

# Morgan Stanley CEO Conference 2011

'Delivering Sustainable Risk Adjusted Returns'

London, March 29th 2011



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## 1. Macroeconomic overview

## 2. How to deliver sustainable risk adjusted returns?

### 2.1 A Flexible Model

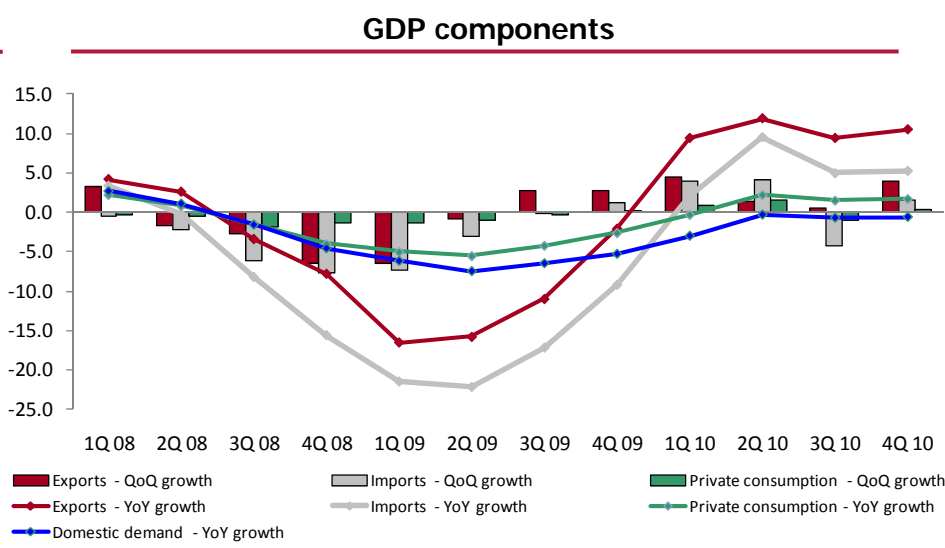
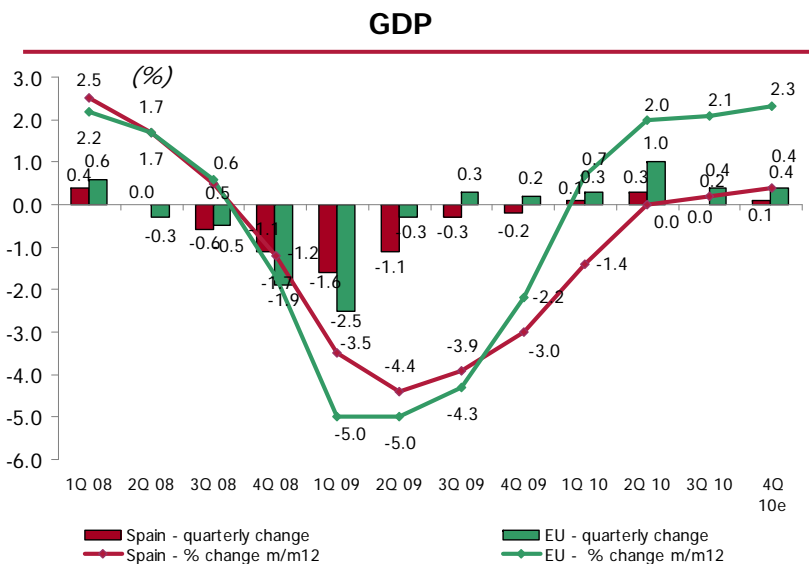
### 2.2 A high quality franchise

### 2.3 A sound track record

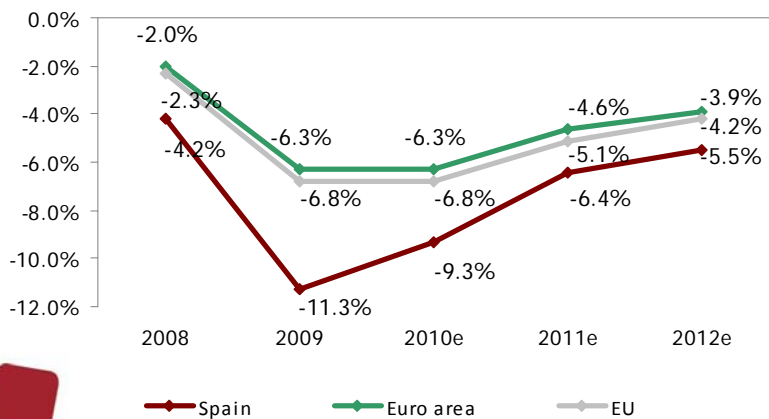
## 3. Conclusions



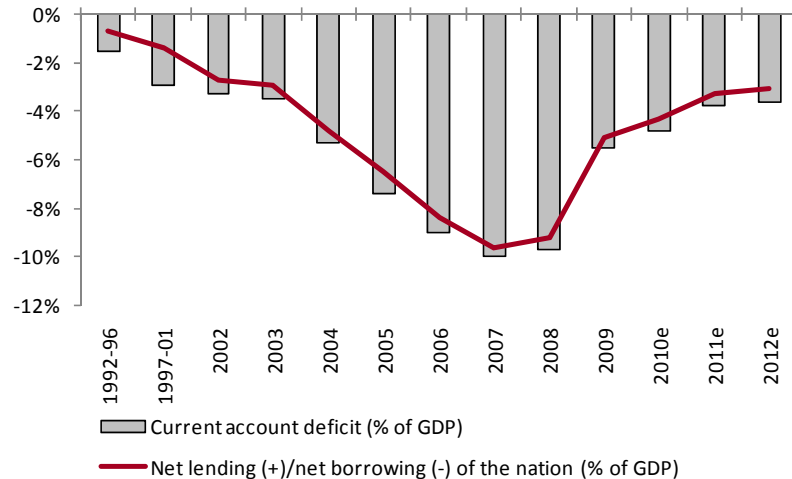
# Macro economic indicators are improving and imbalances in the economy are adjusting...



### Public deficit is starting to decrease



### Improving current account deficit



Source: INE, Eurostat.

## ... supported by fiscal consolidation and key structural reforms...

Measures	Potential benefits
Fiscal Consolidation	➔ Deficit reduction, increased confidence in public finances, decreased sovereign risk
Labour Market Reform	➔ Increased flexibility of labour markets, reduction of unemployment levels
Public Pensions Reform	➔ Lower public expenditure, higher confidence in future savings and earnings
Financial System Reform	➔ Increased solvency of the system, recovery of credit, higher confidence from the markets

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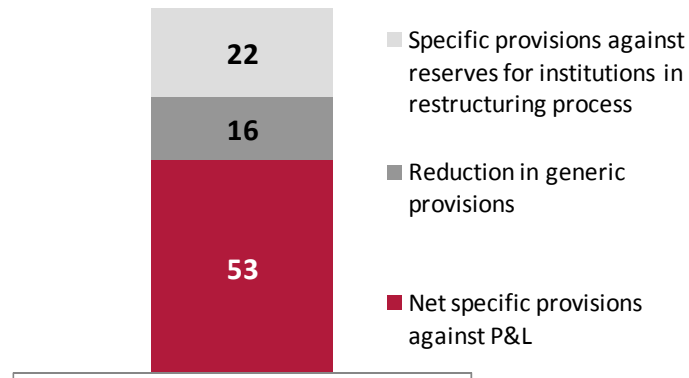


# The Spanish financial sector has so far “cleaned” balance sheets substantially (c. 10% of GDP) and it has at the same time reinforced solvency levels...

## Consolidated provisions since Jan 2008 for the whole system

(€, billion)

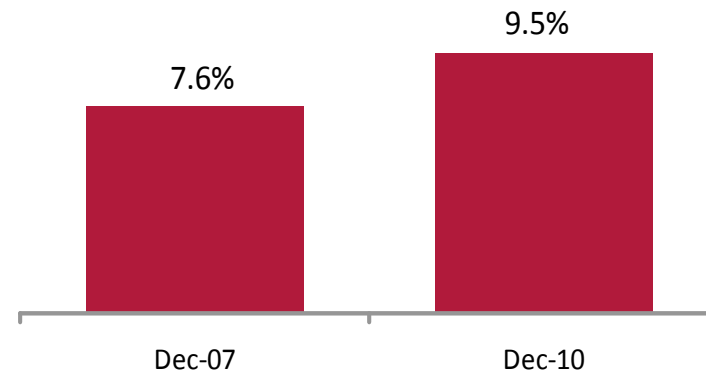
**91** (Cajas: €52 bn; Banks: €39 bn)



During 2008-2010, the Spanish financial sector has recognized and assumed asset impairment losses for an amount equivalent to almost 9% of GDP ...

... and has reinforced the Tier 1 capital of the system by 190 b.p.

## Tier 1 capital of Spanish financial system



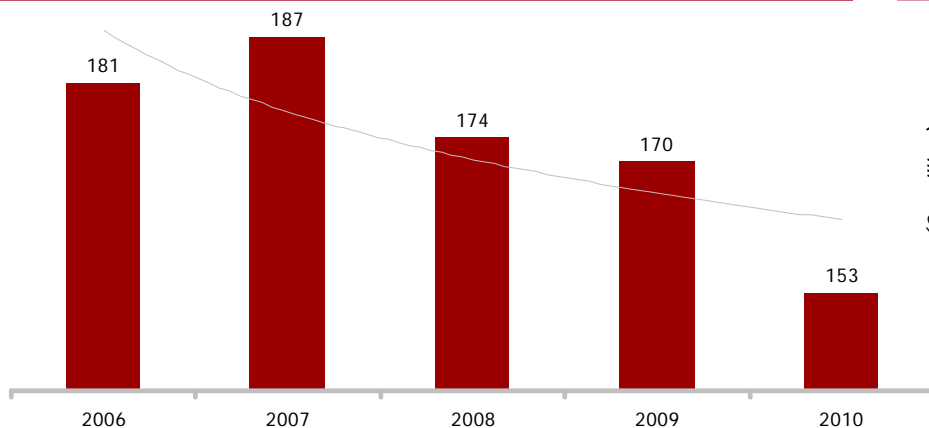
The accumulated provisions and the excess of capital over the minimum required along this 3-year period represent 12.5% of GDP. The coverage of the €15.2 bn additional capital needs announced by the BoS will increase it to almost 14% of GDP



Source: Bank of Spain.

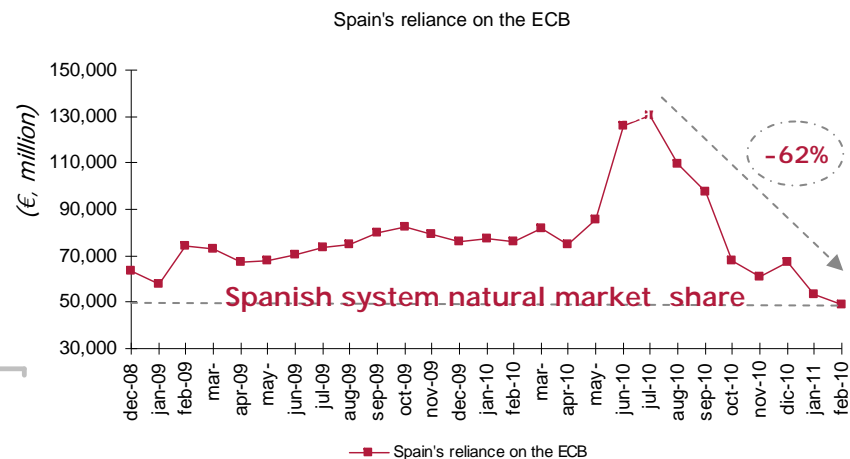
## ...while massively improving funding positions and liquidity

### Loan to deposits Spanish banks



Source: Banco Popular, Santander Spain, BBVA Iberia, Bannesto, Sabadell and Bankinter

### Spain's reliance on the ECB has decreased to pre-Lehman levels, in line with its natural market share



— Spain's reliance on the ECB

Entity	Date	Volume (€ mm)	Expiry	Type	Cost / spread over midswap
BBVA	21/03/2011	2,000	4 years	Covered bonds	155 p.b.
Banesto	21/03/2011	600	4 years	Covered bonds	190 p.b.
Unicaja	09/03/2011	500	5 years	Covered bonds	250 p.b.
La Caixa	08/03/2011	1,250	4 years	Covered bonds	200 p.b.
Bankinter	08/03/2011	406	3 years	Convertibles	7.00% annual coupon
BBVA	07/03/2011	1,750	2 years	Senior debt	180 p.b.
Pastor	02/03/2011	252	3 years	Convertibles	8.25% annual coupon
Bankinter	02/03/2011	400	4 years	Covered bonds	265 p.b.
Santander	28/02/2011	2,000	4 years	Covered bonds	180 p.b.
Popular	17/02/2011	350	2 years	Covered bonds	245 p.b.
Santander	15/02/2011	1,750	2 years	Senior debt	173 p.b.
La Caixa	10/02/2011	2,000	5 years	Covered bonds	220 p.b.
Sabadell	03/02/2011	1,200	2 years	Covered bonds	260 p.b.
BBVA	02/02/2011	2,000	5 years	Covered bonds	200 p.b.
Popular	27/01/2011	650	2 years	Covered bonds	270 p.b.
Bankinter	14/01/2011	500	2 years	Covered bonds	310 p.b.
Santander	05/01/2011	1,000	5 years	Covered bonds	225 p.b.
BBVA	04/01/2011	1,500	3 years	Covered bonds	225 p.b.

Source: Bank of Spain, company data.

Wholesale funding markets are gradually reopening for Spanish banks. Prices, while still high, are improving. (entry point for investors?)

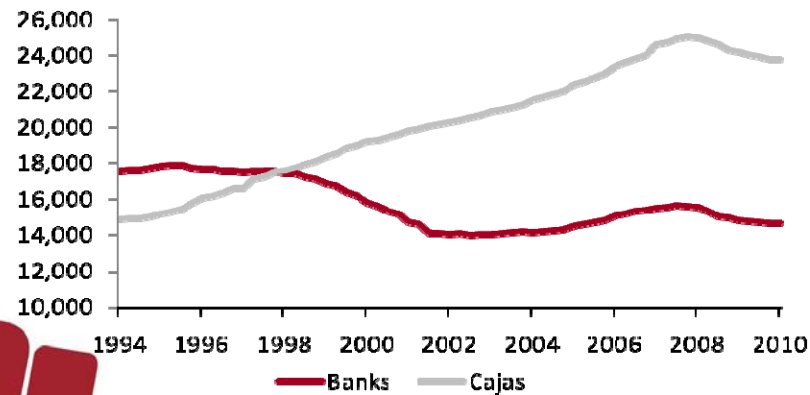
De-coupling from more troubled economies is being more and more tangible



....Although more has to be done on the consolidation process: still a significant over capacity but much under way: a remarkable restructuring is taking place.

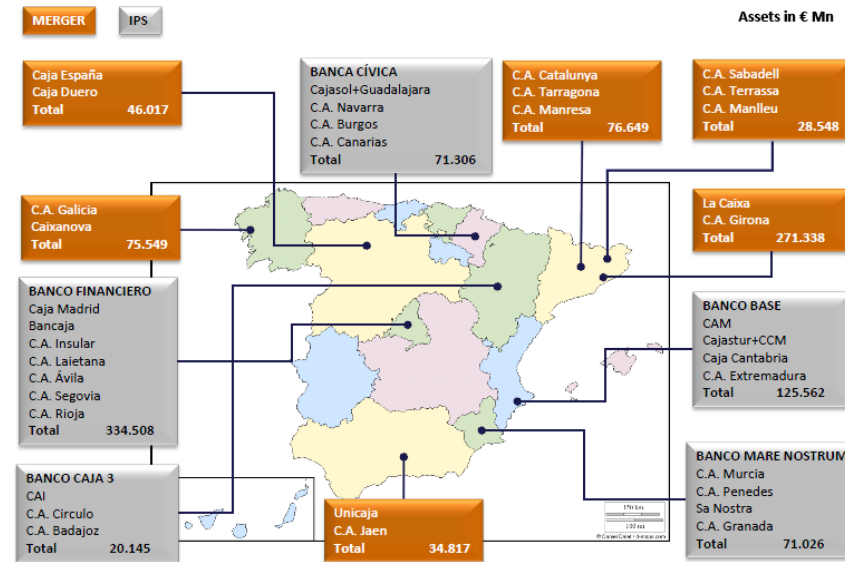
The consolidation process of the Spanish financial sector will bring new opportunities ...

Number of branches in Spain



Source: Bank of Spain

Consolidation process (from 45 to 17 cajas)



BoS expects average reductions of 25% on offices and 15%-18% on staff among the cajas

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# How Popular is delivering sustainable risk adjusted returns?

## 1. Having a flexible & quick-to-react Model

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- ✓ Adapting faster to a changing environment
- ✓ Having a top-class quality branch network

## 2. Having a high quality franchise

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- ✓ Reinforcing our leading position in the key-indicators: Profitability, Solvency and Liquidity.

## 3. Backed by a sound track record

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- ✓ Extensive expertise focused on retail banking: more than 6 Million customers confirm it!
- ✓ And allow us to achieve solid recurrent revenues throughout the cycle
- ✓ We keep on crystallizing the huge intrinsic value of our franchise



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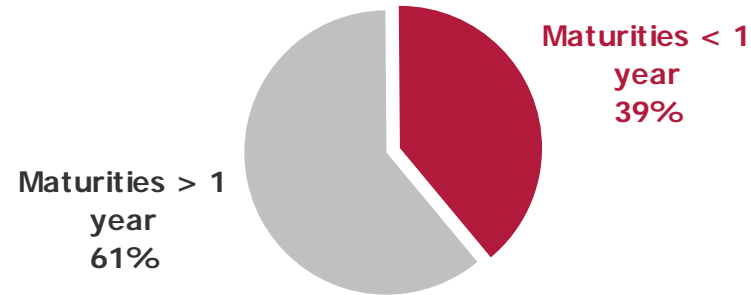
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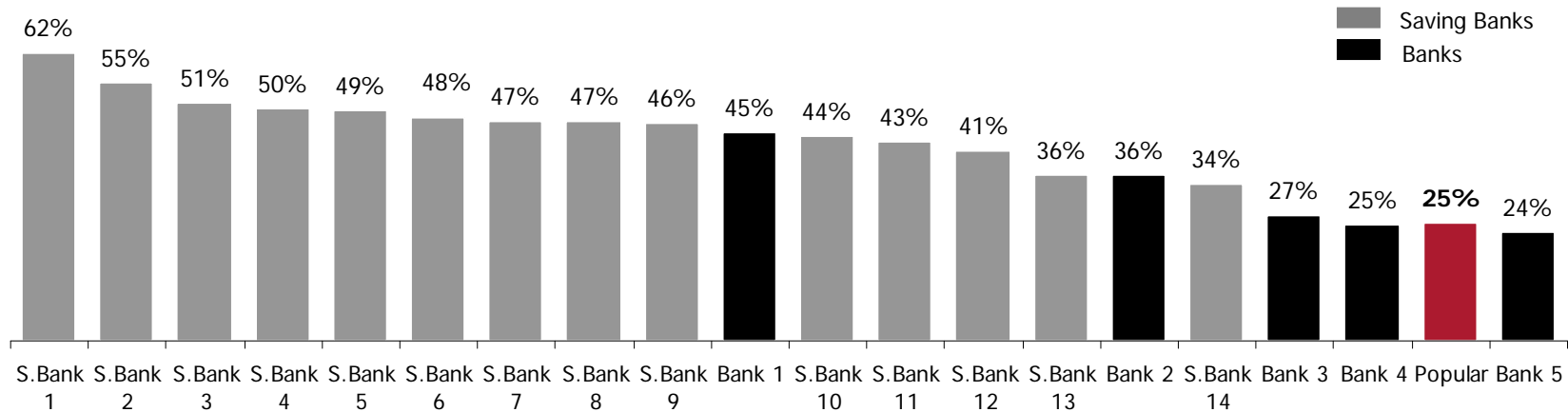


# Flexible model: with a short duration on the lending book which allows us to transfer potential changes in funding cost

Capacity: Short duration of lending book



Percentage of loans devoted to residential mortgages and developers over total assets

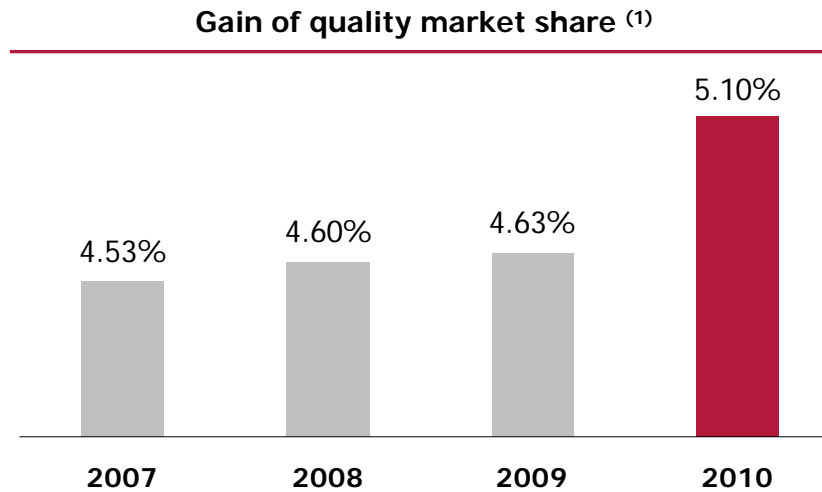
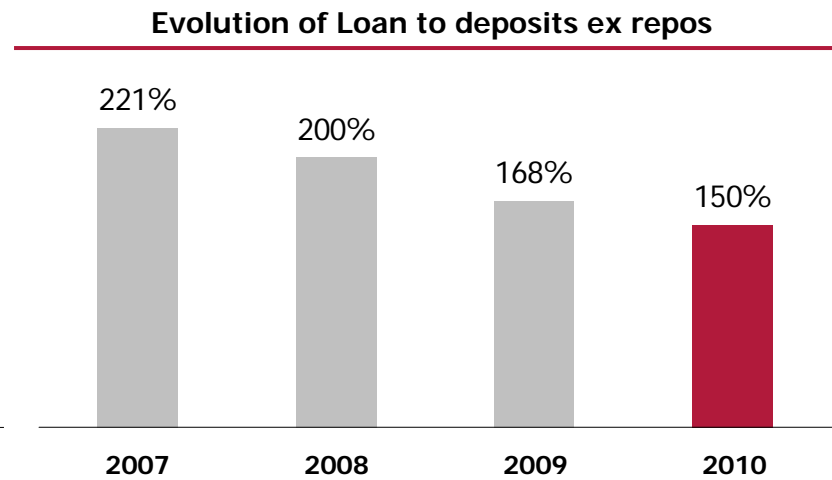
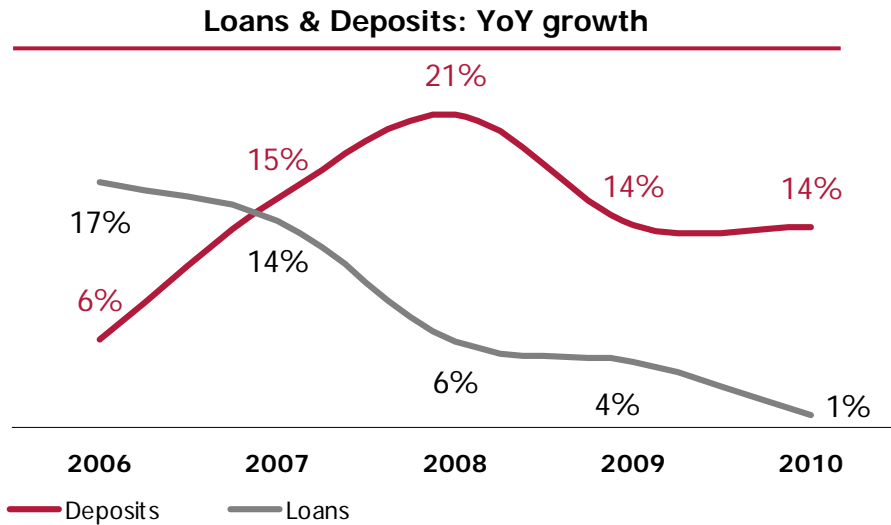


Source: Companies corporate presentations, Dec. 2010. Business in Spain.

Banks: Santander Spain, BBVA Iberia, Sabadell, Pastor and Banesto. Savings banks: Caja España-Caja Duero, Banco Base, Cajatres, Caixa Catalunya, Mare Nostrum, NovaCaixaGalicia, BFA, Unnim, Vital, Banca Civica, CaixaBank, Ibercaja, Unicaja, Kutxa, BBK



# Flexible model: Based on a highly disciplined network which permits us to change effectively and rapidly our priorities

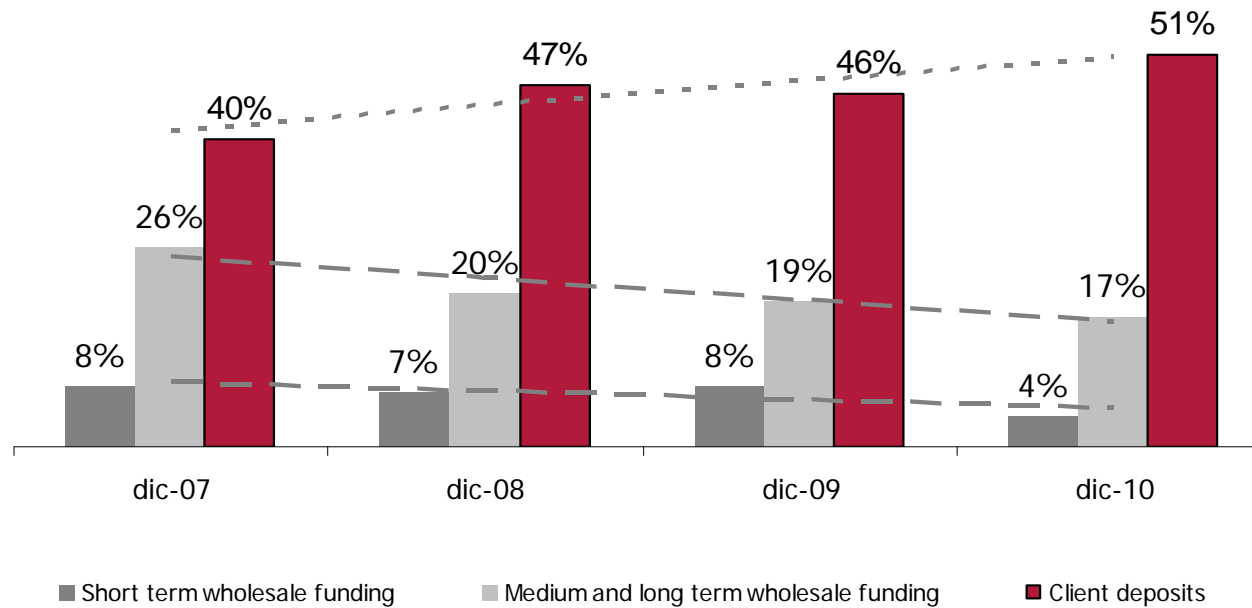


<sup>(1)</sup> Business market share: credits and deposits. Source: T7 form and Bank of Spain



# Flexible model: i.e. we have been able to rebalance our wholesale funding portfolio in just 3 years...

Total funding evolution (%/Total assets)



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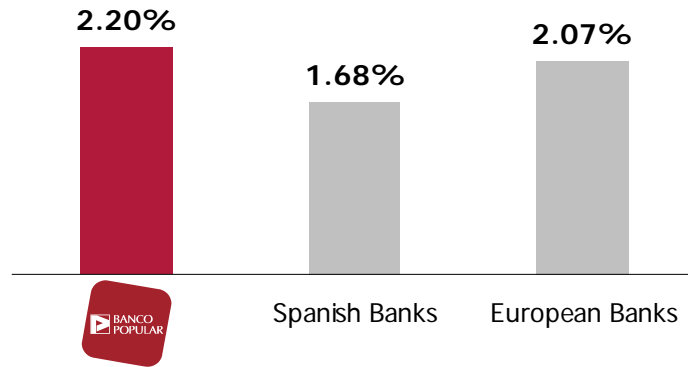
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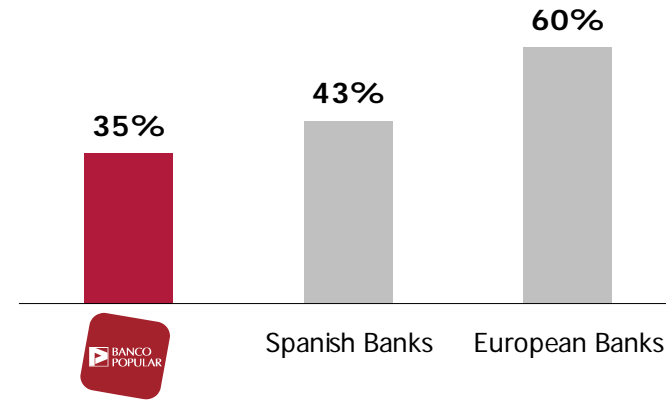


# High quality franchise from a variety of angles

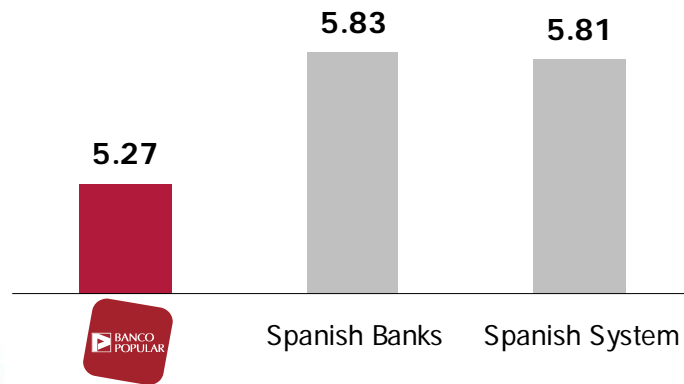
A privileged Pre-Provision Margin



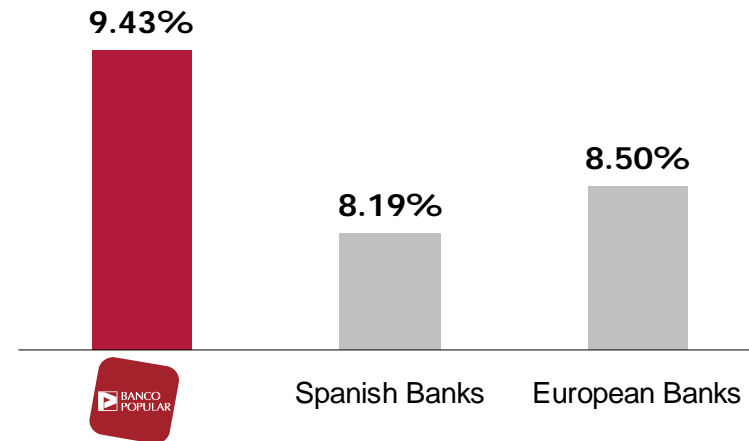
Best in class cost to income ratio



NPL ratio (%). Tough Risk Assessment



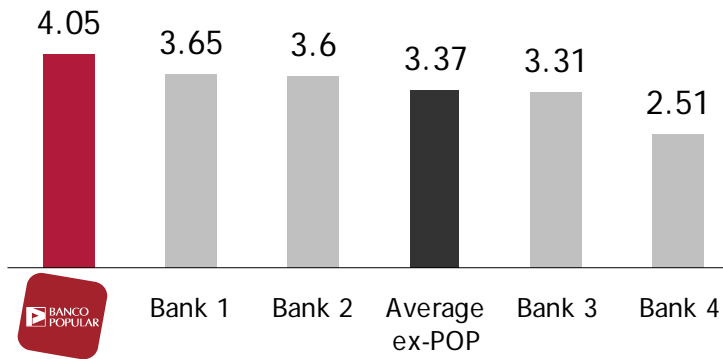
A leading Core Capital position



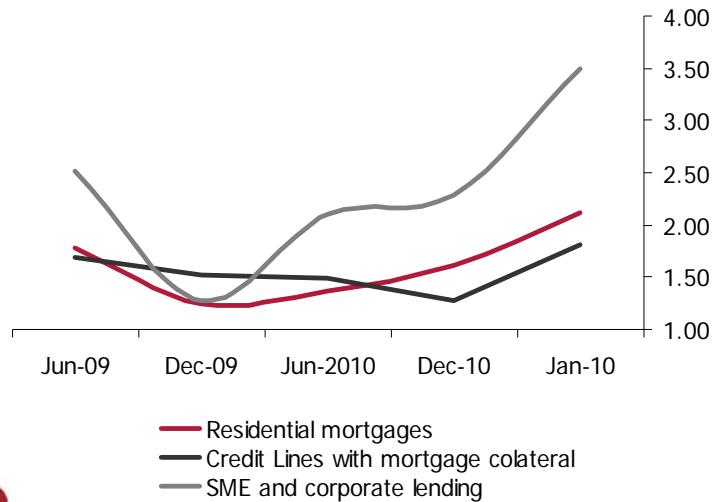
Source: Quarterly reports, BoS and Credit Suisse.

# We maintain the highest asset spread and continue to increase it

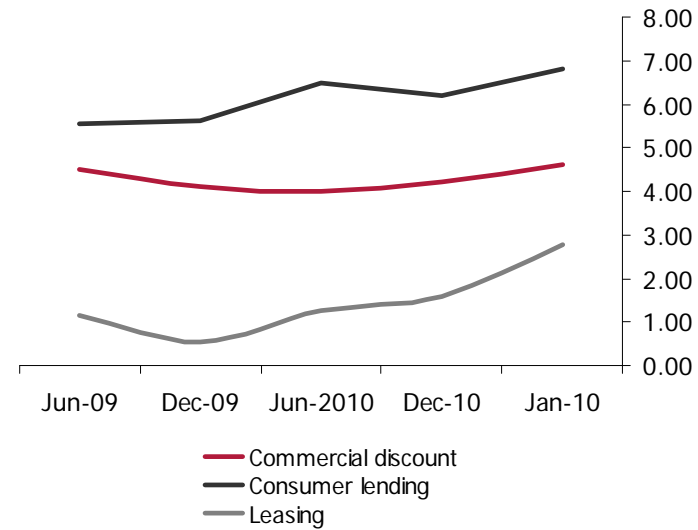
Loans yield comparison 4Q10 (%)



Spreads on new loans. Products at floating rates

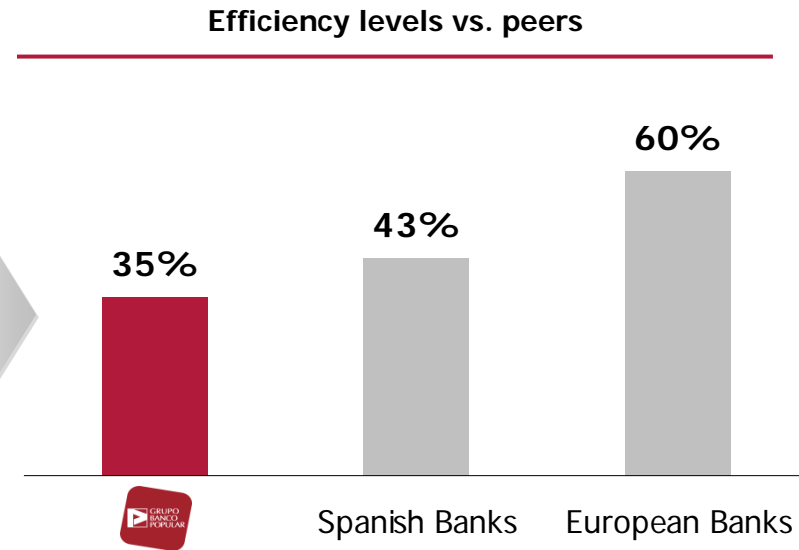
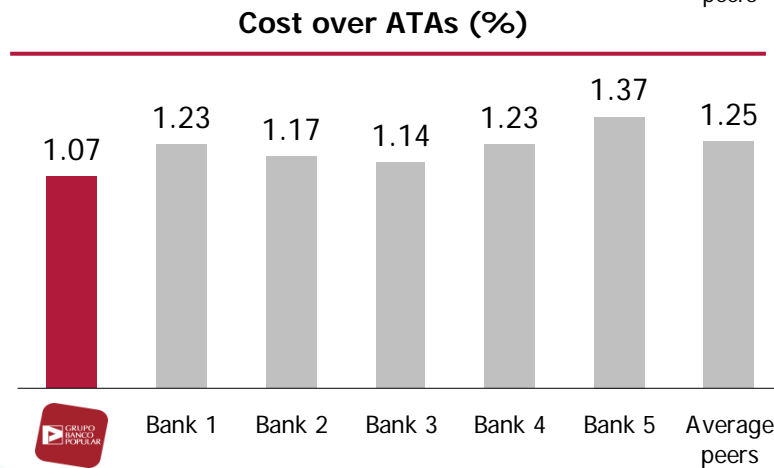
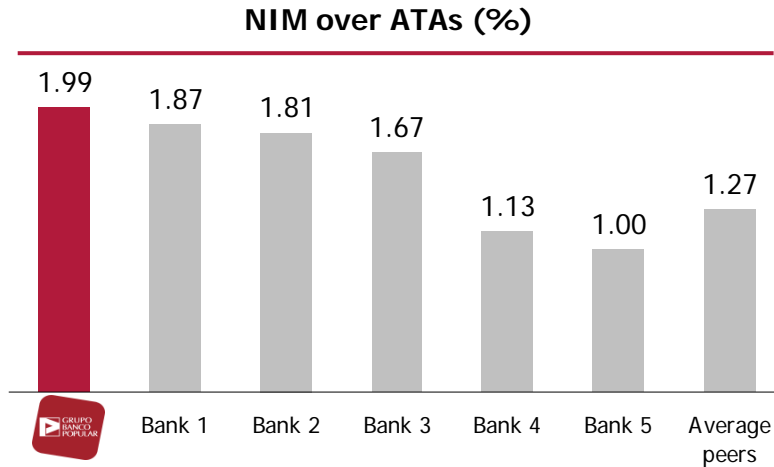


Yields of the new loans. Products at fixed rates



Source: Quarterly reports. Peers: Sabadell, Banesto, BBVA Iberia and Bankinter

# We keep the highest efficiency levels based not only on the highest revenues but also on a strict cost culture



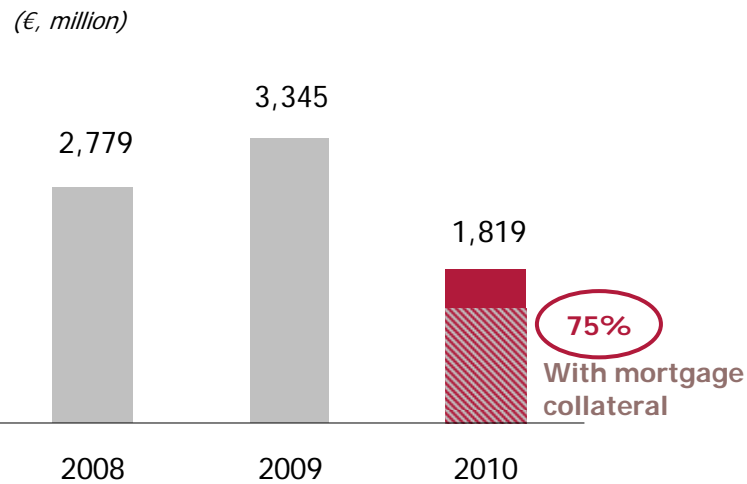
Source: Quarterly reports

Peers: BBVA Iberia, Santander España, Sabadell, Bankinter, La Caixa

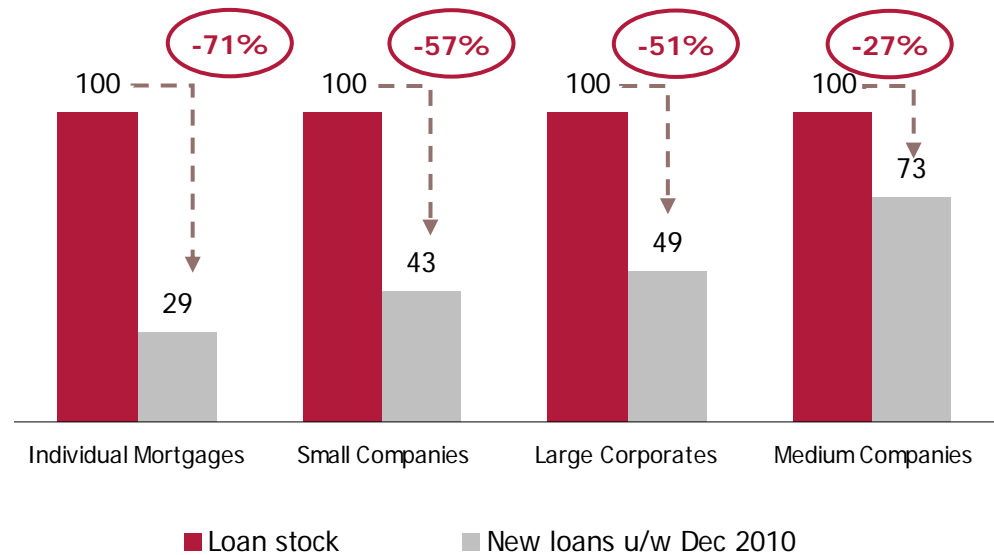


# Risk management: NPL net entries continue in the right direction. The expected loss (EL) of the new business underwritten shows a remarkable improvement

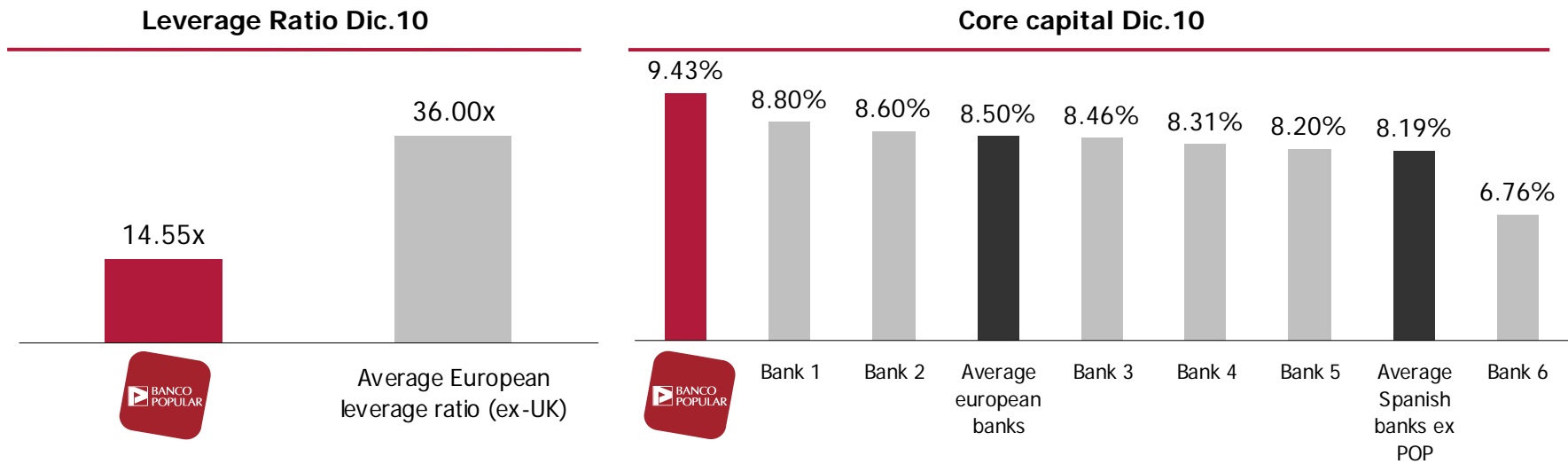
NPL Entries evolution



Expected loss new production vs stock – (Index 100)



# And finally, and very important these days... The Spanish franchise with Lower Leverage & Higher Solvency



Sources: Quarterly reports Spanish banks 4Q2010 Santander Group, BBVA Group, Sabadell, Banesto, Bankinter, Pastor. BBVA data is calculated after the acquisition of Garanti. European banks . Credit Suisse Banks valuation 23rd November 2010.



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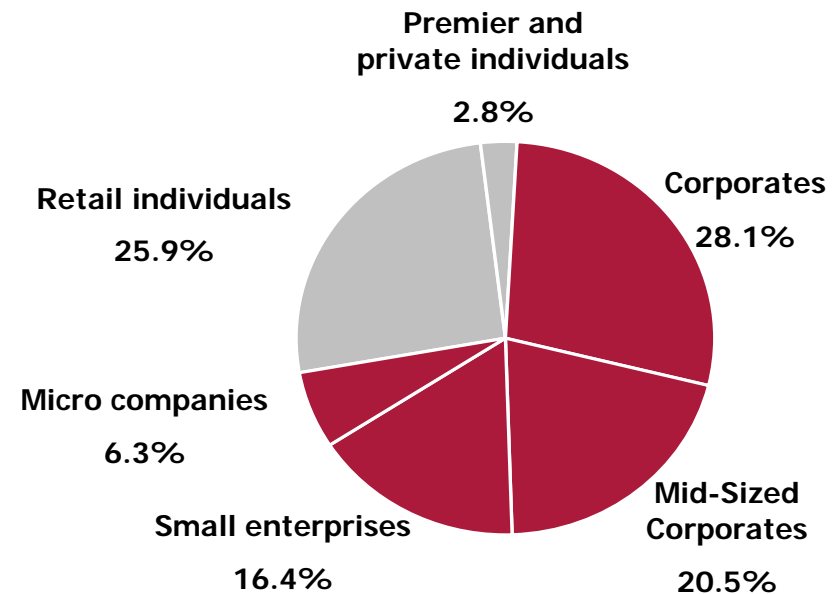


## Recurrent revenues: Based on a recurrent client base and unique SME franchise

Growth in client base by company type 2010-2009 (%)		System
<b>Total</b>	<b>+8</b>	<b>-2</b>
Large corporate	+7	-7
Medium size companies	+7	-12
Small size companies	+1	-13
Micro companies & self-employees	+7	-1

Source: INE

### Loans breakdown by sector



We keep reinforcing our SME franchise:

**54,000** new SMEs in 2010

And International Business:

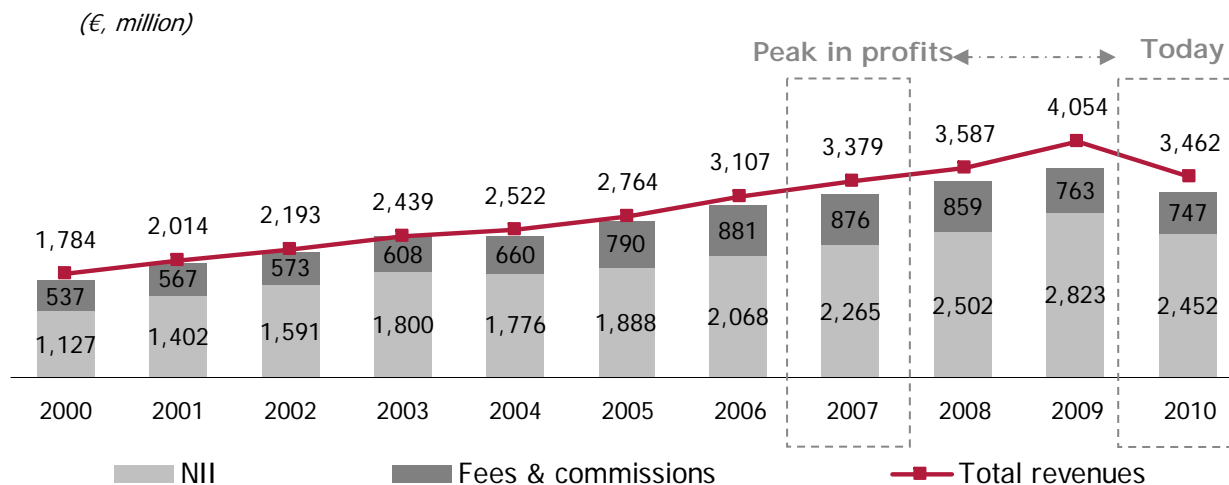
**+12%** y/o/y Gross income

**+88 b.p.** documentary credit market share (10% as of 2010)



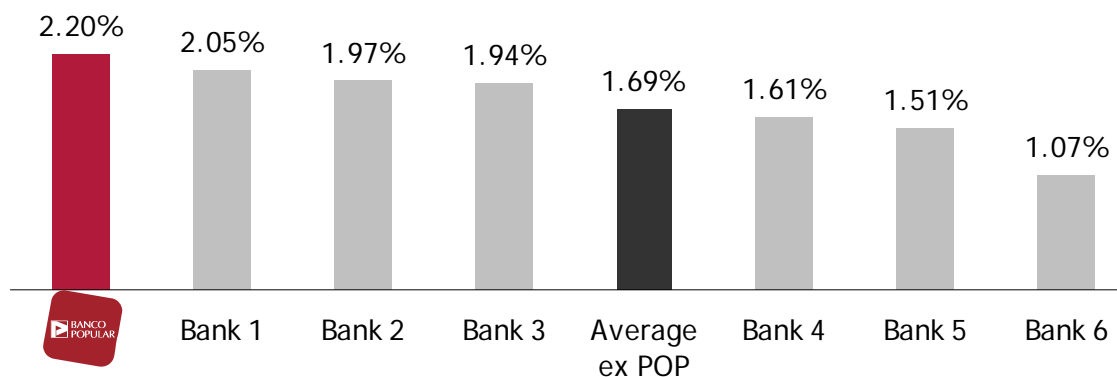
# Recurrent revenues: We maintain solid revenue generation and also the highest Pre-Provision Profit

Net Interest Income and total revenues evolution



Note: 2000 – 2003 figures under Spanish GAAP, 2004-2010 figures under IFRS

Pre-provision Profit/Average gross loans 2010

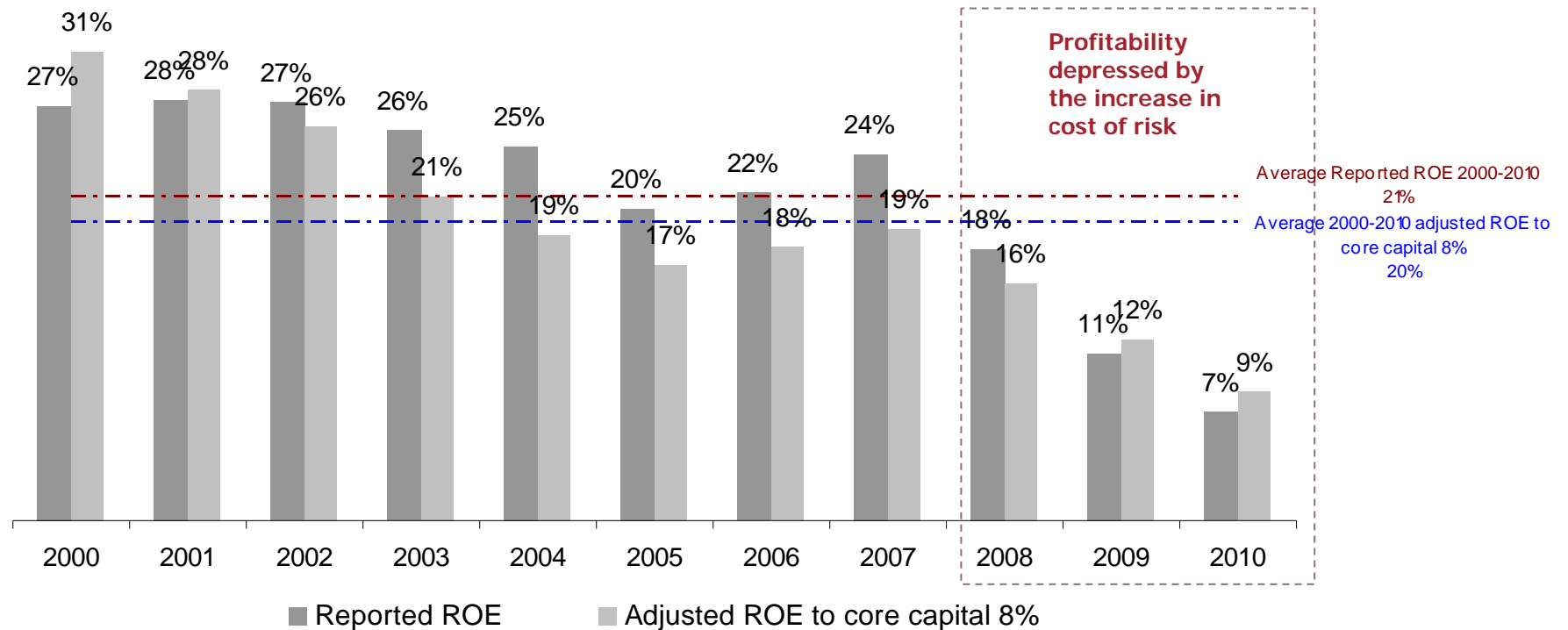


Source: Quarterly reports 4Q2010 Santander Spain, BBVA Iberia, Banesto, Sabadell, Bankinter, Pastor

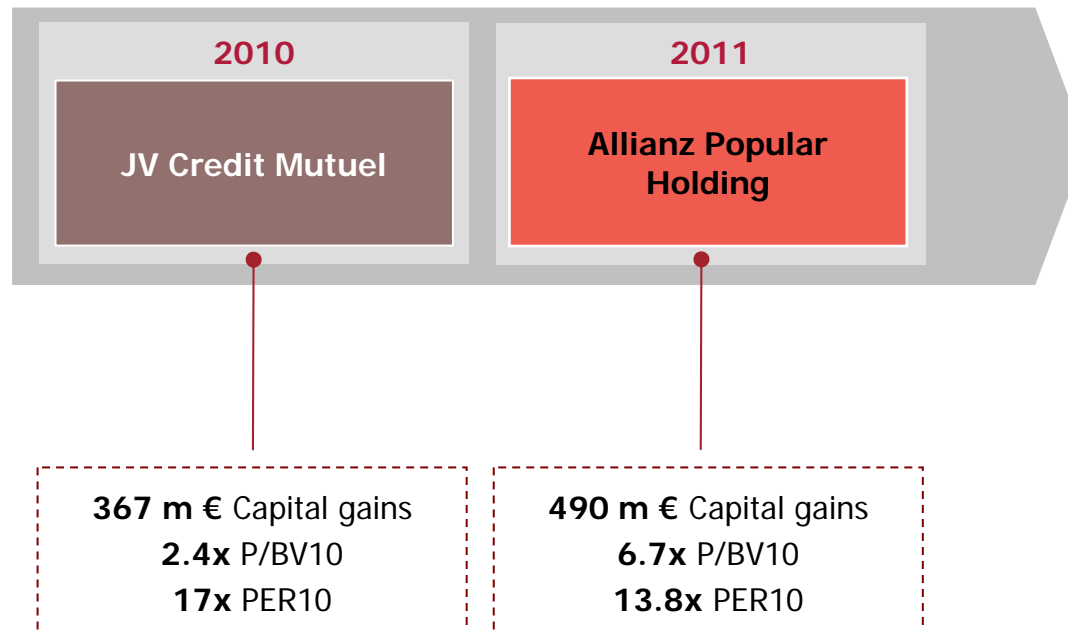


# Popular has shown in the past its ability to deliver high profitability based on efficiency rather than leverage

ROE Reported vs. ROE adjusted to an 8% core capital evolution



To conclude: Proven high quality franchise with a high intrinsic value.  
Some examples...



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## Conclusions

- Popular is demonstrating a superior **capacity** to obtain **recurrent revenues** in a very demanding environment (Economic & credit contraction, low interest rates, volatile markets...).
- And also a strong capacity to generate a high level of **capital gains** thanks to its **highly valued franchise**.
- The combination of these capacities, has allowed us to implement a **conservative provisioning policy** over the last three years (c.EUR7bn provisions) while we have **improved our liquidity & solvency** well above peers.
- We view the **future with confidence** because of the high value and sustainability of our franchise. We own a **WINNING MODEL**





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