

# Financial Results 2008



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# Agenda

1. Positioning in the current banking environment
2. Results
3. Business performance
4. Solvency and Liquidity
5. Risk Management
6. Confidence in the future

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- 1. Positioning in the current banking environment**
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1

## Relative positioning of Banco Popular in the current banking environment

### *Relative positioning vs peers*

1	Capital	→	Strong	✓
2	Liquidity	→	Strong	✓
3	Business	→	Strong	✓
4	Results	→	Strong	✓
5	Asset soundness	→	Strong	✓

## 1 Strength of capital

*Relative positioning  
vs peers*

*Relevant aspects*

1

**Capital**

**Strong**

- **Core capital of 7.1% amongst the highest of European banks without Government backed share issues**
- **Strongest bank in Europe and in America in terms of Tangible Equity / Total Tangible Assets**
- **Prospects of sustained strong capital ratios over the next 2 years despite macroeconomic headwinds**

# 1 Strength of liquidity

*Relative positioning  
vs peers*

*Relevant aspects*

2

**Liquidity**

**Strong**

- Significant reduction in the Commercial Gap of 2,327 M€
- One of the most important second lines of liquidity in Europe, 14,640 M€
- All wholesale financing maturities in excess of one year are guaranteed

# 1 Strength of business model

*Relative positioning  
vs peers*

*Relevant aspects*

3

**Business**

**Strong**

- New loans totalled 37,668 M€ in 2008
- Customer deposits grew by 21.1%

# 1 Strength of results

*Relative positioning  
vs peers*

*Relevant aspects*

4

**Results**

**Strong**

- **Recurrency of all P&L margins with growth rates between 10.4% and 4.2% in the current economic environment**

# 1 Soundness of assets

*Relative positioning  
vs peers*

*Relevant aspects*

5

**Asset  
soundness**

**Strong**

- 88% of assets are commercial and retail banking loans in the Iberian Peninsula
- NPL ratio of 2.71% in Spain, lower than the domestic financial sector average
- Coverage ratio of 159.4% incl. guarantees and provisions

# Agenda

1. Positioning in the current banking environment

## 2. Results

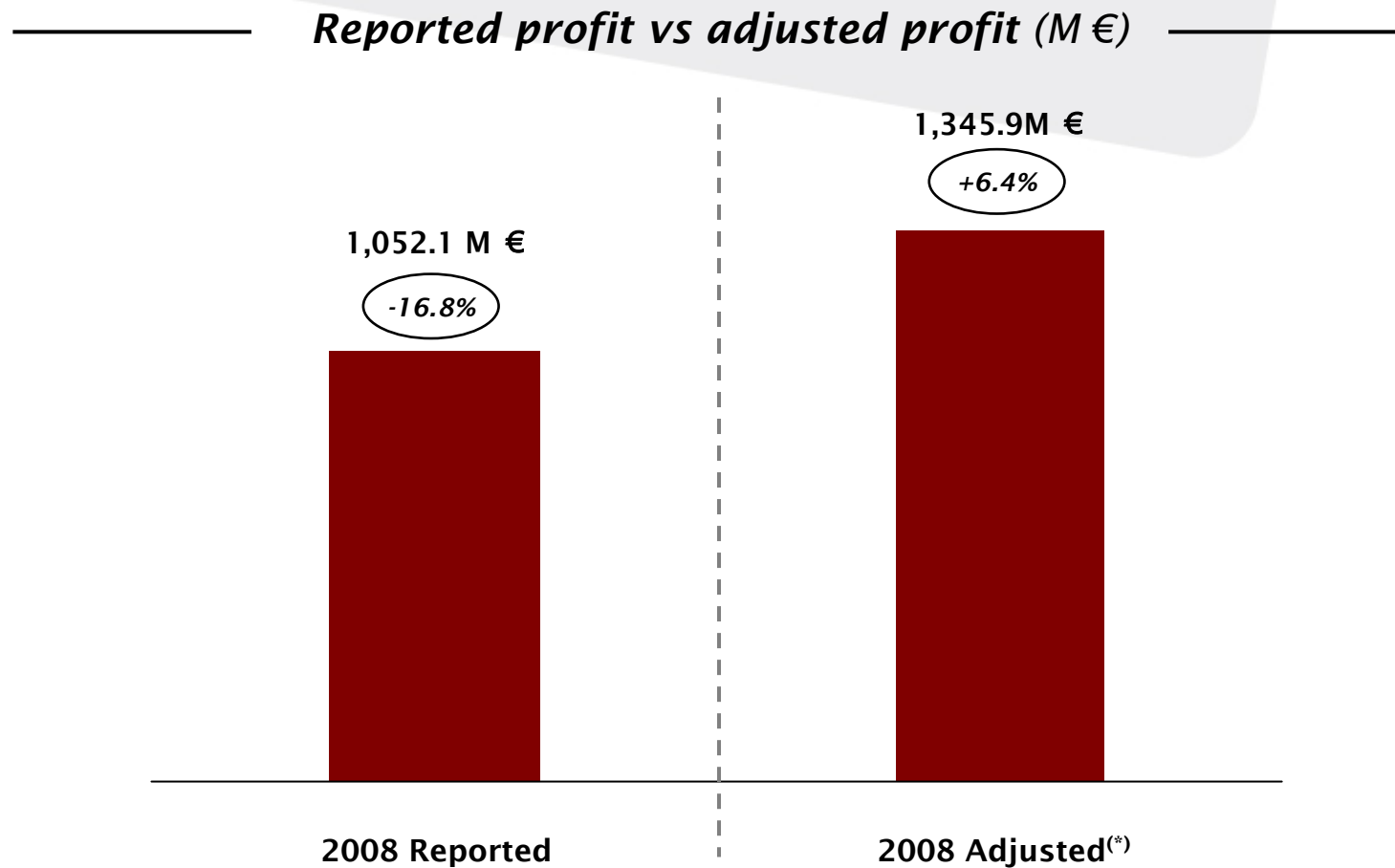
3. Business performance

4. Solvency and Liquidity

5. Risk Management

6. Confidence in the future

## 2 Attributable profit driven by conservative provisioning policy ...

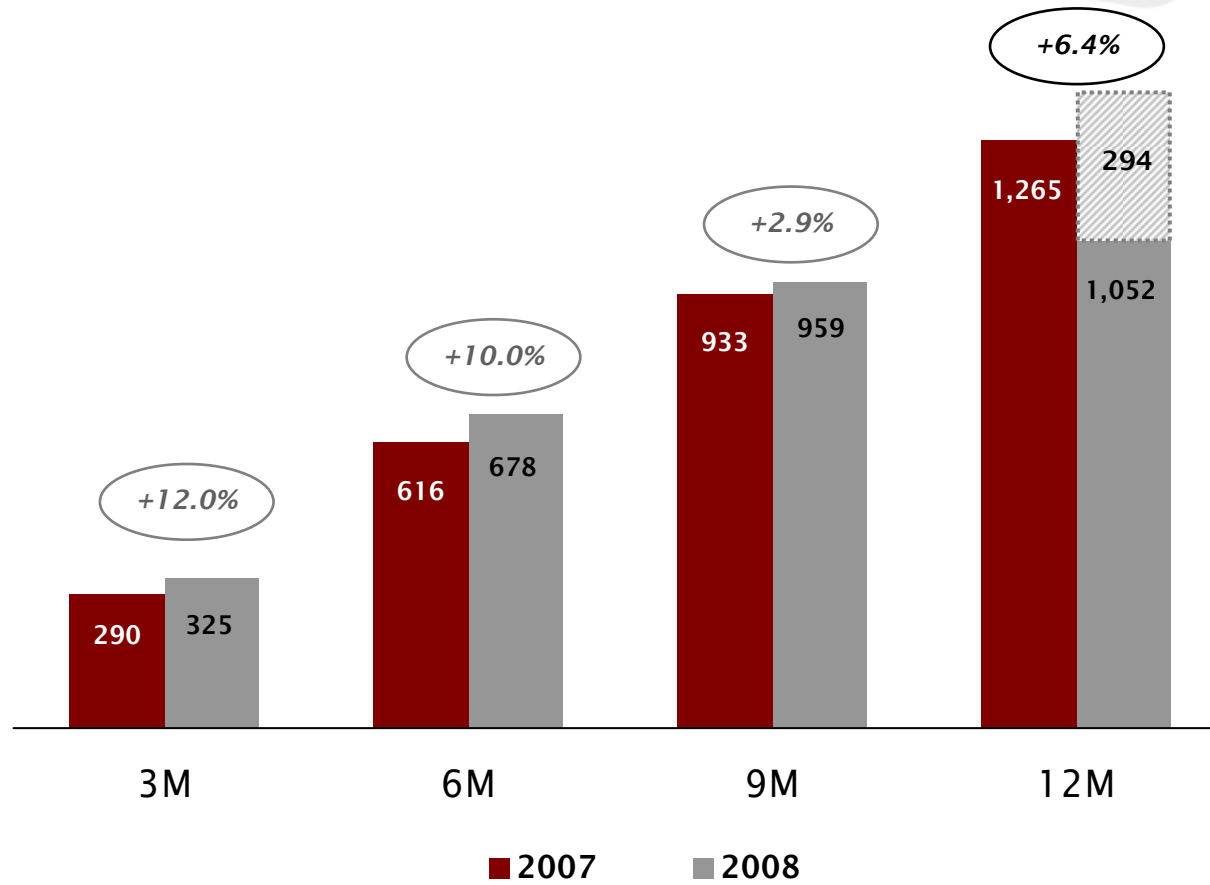


**(\*) Adjusted profit excludes:**

- Extraordinary provisions for NPL of 189 M €.
- Additional recoveries of generic provision of 244 M € allowed by current regulation

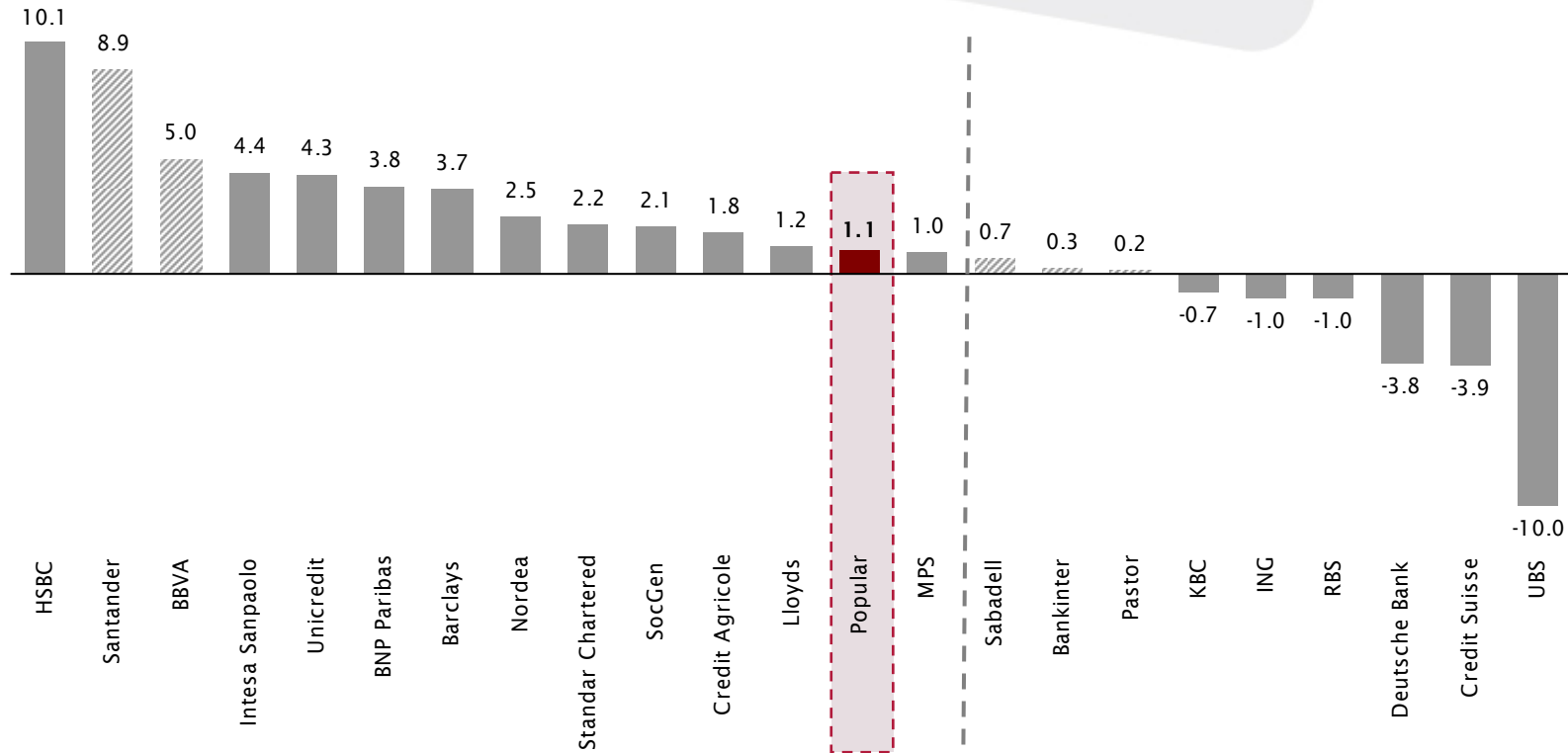
2 ... mainly applied in the fourth quarter of 2008

*Evolution of Group  
Attributable Profit (M €)*



**2** Despite conservative policies, Banco Popular ranks 13th in Europe and 9th in the Eurozone area by Net Income 2008E

(Billion euros)



**Europe's 14th largest banks with 2008E net income in excess of 1,0 bn €**

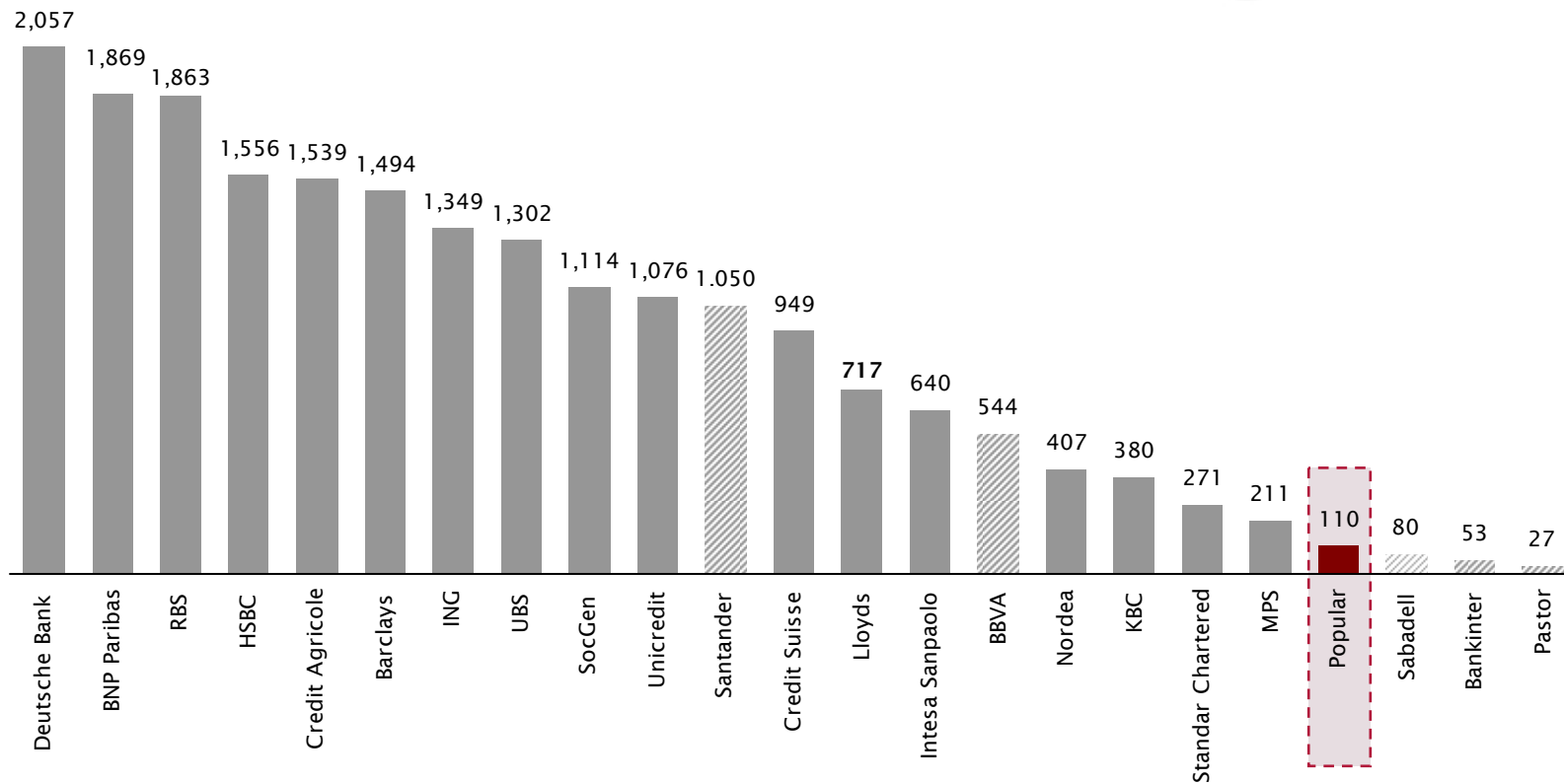
*Includes top 20 European banks by market capitalization + Spanish banks.  
Source: Analysts consensus estimates except for SAN, BBVA, SAB, BKT, POP and ING which are actual data.  
FactSet as of January 29, 2009.*

2

...well above its relative position by size

20th largest European bank by total assets 2008E

(Billion euros)



Includes top 20 European Banks by market capitalization + Spanish banks.  
Source: Analysts consensus estimates except for SAN, BBVA, SAB, BKT y POP which are actual data.  
FactSet as of January 29, 2009.

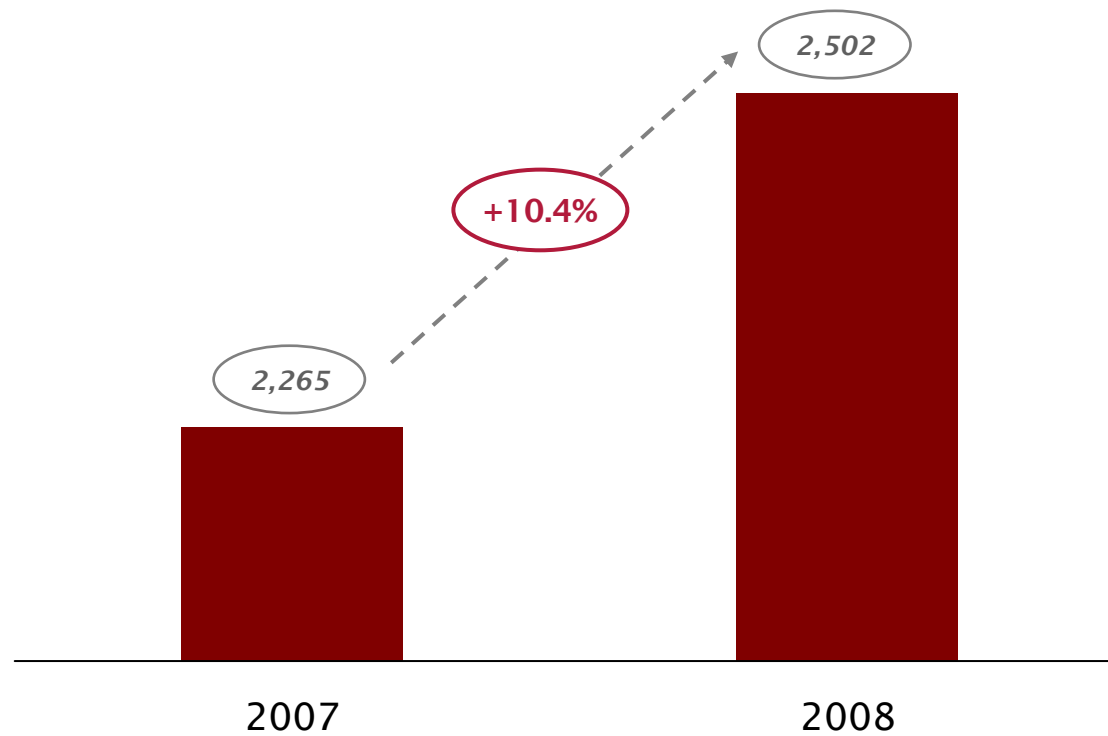
## 2

## Growth in all margins shows business recurrency

In million euros	Dec-07	Dec-08	Var (%)
<b>Net Interest Income excl. dividends</b>	<b>2,265.4</b>	<b>2,501.6</b>	<b>10.4%</b>
<b>Net Interest Income</b>	<b>2,320.9</b>	<b>2,520.6</b>	<b>8.6%</b>
Income from equity acc. investments	3.9	14.4	>
Net fees & commissions	876.3	858.6	-2.0%
Income from insurance activities	53.4	49.6	-7.1%
Income from trading and exchange gains (net)	124.6	144.2	15.8%
<b>Gross Income</b>	<b>3,379.0</b>	<b>3,587.3</b>	<b>6.2%</b>
Operating expenses	1,095.4	1,196.5	9.2%
Personnel expenses	747.3	818.1	9.5%
Other operating expenses	348.1	378.4	8.7%
<b>Net Operating Income</b>	<b>2,232.8</b>	<b>2,325.9</b>	<b>4.2%</b>
Impairment charges (net)	321.6	1,086.4	237.8%
Other income (net)	40.6	250.3	516.7%
<b>Profit Before Taxes</b>	<b>1,939.9</b>	<b>1,461.0</b>	<b>-24.7%</b>
Taxes	605,7	390.3	-35.6%
<b>Profit from continued operations</b>	<b>1,334.2</b>	<b>1,070.7</b>	<b>-19.8%</b>
Results from discontinued operations (net)	7.3	40.0	>
<b>Consolidated Profit for the period</b>	<b>1,341.5</b>	<b>1,110.7</b>	<b>-17.2%</b>
Minority interest	76.5	58.6	-23.4%
<b>Net Attributable Profit</b>	<b>1,265.0</b>	<b>1,052.1</b>	<b>-16.8%</b>
<b>Adjusted Net Attributable Profit</b>	<b>1,265.0</b>	<b>1,345.9</b>	<b>6.4%</b>

2 Reflected in the growth of net interest revenue

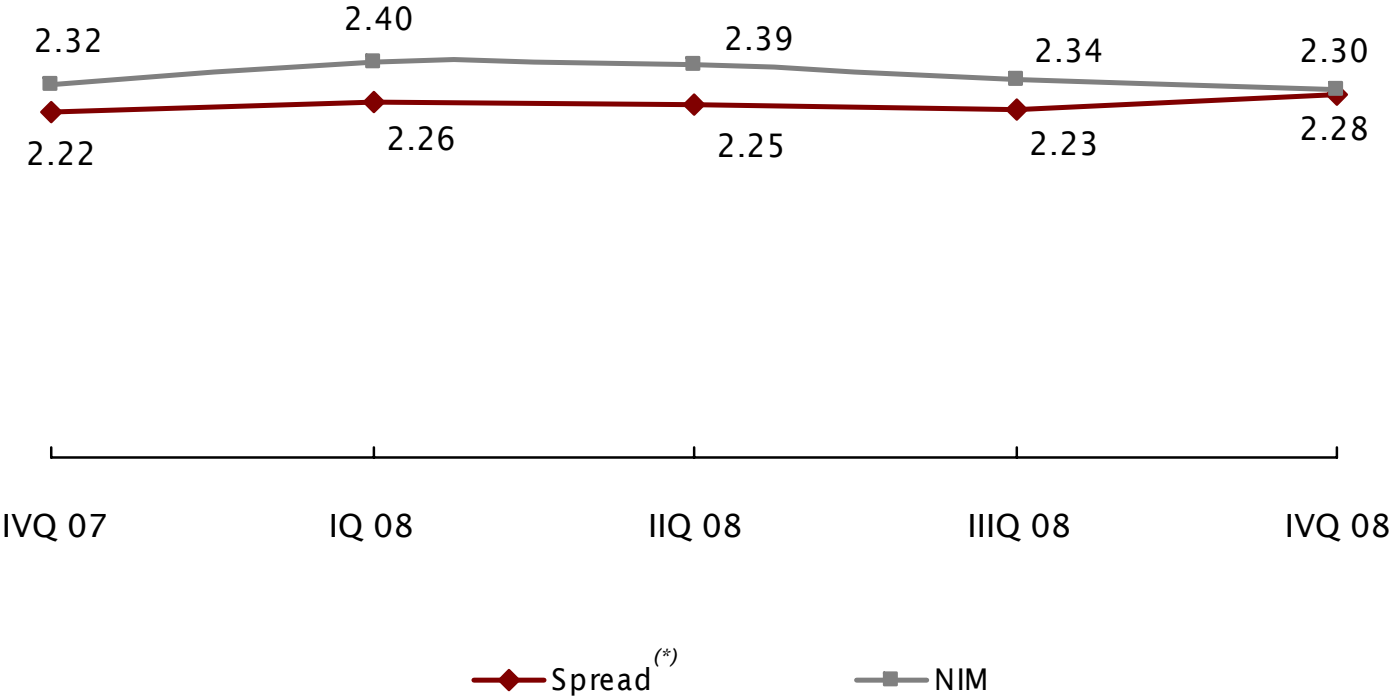
*Evolution of Net Interest Income exc. dividends (M €)*



2

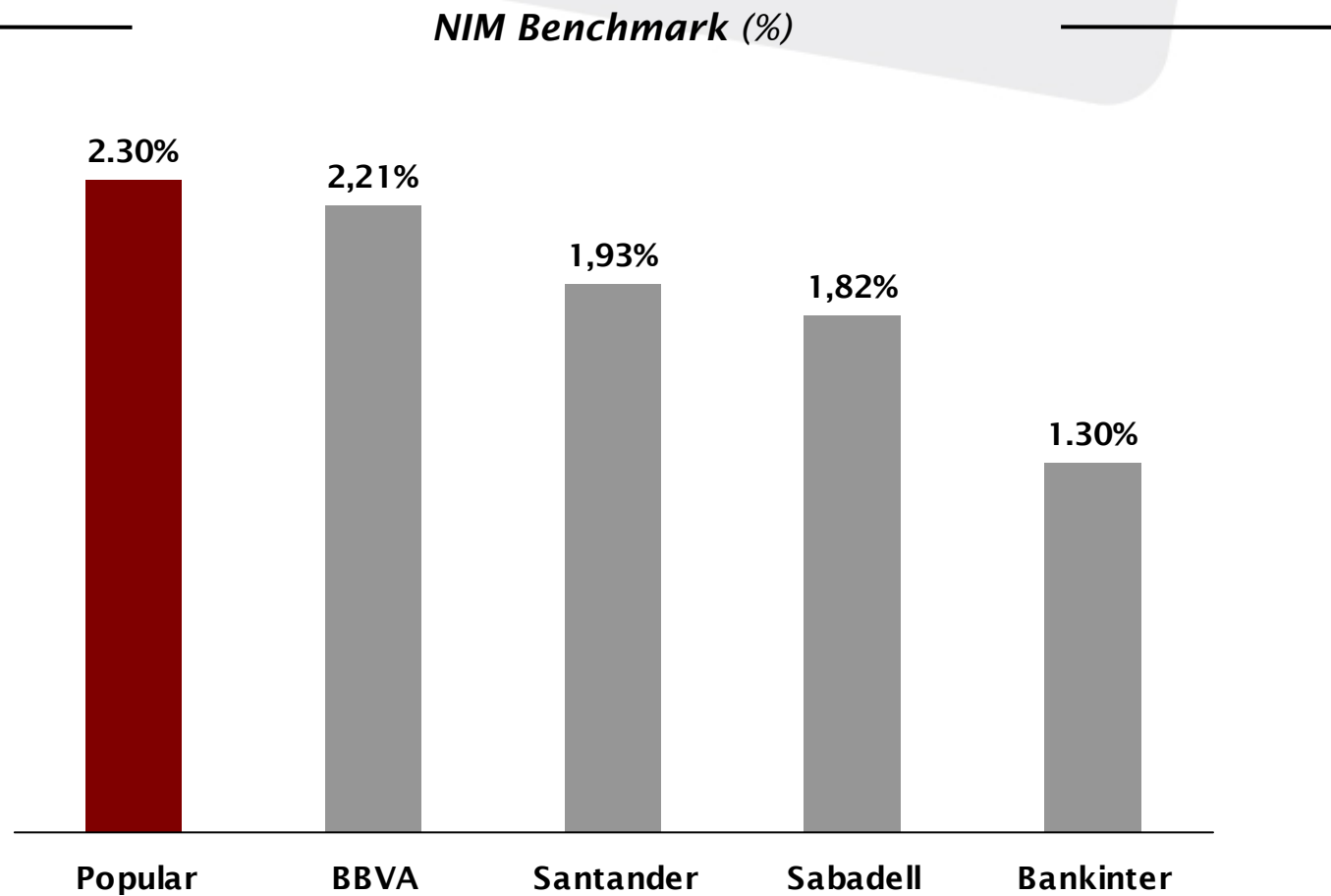
**Financial margins remain stable despite higher wholesale and retail funding costs ...**

*Evolution of Financial Margins (%)*



<sup>(\*)</sup> Interest earning assets - Interest bearing liabilities

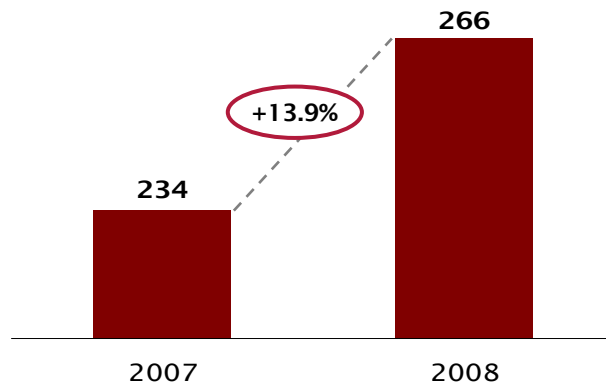
**2** ...and remain the highest among Spanish banks



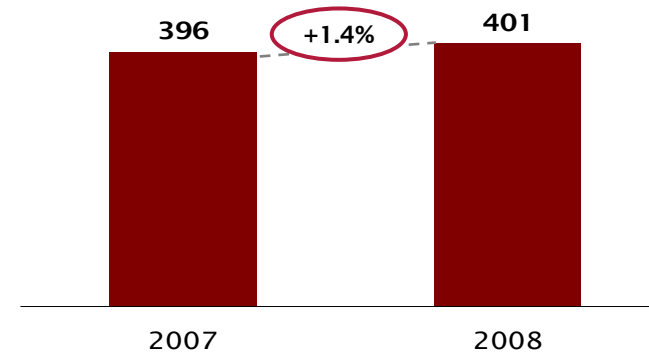
## 2 Strength of fee & commission income based on risk transactions and management services

### Evolution of Net Fees & Commission Income

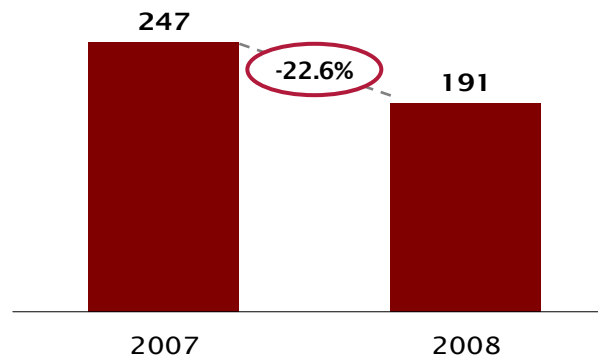
Commissions from risk transactions (M €)



Commissions from management services (M €)



Asset management fees (M €)



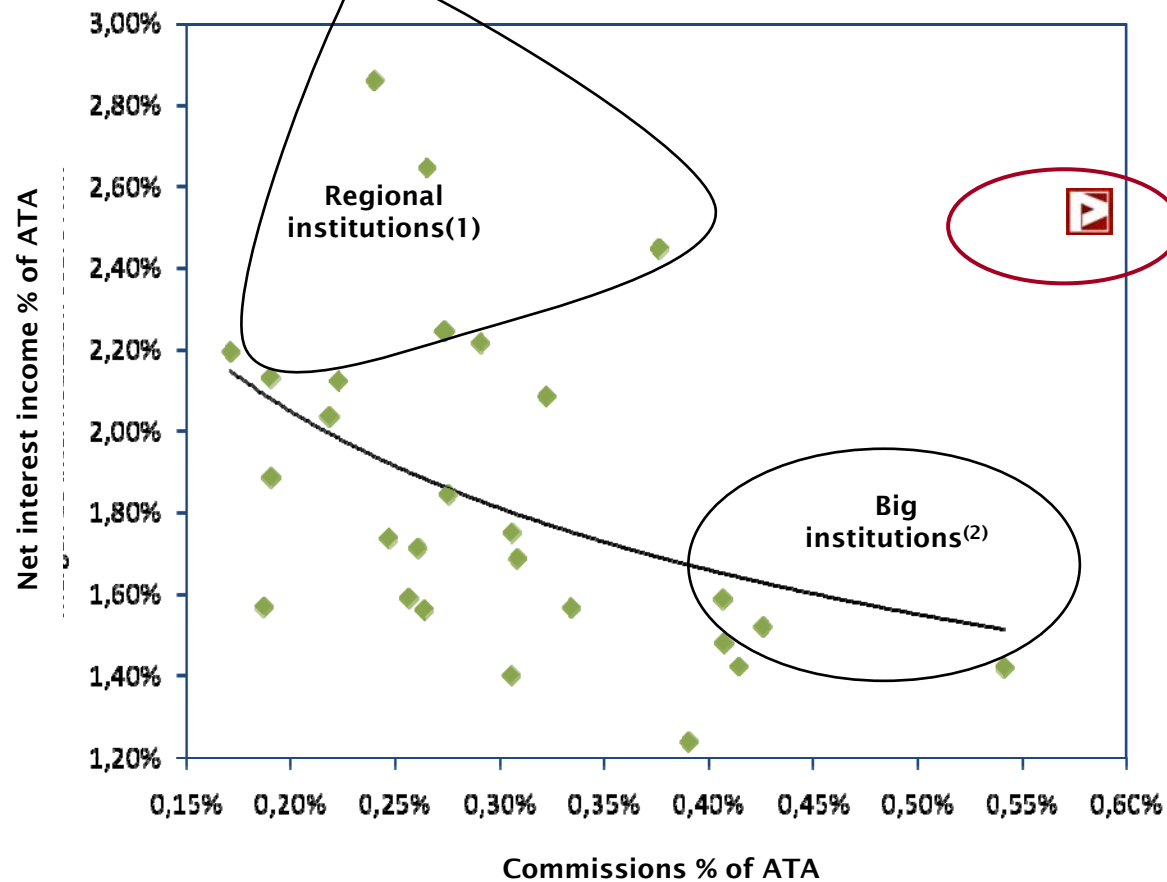
2

## Spanish financial institutions have focused on growth rather than management of margins and prices

Popular shows the best ratio of Net Interest Margin / Net Fees & Commissions amongst Spanish banks and savings banks

**Benchmark of net interest income / average tangible assets and net fees & commissions / business volume**

(Data as of December 2007)



<sup>(1)</sup> Entities operating in regional markets

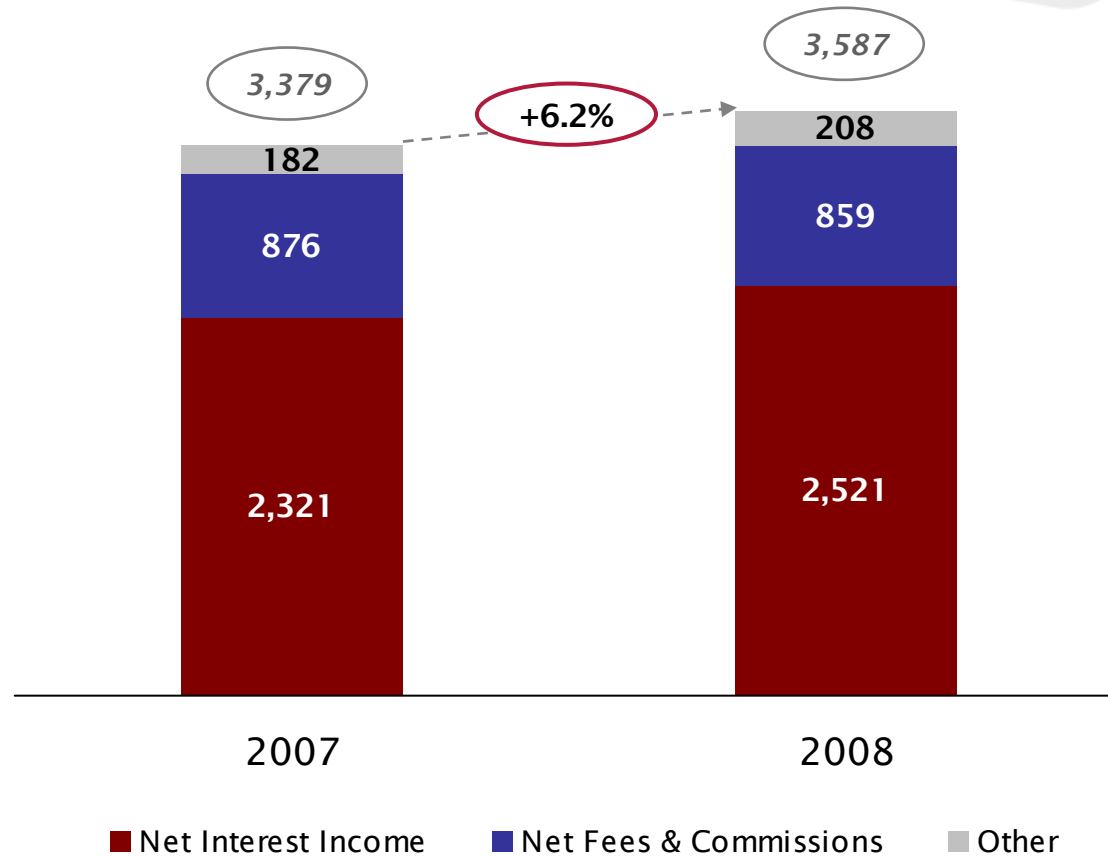
<sup>(2)</sup> Big banks and savings banks

Source: Market study Deloitte

2

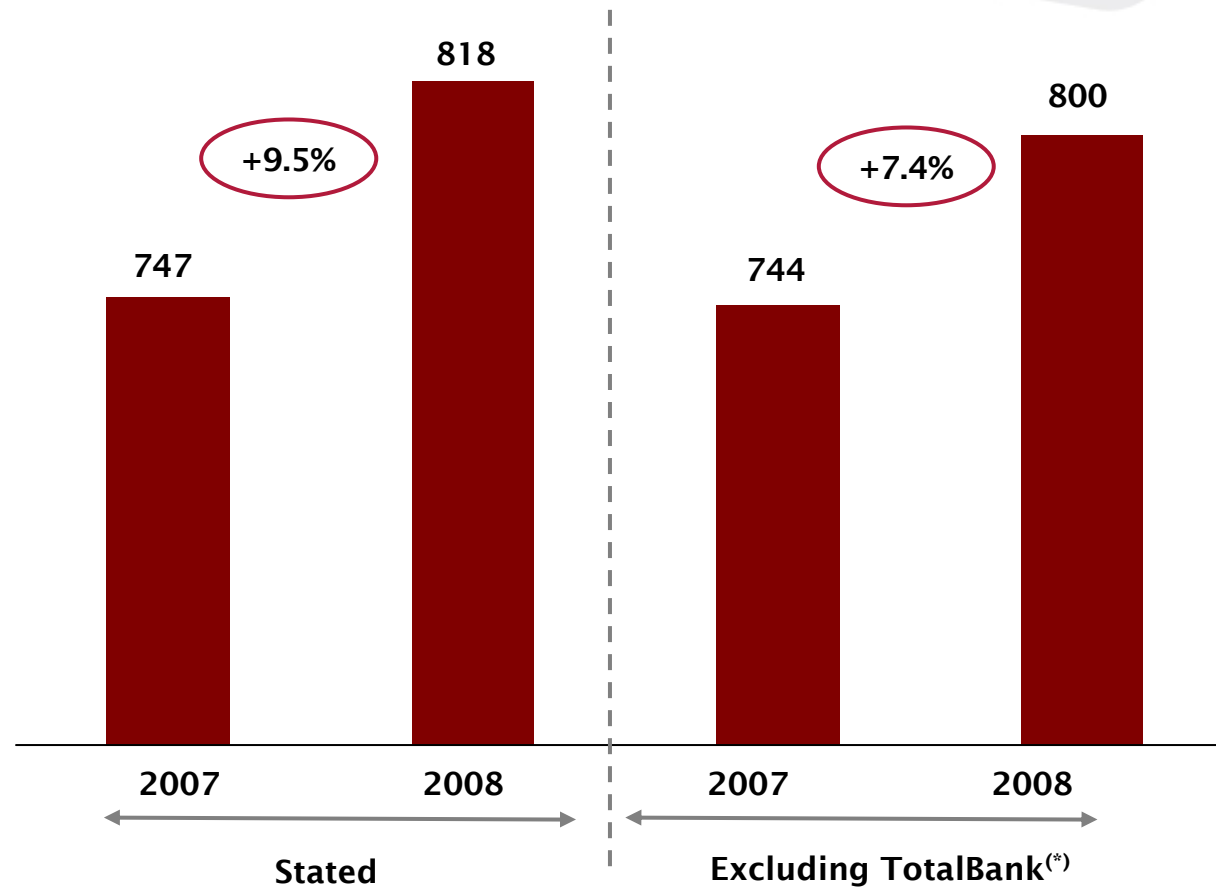
Total revenues are recurrent and show growth potential

Evolution of Gross Income (M €)



## 2 Personnel expenses conditioned by the integration of TotalBank

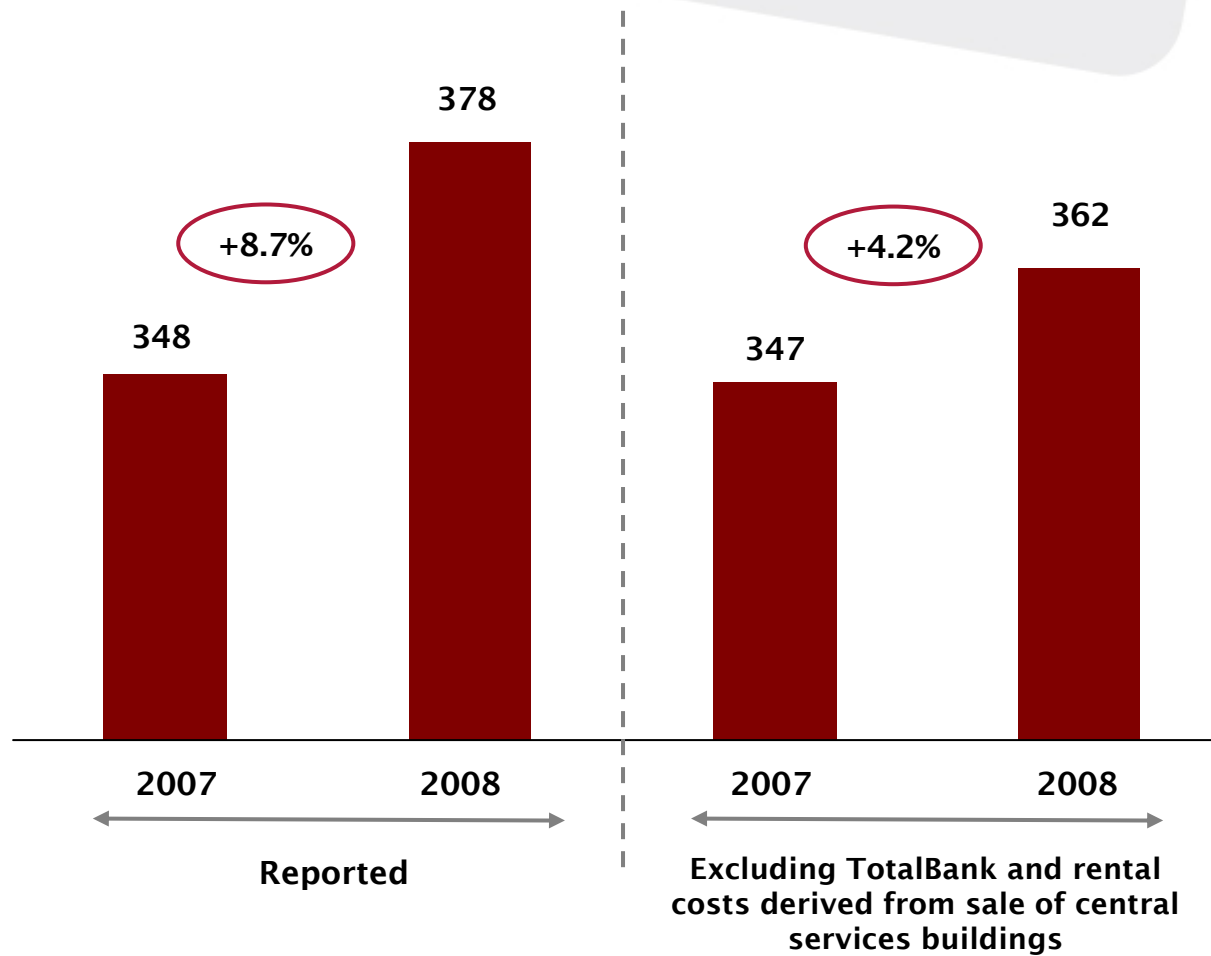
Ordinary YoY growth driven by 3.4% growth of total employees and 4.0% growth of salaries (M €)



(\*) Totalbank contribution since November 2007

## 2 Gen & Admin expenses influenced by non-recurrent elements

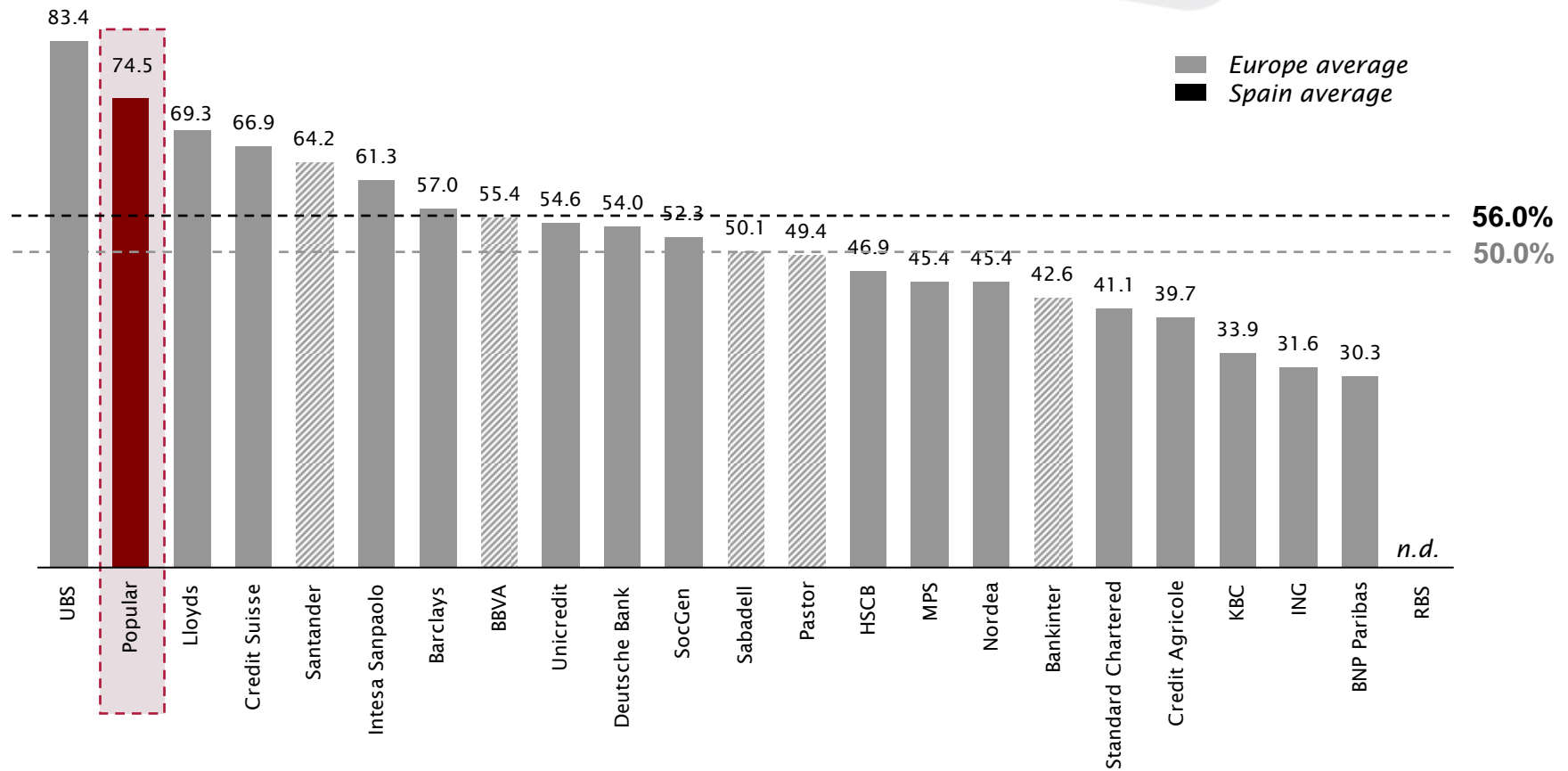
Popular maintains its successful cost control policy (M €)



2

## High coverage of operating expenses with fees & commissions, amongst the best in Europe

2008E Fees & Commissions / 2008E Operating Expenses (%)

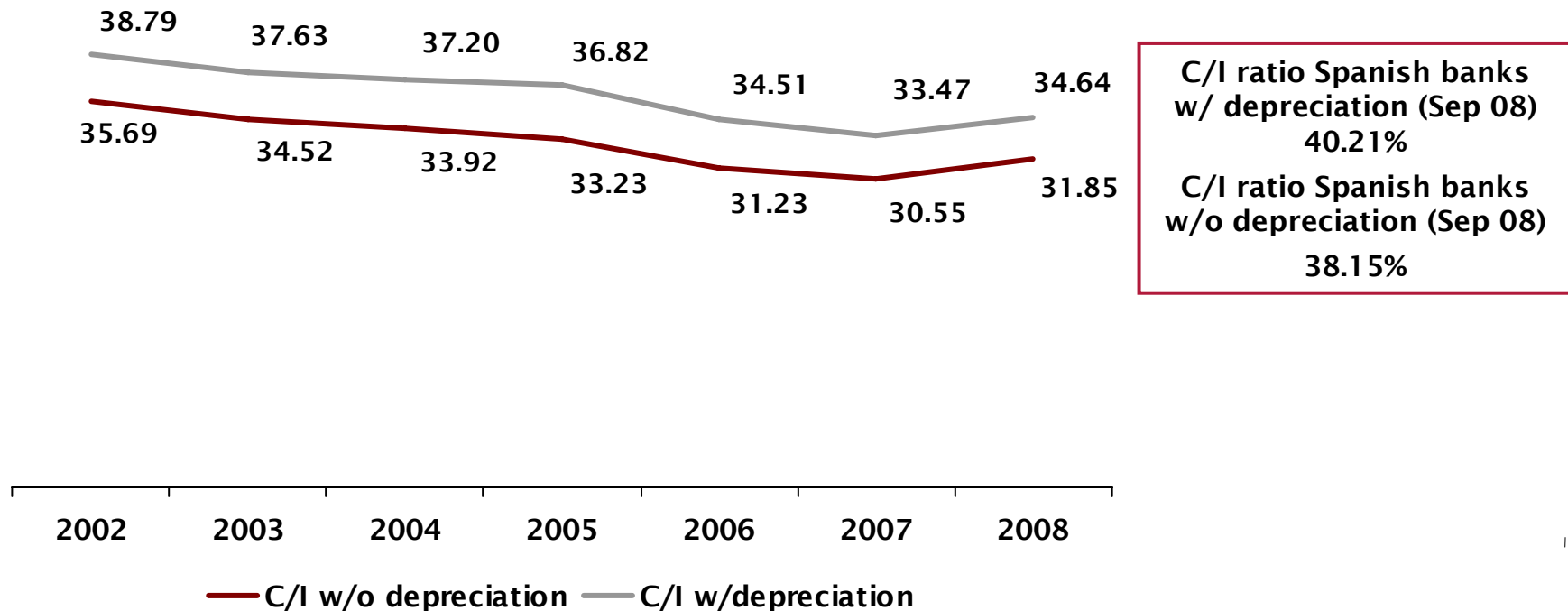


Includes top 20 European banks by market capitalization + Spanish banks.  
 Source: Analysts consensus estimates except for SAN, BBVA, SAB, BKT and POP which are actual data.  
 FactSet as of January 29, 2009

2

## Banco Popular's efficiency remains unbeaten in Spain...

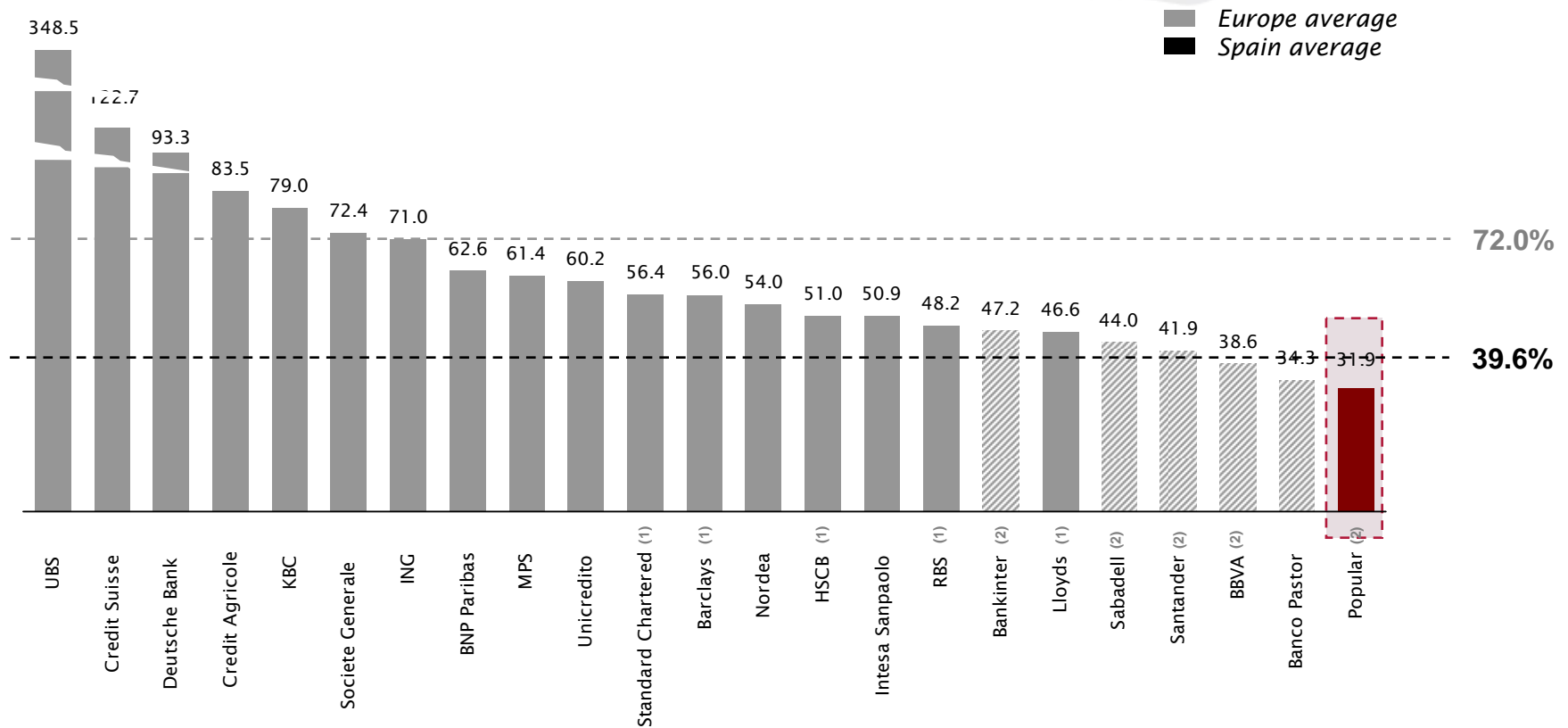
### Cost/Income Trending



2

... but also in Europe

### Reported efficiency ratios (%)



Includes top 20 European banks by market capitalization + Spanish banks

(1) As of 2Q08

(2) As of 4Q08

Rest: As of 3Q08

Source: Quarterly results

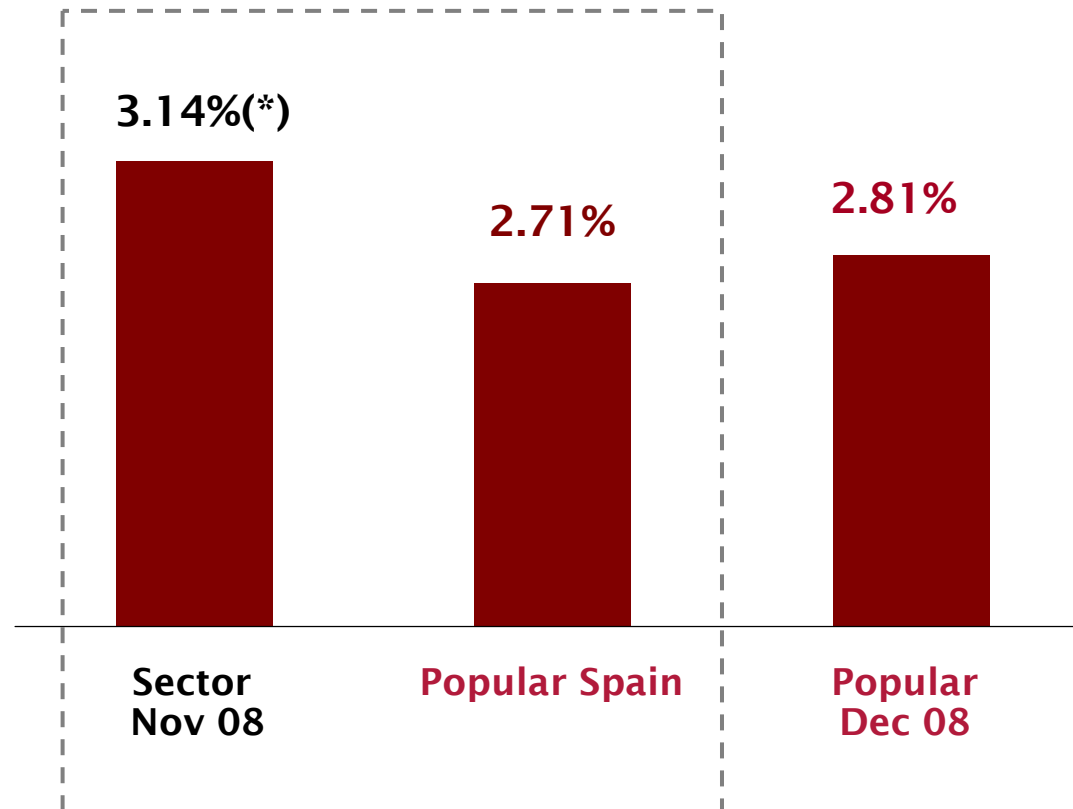
**2****2008 impairment losses**

<b>Million euros</b>	<b>31/12/2008</b>
<b>From lending activity</b>	<b>905</b>
Ordinary provisions	716
Substandard provisions	189
<b>Rest</b>	<b>181</b>
From investment portfolio	93
From real estate	85
From other investments	3
<b>Total impairment losses</b>	<b>1,086</b>

2

**Banco Popular has a lower NPL ratio than the Spanish sector average...**

*Non performing loans ratio (%)*

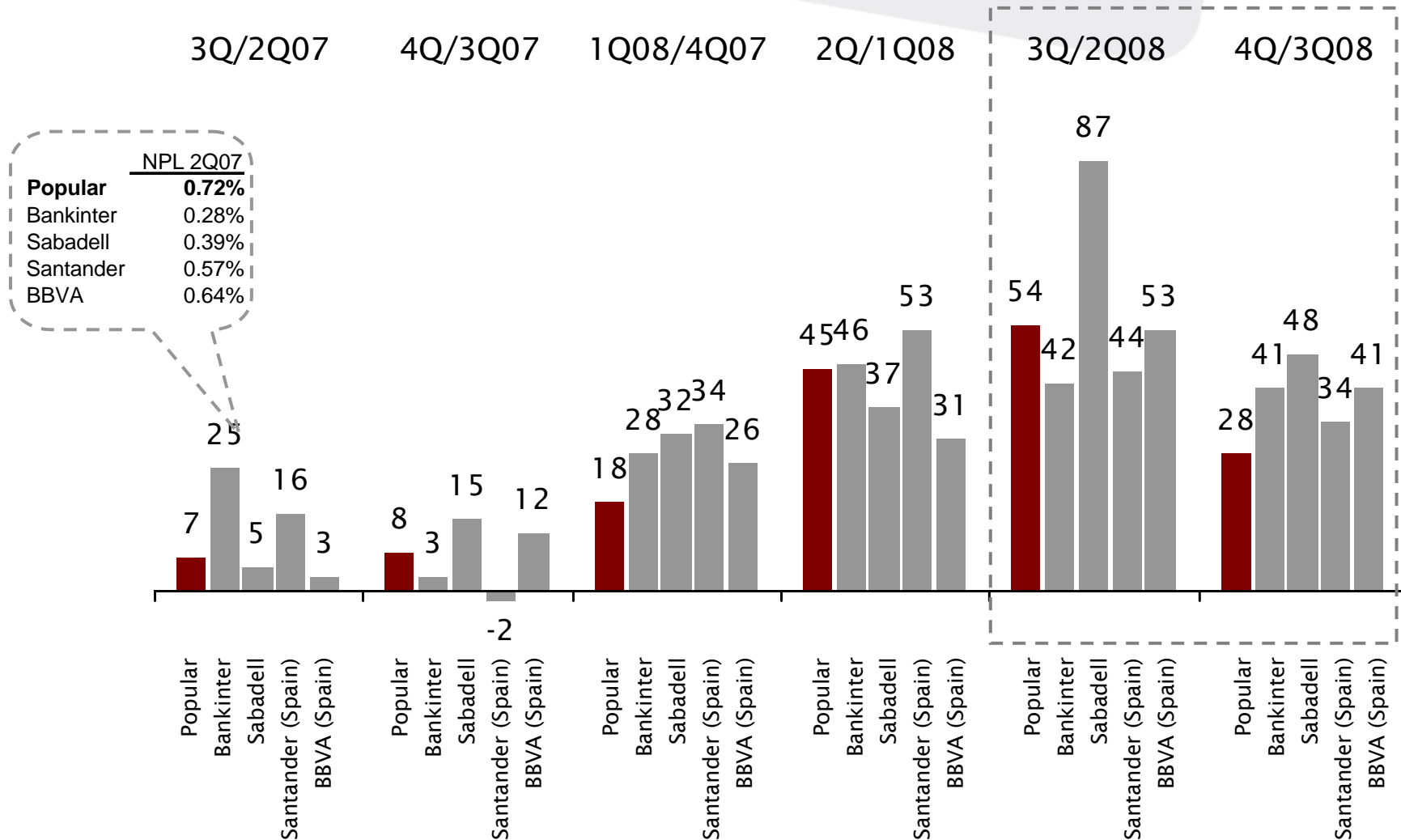


(\*) Average of banks and savings banks. Other resident sectors  
Source: Banco de España

2

...and the growth of NPLs has been lower than its peers in recent quarters...

**QonQ growth of NPL ratio (%)**

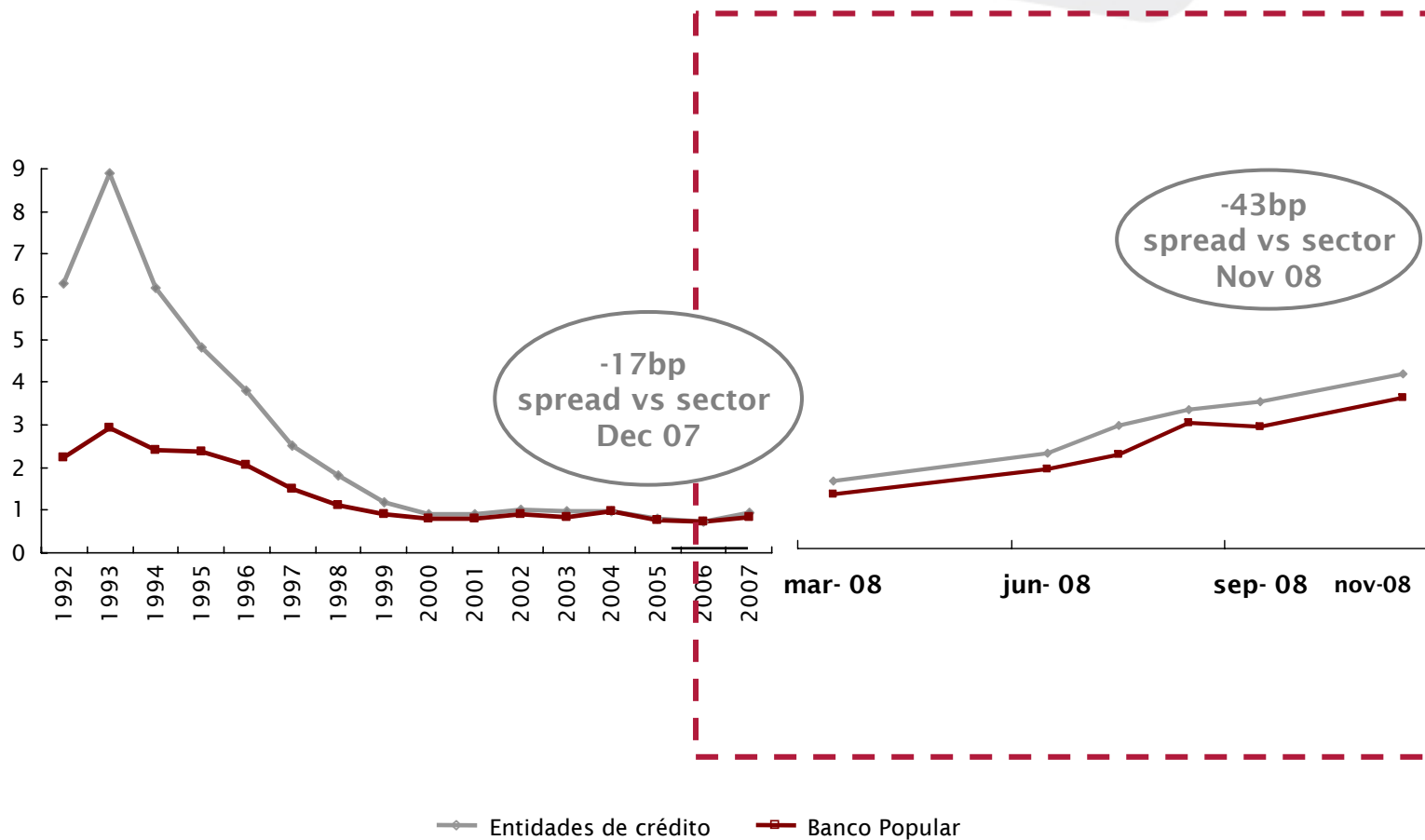


Source: Quarterly reports and own analysis

2

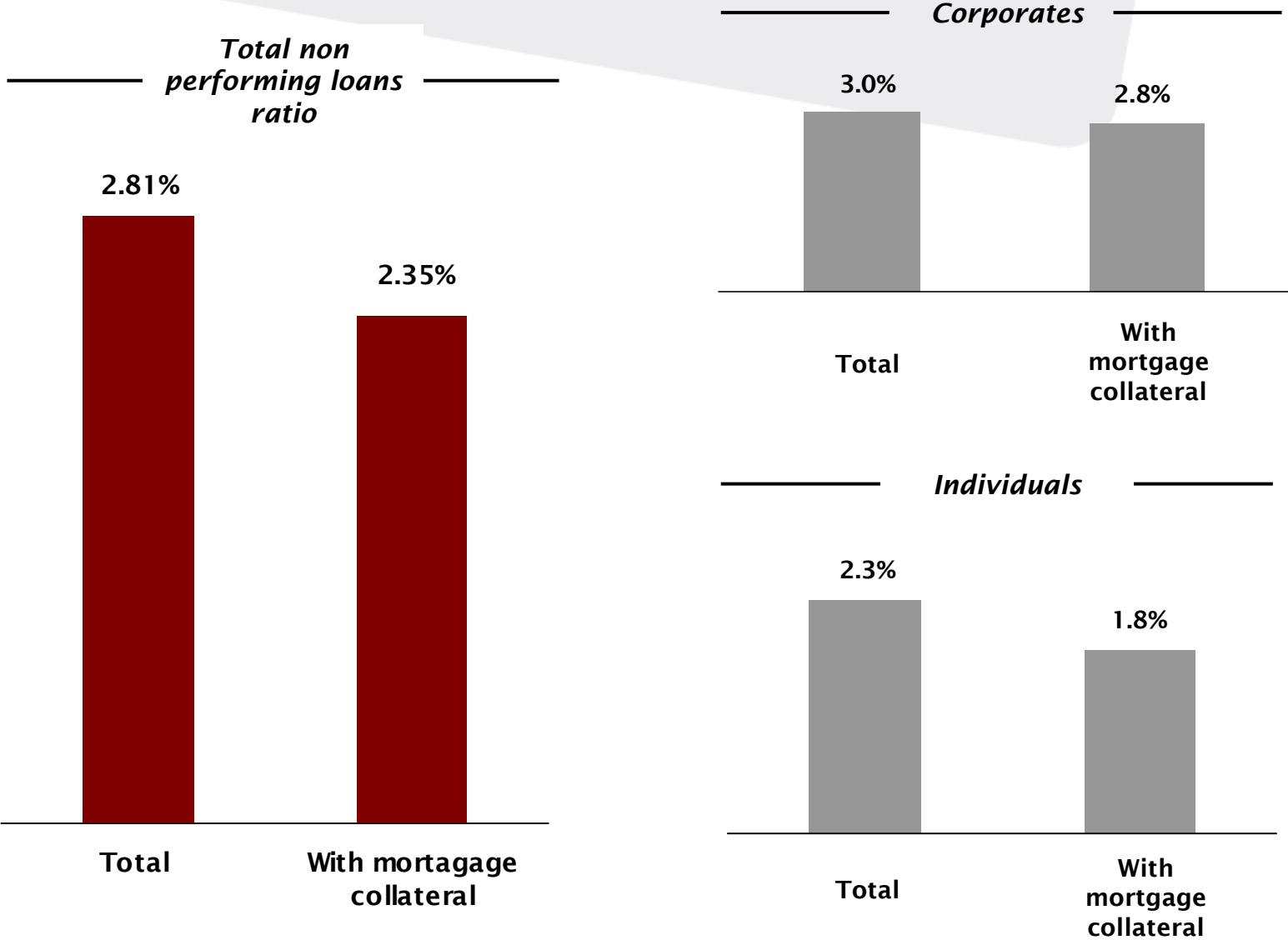
...with the spread for Popular increasing in the context of a worsening macroeconomic environment

### Evolution of non performing loans (%)



2

Moderate non performing loans ratio in mortgages, in particular from individuals...

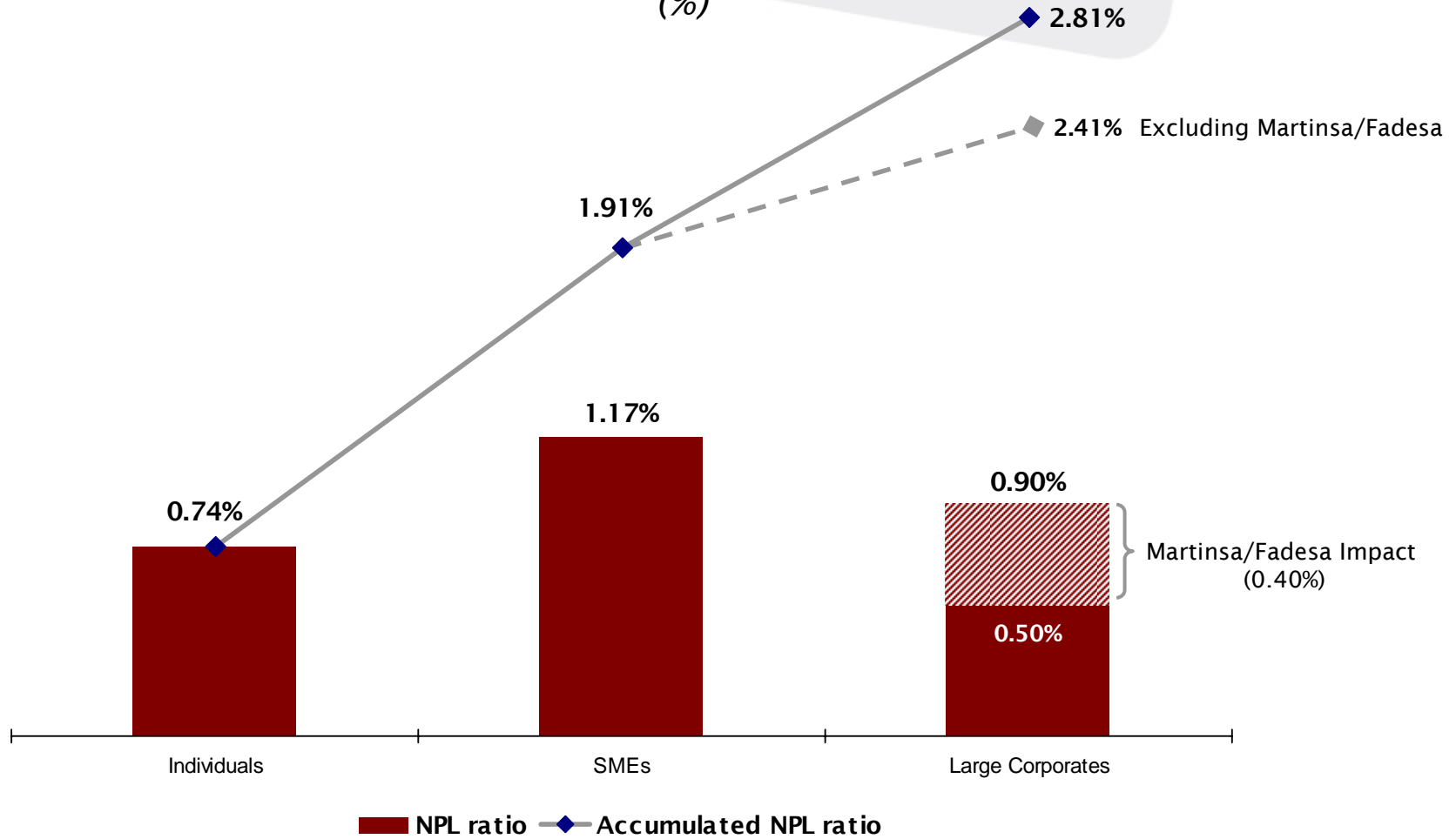


2

...who contribute less to the global NPL ratio

### Composition of NPL ratio by segments

(%)



2

Popular has a solid global coverage ratio of 159.4%

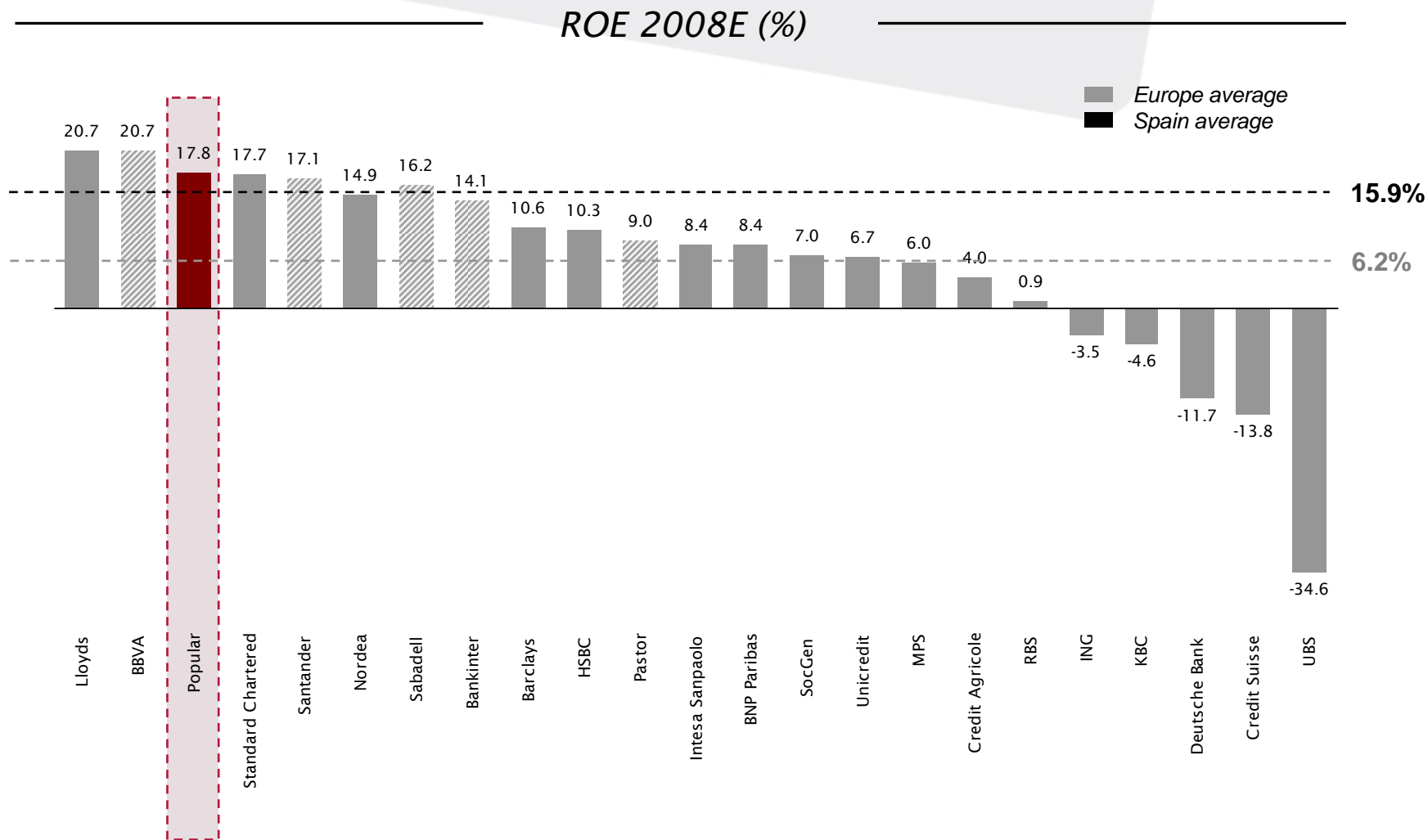
In million euro	Non-performing Loans	Value of collateral (1)	Specific provisions	Generic provisions
With mortgage collateral	1,221	2,114	168	-
Without mortgage collateral	1,822	518	754	-
<b>Total</b>	<b>3,043</b>	<b>2,632</b>	<b>922</b>	<b>1,296</b>
<b>Specific Coverage Ratio</b>		<b>86.5%</b>	<b>30.3%</b>	<b>42.6%</b>
<b>Global Coverage Ratio</b>				<b>159.4%</b>
<b>Stressed Global Coverage Ratio<sup>(2)</sup></b>				<b>133.4%</b>

(1) Latest available appraisal value in case of mortgage collateral and effective value in rest of the cases

(2) Appraisal value of collateral reduced by 30%

2

## Profitability of Banco Popular is amongst the highest in Europe



*Includes top 20 European banks by market capitalization + Spanish banks.  
 Source: Analysts consensus estimates except for SAN, BBVA, SAB, BKT, POP e ING which are actual data  
 FactSet as of January 29, 2009*

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6. Confidence in the future

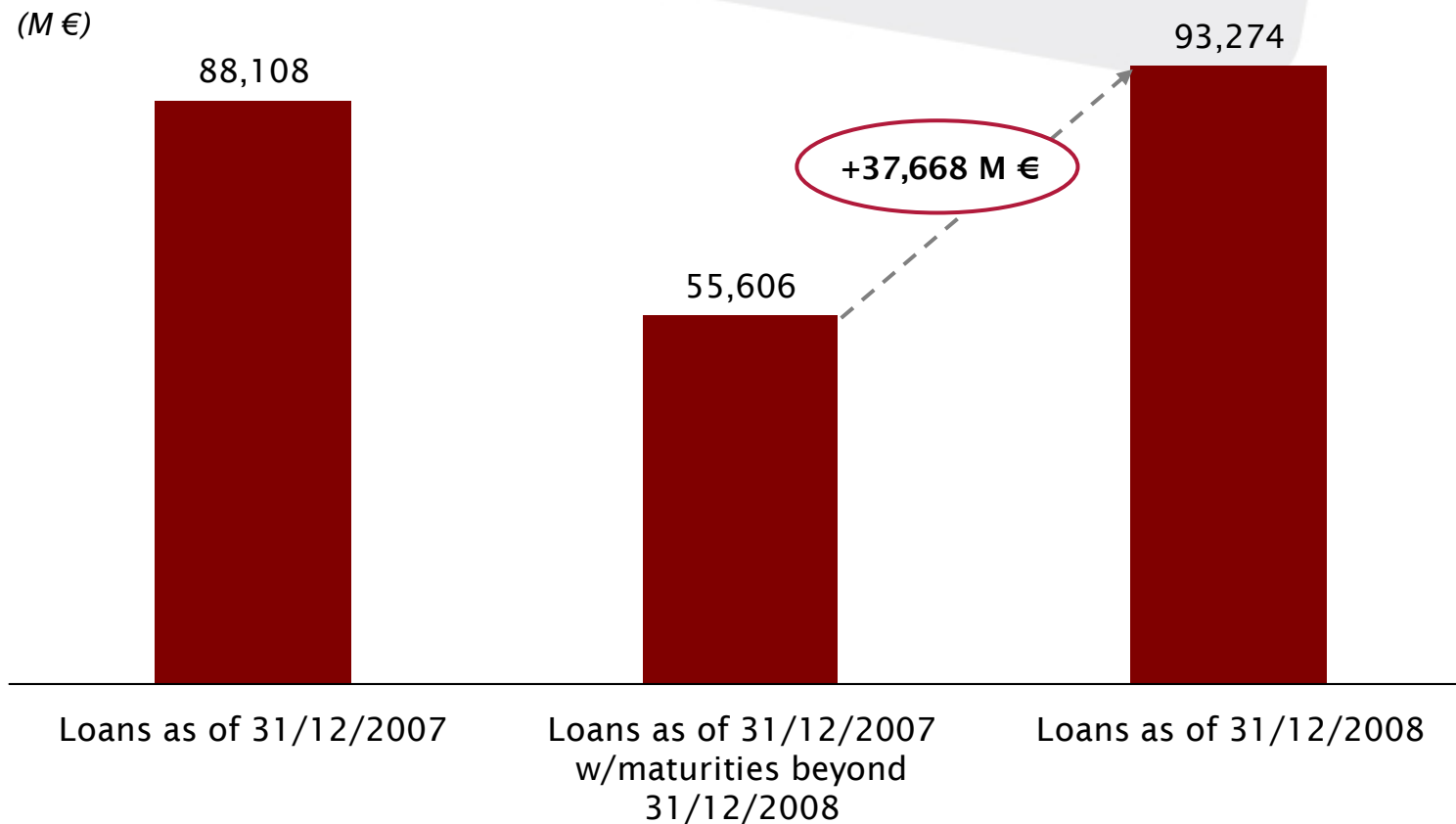
3

## Customer loans grow by 6.1% ...

In euro million	31/12/2007	31/12/2008	Chng.	Underlying. Chng.
Commercial loans	7,752	6,527	-15.8%	-11.0% <sup>(*)</sup>
Loans with collateral	47,444	49,664	4.7%	
Other term loans	26,663	27,470	3.0%	
Leasing	3,807	3,675	-3.5%	
Other loans	2,442	5,938	>	
<b>Total</b>	<b>88,108</b>	<b>93,274</b>	<b>5.9%</b>	<b>6.1%</b>

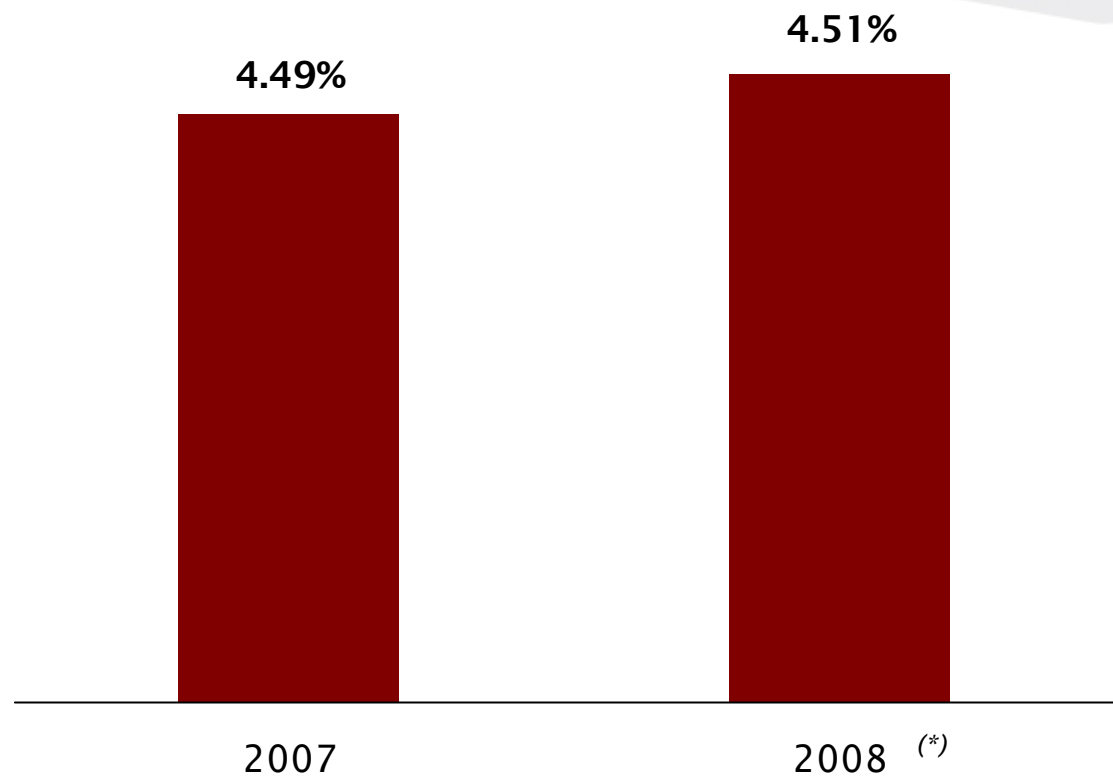
<sup>(\*)</sup> Since 31/12/2007 was a holiday no maturities occurred in the commercial portfolio  
For presentation purposes non performing loans have been included in its respective items

**3 ... with new loans of 37.668 million euro**



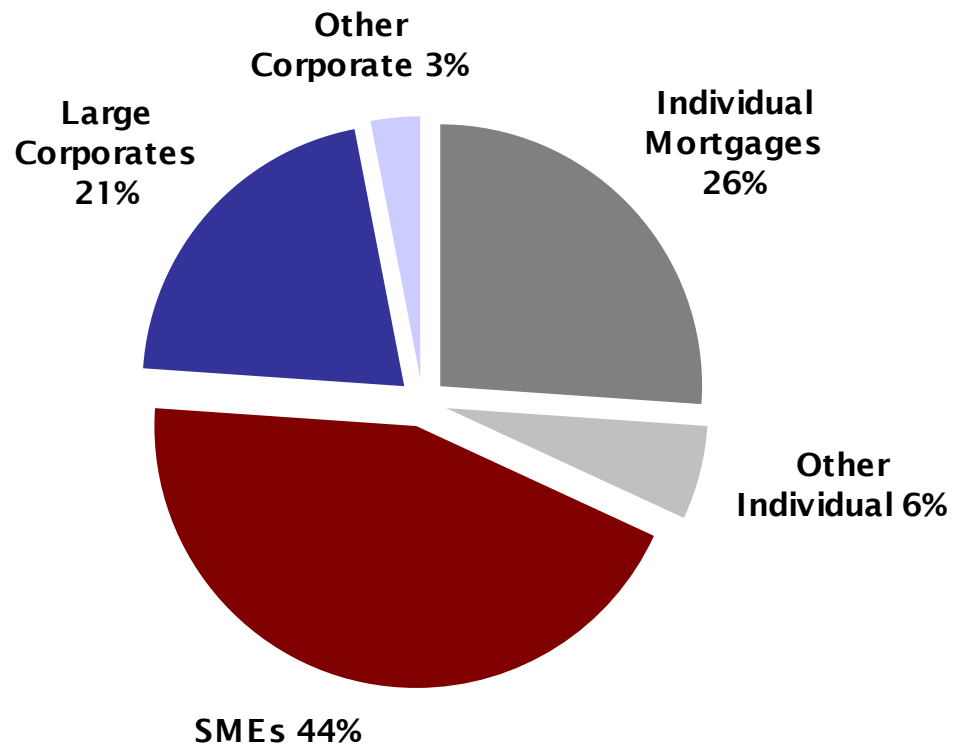
**New loans in 2007: 41,004 million euro**

### 3 Improvement of 2bp in customer loans market share



(\*) Source: Banco de España T7. Data as of September 2008

### 3 Lending portfolio split by segments



#### Dec 08 - Dec 07

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Individuals	1.83%
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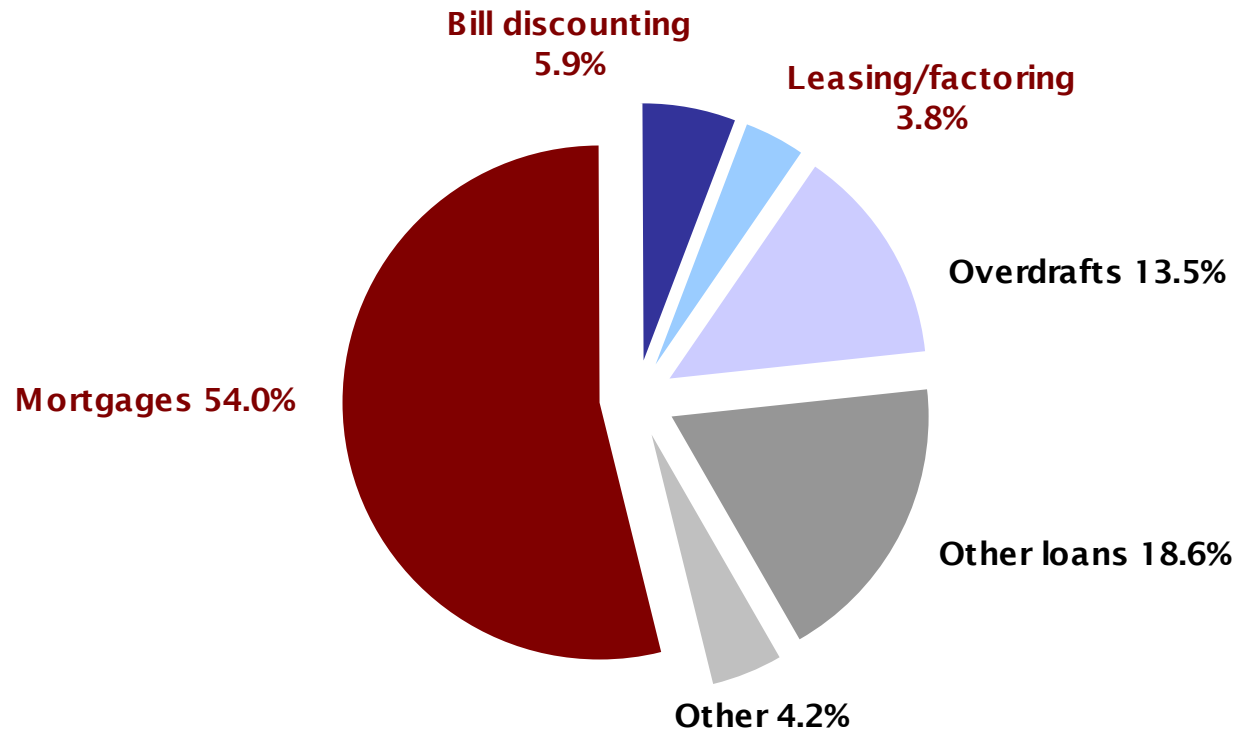
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Corporates	7.90%
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3

### Popular's lending portfolio is well collateralized

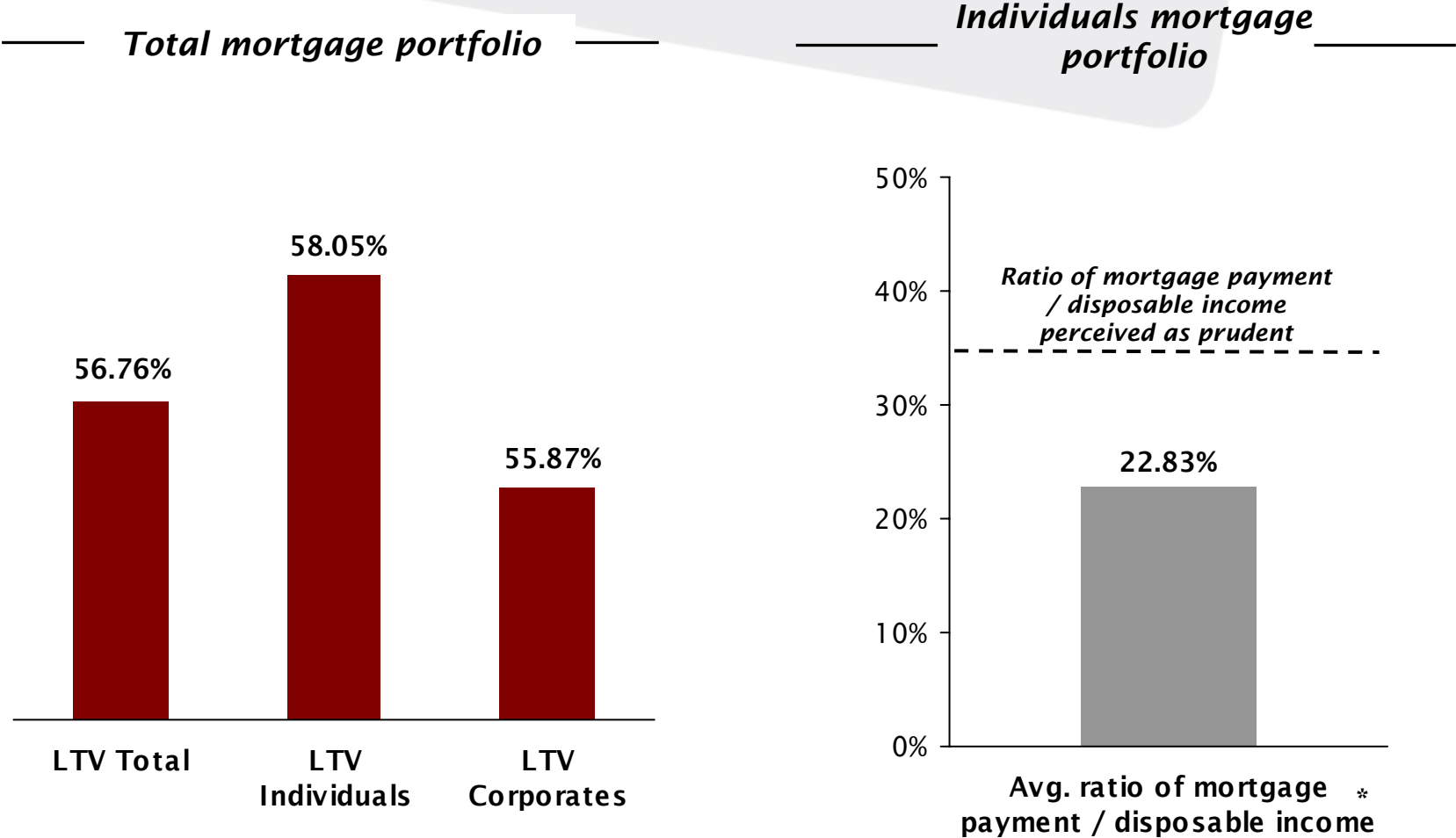
#### Total Risks



**Total with collateral (mortgages, bill discounting and leasing): 63.7%**

3

In addition, Popular's mortgage collaterals are of high quality

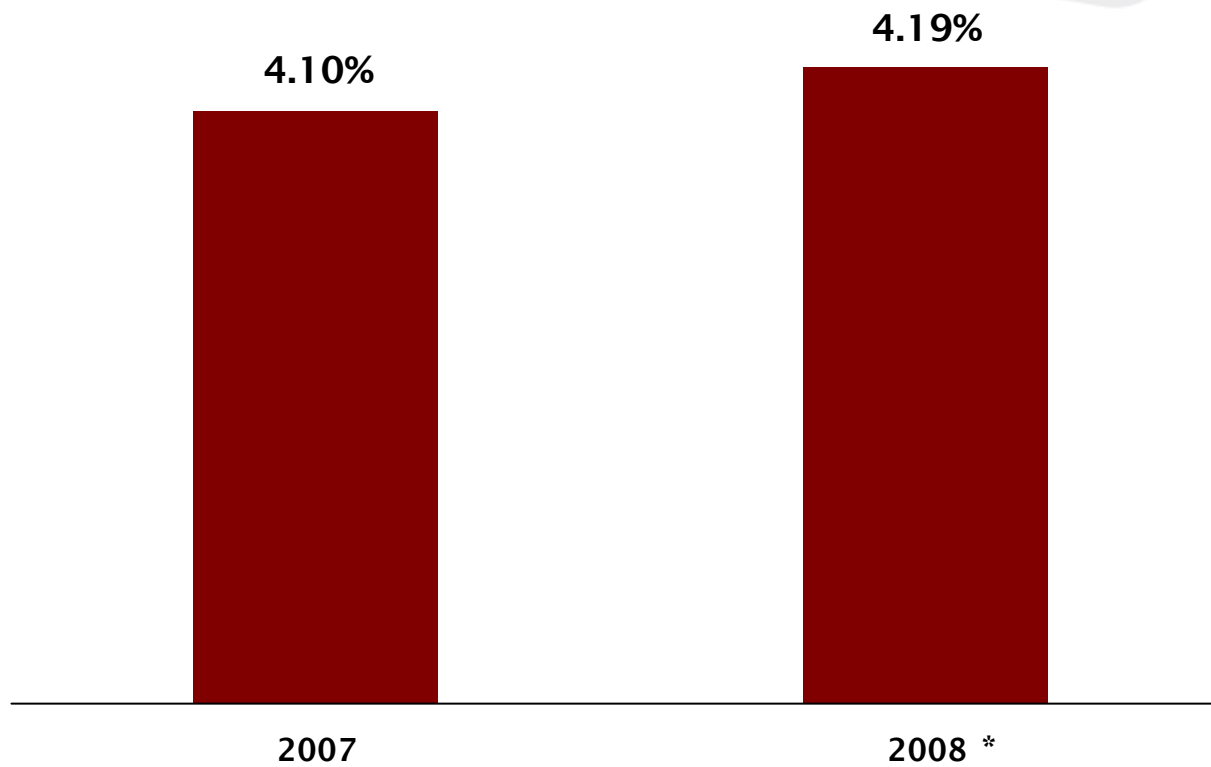


(\*) Affordability (%)

### 3 Clients deposits grow by a remarkable 21.1% ...

<i>(In million euro)</i>	<i>Amount Dec 08</i>	<i>YoY (in %)</i>	<i>% of Total</i>
Time and demand deposits	44,552.5	13.5	77.6
Repos	6,681.6	>	11.6
Other accounts and valuation adjustments	423.5	>	0.7
<b>Total deposits</b>	<b>51,657.7</b>	<b>21.1</b>	<b>90.0</b>
Commercial paper for customers	5,737.1	-46.9	10.0
<b>TOTAL</b>	<b>57,395</b>	<b>7.3</b>	<b>100.0</b>

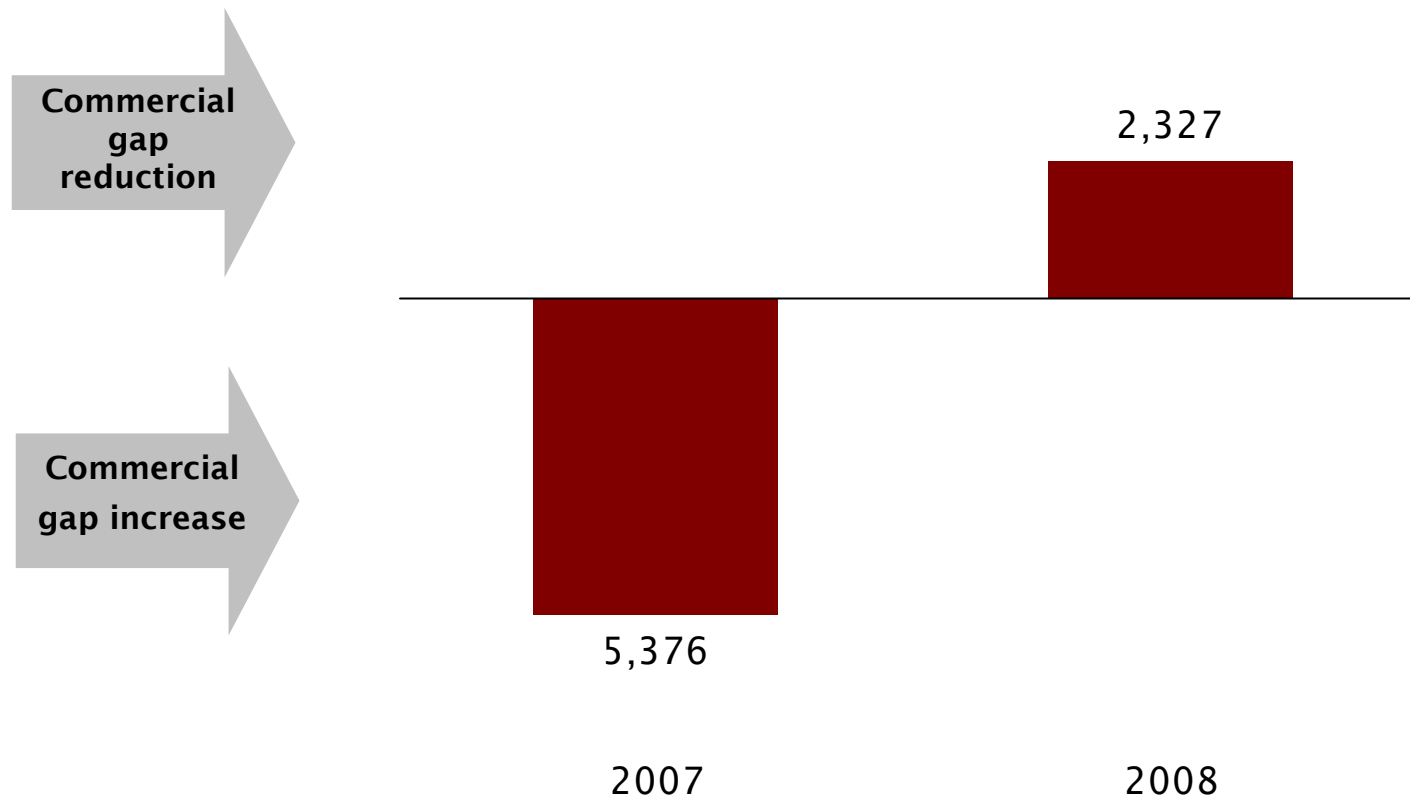
**3 ...improving Popular's deposit market share by 9 bp**



(\*) Source: Banco de España T7. Data as of September 2008

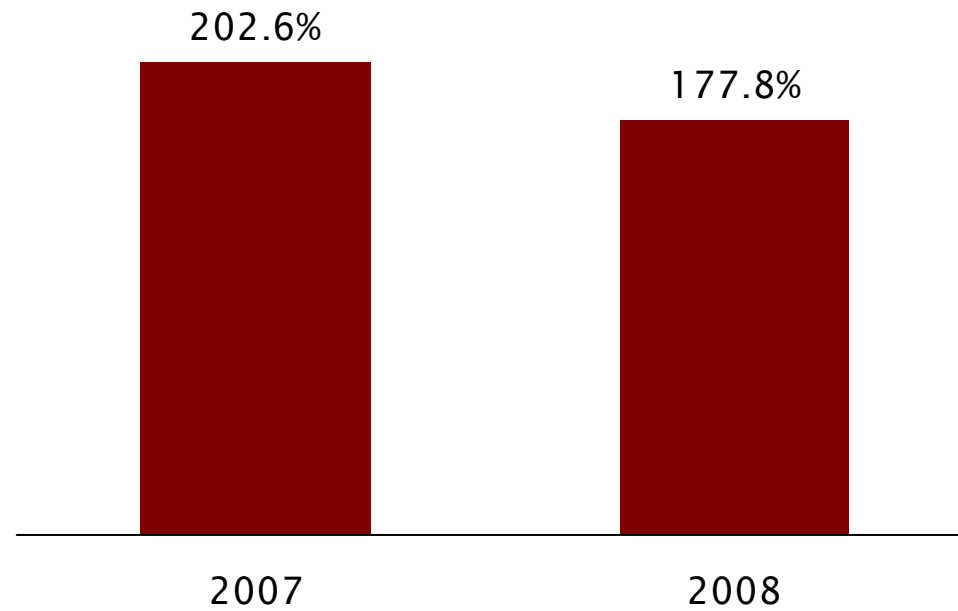
**3** Growth in deposits has enabled a significant reduction in clients commercial gap...

*Evolution of Client Commercial Gap (M €)*



3

...as well as an important improvement in the loans/deposits ratio



**Ratio including 2008 domestic CP**

**160.1%**

### 3 Focus on personal banking clients

#### More clients. More business

**272,000** families **+36%**

**25,800** M € of managed assets

#### Exclusive products

- Offer of specialised products
- Differentiated sales actions for target clients

#### High quality service

#### Preferential service

- Personal manager: specialised training
- Exclusive hotline

#### High quality information

- Integrated bank statement

Strong growth in customer deposits of target segments: **+1,171 million euros of net growth**

**9** products per client

### 3 Tailor-made products and services for corporates

More than **32,000** new corporate clients in 2008

**600,000**

Corporate clients  
[100,000 retail]

**3,000M€**

Growth from 2007 in financing for corporates

#### International Business

- ✓ More than **51,000** corporate clients
- ✓ **71,000** million € of business volume
- ✓ Strengthening presence in China, Chile and CEE

#### Leasing

Growth in number of transactions  
More than 24,500 trans.

#### Continued commitment to finance corporates

CEOE agreement  
3,000M€  
CEA agreement  
1,000M€

#### Derivatives

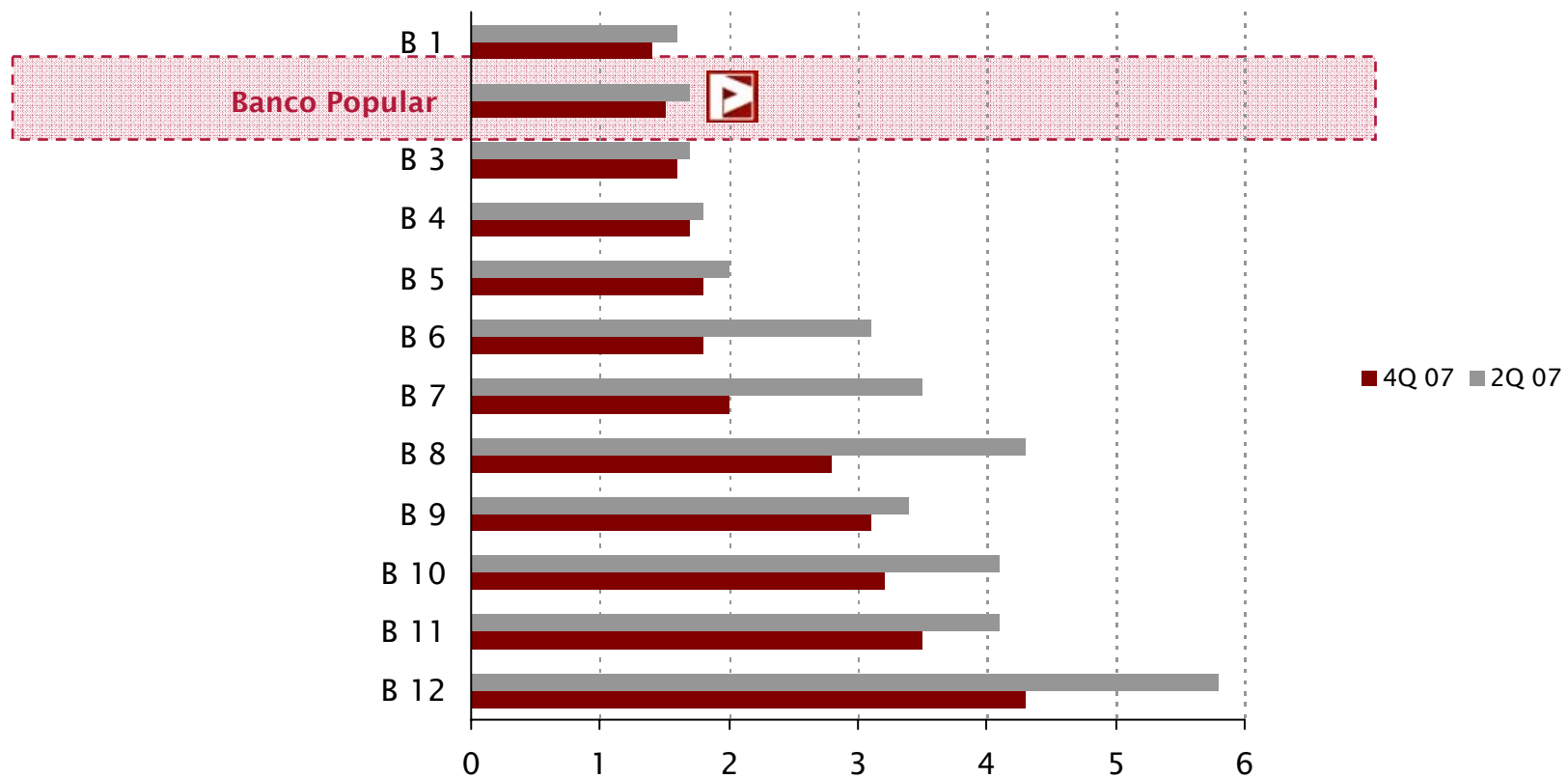
4,180 million euros in business volume

#### Continued growth in SME clients

+180,000 new contracts.

### 3 High quality service: broad market recognition

Claims ratio per active transaction for each 1,0 bn euro of lending



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6. The Banco Popular share
7. Confidence in the future

4

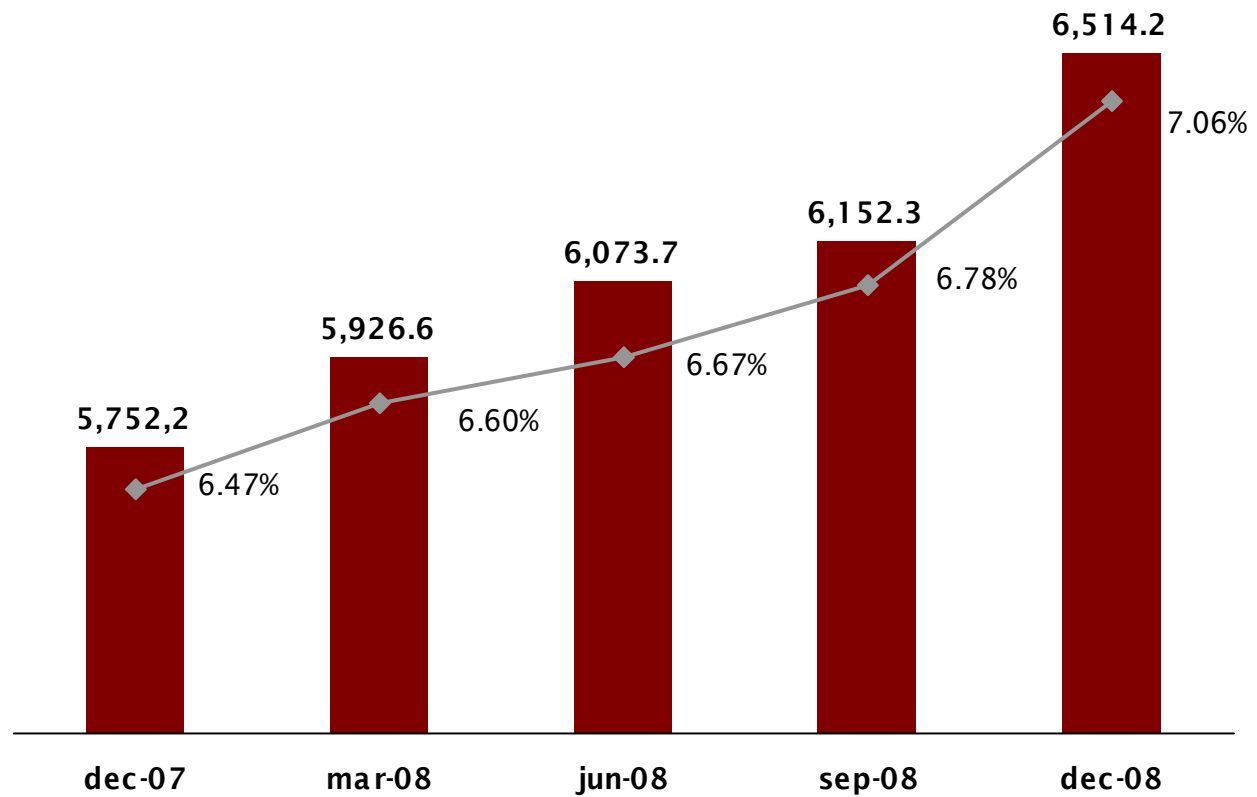
## Banco Popular continues strengthening its capital ...

<i>(In euro million)</i>	<i>Dic 07</i>	<i>Dic 08</i>
Total core capital	5,752.2	6,514.2
	6.47%	7.06%
Total Tier I capital	7,040.2	7,410.6
	7.92%	8.04%
Total Tier 2 capital	1,552.1	906.5
	1.75%	0.98% <sup>(1)</sup>
Total BIS capital	8,592.3	8,317.1
	9.67%	9.02% <sup>(1)</sup>

(1) Amortisation of 200 million € subordinated debt

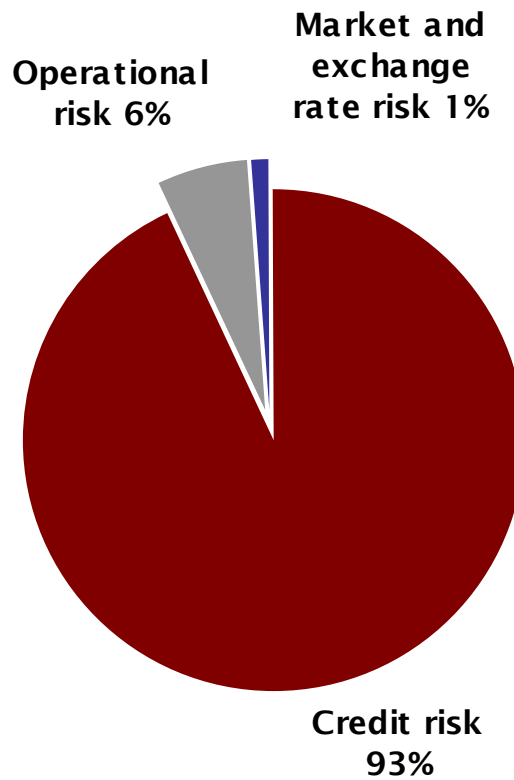
**4** Recurrent profits support core capital growth...

**Core Capital Evolution**  
(Million euro)



**4 ...with limited exposure to market risk**

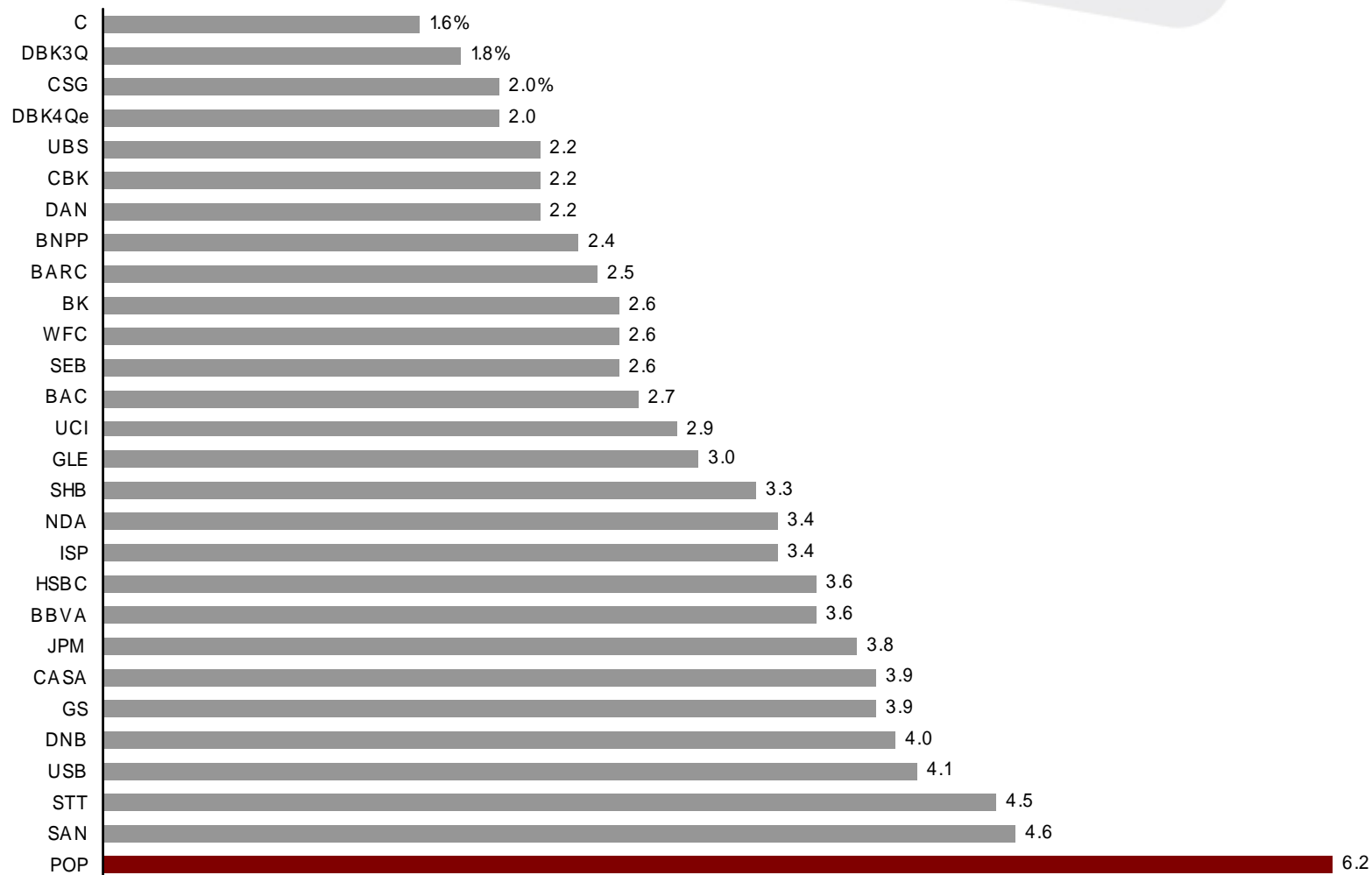
*Total assets weighted according to BIS II*



4

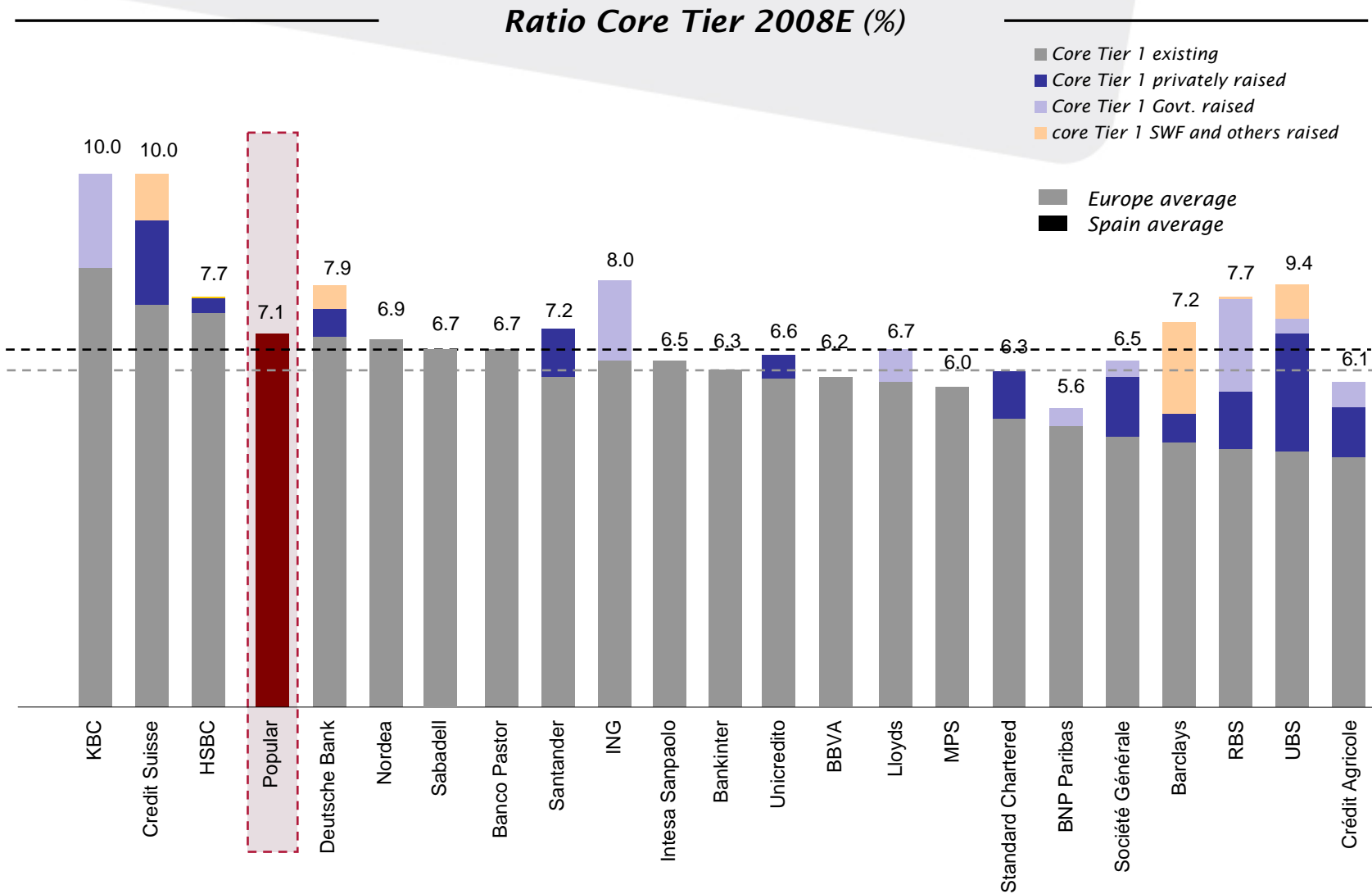
## Banco Popular leads the European and American ranking of banks in terms of tangible equity / tangible total assets...

### *Tangible equity / Tangible total assets*



4

...and is the 4th European bank in terms of solvency according to BIS criteria



Includes top 20 European banks by market capitalization + Spanish banks.  
 Estimated data as of December 2008 except BBVA, SAB, BKT and POP which are actual data.  
 Source: Citigroup and own research.

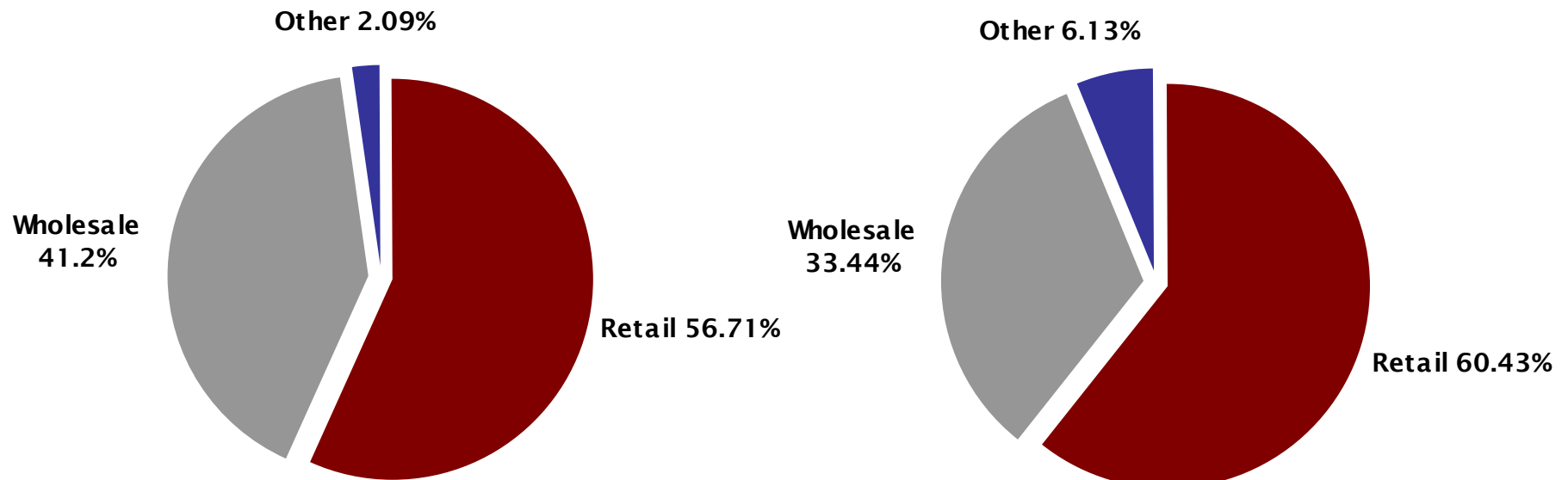
4

The strategy undertaken by Popular has enabled to significantly increase the contribution of retail funding

Popular Financing Structure

2007

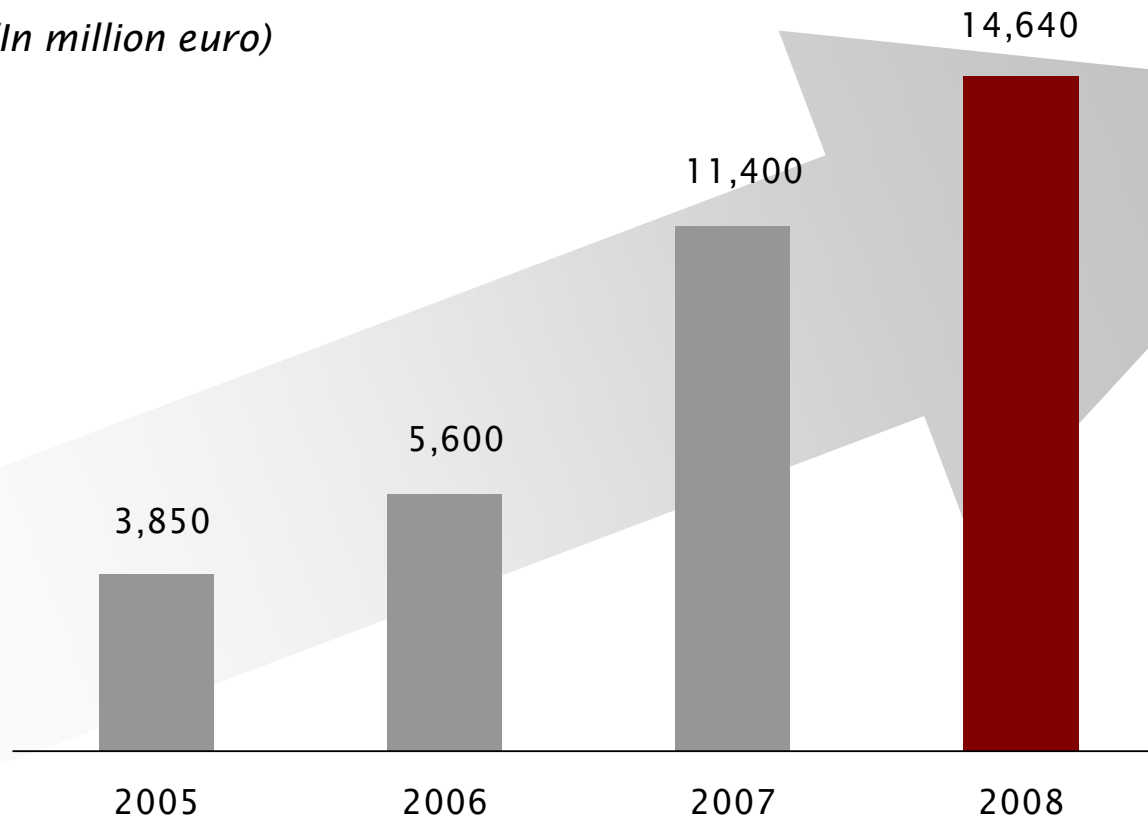
2008



Retail: Time and demand deposits, commercial paper and repos  
Wholesale: Net interbank, ECP, EMTN, Covered bonds, Securitisations, Subordinated debt, Preference shares and Repos  
Other: BCE discounts, ICO deposits, BEI and FSE

**4** 2nd line of liquidity continues growing (ECB-eligible assets)

*(In million euro)*



4

## Second line of liquidity covers all wholesale maturities in an extreme scenario of non-renewal...

	<b>Maturities 2009</b>
Interbank deposits (net)	-3,565
E.C.P.	-4,182
EMTN	-3,698
Covered bonds	-325
<b>TOTAL MATURITIES</b>	<b>-11,770</b>
<b>ELEGIBLE ASSETS</b>	<b>15,390</b>
Current	14,640
New issues	750
<b>YEAR-END EXCESS</b>	<b>3,620</b>

Data as of December 31 2008

4

**...in addition, during 2009, Popular will have the following additional liquidity at its disposal**

(M €)

- |   |       |
|---|-------|
| 1. Commercial gap reduction goal                    |       |
| 5,000   |       |
| 2. 2009 expected Cash Flow                          | 2,400 |
| 3. Spanish Government facilities (excl. FAAF repos) |       |
| 6,000   |       |
- 

**In an extreme liquidity stress scenario, these additional funds would meet all wholesale maturities through 2010**

# Agenda

1. Positioning in the current banking environment
2. Results
3. Business performance
4. Solvency and Liquidity
- 5. Risk Management**
6. Confidence in the future

5

## **Popular has reorganised and strengthened its risk management activities (I)**

### **1. All risk management business units have been strengthened:**

- With additional employees
- With latest IT
- With latest risk management models

### **2. Strengthening management and surveillance of risks**

- Creation of specialised teams in each territorial unit for management and surveillance of clients
- Surveillance committee comprised of members of Senior Management who set norms and directives
- Creation of new centralised unit of Analysis and Surveillance

### **3. Anticipating management of potential future risks**

- Detection of clients with need to restructure its risks
- Offer clients solutions according to the Group's risk management principles
- Joint coordination with other lending entities who share same risks

5

## Popular has reorganised and strengthened its risk management activities (II)

### 4. Global risk management has been strengthened significantly

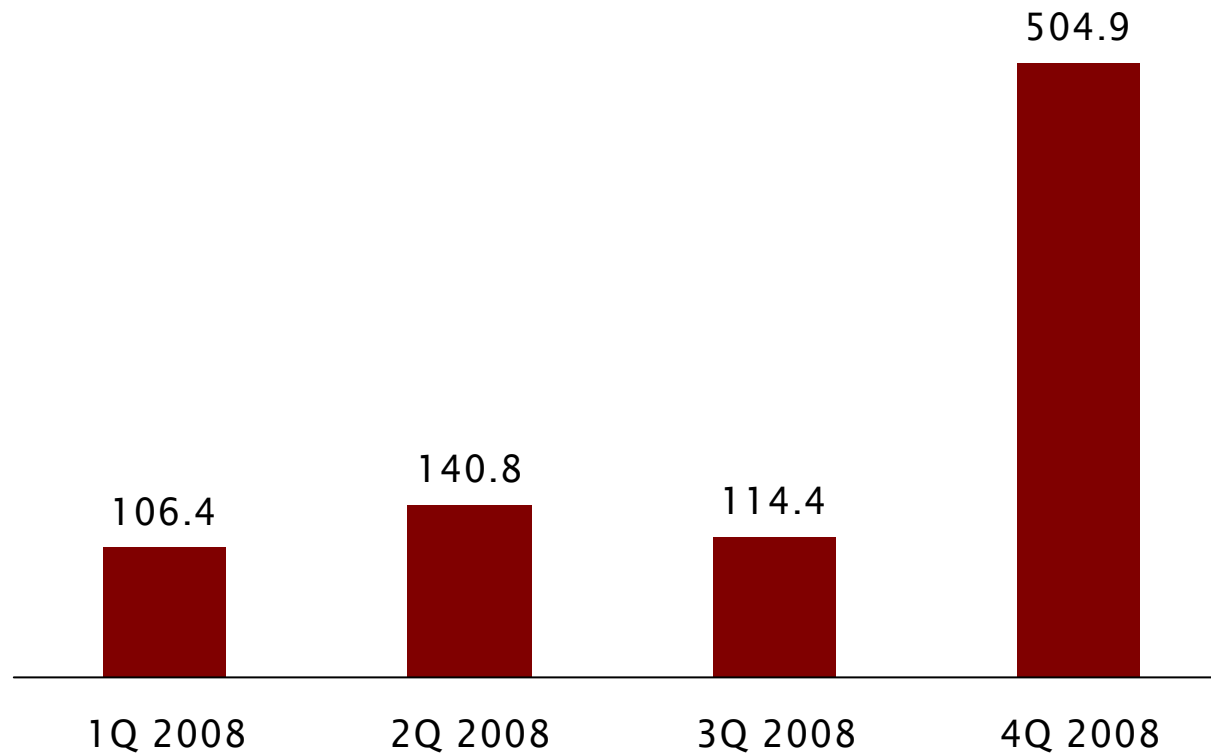
- Debt restructuring: Central office and dedicated staff in all regional units and banking subsidiaries
- Retail risks: headcount x 2.5
- Use of model based on internal ratings for setting the required capital for lending risks.
- Global specialised offices: Integration of management, methodology, operational risks, business continuity, market risks, internal validation and risk management audits

5

Organisational improvements have supported the growth in NPL recoveries in the last quarter

Evolution of quarterly NPL recoveries (M €)

Total: 866.5 M €



# Agenda

1. Positioning in the current banking environment
2. Results
3. Business performance
4. Solvency and Liquidity
5. Risk Management
- 6. Confidence in the future**

**6**

**The current macroeconomic framework will not prevent the development of our business model...**

- 1. The Group's strategy is to continue generating new business in all its target areas as proven during 2008**
  
- 2. Future liquidity needs are guaranteed:**
  - Due to Popular's capacity to grow its retail funding and reduce the commercial gap in 5,000 M€
  - Due to the existence of liquid assets totalling 14,640 M€.
  - Due to the capacity to generate 2,400 M€ in cash-flow
  - Due to the ability to use up to 6,000 M€ of Spanish Governments facilities

**6**

**... and will not harm the Group's solvency**

- **Strong provisioning muscle through recurrent operating profit.**
- **1,296 million € of generic provisions available to be utilised in 2009 and 2010**
- **Core capital to remain above 6.75% even under extreme economic climate.**

## **6** These are our 4 key objectives for the future

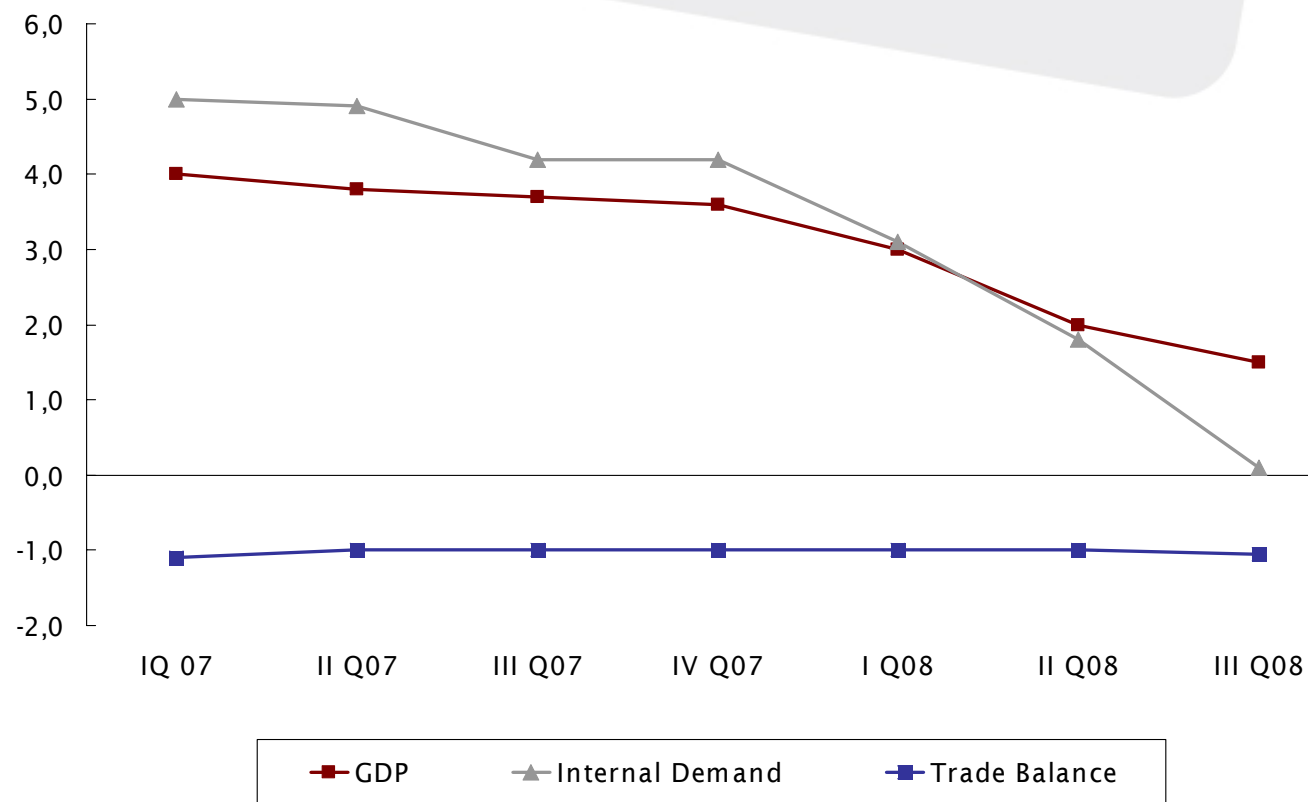
- 1 NPL Management**
- 2 Commercial Gap Reduction: priority in acquiring client deposits**
- 3 Acquiring and generating business with SMEs and individuals**
- 4 Cost reduction: Merger of banking subsidiaries will allow for cost reductions of 25M€ in 2009 and 50M€ in 2010**



# APPENDIX

## Economic situation: Spain

### Evolution of activity indicators

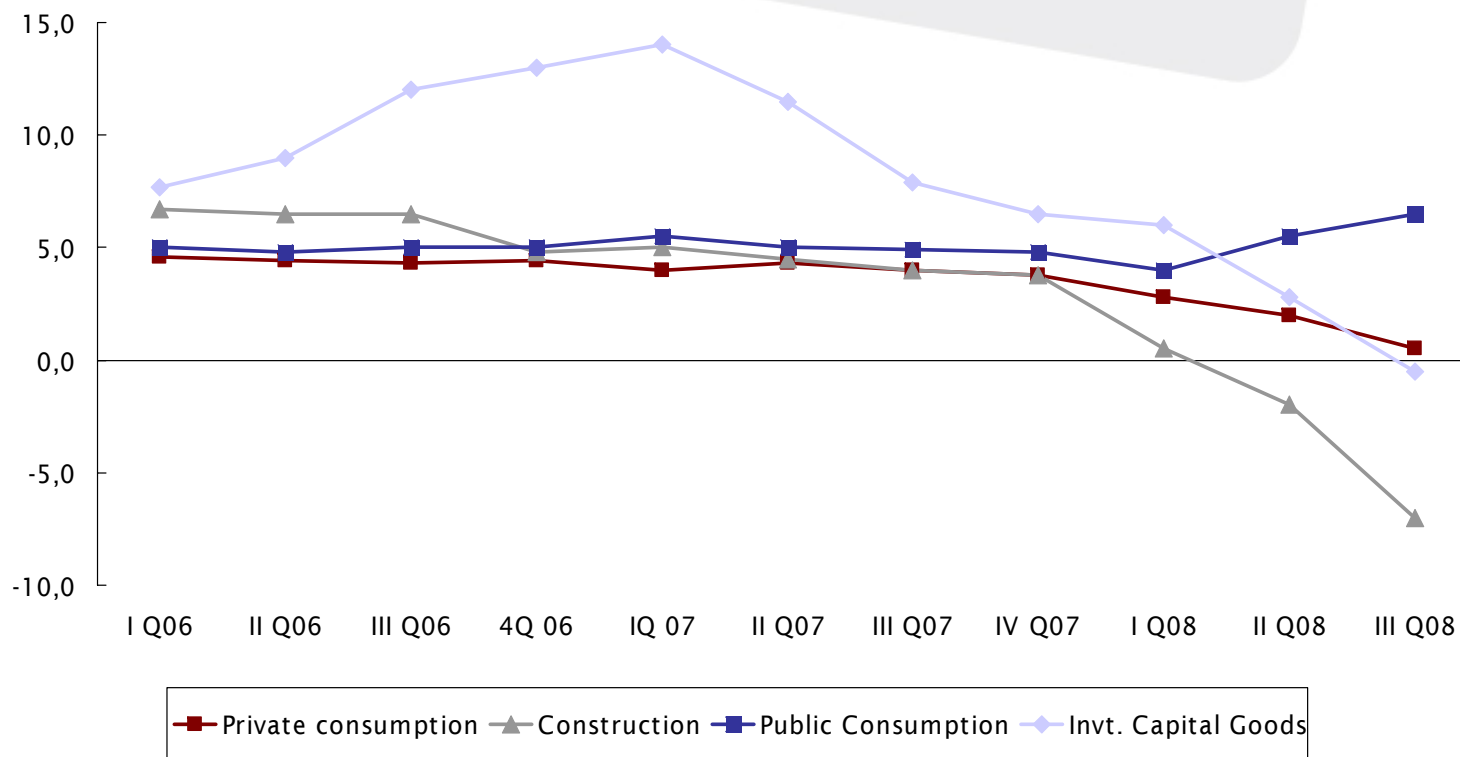


### YoY growth rate

GDP 0.9% Internal Demand 0.1% Trade Balance 1.2%

## Economic situation: Spain

### GDP Components (Demand)



### YoY Change

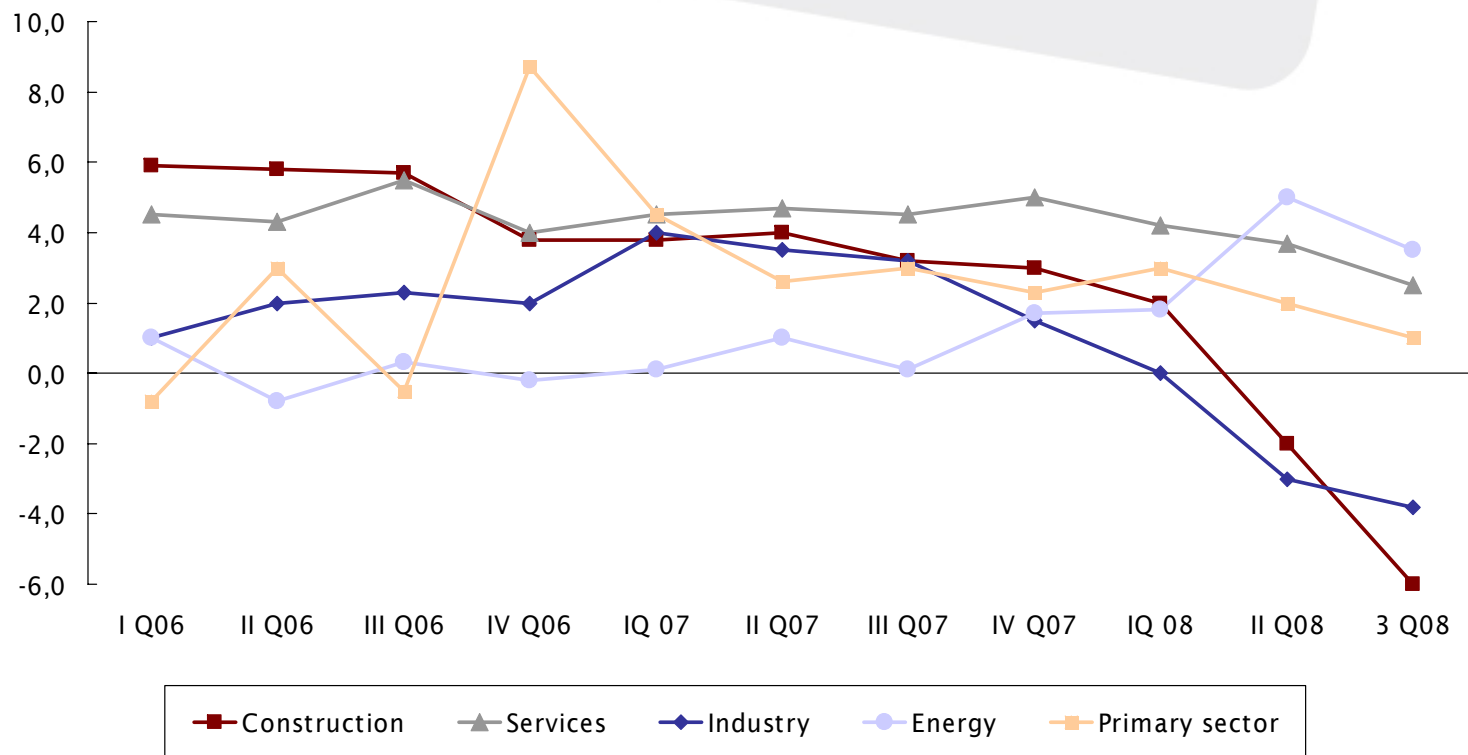
### Component – Last data - Weight

Private consumption -0.1% -56.5%  
 Public Consumption 5.9% -19.3%

Construction -6.4% -16.5%  
 Invt. Capital goods -0.6% -7.5%

## Economic situation: Spain

### GDP Components (Supply)



**YoY Change**

**Component – Last data - Weight**

Construction -5.0% -10.4%

Industry -3.4% -13.3%

Services 2.4% -62.9%

Energy 2.9% -2.7%

Primary sector 0.6% -2.7%

## Economic situation: Spain

### Economic forecasts for Spain 2008 and 2009

	% GDP		% CPI		% UNEMPLOYMENT	
	2008	2009	2008	2009	2008	2009
<b>Consensus</b>	1.3	-1.1	4.3	2.0	11.0	15.3
<b>Range</b>	[1.1/1.4]	[-2.0/0.6]	[4.1/4.5]	[0.6/2.9]	[10.8/11.3]	[14.2/16.3]

Source: B. Popular analysis

### Economic forecast for the U.E 2008, 2009 and 2010

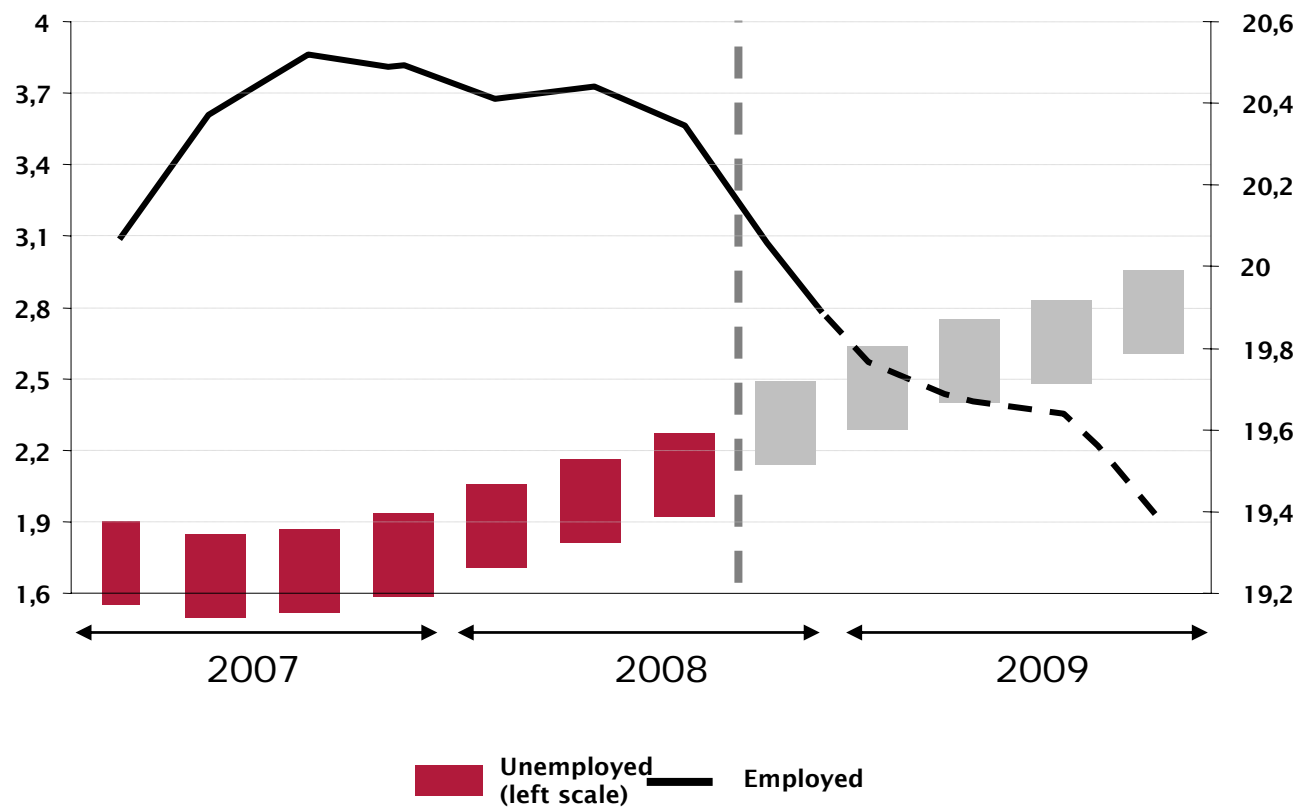
	2008	2009	2010
<b>% GDP</b>	1.0	-1.8	0.5
<b>% CPI</b>	3.7	1.2	1.9
<b>% UNEMPLOYMENT</b>	7.0	8.7	9.5

Source: EU Interim Forecast January 2009

## Economic situation: Spain

### Forecasts for the labour market (Spain)

#### Unemployed and employed EPA (Million)

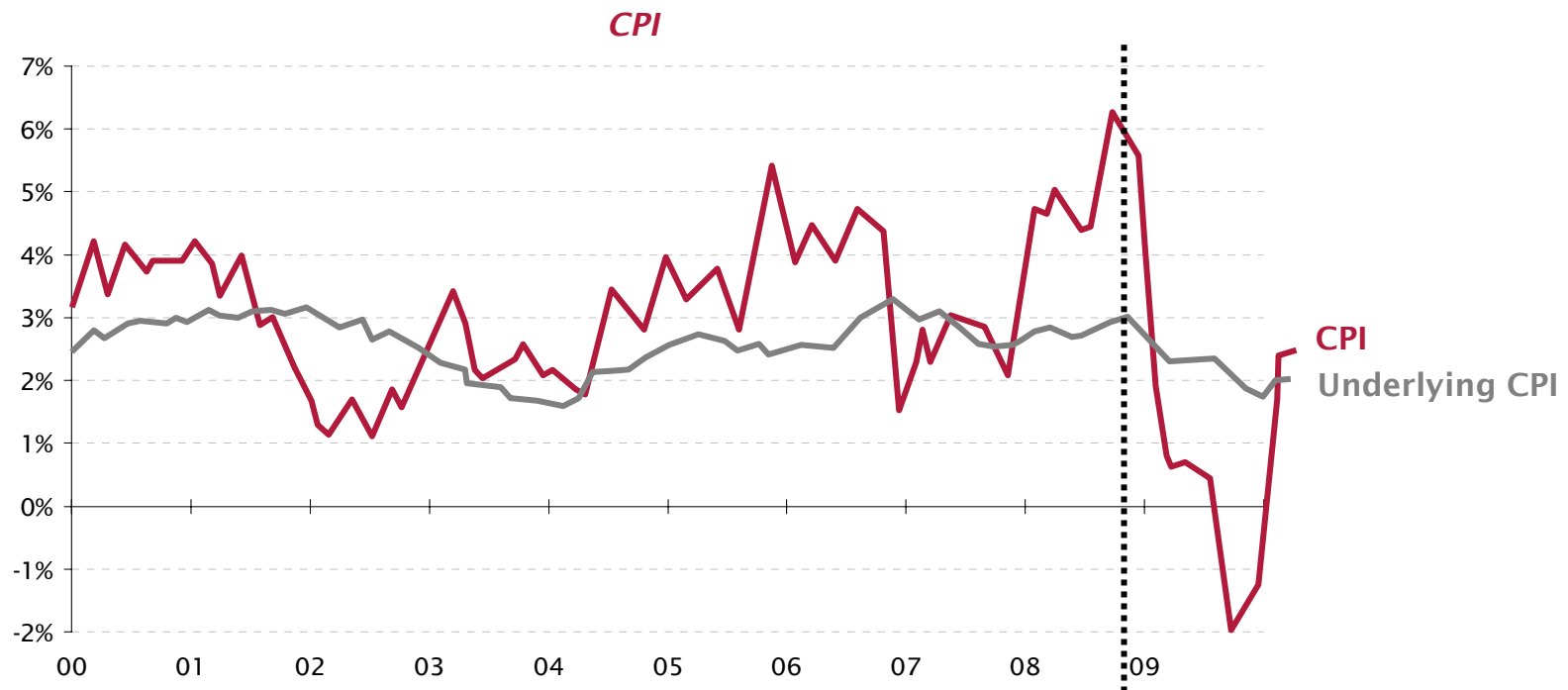


## Economic situation: Spain

### CPI forecast in Spain (in %)

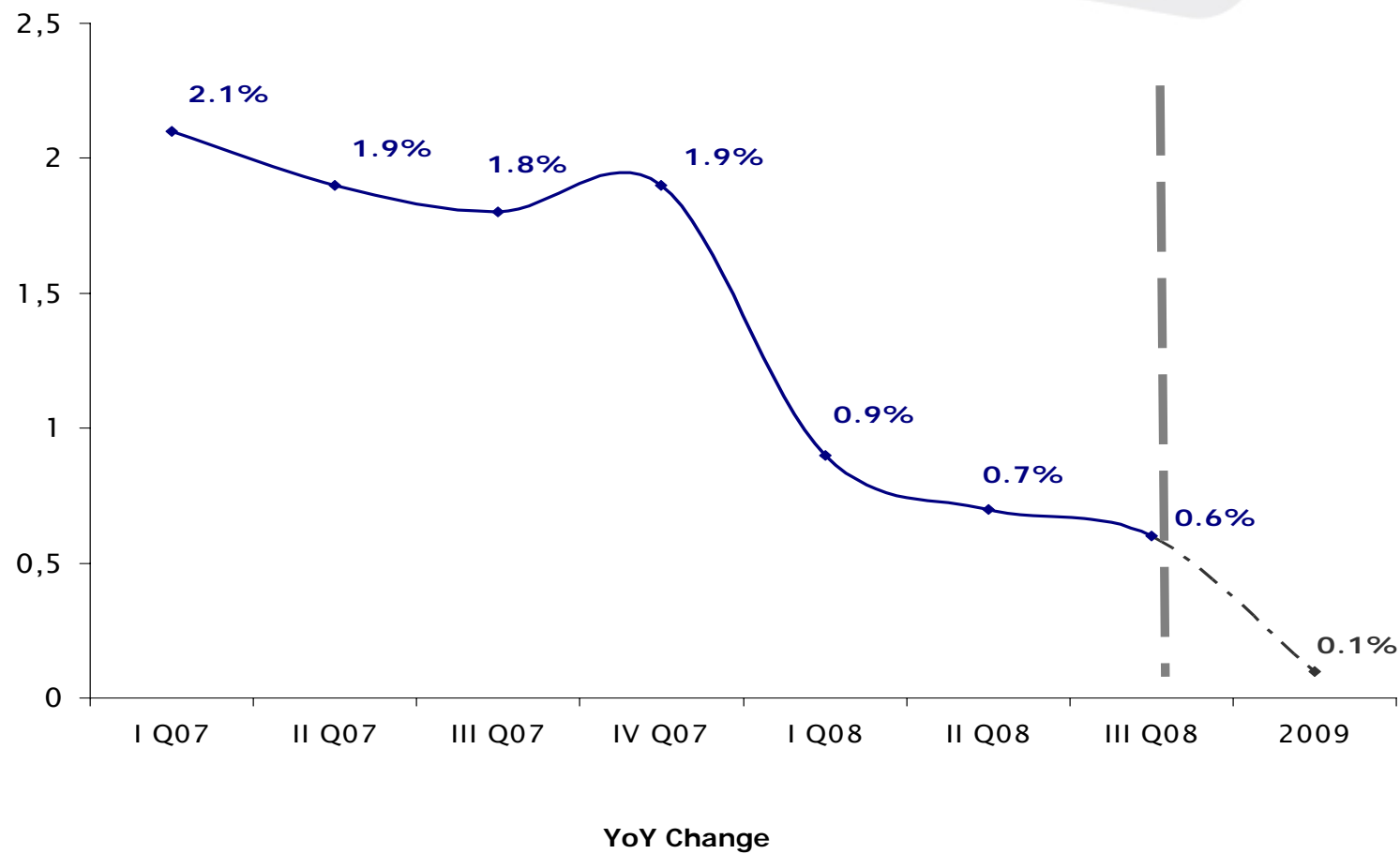
**Though not a base case scenario, a deflationary scenario is possible:**

- Due to base impact with lower energy prices now, there will be negative inflation figures during some months in 2009
- If recession is deeper and longer than expected, a deflationary scenario cannot be ruled out



## Economic situation: Portugal

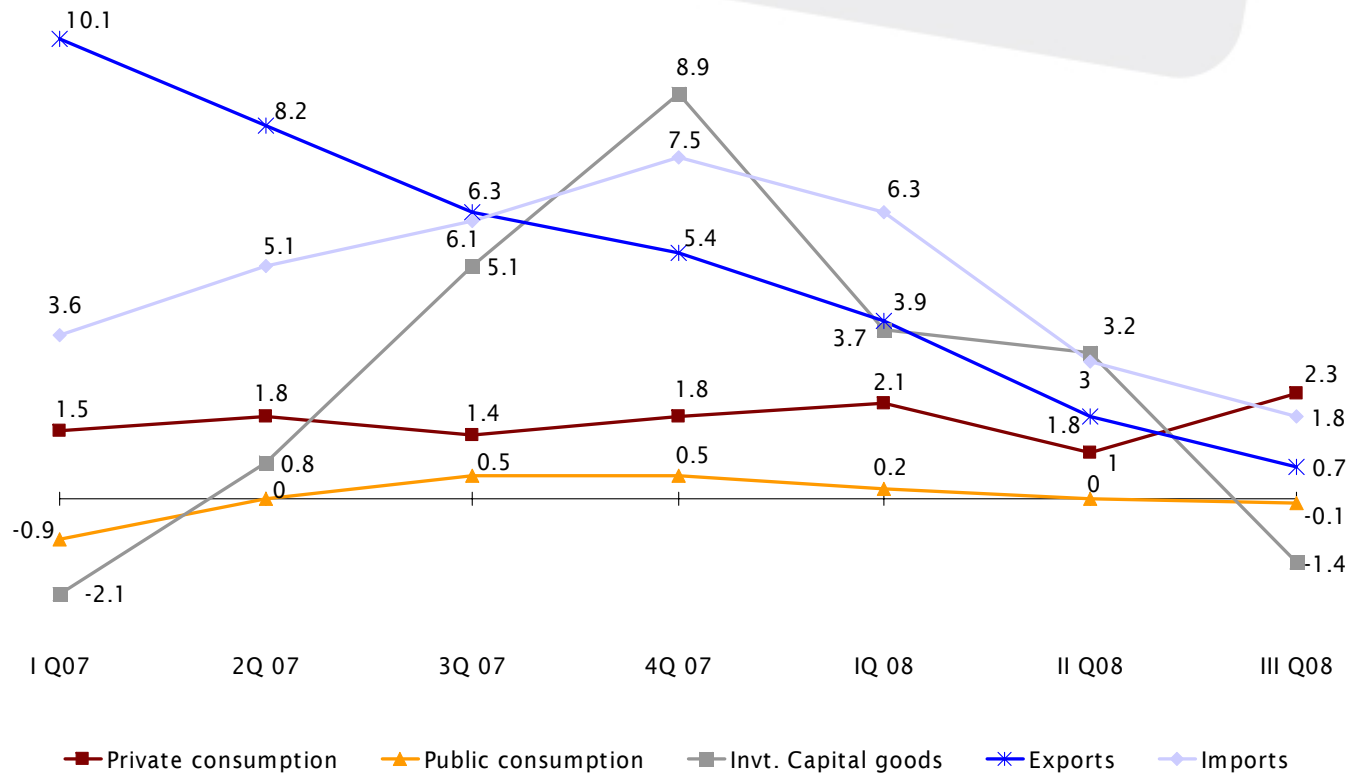
### GDP evolution



Source: INE and CEI

## Economic situation: Portugal

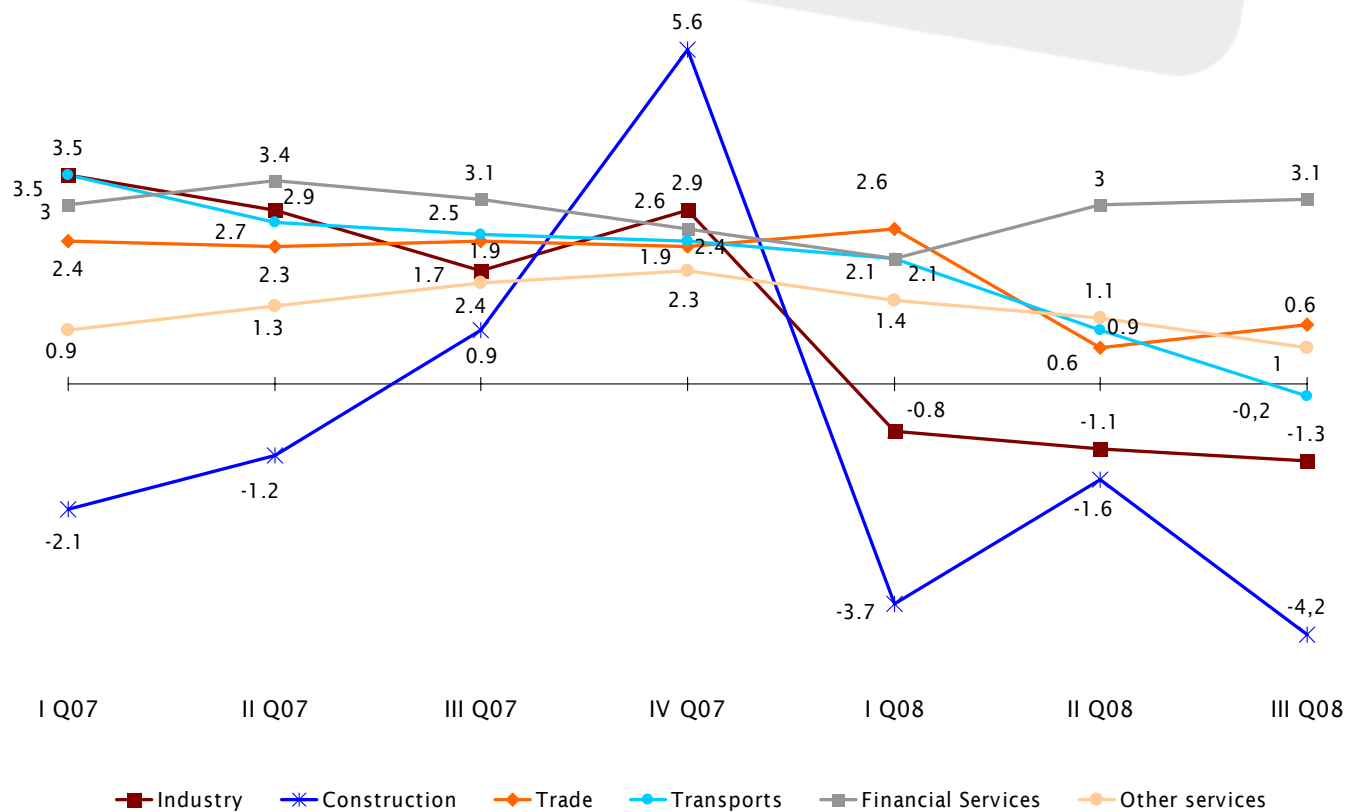
### GDP Components (Demand)



YoY Change

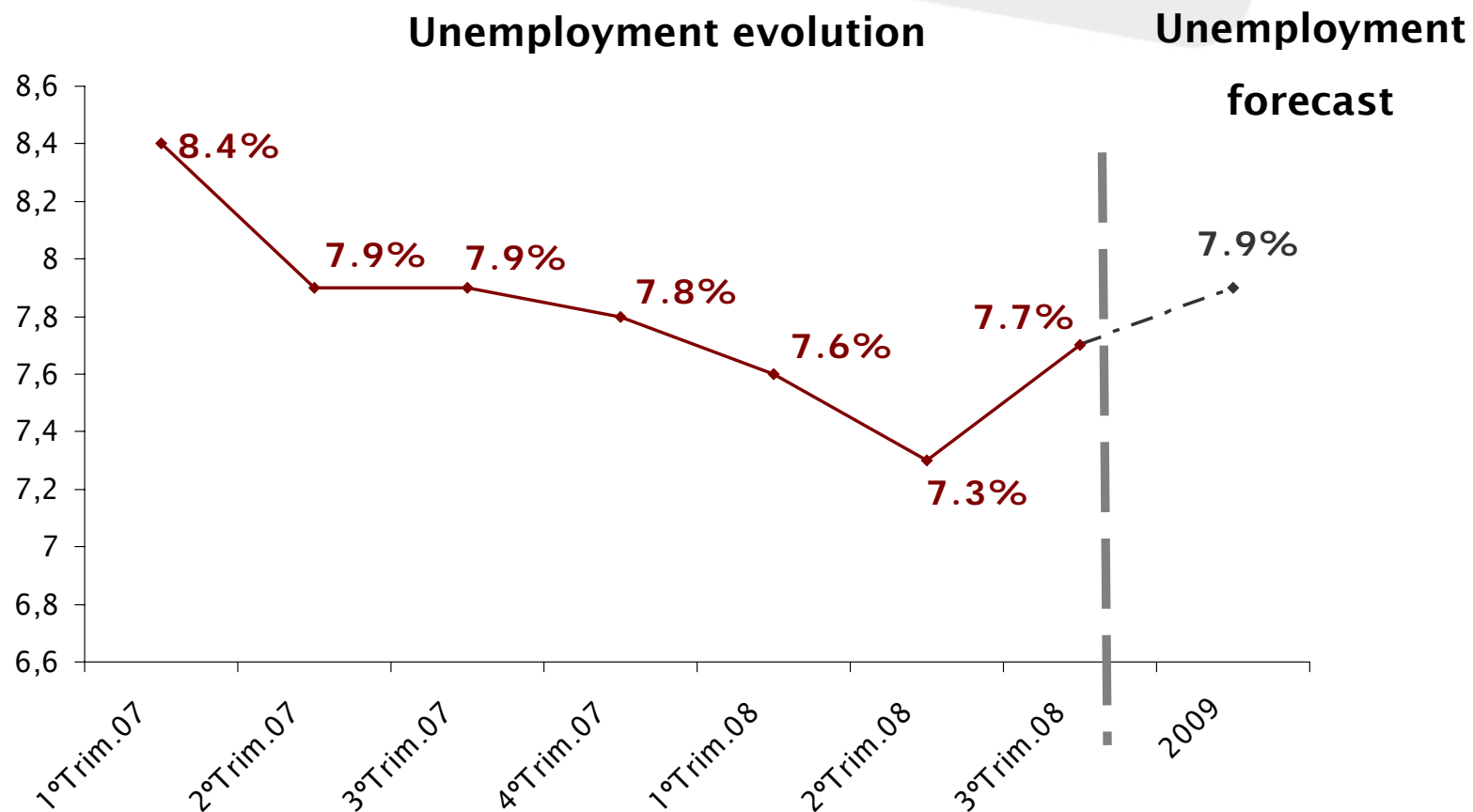
## Economic situation: Portugal

### GDP Components (Supply)



YoY Change

## Economic situation: Portugal

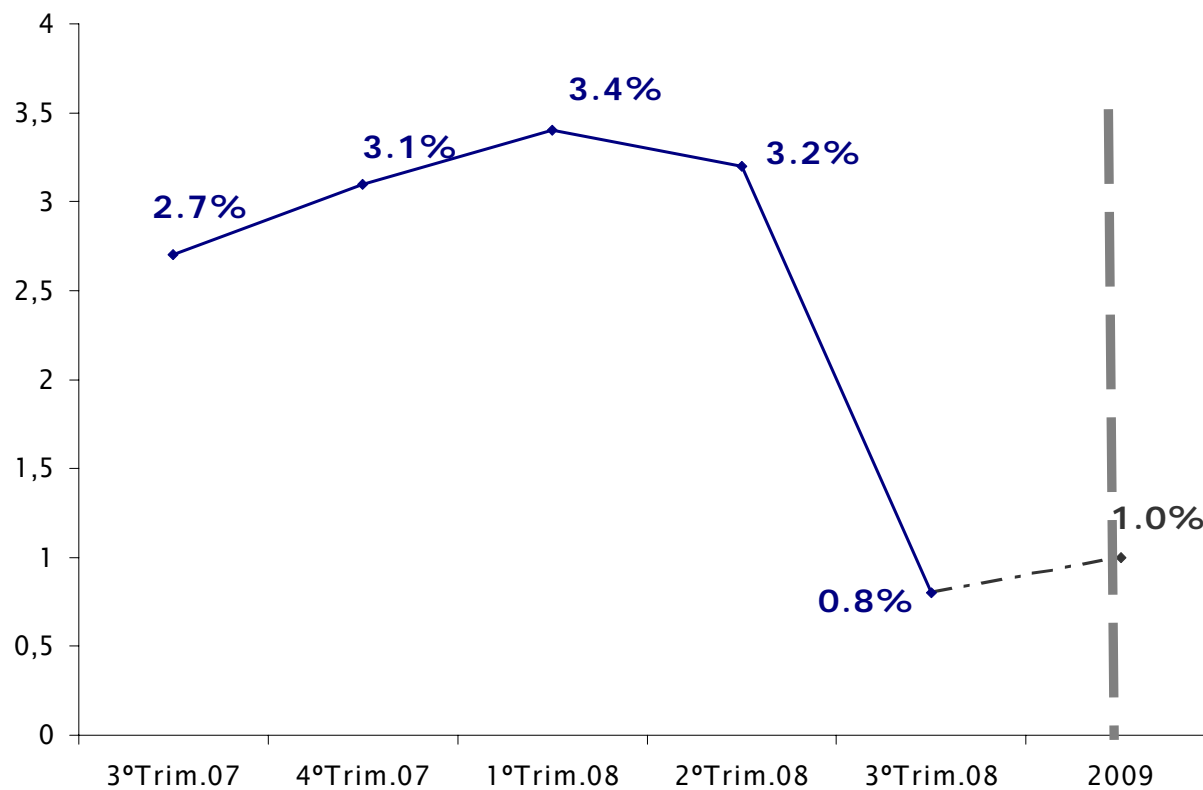


Source: INE and CE

## Economic situation: Portugal

### CPI evolution

### CPI forecast



Source: INE and CE

YoY Change

**Thank you!**

