



EBA Stress Test Results on Banco Popular

16th July, 2011



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Agenda

1. Stress Test results on Banco Popular: Main Highlights and adverse scenario analysis

Annex 1 Evaluation of EBA methodology: Spanish institutions have been strongly affected



Summary

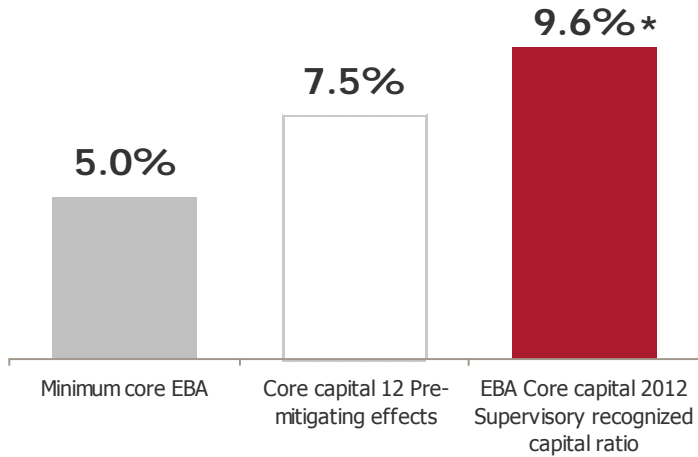
- **Banco Popular has passed the EBA stress test** with a comfortable capital position (7.4%* Core Capital) and €2.3Bn of excess capital in the case of an extreme adverse scenario.
- The stress test has shown once more the **resilience** of Banco Popular's model even in a **highly adverse scenario and under harsh capital considerations**.
- 2011 stress test has been **very stringent** and tougher than in 2010 (more strict capital definition, higher stress on operating profits, more severe economic scenario) though differences can be observed among countries, **discriminating Spanish Institutions vs. Euro peers**
- Additionally, Popular has identified a **number of income-capital sources** that have not been considered but could potentially increase our capital by €1.4bn vs. the reported figures

(*) Note: Mitigating measures (over RWA)= 1.2% MCNs already accounted in balance sheet before Dic.10 + 0.6% generic and substandard provisions not initially accounted as capital but in balance sheet at Dic.10 + 0.2% capital gains realized 1Q11.



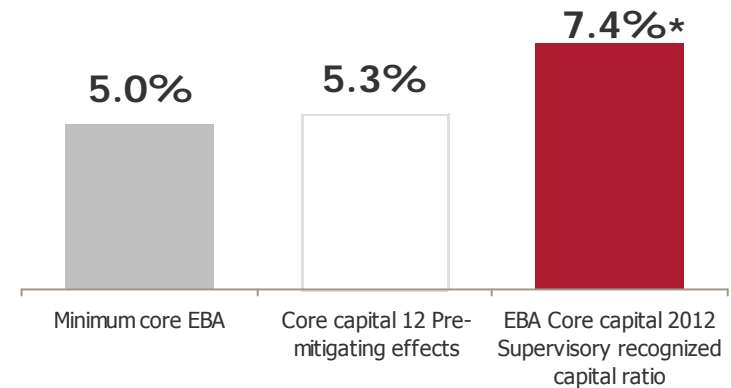
Banco Popular has passed the EBA stress test with a comfortable capital position...

Stress test results. Baseline Scenario



Excess Capital to minimum level: €4,481m

Stress test results. Adverse Scenario



Excess Capital to minimum level: €2,314m

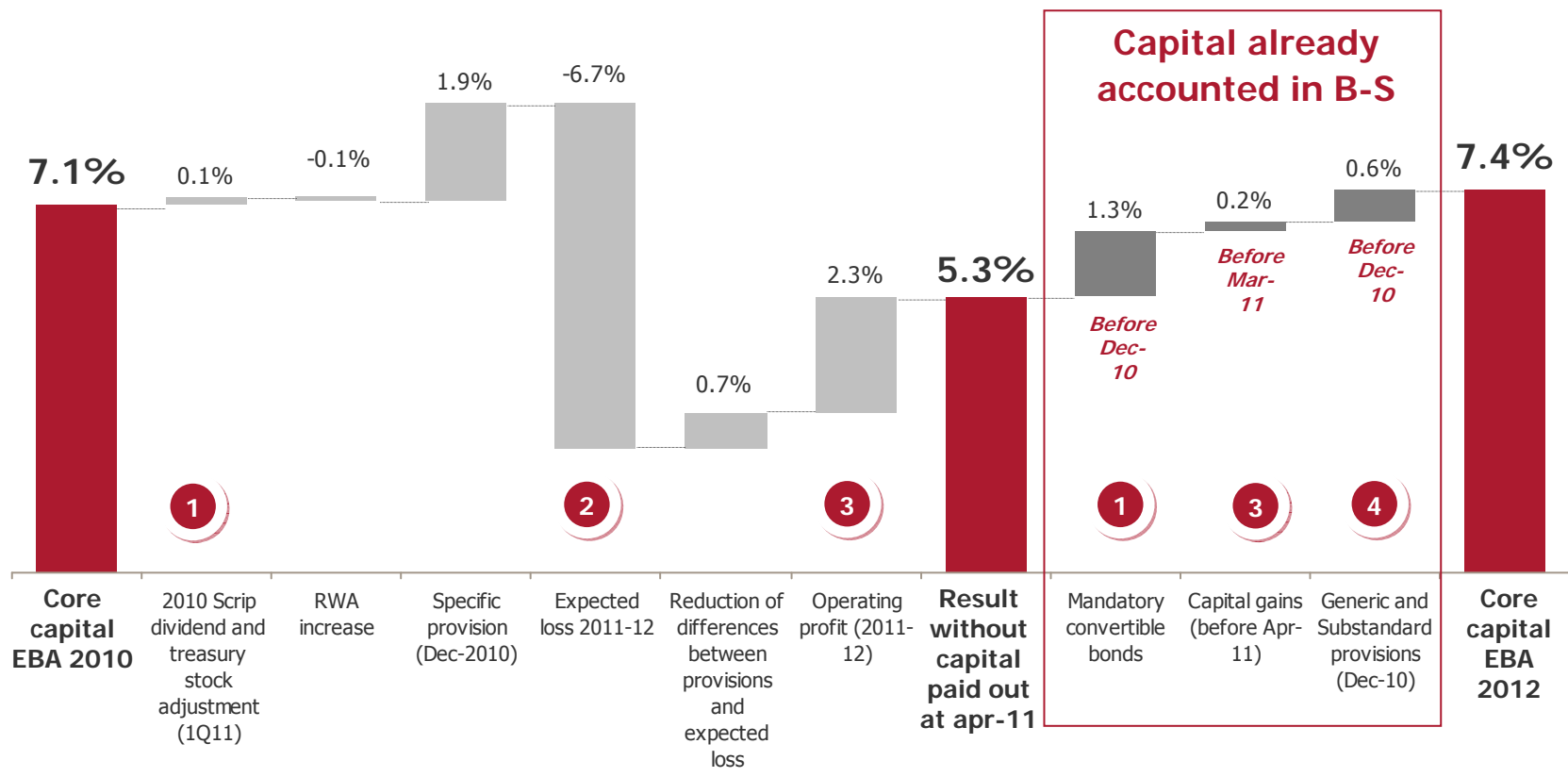
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... reaching a 7.4% core capital in the adverse scenario

Stress test breakdown. Impacts on Capital in the Adverse Scenario

Core capital EBA. Net effects after taxes



Source: EBA, Banco Popular



Details of Stress Test. Adverse and baseline scenarios

Detailed results

Million euro

	Baseline Scenario	Adverse Scenario	
<i>EUR million. Net effect on capital</i>			
1	CT1 EBA dic-10	6,699	6,699
2	+ Adjustments apr-11 (1)	136	136
3	+ MCN conversion (2)	1,191	1,191
4	+ Retained earnings / losses	-73	-2,231
5	o/w expected loss	-6,508	-9,035
	% of EAD	5.0%	6.9%
	% of gross loans (ex repo)	7.2%	10.0%
	EAD of credit risk and real estate assets (includes write offs)	N/A	11.0%
6	o/w operating profit	3,751	3,038
7	o/w specific provisions (ex-substandard)	2,570	2,570
8	o/w taxes and dividends	-56	1,028
9	o/w capital gains (3)	168	168
10	+ Reduction of deductions of differences between IRB expected loss and provisions	648	648
11	+ Use of generic & substandard provisions (3)	570	597
12	Gross generic and substandard provisions used (30% tax)	814	854
13	CT1 2012 including capital accounted as mitigating measures	9,098	7,040
14	CT1 2012 (% of RWA) (14) = (13) / (21)	9.57%	7.38%
15	CT1 2012 excapital accounted as mitigating measures (15)=(13)-(3)-(9)-(11)	7,243	5,084
16	% of RWA (16) = (15) / (21)	7.62%	5.33%
<i>Pro – memoria</i>			
17	Write offs	2,771	2,771
18	Gross credit (ex repo) + write offs + RE assets	99,777	99,777
19	Expected loss private sector (+ write offs)	N/A	11,001
20	% of gross credit + write offs + RE assets	N/A	11.0%
21	RWA 2012	95,059	95,397
22	RWA 2010	94,521	94,521

Source: EBA, Banco Popular

(1) 2010 scrip dividend and treasury stock adjustment

(2) In the baseline scenario the conversion is not anticipated, with a charge of €73m on capital due to interests

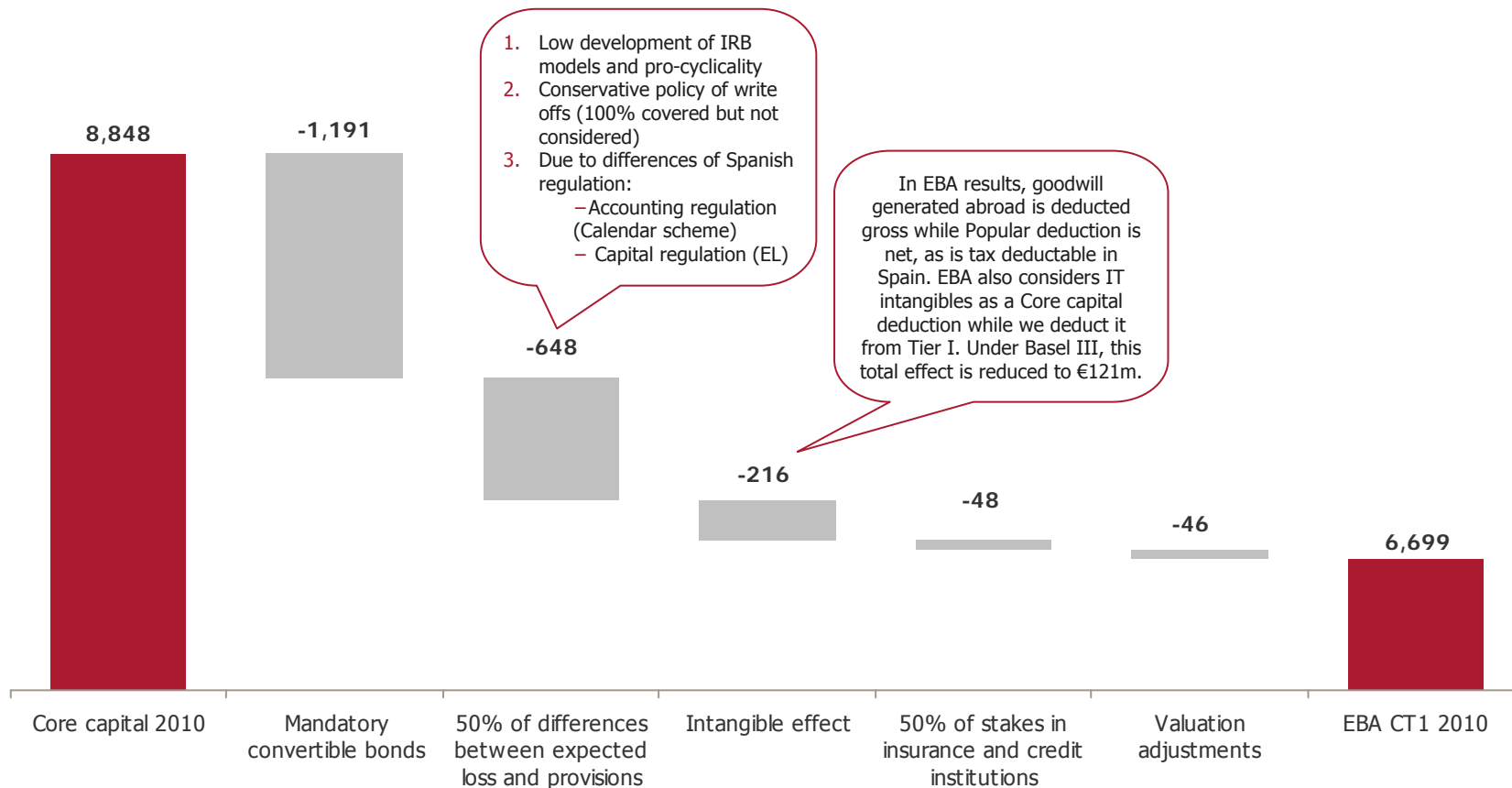
(3) Net effect on capital (includes taxes)



1 Initial Core capital defined by EBA excludes mandatory convertible notes and others

Reconciliation Reported Core Capital 2010 vs. Core Tier 1 EBA 2010

Million euro



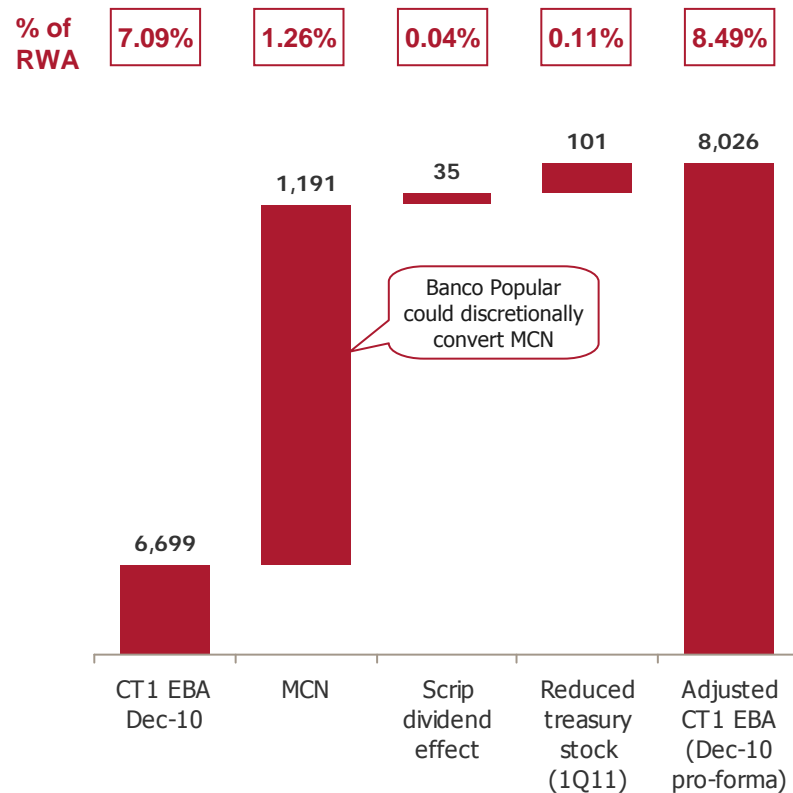
Source: EBA, Banco Popular



1 EBA core capital should be adjusted for mandatory convertible notes and 1Q11 capital measures (treasury stock and 2010 scrip dividend*)

Dic- 2010 CT1 EBA adjustments

Million euros



Market participants have recommended to adjust EBA core capital adding mandatory convertible bonds. Banco Popular's MCN are discretionally convertible, are already included in the B-S as capital/equity and have been fully subscribed by private clients.

Broker 1, 14th June
 [...] EBA disallowing MCNs as core capital, an instrument we think the market should adjust for when interpreting the results

Broker 2, 19th May
 [...] We believe that stripping out all MCNs is harsh – and we continue to see them as CT1 capital

*In 2010, a 50% cash conversion was estimated in our capital ratios for the scrip dividend program. Real figures stood at 27%, so share conversion was above estimates.

In 1Q11 Banco Popular reduced treasury stock by €101m euro.

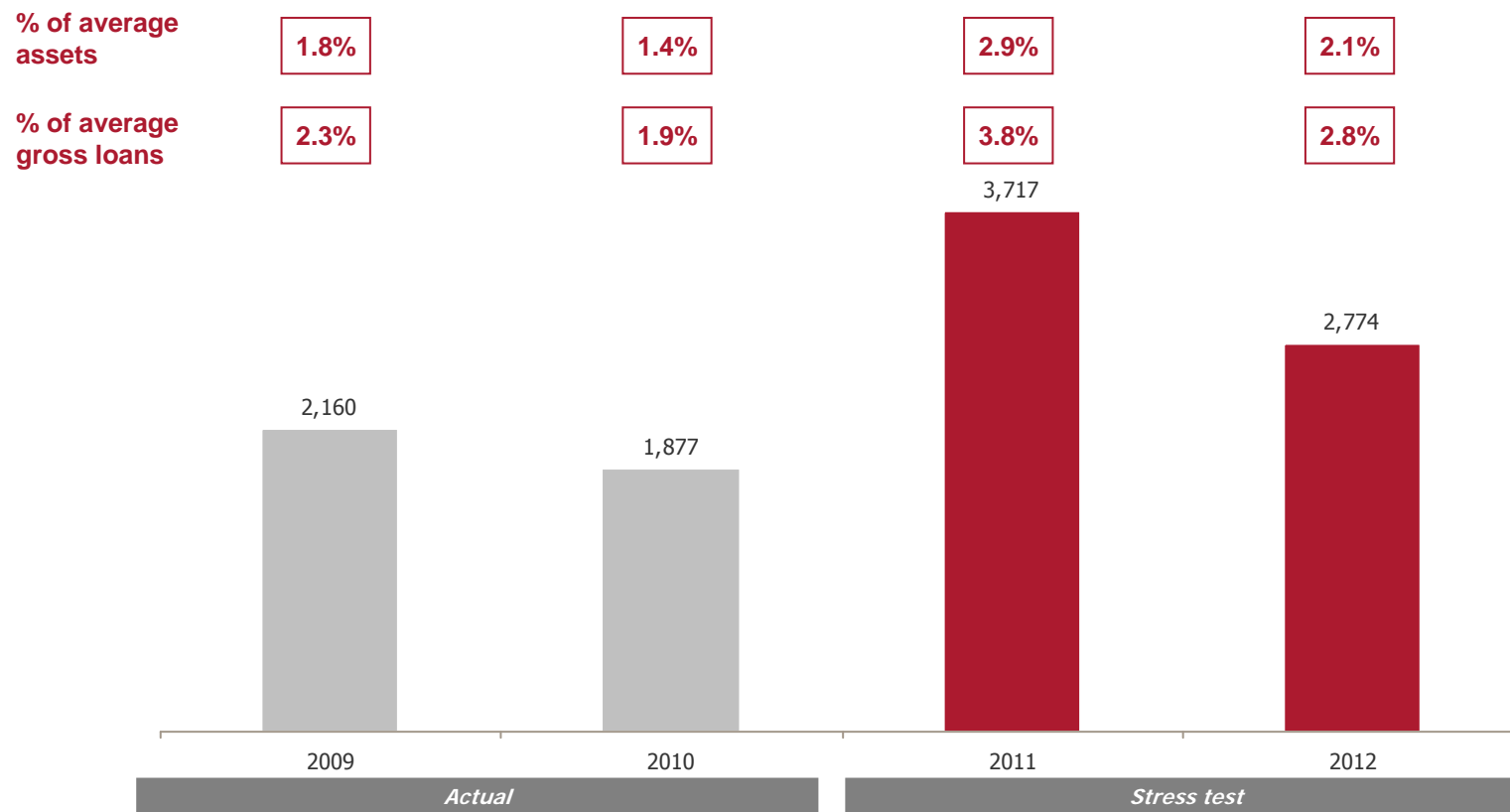
Source: EBA, Banco Popular



2 Cumulative cost of risk in the adverse scenario (2011-12) is 1.6x the 2009 and 2010 actual figures

Adverse stress test impairments vs. actual 2009 and 2010 impairments

Million euro. Financial and non financial assets



Source: EBA, Banco Popular



2 Expected losses breakdown

Breakdown of Expected Losses. Adverse scenario

Million euro. December 2010

	Exposure	Expected loss. Baseline scenario		Expected loss. Adverse scenario	
		Million euro	% on exposure	Million euro	% on exposure
Credit risk and RE assets	136,609	6,521	4.8%	9,009	6.6%
Sovereign & Institutions	29,518	117	0.4%	236	0.8%
Private sector (ex Institutions)	107,091	6,403	6.0%	8,773	8.2%
Corporate	26,783	432	1.6%	821	3.1%
Construction and Real Estate	26,320	3,532	13.4%	4,997	19.0%
Credit risk (average LTV 62%)	20,365				
Spain	17,400				
Abroad	2,965				
Real Estate assets (original LTV from credit 69%)	5,955				
Spain	5,510				
Abroad	445				
SMEs	29,092	1,882	6.5%	2,251	7.7%
Households	24,896	557	2.2%	704	2.8%
Mortgage guarantee	23,797	501	2.1%	620	2.6%
Other	1,099	56	5.1%	83	7.6%
Investments and equity	0	-13	0.0%	26	0.0%
Total risk	136,609	6,508	4.8%	9,035	6.6%
<i>Pro memoria: Expected loss including write offs</i>					
(A) Write offs	2,771				
(B) Gross loans to customers (ex repo)	91,051				
(C) Gross loans + write offs	93,822				
(D) Write offs expected loss (adverse scenario)	2,223				
(E) Expected loss of private sector (ex Institutions) + write offs	10,996				
Expected loss Adverse scenario (E) / (C)			11.7%		

Source: BoS template, Banco Popular
 (1) Gross of funded credit risk mitigants

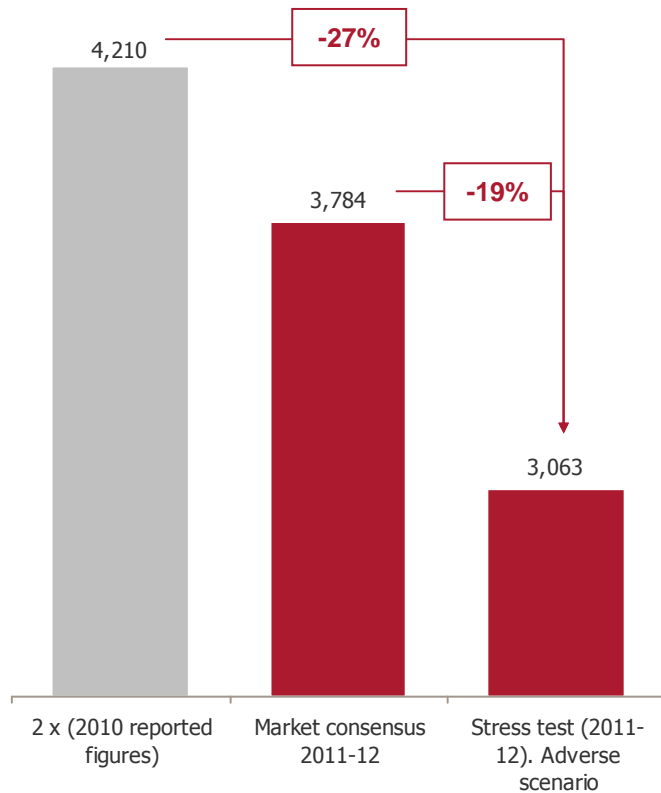


3 In the adverse scenario pre-provision profit is 27.2% lower than 2010 reported figures and 19% lower than market consensus for 2011-12

EBA has not fully considered capital gains generation, when Banco Popular has a proven track record

Pre-provision profit comparison

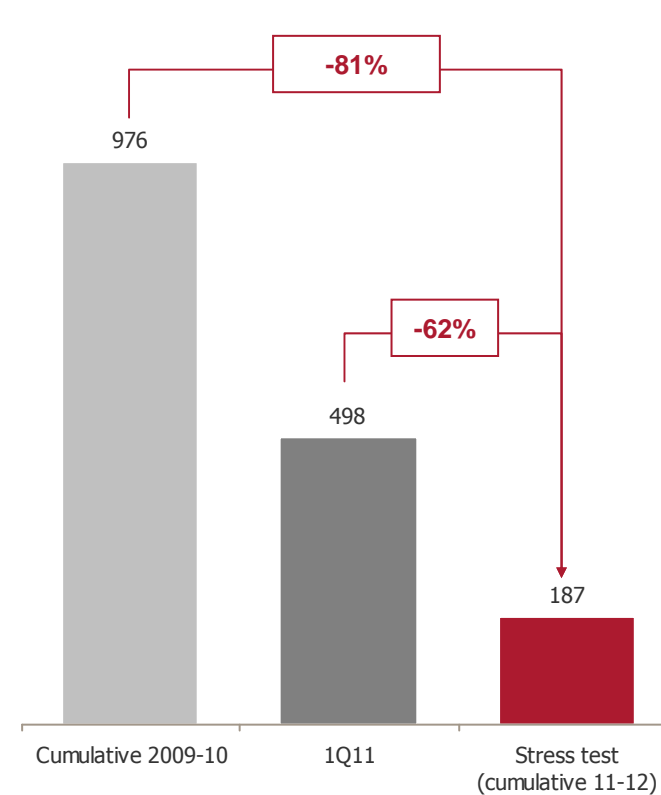
Million euro. Cumulative 2011-12



Source: EBA, Facset, Banco Popular
 (1) Synthetic market consensus made from 12-14 analyst's estimations

Gross capital gains history vs. Stress test capital gains classified as mitigating measures

Million euro



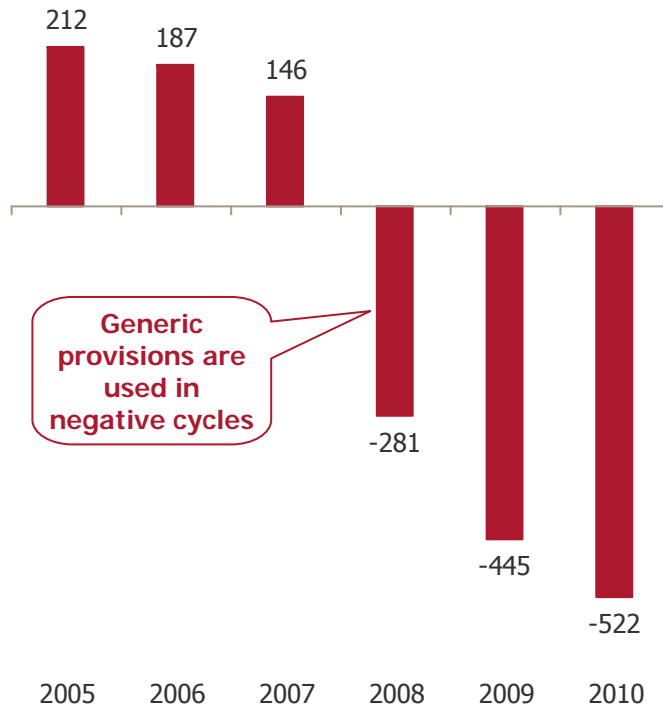
Source: EBA, Banco Popular

Important Note: "The stress test results should not be considered as a forecast of Banco Popular results under the defined scenarios"



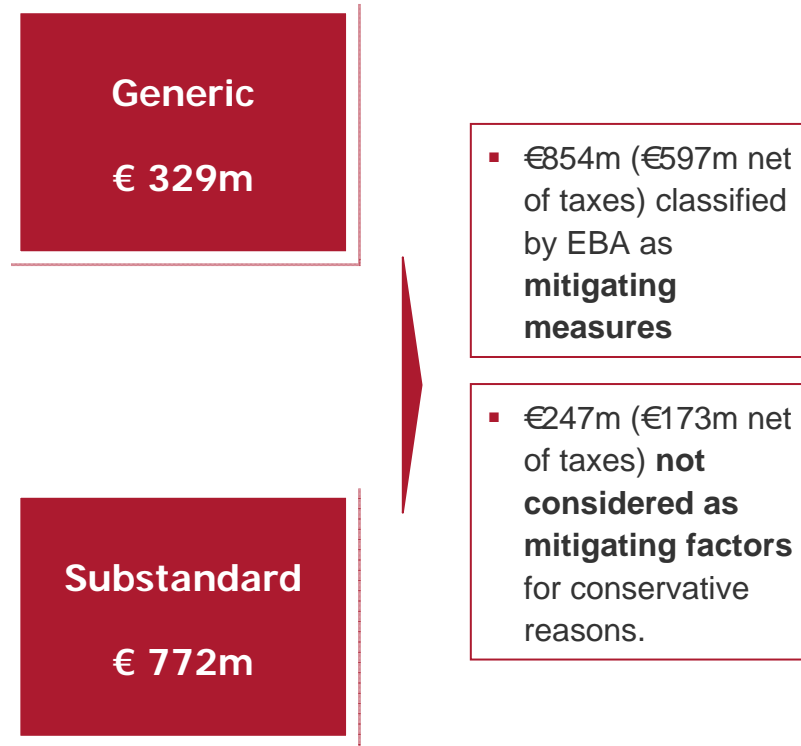
4 Banco Popular's generic and substandard provisions amounted to €1,101m in Dec-10 and should have been fully considered initially in the stress test

Banco Popular's generic provisions charge evolution
Million euro



Source: Banco Popular

Banco Popular's Generic and substandard provisions in the EBA Stress Tests
Million euro. As of December 2010. Adverse scenario



Source: EBA, Banco Popular



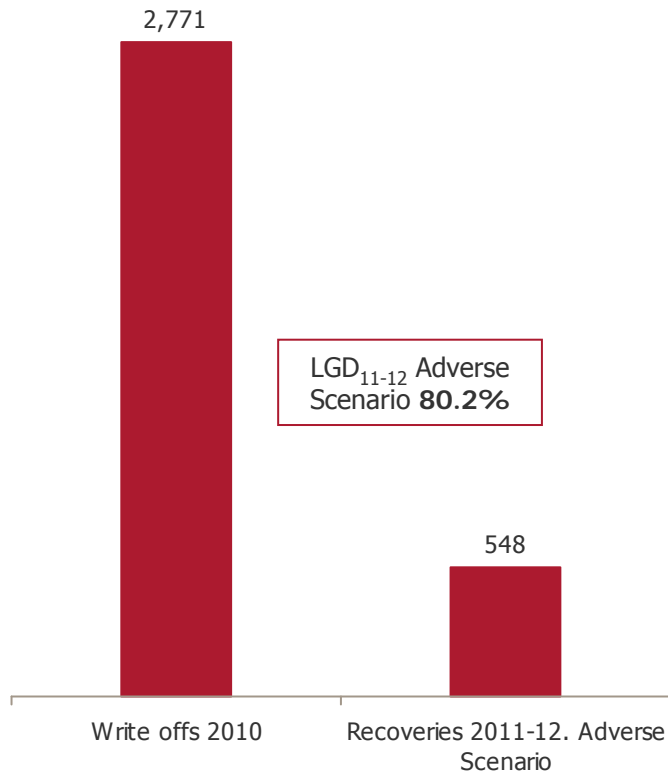
Additionally, Popular has identified a number of income & capital sources that have not been considered

- A** Write off recoveries: €383m Net Effect
- B** Operating margin adjustments and capital gains: €588m Net Effect
- C** RWA reduction-Risk model changes in 1Q11: €253m Net Effect
- D** Goodwill amortization: €193m Net Effect



Banco Popular has identified additional sources of income amounting to €1bn after taxes

In the adverse scenario Banco Popular would recover €548 million euro of write offs



Source: Banco Popular

Banco Popular has identified inconsistencies in the methodology that would increase gross income by €937m

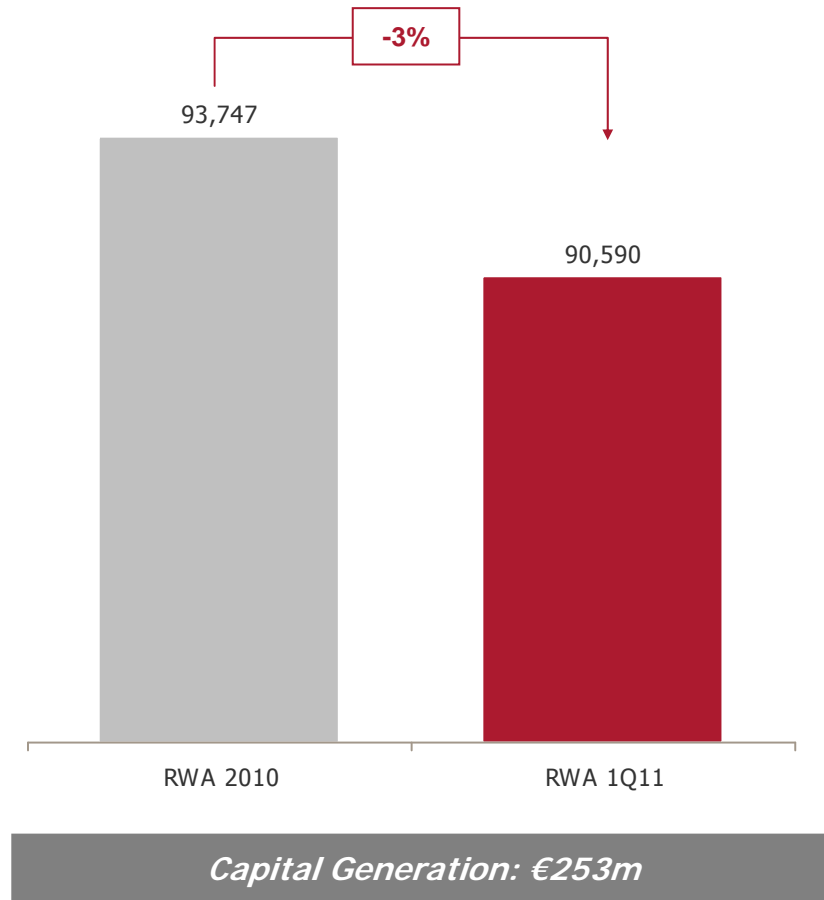
- 1 **Allianz deal capital gains** not fully considered. **€341m total net** not included, of which **€171m** would positively affect core capital under EBA stress test
- 2 **Asymmetric treatment of interest rates** for interbank assets and liabilities and for debt assets and debt liabilities, **reducing NII by €210m**
 - Interbank rates are lower for loans to credit institutions than for deposits from credit institutions
 - Interest rates of debt instruments on the asset side do not grow in line with costs
- 3 **NII from credit recoveries** not registered, reducing revenues by **€295m**
- 4 **Operating profit cash flow reinvestment** not registered, reducing margin by **€91m**

Source: EBA, Banco Popular



RWA evolution in 1Q11 due to improvements in internal models

Banco Popular has generated €253m by the reduction of RWAs already in 1Q11



Source: EBA, Banco Popular



Goodwill amortization would increase CT1 EBA due to fiscal effect

- **Goodwill is deducted from EBA's Core Tier 1 gross of taxes**
- **Thus the amortization of goodwill through P&L would increase core capital**
- **Net effect would amount to €193m (30% tax rate on €644m of gross goodwill)**



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2011 Stress test is harsher than in 2010 ...

- 1 Harsher definition of capital
- 2 Higher stress on operating profits
- 3 More severe economic scenario (increasing expected losses)
- 4 Capital gains have not been fully considered

... and Spain is penalized versus other countries, specially Spanish listed banks

- 5 Generic and substandard provisions are partially accounted as *"mitigating measures"*
- 6 Banks' mandatory convertible bonds are not considered as core capital
- 7 Spanish macroeconomic scenario is even more severe, suffering the worst hypothesis for real estate prices



1 Harsher definition of capital

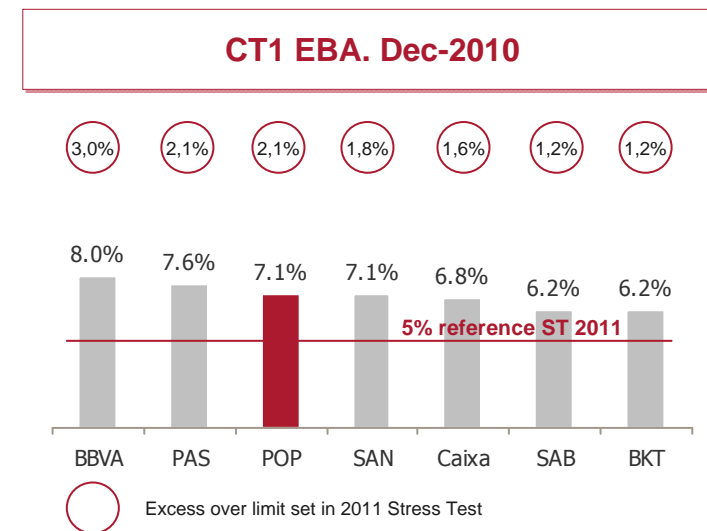
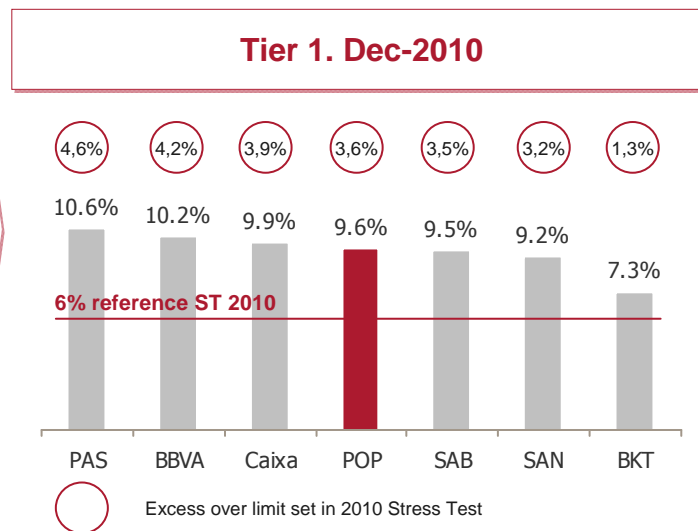
Capital definition in 2010 Stress test

- Tier 1, following national regulation
- Minimum: 6%

Capital definition in 2011 Stress test

- Core capital nearer to Basel III and homogeneous for all European banks
- MCN's, generics and substandard not initially included in CT1
- Includes Basel 2.5 changes in RWA
- Minimum: 5%

Comparison of capital demanded in 2010 and 2011 Stress Test





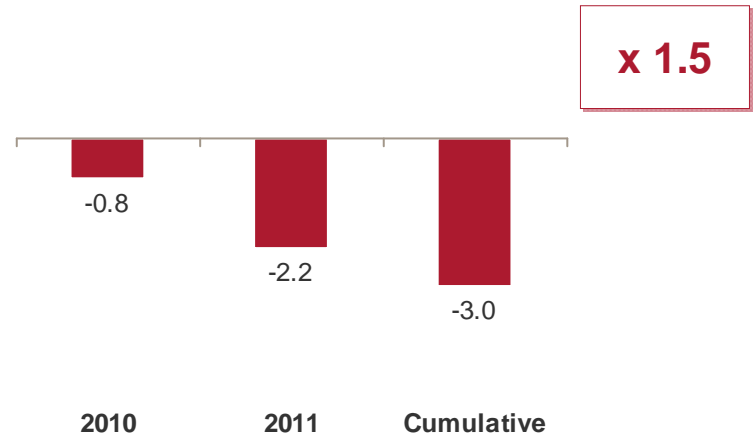
2 Higher stress on operating profits, working against peripheral countries and handicapping Spanish Listed Banks vs. Savings Banks

- Constant balance sheet reducing NII due to higher funding costs (higher for peripherals), not allowing to deleverage
- Sovereign shock: 50% pass-through over the bank's credit spreads on new loans (punishing peripherals due to higher CDS cost) while 100% on wholesale maturities over already today's stressed prices.
- Interbank markets stressed only on the liability side. Not allowed to pass shocks on the asset side.
- Other income remaining constant, except plans recognized by domestic authorities

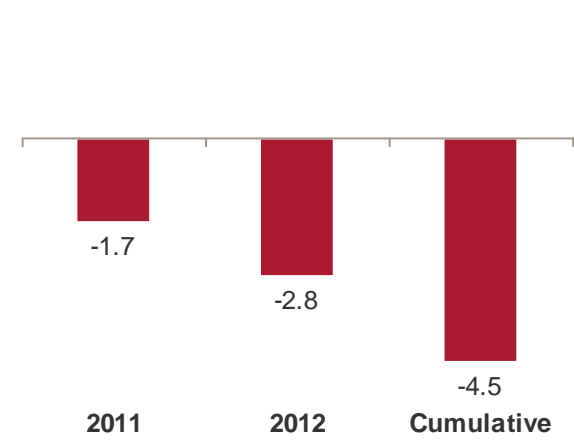
3 The negative deviation applied over the estimated GDP in Spain is more severe than in other countries

GDP cumulative deviation
Spain
Adverse Scenario

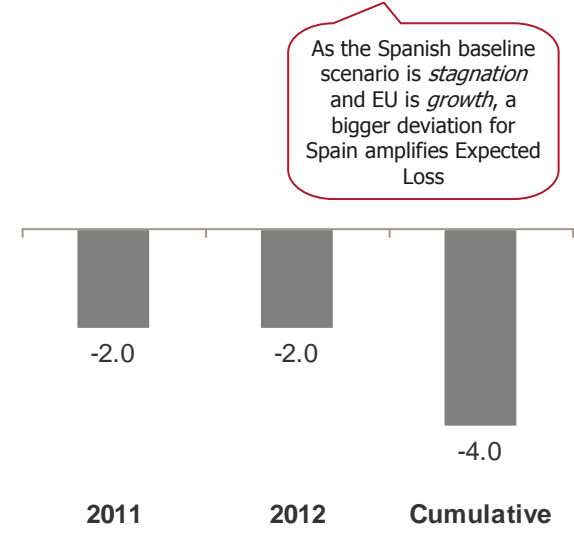
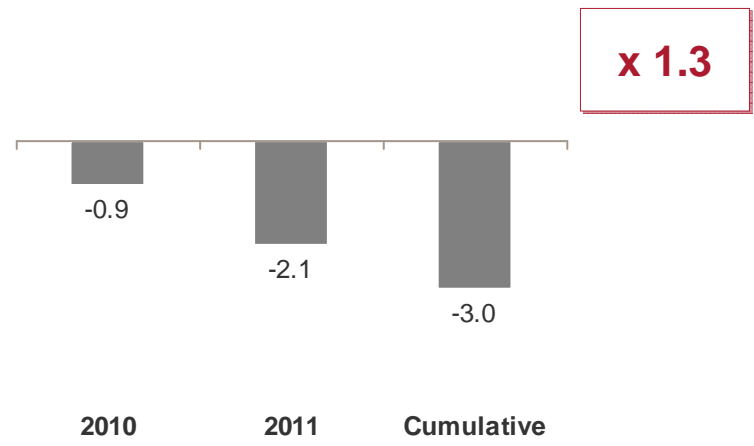
Stress Test 2010



Stress Test 2011



GDP cumulative deviation
EU
Adverse Scenario



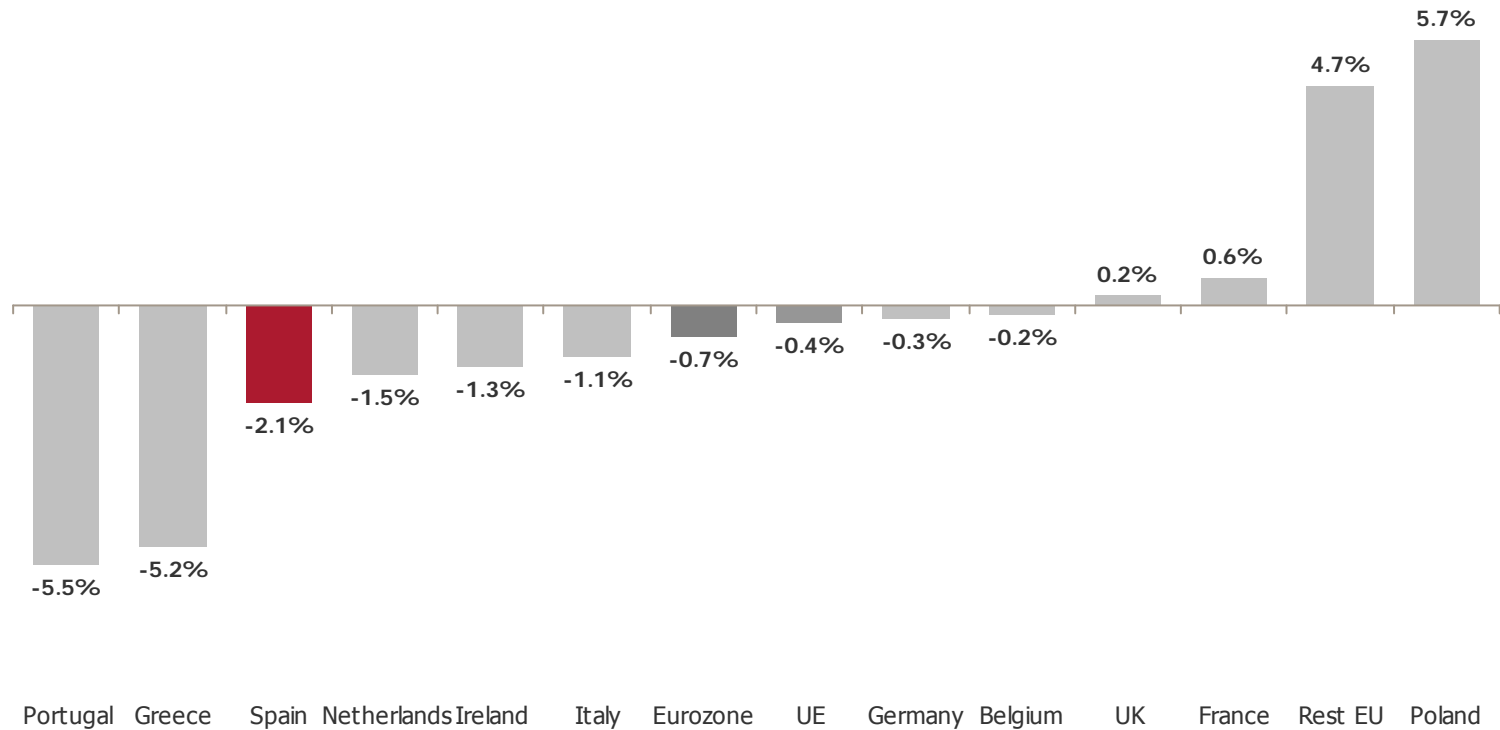
Source: EBA



3 Leading to a higher decline of the GDP growth

Cumulative GDP adverse scenario (2011-12)

GDP change 2010-12. Nominal GDP



Source: EBA

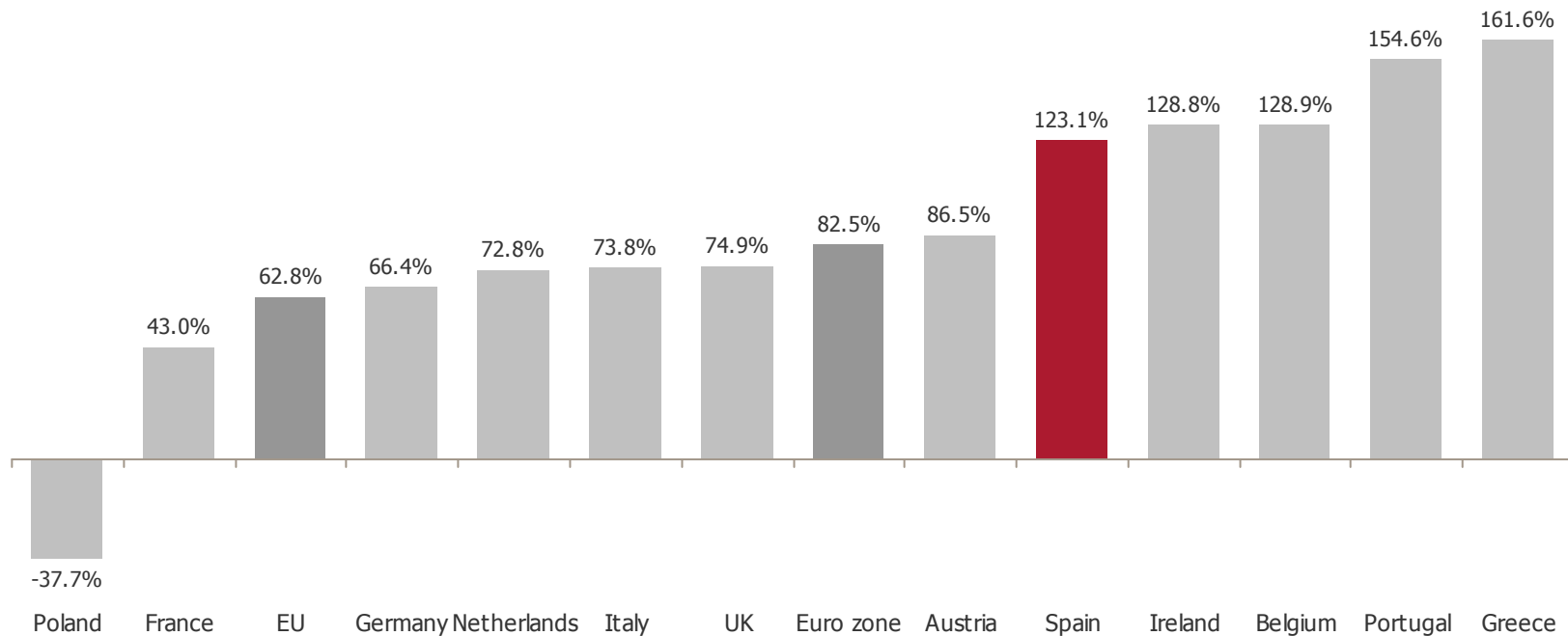


3

Despite Spain already suffers higher PDs, these have increased at double rates on the EBA stress test

Probability of Default change in Corporates and SME's

PD change 2012 - 2010



Source: EBA

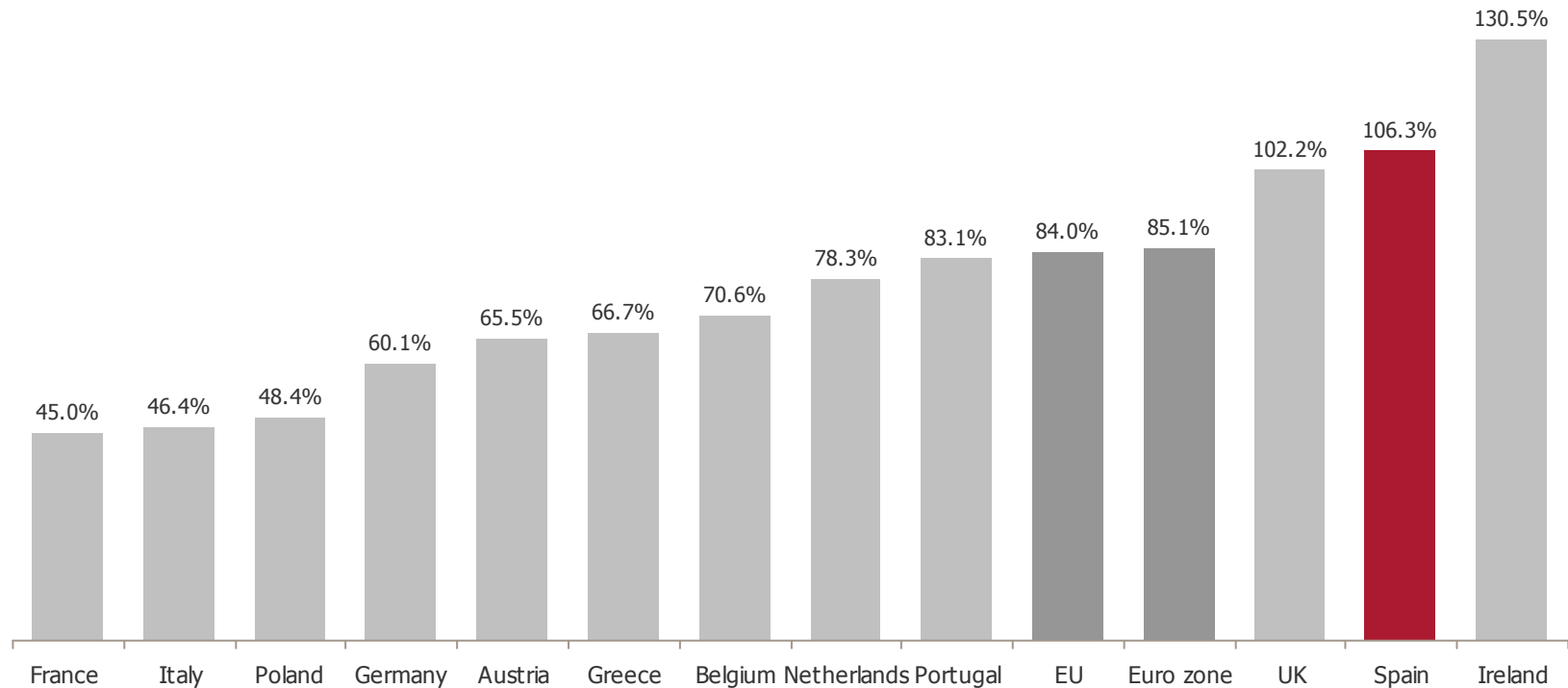


3

Despite Spain already suffers higher PDs, these have increased at double rates on the EBA stress test

Probability of Default change in Residential Mortgages

PD change 2012 - 2010



Source: EBA



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