

# Banco Popular

2002-3

Beating the market

January 2003



# CONTENTS

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**Highlights of 2002**

**Strategy for 2003**

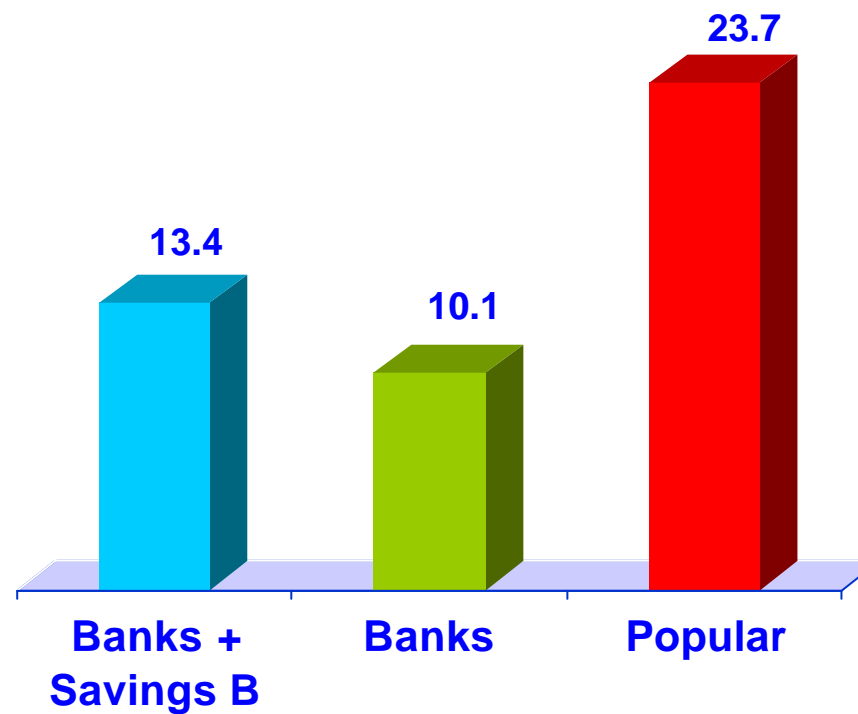
## **HIGHLIGHTS OF 2002**

- ➔ Market share gains**
- ➔ Customer base expansion**
- ➔ Strong Revenues & EPS growth**
- ➔ Best Cost/Income ratio in Spain & Europe**
- ➔ Best ROE in Spain & Europe**
- ➔ Best PERFORMING STOCK**
- ➔ Network expansion**

## 2002: MARKET SHARE GAIN

### LOANS OF PRIVATE-SECTOR RESIDENTS

*(November 30, 2002 year-on-year % change)*



**Banco Popular**

## 2002: MARKET SHARE GAIN

### CORE LOAN BUSINESS (Residents only)

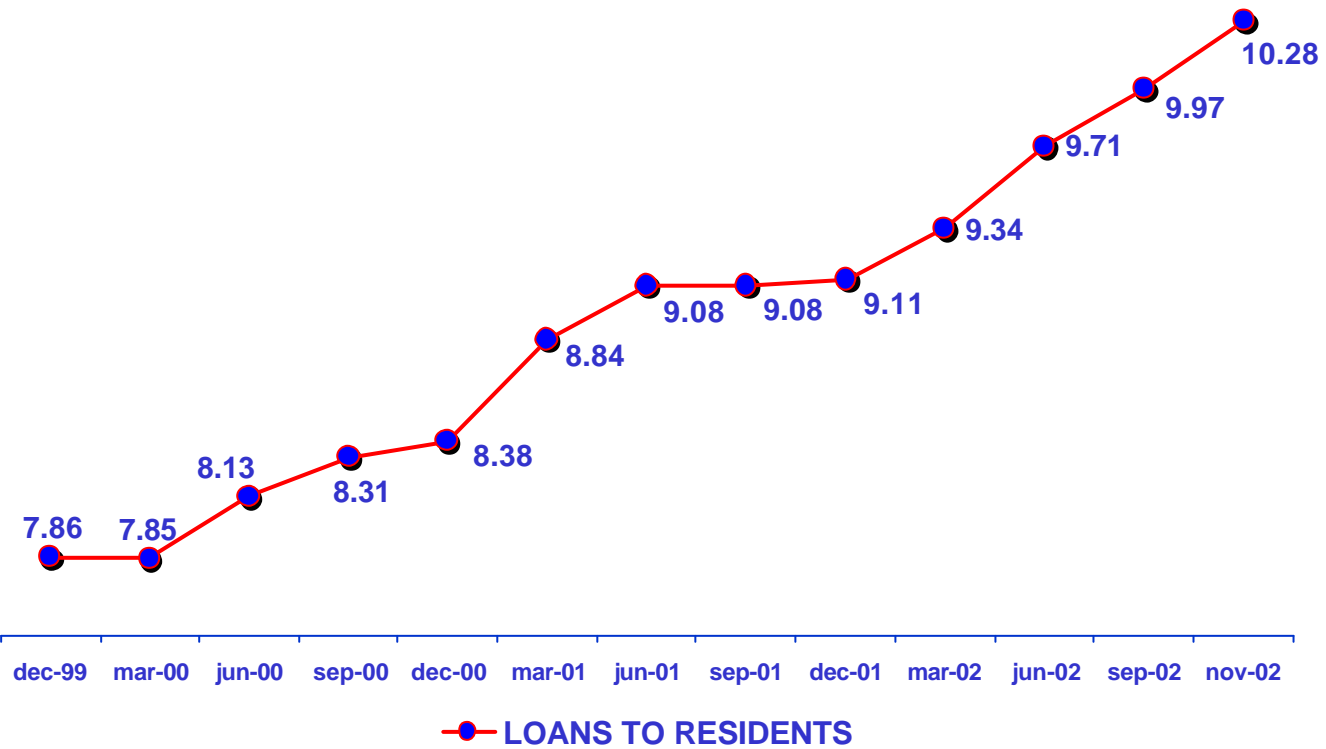
*(Accumulated % change)*

	<i>June</i>	<i>September</i>	<i>December</i>
<b>Bill discounting</b>	<b>(4.1)</b>	<b>(6.0)</b>	<b>6.5</b>
<b>Mortgage</b>	<b>31.7</b>	<b>35.3</b>	<b>36.8</b>
<b>Personal &amp; overdrafts</b>	<b>7.3</b>	<b>8.1</b>	<b>6.9</b>
<b>Leasing</b>	<b>11.6</b>	<b>9.2</b>	<b>10.3</b>
<b>TOTAL CORE LOAN PORTFOLIO</b>	<b>15.2</b>	<b>17.0</b>	<b>19.8</b>
<b>Excluding NPLs, REPOs &amp; Advances to Social Security &amp; BPH</b>			
<b>Total resident lending</b>	<b>16.9</b>	<b>20.7</b>	<b>23.0</b>

## 2002: MARKET SHARE GAIN

### MARKET SHARE OVER COMMERCIAL BANKS

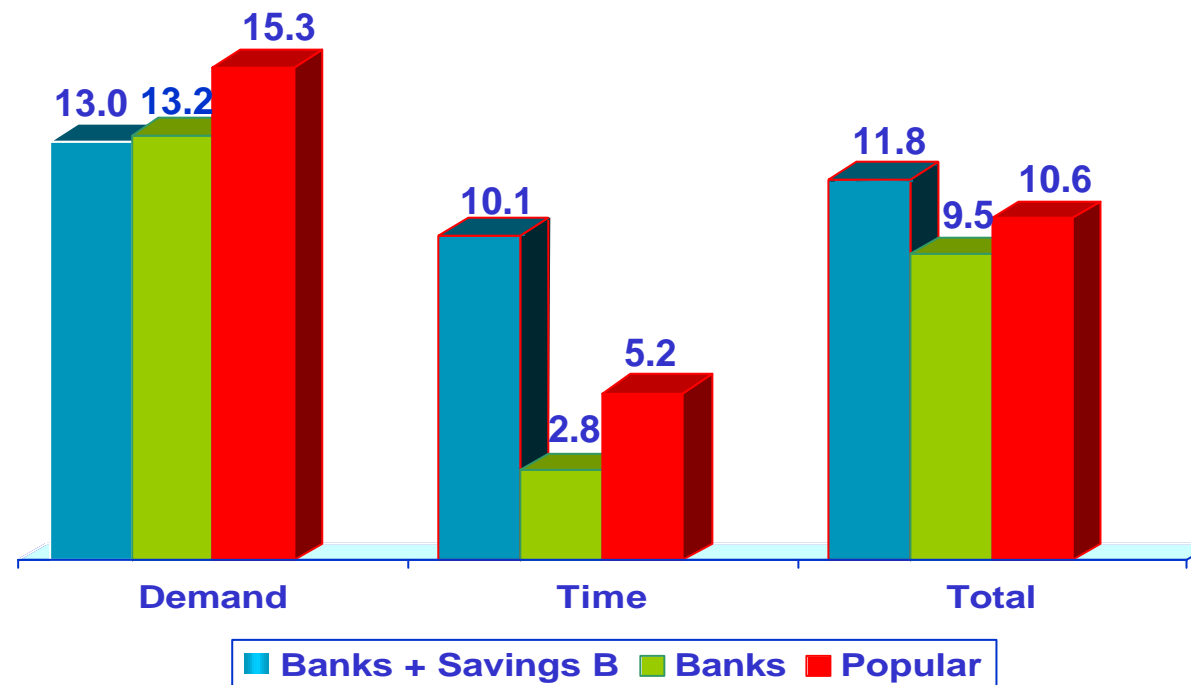
**Banco Popular**



## 2002: MARKET SHARE GAIN

### GROWTH OF DEPOSITS OF PRIVATE-SECTOR RESIDENTS

(November 30, 2002 year-on-year % change)



Banco Popular

## 2002: MARKET SHARE GAIN

### CORE RESIDENT-CUSTOMER DEPOSITS

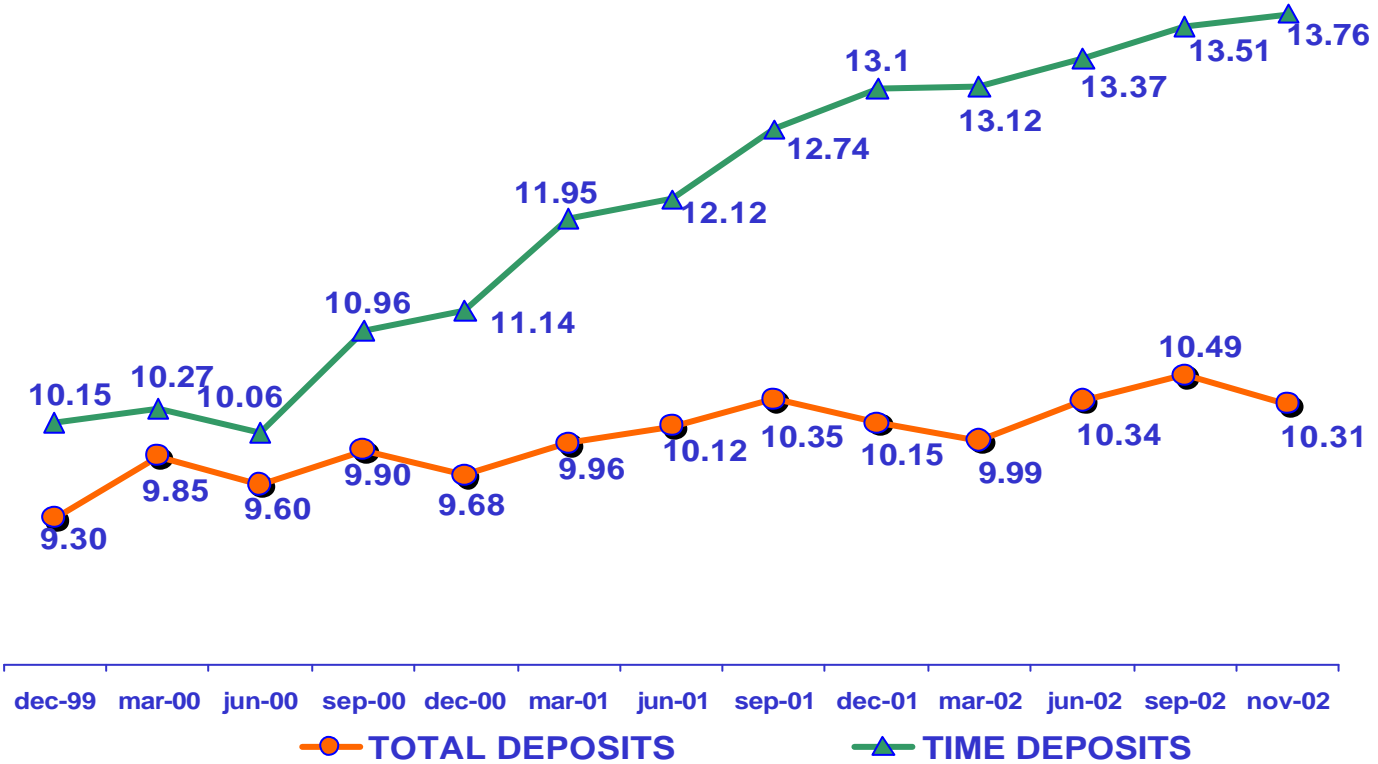
*(Accumulated % change)*

	<i>June</i>	<i>September</i>	<i>December</i>
<b>Demand deposits</b>	9.1	8.6	4.7
<b>Time deposits</b>	12.4	9.5	9.8
<b>Customers commercial paper</b>	52.8	135.8	71.4
<b>TOTAL</b>	12.6	14.9	10.3



## 2002: MARKET SHARE GAIN

### MARKET SHARE OVER COMMERCIAL BANKS



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## 2002: MARKET SHARE GAIN

### MAJOR PRODUCTS MARKET SHARE

*(Accumulated % change)*

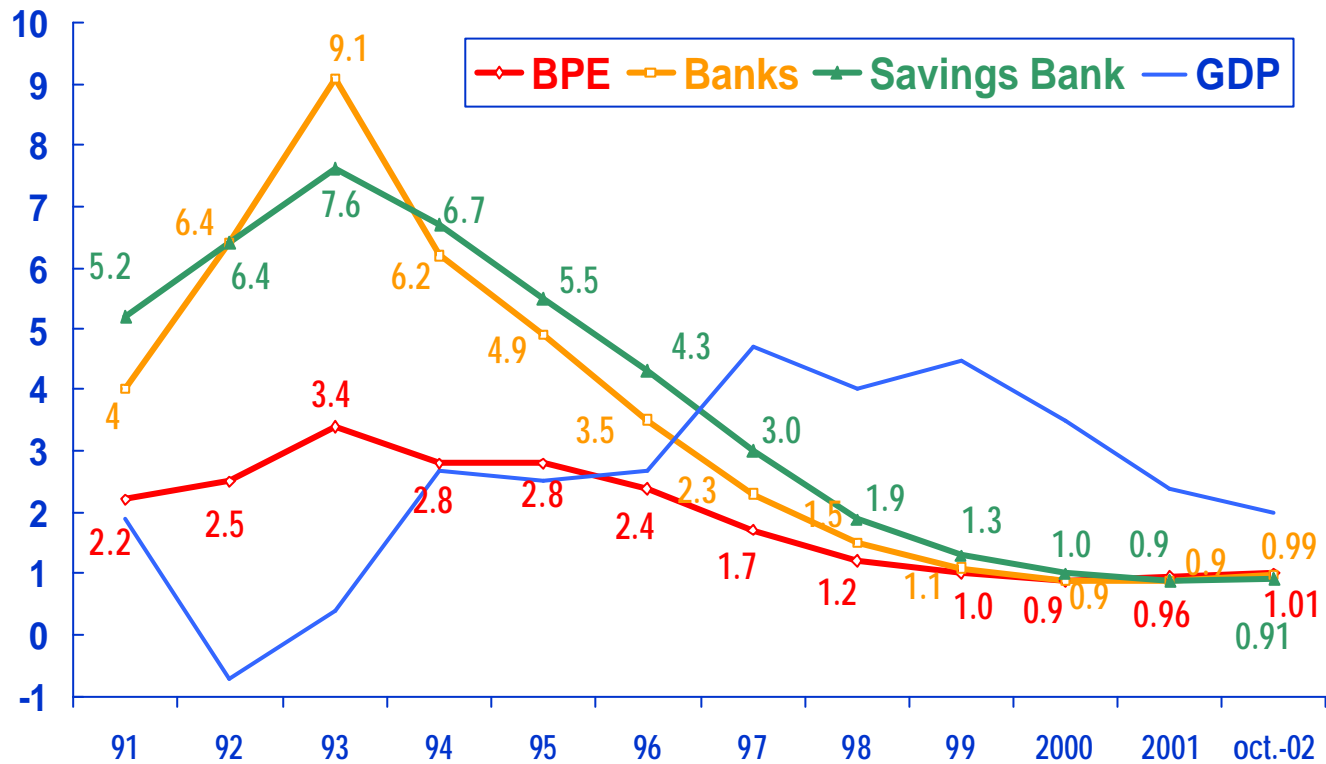
	Growth rate <i>December-02</i>		Market share <i>Sept.-02</i>
	As reported	Like for like	
Bill discounting	1.9	1.9	11.0
Mortgage loans	43.4	36.8	4.6
Personal loans & overdrafts	8.4	8.2	4.1
Leasing	12.3	10.3	9.5
Factoring	23.3	23.3	7.3
Pension funds*	3.5	3.5	7.0
Mutual funds	2.1	2.1	3.1

\* Assets in private/individual accounts

## 2002: MARKET SHARE GAIN

### LOAN PORTFOLIO QUALITY

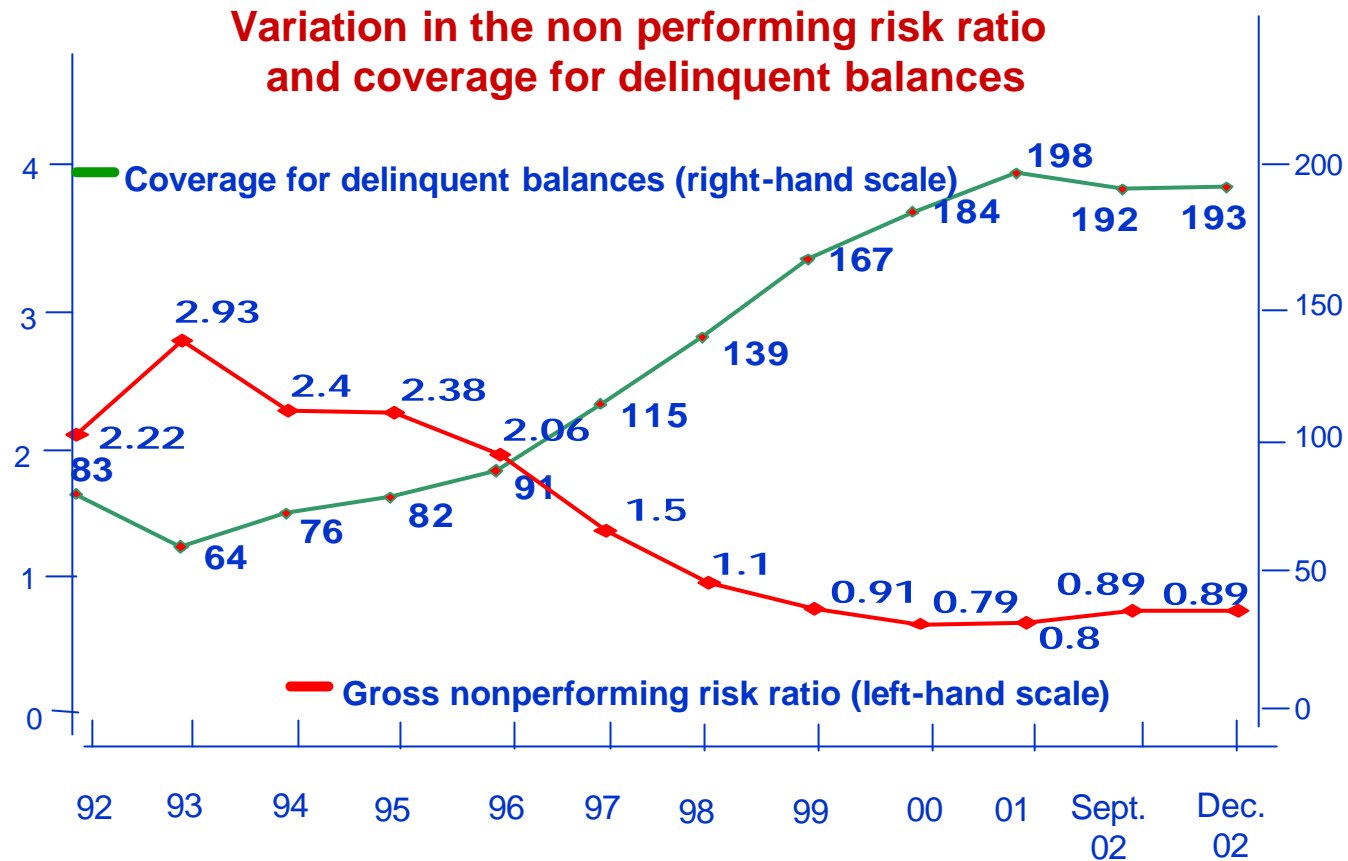
Nonperforming loans / Credit to private-sector resident borrowers (%)



Banco Popular

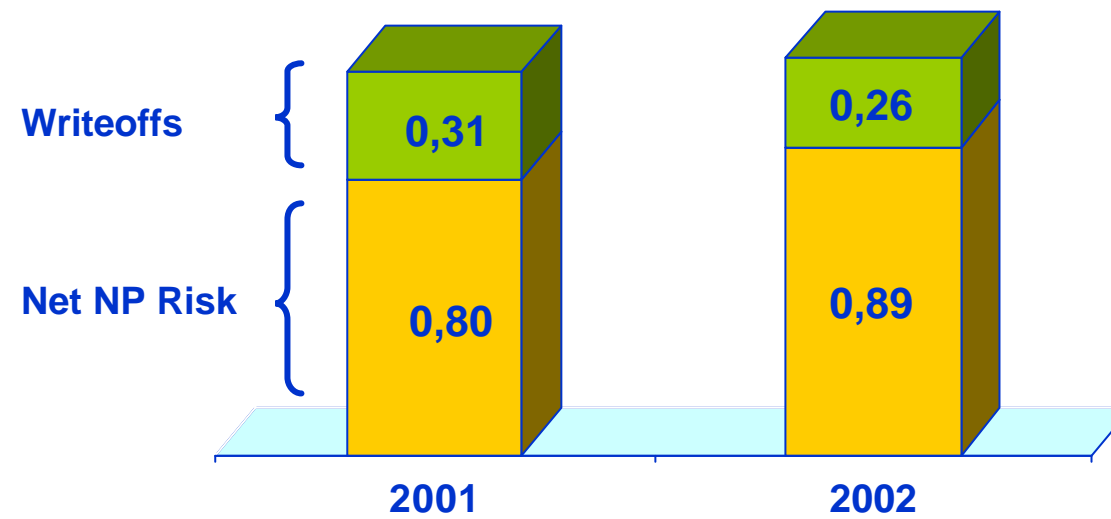
## 2002: MARKET SHARE GAIN

Banco Popular



## 2002: MARKET SHARE GAIN

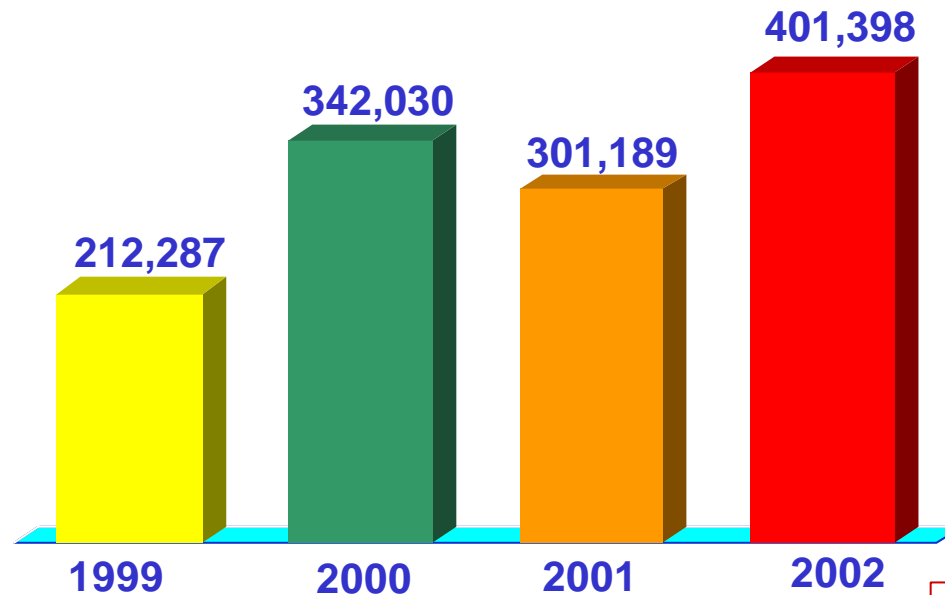
### NON PERFORMING RISK (bps)



## 2002: CUSTOMER BASE EXPANSION

**Banco Popular**

### NET NEW CLIENTS



**Total number of clients: 4,653,208**

**Individuals: 4,302,295**

**Corporate: 350,913**



**y-o-y %  
+9.42**

## 2002: STRONG REVENUES GROWTH

*(Accumulated % change)*

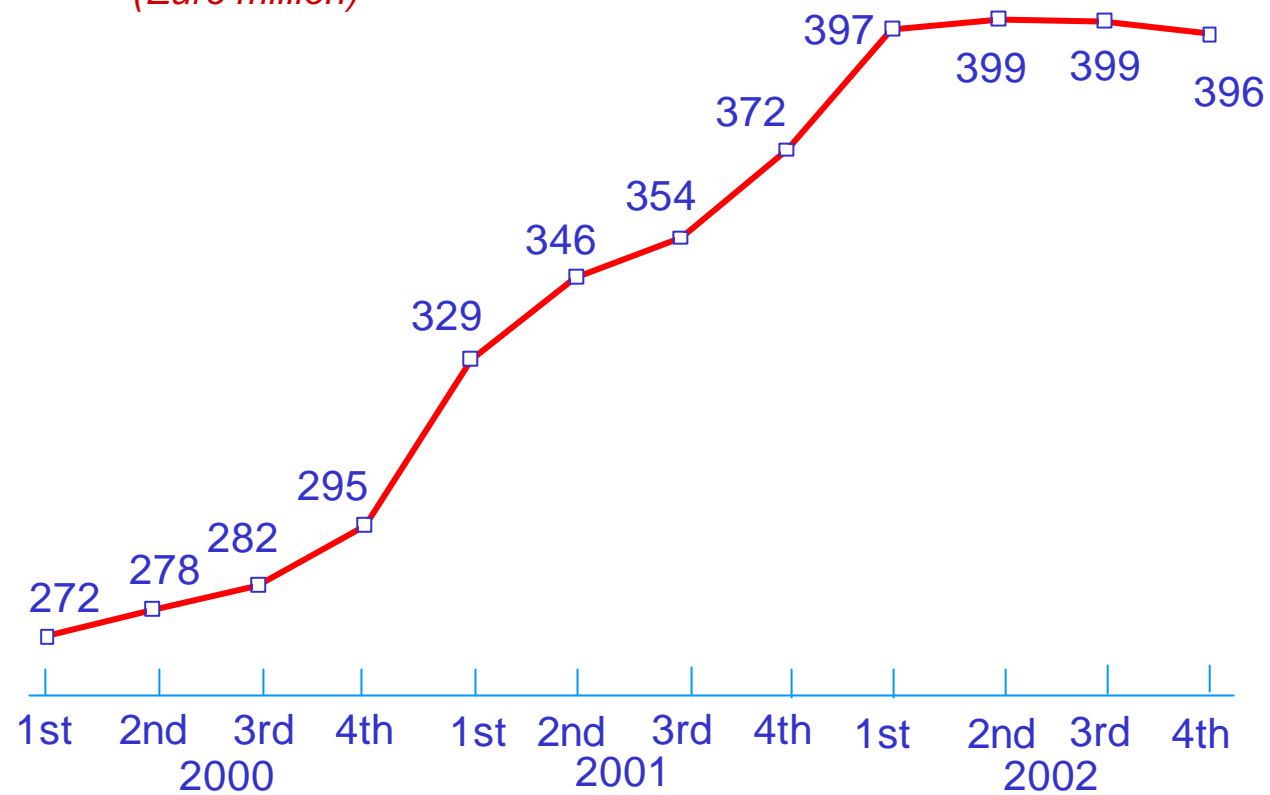
2002

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

## 2002: STRONG REVENUES GROWTH

### NET INTEREST REVENUE (Quarter standalone)

(Euro million)

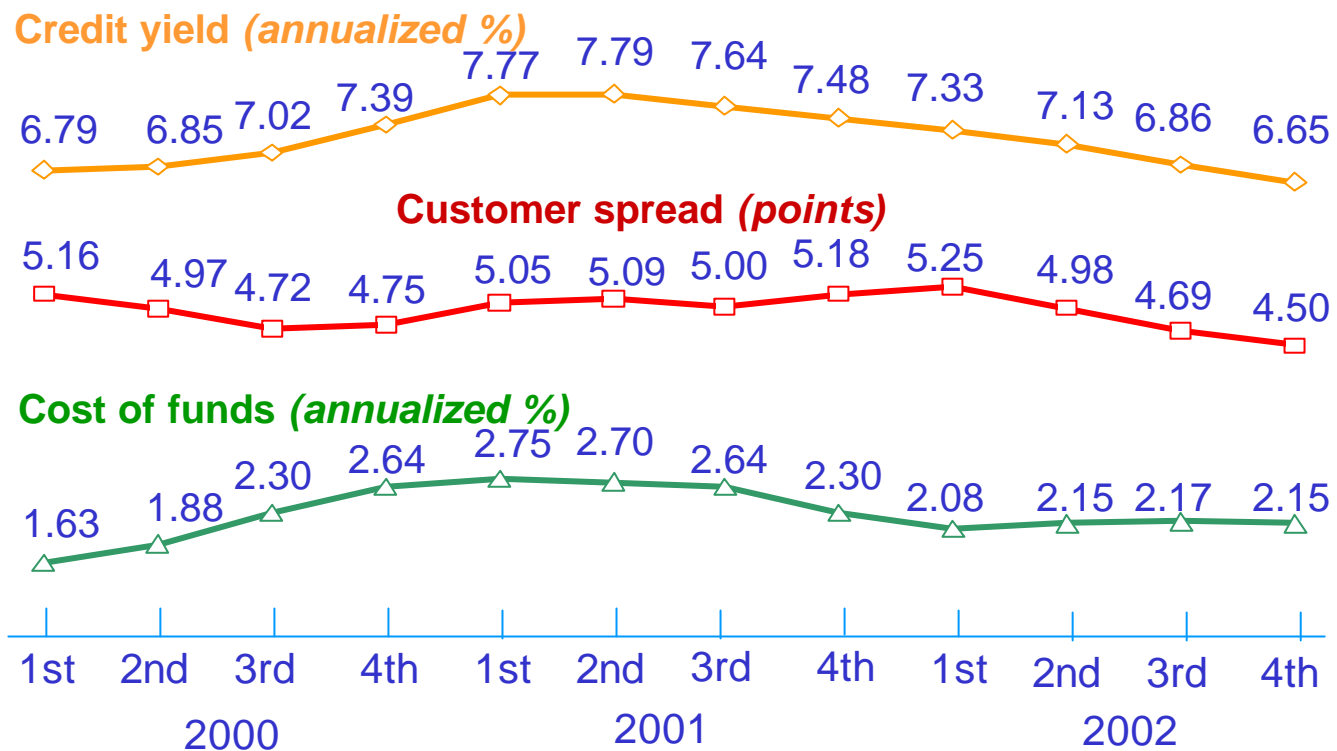


Banco Popular



## 2002: STRONG REVENUES GROWTH

### QUARTERLY CUSTOMER SPREAD

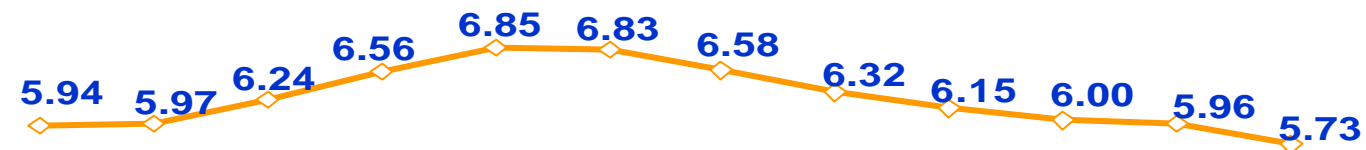


**Banco Popular**

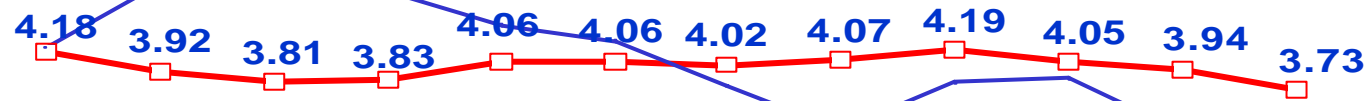
## 2002: STRONG REVENUES GROWTH

### 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  
2000 2001 2002

# OFFSET SPREAD PRESSURE

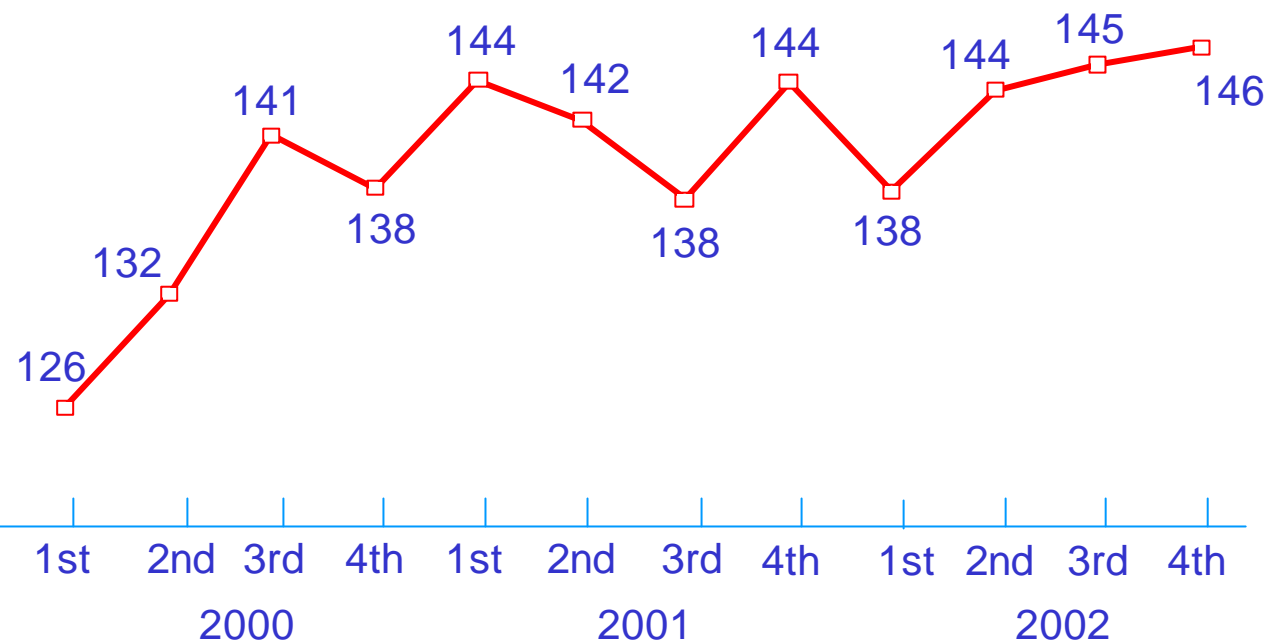
## EFFECT ON YIELDS AND COSTS

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

## 2002: STRONG REVENUES GROWTH

**FEES FOR SERVICES (Quarter standalone)**  
*(Euro million)*



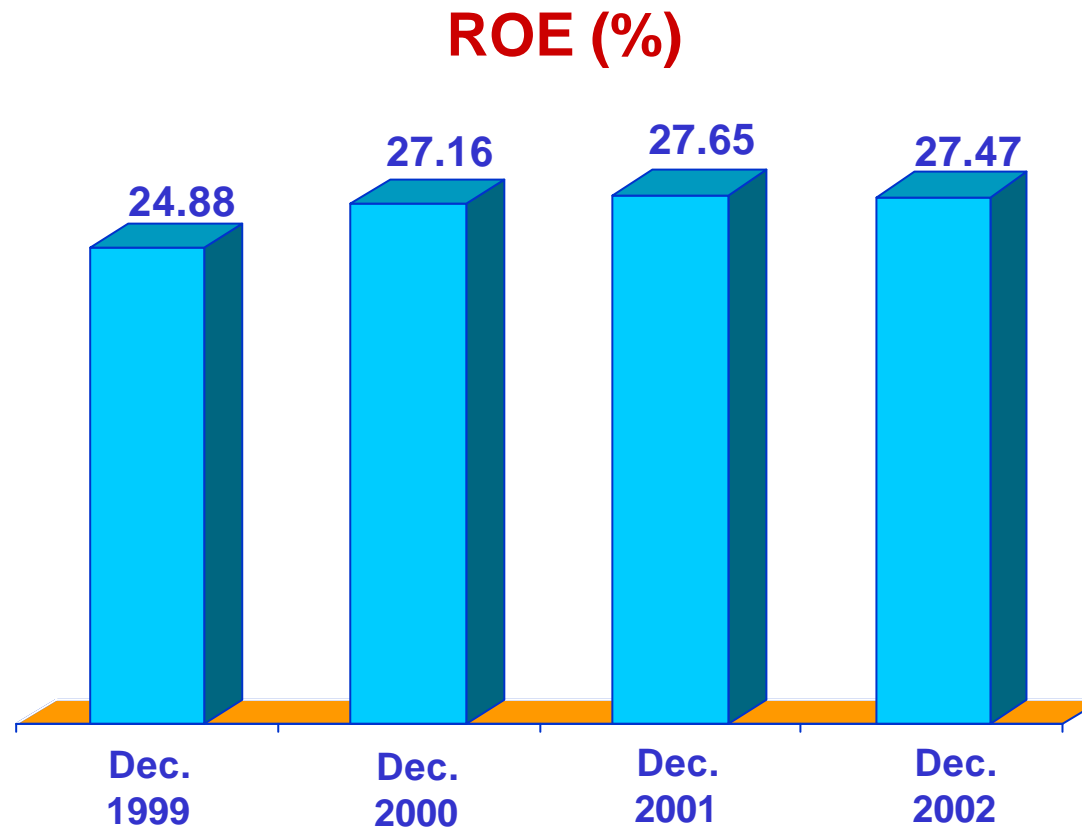
## 2002: STRONG REVENUES GROWTH

### FEEES FOR SERVICES

	Year-on-year % change				As % of total fees
	March 31	June 30	Sept. 30	Dec. 31	
Loan-related fees	(3.4)	(3.0)	(1.5)	(2.1)	12.8
Fees from guarantees	12.5	16.2	16.3	16.1	10.0
Collection & card-related	6.8	7.5	7.3	6.0	42.3
Customer financial asset mgt.	(2.7)	(3.9)	(3.9)	(3.0)	23.8
Mutual funds	(5.8)	(8.3)	(7.7)	(6.1)	15.5
Other AM	3.7	5.2	3.9	3.2	8.3
Account mgt. Fees	15.6	15.2	14.2	12.8	8.0
Other (inc. Inv. Banking)	(71.4)	(61.8)	(49.9)	(46.7)	3.1
<b>TOTAL</b>	<b>(3.9)</b>	<b>(1.4)</b>	<b>0.7</b>	<b>0.9</b>	<b>100</b>

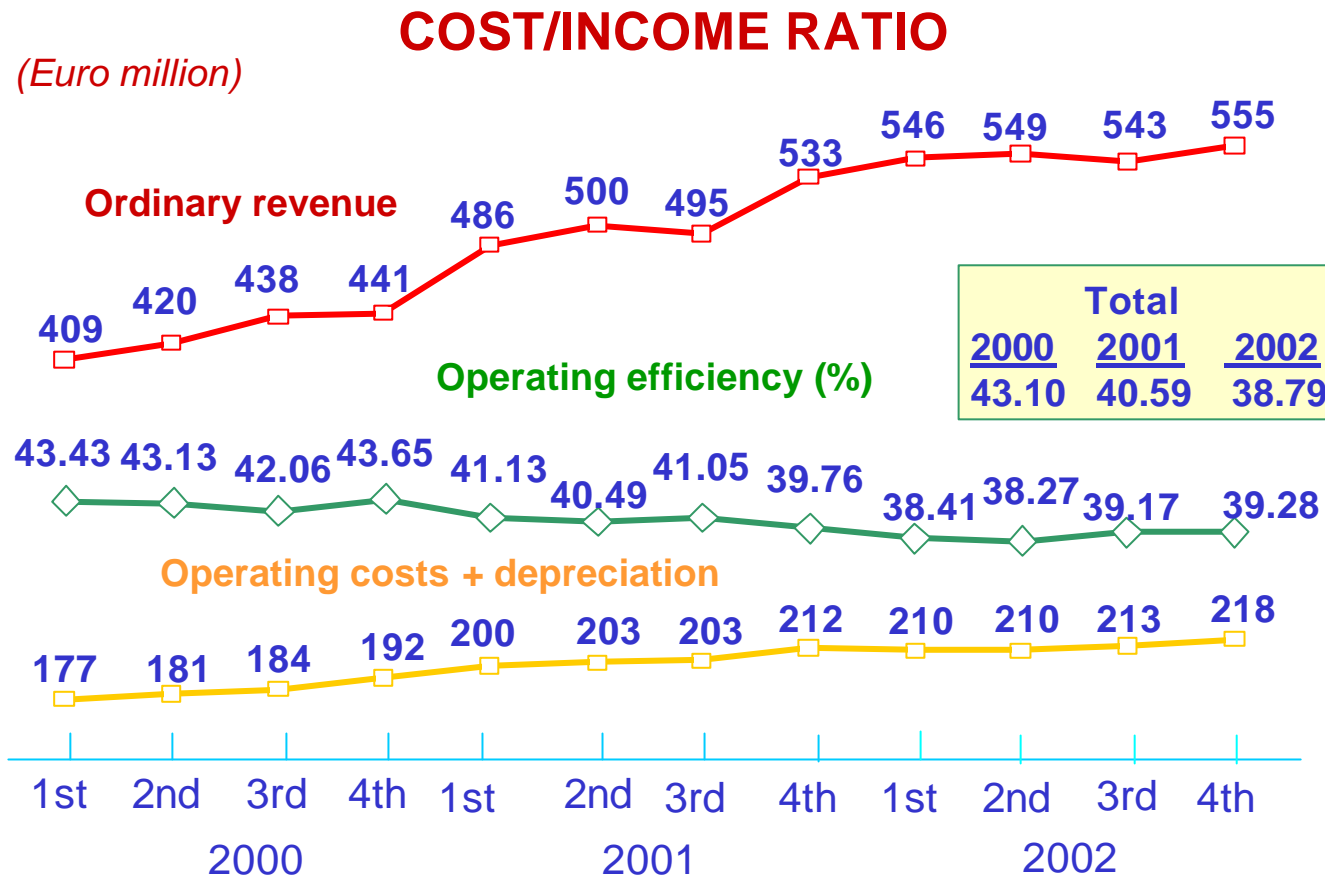
## 2002: BEST ROE

**Banco Popular**



## 2002: BEST COST/INCOME RATIO

Banco Popular

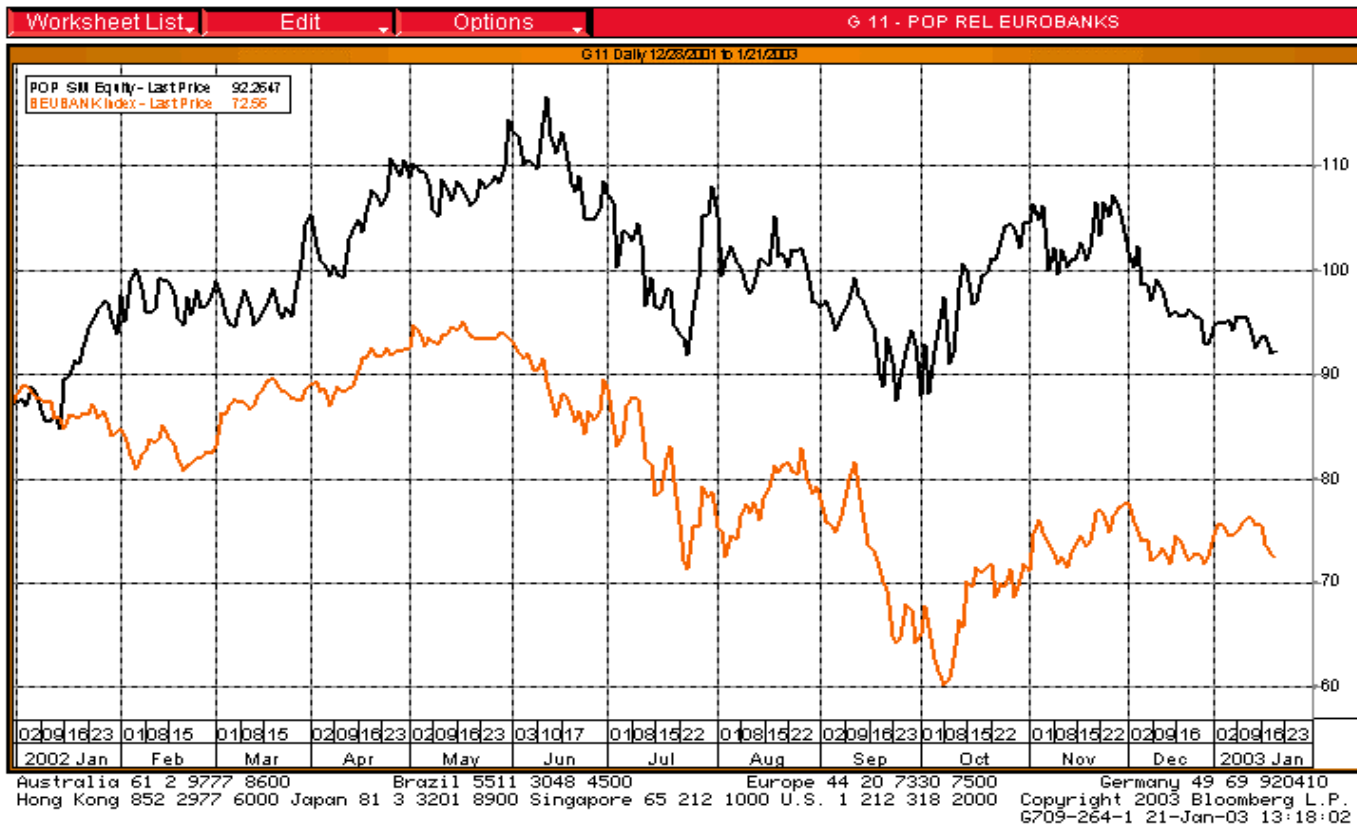


# 2002: BEST PERFORMING STOCK

Banco Popular

■ BANCO POPULAR  
■ EUROBANKS Index

P203 Equity G





## NETWORKS EXPANSION

DURING SLOWDOWN:

✦ <b>New branches in 2002</b>	➡	<b>16</b>
<b>Opened branches</b>		<b>40</b>
<b>Closed</b>	“	<b>36</b>
<b>Acquired</b>	“	<b>12</b>
✦ <b>New ATMs in 2002</b>	➡	<b>186</b>

# NETWORKS EXPANSION

## IN-HOUSE INTERNET CHANNEL

➤ Total clients: 942,613

Individuals: 730,596

Corporates: 212,017

	<u>2002</u>
Registered users	+39%
Active users	+42%
Yearly transaction number	+81%
Amounts transacted	+57%

	2001	2002
% transactions on total bank	6.2	8.6

## STRATEGY FOR 2003

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- 1 Working for 2004 & beyond**
- 2 Managing end of macroeconomic slowdown**

## **2003: WORKING FOR 2004 & BEYOND**

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➔ **Acquisition of BNC**

➔ **New Consumer Credit**

# BNC ACQUISITION

## MERITS OF THE ACQUISITION

- BNC is an excellent base from which to develop Banco Popular's banking model
- Immediate impact is favorable without material dilution in EPS, even assuming 100% full-rights-issue financing
- Medium-term business and management perspectives are very favorable

# BNC ACQUISITION

## BNC'S PROFILE

- **Good asset quality**
- **Strong B/S growth**
- **Focused on growth areas**
- **Adequate size**
- **Improvable financial ratios**
- **Specialised in real estate developer & mortgage financing**
- **Financial group of companies**

## BNC ACQUISITION

### BNC's PROFILE - Asset Quality

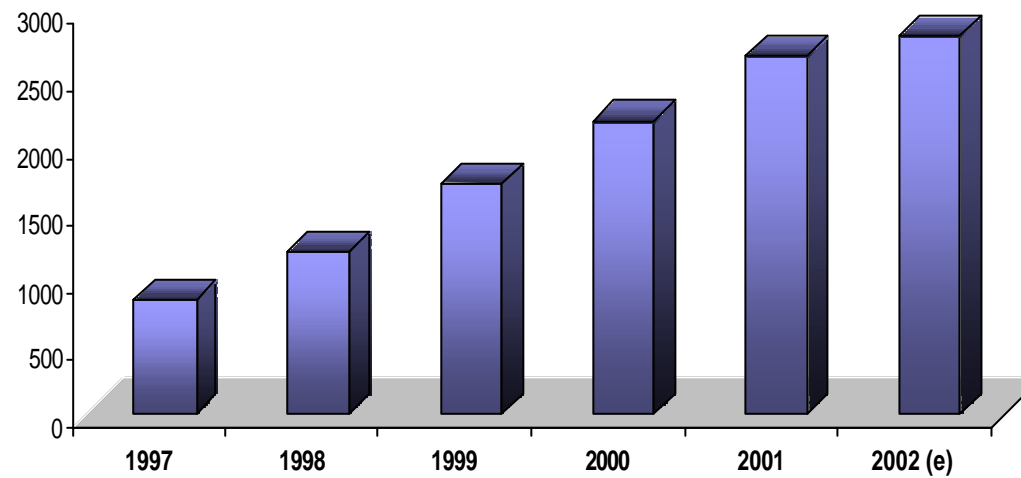
- Retail banking: 81% of assets are loans to clients
- Lower NPL rate than Portuguese average, i.e. 1.2%
- High coverage of NPLs: 136% of past-due amounts
- High degree of collateral value: 66% of loans, of which 81% covered with property and 19% with deposits
- Risk dispersal: 38% of book in loans of less than €500 m., 71% in loans of less than €2.5 m.
- Mortgage loan objective: residential

# BNC ACQUISITION

## BNC's PROFILE - Growth

*(Euros in thousands)*

### LOANS TO CLIENTS

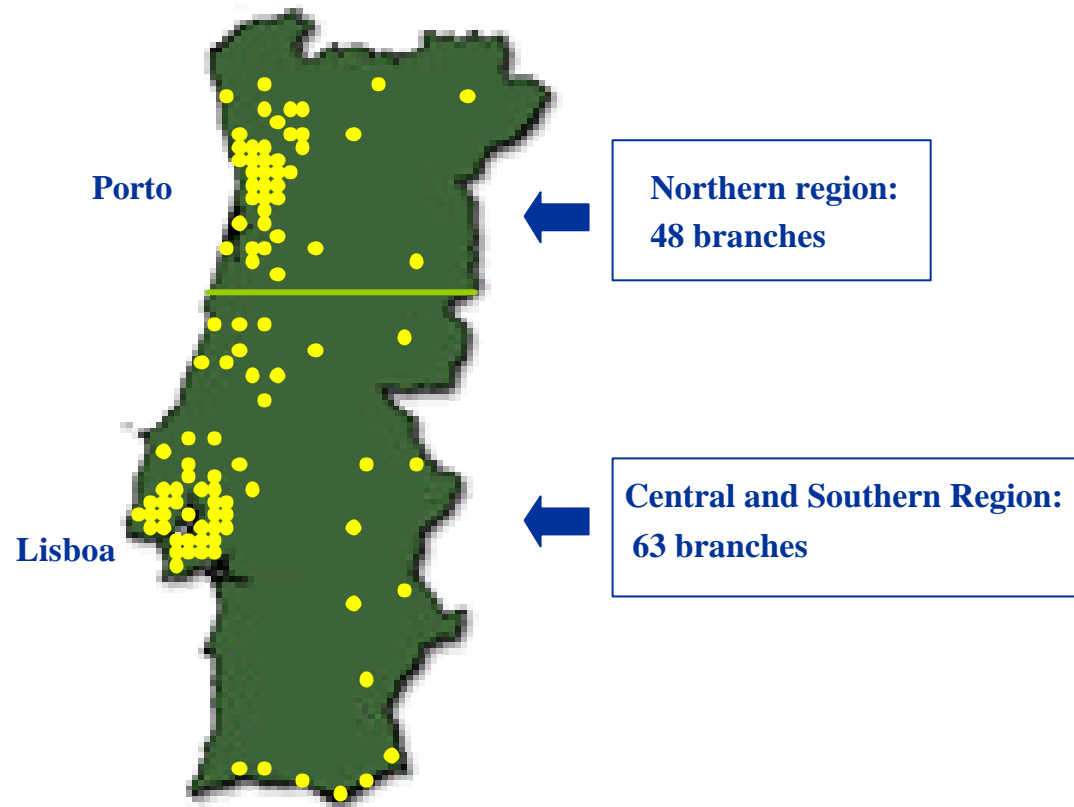


(e) Estimated (without securitization)



## BNC ACQUISITION

### BNC's PROFILE - Geographical distribution



## BNC ACQUISITION

### BNC's PROFILE - Size parameters

<u>As of September 2002</u> (amounts in euro thousands)	BNC	Popular	As a % of Popular
<b>Total assets</b>	<b>3,400</b>	<b>40,456</b>	<b>8.40 %</b>
<b>Loans to clients</b>	<b>2,600</b>	<b>31,937</b>	<b>8.14 %</b>
<b>Customer funds</b>	<b>2,640</b>	<b>24,009</b>	<b>11.00 %</b>
<b>Loan market share</b>	<b>2 %</b>	<b>5.16 %</b>	<b>38.76 %</b>
<b>No. of employees</b>	<b>1,015</b>	<b>12,570</b>	<b>8.07 %</b>
<b>No. of branches</b>	<b>111</b>	<b>2,171</b>	<b>5.11 %</b>
<b>Total equity</b>	<b>229</b>	<b>2,309</b>	<b>9.92 %</b>

## BNC ACQUISITION

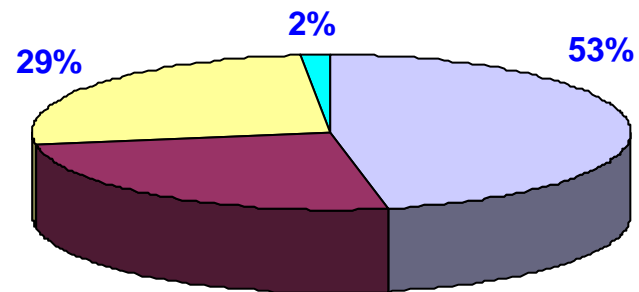
### BNC's PROFILE - Financial ratios

<u>As of 30.09.2002</u>	<b>BNC</b>	<b>SECTOR</b>	<b>Popular</b>
<b>ROA</b>	<b>0.93 %</b>	<b>0.65 %</b>	<b>1.75 %</b>
<b>ROE</b>	<b>12.59 %</b>	<b>11.38 %</b>	<b>27.35 %</b>
<b>Cost / Income</b>	<b>54.70 %</b>	<b>57.10 %</b>	<b>38.61 %</b>
<b>Fees / cost</b>	<b>35.21 %</b>		<b>64.82 %</b>
<b>Net interest margin</b>	<b>2.42 %</b>		<b>4.06 %</b>

# BNC ACQUISITION

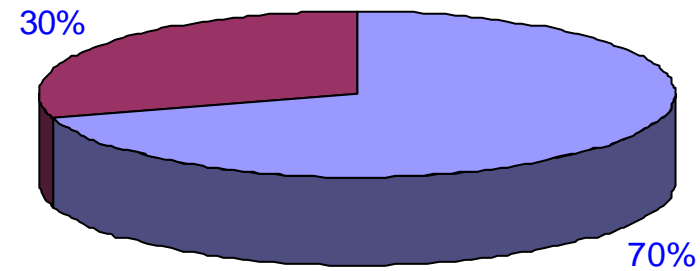
## BNC's PROFILE - Loan distribution

### LOANS TO CLIENTS



- Real Estate Developers
- SME
- Retail mortgages
- Other retail loans

### CUSTOMER DEPOSITS



- Time deposits
- Demand deposits

# BNC ACQUISITION

## ECONOMIC AGREEMENT

### Acquisition cost of BNC

Shareholders	Americo Amorim Group	Minorities
% Control	75 %	25 %
Consideration offered approx (*)	Equivalent to 4.5% of Popular's resulting common shares outstanding	Same equivalent in cash terms
Execution through	Agreement	Tender offer

(\*) To be finalized at a later date

## BNC ACQUISITION

### IMMEDIATE IMPACT

As of 30.09.2002

Balance Sheet (euro million)	POPULAR	COMBINED	IMPACT (%)
<b>Total assets</b>	<b>40,456</b>	<b>43,853</b>	<b>8.4%</b>
<b>Total liabilities</b>	<b>29,722</b>	<b>32,386</b>	<b>9.0%</b>
<b>Loans (gross)</b>	<b>32,513</b>	<b>35,111</b>	<b>8.0%</b>
<b>NPL</b>	<b>335</b>	<b>378</b>	<b>13.0%</b>
<b>Allowances for NPLs</b>	<b>643</b>	<b>697</b>	<b>8.4%</b>

## BNC ACQUISITION

### IMMEDIATE IMPACT

As of 30.09.2002

P&L (euro million)	POPULAR	COMBINED	IMPACT (%)
Net interest income	1,195	1,256	5.1%
Total revenues	1,638	1,713	4.6%
Operating costs	582	619	6.4%
Operating profit	980	1,014	3.5%
Attributable earnings	473	494	4.5%

## BNC ACQUISITION

### IMMEDIATE IMPACT

As of 30.09.2002

<b>Ratios</b>	<b>POPULAR</b>	<b>COMBINED</b>	<b>DIFFERENCE</b>
<b>Cost / income</b>	<b>35.52%</b>	<b>36.15%</b>	<b>0.63</b>
<b>NPLs</b>	<b>0.89%</b>	<b>0.94%</b>	<b>0.05</b>
<b>Coverage</b>	<b>192.0%</b>	<b>184.2%</b>	<b>-7.80</b>
<b>ROA</b>	<b>1.75%</b>	<b>1.69%</b>	<b>-0.06</b>



# **BNC ACQUISITION**

## **GOALS OF BNC ACQUISITION**

### **STARTING POINT**

- ▶ **Create shareholder value medium and long term**
- ▶ **Apply BPE's banking model**
- ▶ **Not to increase BPE's risk profile**

# **BNC ACQUISITION**

## **GOALS OF BNC ACQUISITION**

### **VALUE CREATION**

- ▶ **Increase EPS in the medium term**
- ▶ **Strengthen Popular's growth prospects in the long term**

# BNC ACQUISITION

## GOALS OF BNC ACQUISITION

### RATIONALE FOR EARNINGS ENHANCEMENT

- ▶ Portuguese banking clients traits understood by Popular
- ▶ Lack of a bank with a model similar to Popular
- ▶ BNC's network is sufficient to tackle the SME market in Portugal
- ▶ BNC's staff is already proficient in dealing with corporate clients
- ▶ BCN's ratios can be improved applying Popular's model; lowering cost to income

## **BNC ACQUISITION**

### **GOALS OF BNC ACQUISITION**

#### **LONG TERM GROWTH RATIONALE**

- ▶ **BNC's loan market share is only 2%**
- ▶ **BNC's SME market share is even lower**
- ▶ **Popular aspires to an SME market share to that already enjoyed in Spain**

## BNC ACQUISITION

MEDIUM TERM DEVELOPMENT - **Hypothetical scenarios**

5 year average growth rate (in %)

	Neutral	Pessimistic	Optimistic
Loans to clients	16.0	11.9	21.4
Commission Revenue	15.0	12.0	18.0
Customer deposits	12.8	9.8	18.0
Wholesale funding	N.R.	N.R.	N.R.
Net interest margin improvement (in bpts. per year)	10	6	14

N.R.: non renewal at maturity

## BNC ACQUISITION

MEDIUM TERM DEVELOPMENT - Balance sheet structure in 5 years  
(Percent)

	2002	Neutral	Pessimistic	Optimistic
Mortgage loans	67.8	43.1	49.1	38.0
SME loans	30.2	49.7	47.1	49.6
Other consum. lending	2.0	7.2	3.8	12.4
<b>Total loans</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Checking accounts	23.8	23.8	21.8	24.4
Saving accounts	4.8	5.2	5.5	5.1
Time deposits	65.2	63.4	69.1	62.4
Interbank funding	Lender	7.6	3.6	8.1
Marketable securities	6.2	0	0	0
<b>Total funding</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## BNC ACQUISITION

### MEDIUM TERM DEVELOPMENT - Profit and loss

5 year average growth rate (in %)

	Neutral	Pessimistic	Optimistic
Net interest income	16.6	11.6	22.8
Commission income	15.0	12.0	18.0
Total revenues	16.3	11.7	21.9
Operating expenses	9.2	8.5	11.7
Operating profit	23.7	15.4	31.6
Net income	27.0	18.8	34.5

## BNC ACQUISITION

### MEDIUM TERM DEVELOPMENT - Ratios in 5 years (Percent)

	Neutral	Pessimistic	Optimistic
<b>Cost/Income</b>	<b>41.6</b>	<b>49.4</b>	<b>36.8</b>
<b>ROE</b>	<b>18.3</b>	<b>14.5</b>	<b>22.4</b>
<b>ROA</b>	<b>1.5</b>	<b>1.3</b>	<b>1.7</b>
<b>NPL rate</b>	<b>1.3</b>	<b>1.5</b>	<b>1.0</b>
<b>NPL coverage</b>	<b>145.8</b>	<b>131.8</b>	<b>168.7</b>



## **NEW CONSUMER CREDIT**

### **CARDS BUSINESS**

#### **NEW REVOLVING CARD "HOP"**

**■ LAUNCHED 11 MONTHS AGO**

**Initial target 2002: 50,000 cards**

**■ CURRENT VOLUMES:**

**Number of cards: 132,643**

**Total credit limits: 435.4 million euros**

**Total lending: 125.9 million euros**

**Target lending o/outstanding: 40%**

## **2003: MANAGING END MACROECONOMIC SLOWDOWN**

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### **GOALS**



**Offset pressure on spread**

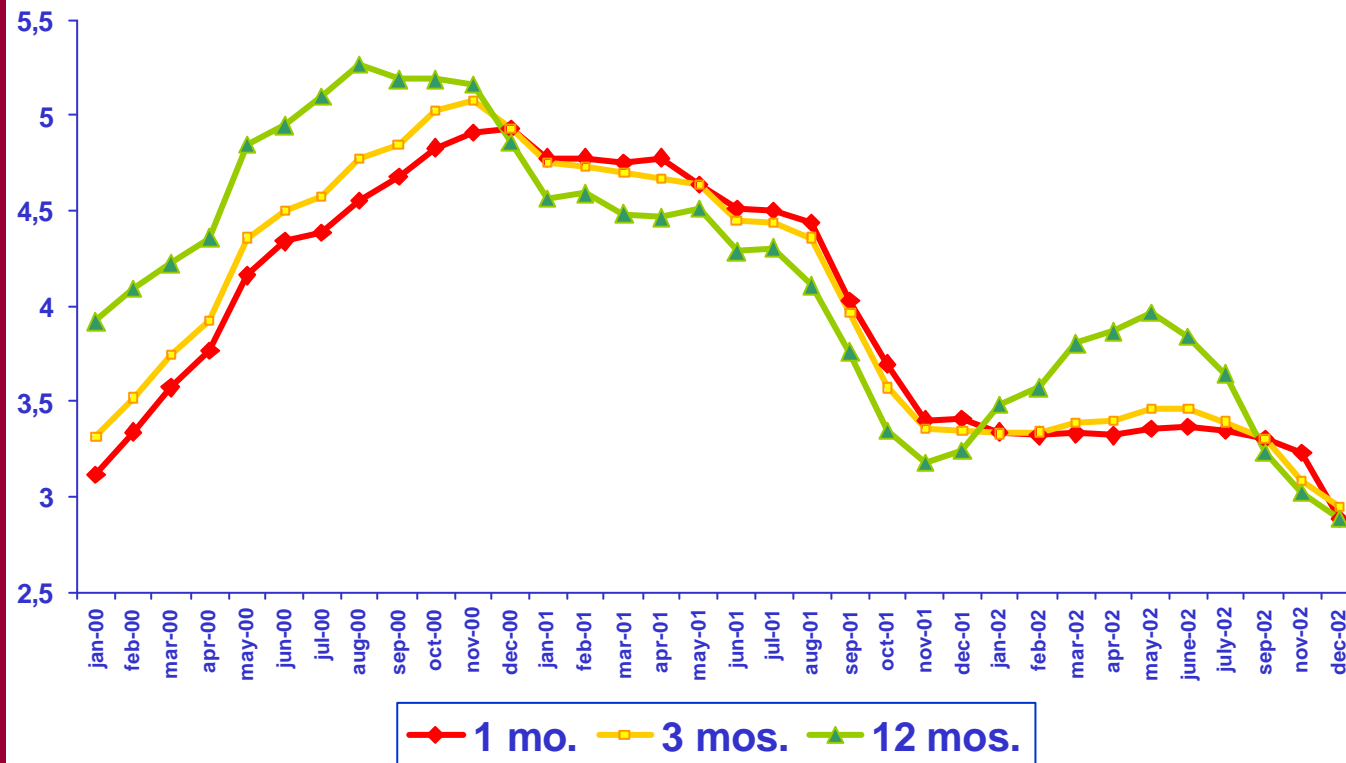


**Gain market share**

# OFFSET PRESSURE ON SPREAD

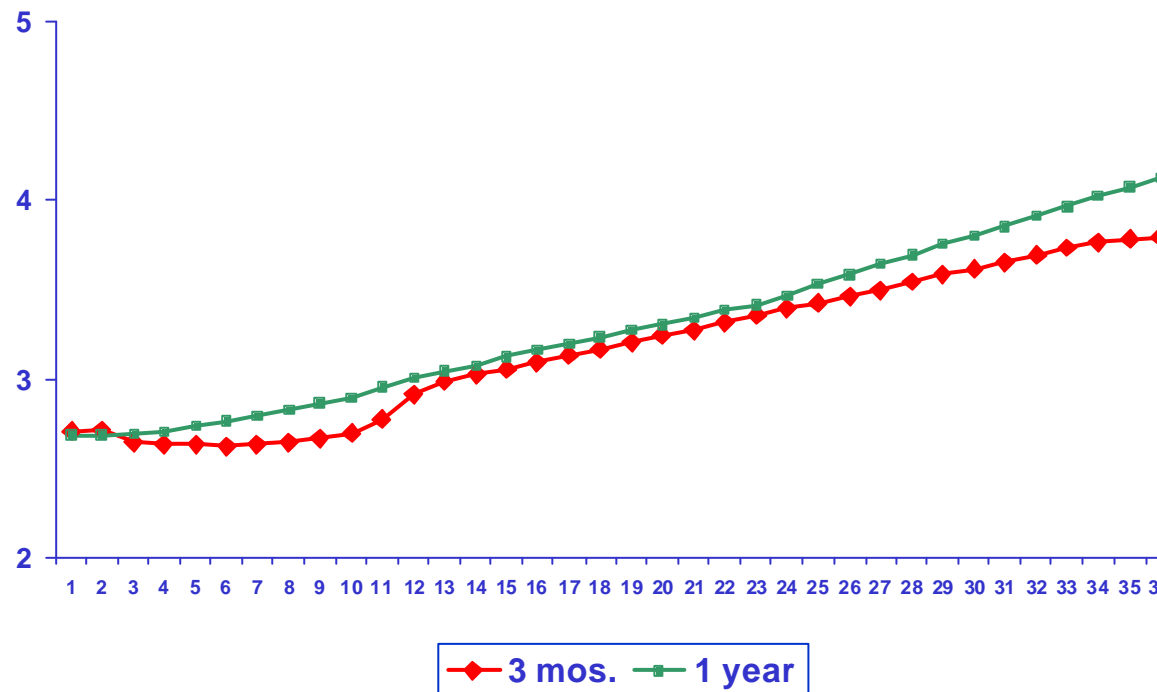
## AVE. RATE TRANSACTED

Banco Popular



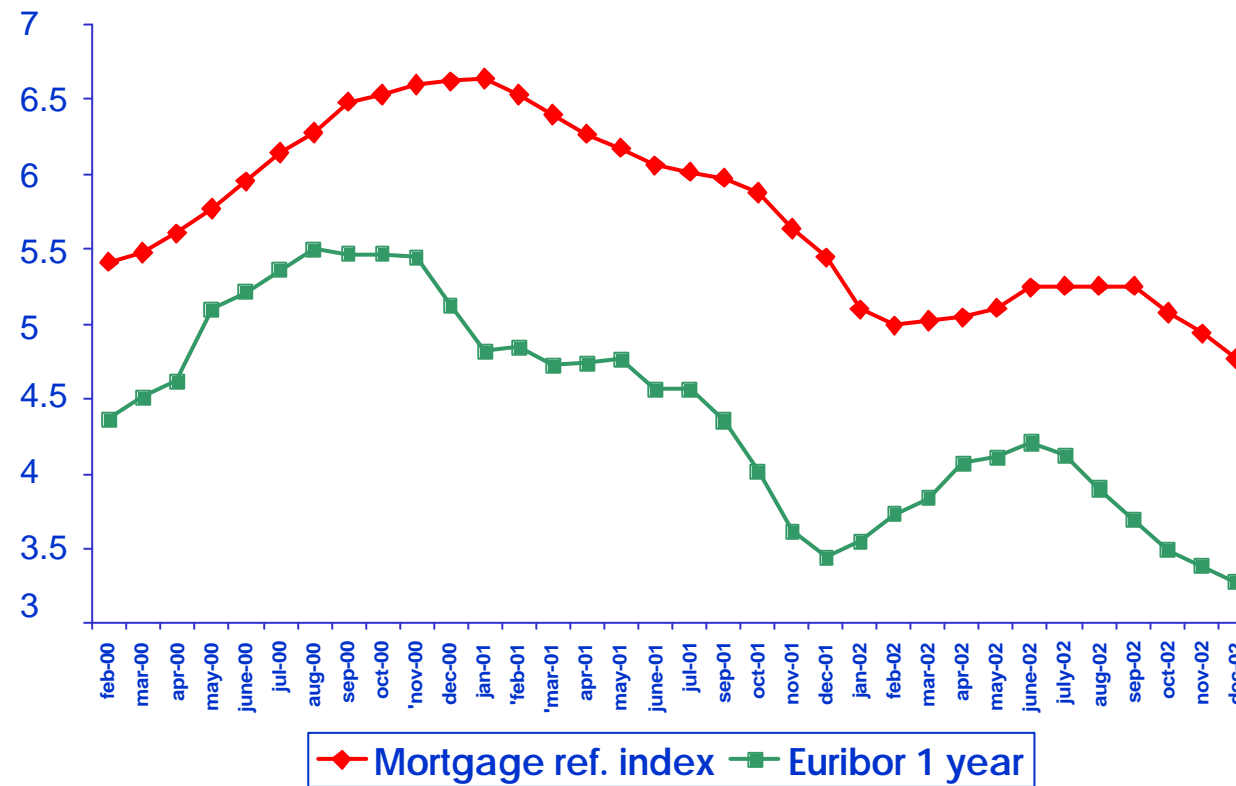
## OFFSET PRESSURE ON SPREAD

### CURVES OF IMPLICIT INTEREST RATES



# OFFSET PRESSURE ON SPREAD

## MORTGAGE REFERENCE INDEX



**Banco Popular**

## OFFSET PRESSURE ON SPREAD

*(December 31, 2002)*

### Duration

	Amount MM Euros	Interest Rate %	NPV MM Euros	Duration Days	Holding Period 365	
					NPV MM Euros	Duration Days
<b>SENSITIVE ASSETS</b>	<b>36,886.9</b>	<b>5.21</b>	<b>37,632.7</b>	<b>203.16</b>	<b>36,403.1</b>	<b>130.32</b>
MONETARY MARKET	6,519.5	3.22	6,563.4	48.03	6,561.5	47.45
LOANS	29,773.2	5.66	30,423.1	168.01	29,764.9	148.43
SECURITIES	594.2	4.53	646.2	3,433.61	76.7	192.82
<b>SENSITIVE LIABILITES</b>	<b>26,984.7</b>	<b>2.95</b>	<b>27,150.5</b>	<b>90.17</b>	<b>26,661.6</b>	<b>75.54</b>
MONETARY MARKET	12,338.4	3.21	12,399.3	65.64	12,266.6	53.36
CUSTOMER DEPOSITS	12,197.7	2.63	12,291.5	122.92	11,939.7	103.71
SECURITIES	2,448.6	3.21	2,459.7	50.15	2,455.3	49.36
<b>EQUITY</b>	<b>2,837.1</b>		<b>10,482.2</b>	<b>495.83</b>		

## OFFSET PRESSURE ON SPREAD

### SENSITIVITY TO INTEREST RATES

For an 100 bps. Interest-Rate Move



Total Revenue Sensitivity\*  $\pm$  Euros 22.6 million



$\pm$  1.03 % Total Revenues

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

## GAIN MARKET SHARE

### 2003 TARGETS

**ADD 400,000 NEW CLIENTS**

**SIGN UP 50,000 SMEs**

**GROWTH OF LOANS & DISCOUNTS 13-15%**

**GROWTH OF DEPOSITS 10-12%**



## GAIN MARKET SHARE

### AFFINITY GROUPS

<i>(Euro million)</i>	No. of clients	On- & off-B/S AUM	Loans
<b>SME Affinities</b>	<b>61,122</b>	<b>985</b>	<b>3,246</b>
<b>Change</b>	<b>25%</b>	<b>21%</b>	<b>61%</b>
<b>Individuals-Affinity</b>	<b>405,222</b>	<b>4,431</b>	<b>3,101</b>
<b>Change</b>	<b>9%</b>	<b>13%</b>	<b>25%</b>

## GAIN MARKET SHARE

### PERSONAL BANKING \*

- ➔ Goal in 2003 is to add €1.5 bn. on- and off-balance sheet AUM from 100,000 clients.
- ➔ Goal in 2004-05 is to add further €4 bn.
- ➔ Assets gathered through offer of:
  - exclusive products
  - personalised service
  - 400-500 financial advisors in network

\* Customer size target above €60,000 investable assets

**Banco Popular**

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