

Banco Popular Group



TIME OF EXPANSION

2005

Annual Results

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2005 Annual Results

STRATEGY

LOOKING BACK

2005 closes a period when Popular has been focused on **expansion:**

Enlarging and optimizing the branch network:

2,385

- OPENING BRANCHES IN AREAS OF FAST FUTURE GROWTH
- CLOSING THE UNDER PERFORMING BRANCHES

Increasing and consolidating the network of agents:

4,262

Aggressively promoting multichannel banking:

- ATM's
- DEBIT, CHARGE AND REVOLVING CARDS
- INTERNET (clients)
- MOBILE PHONES
- CALL CENTER (calls/month)

3,321

5,441,904

833,000

development

>100,000

Aggressively acquiring new customers:

- PRIVATE INDIVIDUALS
- CORPORATES + RETAILERS

5,689,224

472,679

LOOKING BACK

In this period Popular has managed to balance expansion with fine overall performance:

Net interest revenues growth	10.7%
Fees growth	7.9%
Operating income growth	10.4%
Net income attributable growth	34.8%
R O E	21.02%
Cost/income ratio	37.1%

LOOKING BACK

**With this strategy Popular has enormously
increased**

**CAPACITY TO DELIVER VERY
STRONG RESULTS
THROUGH 2010**

LOOKING FORWARD

It is time to consolidate and exploit past expansion

In 2006 Popular will refocus onto:

- ↪ Uncompromised search for profitability**
- ↪ Wider margins**
- ↪ Lesser capital requirements**

LOOKING FORWARD

A new customer strategy is being implemented

- ➔ **Increase customer profitability floors**
- ➔ **Massive effort on cross-selling customers acquired in last 3 years**
- ➔ **Rebalance business-mix to optimize revenues-provisions-capital**
- ➔ **Discard low profitability transactions and customers**

LOOKING FORWARD

Operating expenses will be dramatically lower

- ➔ **General cost-saving strategy**
- ➔ **Lower branch opening related cost: branch openings will be limited to existing premises**
- ➔ **Short term productive marketing and publicity expenses**

2005 Annual Results

FINANCIAL RESULTS

2005 Annual Results

FINANCIAL RESULTS

1

Fast Core Business Growth

2

Improved Asset Quality

3

Strong Customer Acquisition

4

Branch Network Expansion

5

Solid Earnings & Efficiency Gains

2005 Annual Results



Fast Core Business Growth

FAST CORE BUSINESS GROWTH

(€ million)

	31.12.05	Var %
Total assets managed	93,180	21.9
On-balance sheet total assets	77,840	22.4
Total equity	4,990	32.8
Funds managed:	73,364	22.5
On-balance sheet funds	58,023	23.4
Other intermediated funds	15,341	19.1
Lending to customers (gross)	66,323	21.7
Contingent risks	9,612	24.4
Customers (thousands)	6,162	
Employees	13,804	
Branches	2,385	

FAST CORE BUSINESS GROWTH

MAJOR LOAN CATEGORIES (*)

(Accumulated % change)

	Growth rate <i>December 05</i>	% of total loans
Bill discounting	5.5	10.1
Mortgage loans	25.6	55.0
Loans & overdrafts	23.6	29.7
Leasing	16.1	5.2
TOTAL	22.1	100.0

(*) All loans except NPLs & Repos

FAST CORE BUSINESS GROWTH

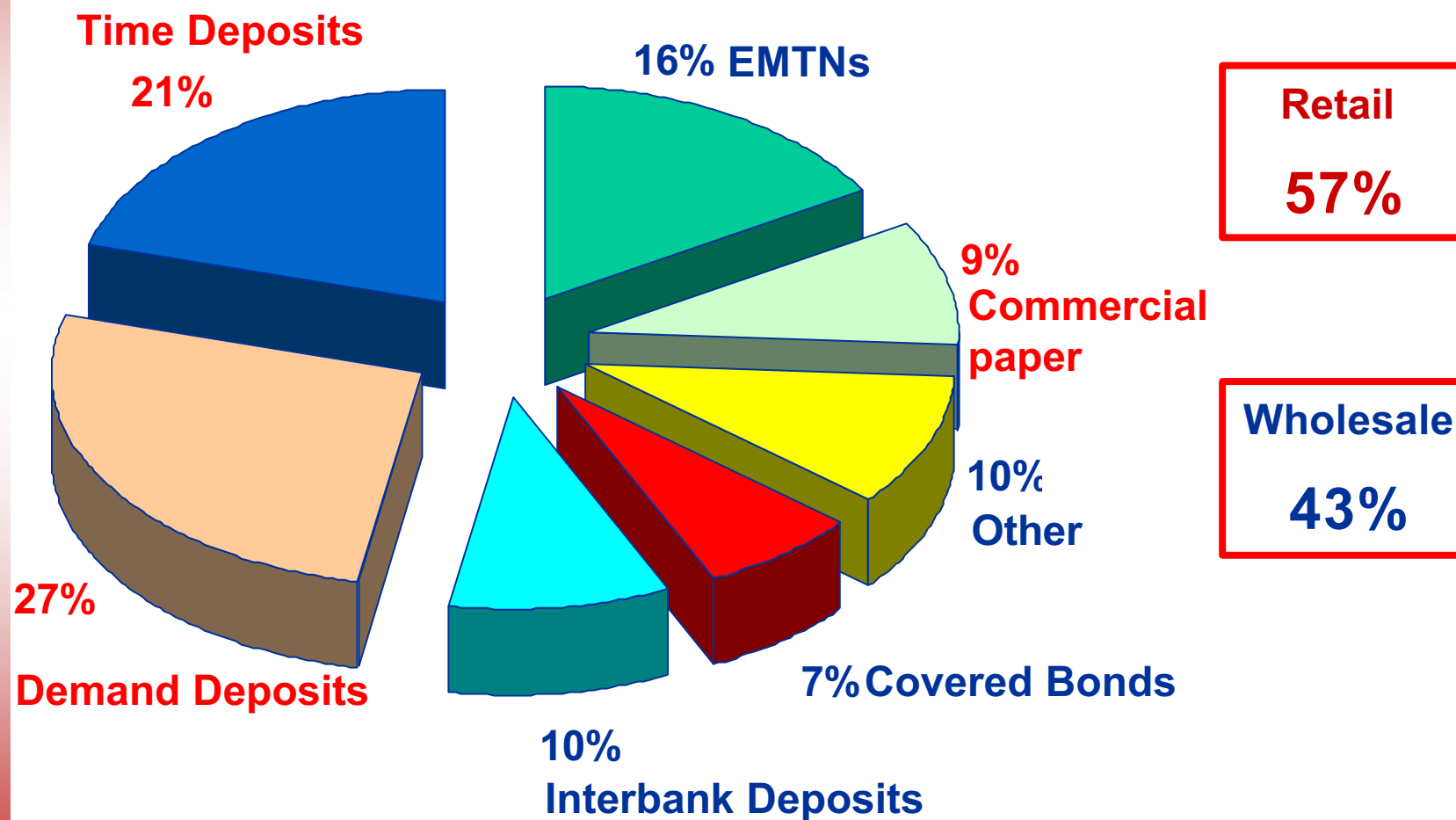
CORE RESIDENT-CUSTOMER FUNDING

(December 31, 2005)

	<i>Amount (€ million)</i>	<i>? %</i>	<i>% of total</i>
Demand deposits	15,317.3	17.7	47.7
Time deposits	10,695.9	6.7	33.3
Customers commercial paper	6,119.2	36.6	19.0
TOTAL	32,132.4	16.7	100.0

FAST CORE BUSINESS GROWTH

FUNDING BREAK-DOWN (As % of loans)



FAST CORE BUSINESS GROWTH

MUTUAL FUNDS VOLUMES IN 2005 vs. INDUSTRY –SPAIN ONLY-

	Net Asset Value	
	Dec. 05(€ million)	% change
Money Market	1,632.0	-10.3
Bonds	3,068.1	35.6
Fixed income	4,700.1	15.1
Equity	1,287.7	44.5
Balanced	1,078.8	25.8
Guaranteed	2,542.9	6.4
Global	563.8	56.0
TOTAL	10,173.3	18.5
		11.9

BANCO POPULAR GROUP *
INDUSTRY

**Outperformance
due to:**

	POPULAR	INDUSTRY
Net Inflows	13.5%	7.6%
Management / Markets	5.0%	4.3%

	Dec. 05	Dec. 04
Improvement in market share	4.14%	3.92%

* Excluding BNC. The total amount including BNC amounts to €10,531,3 million (+20.0%)

FAST CORE BUSINESS GROWTH

GROWTH RATE – NON MORTGAGE LOANS

	Dec. 03	Dec. 04	Dec. 05
Bill discounting	18.0	14.2	6.7
Loans & overdrafts	9.8	22.4	27.5
Leasing	12.0	24.3	15.3
Non mortgage	12.5	20.1	19.8
Growth (y-on-y) Loans to private sector residents	19.4	23.7*	23.7

Excluding REPOs, prepayment & other and NPL

* Adjusted for securitization

2005 Annual Results

2

Improved
Asset Quality

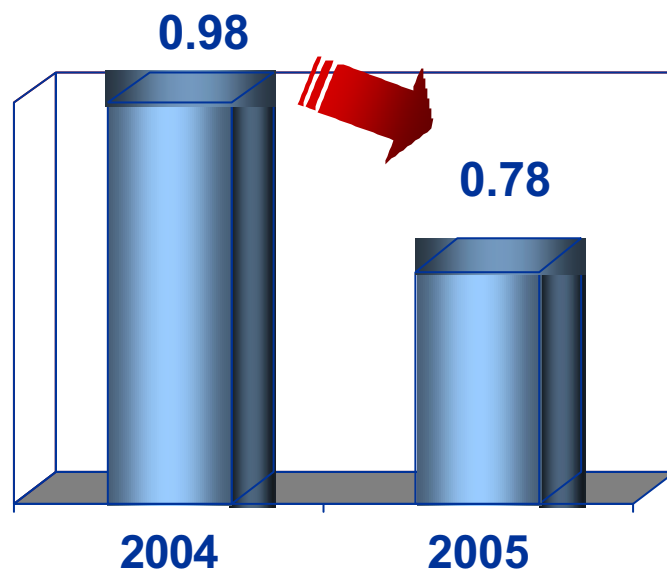
IMPROVED ASSET QUALITY

RISK PERFORMANCE

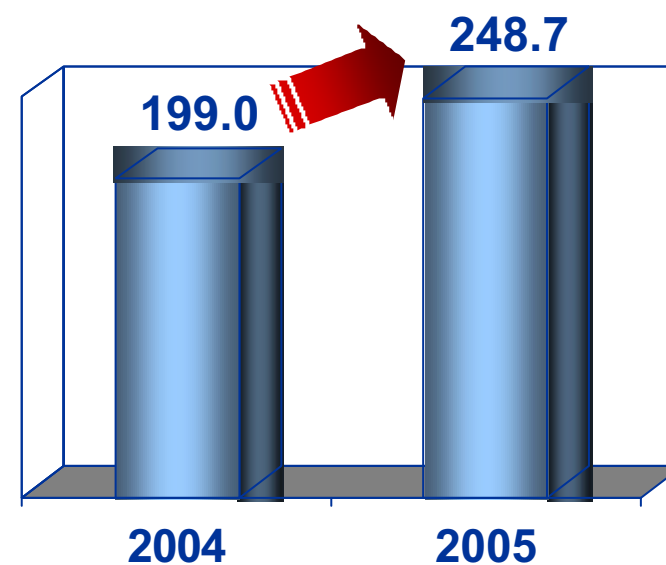
(€ Thousand)

	31.12.05	y-on-y %
Nonperforming loans:		
Balance at January 1	612,549	3.5
Balance at December 31	591,043	-3.5
Allowance for credit losses:		
Balance at January 1	1,218,802	32.0
Balance at December 31	1,469,927	20.6
Risk quality measure (%):		Var. 12 mos.
Nonperformance (Nonp.loans/Total risks)	0.78	-0.2
Insolvency (Writeoffs/Total risks)	0.17	-0.1
Coverage (Credit loss allow./Nonp.loans)	248.70	49.7

IMPROVED ASSET QUALITY



Nonperforming loans



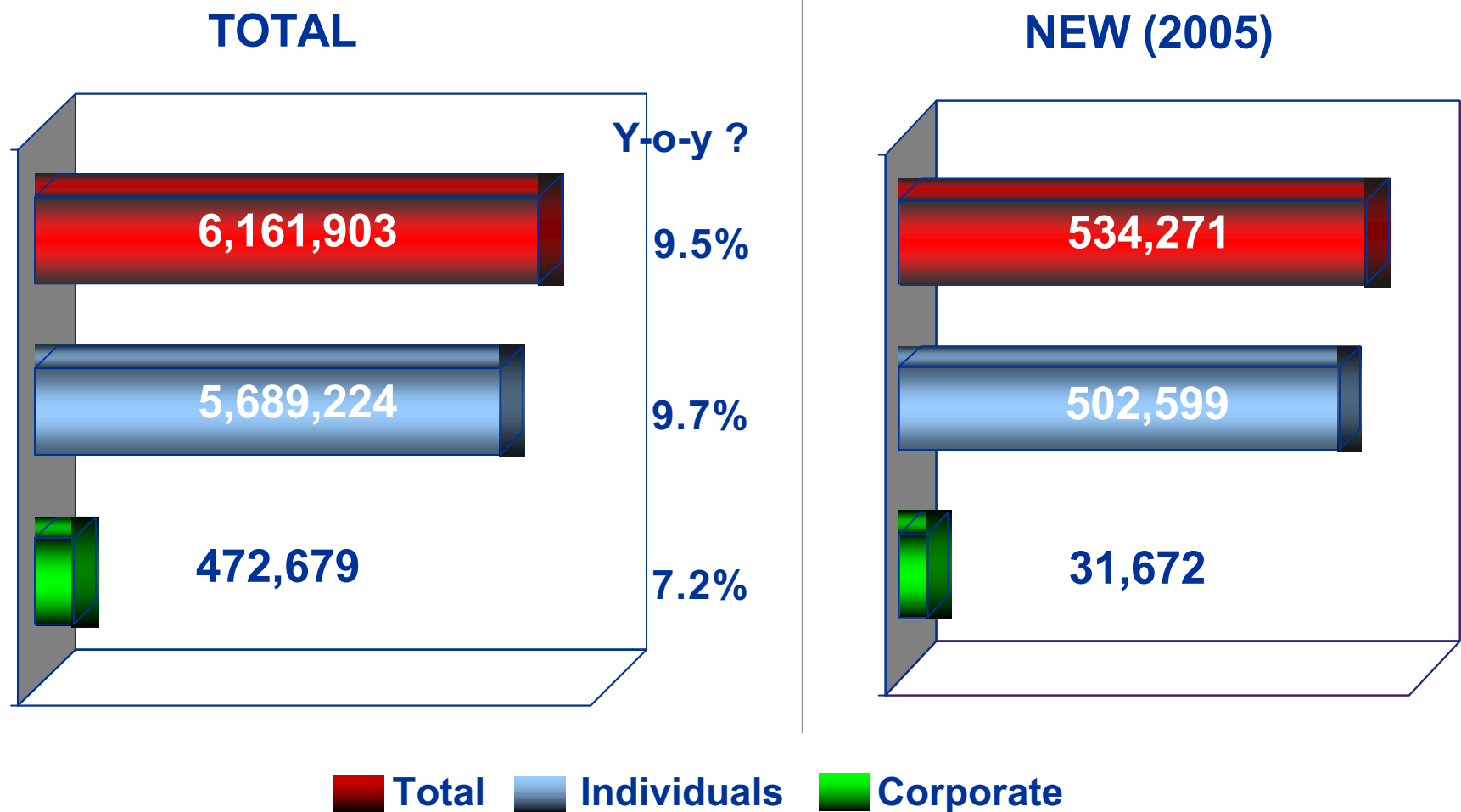
Coverage

2005 Annual Results



**Strong
Customer Acquisition**

STRONG CUSTOMER ACQUISITION



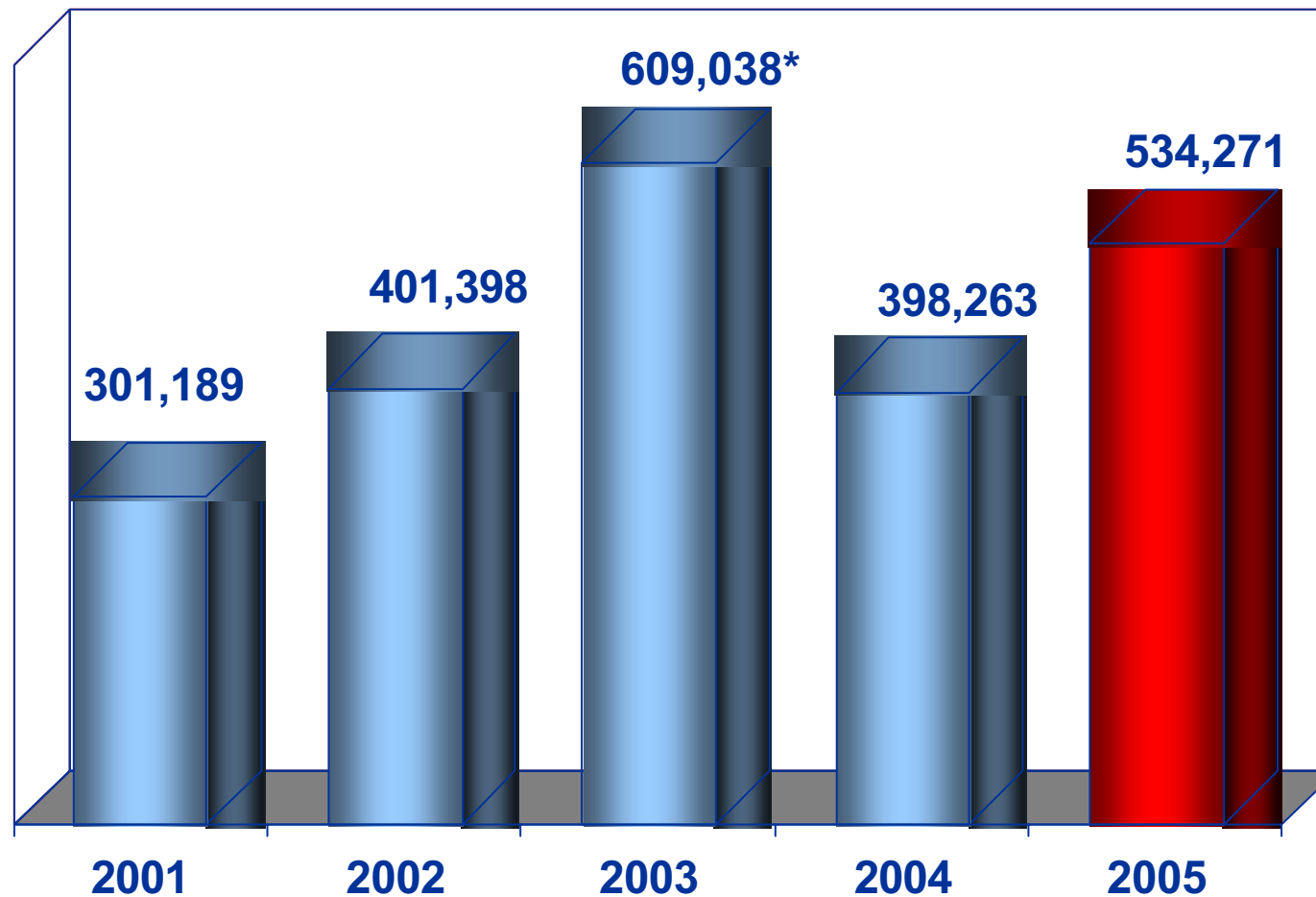
STRONG CUSTOMER ACQUISITION

COMMERCIAL PERFORMANCE

			Variation	
	31.12.05	31.12.04	Absolute	%
Total number of customers (000)	6,162	5,628	534	9.5
Individuals	5,689	5,187	502	9.7
Corporates	473	441	32	7.2
Internet customers				
<i>Bank-on-line</i>				
Number of customers (000)	1,991	1,661	330	19.9
Individuals	1,731	1,433	298	20.9
Corporates	260	228	32	13.6
<i>Bancopopular-e</i>				
Number of customers (000)	833	571	262	45.9
Productivity (products sold per employee in the commercial network)	322	310	12	14.6
Cross-selling (Products per customer)	3.29	3.25	0.04	3.6

STRONG CUSTOMER ACQUISITION

NET NEW CLIENTS (inc. BPP)



* BNC acquisition

STRONG CUSTOMER ACQUISITION

EXPLOIT NEW CUSTOMER POTENTIAL

Total linked clients “Spain”

June 2004	1,658,089
December 2004	1,750,644
June 2005	1,873,388
December 2005	1,965,277

y-on-y
12.3%

One third of all Spanish clients have 4 products or more



Branch Network Expansion

BRANCH NETWORK EXPANSION

NETWORK ACTIVITY THROUGH DECEMBER 05

Opened Branches

74

Closed Branches

19

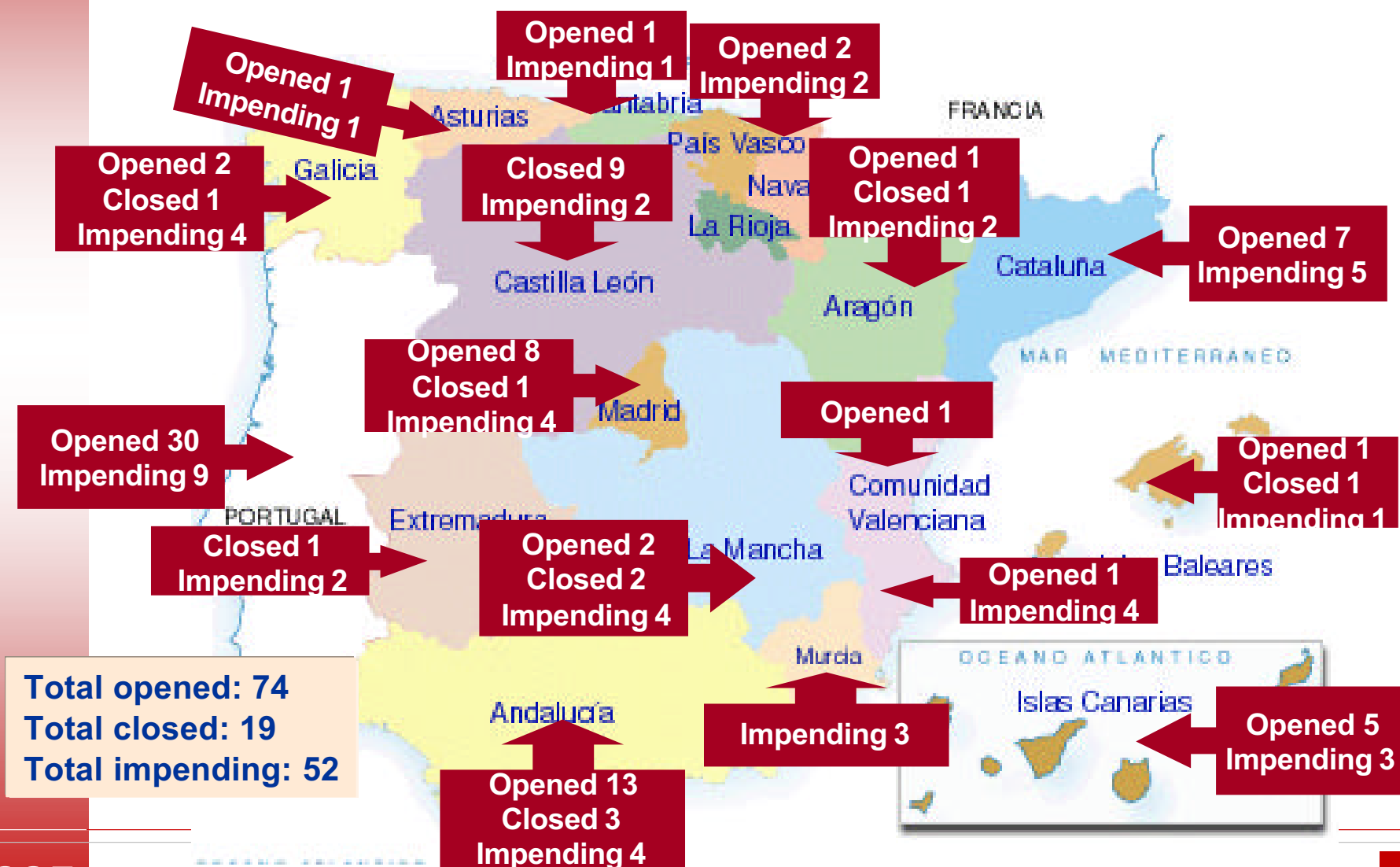
Impending Branches

52

Refurbished 22
In progress 30

BRANCH NETWORK EXPANSION

NETWORK ADJUSTMENTS THROUGH DECEMBER 05



2005 Annual Results

5

Solid Earnings & Efficiency Gains

SOLID EARNINGS, EFFICIENCY GAINS

(Euro million)

**4th. Q.
2005**

**y-on-y
% Δ**

Net interest revenue

1,966.5

10.7

Fees for services

711.9

7.9

Ordinary revenue

2,764.4

9.6

Operating cost

926.6

8.3

Operating income

1,725.8

10.4

Income before taxes

1,414.5

35.3

Net income attributable

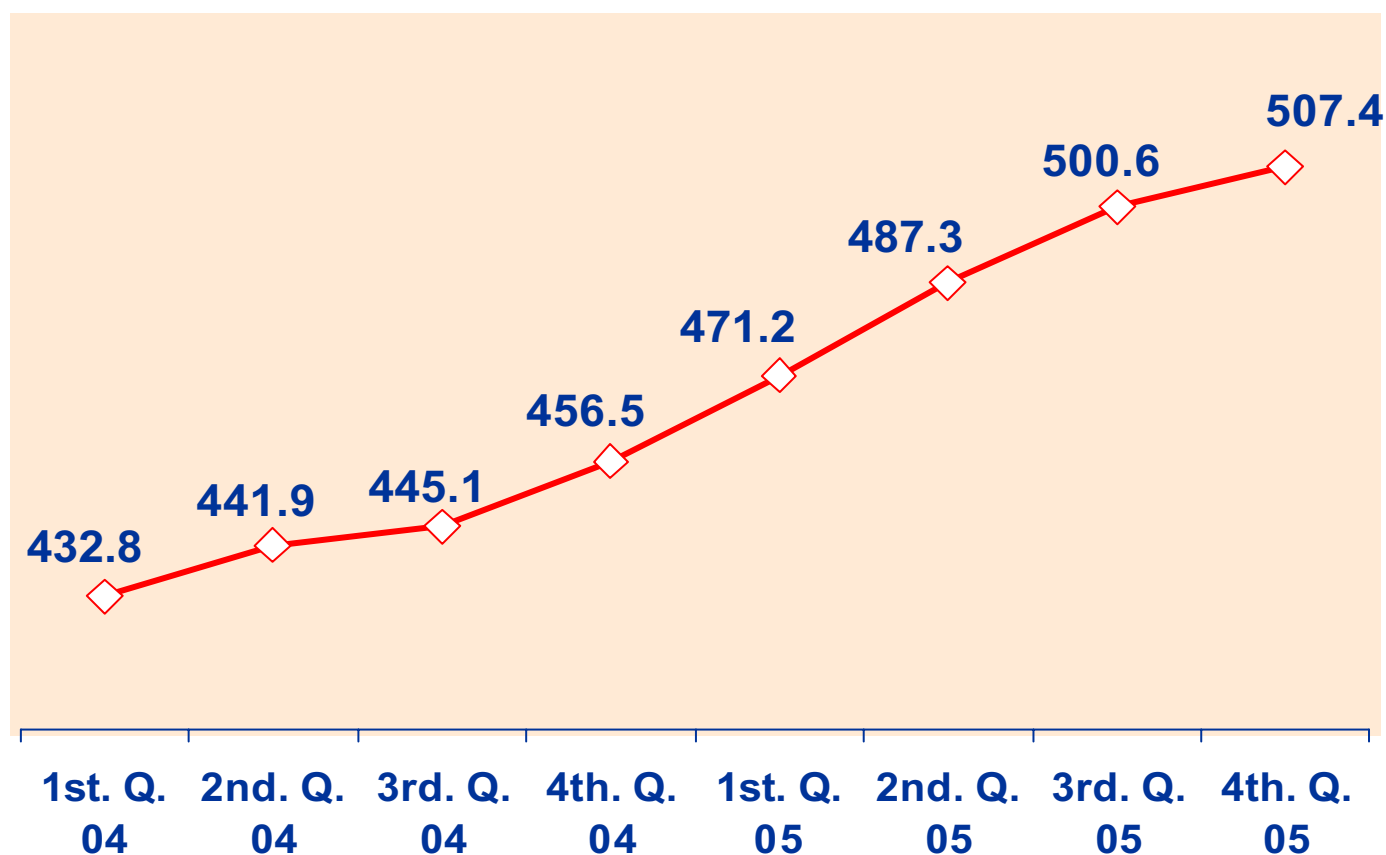
877.7

34.8

SOLID EARNINGS, EFFICIENCY GAINS

NET INTEREST REVENUE

(Million euros)



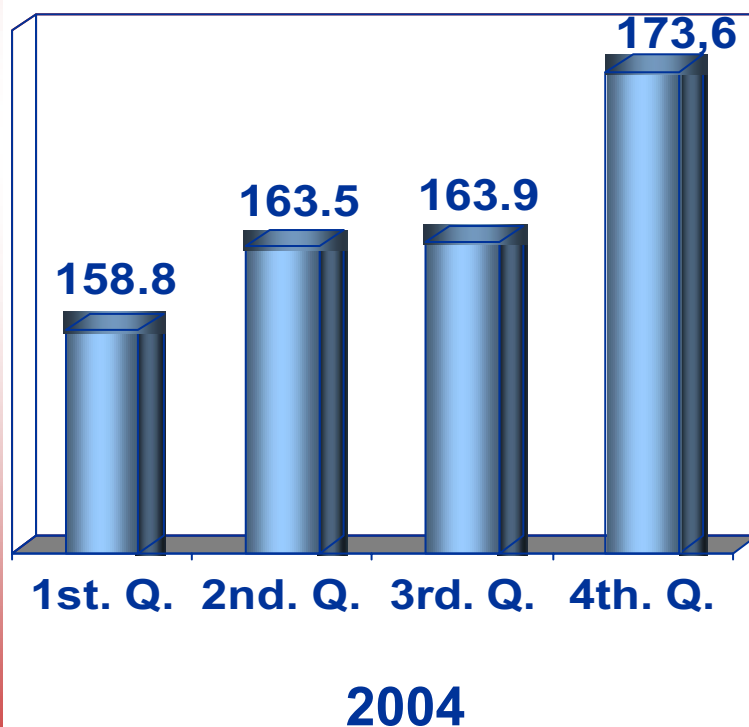
SOLID EARNINGS, EFFICIENCY GAINS

FEES FOR SERVICES

	Year-on-year % accum. Δ	As % of total fees
Loan-related fees:	-0.3	15.2
Bill discounting	-1.2	7.3
Other	0.6	7.9
Fees from guarantees	8.5	14.1
Collection & card-related	2.2	29.5
Forex & securities dealing	10.7	2.4
Customer financial asset mgt:	21.5	29.5
Securities portfolio	25.0	3.9
Mutual funds	23.9	19.4
Pension plans	12.7	6.2
Account mgt. fees and other	2.1	9.3
TOTAL	7.9	100.0

SOLID EARNINGS, EFFICIENCY GAINS

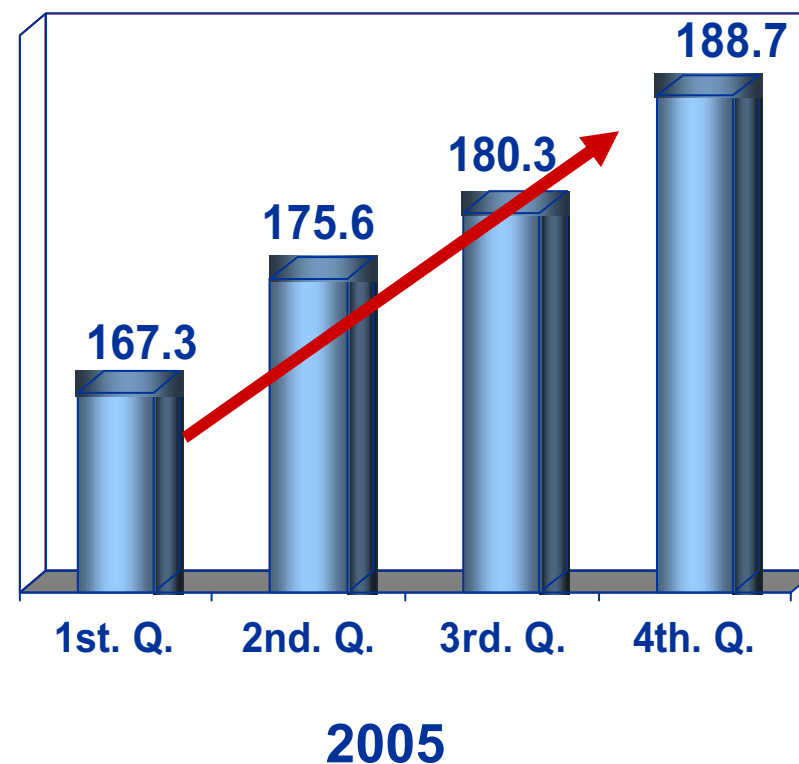
(Euro Million)



FEES FOR SERVICES

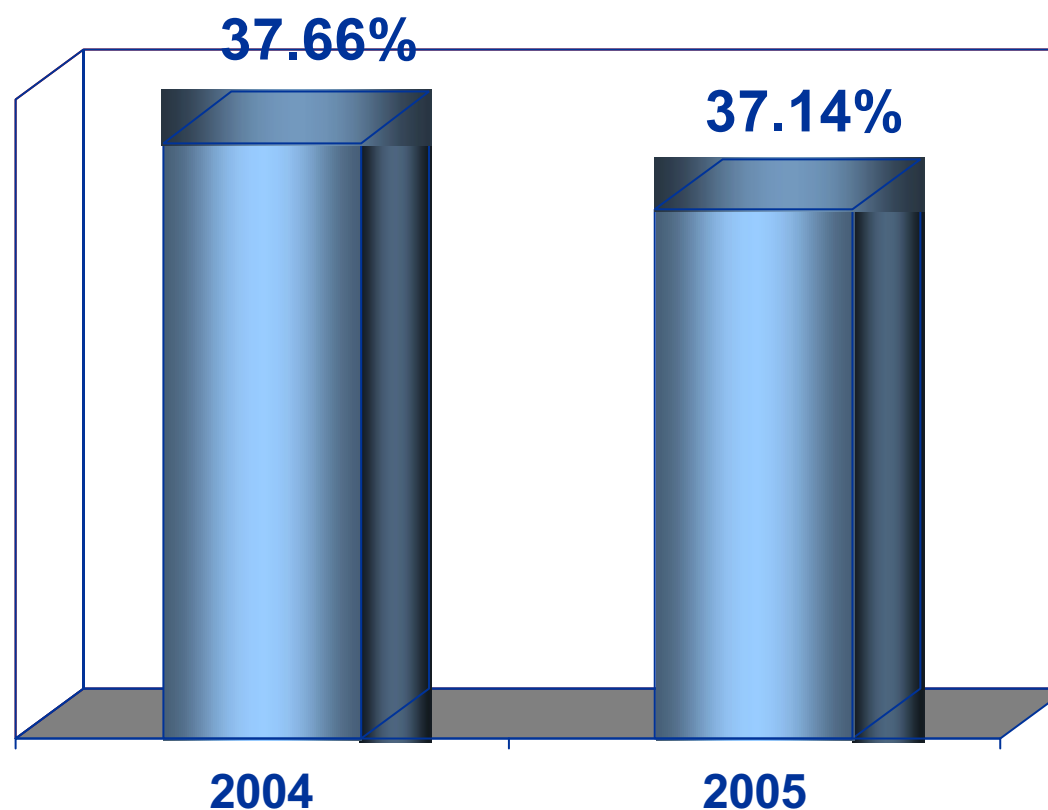
y-on-y accum.

7.9%



SOLID EARNINGS, EFFICIENCY GAINS

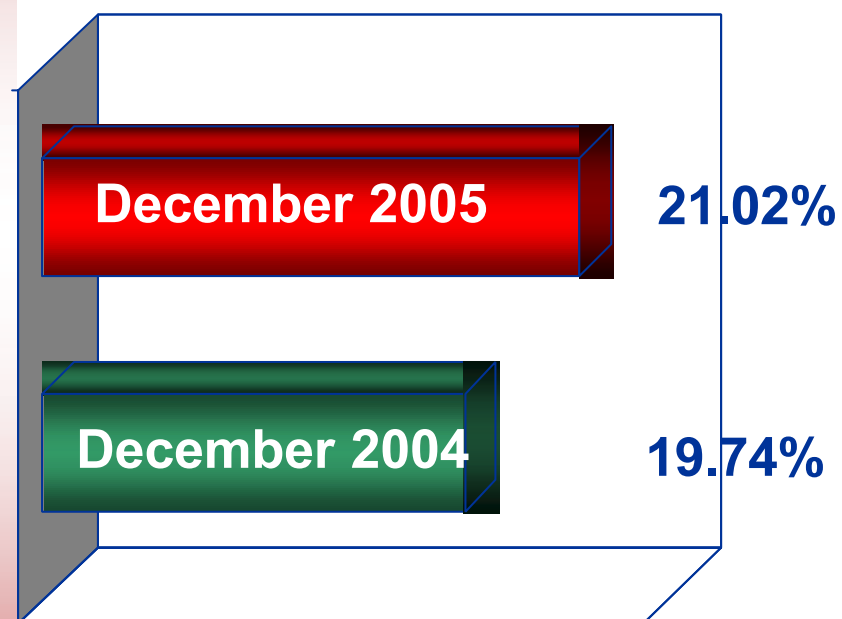
COST/INCOME RATIO



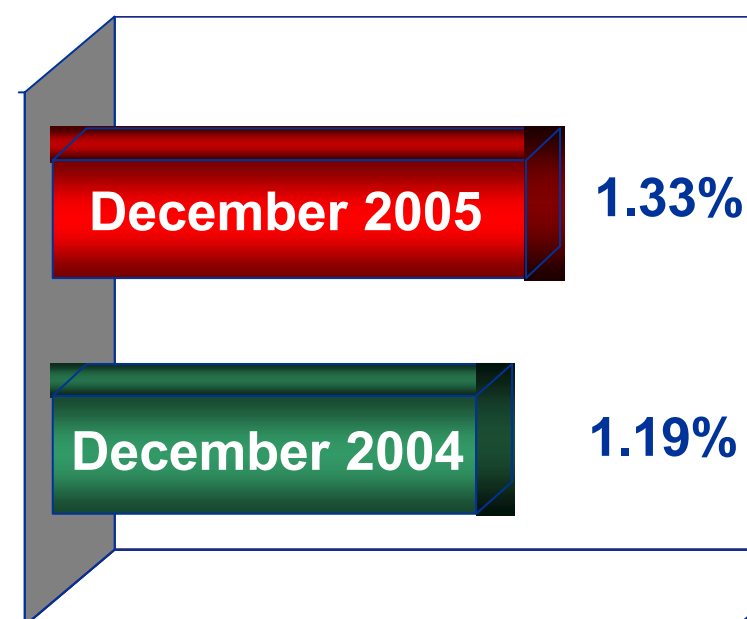
SOLID EARNINGS, EFFICIENCY GAINS

PROFITABILITY

ROE



ROA



2005 Annual Results

COMMERCIAL STRATEGY

COMMERCIAL STRATEGY

1

Banking to Individuals

2

Mass Affluent Banking

3

Private Banking

4

SME, Micro & Affinity Co. Banking

5

Affinity Banking

BANKING TO INDIVIDUALS – CONSUMER CREDIT

2005 Consumer Clients Business

Transactions in 2005

81,606 +4.20%

€ 732 M Gross annual production

7% Increase in average balance

TARGETS 2006

1 INCREASE
IN BALANCES **20%**

2 MORE PRODUCTS
MORE INNOVATION
LESS BRANCH BASED

2005 Consumer Non-client: Subprime Lending (Optiline & Miniline)

14,123 Transactions in 9 mos. in 2005

€ 52.5 M
Credit granted

8% Market share
attained in 9 mos.

TARGETS 2006

11% MARKET SHARE IN DIRECT LENDING

REACH GROSS PRODUCTION OF €76 M (+45%)

FURTHER SEGMENTATION – POSITION MINILINE
€1000 (VS. 3-4000 OPTILINE)

LAUNCH REVOLVING CREDIT SUBPRIME

BANKING TO INDIVIDUALS

New “flat-rate” account: CUENTA 

“Cuenta [CON]” Clients = High linkage and profitability

25,500

Clients in few months, out of which
60% new or little linked

RELATED
DEPOSIT 

6%

€130 M Balance at

1.24% ave. cost

+70.11%

Total in Savings Balances

+145.79%

Total in Loan Balances

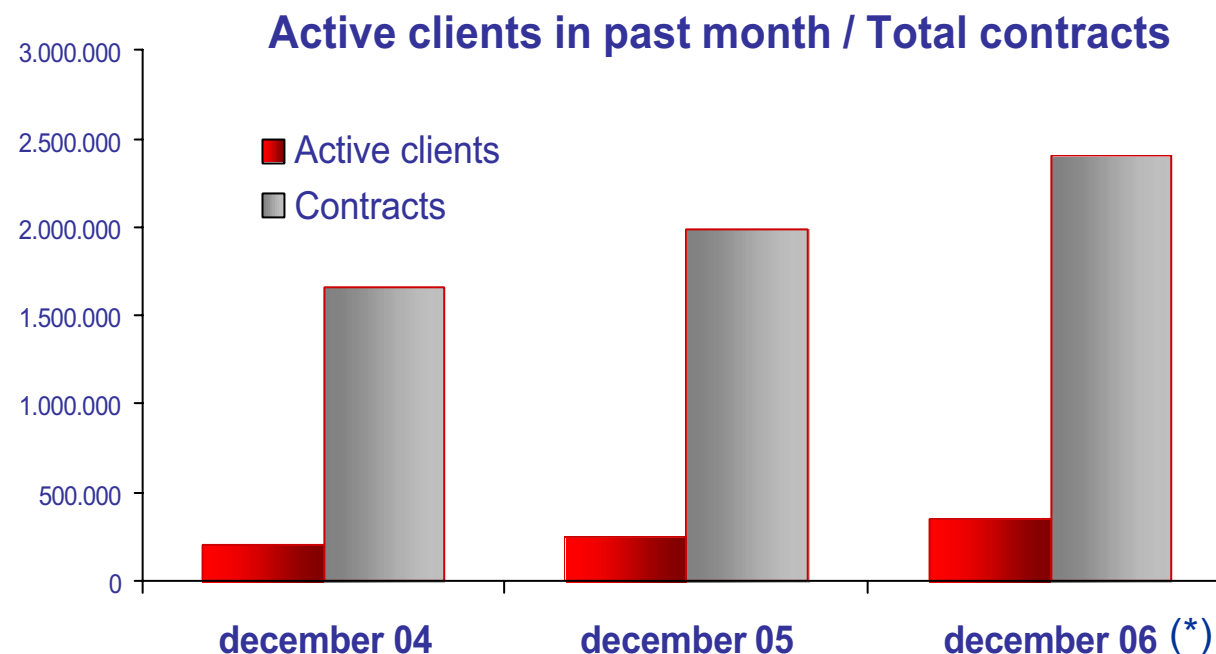
Increase in
balances of linked
clients

+46.73% In on-B/S deposits

+39.62% In loans

BANKING TO INDIVIDUALS – REMOTE BANKING

Increase number of active clients in Remote Banking



2004
211,008
Active Clients

2005
247,993
Active Clients

Target
2006

350,000
Active Clients

(*) Estimate

BANKING TO INDIVIDUALS – IMMIGRANTS & TOURISTS

Remittances Volumes

316,000 Clients
38% increase

€1,016 m Business volume
31% increase

130,000 Remittance
transactions in 2005

**Target
2006**

400,000
Clients
25% Increase
in business volume

Residential Tourism. Long term stay

283,000 Clients
12% increase

€3,032 m 2.84% increase

**Target
2006**

325,000
Clients
15% Increase
in business volume

BANKING TO INDIVIDUALS – YOUNGER SEGMENTS



	2004	2005
Member clients	124,000	161,000 (+24%)
Products/Client	5.83	7.14

Target
2006

200,000
Member clients

“Club Pop” model: very successful targeting:

Young 18-28 years

	2.05x more profitable	€ 273.31 gross revenue Vs. € 133.40 for other
	2.62x more linkage	7.14 products/customer Vs. 2.73 for other

BANKING TO INDIVIDUALS – CLUB SENIOR



	31-12-05	31-12-04	% Change
Cards	122,604	112,782	8.71
Direct Debit Pension Clients	87,457	80,308	8.90
Time Deposits (€ 000's)	989,133	904,734	9.33
Demand Deposits (€ 000's)	822,500	718,400	14.49

MASS AFFLUENT BANKING

2005 Performance

119,567	Number of clients	23% Increase
€16,242 bn	Net worth under management (*)	24% Increase

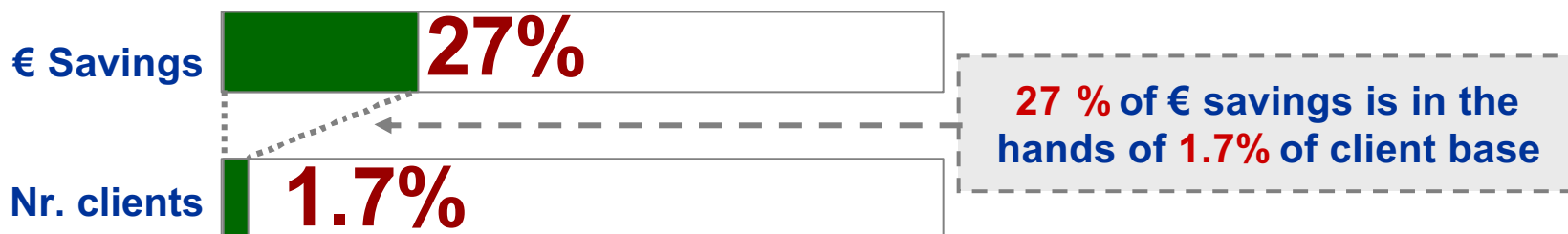


€ 3 bn.
additions
Through intensified
Commercial action

* On and off-Balance Sheet

MASS AFFLUENT BANKING – CLIENT PROFILE

€ 1,630 average revenue/yr.		Vs.	€ 443 for non mass affluent clients	
linking	9	products/customer	3.3	products/customer Group average



2006 COMMERCIAL ACTION

Support of Branch Network in commercial action with clients

Increased product innovation for asset gathering

Continued development of commercial tools

Continued emphasis on specialised training for personal banking managers already on the job

PRIVATE BANKING

2005 Performance

Net new inflows

€1,030 +102%

75% Of asset gathering
from outside of Group

€27 Million revenue stream
(+45% y-o-y)

SME, MICRO & AFFINITY CO. BANKING

520,203

Total corporate & self employed clients

SMEs

Retailers

Self-employed

437,215

82,988

RESULTS OF
COMMERCIAL
CAMPAIGNS IN
2005

4,396

New
SMEs

7,533

Nr. of Flat-rate
accounts

€2,304 m

Risk outstanding

18,500

Products
sold

€1,824 m

Savings under
managemet

€317 m

Additional
business
volume

26,566

Point of sale
terminals

8,367

New clients

7.10%

Market share
(+1%)

258,492

Corporate
Affinity clients

+32.0

increase

TOTAL RISK

€ 14,102 m

+46.9%

TOTAL SAVINGS

€ 3,371 m

+54.4%

2005

Annual Results

48

AFFINITY BANKING - INDIVIDUALS

Growth & Linkage

433,090

Nr. of individual affinity
clients (+15%)

7.19

Products per customer

Target
2006

20%

Growth in business volume
Maintain linkage

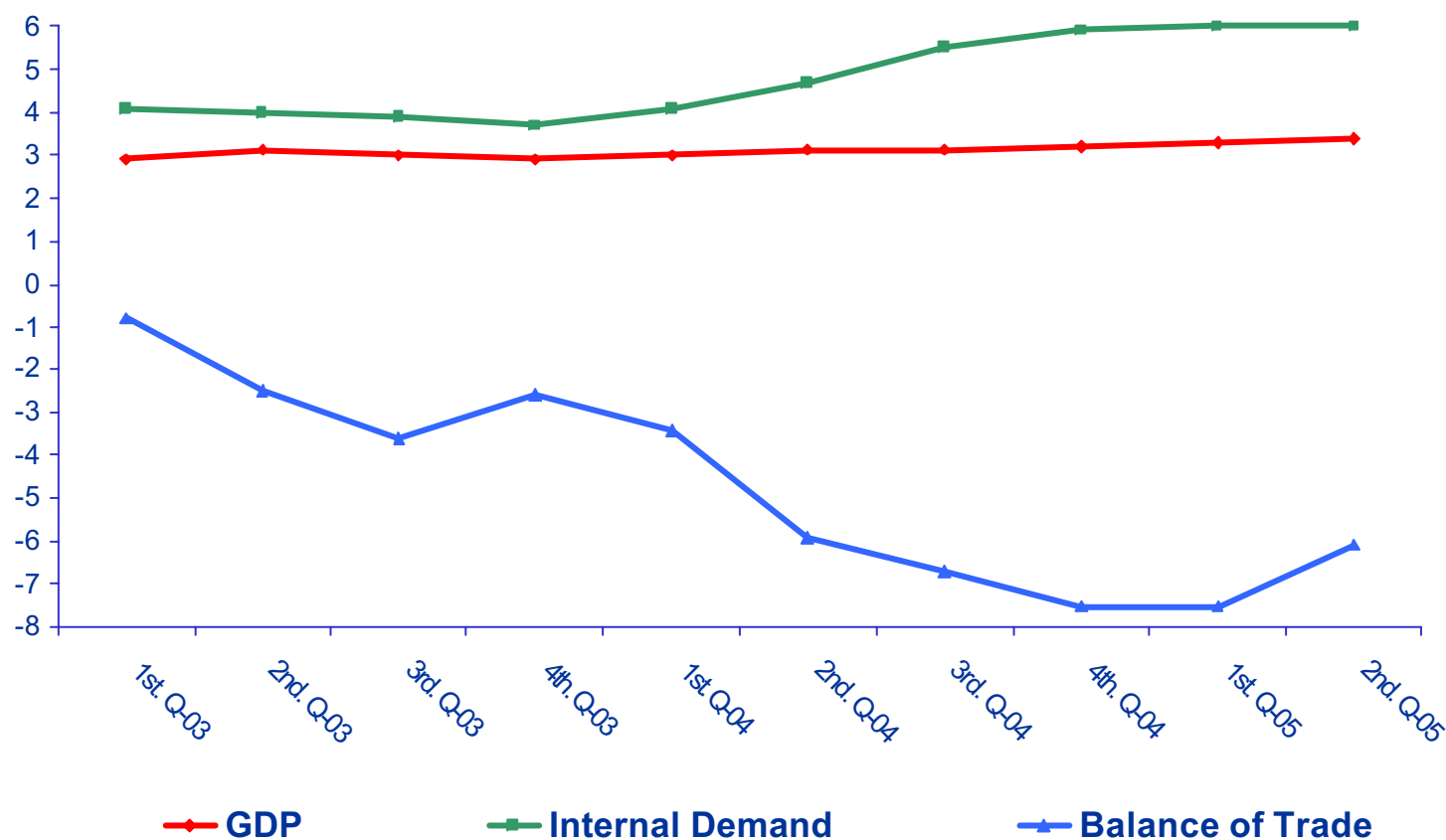
15%

In number
of clients



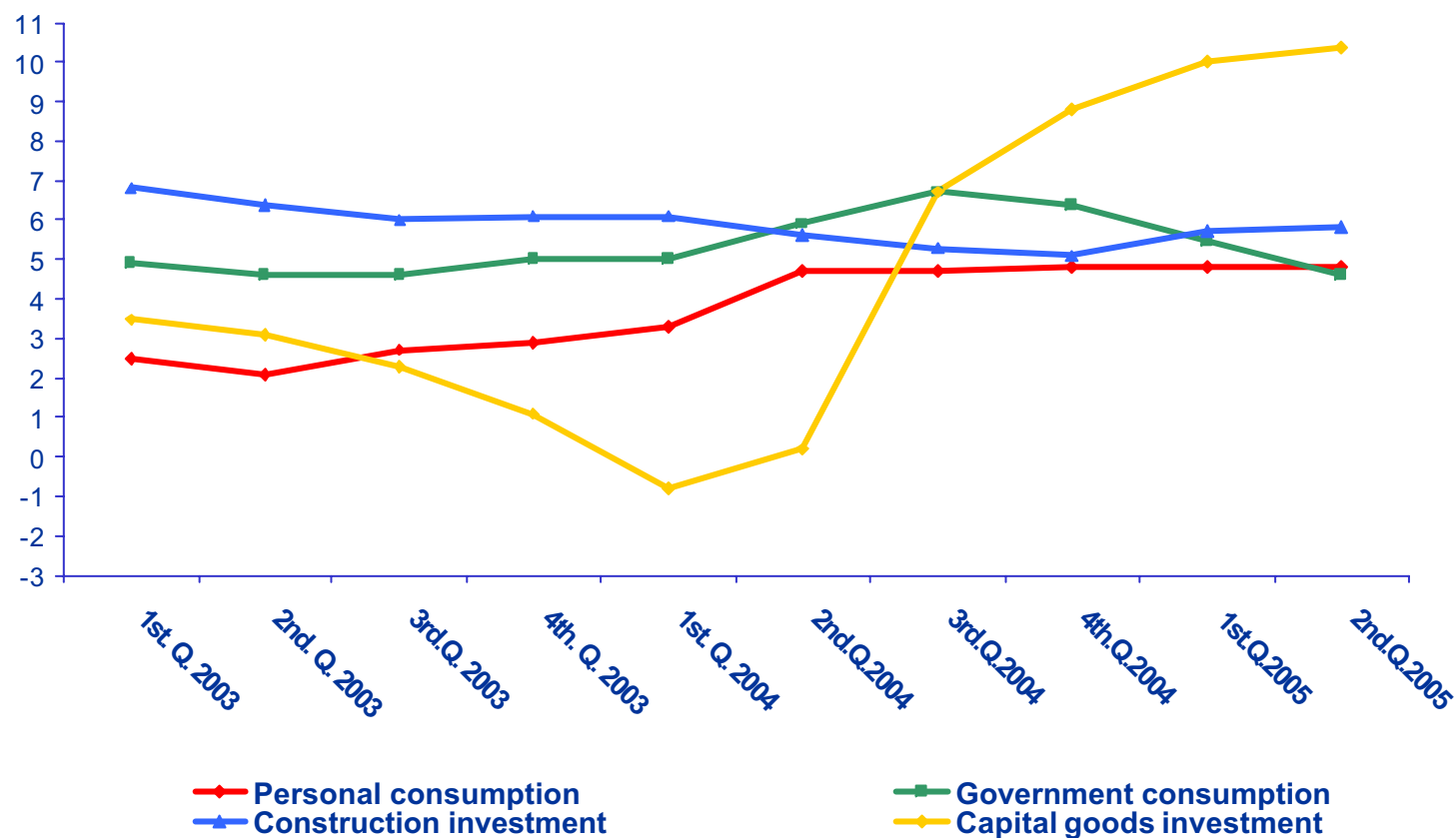
Annex

MACROECONOMIC PARAMETERS IN SPAIN



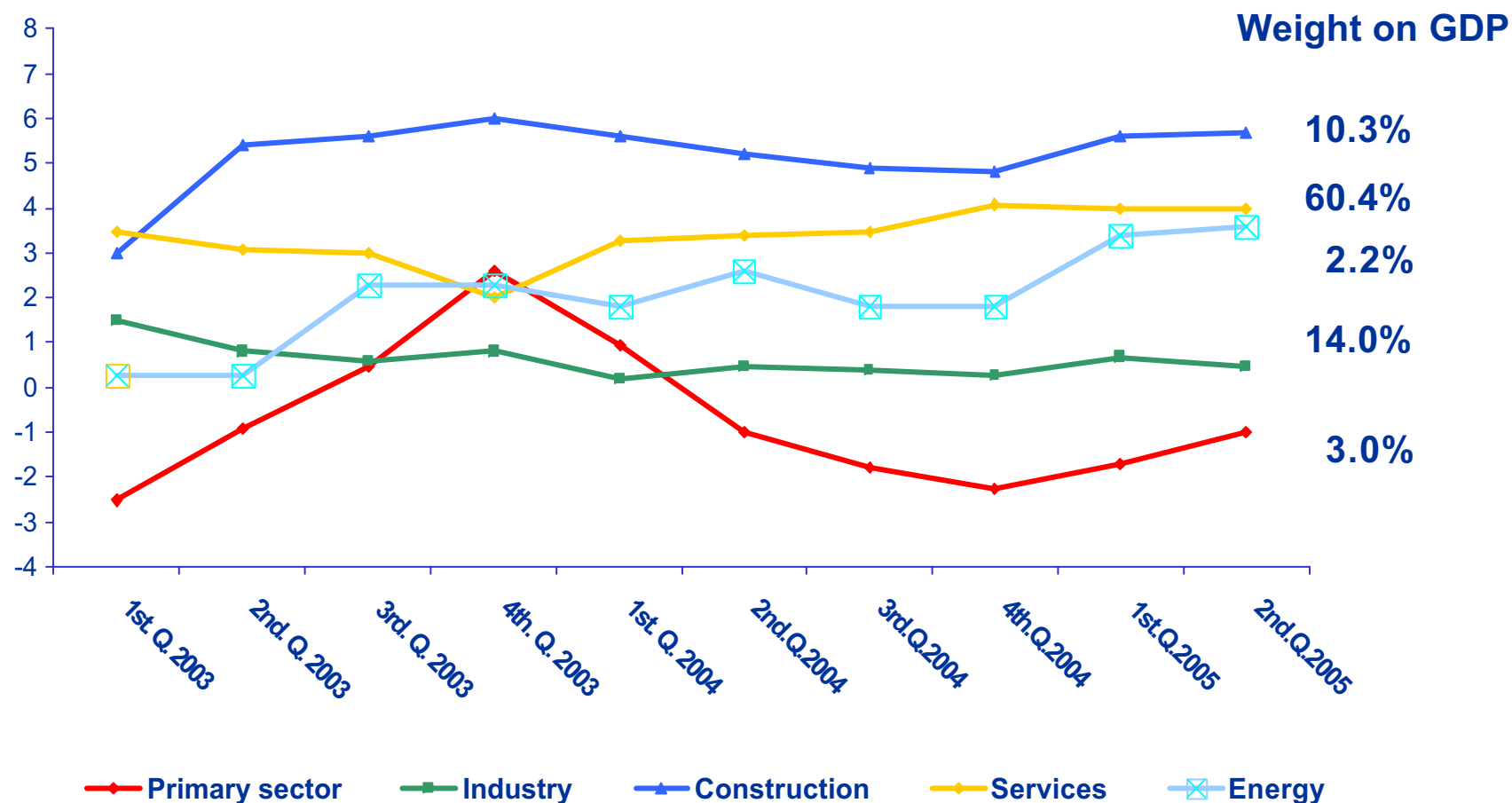
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MACROECONOMIC PARAMETERS IN SPAIN



Source: INE

MACROECONOMIC PARAMETERS IN SPAIN



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