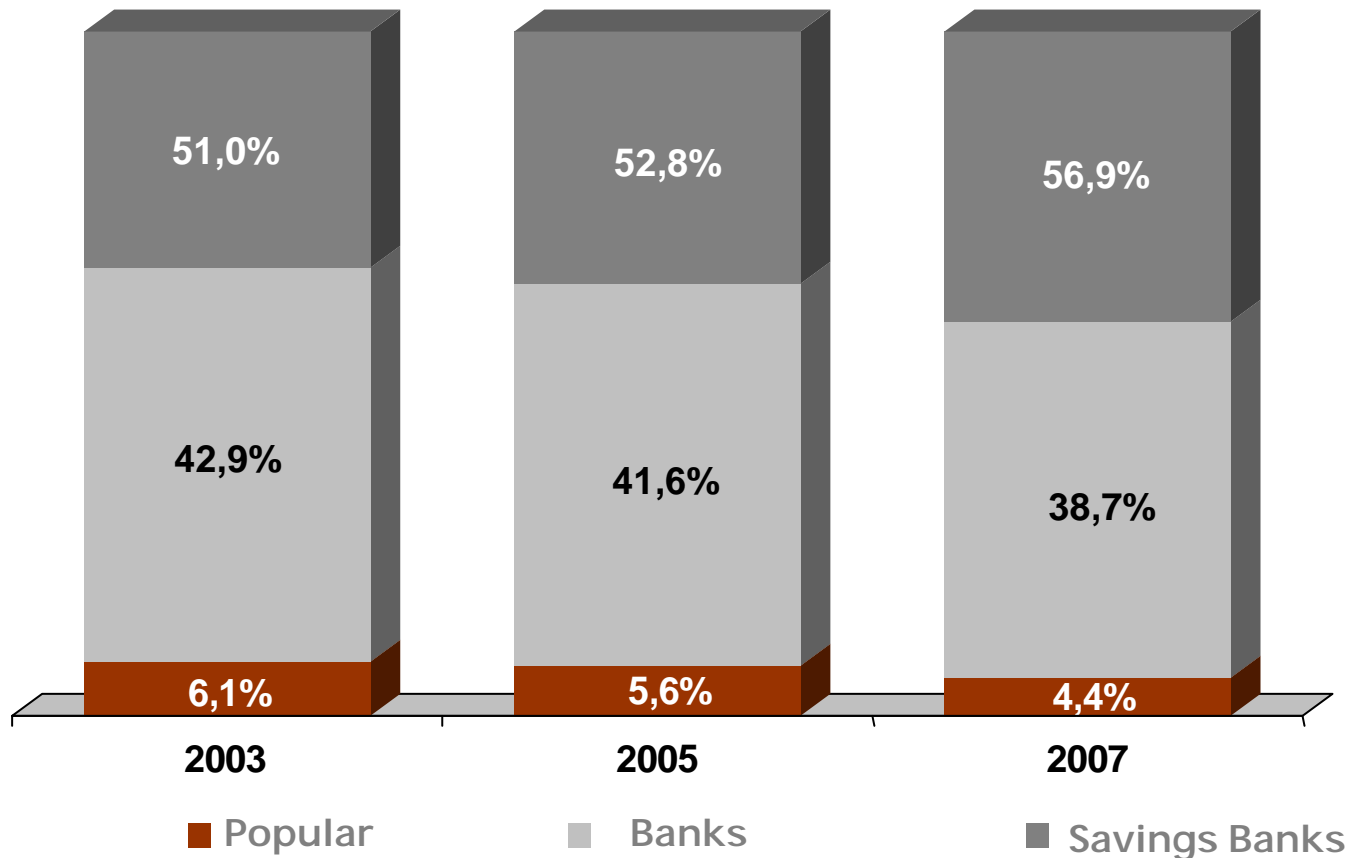
(\*) sep 07



# Core Business Growth

## Loans to RE activity corporates of Bank and Savings Banks\*

### Market Shares

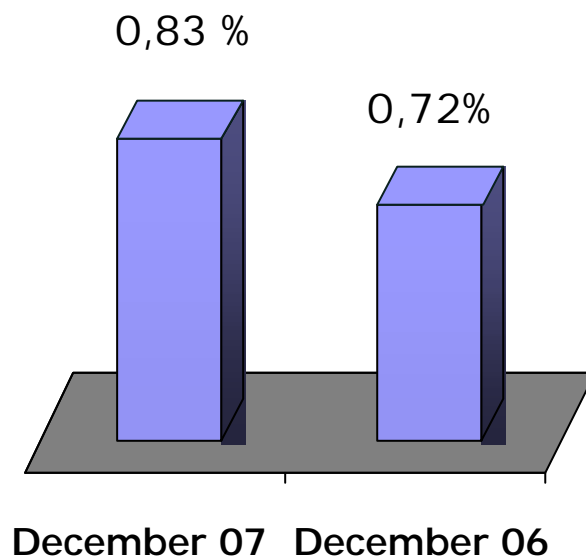


(\*) Source: Bank of Spain T 13, as of December

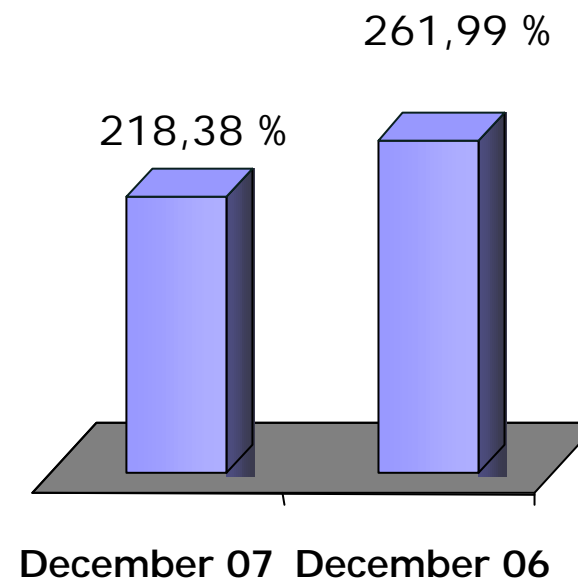


# Core Business Growth – Improved asset quality

## Nonperforming risk



## NPR Coverage

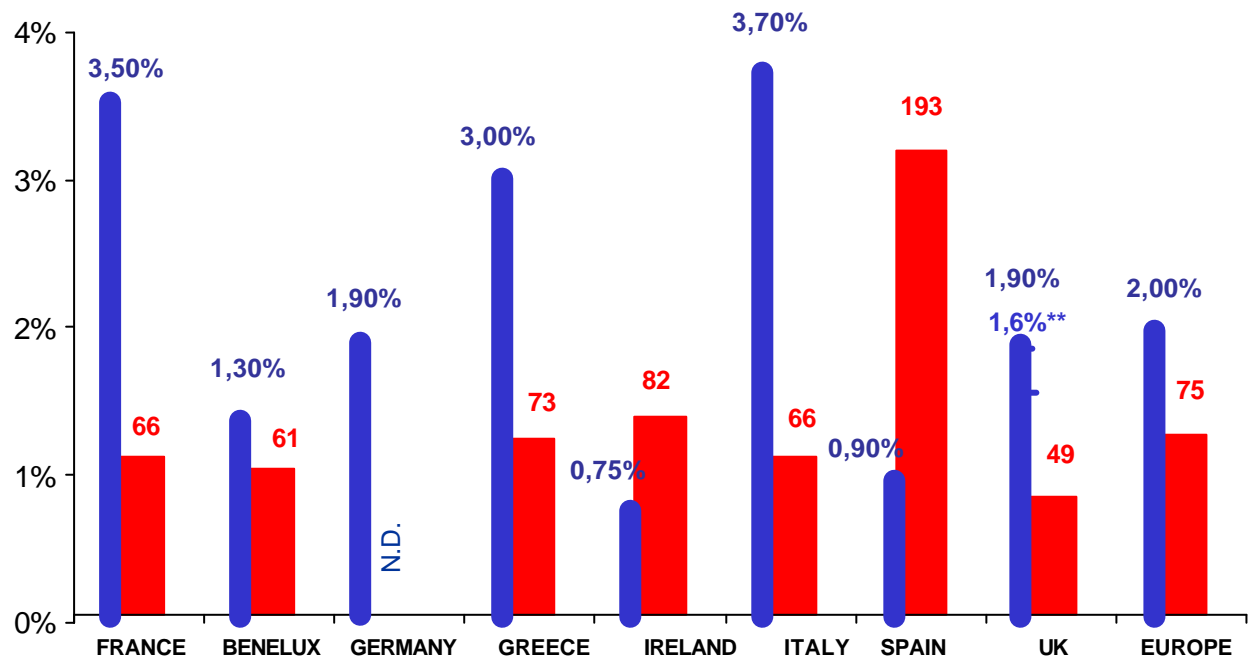




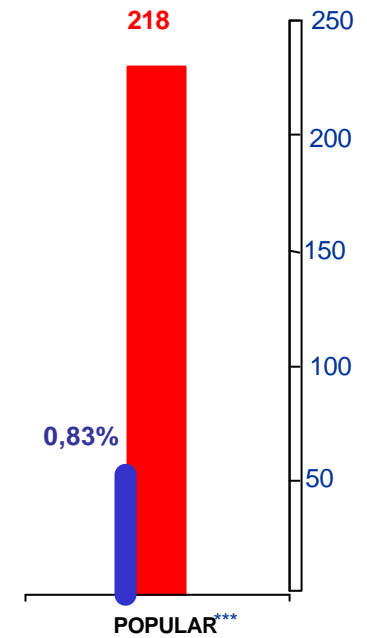
# Core Business Growth – Improved asset quality

## NPLs AND COVERAGE

NPLs



COVERAGE



\* Estimates KBW, UBS y Bloomberg. Major Banks

\*\* W/o Asian Banks

\*\*\* 12/07

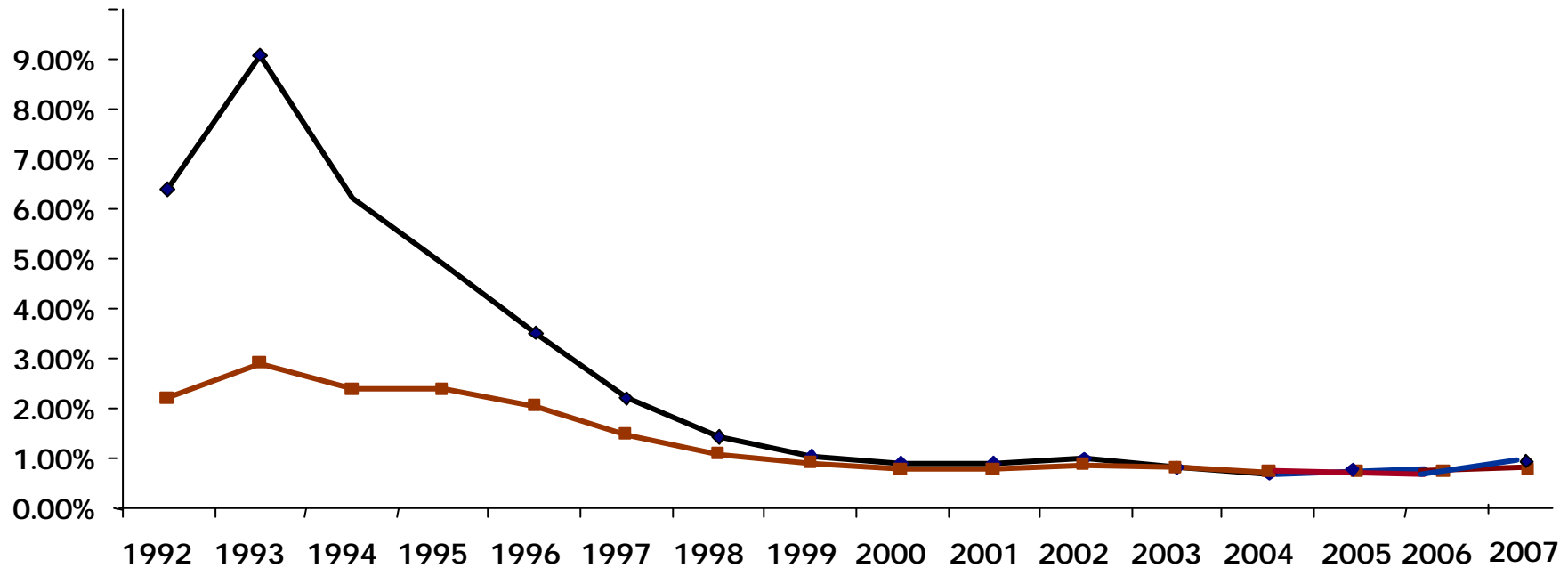
COVERAGE

NPLs



# Core Business Growth– Improved asset quality

- Banco Popular has outperformed the Spanish Financial System over a whole economic cycle



—◆— Spanish Financial System  
—■— Banco Popular

Source: Banco Popular and Bank of Spain



# Core Business Growth

## ■ CORE RESIDENT CUSTOMER FUNDING

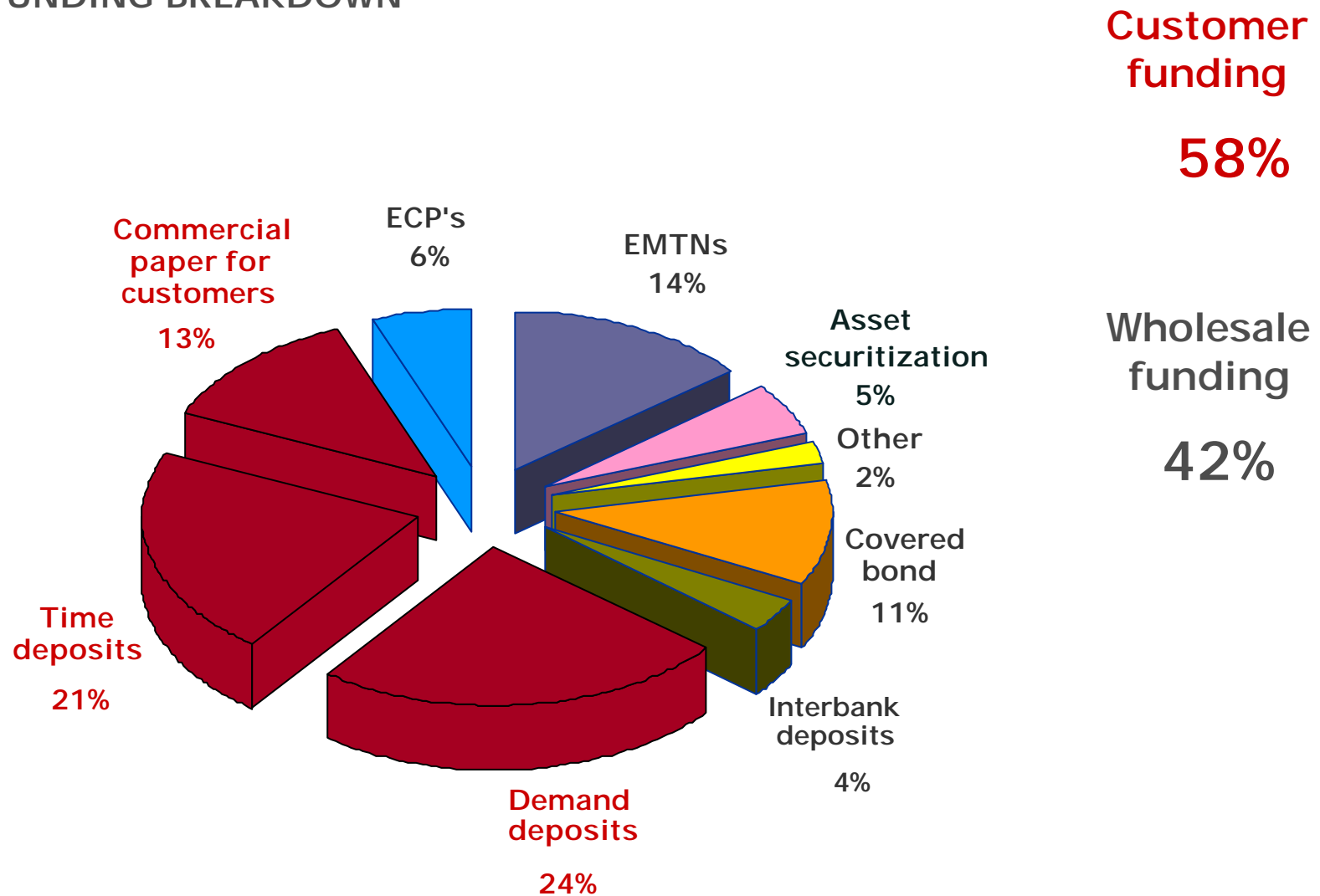
(€ million)

	Dec. - 07	Change %	% of Total
Demand deposits	18,790.8	4.2	42.3
Time deposits	14,814.1	32.8	33.4
Commercial paper for customers	10,806.2	21.8	24.3
<b>TOTAL</b>	<b>44,411.1</b>	<b>16.7</b>	<b>100.0</b>



# Core Business Growth

## FUNDING BREAKDOWN





▶ **Core Business Growth**

▶ **Funding Strength**

▶ **Earnings**

▶ **Economic Environment**



## Funding Strength

- **Strengthening of liquidity during 2007**
  - Domestic Commercial Paper placed among **customers** as a tax efficient alternative to time deposits **€2 billion in the year**
  - ECP's: Commercial paper placed among institutional clients
    - **€3.8 billion in the year**
  - Interbank funding reduced in € 500 million net borrowing position



## Funding Strength

- Strong second line of liquidity composed of bonds and notes that are stocked
- to be used when convenient in the ECB's auctions
  - €5.8 billion at year-end 2006
  - €11.4 billion at year-end 2007
  - €12.6 billion in february 2008
- Displacement or maturities to future years has resulted in a low and manageable volume of amortization
  - €3 billion in 3 Q. and 4 Q. 2008
  - €4 billion in 2009
- No discounting with ECB on 31 December 2007

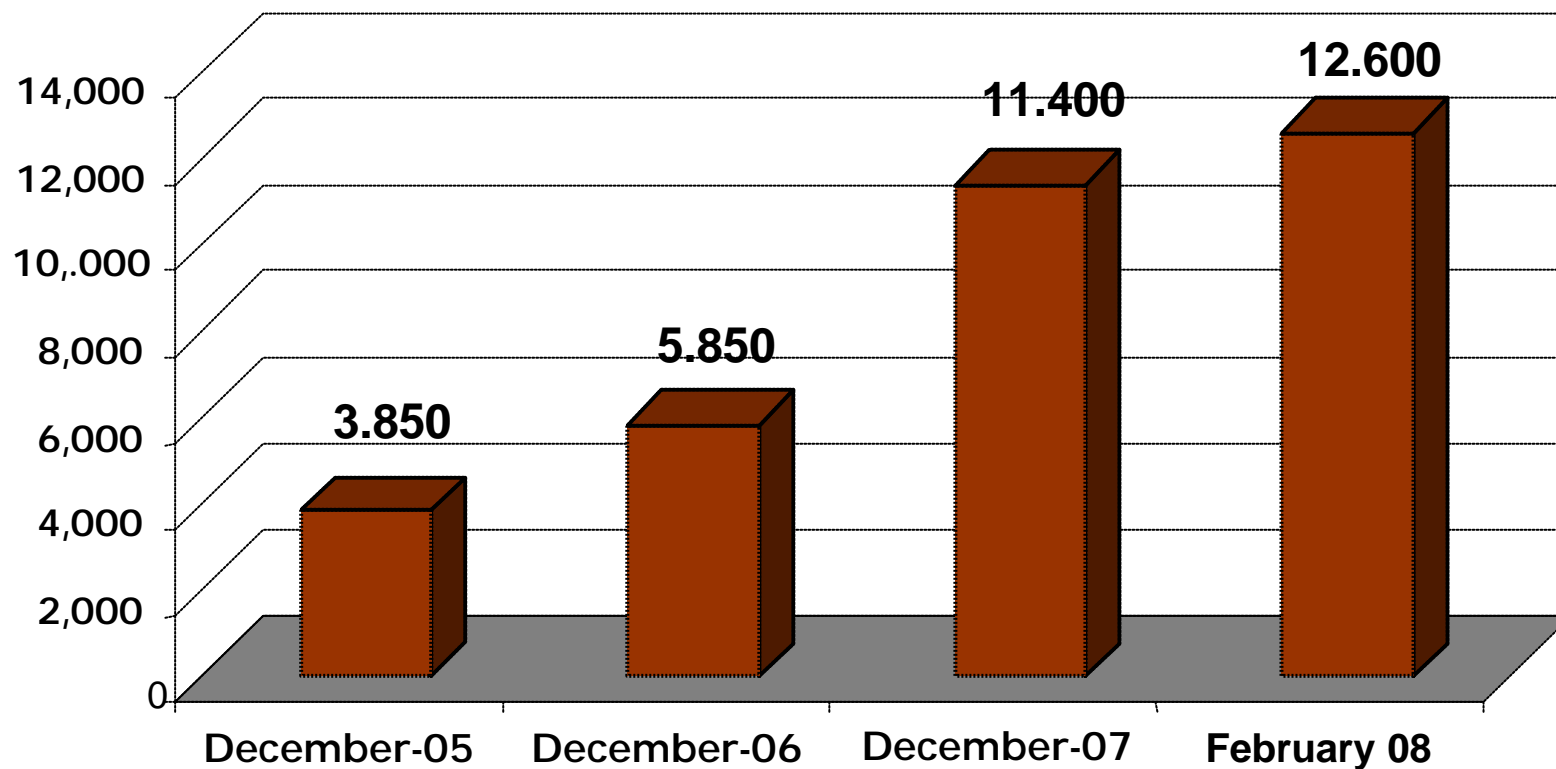


# Funding Strength

- Strong backing to liquidity

Evolution of the Second line of liquidity

€ Million

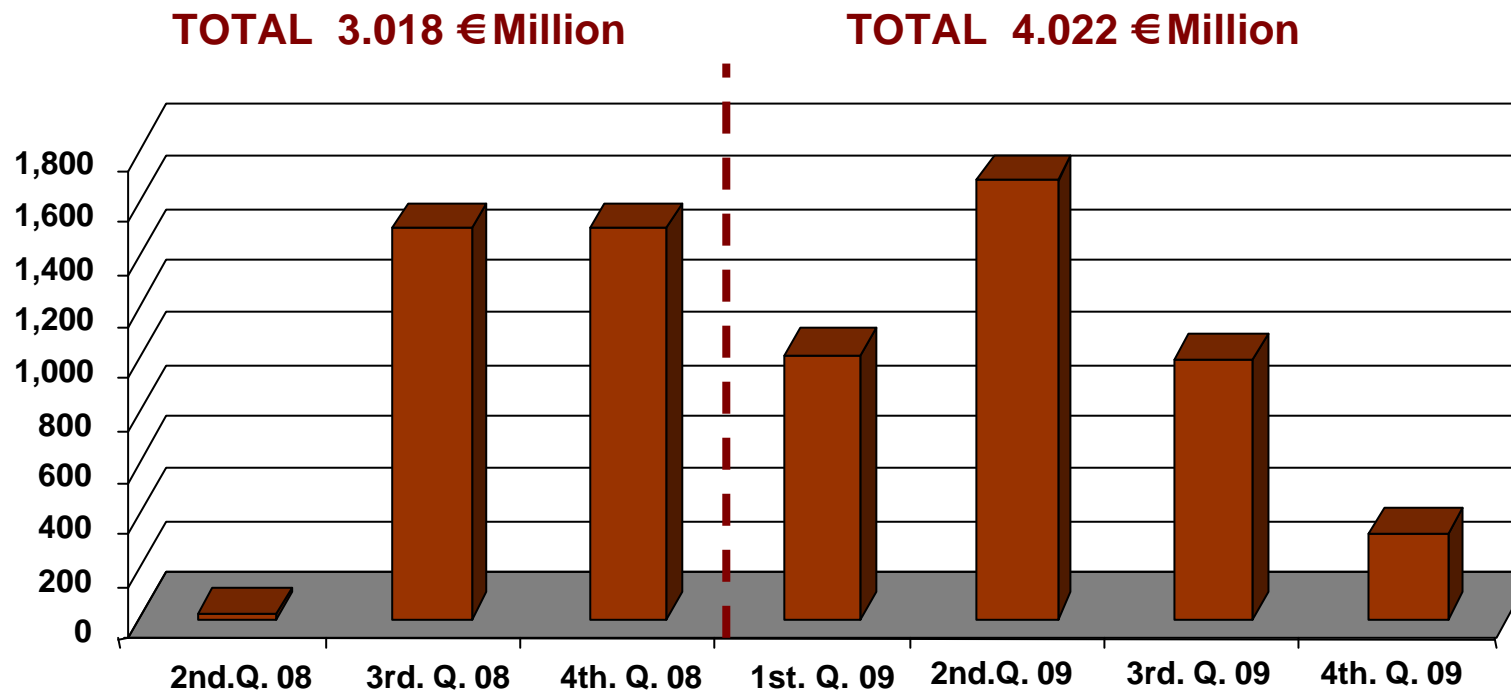




# Funding Strength

Manageable maturities of medium to long term wholesale Funding in 2008 - 2009

Bond maturities



Fully covered with 2<sup>nd</sup> liquidity line



▶ **Core Business Growth**

▶ **Funding Strength**

▶ **Earnings**

▶ **Economic Environment**



# Earnings

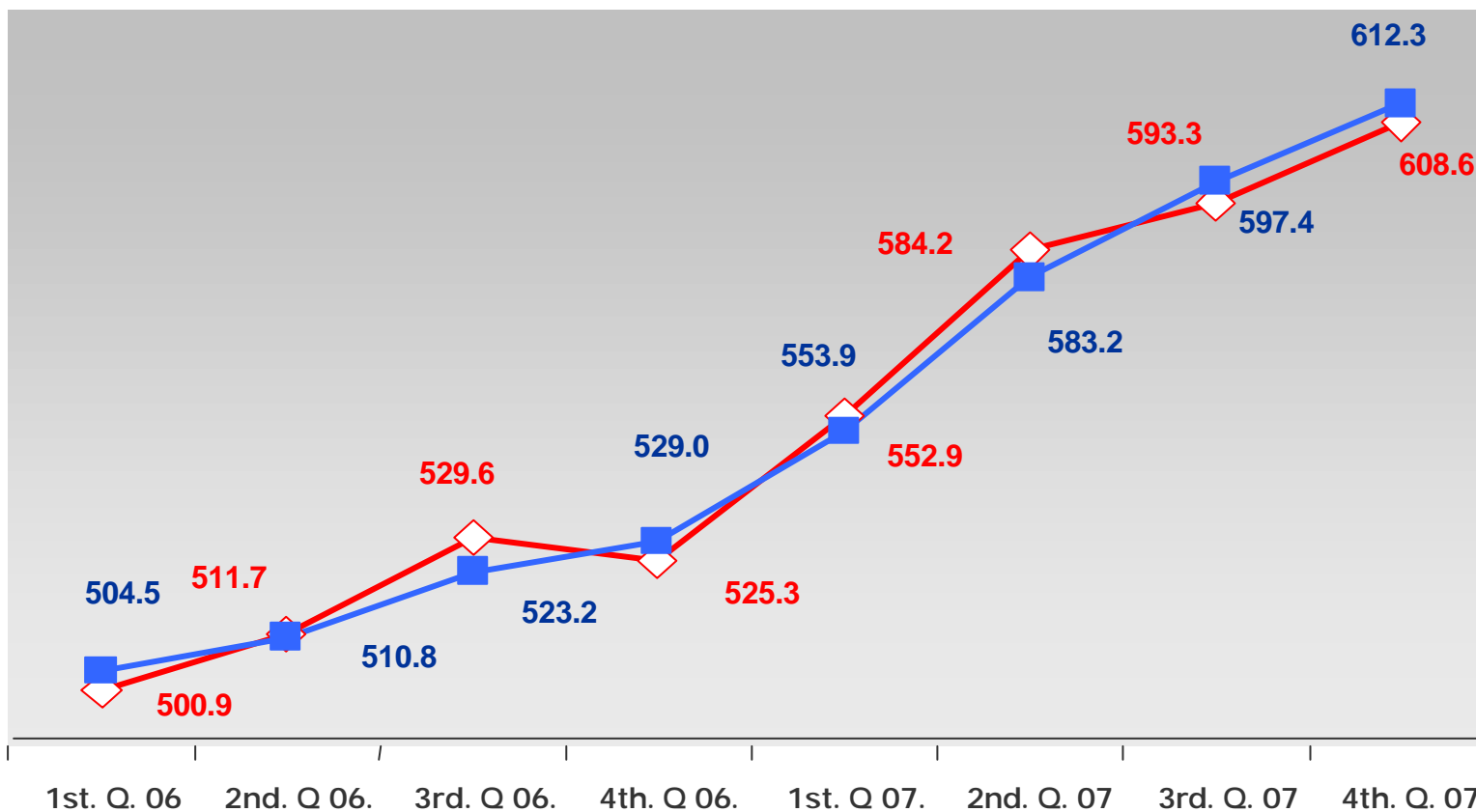
(€ Million)	Dec. 2007	Δ y-on-y (%)	Ex non recurring (%)
<b>Net interest revenue</b>	<b>2,339.0</b>	<b>13.1</b>	
Revenues from equity method entities	3.9	26.6	
Net fees	883.6	0.3	
Insurance business	53.4	18.2	
Asset trading	72.4	20.9	
Exchange gains (net)	52.2	2.0	
<b>Gross Income</b>	<b>3,404.5</b>	<b>9.6</b>	<b>10.3</b>
<b>Operating cost</b>	<b>1,108.2</b>	<b>7.2</b>	
Personnel expenses	755.9	7.1	
Other general administrative expenses	352.3	7.6	
<b>Net Operating Income</b>	<b>2,245.6</b>	<b>11.4</b>	<b>12.6</b>
<b>Profit Before Taxes</b>	<b>1,943.9</b>	<b>12.8</b>	<b>15.7</b>
Corporate income tax provision	607.3	-3.9	
<b>Consolidated profit for the period</b>	<b>1,336.6</b>	<b>22.5</b>	
Income attributed to minority interests	76.4	17.2	
<b>Profit attributed to the Group</b>	<b>1,260.2</b>	<b>22.8</b>	



# Earnings

## ■ NET INTEREST REVENUE

(€ Million)



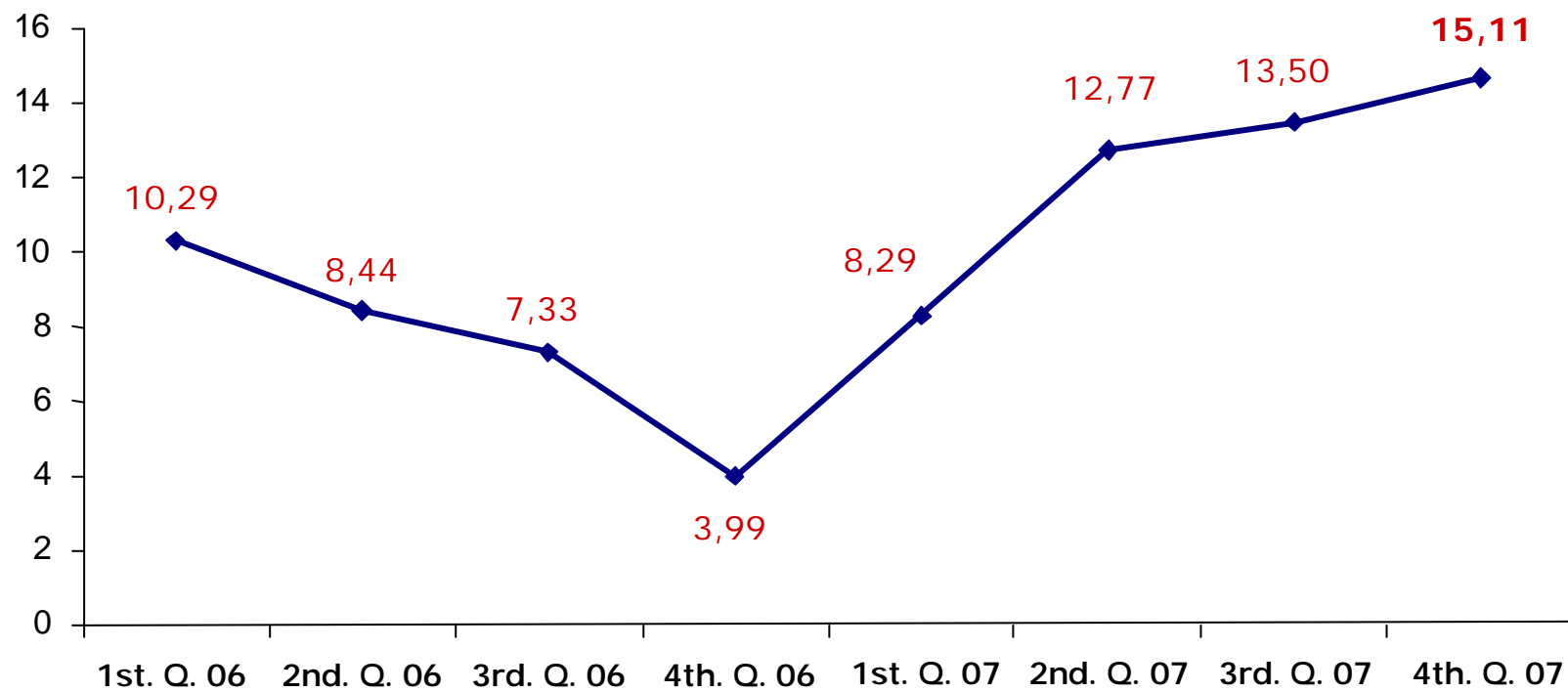
■ Trending of Net Interest Income excluding dividend income seasonality

■ Net Interest Income



# Earnings

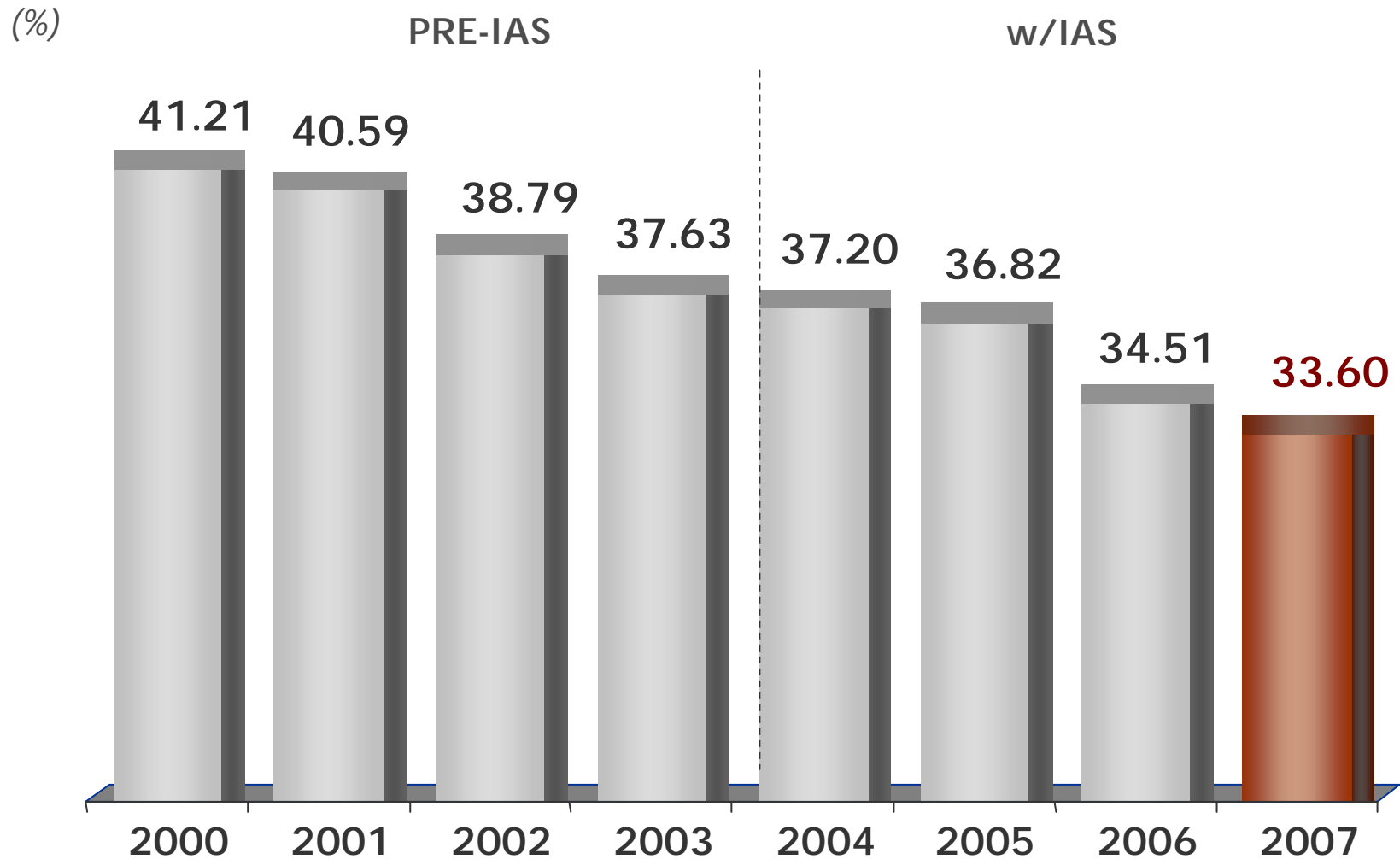
## ■ NET INTEREST REVENUE TREND EX-DIVIDENDS





# Earnings

- COST/INCOME RATIO EVOLUTION

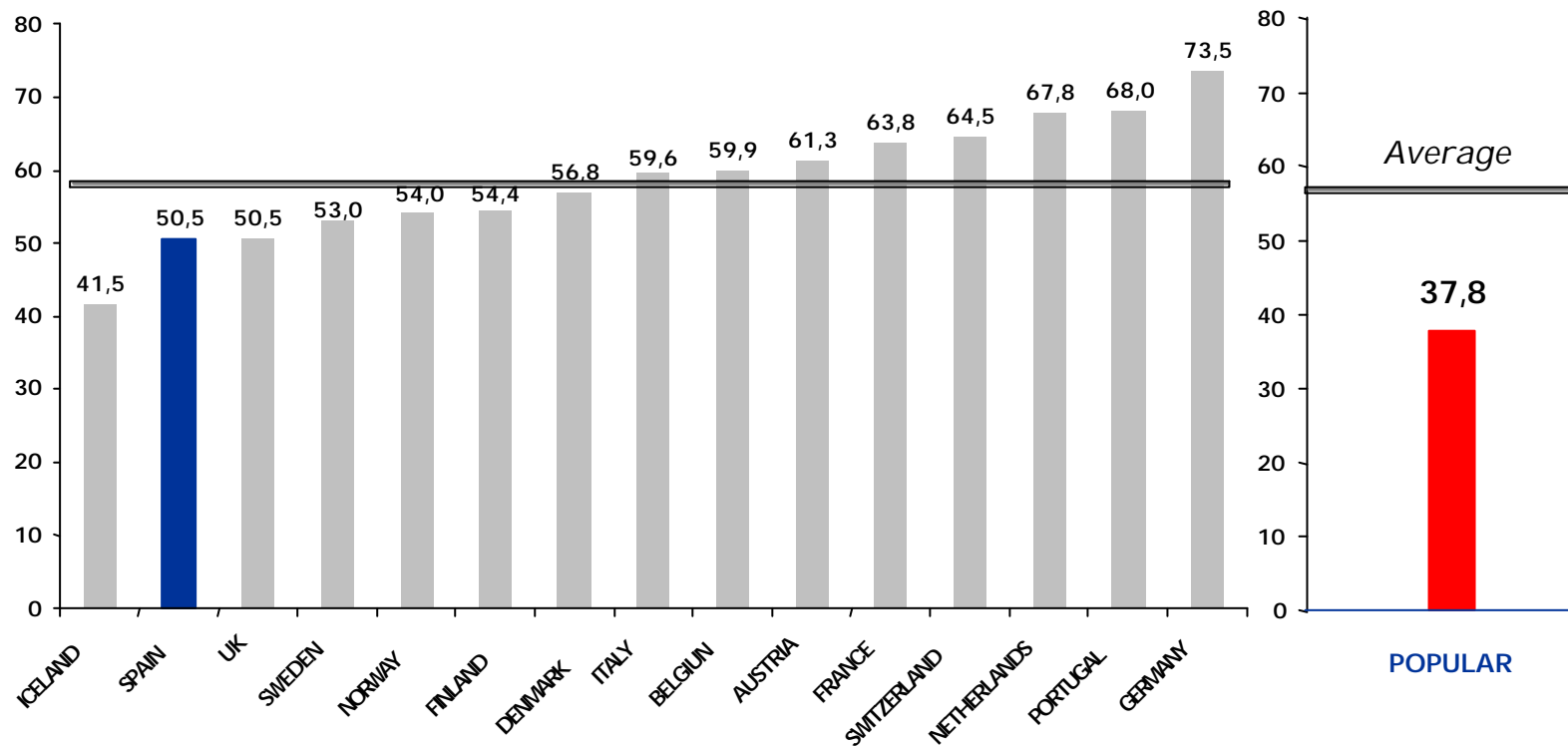




# Earnings

Popular: European Leader in cost/income ratio (\*) 2004-06

Average Cost/Income ( incl. Depreciation) (%)



(\*) Source: Arthur D. Little



▶ **Core Business Growth**

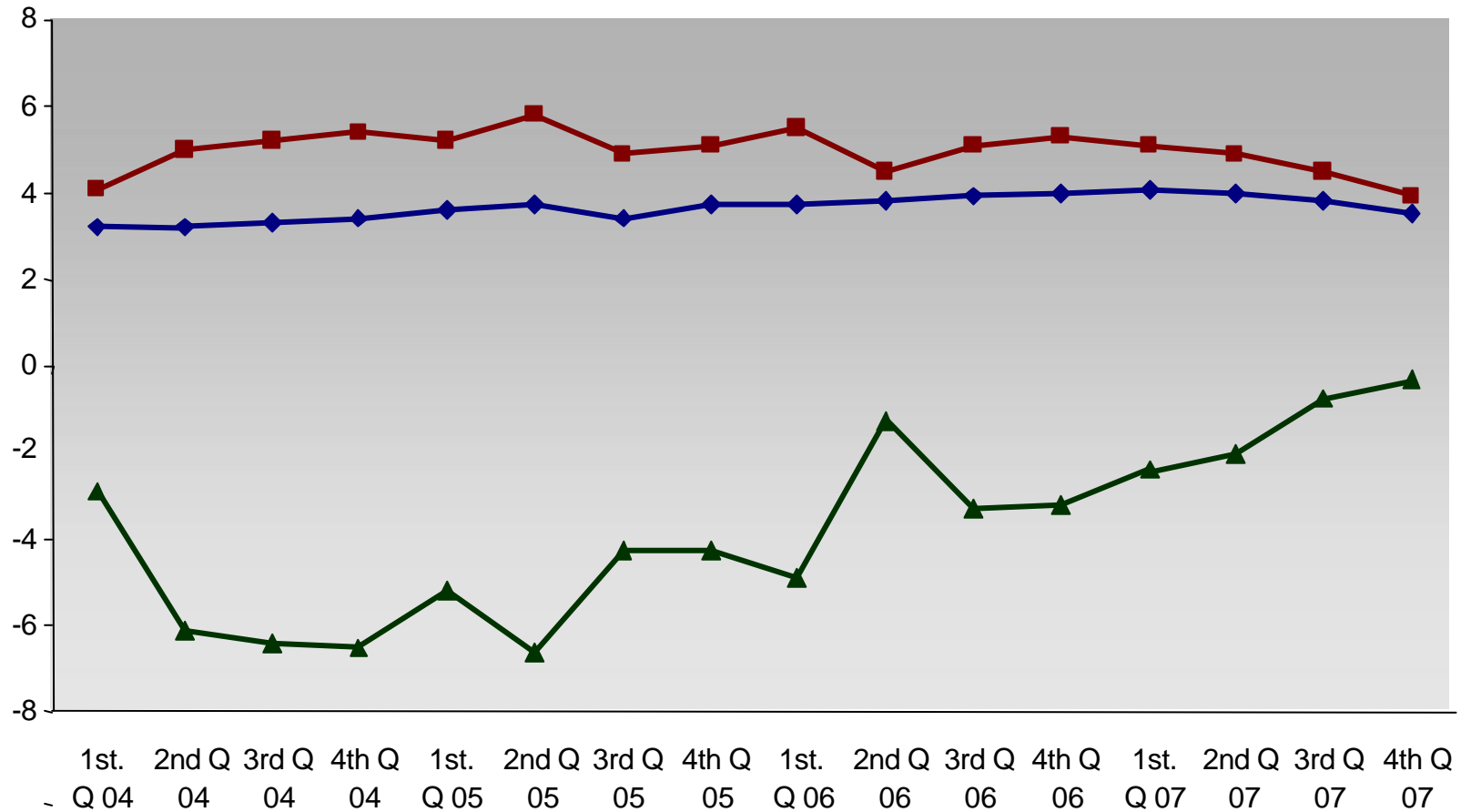
▶ **Funding Strength**

▶ **Earnings**

▶ **Economic Environment**



# Economic Environment



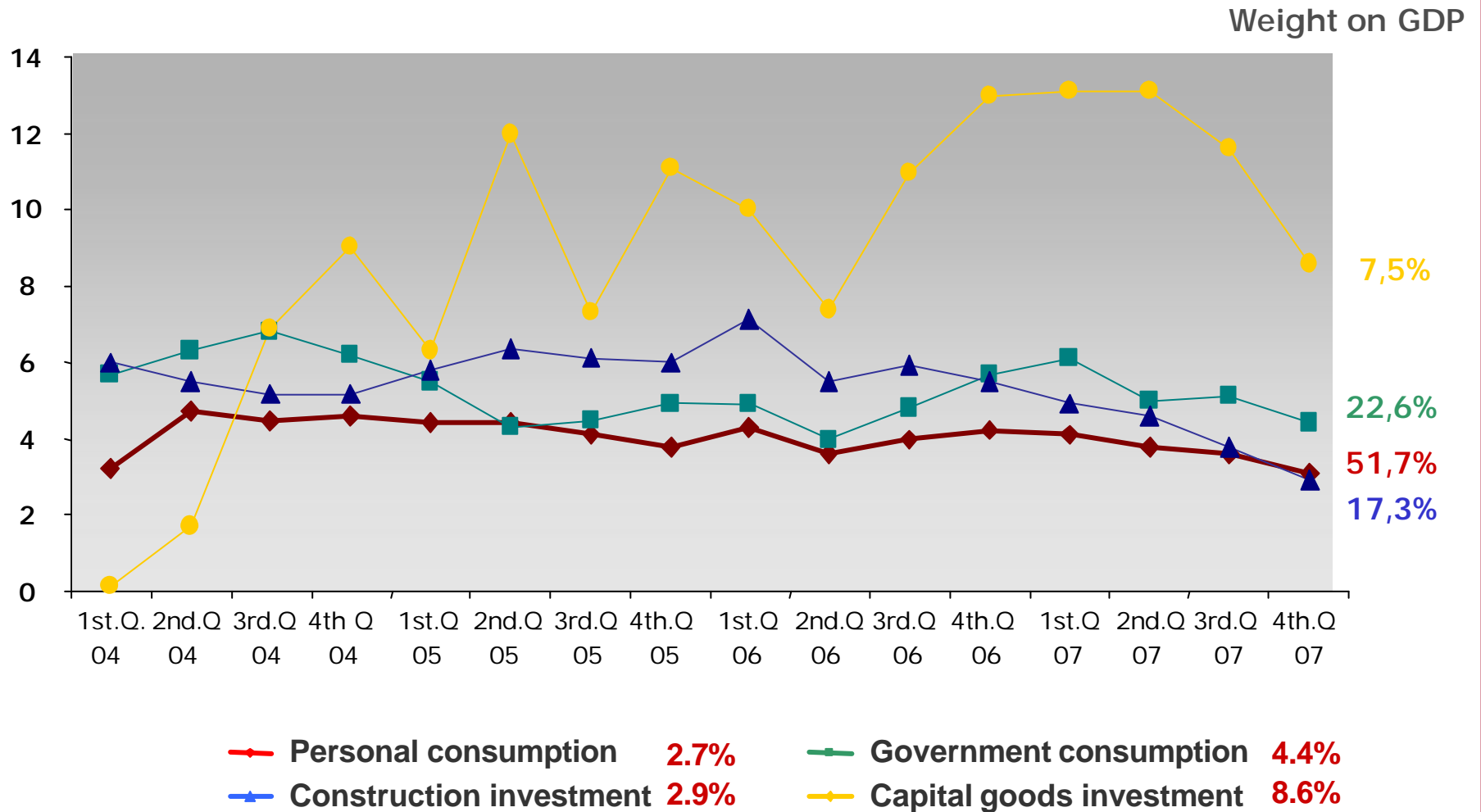
◆ GDP 3.5% ■ Internal Demand -3.9% ▲ Balance of Trade -0.3%

Source: INE



# Economic Environment

- Demand sourced GDP: Risks due to dependence on construction and household consumption

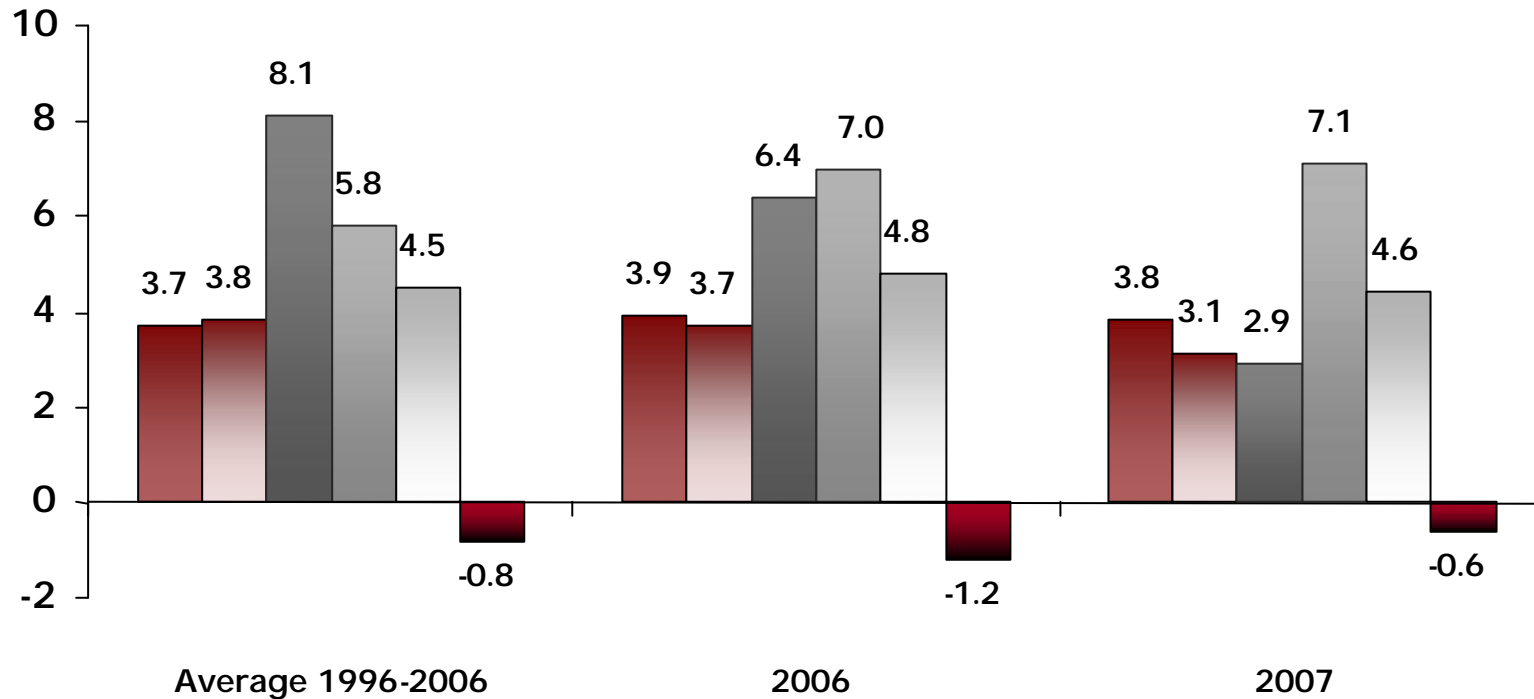


Source: INE



# Economic Environment

## GPD Components (% yearly change)



■ GDP

■ Personal consumption

■ Investment in house

■ Other investment

■ Internal demand

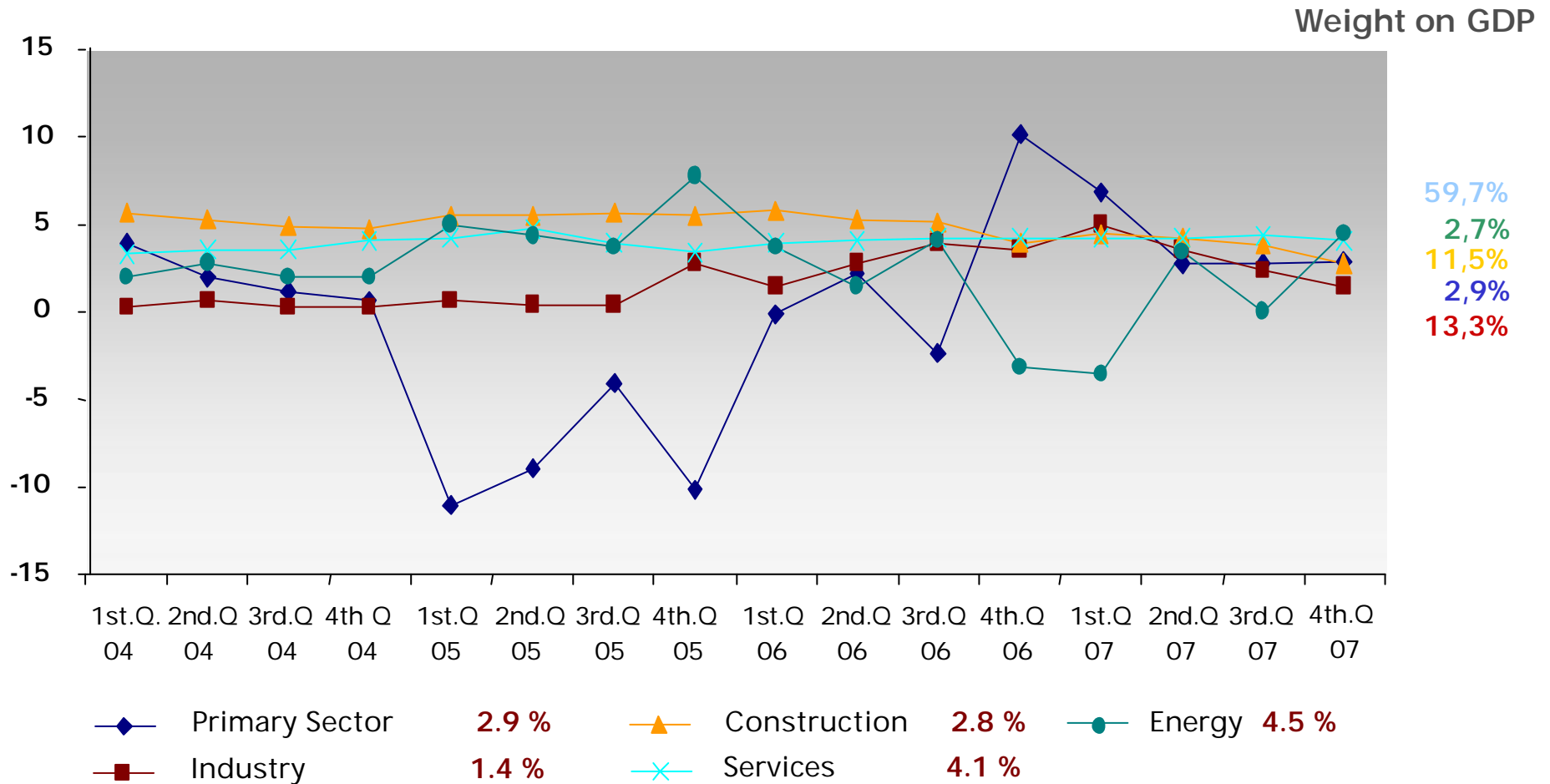
■ Trade balance\*

(\* Weight on GDP (in percentage points))



# Economic Environment

- Supply sourced GDP: Significant weight of construction vs. Historical & int'l benchmarks. Services support

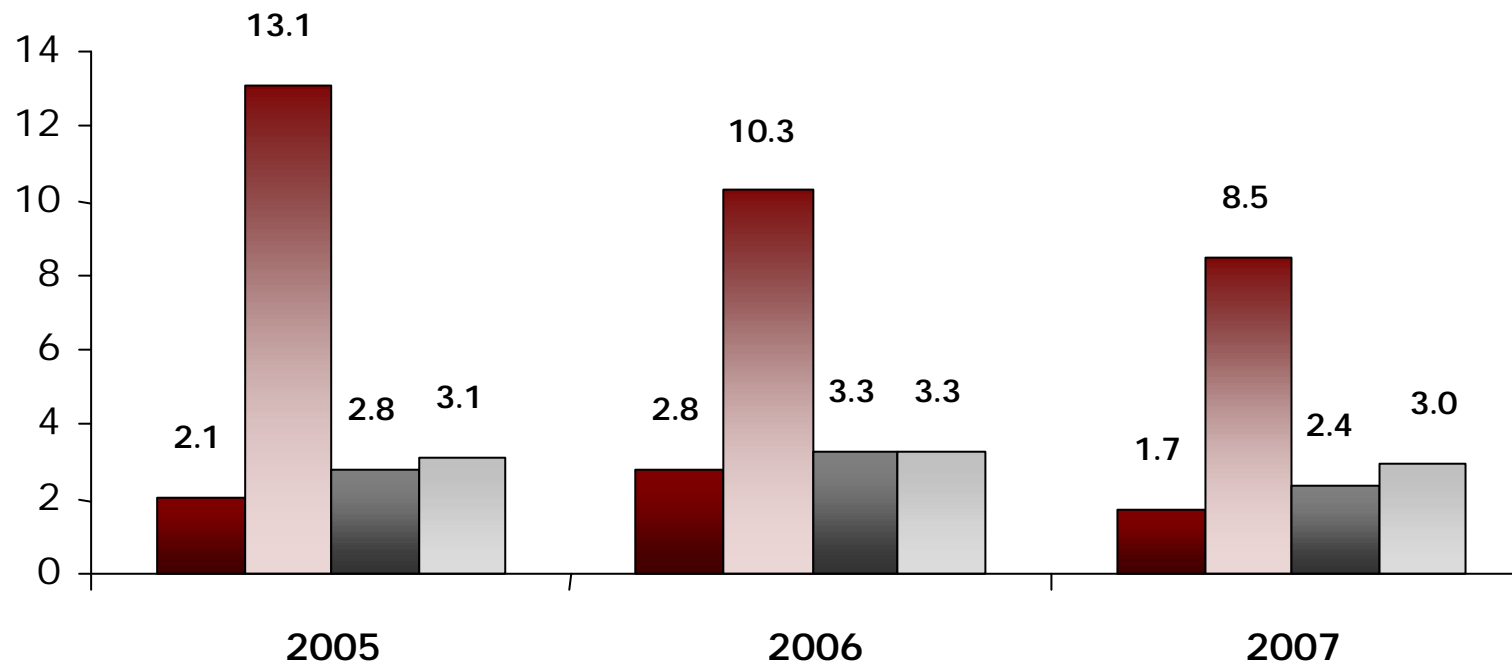


Source: INE



# Economic Environment

## Employment evolution (\*)



(\*) SS Affiliation

(\*\*) Active employment

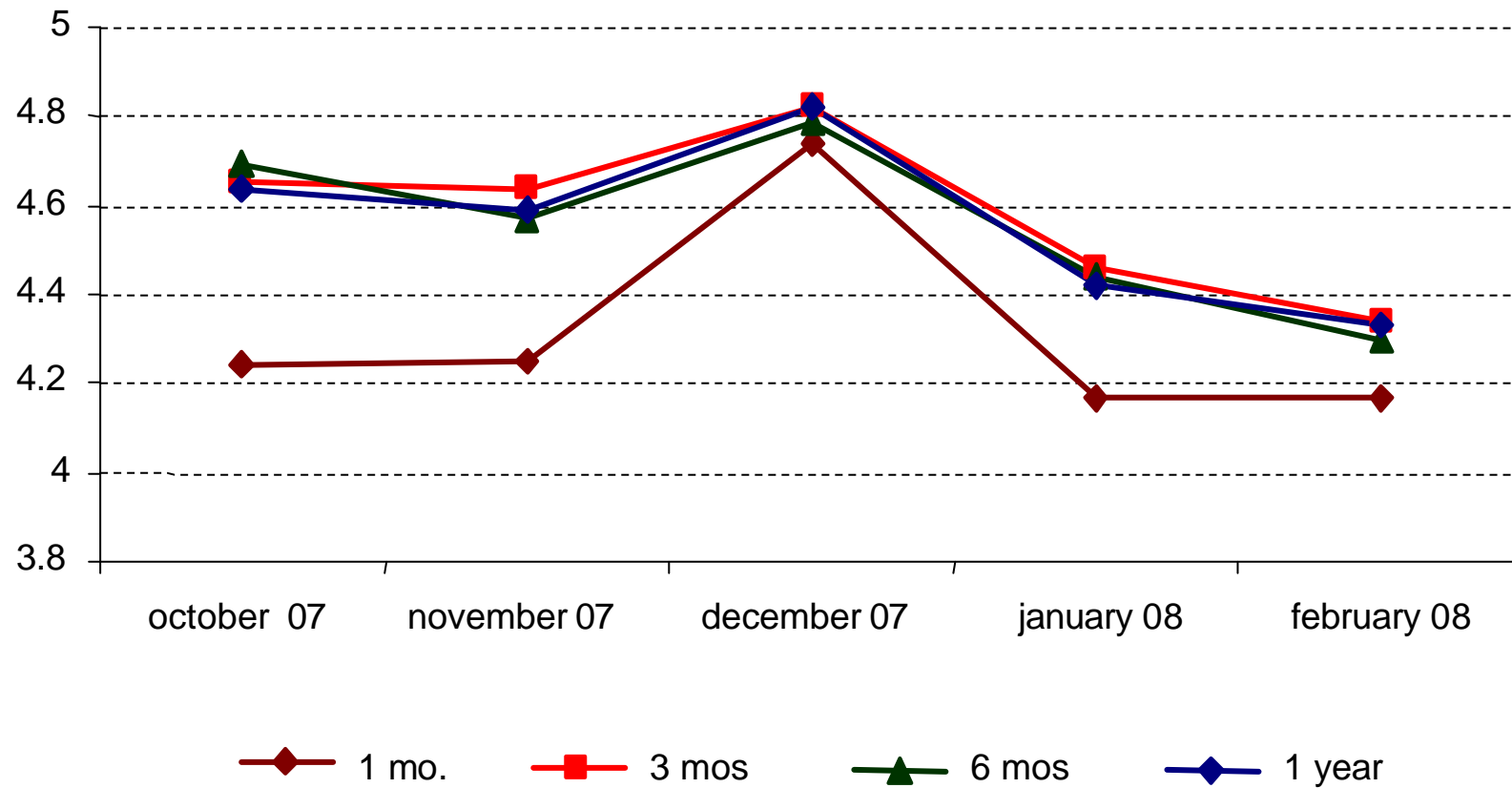
Source: INEM / FUNCAS

■ Domestic    ■ Foreign    ■ Total    ■ Employment supply\*\*



# Economic Environment

## AVERAGE MONTHLY RATES



Source: BOLETÍN ESTADÍSTICO DE BANCO DE ESPAÑA



# Economic Environment

## FORECASTS FOR 2008 (SPAIN)

Data in %	GDP		CPI (yearly ave.)		Unemployment (EPA)	
	2007	2008	2007	2008	2007	2008
<b>Local economists (*)</b>	<b>3.8</b>	<b>2.5</b>	<b>2.8</b>	<b>3.6</b>	<b>8.2</b>	<b>8.8</b>
<b>Other estimates</b>						
						
Government (December 07)	3.8	3.1	2.7	3.3	8.2	8.2
EC (February 08)	3.8	2.7	2.6	3.7	8.1	----
IMF (October 07)	3.7	2.7	2.5	2.8	8.1	8.2
OECD (December 07)	3.8	2.5	2.8	3.6	8.1	8.1

Source: European Commission - FUNCAS (Fundación de las Cajas de Ahorro)

(\*) Analistas Financieros Internacionales, BBVA, FUNCAS, InterMoney, ICO, Instituto de Estudios Económicos (IEE), ICAE, Caja Madrid, Caixa Catalunya, Santander, La Caixa, Consejo superior de Cámaras de Comercio. Etc....



## EC ECONOMIC FORECASTS

### GDP (% change)

	2007	2008	2009
Spain	3.8	2.7	2.3
Portugal	1.8	2.0	2.1
<b>TOTAL EURO AREA</b>	<b>2.6</b>	<b>1.8</b>	<b>2.1</b>

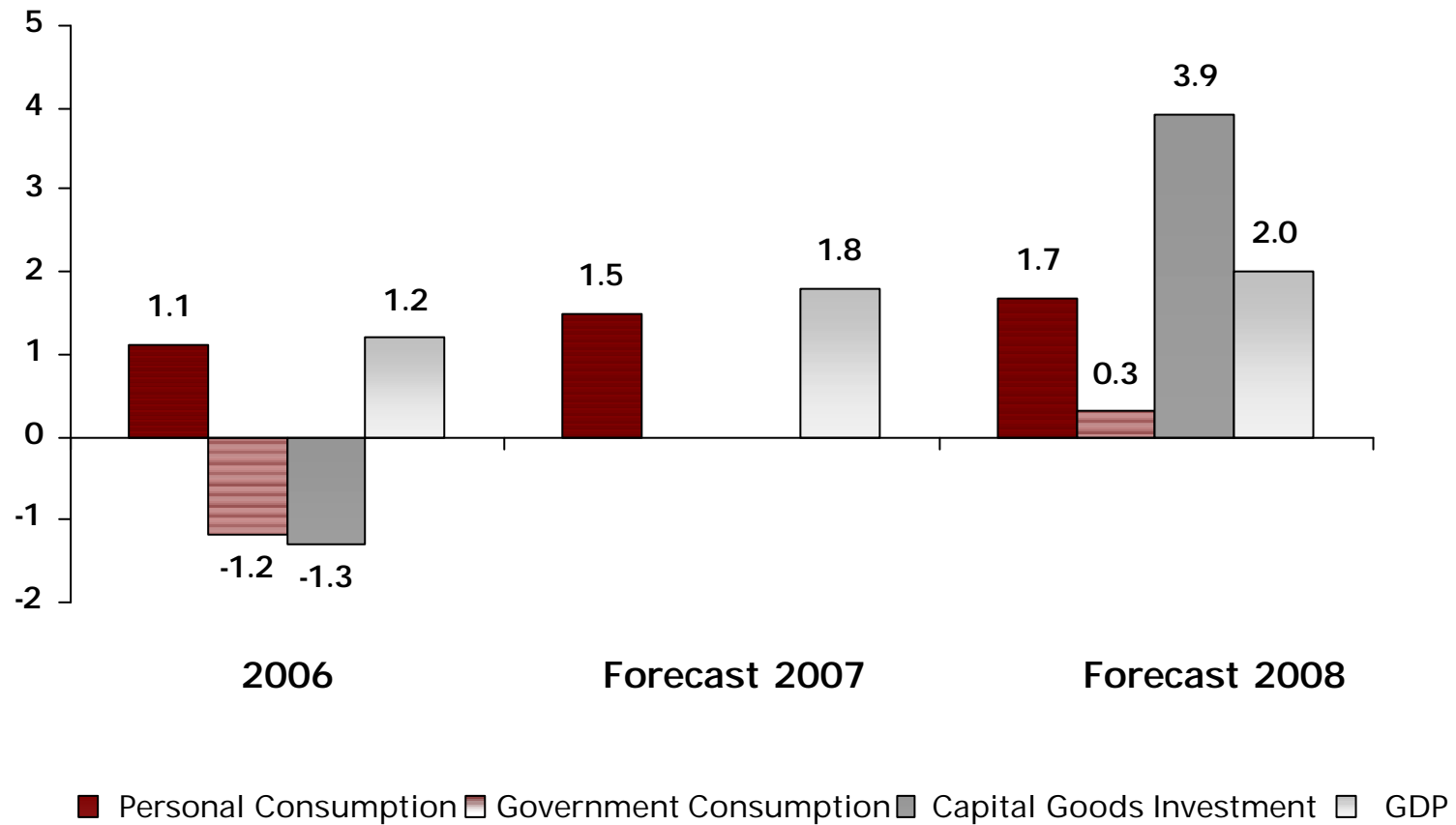
*Source: Comisión Europea / Previsión Económica (february 21, 2008)  
Indicadores de Coyuntura / Banco de Portugal*



# Economic Environment

Data in %

## FORECASTS FOR 2007 & 2008 (PORTUGAL)



Source: INE de PORTUGAL and Banco de PORTUGAL



## Economic Environment

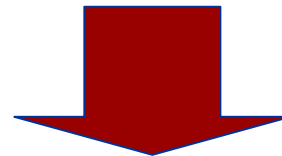
- Oil prices at \$ 90 – 110 \$ could mean:



Inflation pressures



Risk of lower growth



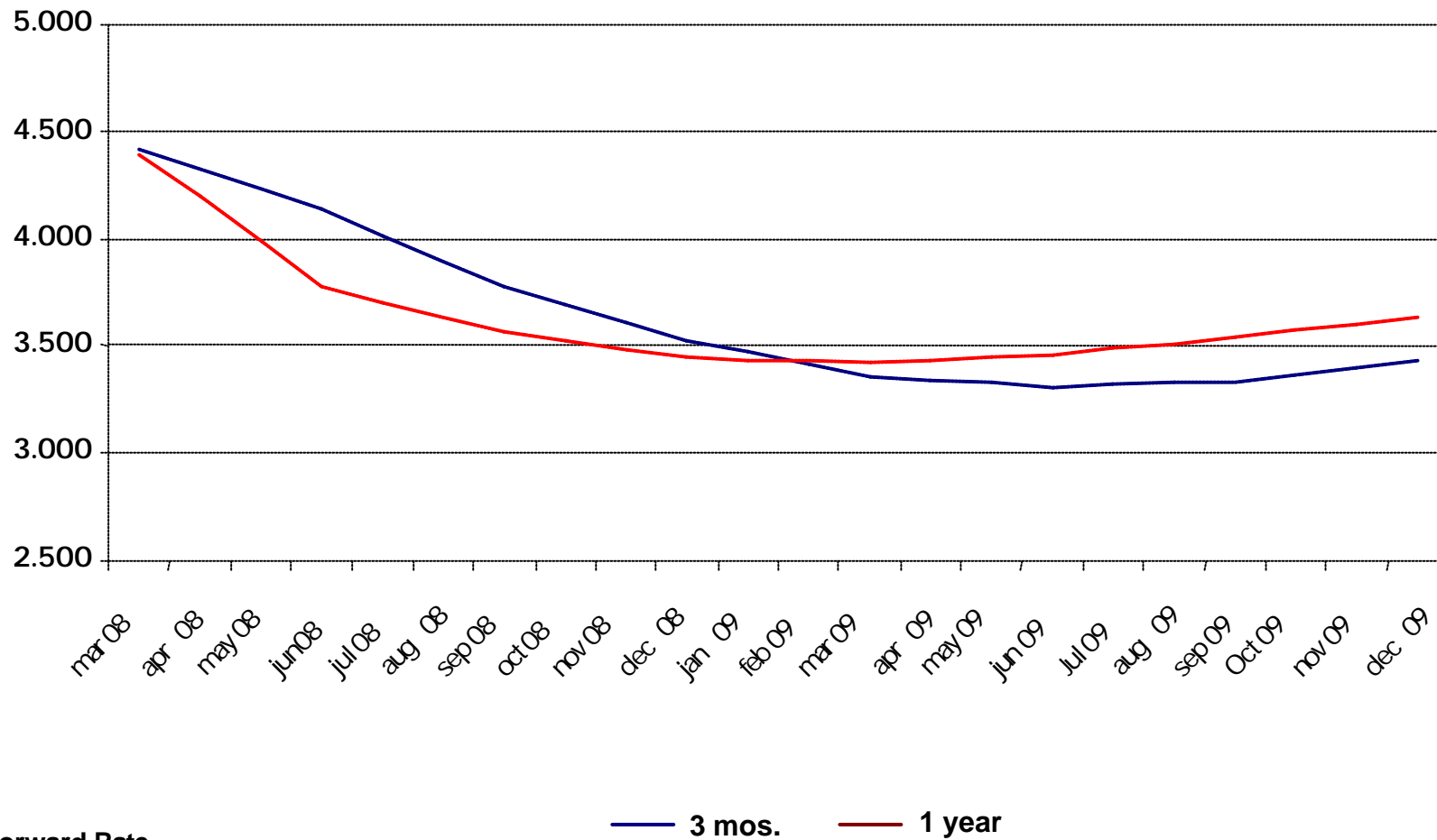
Conductive to lower interest rates

Source: Servicio Estudios BBVA



# Economic Environment

## FUTURES CURVE (FEBRUARY 2008)



Euro Forward Rate



## 2008 TRENDS & FORECASTS

- Economy will slow progressively in 2008
- GDP forecasts are at 2.5 % (**vs. 3.8 % in 2007**)
- Household consumption will moderate to 2.3 % (**vs. 3.2 % in 2007**)
- Public consumption will be similar to 2007 levels at 4.9 % (**vs. 5.1 % in 2007**)
- Gross capital formation will be clearly lower at 2.1 % (**vs. 5.9 % in 2007**)
- Total jobs will slow growth to 1.6 %, but unemployment will grow to 9.0 %

Source: INE, BE.Y FUNCAS



# Economic Environment

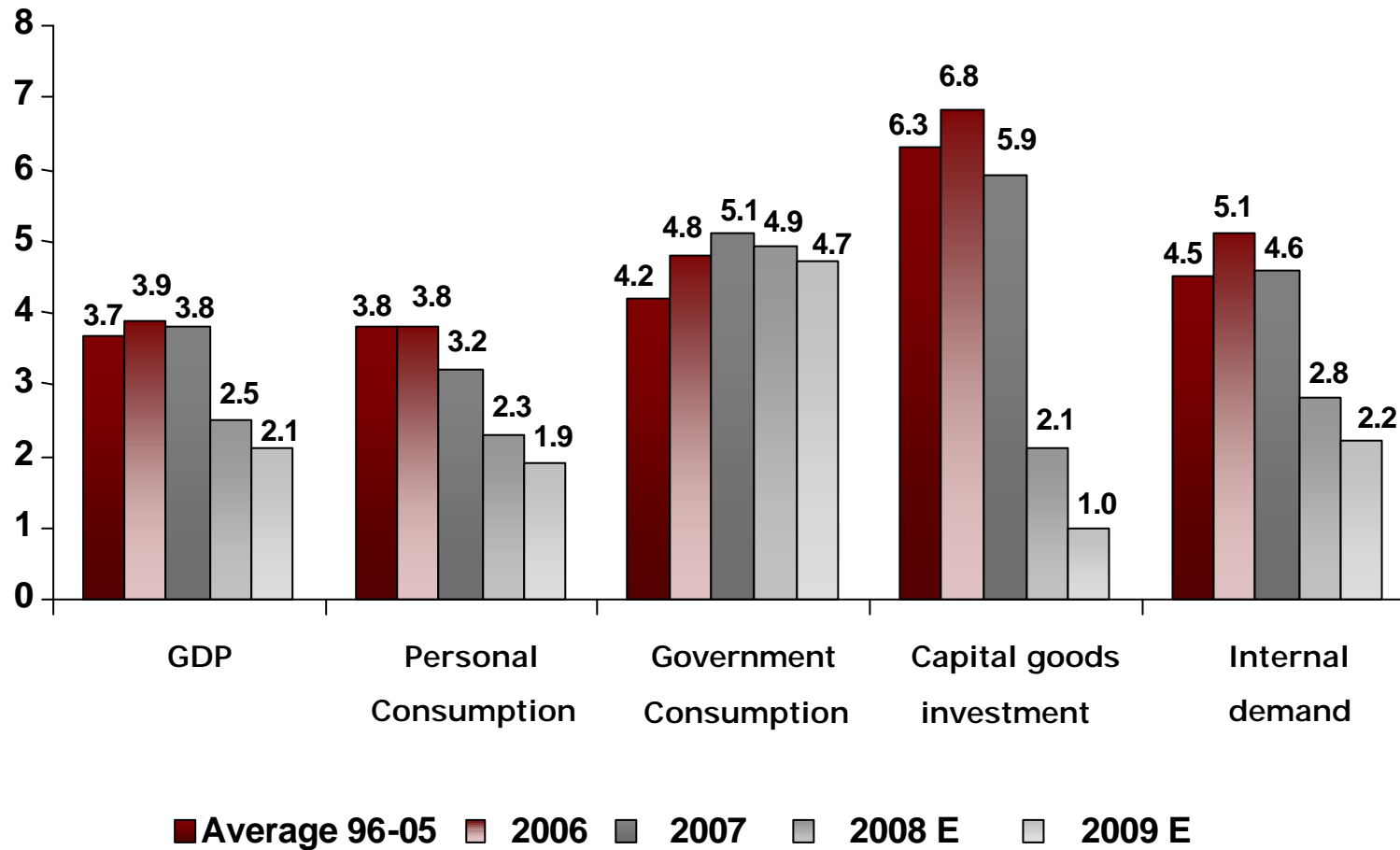
## 2009 TRENDS & FORECASTS

- 2008 pressures will intensify
- GDP growth will subside to 2.1 %, with the bottom in the middle quarters of the year (**GDP in 2008 is estimated at 2.5 %**)
- Activity in residential construction will plummet 12.0 % (**- 5,8 % forecast for 2008**) while non-residential construction will accelerate to 6.4 % due to public works. (**vs. 3.9 % estimated in 2008**)
- Jobs creation will be low at 1.0 %, and unemployment will climb to 10.3 % (**vs. 9 % estimated in 2008**)

Source: INE, BE.Y FUNCAS



# Economic Environment



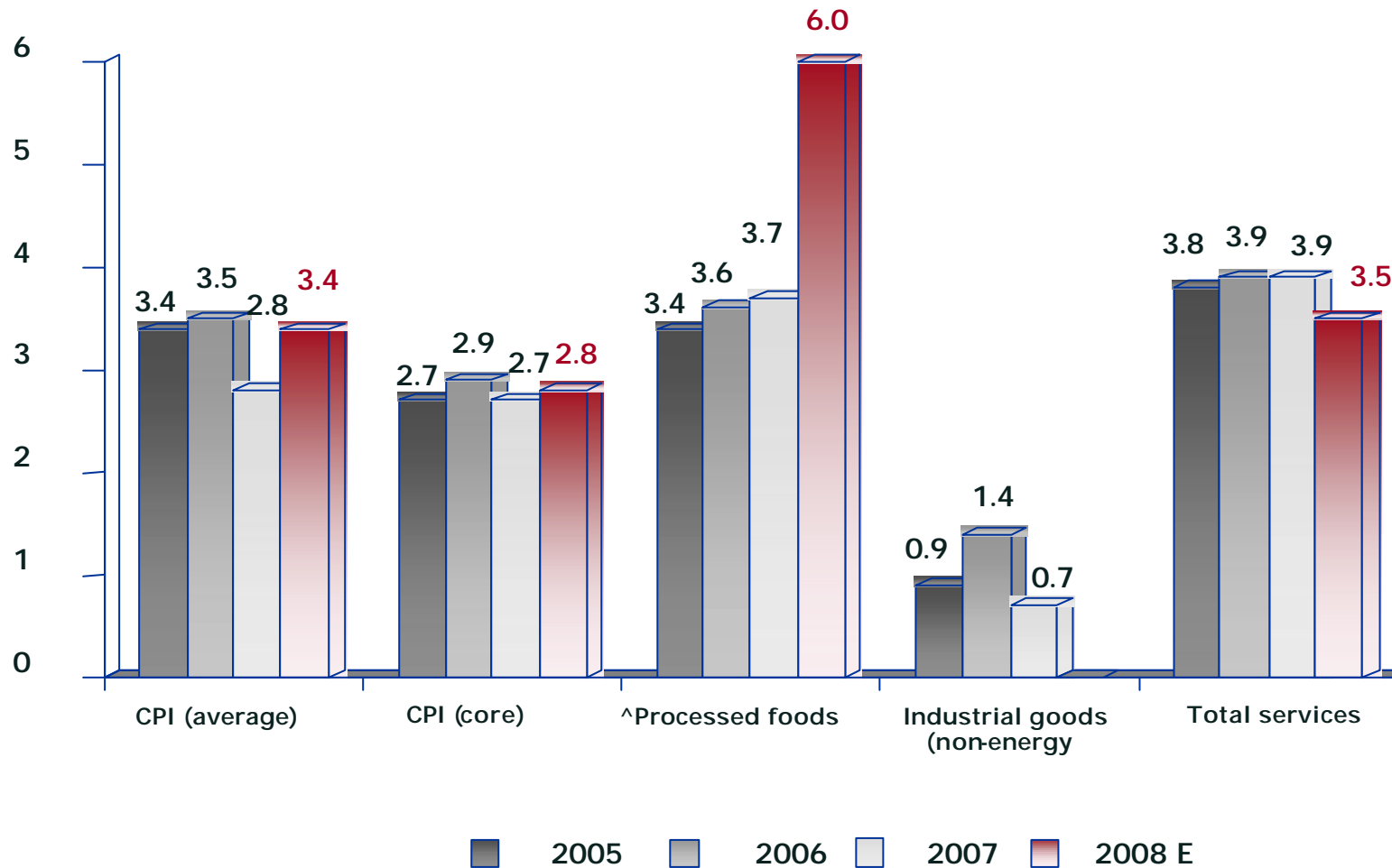
Source: Local economists' average



# Economic Environment

## SPANISH CPI ESTIMATES

(% yearly change)



Source: INEY FUNCAS

# **Banco Popular Español**

Velázquez 34. 28001 Madrid

Telephone: 34 915207000

Fax: 34 915779208

**Banco Popular Español  
Banco de Andalucía  
Banco de Castilla  
Banco de Crédito Balear  
Banco de Galicia  
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