

# FINANCIAL RESULTS

## First nine months 2010

October, 29<sup>th</sup> 2010

The logo for Banco Popular, featuring a stylized 'B' icon to the left of the text 'BANCO POPULAR' in a sans-serif font.

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# Agenda

**1. Summary remarks and financial highlights**

**2. Revenues and operating performance**

**3. Business drivers**

**4. Risk management**

**5. Liquidity and balancing assets and liabilities**

**6. Financial Strength and Basel III**

**7. Closing remarks and outlook**



## Summary remarks 9M-2010

- **€521m net profit. 19.9% down y/o/y.**
- **Results to date as planned and guided: lower NII and lower Credit Provisions.**
- **Strong generation of recurrent revenues. €1,530m provisions, so far this year, devoted to Credit & Real Estate, only partially compensated by the Crédit Mutuel transaction and other gains.**
- **NPL trends look stable. Our bad debt ratio remains below the industry.**
- **The crisis however is far from over yet. That is why we keep building reserves.**
- **But in this challenging times, Popular keeps growing & gaining quality market share.**



## Financial Highlights

<i>(€, million)</i>	To Sept-10	To Sept-09	Change (€m)	Change (%)
<b>Net interest income</b>	<b>1,895</b>	<b>2,120</b>	<b>-225</b>	<b>-10.6%</b>
Fees and commissions	559	579	-20	-3.5%
Trading income	107	243	-136	-56.0%
Other income	104	82	+22	+27.1%
<b>Gross operating income</b>	<b>2,665</b>	<b>3,024</b>	<b>-359</b>	<b>-11.9%</b>
Expenses	962	956	+6	+0.7%
<b>Pre-provisioning profit</b>	<b>1,703</b>	<b>2,068</b>	<b>-365</b>	<b>-17.7%</b>
Provisioning expense (net)	-29	-25	-4	16.7%
Provisions for loans and investments	1,070	1,223	-153	-12.5%
Extraordinary items , net	60	48	+12	+27.7%
<b>Profit before tax</b>	<b>722</b>	<b>918</b>	<b>-196</b>	<b>-21.3%</b>
<b>Net profit</b>	<b>521</b>	<b>651</b>	<b>-130</b>	<b>-19.9%</b>
<b>Non-performing ratio</b>	<b>5.17%</b>	<b>4.63%</b>	-	<b>+54 b.p.</b>
<b>Efficiency ratio</b>	<b>33.49%</b>	<b>29.06%</b>	-	<b>+4.43 p.p.</b>
<b>Loans to deposits ratio</b>	<b>151.0%</b>	<b>170.2%</b>	-	<b>-19.2 p.p.</b>
<b>Core Capital</b>	<b>8.7%</b>	<b>7.8%</b>	-	<b>+81 b.p.</b>



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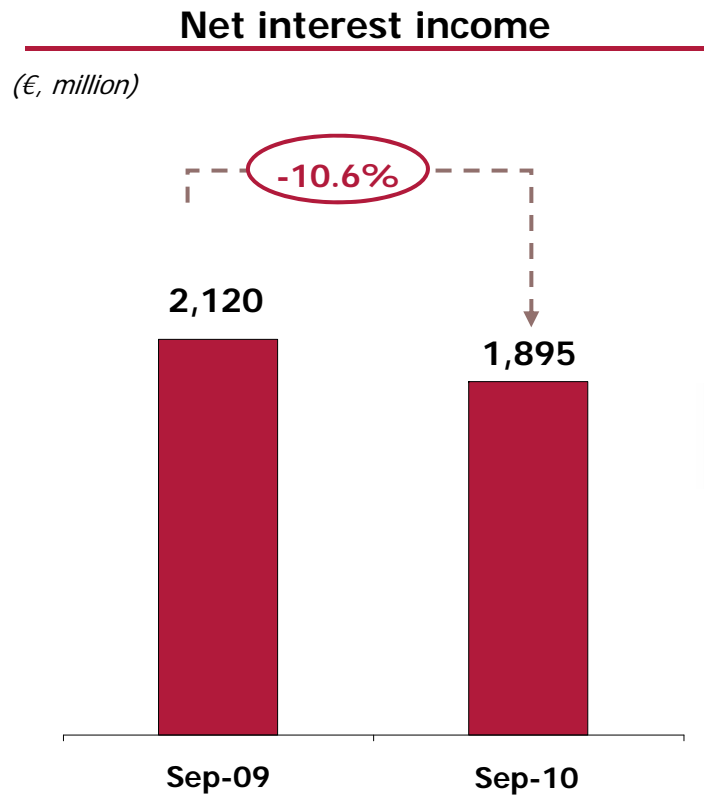
5. Liquidity and balancing assets and liabilities

6. Financial Strength and Basel III

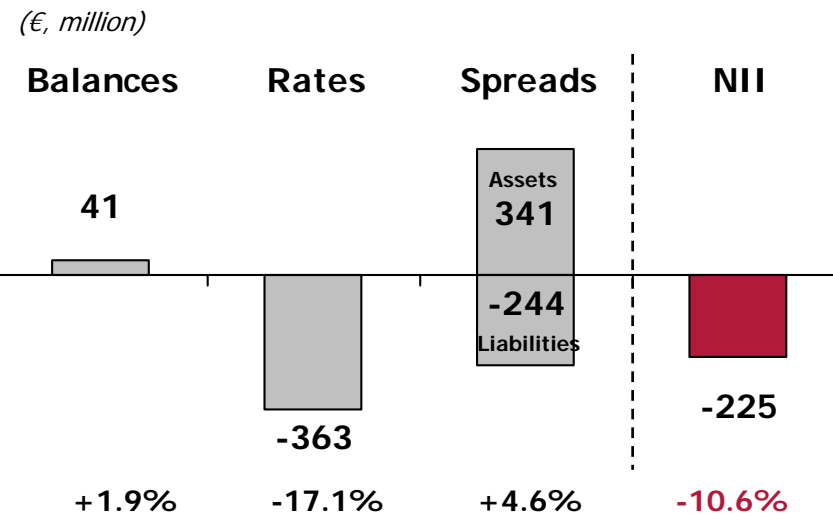
7. Closing remarks and outlook



# NII declines in line with expectations as a consequence of the yield curve, asset-liabilities repricing mismatch and the higher cost of funding



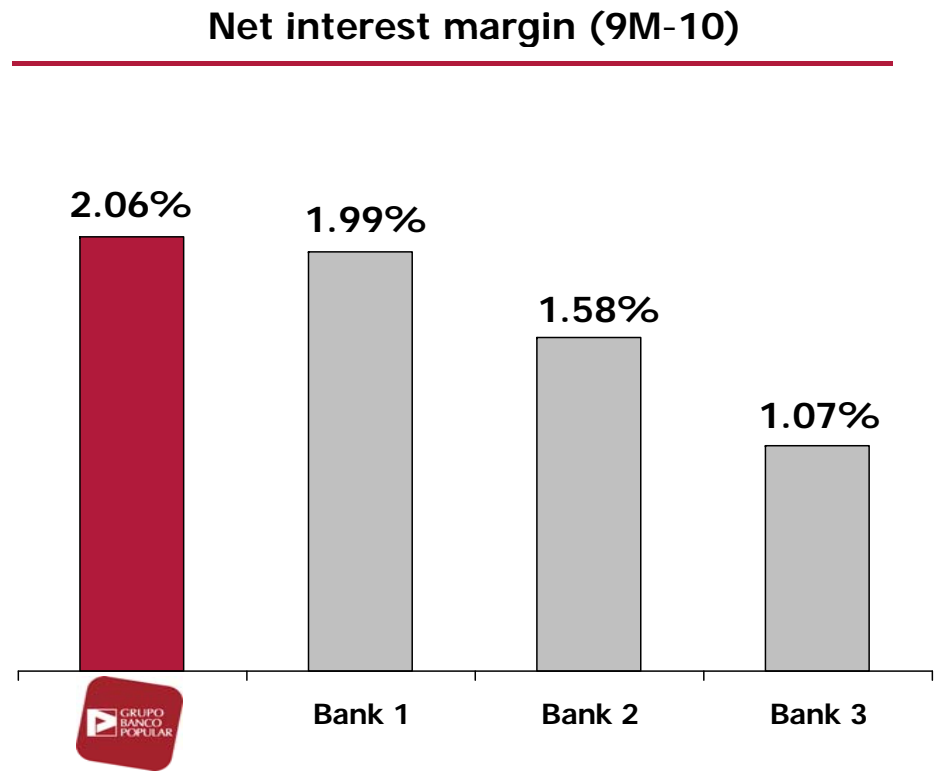
### NII Impact from Rates, Spreads and Balances



Average monthly Euribor 12 months to Sep-09: 3.63%  
Average monthly Euribor 12 months to Sep-10: 1.33%



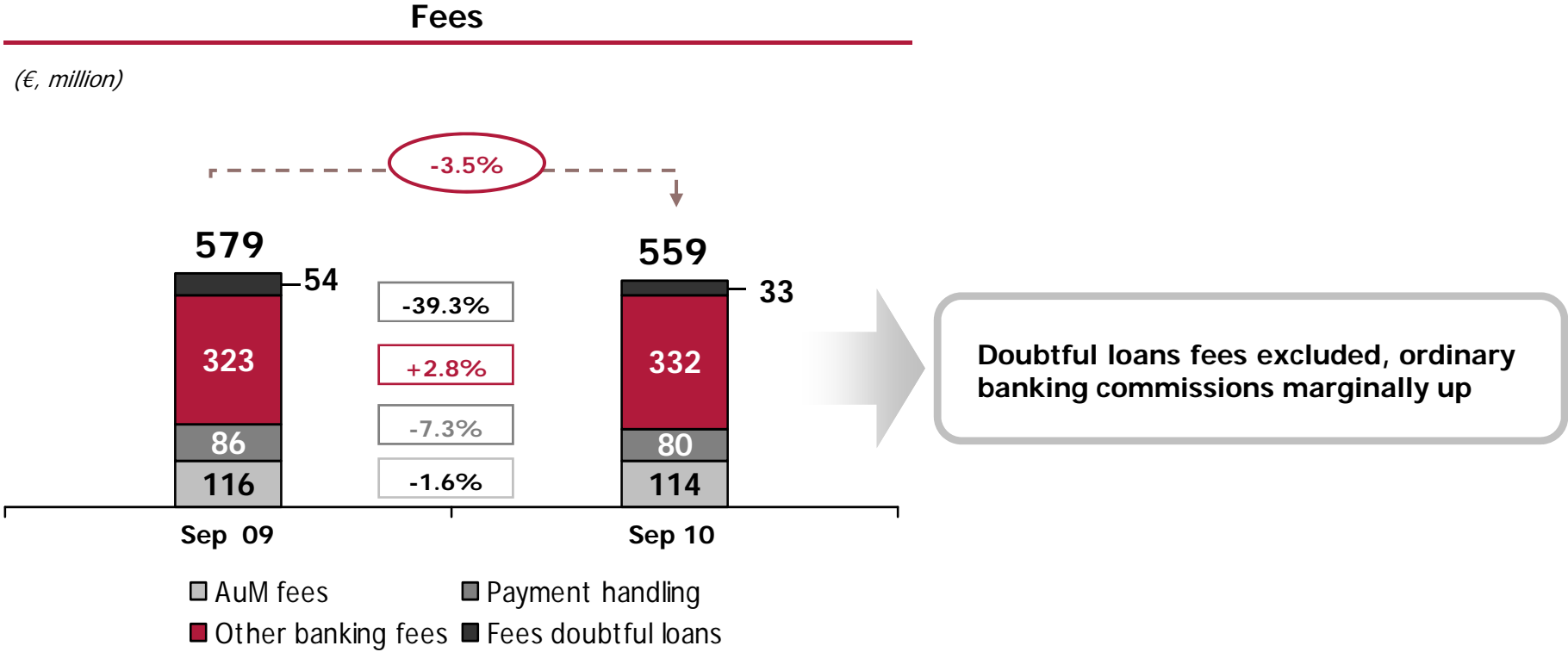
# Popular maintains the highest NIM amongst peers despite the tough competitive environment



Source: Quarterly reports.

Note: Comparable banks include, Banesto, Sabadell and Bankinter.

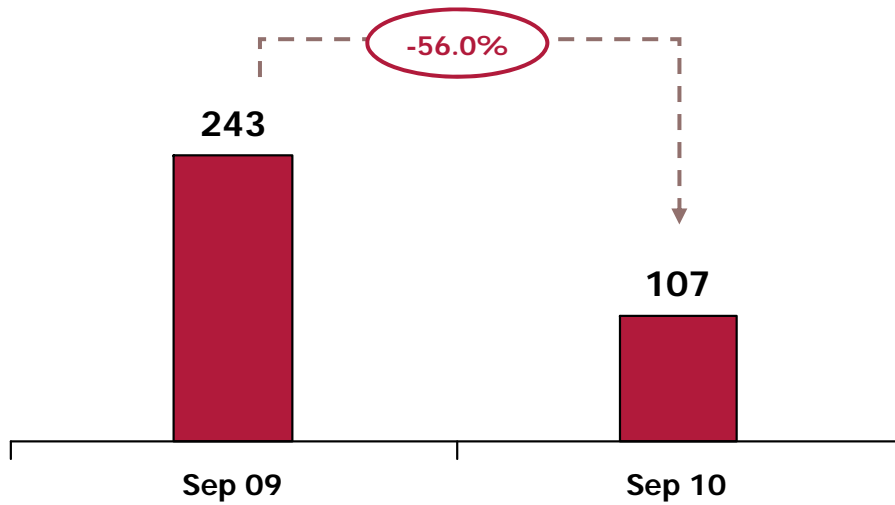
# Fees remain under pressure, though banking fees are already mildly growing while AuM fees stabilizes



# 9M-10 Trading profits have been lower. Other revenues up by 27.1%

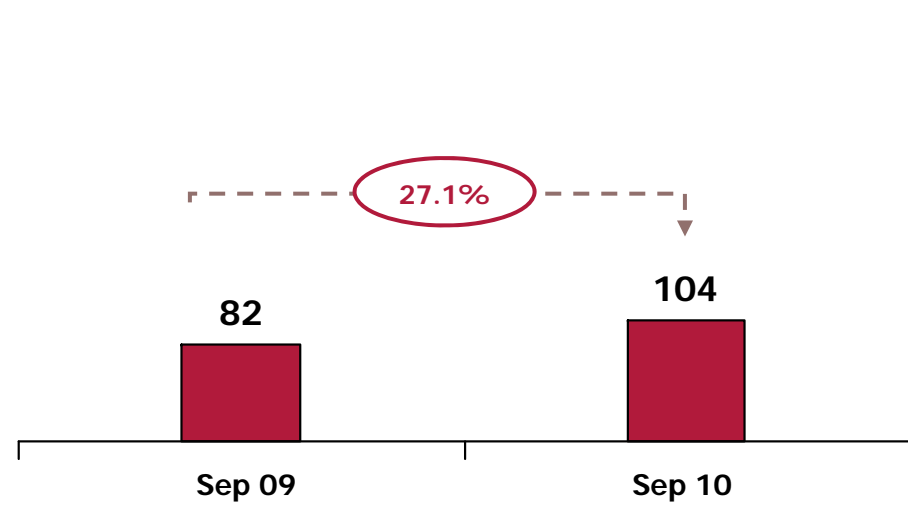
## Trading profits

(€, million)

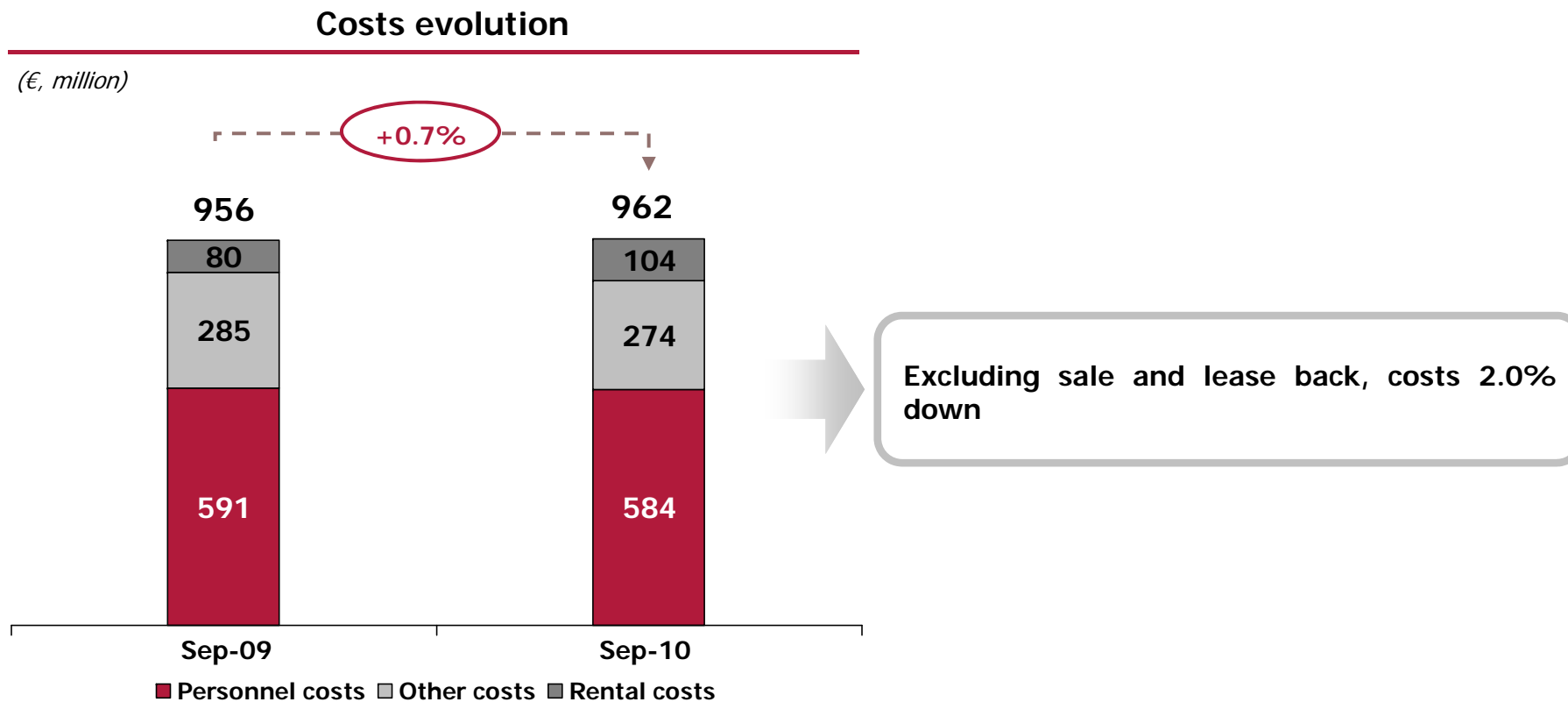


## Other income

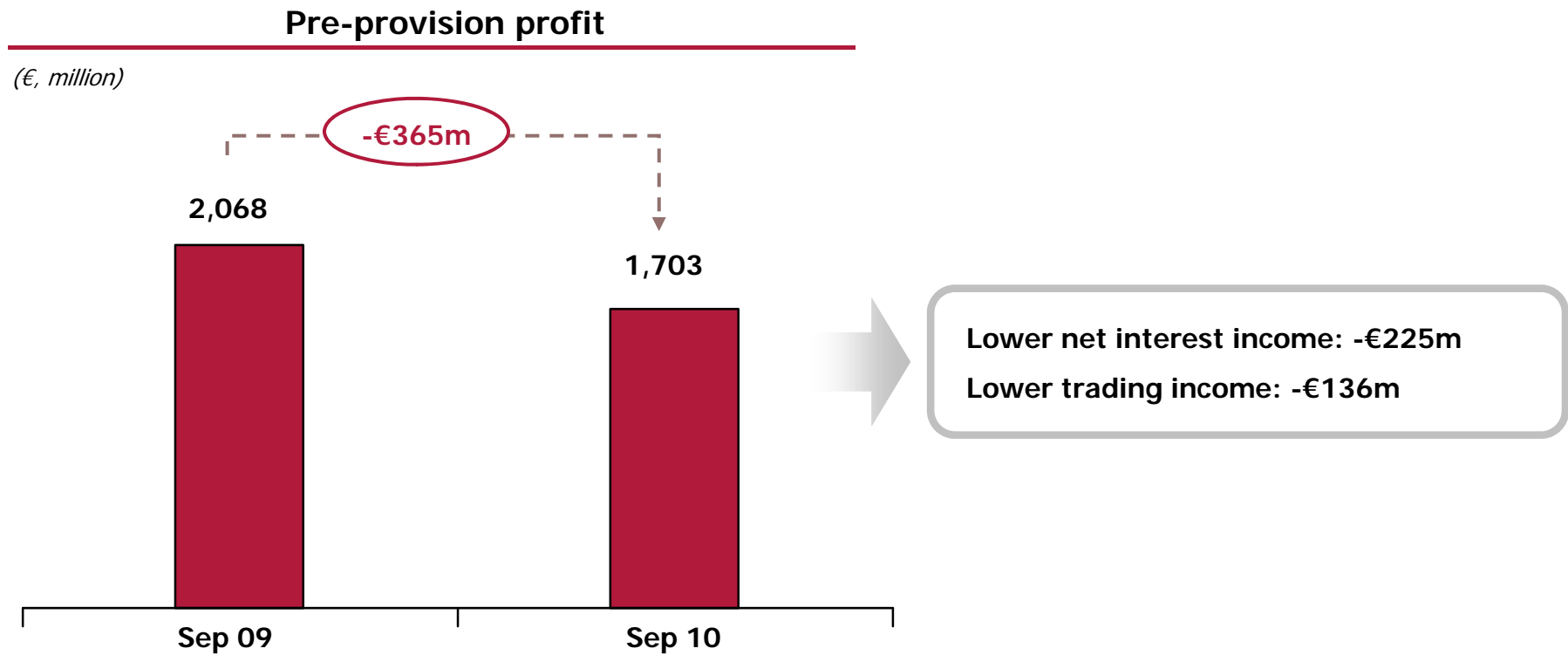
(€, million)



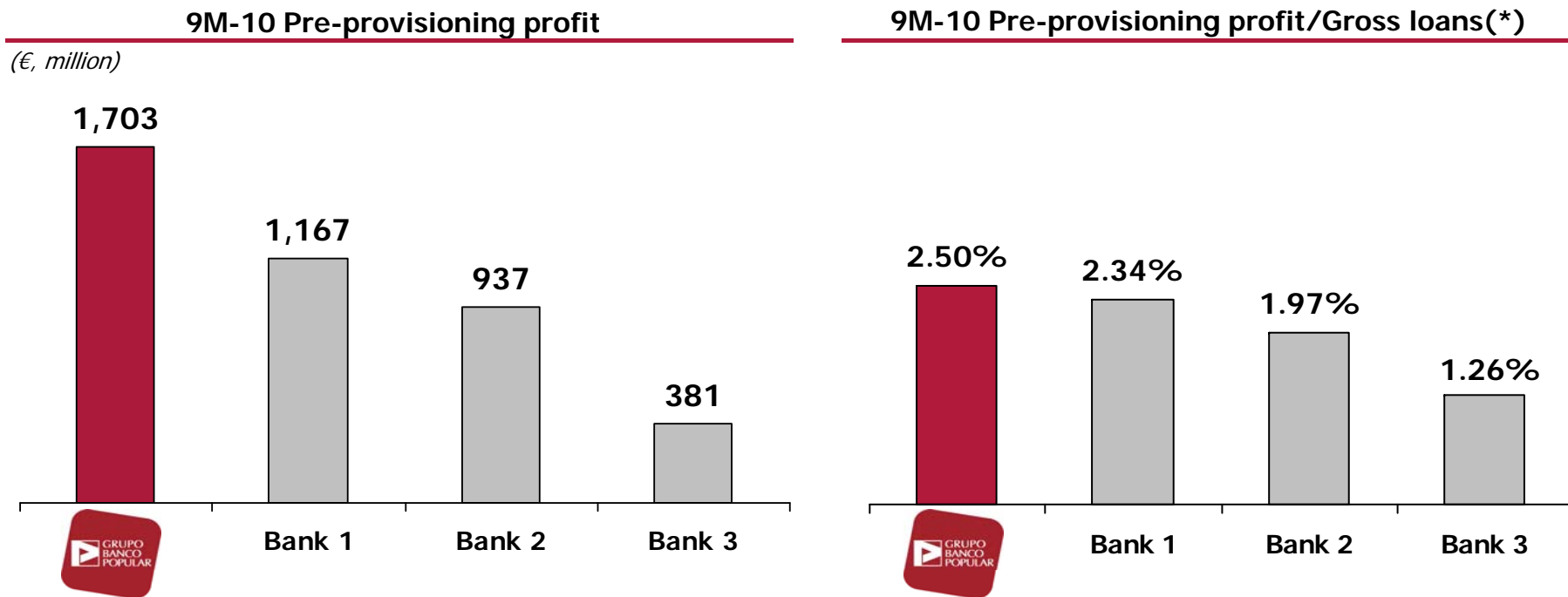
# Costs remain under control though slightly up due to the sale & lease back expenses



# Our pre-provisioning profit provides us an *exceptional* capacity to set aside provisions for this adverse cycle

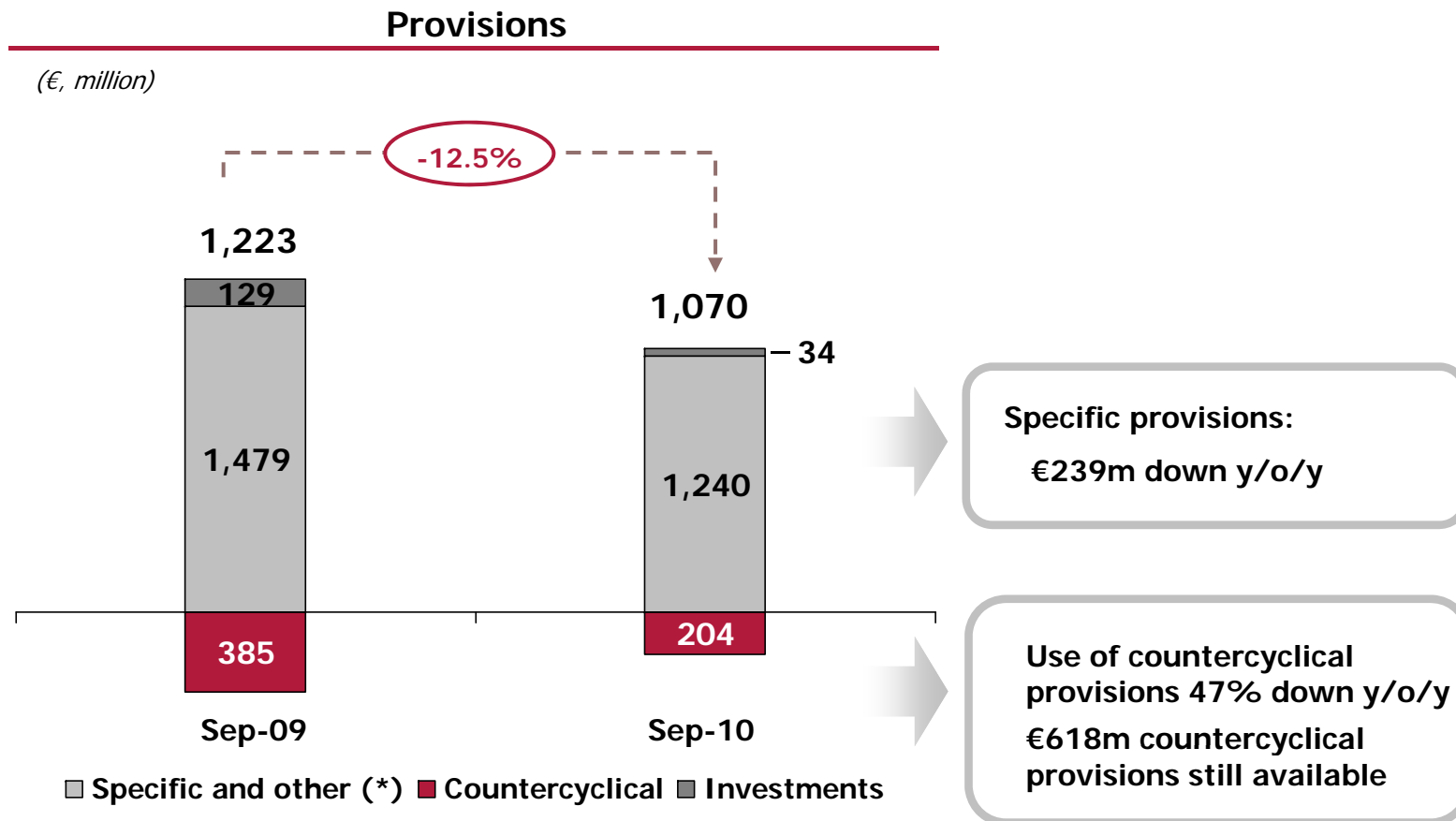


# In relative & absolute terms, our Pre-provision profit stands again well above other banks



Source: Quarterly reports and analysts reports.  
 Note: Comparable banks include, Banesto, Sabadell and Bankinter.  
 (\*) Annualised quarterly pre-provisioning profit/ 9 months average loans to customers.

On provisions, as advised and planned for 2010, we booked in 9M-10 *less specific provisions and we release less countercyclical*

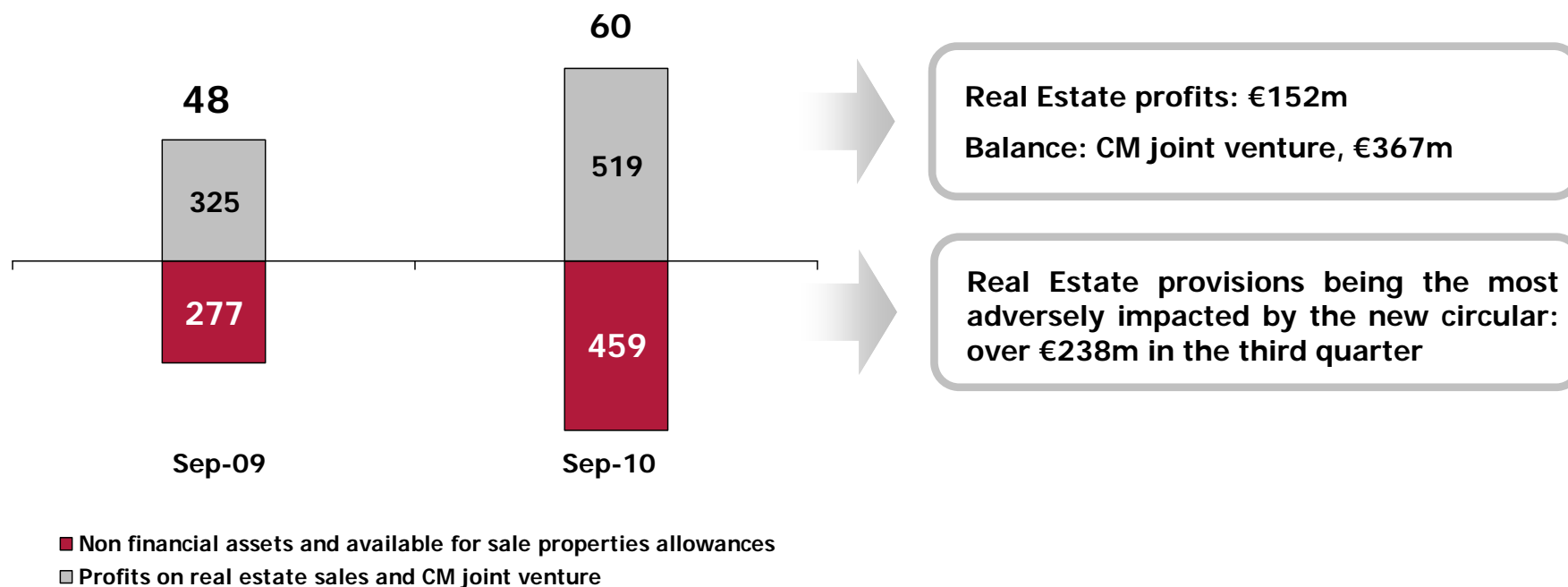


(\*) Net of Country Risk and Recoveries from written off loans.  
 N.B: Impact of the New Circular: -€38m.

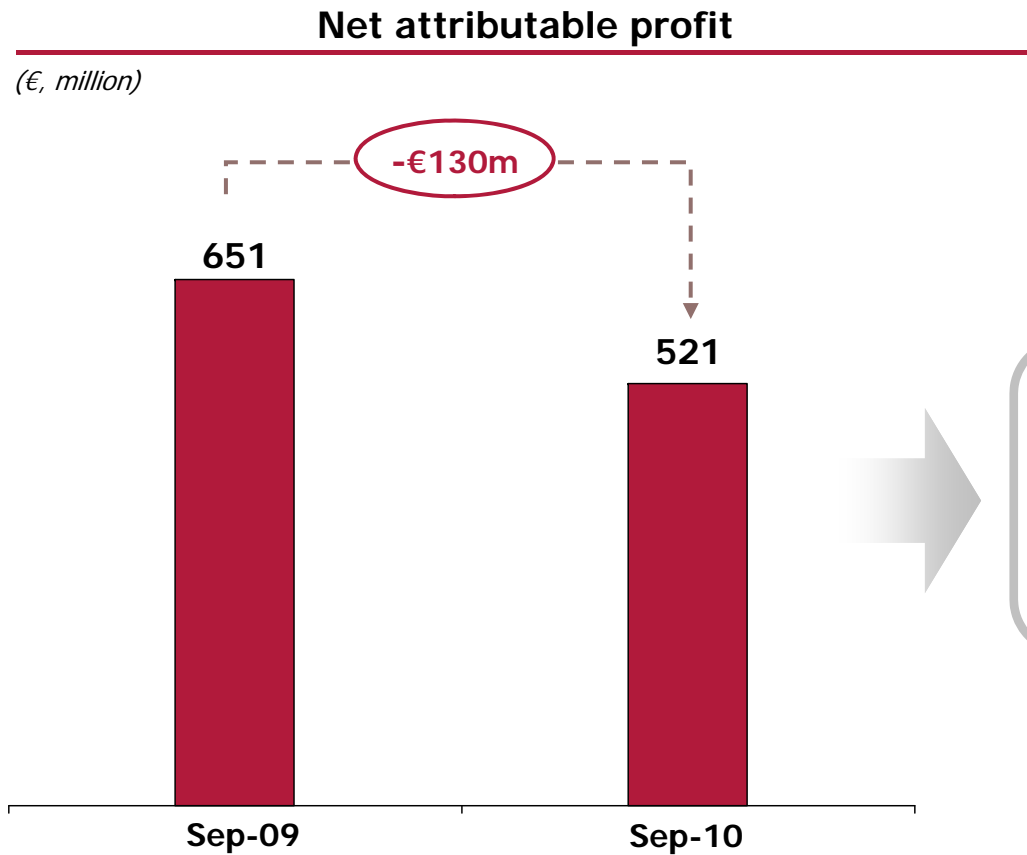
On the extraordinary front, we keep largely compensating Real Estate provisions (ahead of timetable to take the coverage of non current assets available for sale over the current mandatory levels) with capital gains and profits in other Real Estate assets

### Extraordinary items<sup>(\*)</sup>

(€, million)



# All in all, net profit at €521m



....€130m below 9M2009, but bear in mind....

- Lower net interest income: €225m (A)
- Lower trading income: €136m (A)
- New BofSpain Circular, €276m (A)



(A): Adverse. Gross figures.

## P&L Recap.

<i>(€, million)</i>	To Sep-10	To Sep-09	Change (€m)	Change (%)
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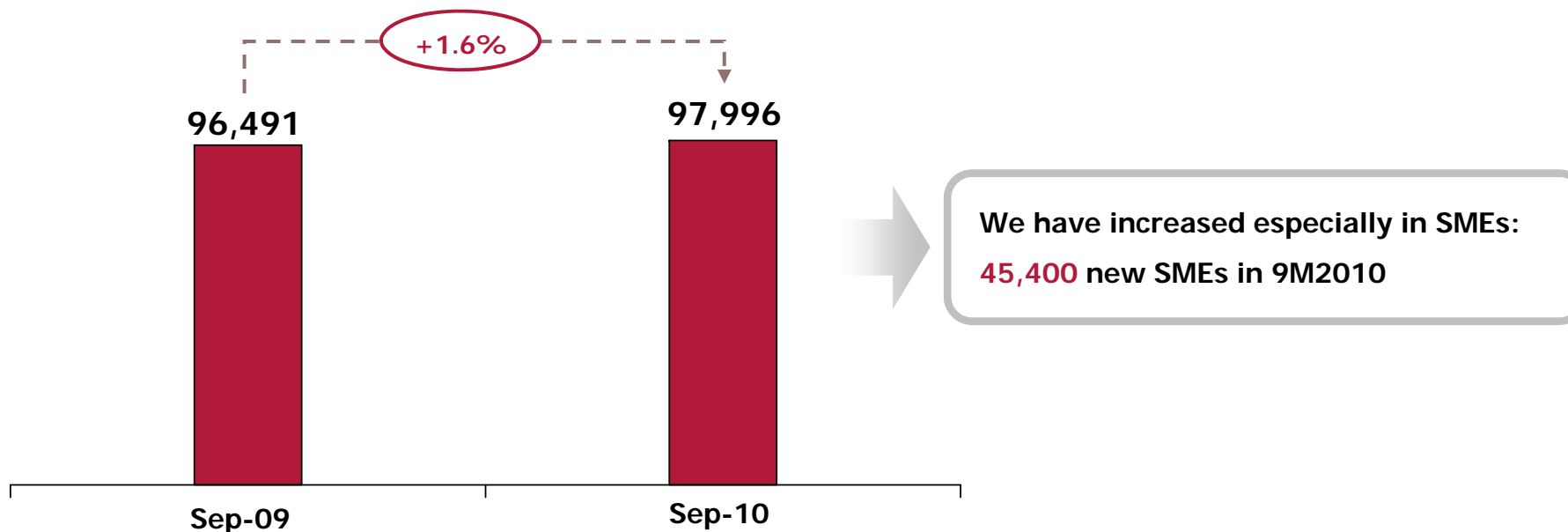
7. Closing remarks and outlook



Despite tough economic conditions, our loan book grew by 1.6%. We are capturing quality market share

Loans evolution: another market share gain (+ 20 b.p)<sup>(1)</sup>

(€, million)

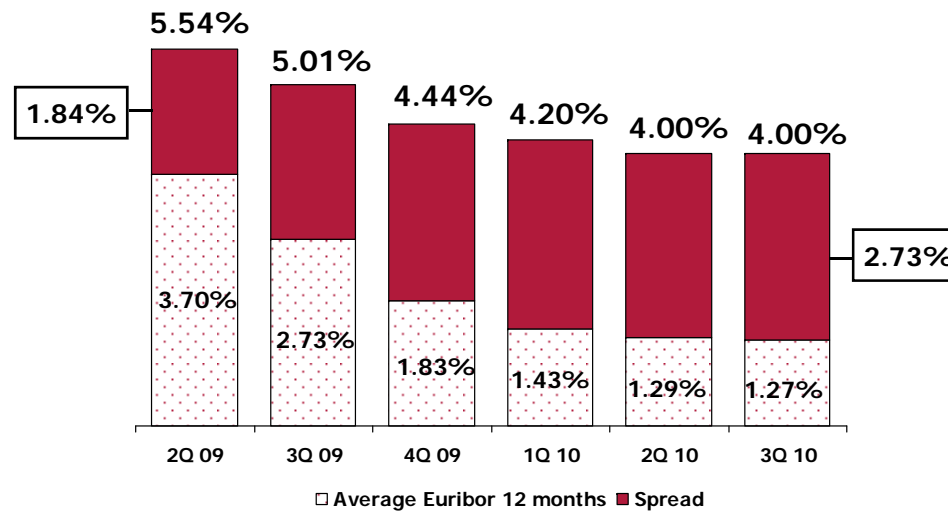


<sup>(1)</sup> As of August-10. Bank of Spain.

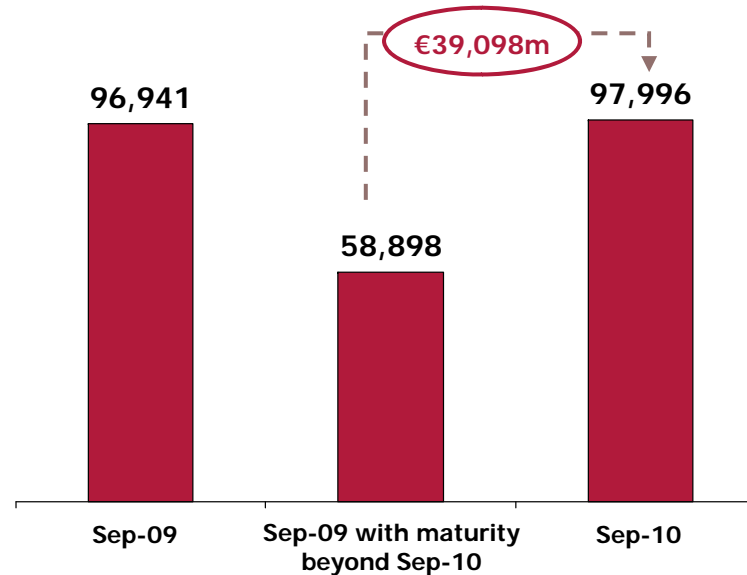
N.B: Average growth of banks and saving banks as of August 2010: -0.5%.

# We are managing spreads and we are able to increase them

## Ability: Loans Yields



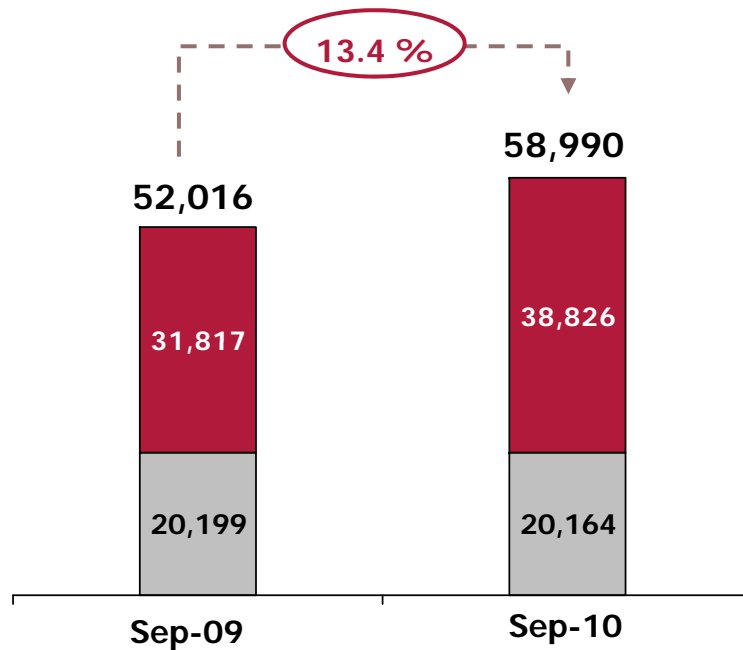
## Capacity: Low duration of lending book



# On deposits, we have achieved an exceptional 13.4% retail deposit growth (ex-repos) y/o/y. 21.5% with repos

## Client deposit evolution: another market share gain (+42 b.p)

(€, million)



**141,000** new customers retail & well diversified :  
**EUR 40,000** average deposit per contract  
**€6,486m** reduction of the commercial gap y/o/y

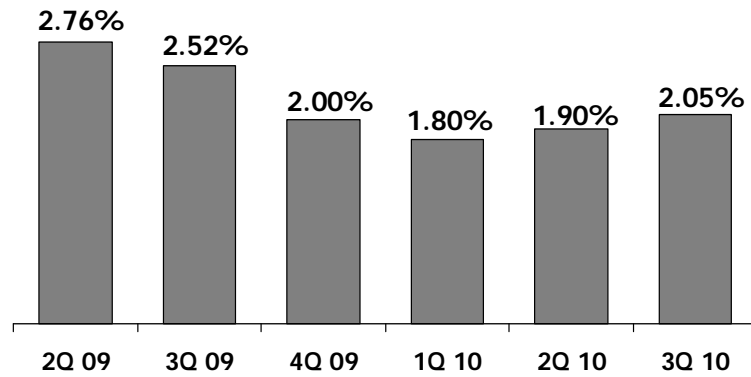
■ Current accounts ■ Others



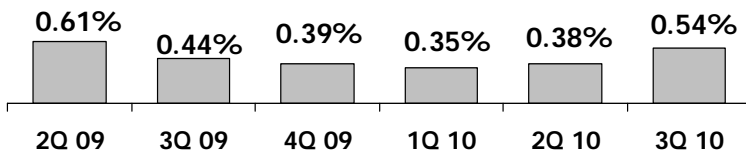
Source: Bank of Spain. Data as of August-10.  
 N.B: Average growth of Spanish industry as of August 2010: 0.7%.

# Our retail costs remains reasonable in spite of current "deposit war"

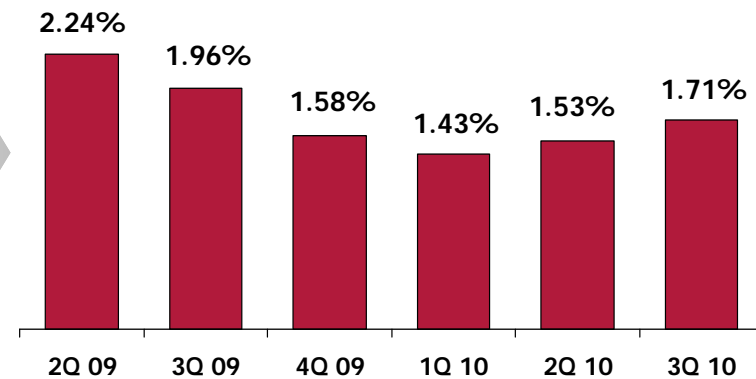
## Retail interest cost : Term deposits



## Retail interest cost : Current accounts



## Average weighted cost



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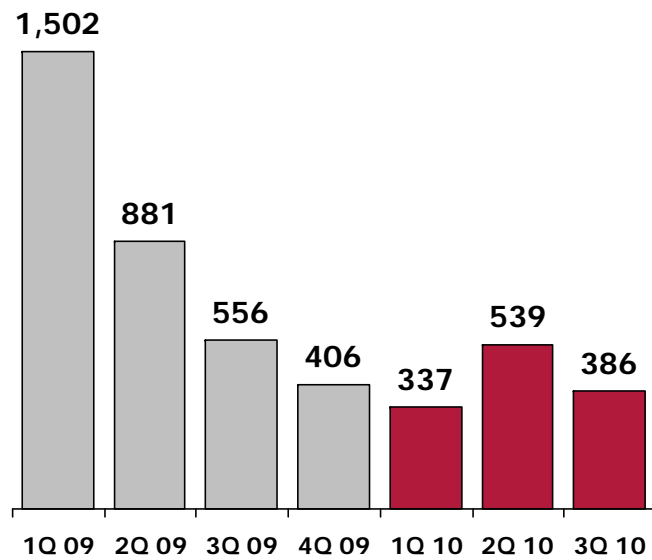
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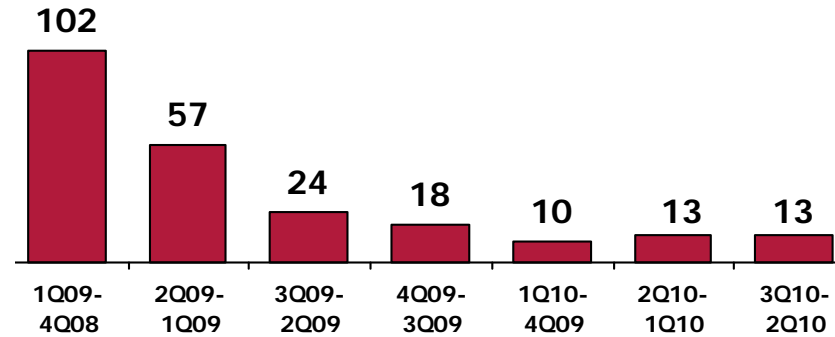
# Net entries stabilize at lower levels

Evolution of net entries of NPLs

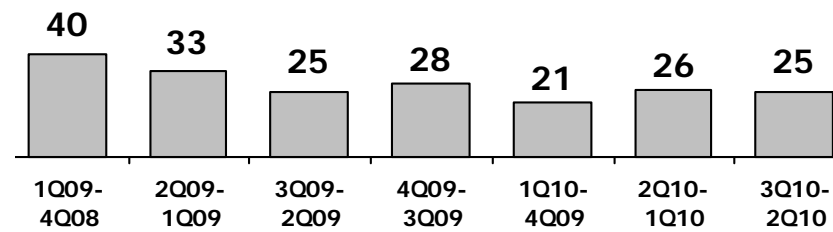
(€, million)



Popular NPL ratio quarterly growth (b.p)



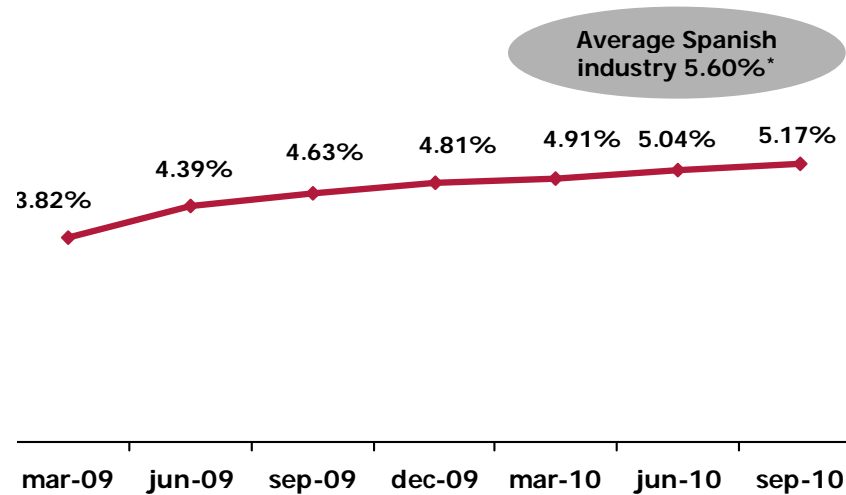
Peer's average NPL ratio quarterly growth (b.p.)\*



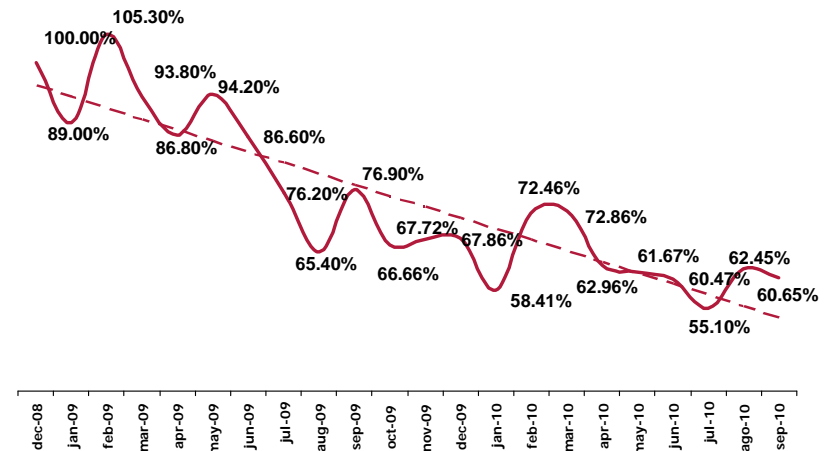
(\* Average peers: Banesto, Sabadell and Bankinter.

# Our NPL ratio is below the industry's and within the guidance. Early indicators follows the right trend

### NPL ratio evolution



### Banco Popular's late/missed payment (30-90 days past dues) index evolution<sup>(1)</sup>



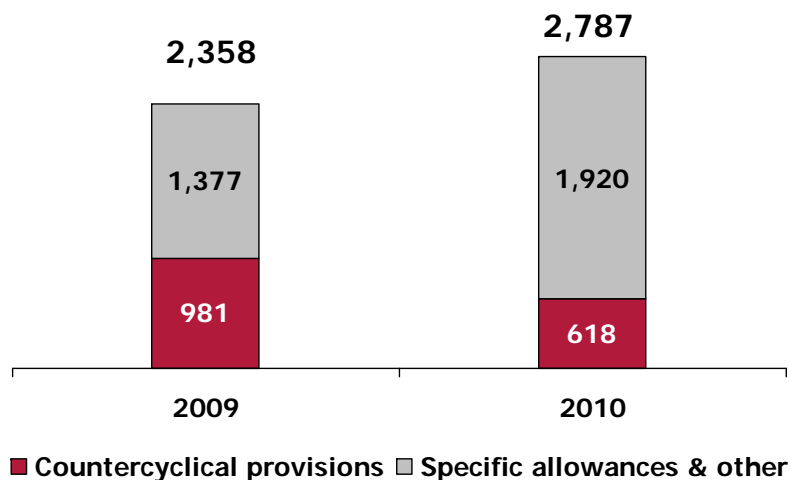
(\*) Average of banks and saving banks as of August 2010. Other resident sectors. Source: Bank of Spain.

<sup>(1)</sup>Note: Index shows evolution of € volume of Banco Popular's clients who have missed or defaulted payments (30-90 days) but are not yet "non performing" according to Bank of Spain regulations. Base of as December 2008. Data as of the beginning of each month.

# Our coverage stands as of Sep-10 at 97.2% of the NPL stock

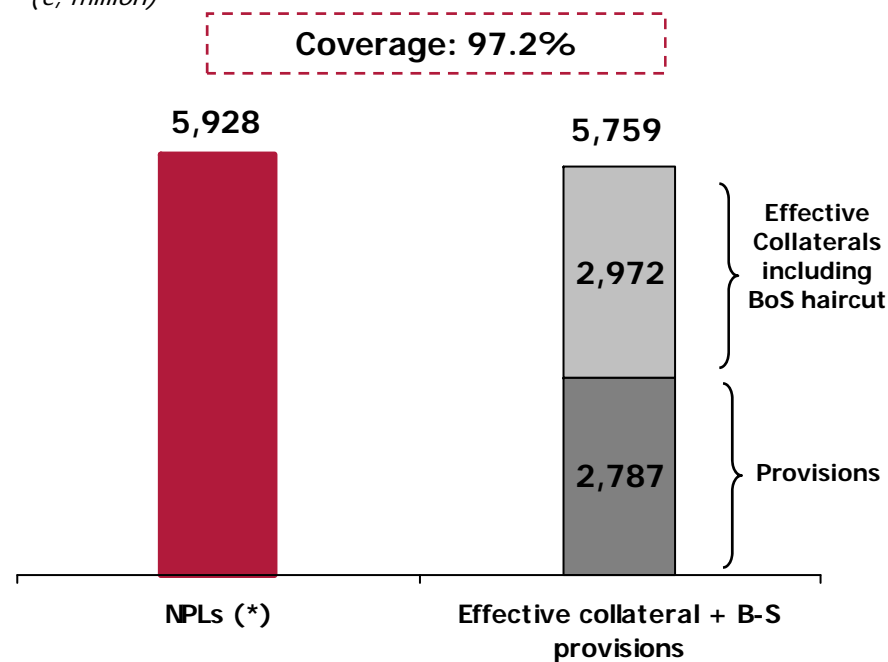
## Reserve built

(€, million)



## Coverage analysis

(€, million)

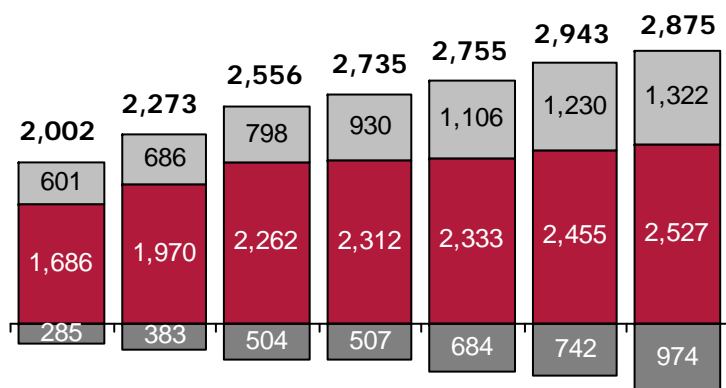


(\*) NPLs include EUR 1,419m of doubtful loans where the Spanish Provisioning Calendar does not apply.

**Our net Assets Available for Sale stands at €2.9bn: 25.3% coverage provisions on book value already reached.  
We estimate these assets are 44% off peak prices**

**Assets available for sale. Book values**

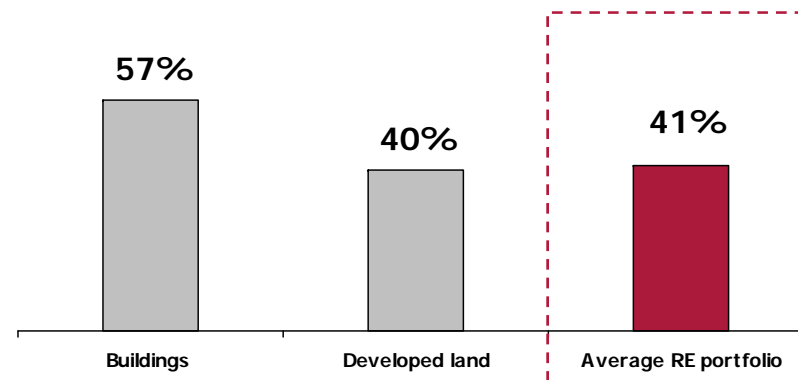
(€, million)



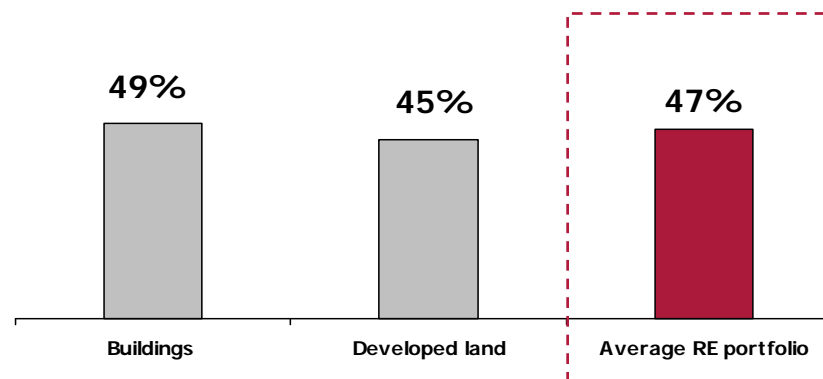
1Q 09 2Q 09 3Q 09 4Q 09 1Q 10 2Q 10 3Q 10

■ Purchases ■ Total provisions ■ Gross repossessions

**Purchases: discount\* over peak price (2007/2008)**



**Gross repossessions: discount\* over peak price (2007/2008)**



(\**) Discount = (Acquisition price net of provisions) / Peak price of the asset (2007/2008), based on a large representative sample.*

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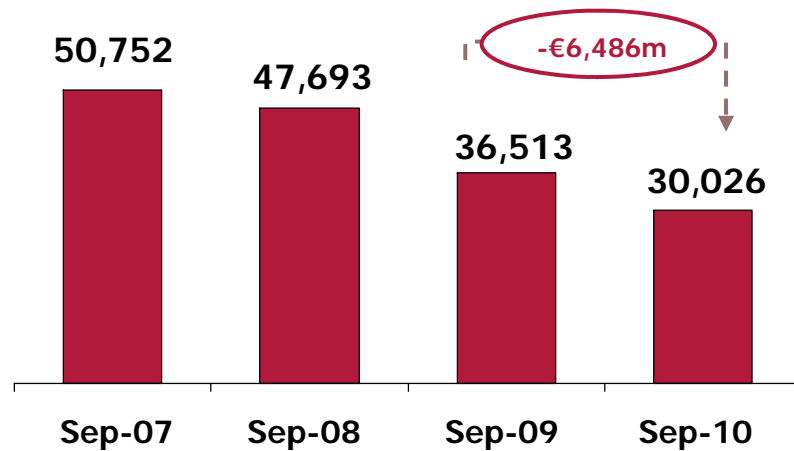
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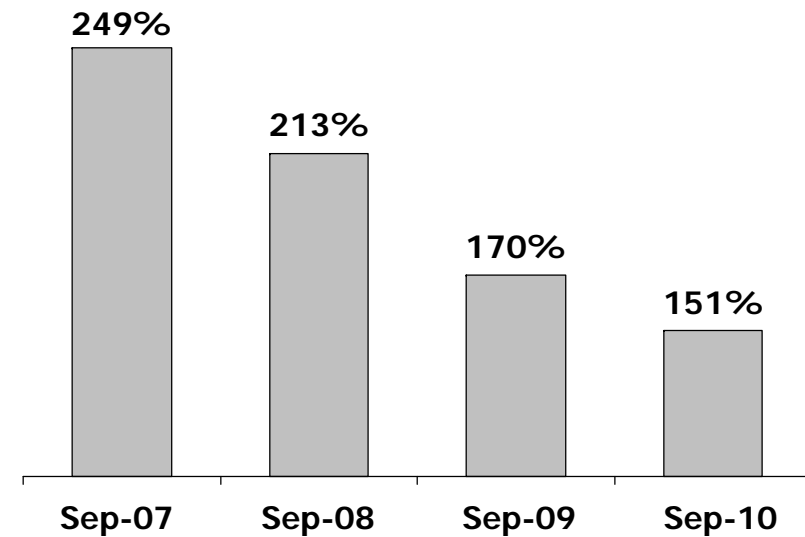


On liquidity. 1<sup>st</sup>: In spite of growing our loans we have reduced our commercial gap thanks to the capture of retail deposits. Our loan to deposit ratio stands now at 151% down, from 249% three years ago ...

Evolution of the commercial gap



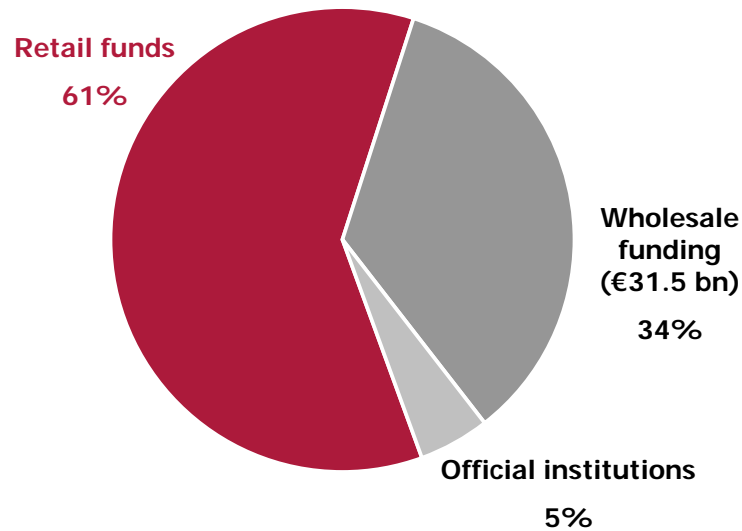
Loans/deposits ratio\*



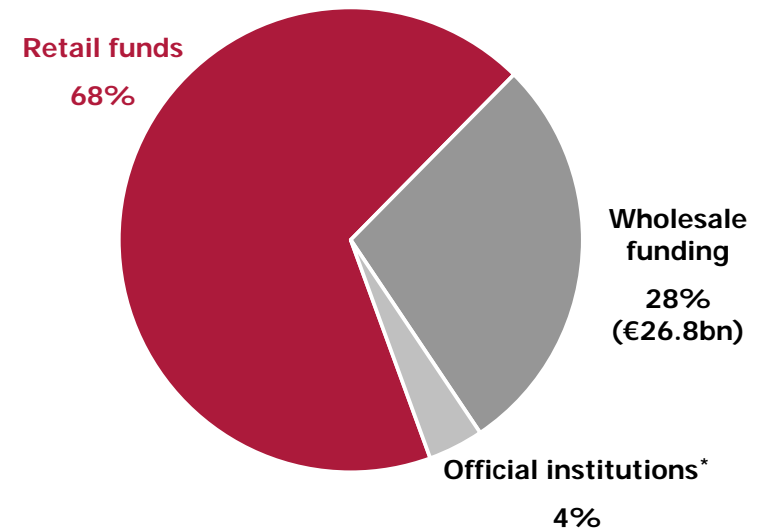
\*Note: ex all repurchasing agreements.

## 2<sup>nd</sup>: The improvement in the commercial gap has enabled us to reduce wholesale funding from €31.5bn to €26.8bn, 15% down y/o/y

Funds breakdown (Sep-09): €92.4bn



Funds breakdown (Sep-10): €96.0bn



\* As of Sep-10 no ECB borrowing.

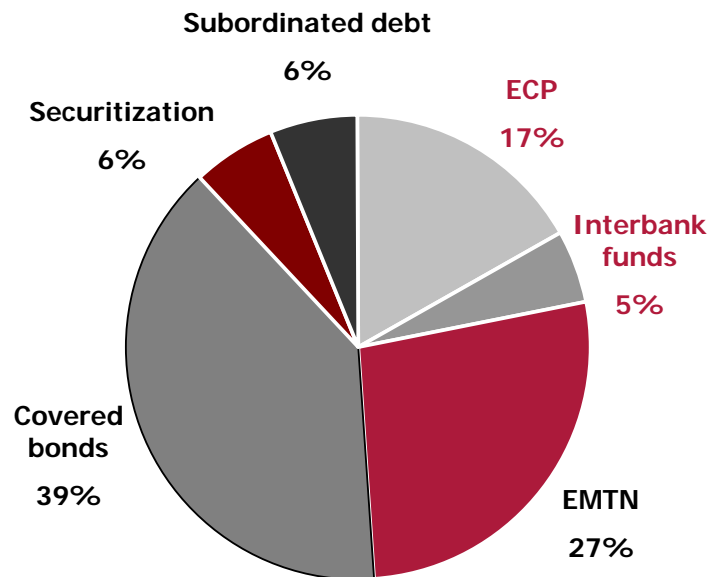
**3<sup>rd</sup>: We have extended maturities. In the 3Q 10, we have been able (i) to tap the long term wholesale markets and (ii) to extend maturities**

Date	Actions	Value (€m)
Sep/10	3 years covered bonds	700
Sep/10	Short term covered bonds and senior debt exchanged into a new 5 year covered bond	1.750
Oct/10	Short term LT2 subordinated debt exchanged into 10 years LT2	200



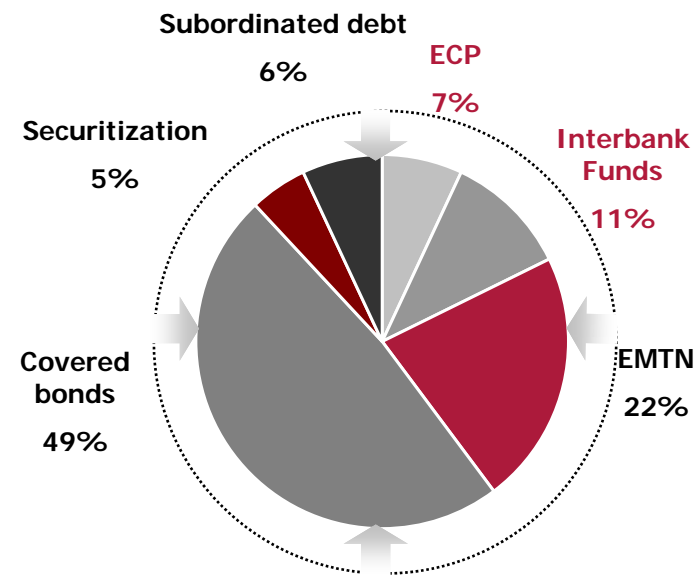
Following all these actions, the picture is as follows: (i) short term maturities decreased by €3.2bn in one year and (ii) average maturity is now 35.2 months

**Wholesale funding breakdown (Sep-09)**



Wholesale funding: €31.5bn  
Average maturity: 30.7 months

**Wholesale funding breakdown (Sep-10)**



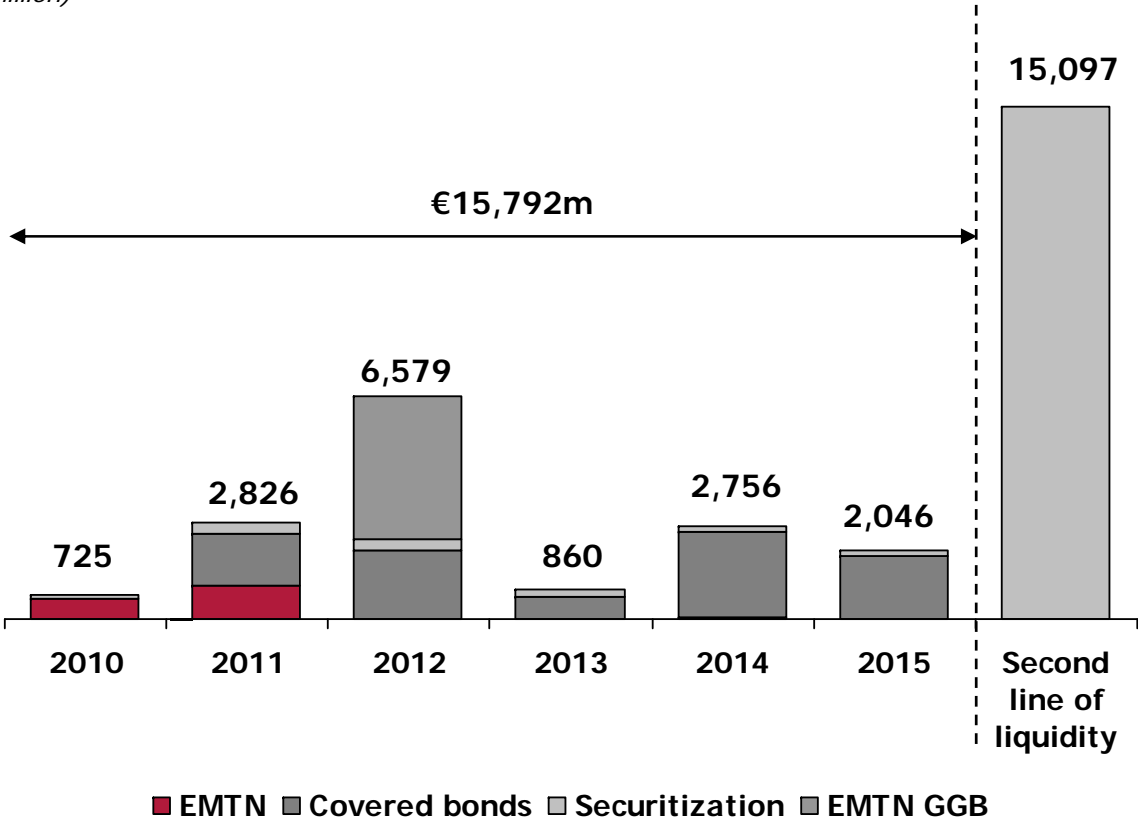
Wholesale funding: €26.8bn  
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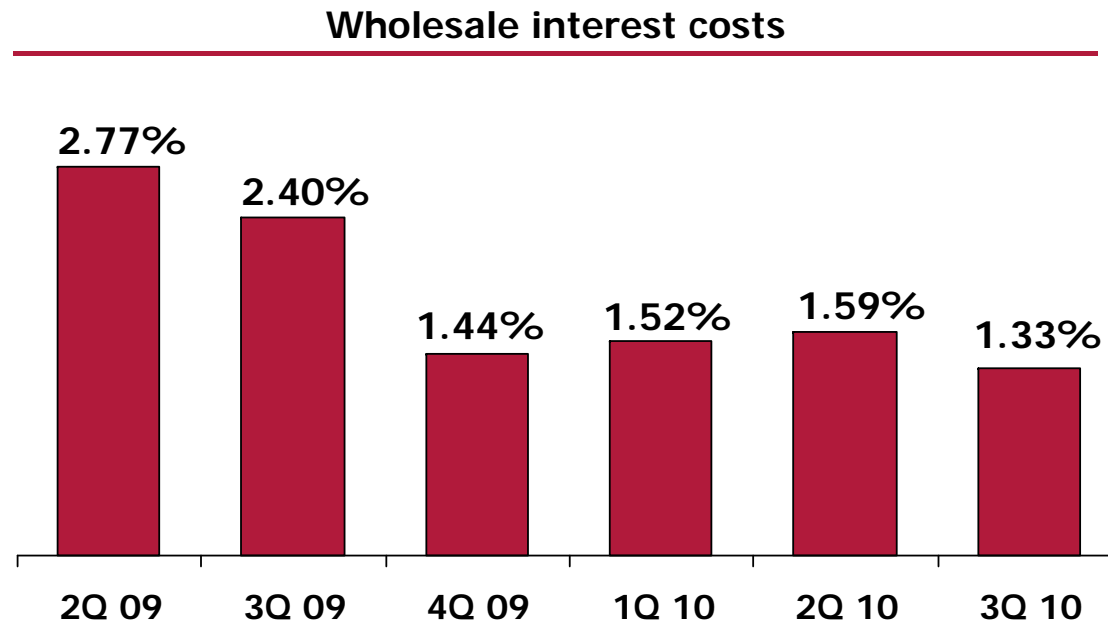
On top, we keep a €15bn second line of liquidity which covers extreme scenarios. ECB unused as at 30/09. €4bn GGB unused

Long and medium term debt maturities and second line of liquidity (Cash basis)

(€, million)



... and the average cost of wholesale funding remains reasonable, given the current market conditions



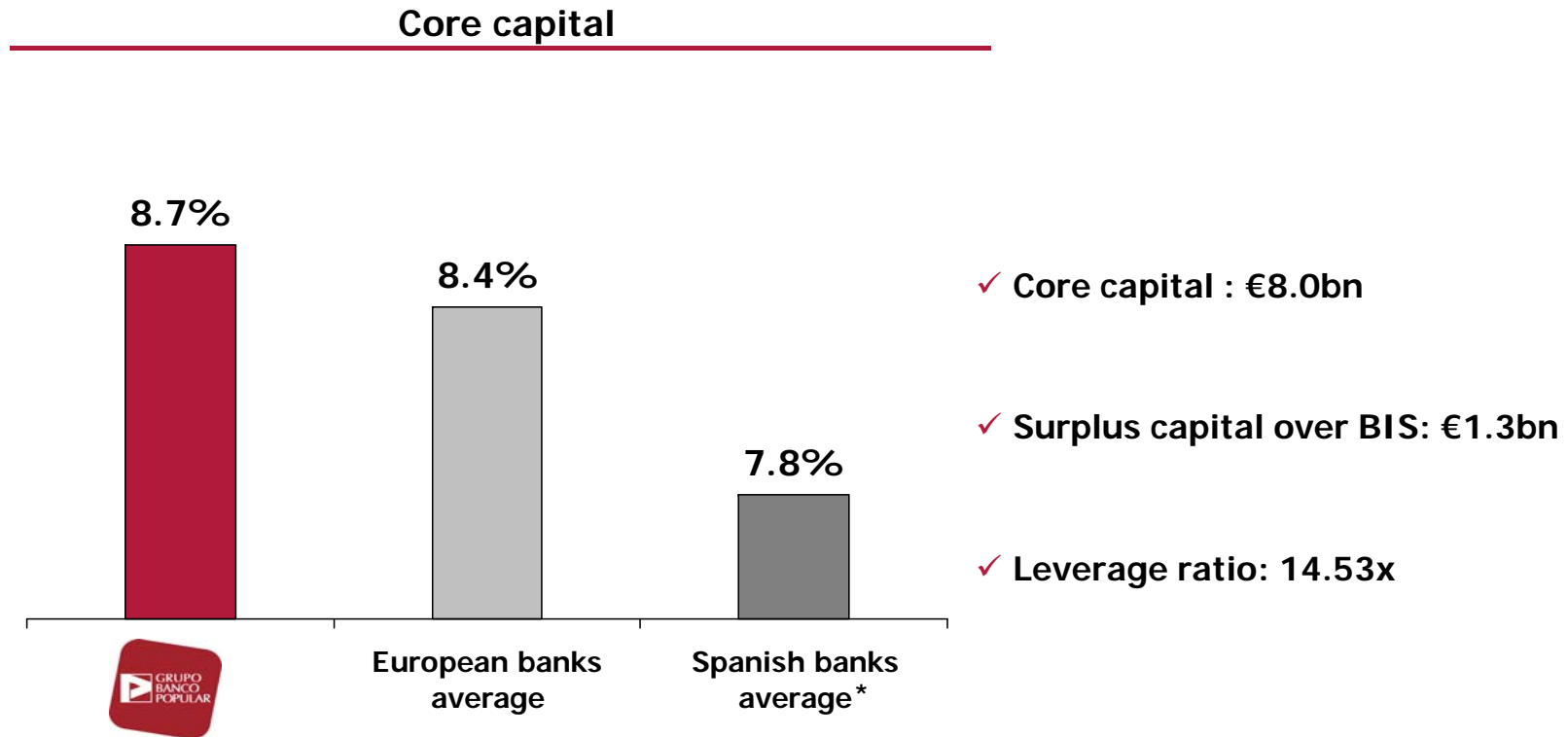
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On Basel III: We have a good core capital ratio. No need to deleverage. No issues with s/t liquidity and LTSF within easy reach probably ahead of timetable

On stress test: passed with excess



\* Spanish banks include: Banesto, Sabadell, Bankinter, BBVA and Santander.

Data as of Sep-10.

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- **Strong generation of recurrent revenues. €1,530m provisions, so far this year, devoted to Credit & Real Estate, only partially compensated by the Crédit Mutuel transaction and other gains.**
- **NPL trends look stable. Our bad debt ratio remains below the industry.**
- **The crisis however is far from over yet. That is why we keep building reserves.**
- **But in this challenging times, Popular keeps growing & gaining quality market share.**



## Outlook

- While the crisis is not over, we will keep reinforcing our provisions.
- Popular expects full year results to be in line with the current market consensus .
- We still expect NPL to peak below 5.5%.
- We remain extremely confident about (i) the proven resilience of our business model, (ii) our capacity to generate recurrent operating profit and (iii) our financial strength which will enable us to take advantage of market opportunities.



**Many Thanks.**

**Happy to take any questions.**





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