Banco Popular
&
The Spanish residential real estate market

Banco Popular Group

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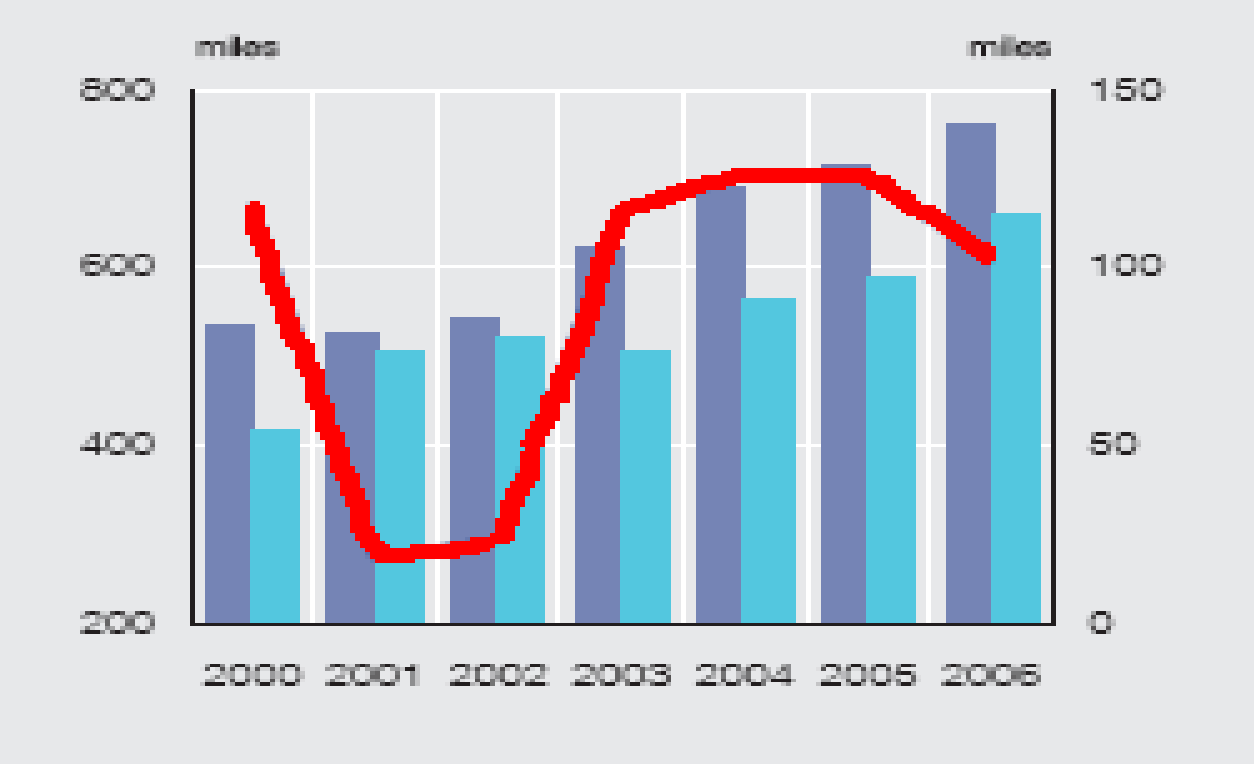
- Real estate trends
- Drivers of real estate property demand
- Aspects of credit demand
- Expected real estate trend
- Popular versus banking industry
- Quality of Banco Popular´s credit

REAL STATE TRENDS

HOUSE STARTS AND IN PROGRESS (in thousands)

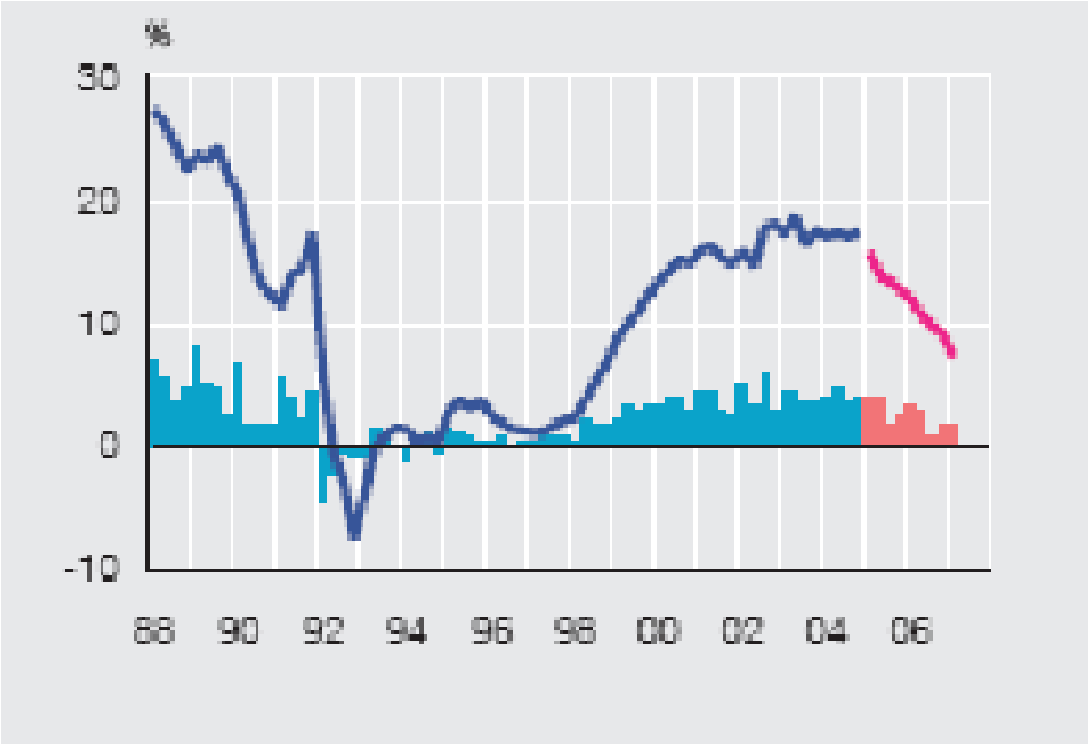


Despite signs of slowdown, residential construction activity has kept going at a strong pace

Source: Bank of Spain

REAL STATE TRENDS

VALUE OF AVERAGE RESIDENTIAL UNIT (% Δ OF PER SQUARE METER VALUE)



*Slowdown in pace of growth of housing prices

2006	9.0%
2005	12.8%

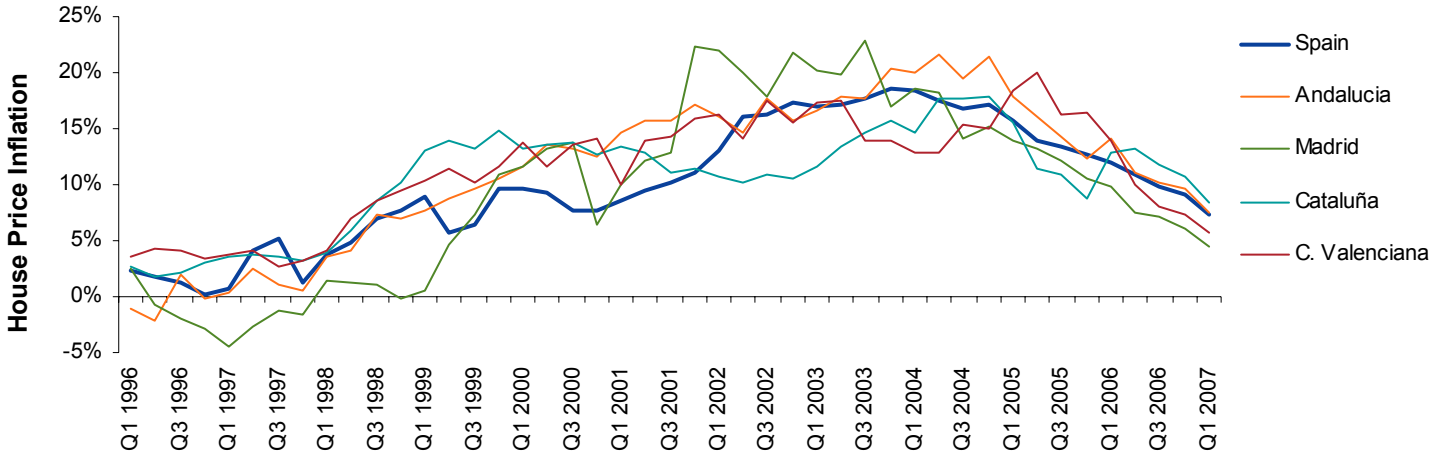
*Soft-landing of residential RE after strong growth

Source: Bank of Spain

REAL STATE TRENDS

- The pace of house price growth has been progressively decreasing since Q4 2003 when it reached a record high of 18.5%
- House price inflation in Spain was 7.2% yoy in Q1 2007
- The slowdown in house price inflation can be partly attributed to the increase in the housing stock

Year-on-year house price inflation



Source: Spain Ministry of Housing

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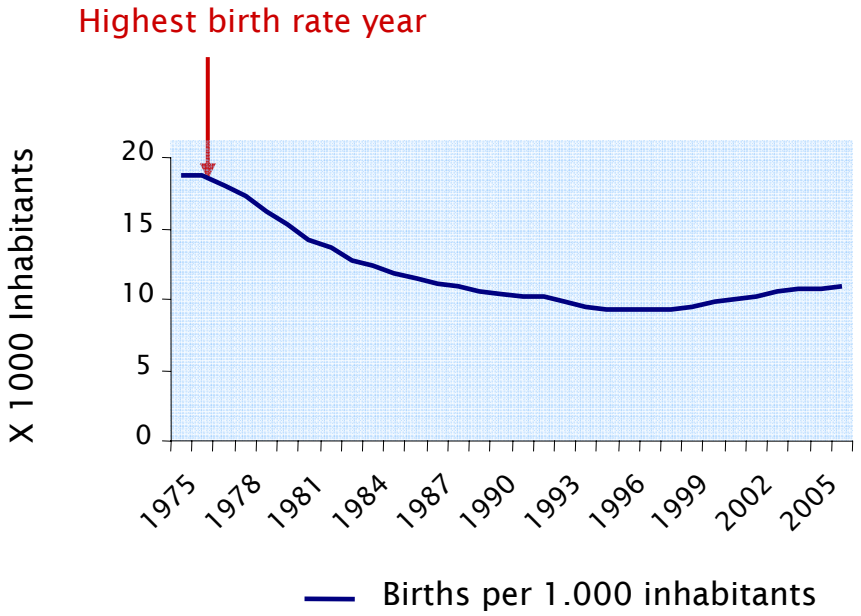
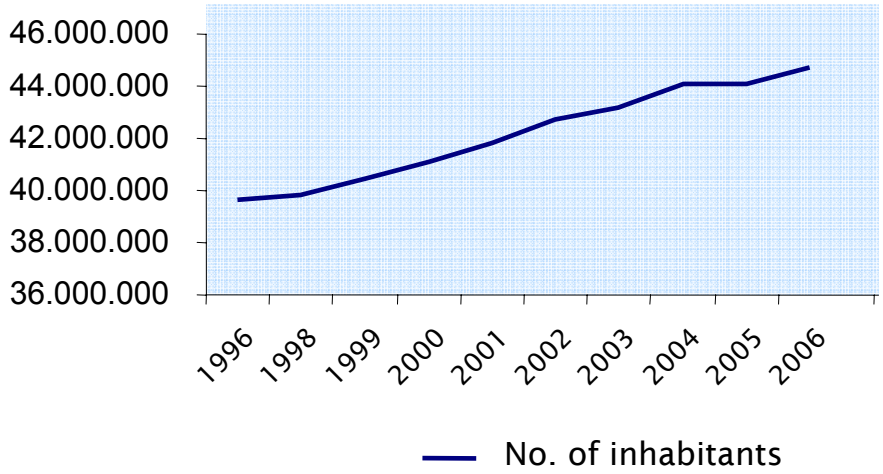
DRIVERS OF REAL ESTATE PROPERTY DEMAND

BIRTH RATES IN SPAIN



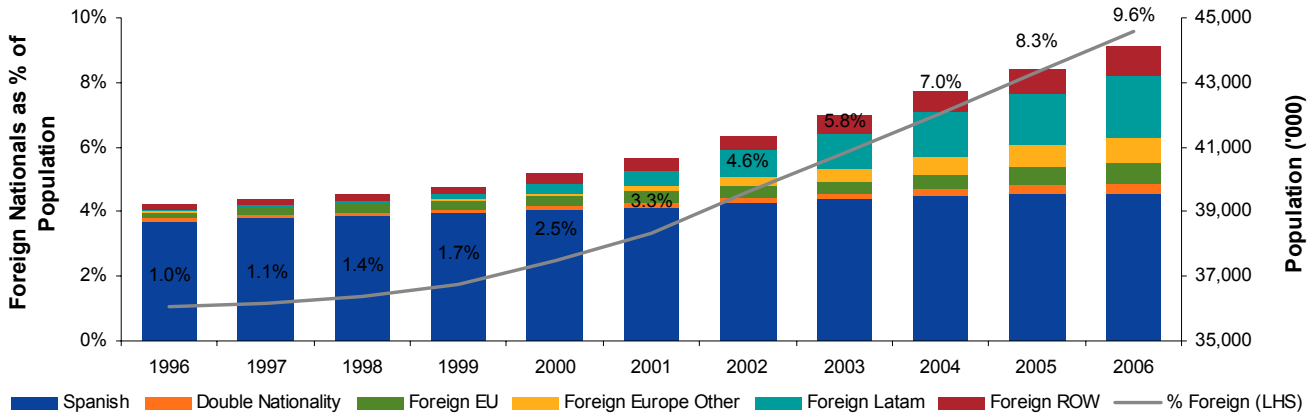
POPULATION HEAD COUNT



Source: INE

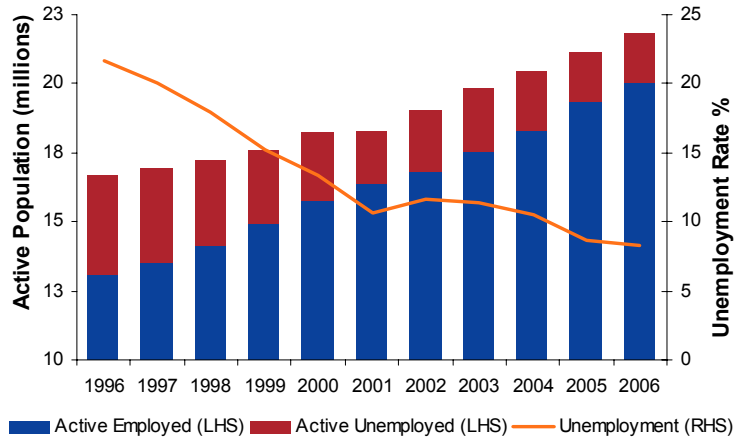
DRIVERS OF REAL ESTATE PROPERTY DEMAND

Second largest population growth in Eurozone



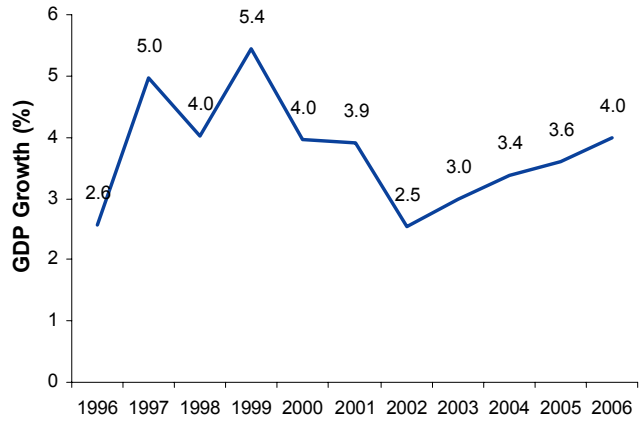
Source: National Institute of Statistics (INE)

Falling unemployment & growth in active population



Source: Bank of Spain

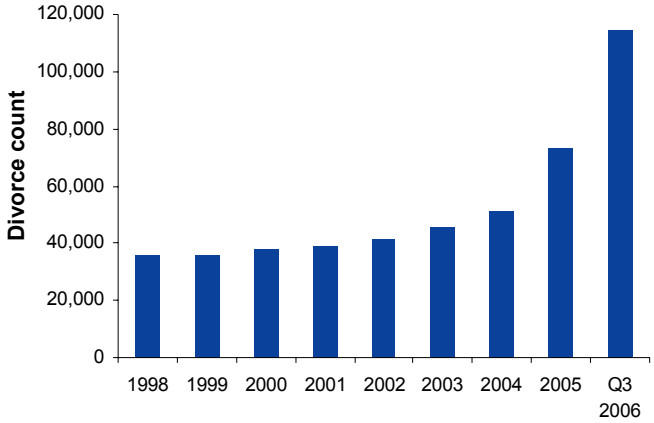
Spain GDP growth, one of the strongest in Europe



Source: Bank of Spain

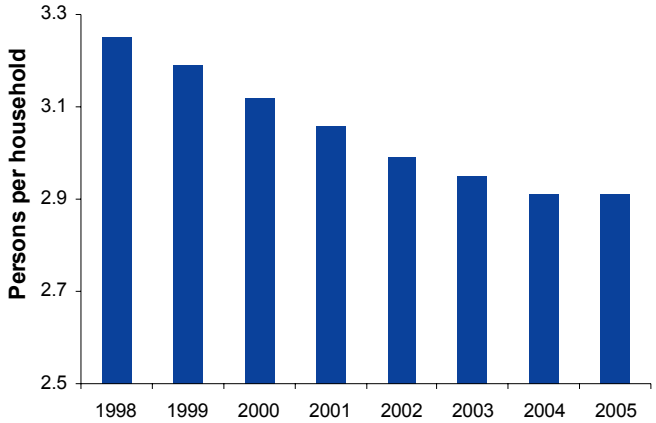
DRIVERS OF REAL ESTATE PROPERTY DEMAND

Threefold increase in divorces since 1998



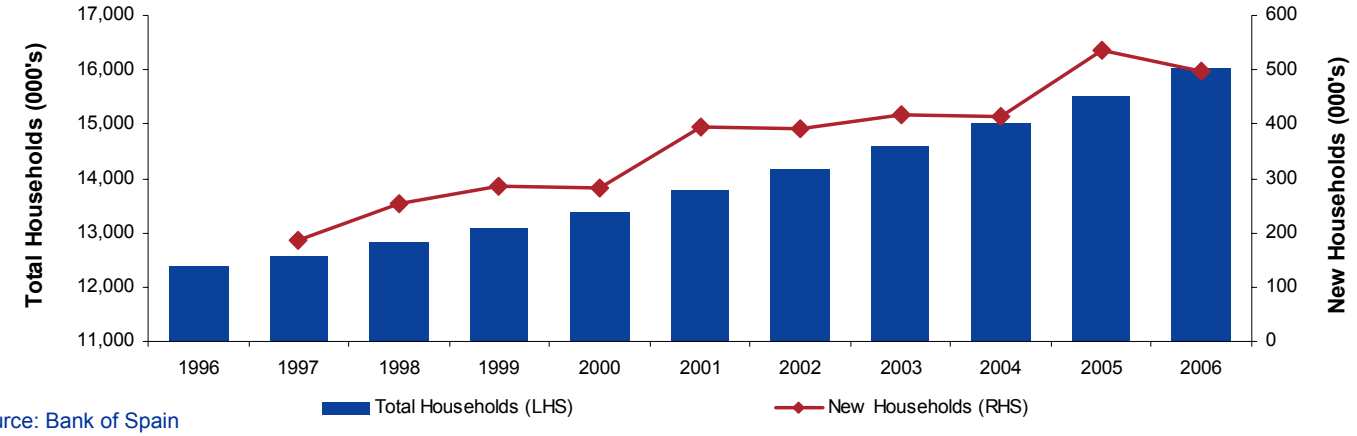
Source: Judicial Power Advisory Board

10% shrinkage in the size of households



Source: Bank of Spain

Significant increase in the number of new households



Source: Bank of Spain

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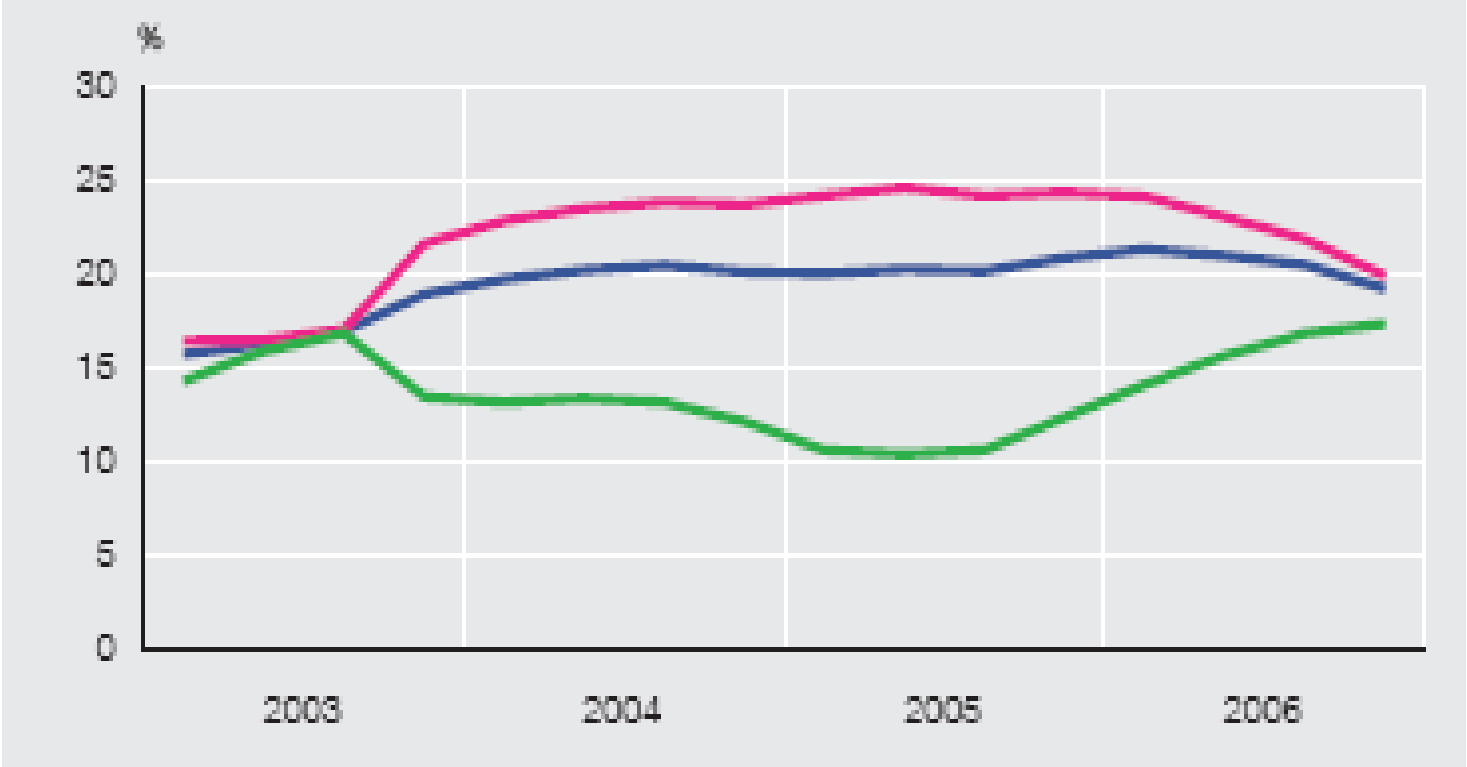
ASPECTS OF CREDIT DEMAND

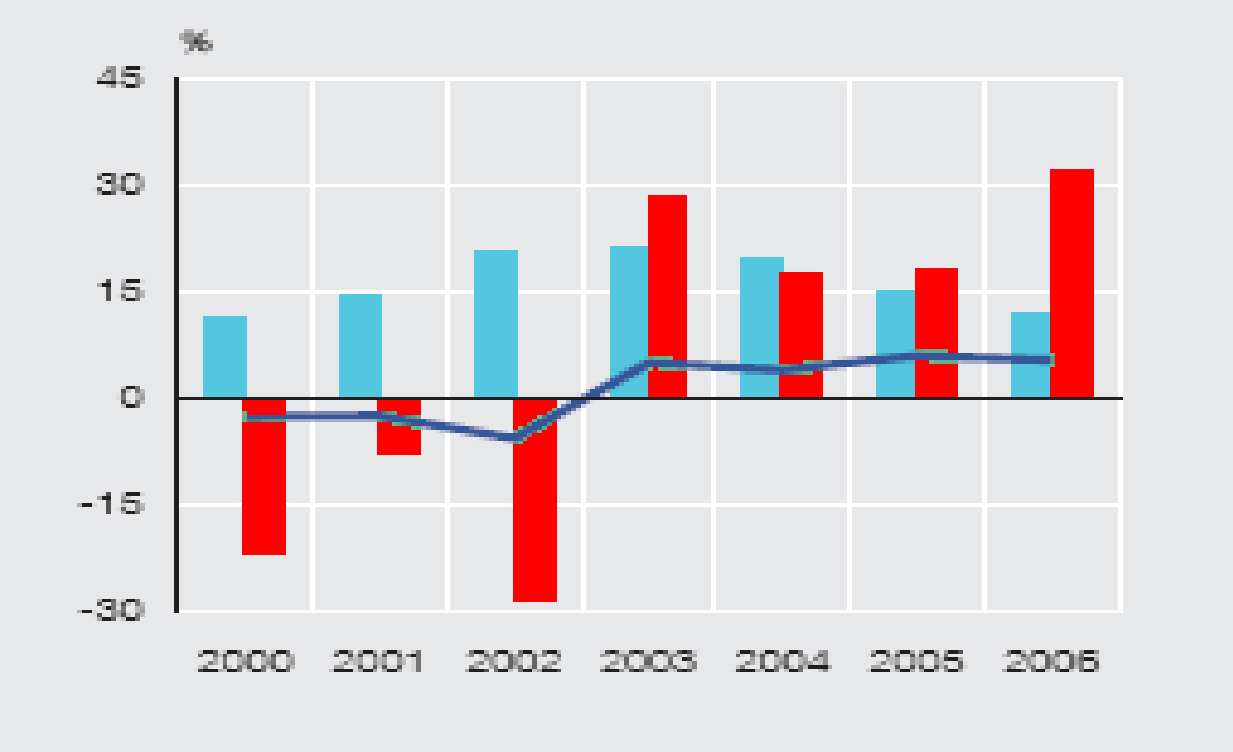
HOUSEHOLD INDEBTEDNESS (Y-ON-Y % Δ)



Source: Bank of Spain

ASPECTS OF CREDIT DEMAND

RETURNS FROM RESIDENTIAL AND OTHER INVESTMENTS



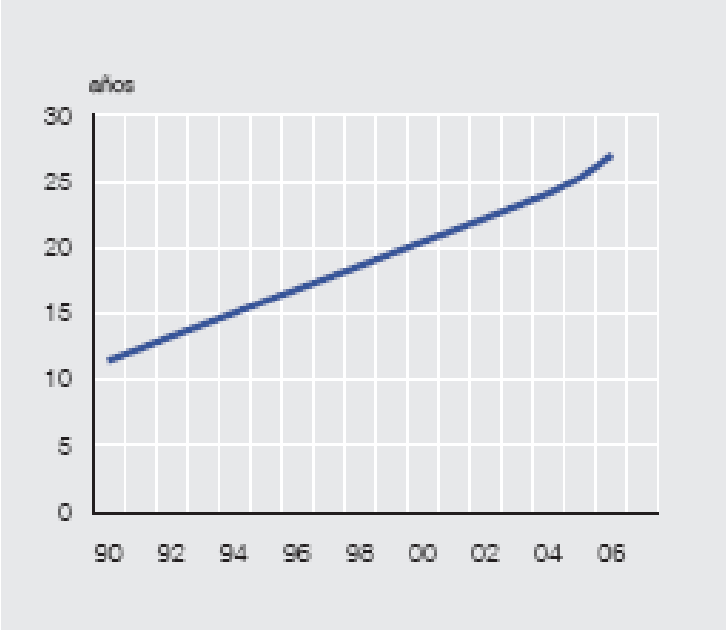
The attractiveness of residential RE investments vs. Other Alternatives decreased in 2006

Housing prices grew less than other assets (e.g. equities)

Source: Bank of Spain

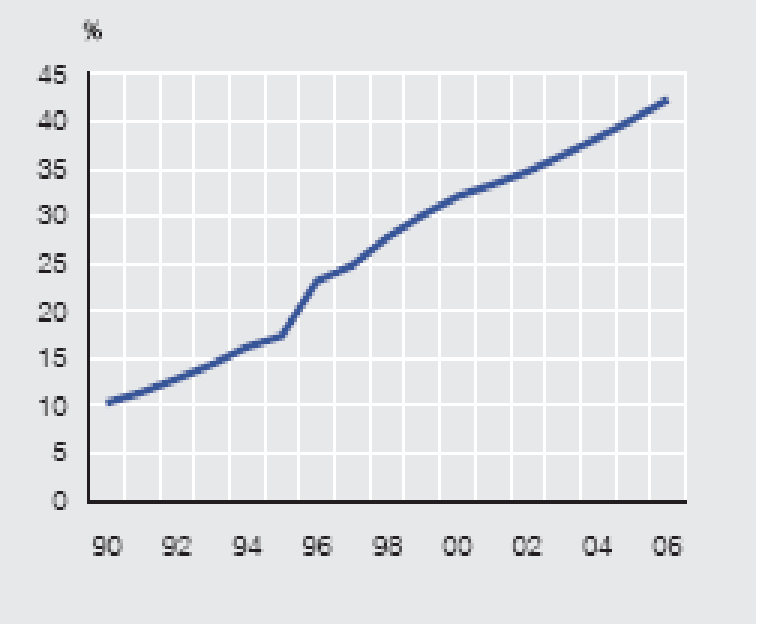
ASPECTS OF CREDIT DEMAND

AVERAGE MORTGAGE MATURITY (NEW PRODUTION)



Increased residential values have led to longer mortgage maturities

INDIVIDUALS WITH OUTSTANDING INDEBTEDNESS

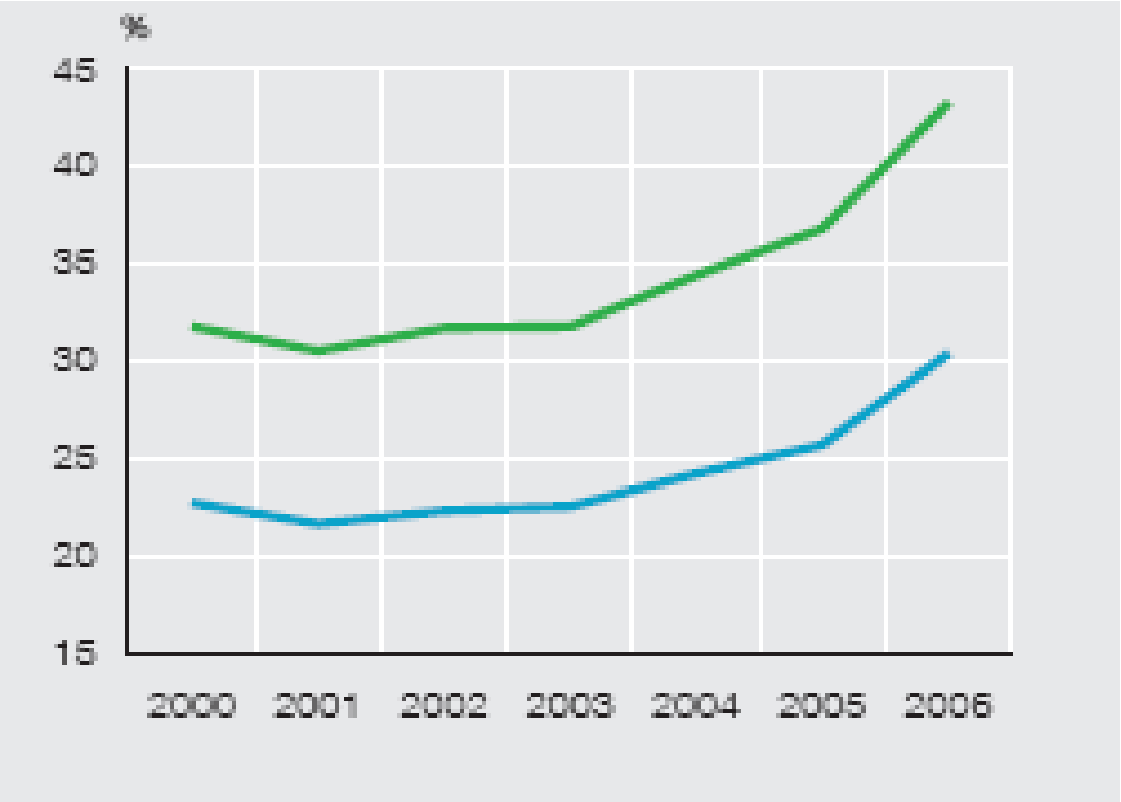


Increased mortgage maturities have boosted the number of individuals with credit outstanding

Source: Bank of Spain - INE

ASPECTS OF CREDIT DEMAND

HOUSE AFFORDABILITY RATIOS



Estimated affordability has continued to deteriorate

Source: Bank of Spain

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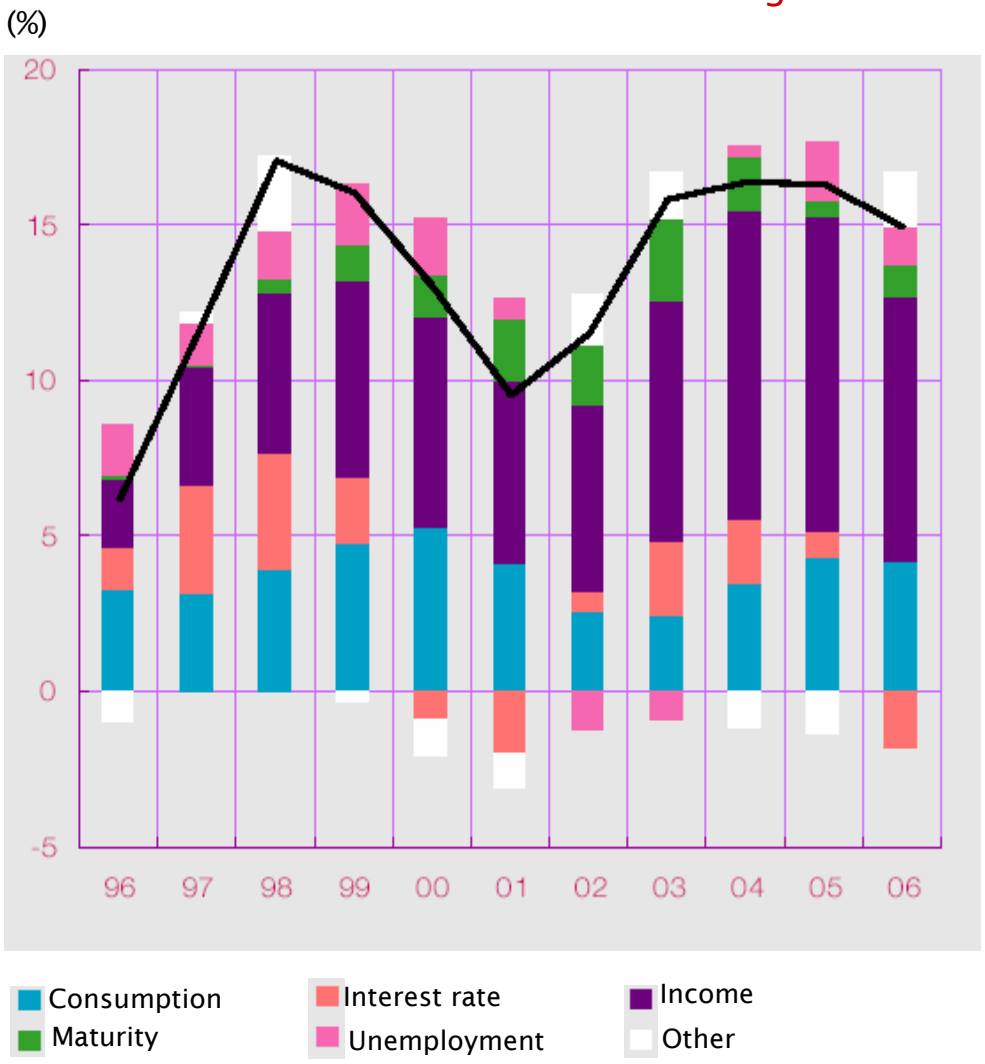
EXPECTED REAL ESTATE TREND

Drivers of credit growth to households (real terms)



Source: Bank of Spain

- Medium term, the evolution of the different components, specially interest rates, should lead to a progressive deceleration of loan volumes

EXPECTED REAL ESTATE TREND

- The sustained deceleration in house prices will lead to a gradual ott-setting of the possible current overvaluation, and to more moderate credit growth.

- Progressive recovery of exports to Europe and demand due to higher government investment in public works should allow for a soft real estate adjustment to lower & sustainable levels

POPULAR VERSUS BANKING INDUSTRY

- In an article (published in the bi-monthly bulletin of Bank of Spain) that followed a detailed analysis of the macroeconomic models which were widely used to analyse housing prices, Bank of Spain concluded that*:
  - The significant house price inflation since 1997 is to some extent a consequence of the low house prices in the years before the start of the boom
  - The macroeconomic analysis supports the hypothesis of an overvaluation of the housing market in the last few years as a result of supply / demand imbalances, which is compatible with the usual adjustment path of a market subject to notable rigidities
  - The evidence from the macroeconomic analysis does not support the hypothesis that the recent market boom is due to widespread speculative behaviour or to the favourable tax treatment of the house ownership
  - The most likely scenario is that of a gradual adjustment of the current overvaluation in the housing market

*Source: "House prices in Spain: is the evidence of overvaluation robust?", Bank of Spain, Economic Bulletin July 2006, http://www.bde.es

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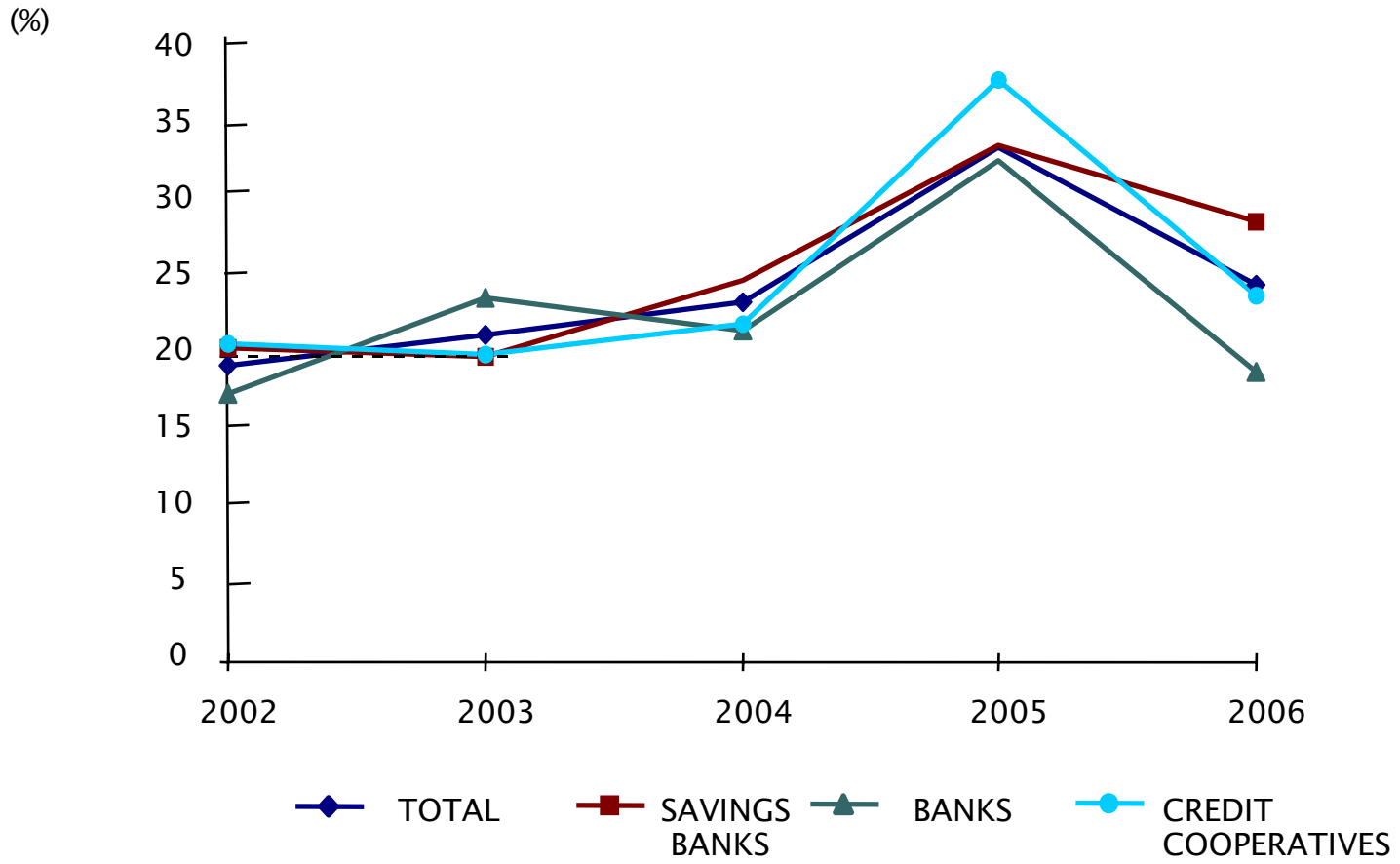
POPULAR VERSUS BANKING INDUSTRY

MORTAGAGE LOAN GROWTH (RESIDENTS)

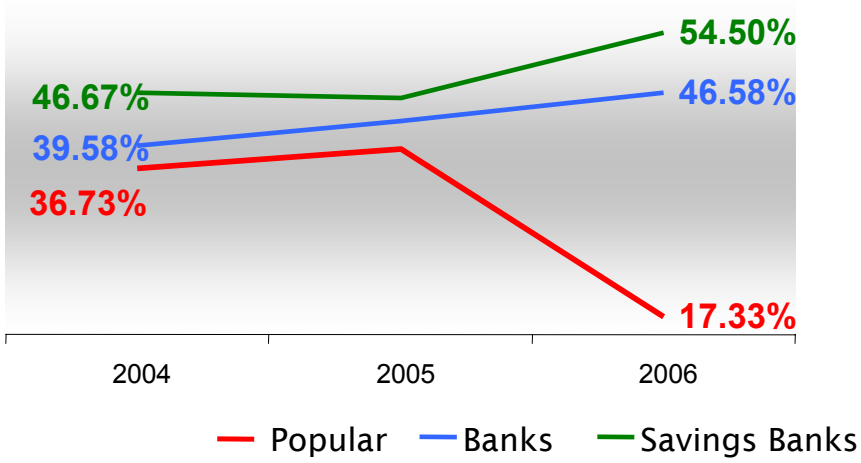


Source: Bank of Spain

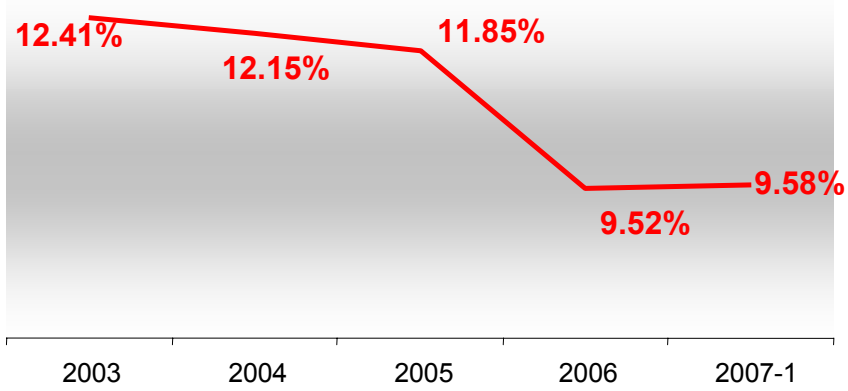
POPULAR VERSUS BANKING INDUSTRY

CORPORATE REAL ESTATE SECTOR VOLUME

ANNUAL CHANGE

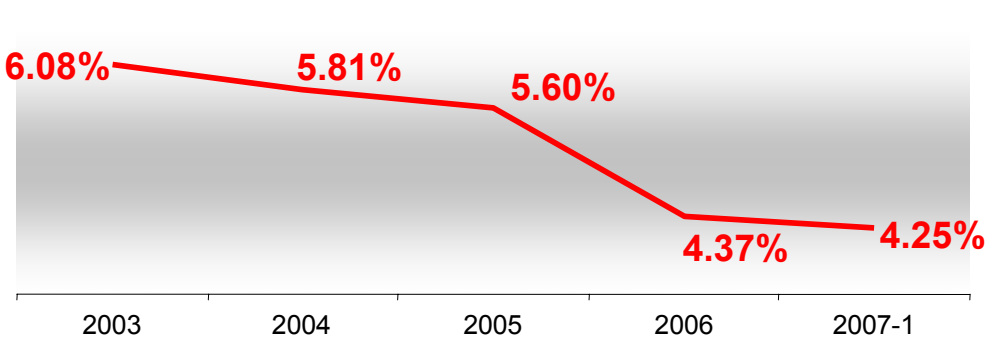


MARKET SHARE OF CORPORATE RE SECTOR (BANKS ONLY)



MARKET SHARE OF CORPORATE RE SECTOR (Total systen)

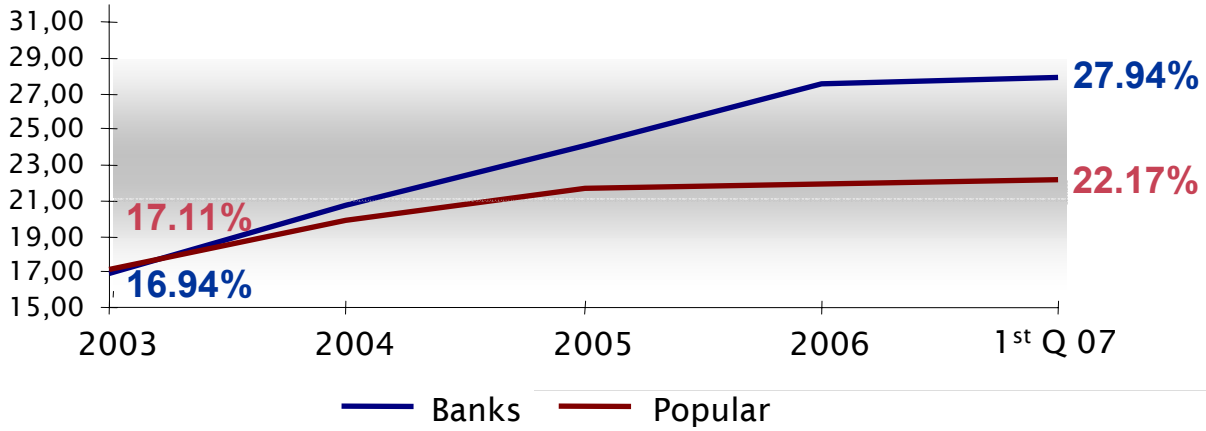
%



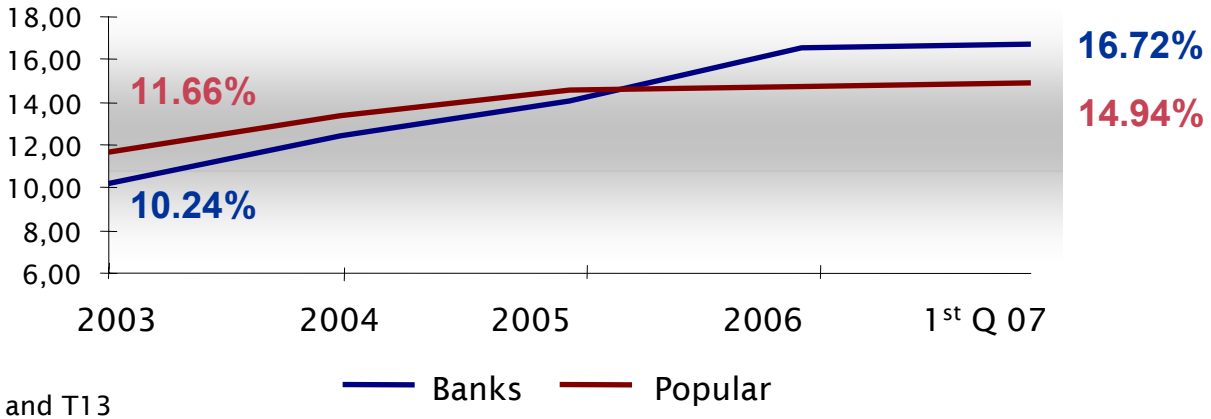
Source: Bank of Spain and T13

POPULAR VERSUS BANKING INDUSTRY

CORPORATE REAL ESTATE VOLUME AS A % OF CORPORATE LOANS IN SPAIN



CORPORATE REAL ESTATE VOLUME AS A % OF TOTAL LOANS IN SPAIN

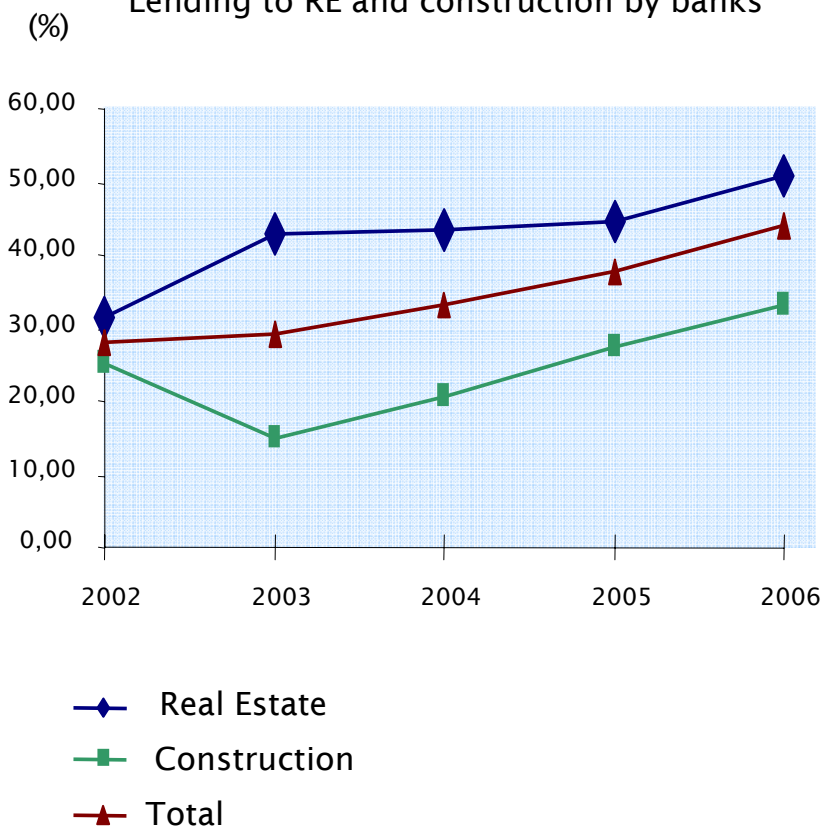


Source: Bank of Spain and T13

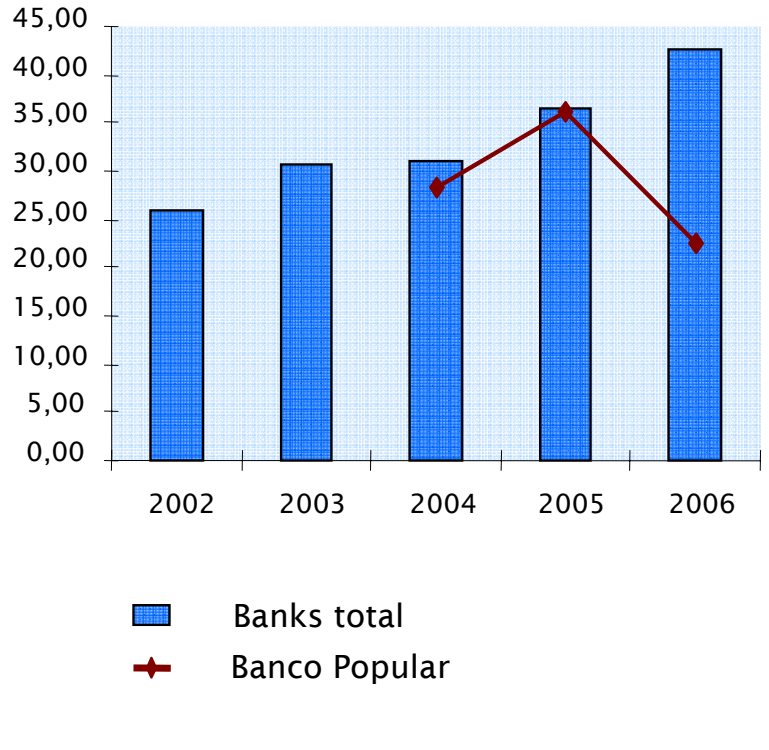
POPULAR VERSUS BANKING INDUSTRY

LOANS TO REAL ESTATE AND CONSTRUCTION COMPANIES

Lending to RE and construction by banks



Lending to RE and construction



Annual variation (%)

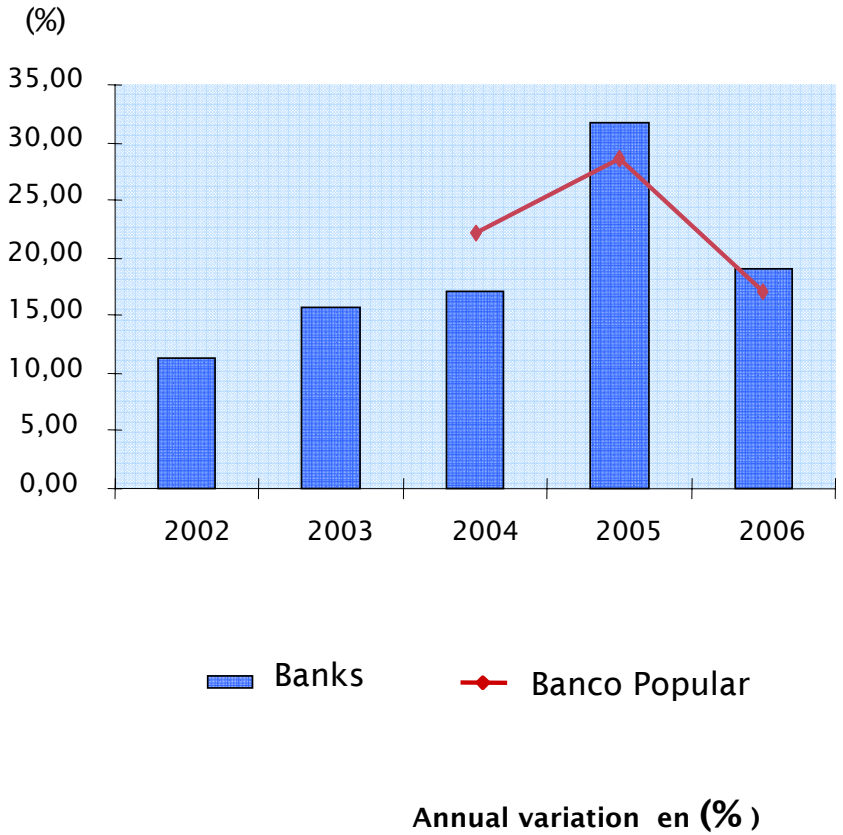
Source: Bank of Spain and T13

POPULAR VERSUS BANKING INDUSTRY

HOUSEHOLD FINANCING

Financing of households by banking sector

Total financing



Source: Bank of Spain and T13

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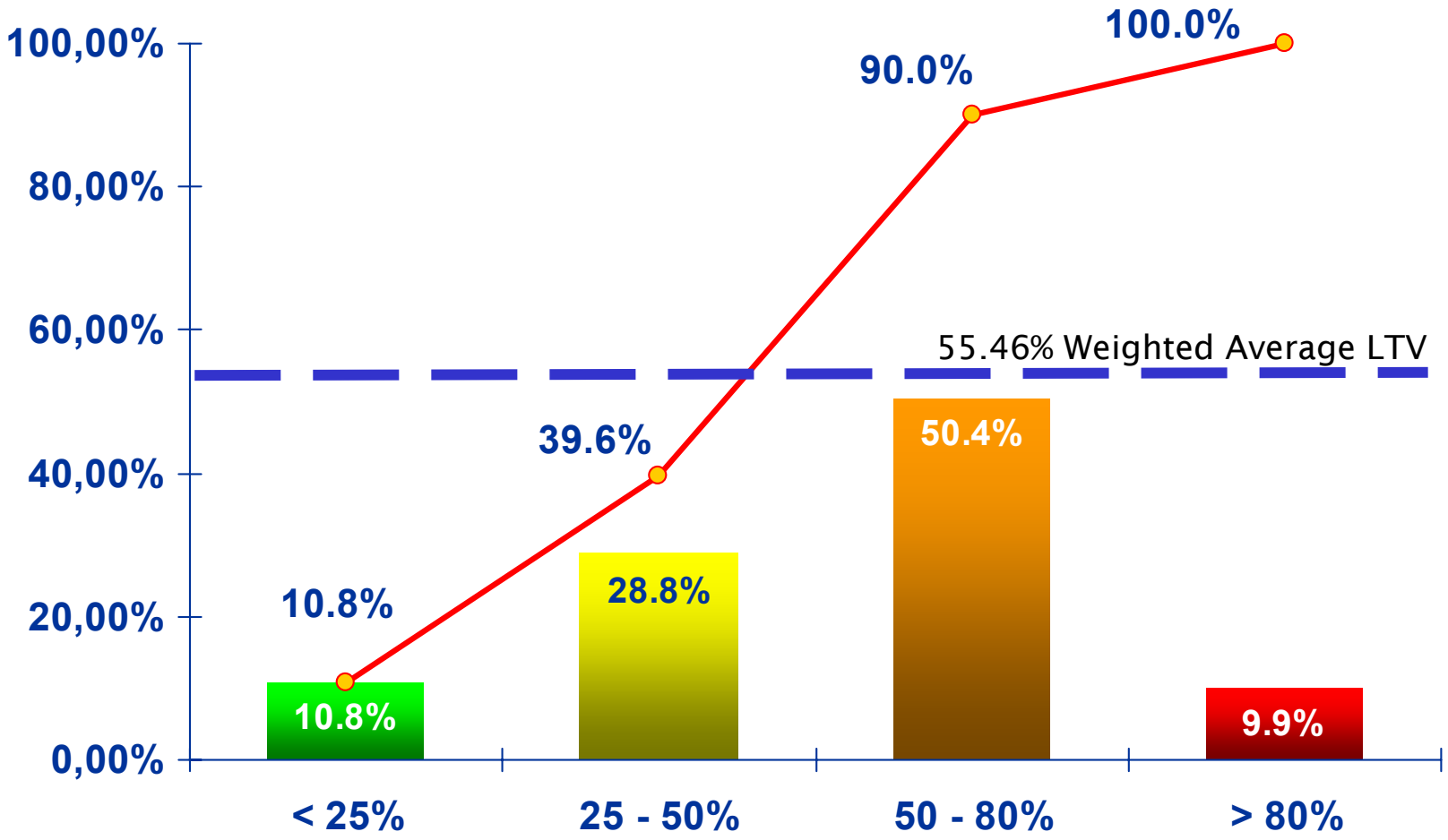
QUALITY OF BANCO POPULAR ´S CREDIT

KEY MORTGAGE QUALITY INDICATORS

	Total Stock
Average Outstanding Size	151,466 €
Average Residual Life (Years)	17
LTV (outstanding/initial)	55%
NPL	0.46%
Write off	0.17%

QUALITY OF BANCO POPULAR ´S CREDIT

- The initial value of the properties nearly doubles the current outstanding balance of the mortgages



December 2006 data, for Affiliated Banks Affiliated Banks, excluding parent company

QUALITY OF BANCO POPULAR ´S CREDIT

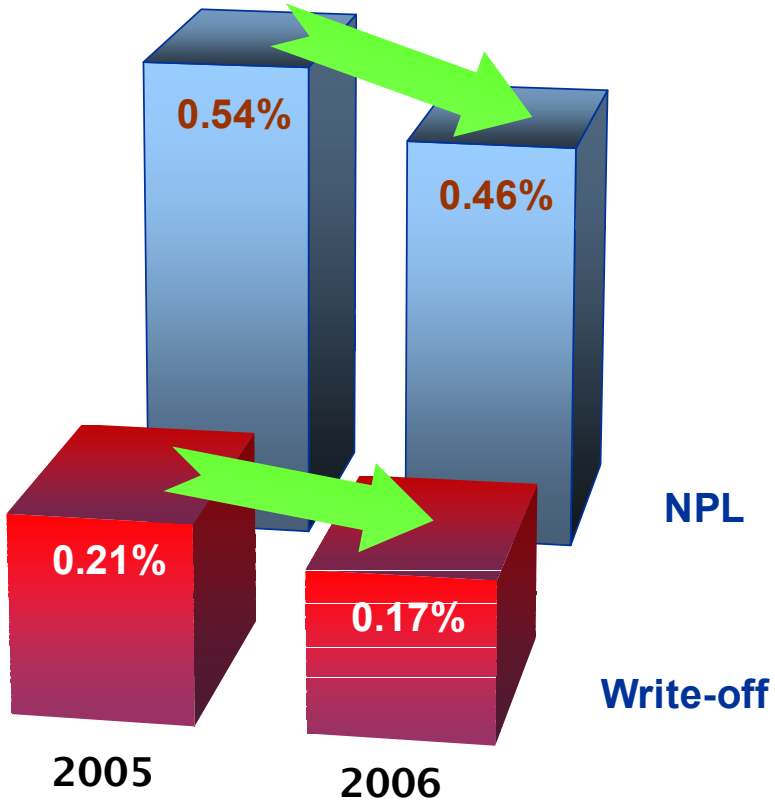
LTV

Average (Spain)	69%
Average (Banco Popular Group)	55%

Source: AHE

QUALITY OF BANCO POPULAR ´S CREDIT

- Excellent asset quality: NPL ratio for mortgages 0.46%, with a final write-off ratio of 0,17% at inception
- Due to Conservative lending policies and powerful and fully implemented Credit-analysis tools

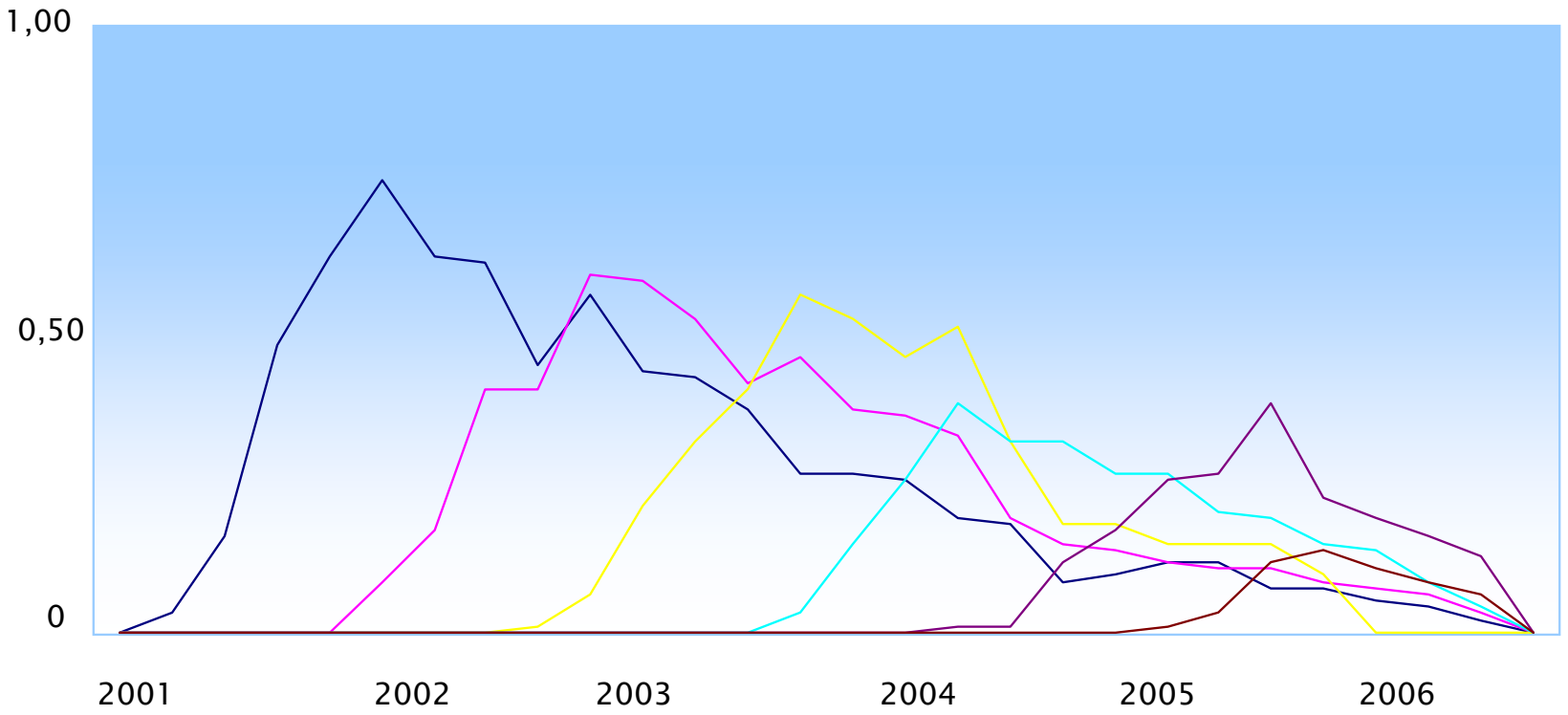


December 2006 data, for Affiliated Banks Affiliated Banks, excluding parent company

QUALITY OF BANCO POPULAR ´S CREDIT

Mortgage transactions with individual persons

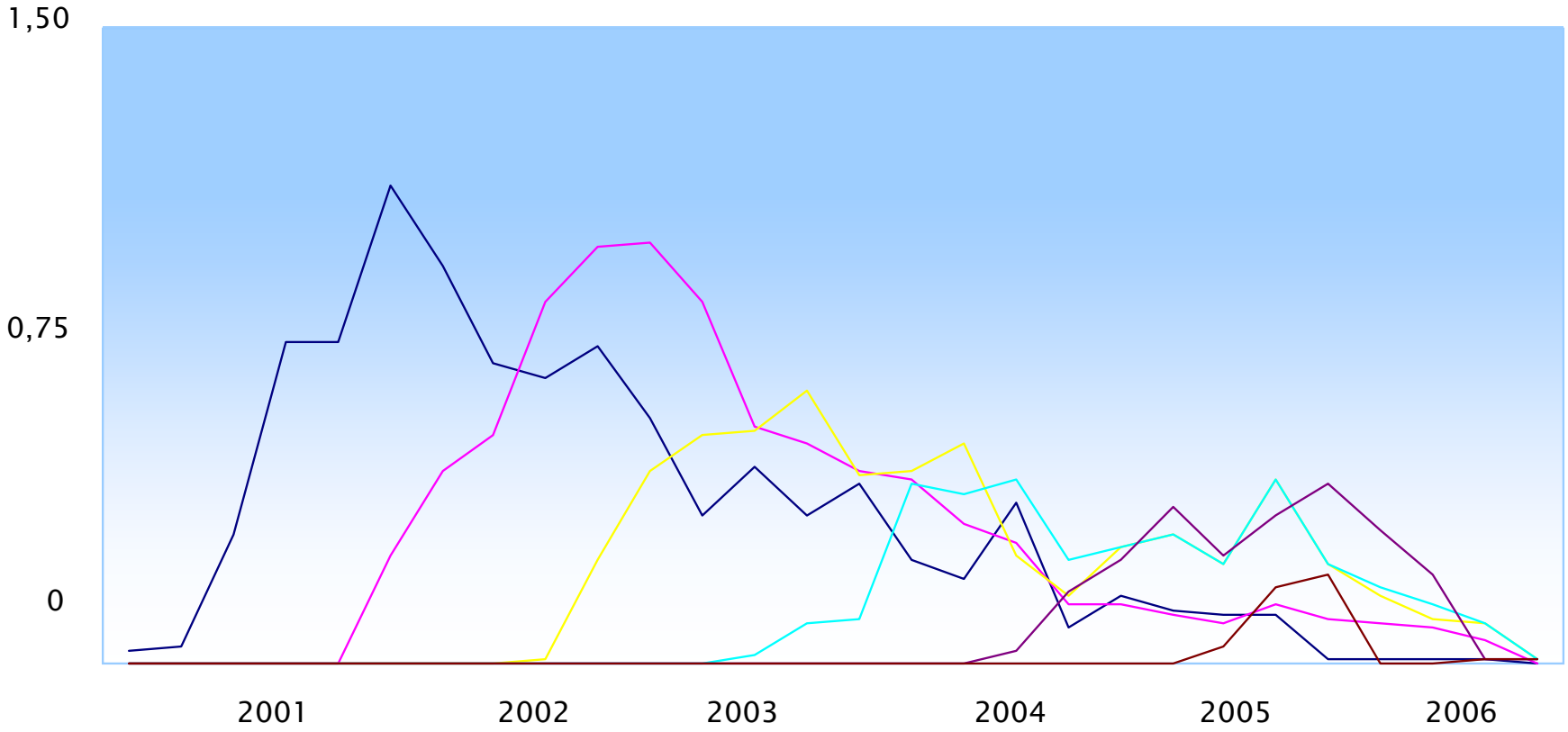
Indexes of default by term from grant, by year
Transactions going default as % of total transactions arranged



QUALITY OF BANCO POPULAR ´S CREDIT

Mortgage transactions-with companies

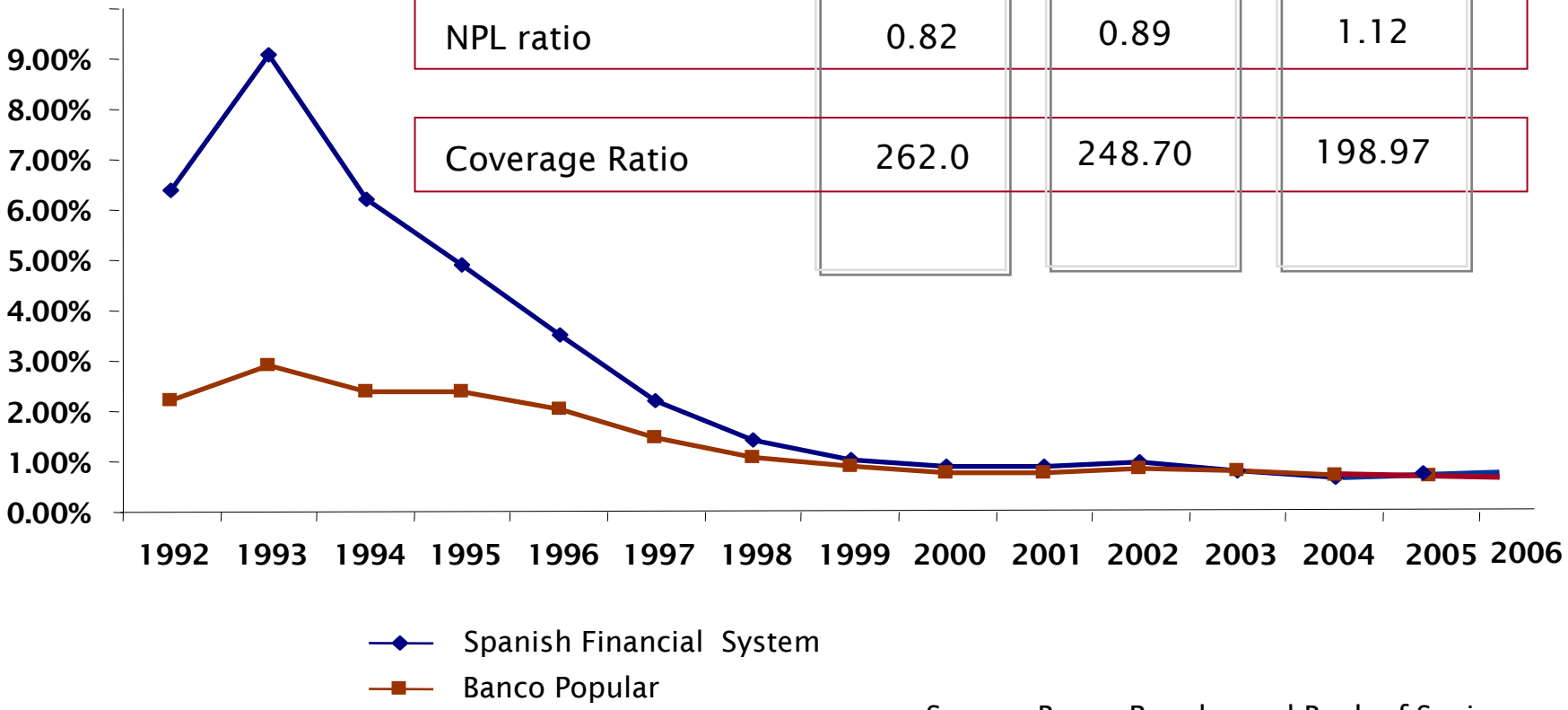
Indexes of default by term from grant, by year
Transactions going default as % of total transactions arranged



QUALITY OF BANCO POPULAR ´S CREDIT

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

(%)	Dec 06	Dec 05	Dec 04
NPL ratio	0.82	0.89	1.12
Coverage Ratio	262.0	248.70	198.97



Source: Banco Popular and Bank of Spain

Banco Popular Español

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