

# *2007 MERRILL LYNCH BANKING CONFERENCE*

## Medium Term Outlook

Intervención de D. Roberto Higuera, Director General  
Financiero de Banco Popular, en la 2007 Merrill Lynch  
Banking Conference.

Londres, 4 de Octubre de 2007



**Grupo Banco Popular**

# Disclaimer

This presentation has been prepared by Banco Popular solely for purposes of information. It may contain estimates and forecasts with respect to the future development of the business and to the financial results of the Banco Popular Group, which stem from the expectations of the Banco Popular Group and which, by their very nature, are exposed to factors, risks and circumstances that could affect the financial results in such a way that they might not coincide with such estimates and forecasts. These factors include, but are not restricted to, (i) changes in interest rates, exchange rates or any other financial variable, both on the domestic as well as on the international securities markets, (ii) the economic, political, social or regulatory situation, and (iii) competitive pressures. In the event that such factors or other similar factors were to cause the financial results to differ from the estimates and forecasts contained in this presentation, or were to bring about changes in the strategy of the Banco Popular Group, Banco Popular does not undertake to publicly revise the content of this presentation.

This presentation contains summarised information and may contain unaudited information. In no case shall its content constitute an offer, invitation or recommendation to subscribe or acquire any security whatsoever, nor is it intended to serve as a basis for any contract or commitment whatsoever.

---

## Our Vision of the Future

- Strong Earnings Per Share in 3 years  
in a changing macroeconomic scenario

Average  
EPS  
growth



2007 - 2009  
**Middle  
Teens**

# Current Banco Popular's Situation

- **Strong Fundamentals**
- **Decreasing involvement in the Real Estate Industry**
  - Fast decrease of market share in Real Estate corporates
  - Sharp slow down in mortgage growth in the last 3 years
  - Improvement in the mortgages probabilities of default ( corporate & individuals) since 2002
- **Reinforced Funding**
  - Strong customer funding base
  - Large & increasing 2nd line of liquidity
  - Diversified debt maturity ladder
- **Well positioned to improve net interest margin and to generate capital**

# Current Banco Popular's Situation

## ▶ Strong Fundamentals

▶ Decreasing involvement in the RE Industry

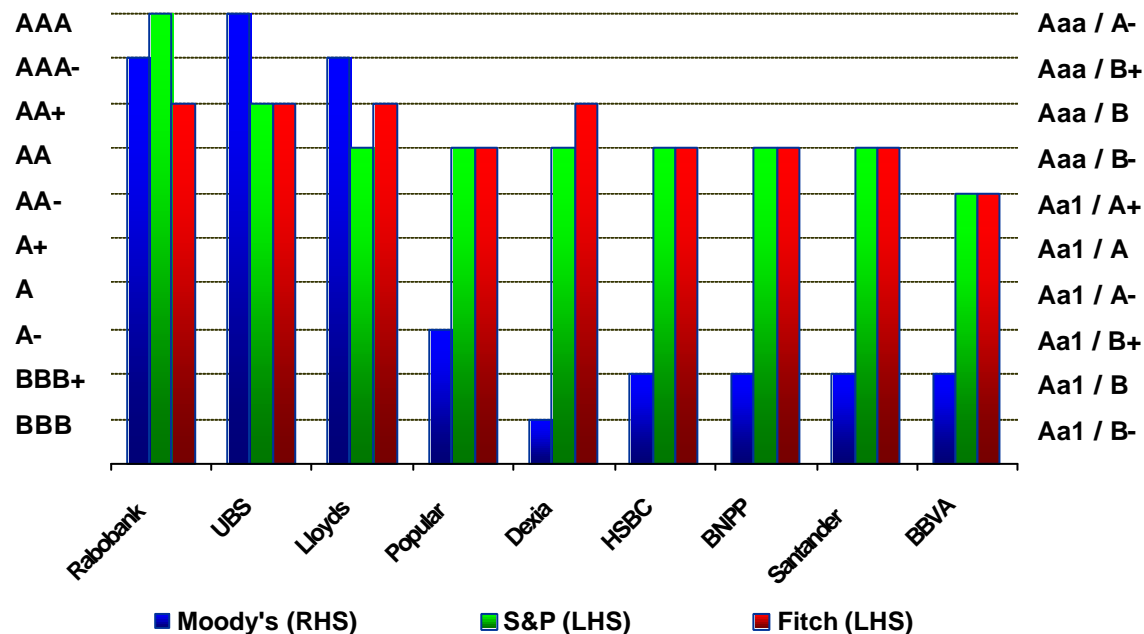
▶ Reinforced Funding

▶ Improving Net Interest Margin

# Strong Fundamentals

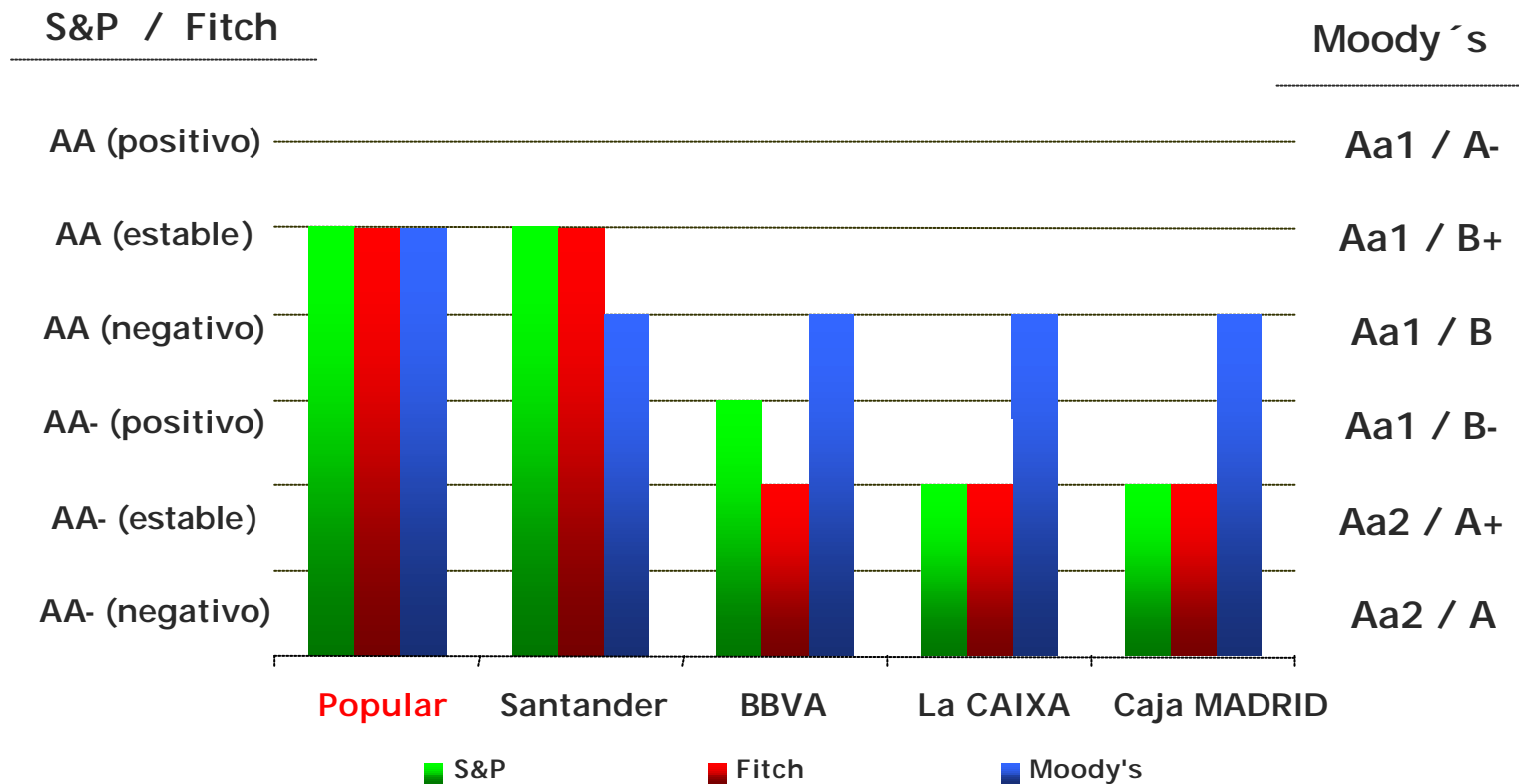
- Banco Popular has one of the best ratings in Europe...

	Moody's	S&P	Fitch	DBRS
Outlook	Stable	Stable	Stable	Stable
Long Term	Aa1	AA	AA	AAH
Short Term	P-1	A-1+	F1+	R-1H
BFS	B+	-	-	-
Last confirmation	April '07	January '07	July '06	January '07



# Strong Fundamentals

- Banco Popular is the best rated Spanish bank, bearing the highest Financial Strength (B+)



# Strong Fundamentals

- Solvency: Strong Core Capital

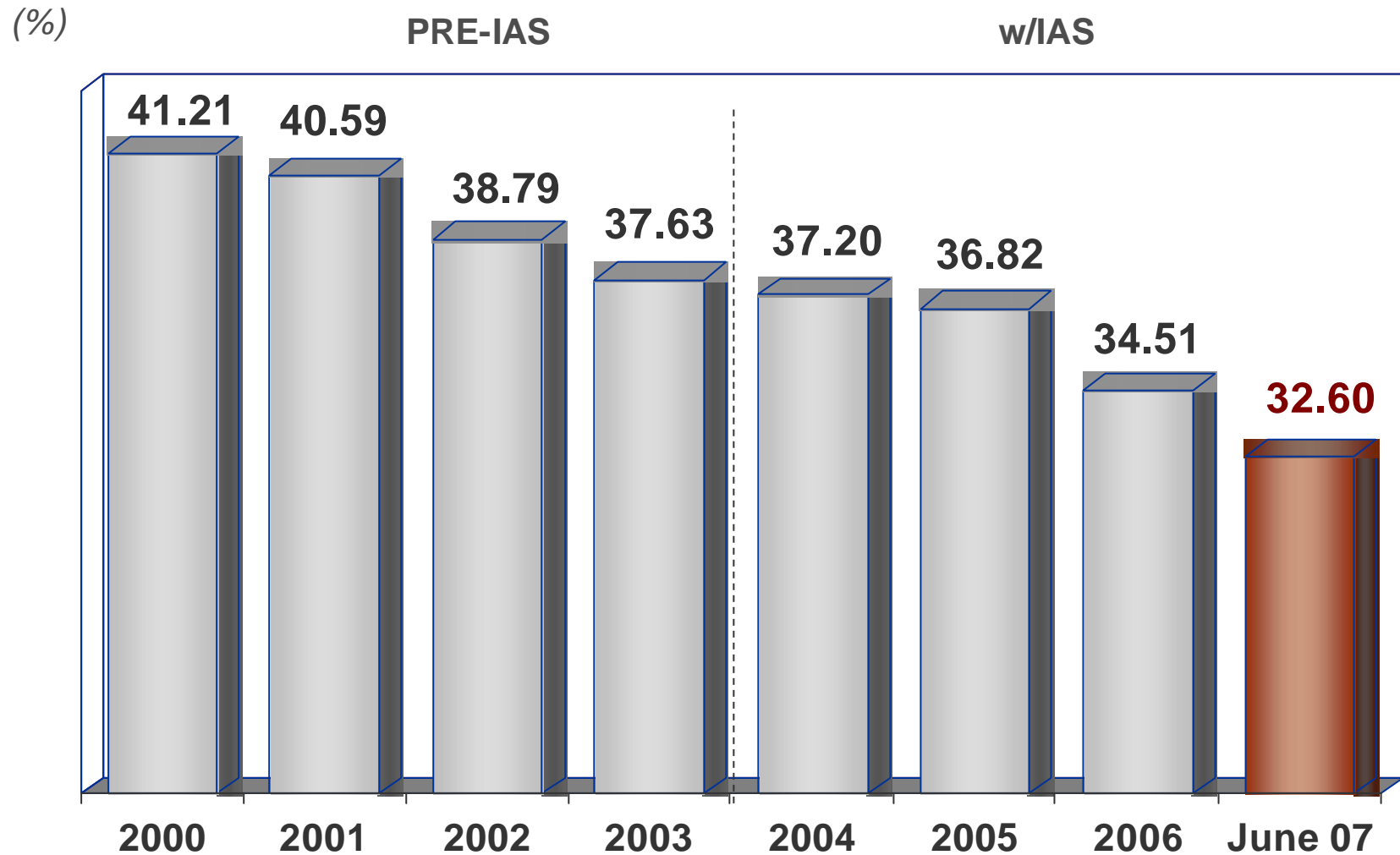
(€ Million)

	<i>June 07</i>	<i>June 06</i>
Total core capital	5,519.2 6.59%	4,960.6 6.52%
Total Tier I Capital	6,807.2 8.13%	5,948.6 7.81%
Total Tier 2 Capital	1,493.6 1.79%	1,444.7 1.90%
BIS computable capital	8,300.7 9.92%	7,393.3 9.71%
<b>Total BIS risk weighted assets</b>	<b>83,713.6</b>	<b>76,121.0</b>



# Strong Fundamentals

- Cost/Income Ratio Evolution: One of the best in Europe



# Current Banco Popular's Situation

▶ Strong Fundamentals

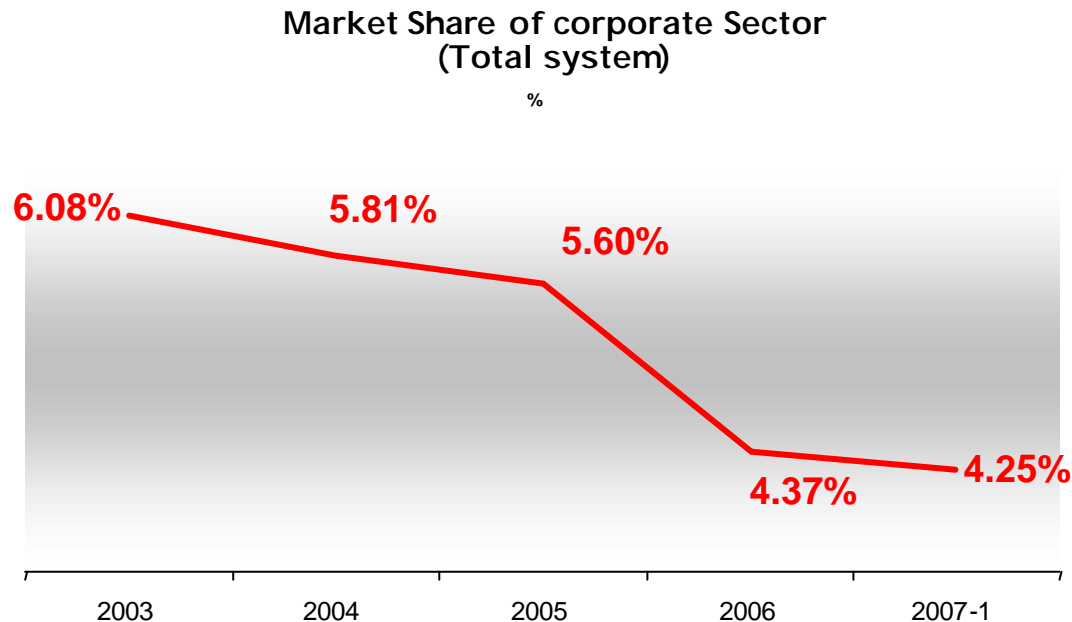
▶ Decreasing involvement in the RE Industry

▶ Reinforced Funding

▶ Improving Net Interest Margin

## Decreasing Involvement in the RE Industry

- Market share in REAL ESTATE ACTIVITIES (\*) of 4.25%, well below Popular's normal market share of 5.5%, means that



- Popular has much less exposure to developers and other real estate companies than the average of the Spanish banking industry

(\*) Includes developer & other Real Estate activities  
Source: Bank of Spain and T13

# Decreasing Involvement in the RE Industry

- Major Loan Categories (\*)

June 2007  
(Accumulated % change)

Growth rate  
%

Bill discounting

15.4

**Mortgage loans**

**13.6**

Loans & overdrafts

25.2

Leasing

3.7

**TOTAL**

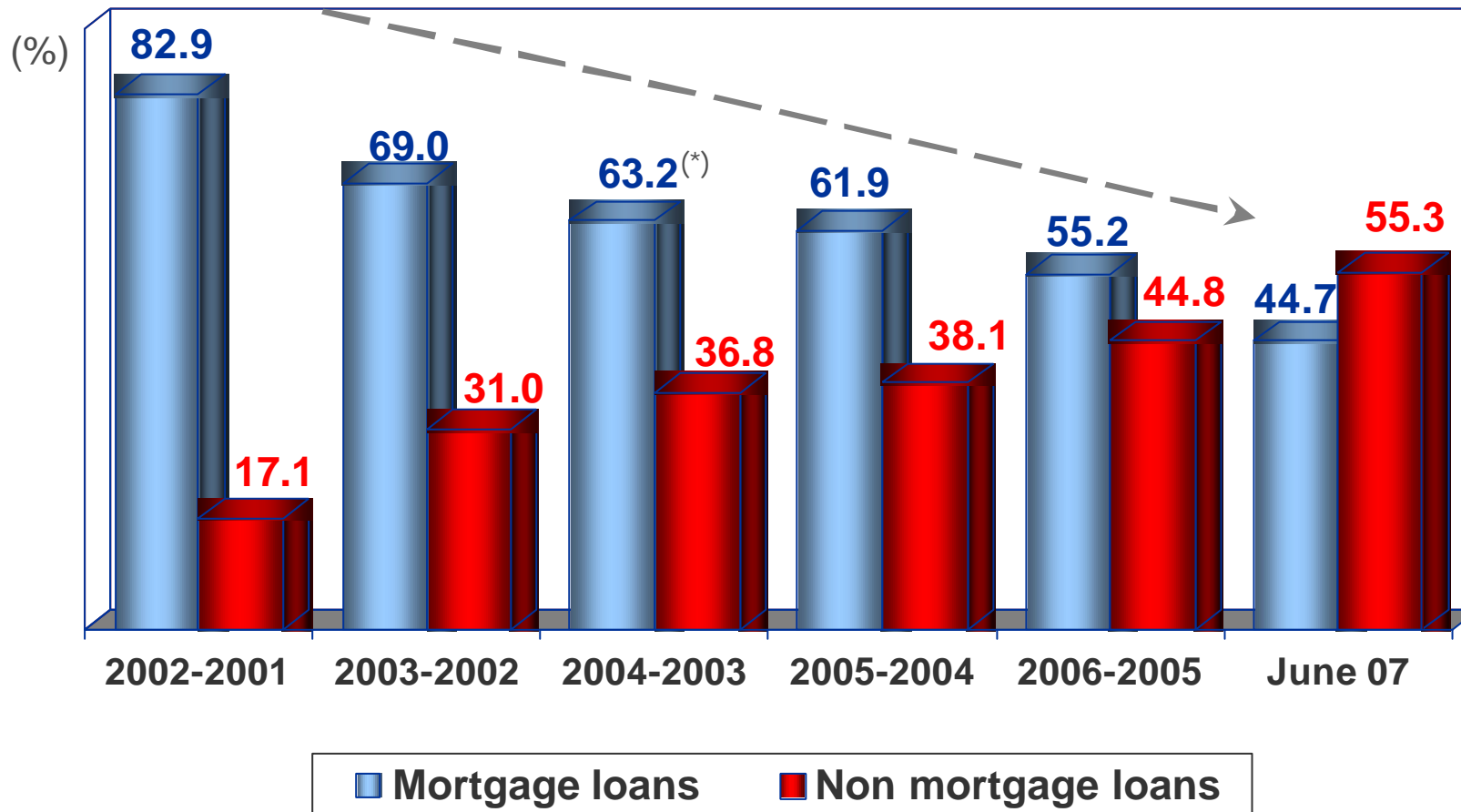
**16.8**

**Decelerating fast  
to single digit  
growth**

(\*) All loans except NPLs & Repos

# Decreasing Involvement in the RE Industry

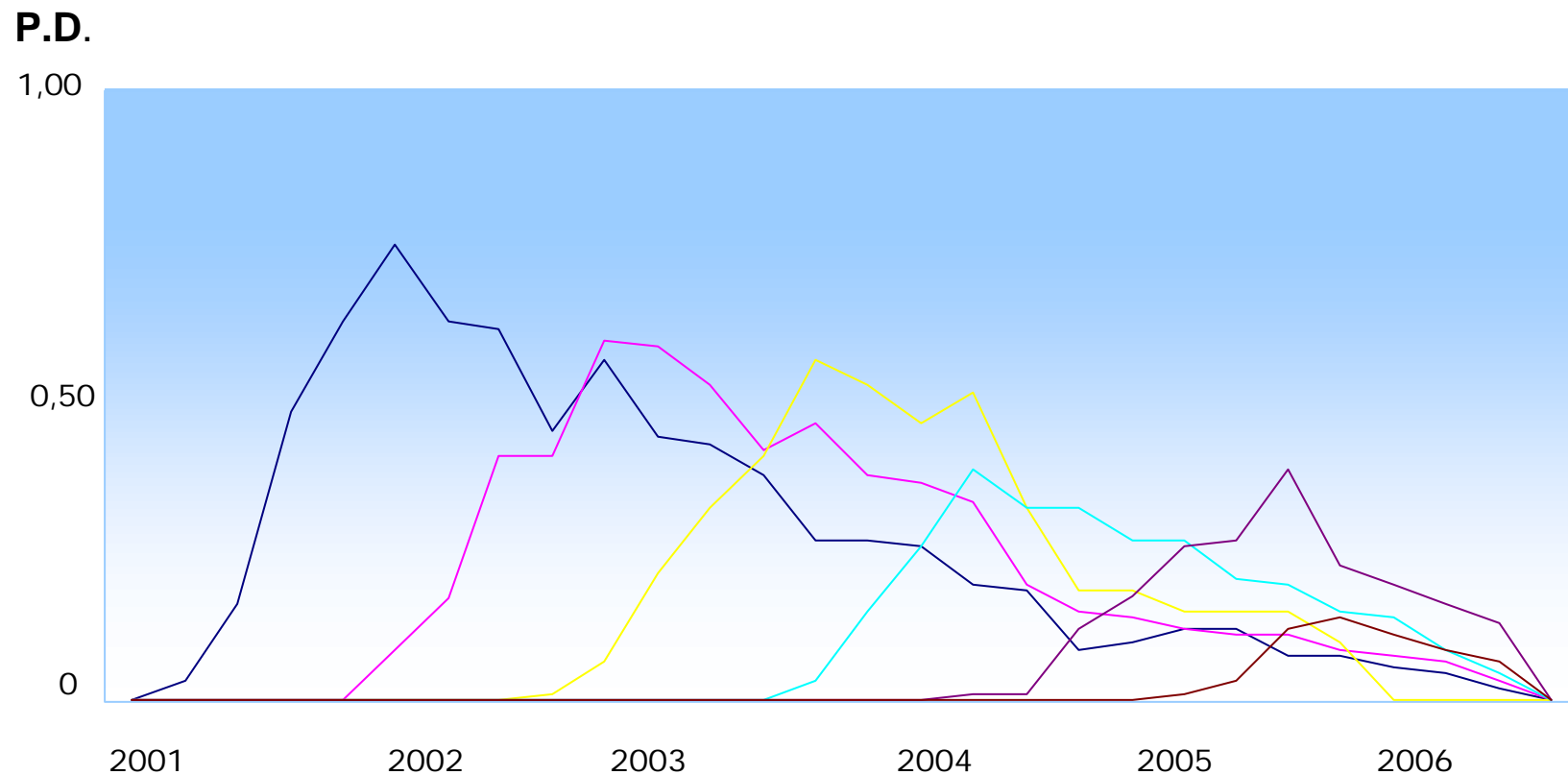
- Contribution to net new lending



(\*) Adjusted for securitization

# Decreasing Involvement in the RE Industry

- Lower probabilities of default for individuals...
  - Probabilities of default (P.D.), by year of granting
  - Transactions going default as % of total transactions arranged

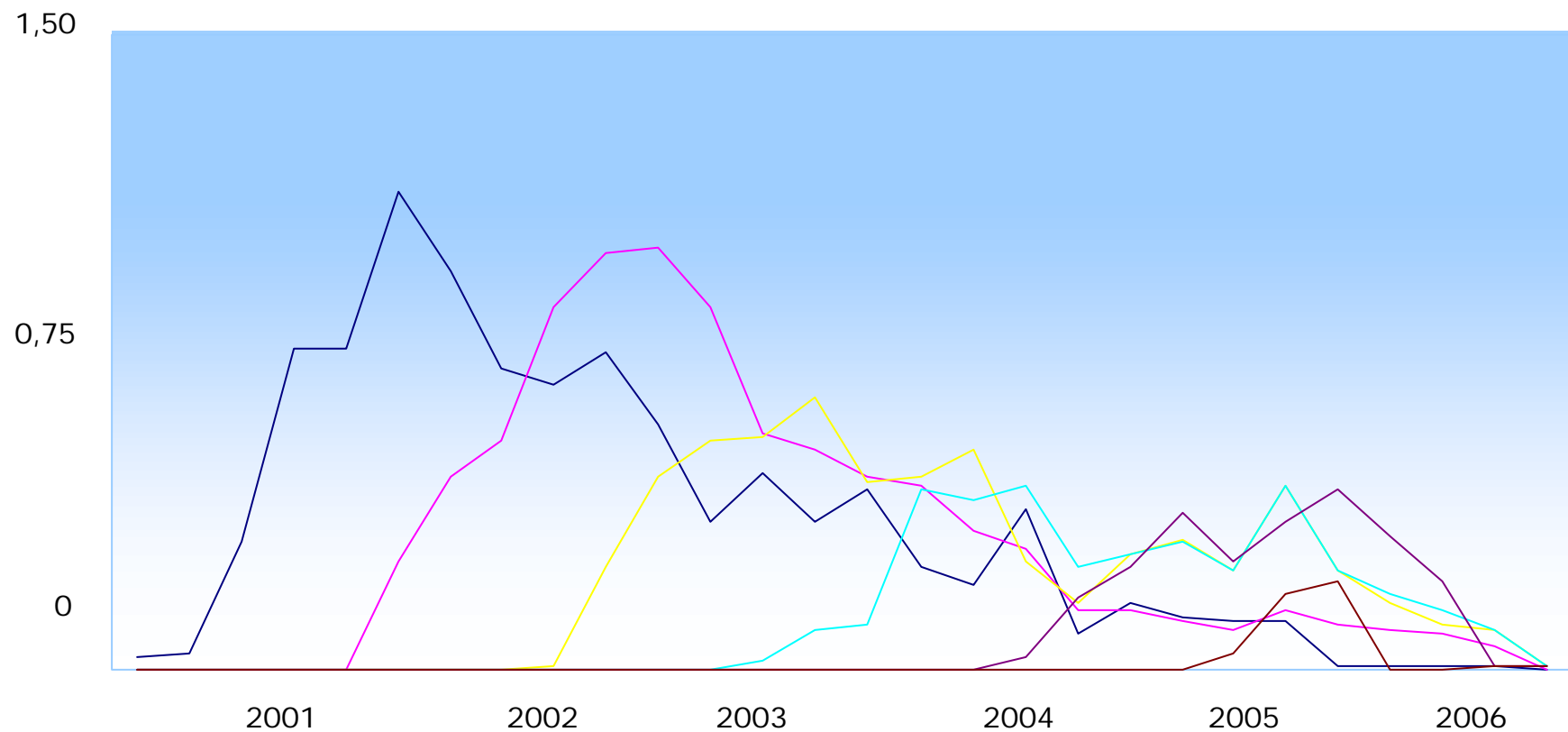


# Decreasing Involvement in the RE Industry

- ...and lower probabilities of default for corporates since 2001

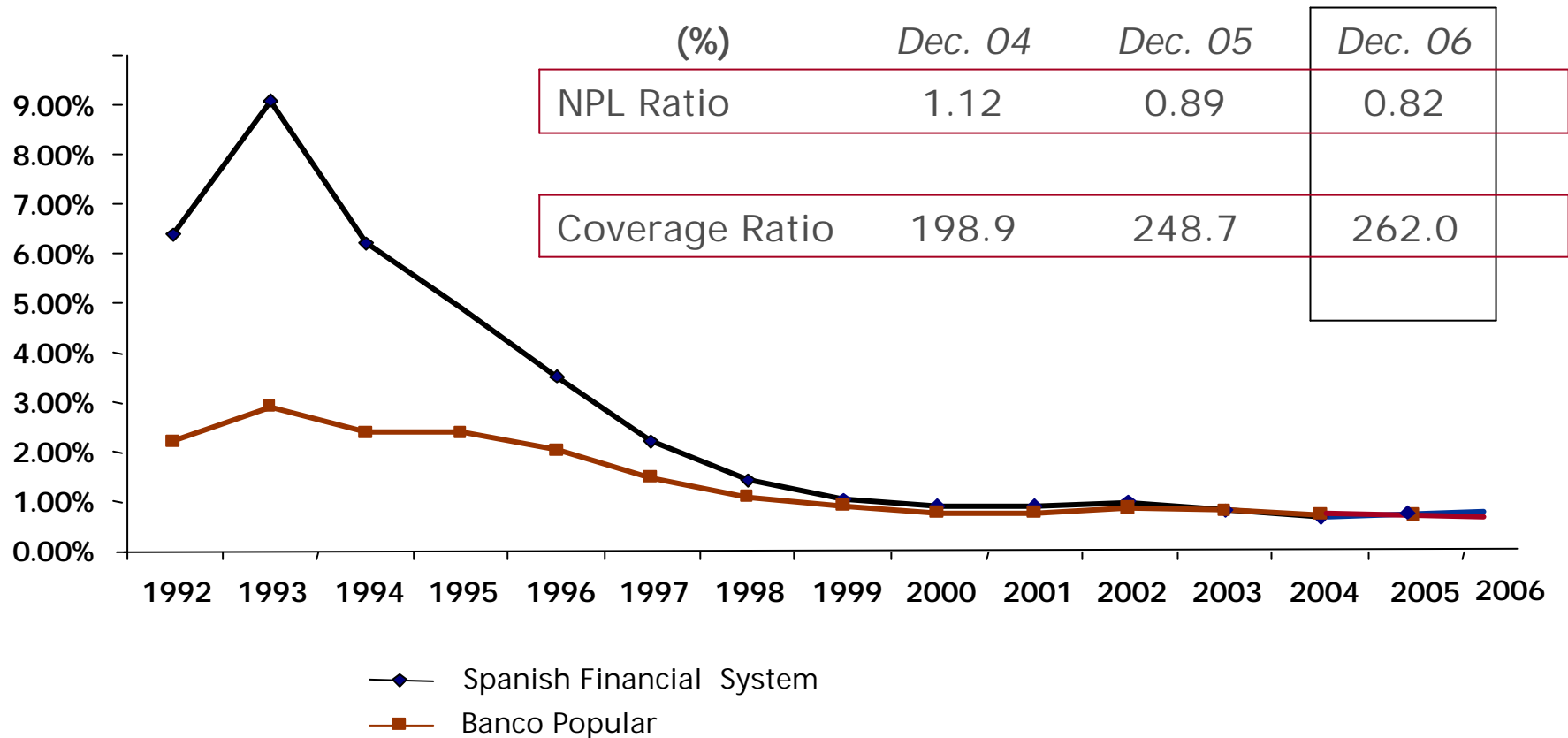
- Probabilities of default (P.D.), by year of granting

**P.D.** – Transactions going default as % of total transactions arranged



# Decreasing Involvement in the RE Industry

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



Source: Banco Popular and Bank of Spain



# Current Banco Popular's Situation

- ▶ Strong Fundamentals
- ▶ Decreasing involvement in the RE Industry
- ▶ Reinforced Funding
- ▶ Improving Net Interest Margin

# Reinforced Funding

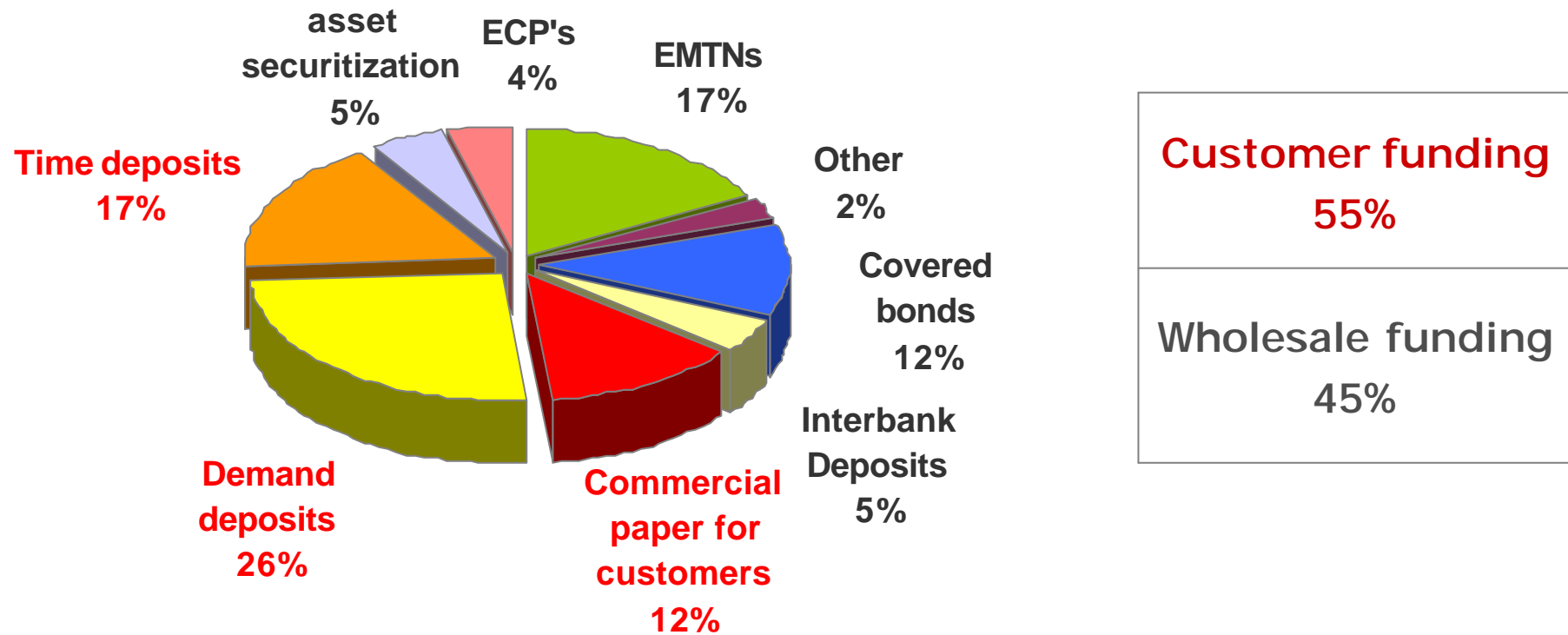
- Banco Popular´s growth strategy is backed by a strong liquidity situation due to:
  - Sustained and robust growth since July 2007 in:
    - Pagarés para clientes: Domestic commercial paper placed among **customers** as a tax efficient alternative to time deposits
      - **€3 billion added** since July up to current € 12.7 billion
    - ECP´s: Institutional commercial paper
      - **€800 million added** since July up to € 4 billion
    - Interbank deposits:
      - Stability of borrowing positions since July
      - Increased **net lending position in the short term**

# Reinforced Funding

- Banco Popular´s growth strategy is backed by a strong liquidity situation due to:
  - Strong second line of liquidity composed of bonds and notes that are stocked to be used when convenient in the ECB´s auctions.
    - **€ 7.5 billion** in August 2007
    - **€ 10.5 billion** target as of December 2007
    - Additionally, Popular has not yet used the possibility of making liquid other assets eligible for ECB´s auctions, such as loans to customers
  - Displacement of maturities to future years has resulted in a very low and easily manageable volume of short term amortization
    - **Next 3 months: no maturities** of medium to long term debt
    - **Up to August 2008: only € 1 billion** from medium to long term debt

# Reinforced Funding

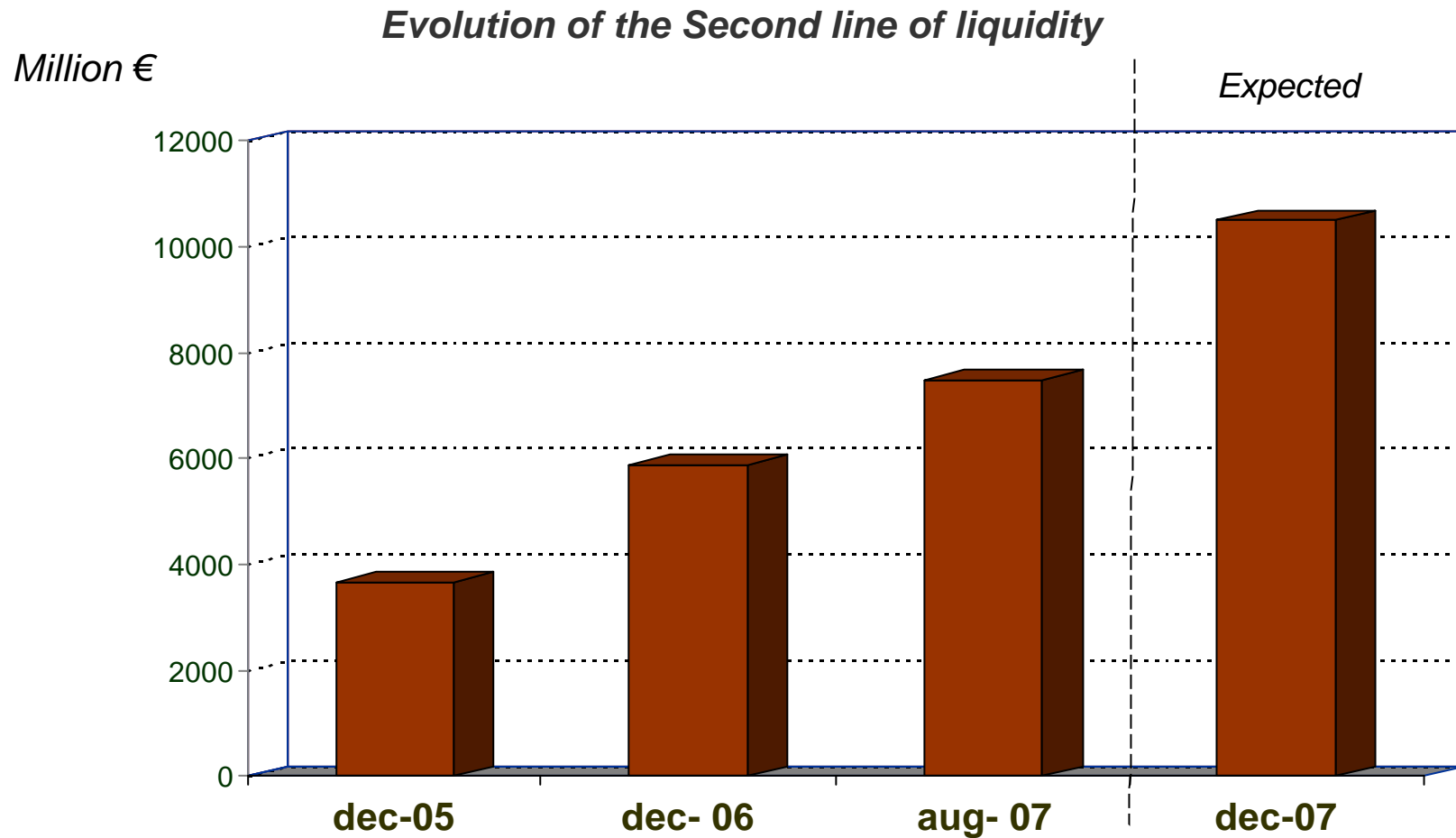
- High contribution from customer funding



June 2007

# Reinforced Funding

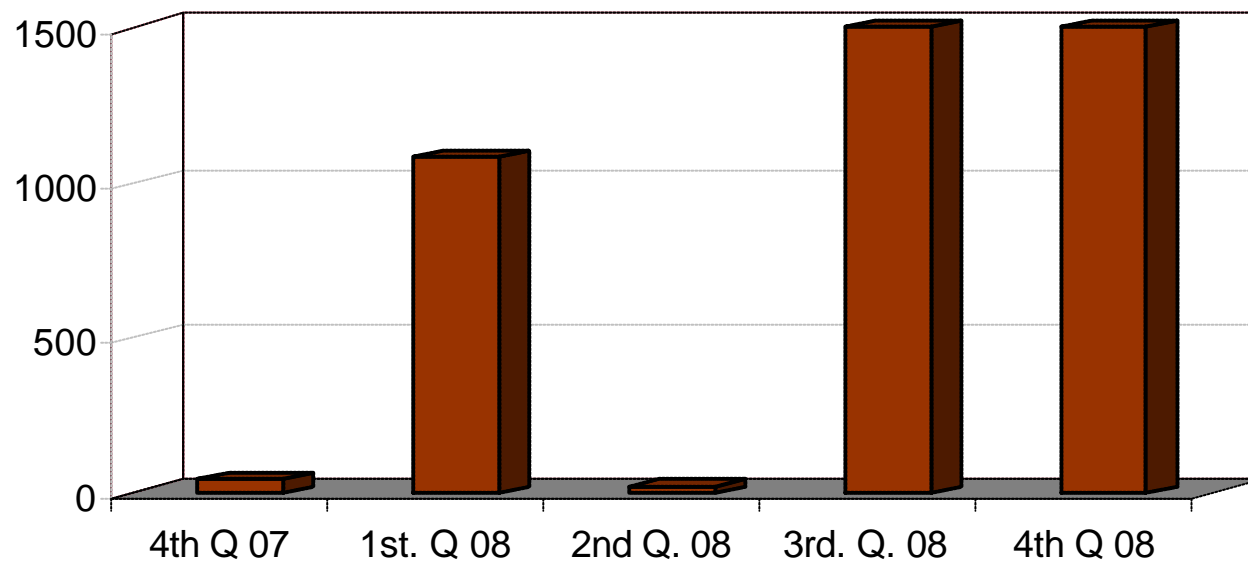
- Strong backing to liquidity



# Reinforced Funding

- Small maturities of Medium to Long term wholesale Funding in 2007 and 2008...

## Low funding requirements from maturities



Fully covered with 2nd liquidity line

# Current Banco Popular's Situation

- ▶ Strong Fundamentals
- ▶ Decreasing involvement in the RE Industry
- ▶ Reinforced Funding
- ▶ Improving Net Interest Margin

## Analysis of Sensitivity of EPS in Different Scenarios

### Scenarios for the next 3 years

- Modelling of the foreseeable economic and competitive conditions in the medium term shows that BPE can deliver at

**least an average EPS growth rate in the mid-teens in 2007-2009**

- The bank maintains its 3 year-old strategy of reducing dramatically its exposure to the residential sector and slowing down its overall growth rate to levels in which there will be

**capital generation in 2008-2009**



# Improving Net Interest Margin

- Strong net income growth in a range of conservative scenarios

	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Hypothesis*</u>			
▪ GDP	3.7 - 3.9	2.8 - 3.3	< 2.8
▪ Loan growth	15% - 16%	8% - 10% - 12%	7% - 9%
▪ Customer funding	12% - 14%	10% - 12%	10% - 12%
▪ Spread of deposits funding	+ 5 - 10 bp	+ 20 bp	

<u>Results</u>		<b>Average 2008-2009</b>
▪ Net interest revenues	13% - 14%	<b>Low to Mid-teens</b>
▪ EPS	> 18%	<b>Mid teens</b>
▪ Capital generation		<b>40 - 70 bp</b>

\* Interest rate curve used for modeling: forward rate curve on September 11th 2007c

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

**Banco Popular Portugal  
Banco Popular France  
Banco Popular Hipotecario  
bancopopular-e.com  
Popular Banca Privada**

**<http://www.grupobancopopular.es>**



**Grupo Banco Popular**