



# A BRIEF PROFILE OF BANCO POPULAR ESPAÑOL

PRESENTATION TO  
FIXED INCOME INVESTORS

Q1 2010

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## Agenda

- 1. Executive summary: about the bank & financial highlights**
- 2. Business resilience & solid operating performance**
- 3. Risk management: trends noticeably improving**
- 4. Funding policy of Banco Popular**

## Executive Summary: About the bank



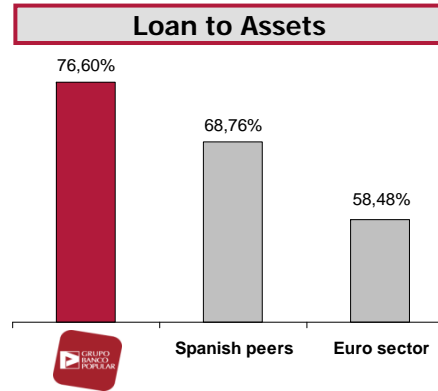
- **Banco Popular ranks 3<sup>rd</sup> amongst Banks in Spain. 5<sup>th</sup>, including Saving Banks and overall 4<sup>th</sup> by profits**

2,380 branch network, 14,400 employees. 4.4% overall market share.

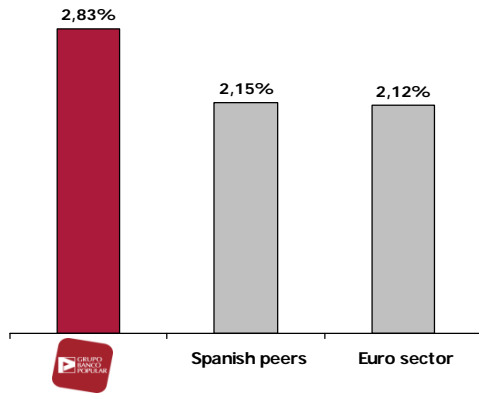
€97bn Total Loans (over 50% mortgage guaranteed), €60bn Customer Deposits. 10bn AUMs. 32bn Wholesale funding

- **A pure retail and commercial bank with a revenue generation capacity which outperforms peers.**
- **Popular is an efficient producer: best Cost/Income ratio in Europe.**
- **Capital Strength: one of the highest capitalized banks in Europe. Very well positioned for Basle 3.**
- **Ratings (Moody's/Fitch/DBRS/S&P) Aa3/AA-/AA/A, pre-4Q09**  
**Balance Sheet strengthening**

# Executive Summary: a leading commercial franchise



### Pre-Provision Profit over loans



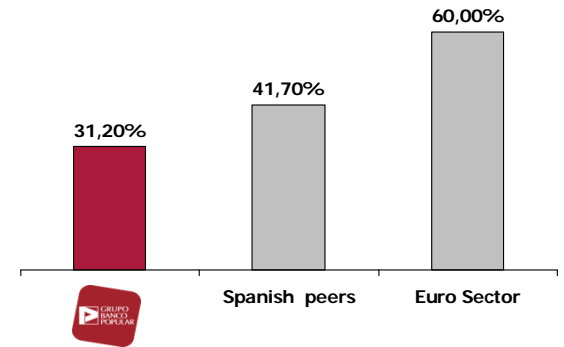
Profitability

Retail Franchise



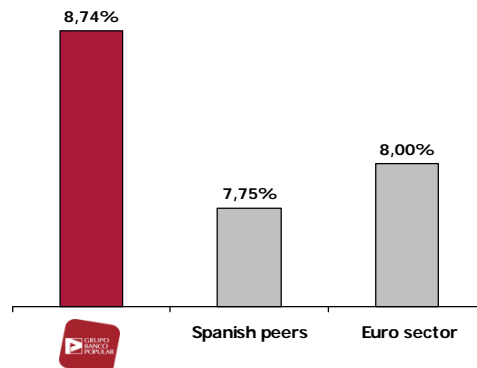
Efficiency

### Cost to Income ratio



Fortress capital

### Core capital comparison



## Executive Summary remarks about 1Q 2010



- **€204M net profit, ahead of consensus ... after over €414M in Credit & Real Estate provisions.**
- **1Q10 performance markedly ahead of last quarter. Lower NII and lower provisioning needs.**
- **Still in a tough cycle, but trends keep improving substantially: net 1Q10 NPL entries down 77.6% vs. 1Q09.**
- **NPL Coverage stable at 50%. Bad debt ratio below the industry. Real estate assets available for Sale: 20% provision achieved**
- **Capital and reserves up by 26%: well positioned for Basle 3.**
- **We keep growing & gaining market share.**
- **Banco Popular's Cédulas Hipotecarias were upgraded by S&P to AAA on April 15<sup>th</sup> 2010 (the only upgrade of a Covered Bond by S&P in 2010 ytd)**

# Executive Summary: Financial Highlights



(€, million)	2009	2008	Change 08-09	1Q10	1Q09	Change 1Q09-1Q10
Net interest income	2,822	2,535	+11.3%	668	727	-8.1%
Pre-provisioning profit	2,762	2,340	+18.0%	605	695	-12.9%
Provisions for loans and investments <sup>(1)</sup>	1,752	998	+754	294	304	-10
Extraordinary items <sup>(2)</sup>	50	148	-98	-39	-75	+36
Net profit	766	1,052	-27.2%	204	225	-9.2%
Non-performing ratio	4.81%	2.80%	+201b.p	4.91%	3.82%	+109 b.p
Efficiency ratio	29.31%	33.25%	-394b.p	31%	28%	+2.8 b.p.
Loans to deposits ratio	168%	200%	-32b.p	160%	194%	-34 p.p.
Core Capital	8.61%	7.17%	+144b.p	8.74%	7.23%	+1 b.p.

(1) Net. Includes €335m devoted to precautionary loan provisions in 2009 vs. €189m in 2008

(2) Net. Includes €145m devoted to precautionary property provisions in 2009.



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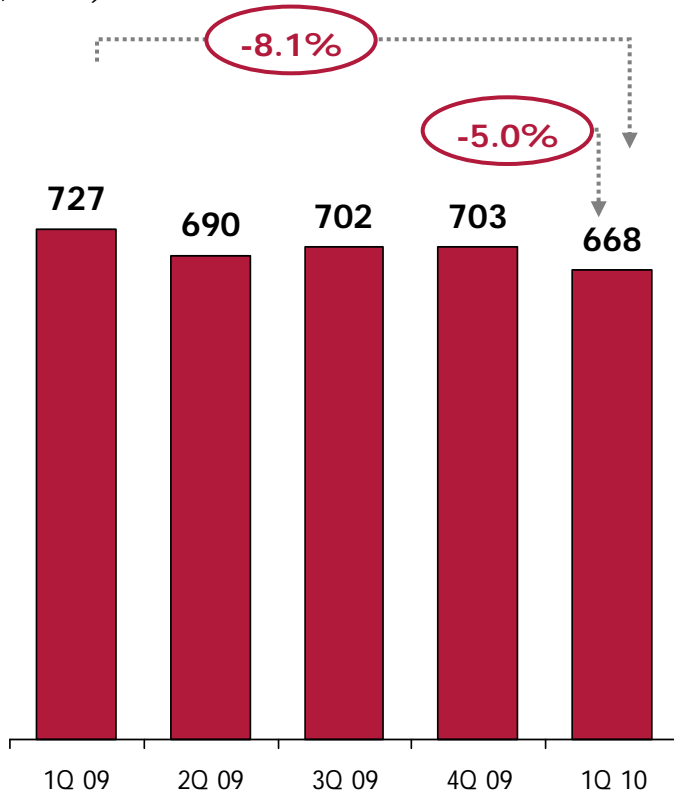
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# NII affected by the yield curve and the repricing mismatch between assets & liabilities

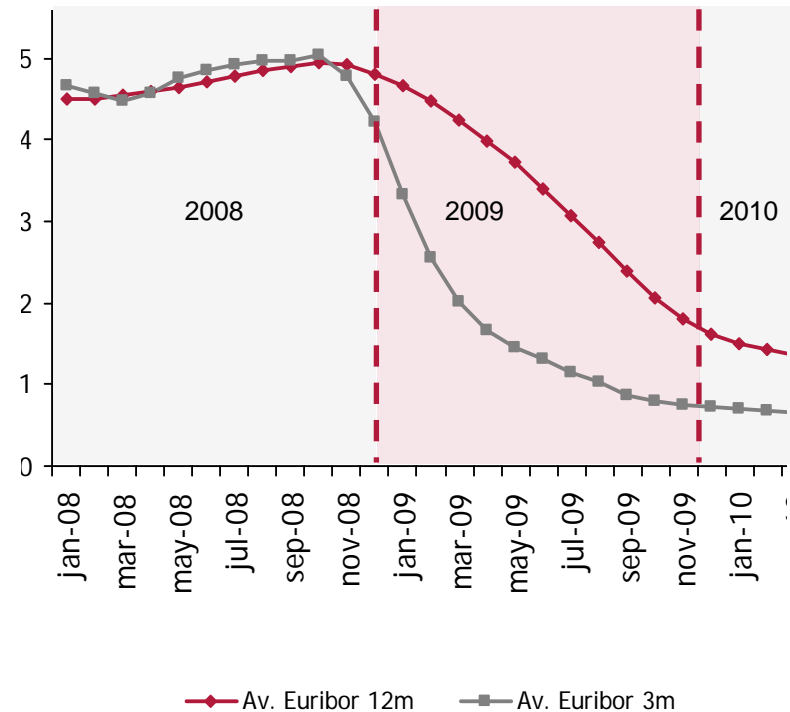


## Net interest income trend

(€, million)



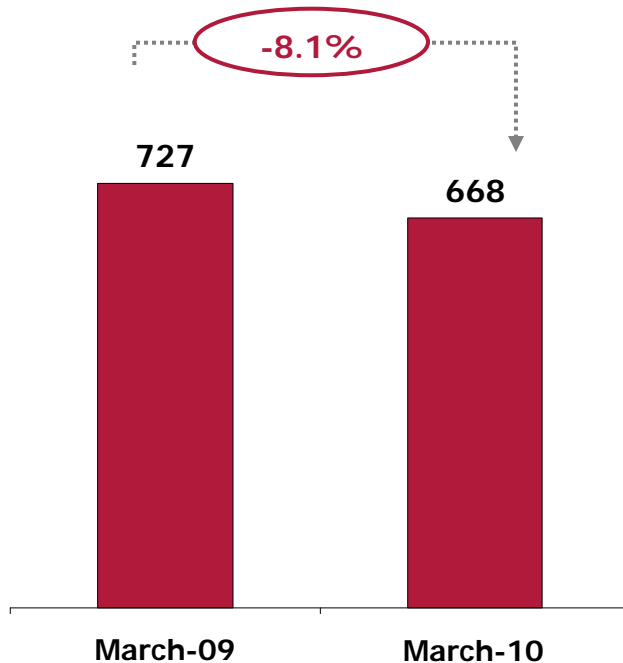
## Interest rates evolution



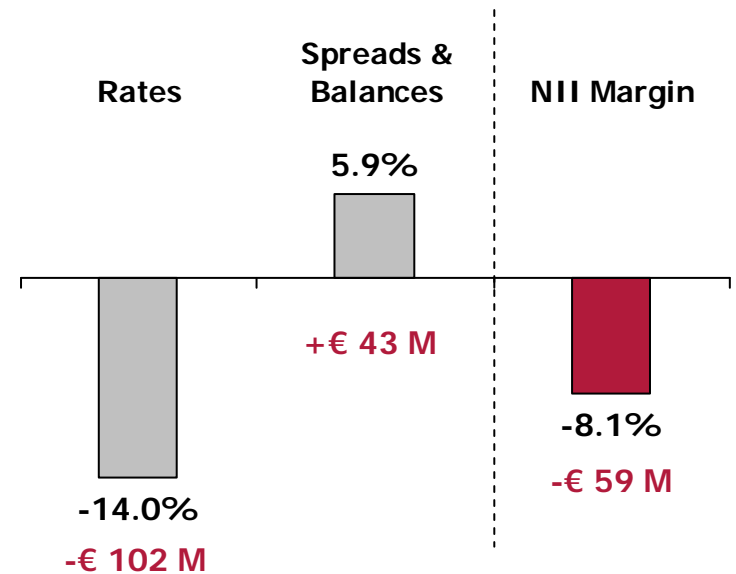
# Business growth coupled with a very remarkable spread performance has allowed us to offset, partially, the negative effect of this low interest rate environment

## Net interest income

(€, million)



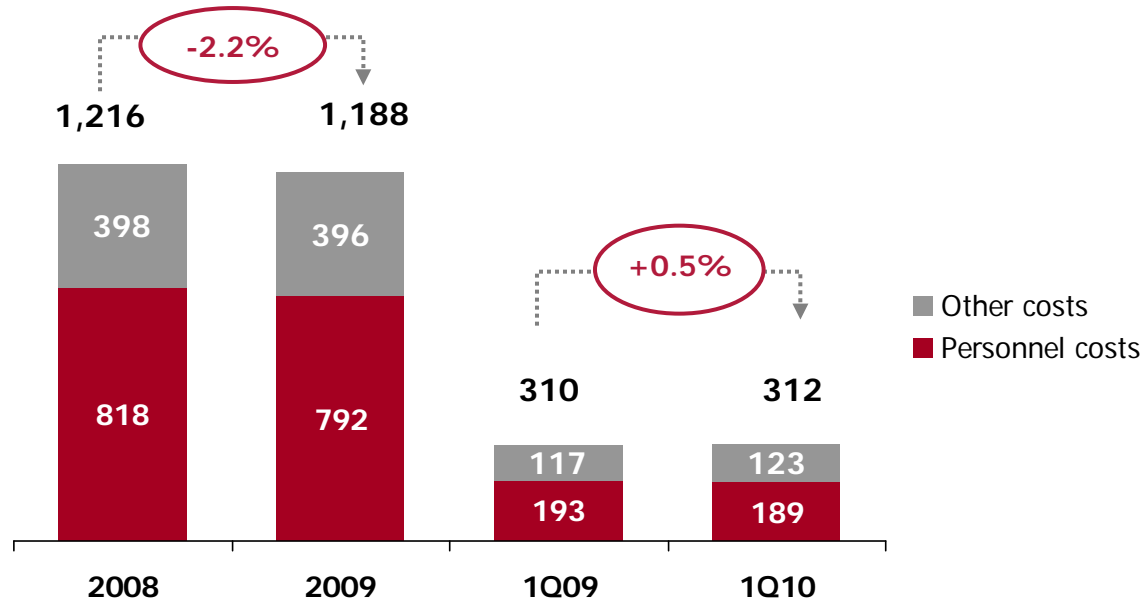
## NII Impact from Rates, Spreads and Balances



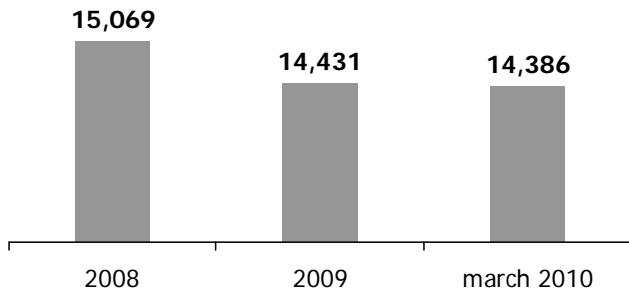
# Costs under control. Efficiency ratio at 31%, lowest in Western Europe.

Costs evolution 08-09 & 1Q09-1Q10

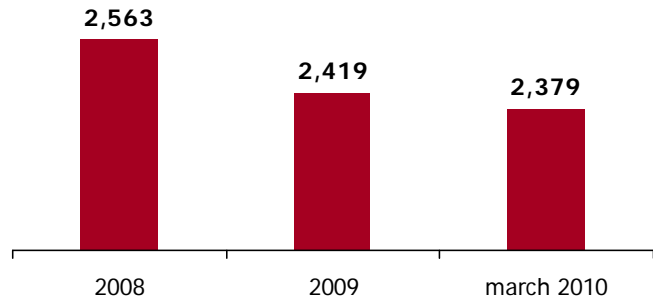
(€, million)



Staff

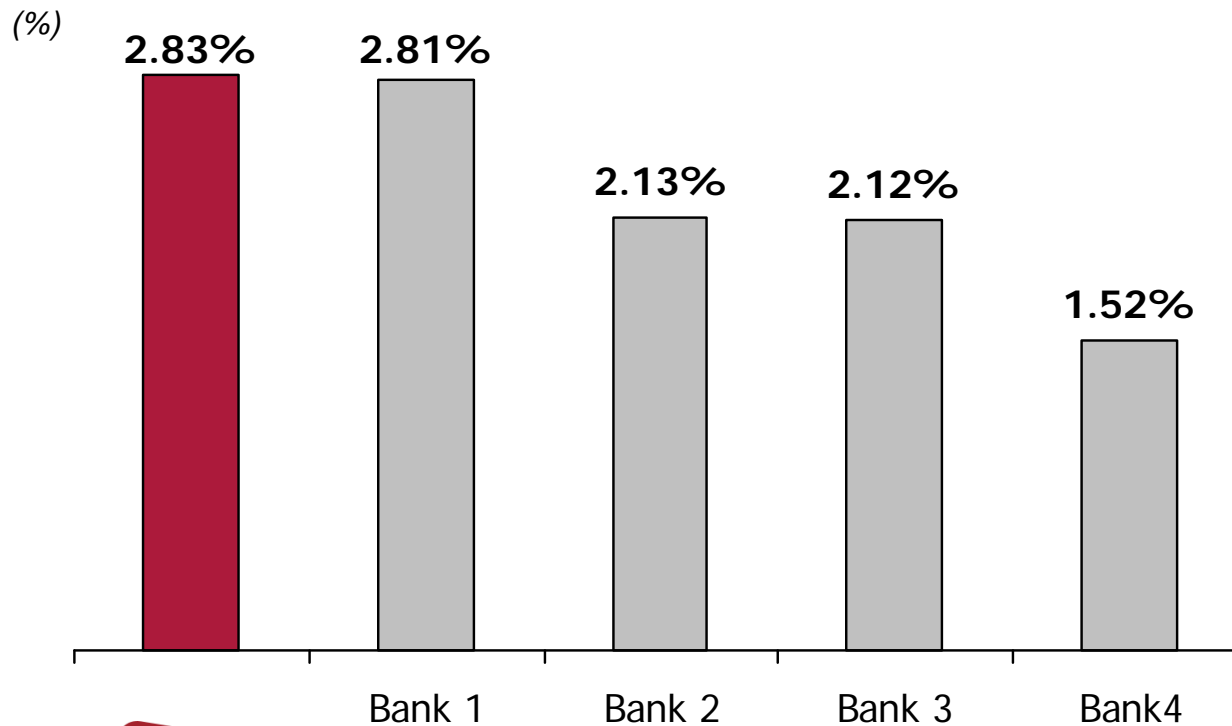


Branches



At pre-provisioning level we remain (in relative terms) the most profitable bank in the sector. This gives us a very high provisioning absorption capacity.

Annual Pre-provisioning profit 1Q 10/ Gross loans



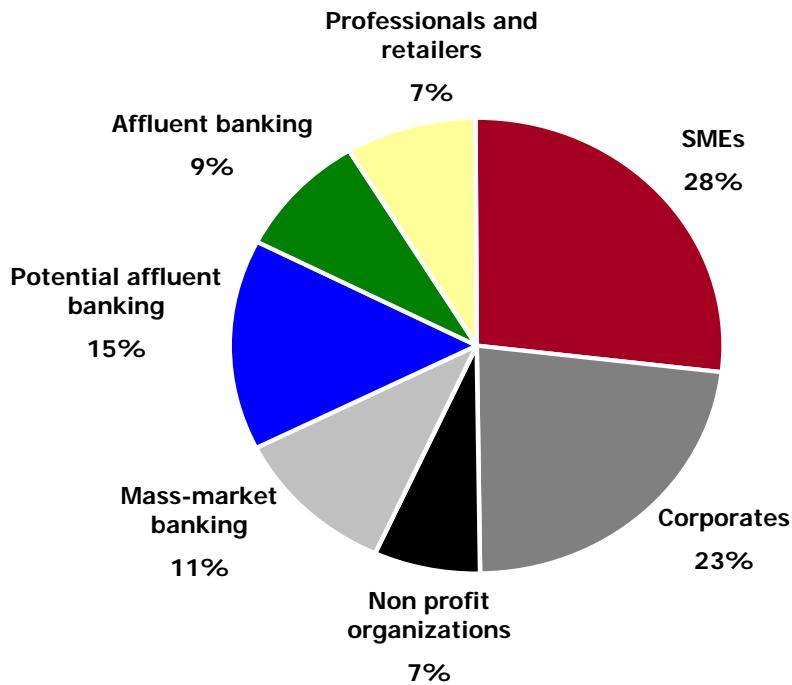
Source: Quarterly reports and analysts reports.

Notes: (\*) Annualised quarterly pre-provisioning/ quarterly average loans to customers.  
Peer group includes Santander Spain, BBVA Iberia, Sabadell and Bankinter

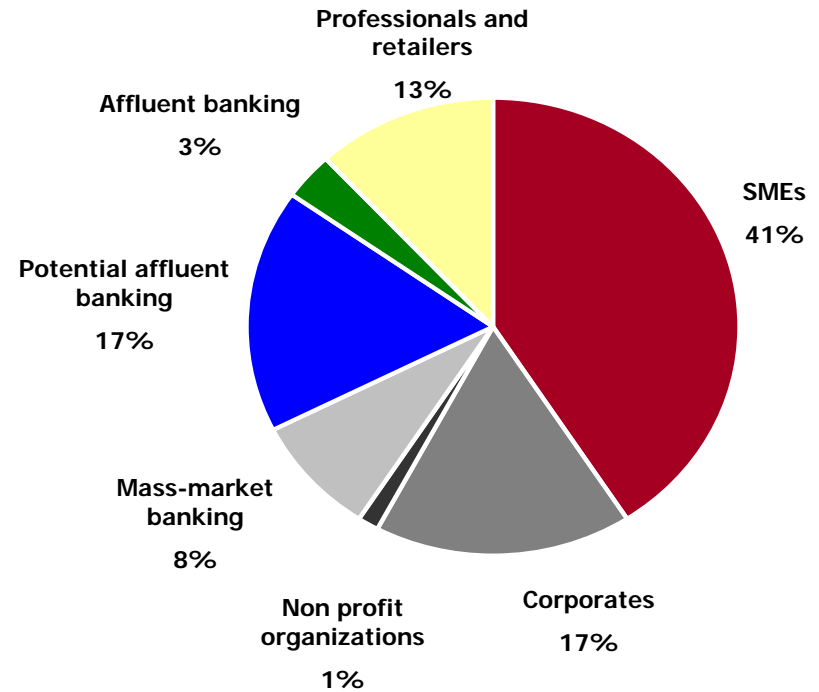


# Banco Popular is a customer driven bank, mainly focused on families & SMEs

Total business by segments



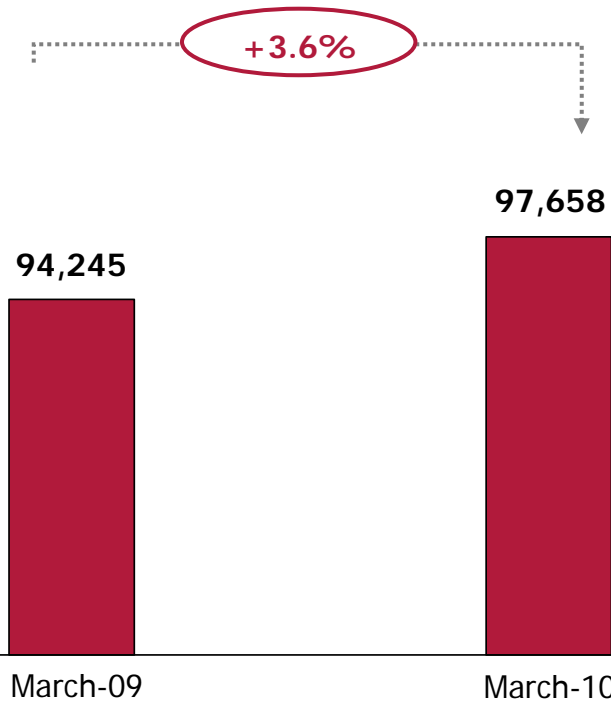
Revenues by segment



# We kept gaining market share in both loans & deposits through pure organic growth

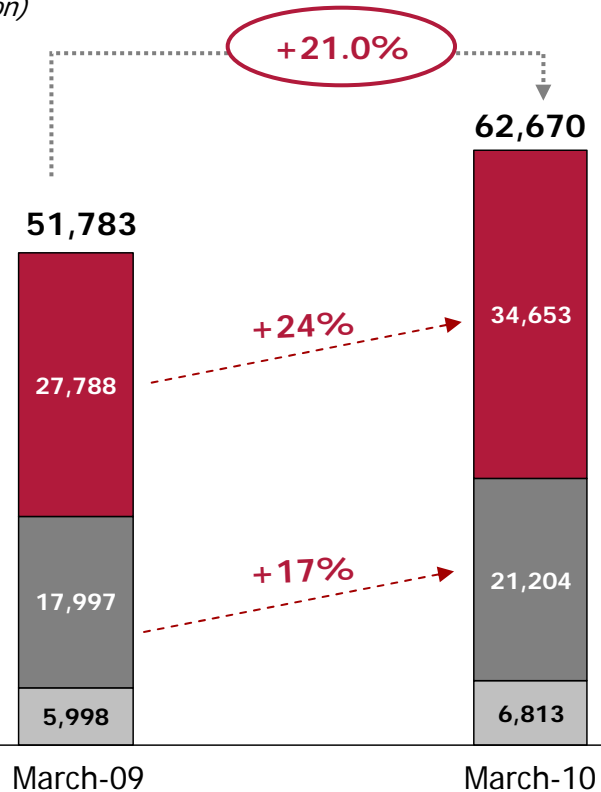
Loans evolution: + 14 bp market share gain YoY

(€, million)



Deposits evolution: + 16 bp market share gain YoY

(€, million)

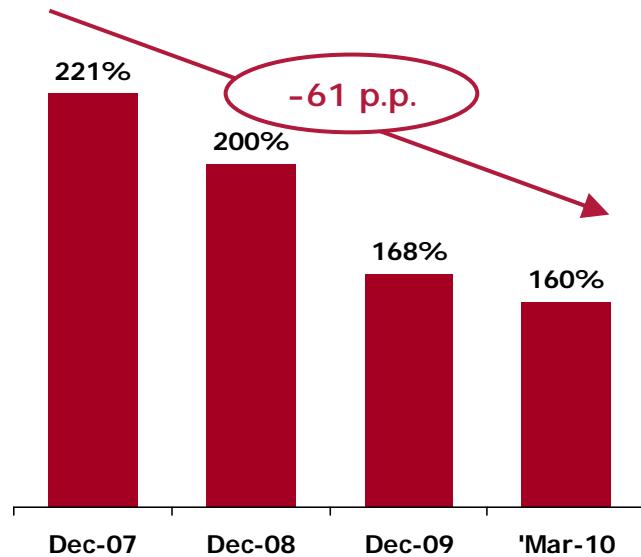


Asset repos
  Demand and saving accounts
  Time deposits

# We will continue improving our LTD ratio due to sustained and excellent deposit growth

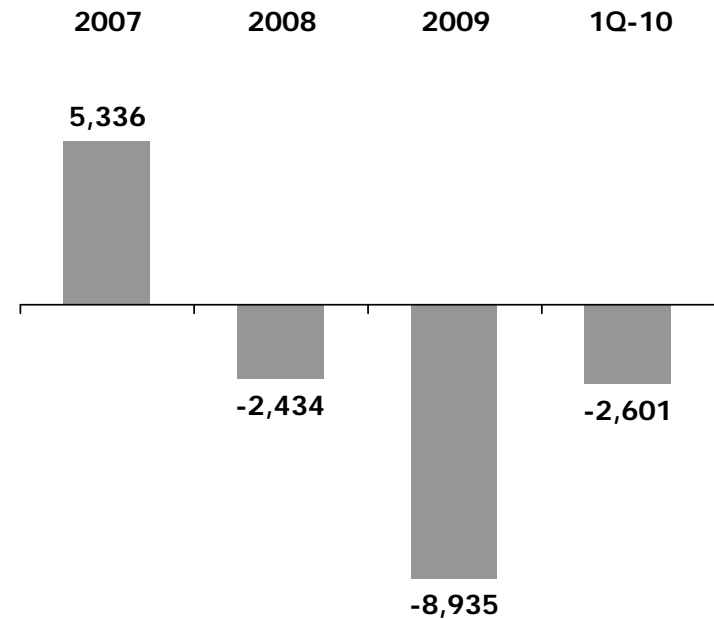
## Loan/Deposit ratio

(In %)



## Commercial Gap evolution

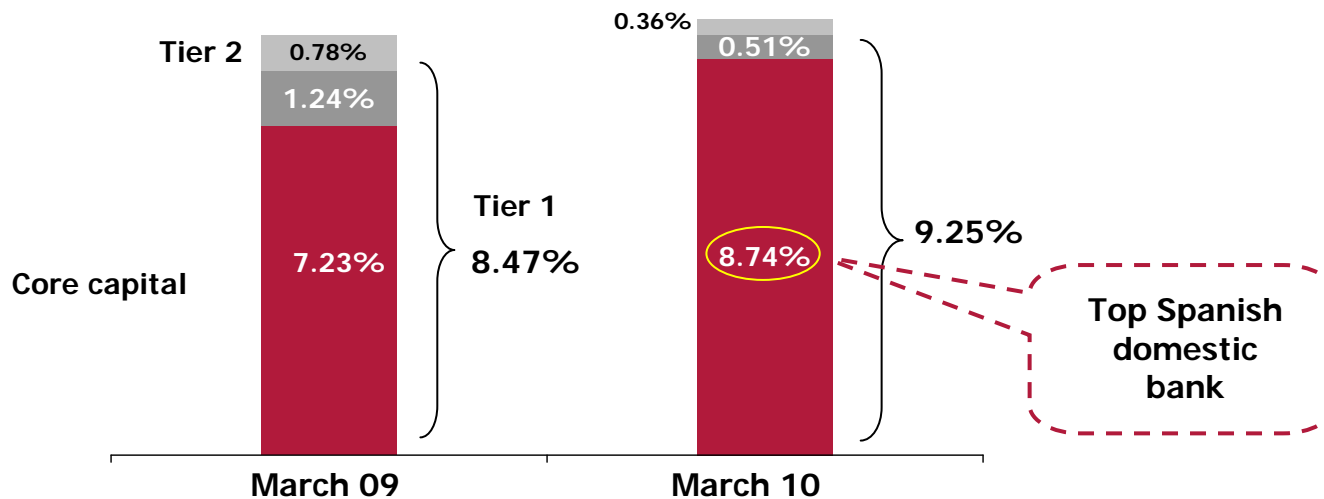
(□, million)



**Loan to assets ratio at 76,6%**

We have increased by 26% our capital and reserves YoY.  
Core capital ratio 100 bps above Spanish average...

### Capital ratios evolution



Core Capital (€Bn)	6.6	8.0
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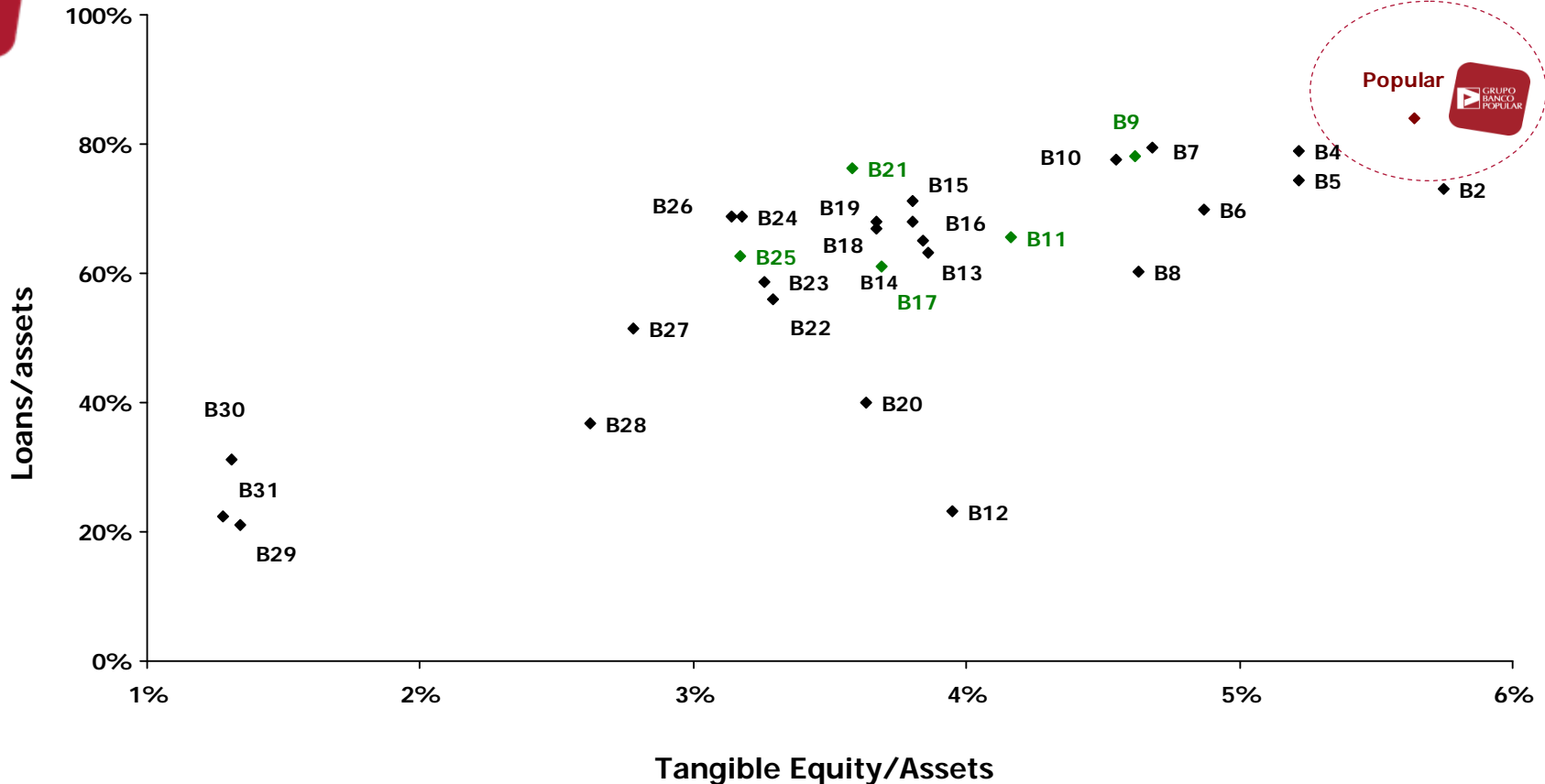
Surplus Capital over BIS (€Bn)	1.2	1.5
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...and ahead of possible new standards

Banco Popular not only has a top tangible equity ratio... but also will not be forced to deleverage. We face Basel III with confidence.



### European Banks Leverage and Loans to Assets



Leverage ratio of 14.36x vs European average > 30x

Source: Data BoAML 2 March; Banco Popular  
 Note: Spanish banks in green



## Agenda

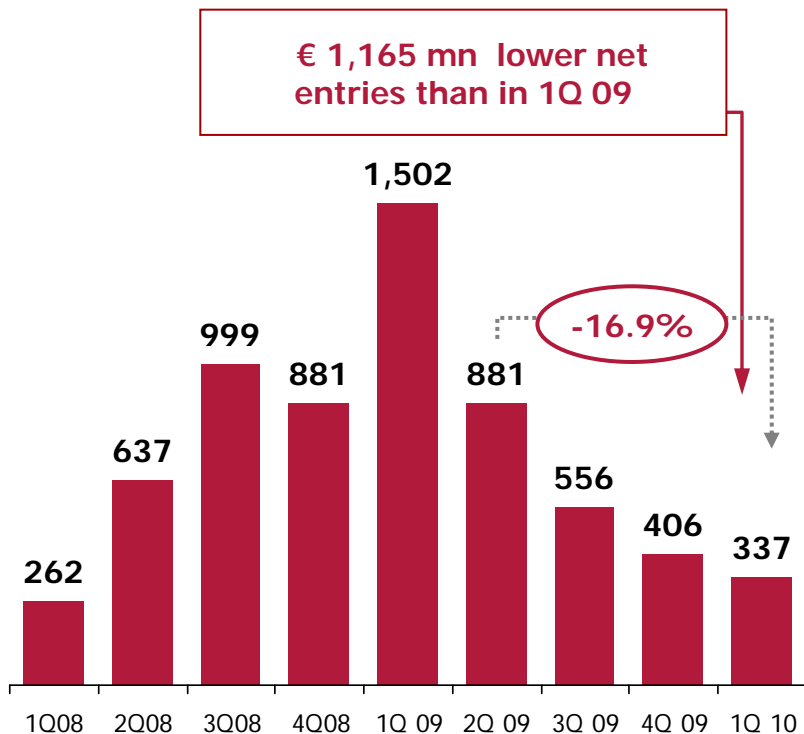
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# Asset quality trends improving. Expected NPL peak below 5.5% during 2H2010



## Evolution of net entries of NPLs

(€, million)



## NPL ratio evolution

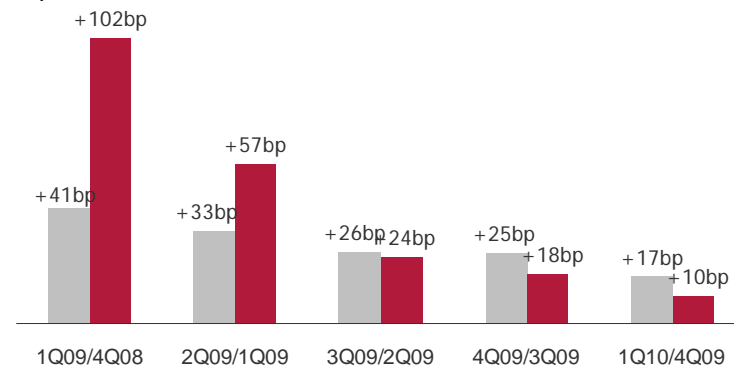
(%)

Average Spanish system 5.39%\*



## NPL ratio quarterly growth vs. peers

(b.p.)



Spanish Peers

Popular

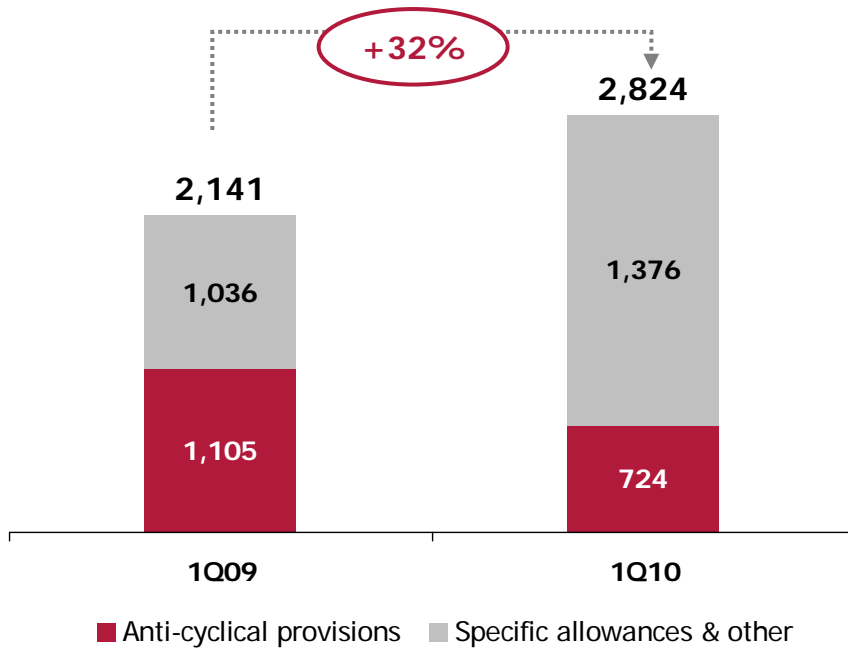
\*Average of banks and saving banks as of February 2010. Bank of Spain

# We kept building provisions and reducing the release of the anti-cyclical provision fund (113m in 1Q10 vs 180m 4Q09)

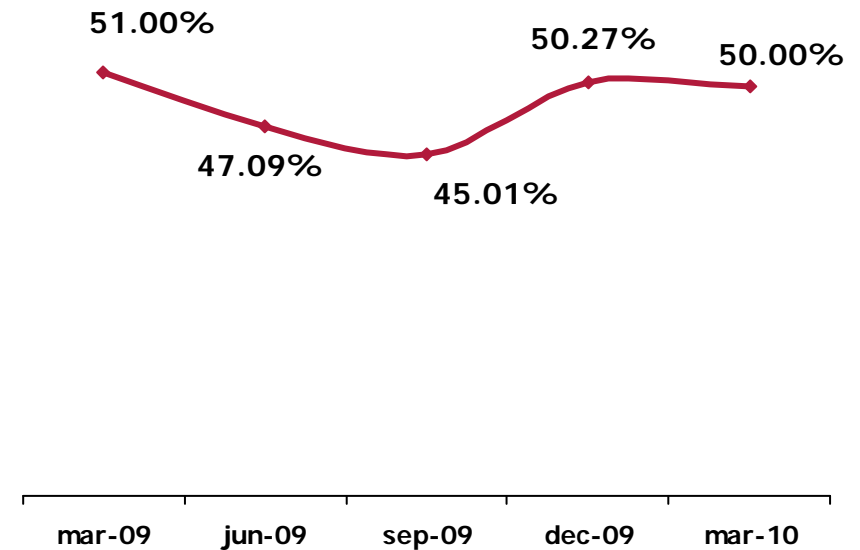


## Balance Sheet Provisions

(€,million)



## Coverage ratio evolution<sup>(\*)</sup>



The value of the collateral is not being taken into account, i.e. 44% of bad debts are collateralised with assets value at 2x debt.

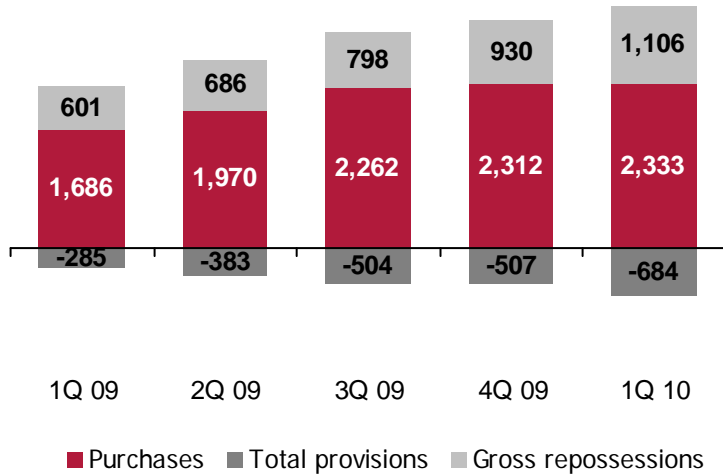


The anti-cyclical provision fund could last for another 5 quarters at the 1Q10 rate.

# Assets available for sale: coverage already at new regulatory levels of 20%.



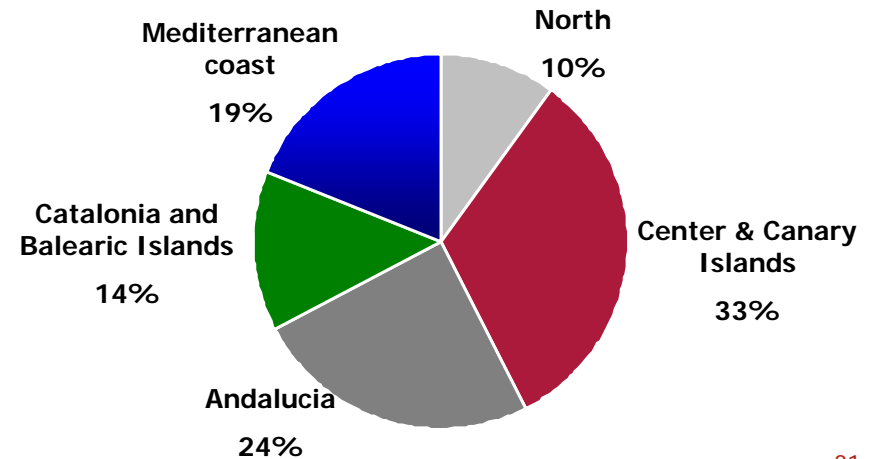
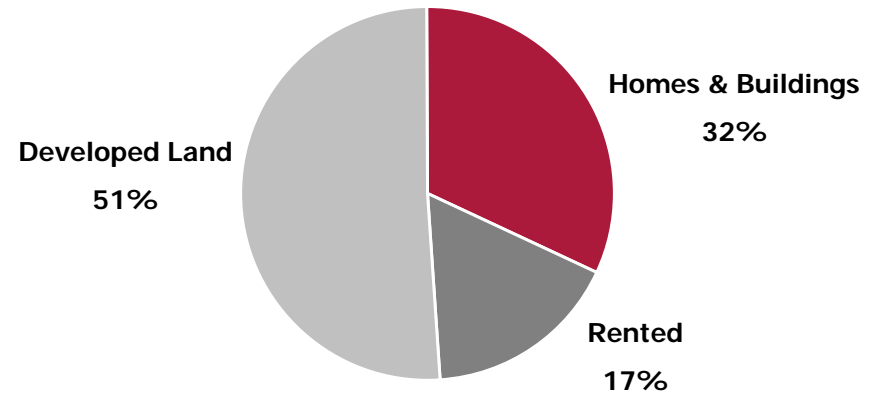
Assets available for sale evolution and accounting coverage



Quarterly / Quarterly growth

	1Q09	2Q09	3Q09	4Q09	1Q10
Net value (€ bn)	2.00	2.27	2.55	2.73	2.75
Coverage	12%	14%	16%	16%	20%

Aliseda: Assets by type and by region

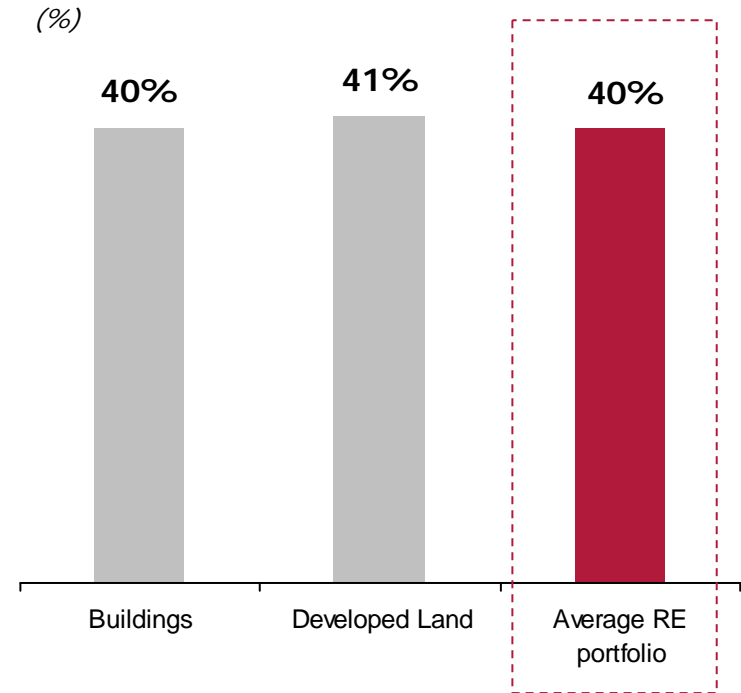


# The book value of both acquired and repossessed assets, is at a significant discount to peak prices, allowing us to manage them professionally

**Discount<sup>(\*)</sup> over peak price in purchases (2007/2008)**



**Discount<sup>(\*)</sup> over peak price in repossessions (2007/2008)**



*(\*) Discount = (Acquisition price net of provisions) / Peak price of the asset (2007/2008)*

**... disposing these assets above book value**



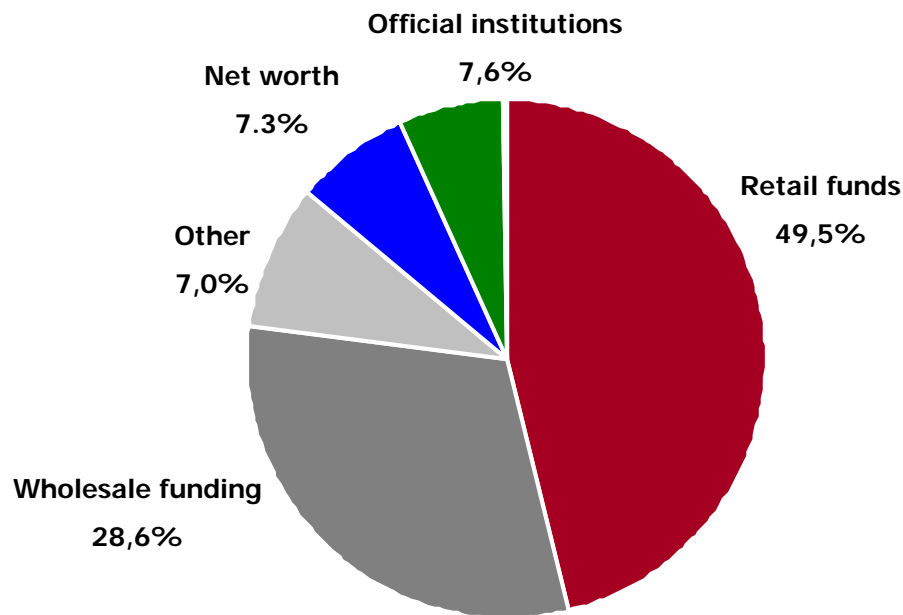
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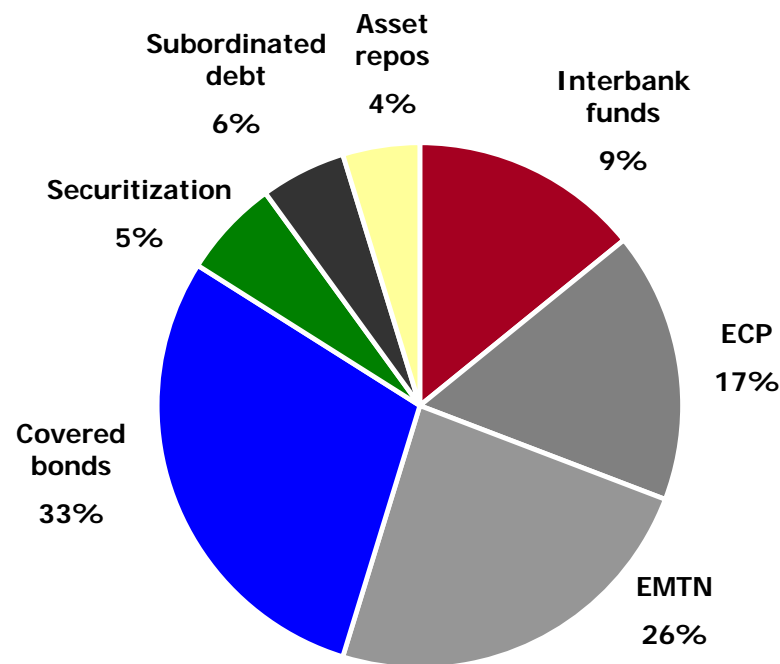
# Overall liabilities and wholesale funding structure



Liabilities breakdown



Wholesale funding breakdown



Moderate reliance on wholesale funding: € 4 bn reduction in one year

# Diversified funding sources ...

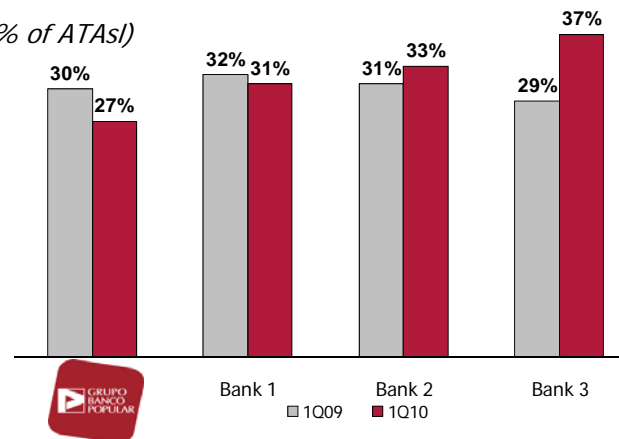


## Wholesale funding by term

(€, million)	1Q 09	1Q 10
Short term funding	38%	30%
Long term funding	62%	70%
<b>Total</b>	<b>36,296</b>	<b>32,077</b>

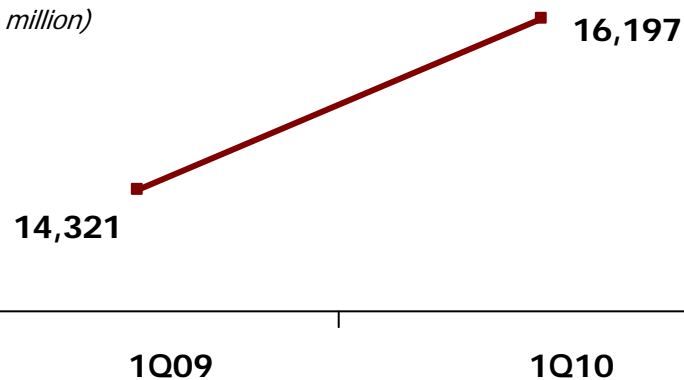
## Wholesale funding <sup>(1)</sup>

(as a % of ATAs)



## Second line of liquidity (cash basis)

(€, million)



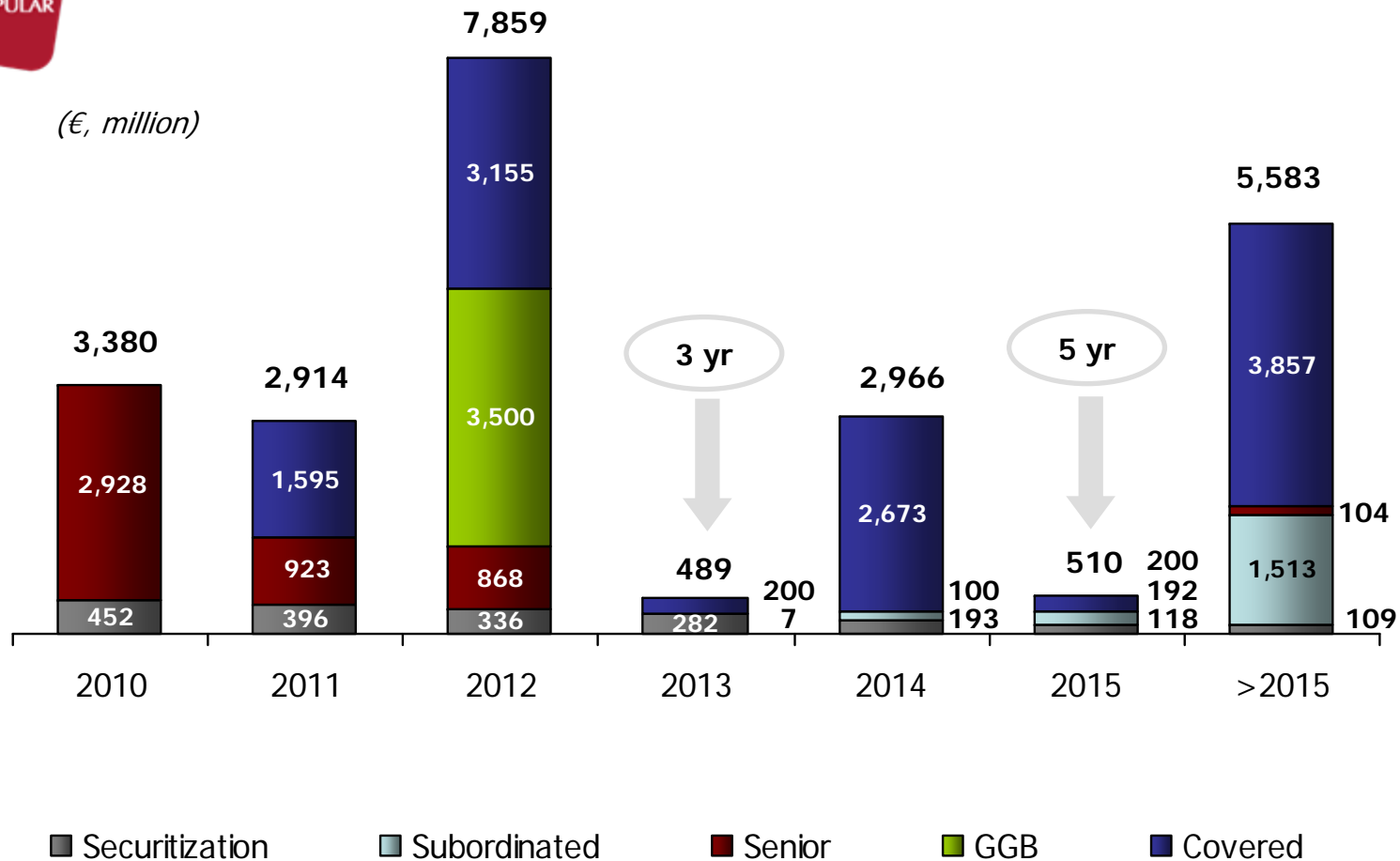
Covers wholesale maturities in more than one year

(1) Source: Quarterly results as of 1Q10 (YoY)  
 Note: Comparable banks include Banesto, Sabadell and Bankinter

# ... and a comfortable maturity profile.



(€, million)



**Refinancing of 2010 maturities acomplished by March 31<sup>st</sup> via € 1bn 8yr  
 Cédulas Hipotecarias and € 2.6bn reduction of Commercial Gap**

## Disciplined liquidity management ...



- **Committed to comply with the recommendations on Liquidity Coverage and Net Stable Funding Ratios.**
  - **Further deleveraging, even considering our retail business model**
  - **Limiting application to short term funding coupled with extending duration of our debt**
  - **Continue reducing the Commercial Gap.**
- **Solid outcome of our own stress tests to very demanding liquidity scenarios:**

		Resiliency horizon (months)
Systemic crisis	{ medium	18
	{ severe	12
Specific crisis	{ medium	12
	{ severe (3 notches down)	5

## ...and conservative funding approach.



### Internal guidance summary

- **Anticipate refinancing needs: pre-fund part of next year's maturities**
- **Continue to reduce the application to wholesale funding, underpinned by new targets to further reduce the Commercial Gap**
- **Diversify funding instruments and markets, particularly in Senior Unsecured and Covered Bonds programs where we maintain significant issuance capacity.**
- **We expect not to use our GGB's capacity**
  - € 1,000m for up to 3 years GGBs
  - € 3,000m for up to 5 years GGBs
- **Maintain 2<sup>nd</sup> liquidity line well above € 12,000m.**
- **Use our ECP programme (utilization: € 5,453m) according to market.**

## Ratings

### Cédulas upgraded to AAA by S&P on April 15<sup>th</sup> 2010

	Long Term	Short Term	Individual Financial Strength	Outlook	Last Review	Action
Moody's	<b>Aa3</b>	<b>P-1</b>	<b>C-</b>	<b>Negative</b>	<b>June 2009</b>	<b>Downgrade from Aa2 to Aa3 <sup>(1)</sup></b>
Fitch	<b>AA-</b>	<b>F1+</b>	<b>B</b>	<b>Negative</b>	<b>May 2009</b>	<b>Maintain</b>
DBRS <sup>(2)</sup>	<b>AA</b>			<b>Negative</b>	<b>Feb. 2010</b>	<b>Maintain</b>
S&P	<b>A</b>	<b>A-1</b>		<b>Negative</b>	<b>July 2009</b>	<b>Downgrade from A+ to A</b>

**Cédulas Hipotecarias Programme Aaa/AAA/AAA by Moody's/S&P/Fitch <sup>(3)</sup>**

*<sup>(1)</sup> On June 1<sup>st</sup> 2009 Moody's downgraded 25 Spanish banks, due to the speed and depth of the deterioration of the Spanish economy and the impact on bank's balance sheet*

*<sup>(2)</sup> Confirmed as of 2<sup>nd</sup> February 2010*

*<sup>(3)</sup> S&P upgraded Banco Popular's Cédulas Hipotecarias to AAA on April 15<sup>th</sup> 2010*

# We are working to maintain our ratings through the cycle...

## What S&P said

(July 2009)

- *“Popular’s **resilient revenue generation and excellent operating efficiency** remain, in our opinion, its major financial strength... to enable it to absorb significant higher loan loss provisioning and, despite pressure on bottom line returns, remain profitable through the downturn”*
- *“The downgrade reflects our expectation that Popular, as it faces Spain’s economic recession, will accumulate a **higher level of problem assets** through the downturn than we anticipated.”*
- *“We could **revise the outlook to stable if**, all other things being equal, Popular’s **asset quality deterioration abates significantly, performance through 2009 remains resilient**, and we also foresee prospects of a milder than expected 2009.”*
- *“... Bank in a regulated and supervised environment with **access to extraordinary liquidity.**”*

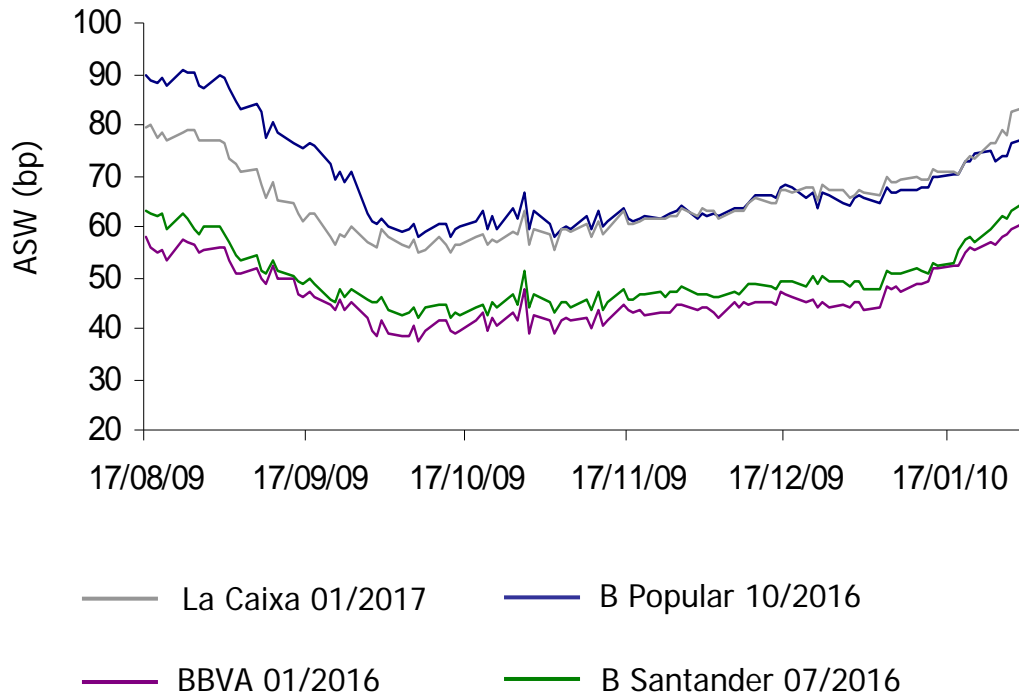
## What we have done

(Year end 2009)

- **Pre-provisioning profit up** ✓
- **Efficiency improved** ✓
- **Margins’ better than industry** ✓
- **Provisioning capacity: over 2 bn in 09** ✓
- **NPL entries slowdown: 73% vs 1 Q09** ✓
- **Recoveries > allowances** ✓
- **Reserves/coverage up** ✓
- **Increased capital** ✓
- **Liquidity improved significantly** ✓

## 7. Cédulas Hipotecarias secondary market performance

*Strong market performance since June through year end 2009 in all our benchmarks*



Last Cédula 4.125% 2018 launched in April at MS+115 pb performed well after issuance.

### Our CH benchmarks

- Banco Popular 3% 2012, € 2.5bn
- Banco Popular 4.375% 2014, € 1.25bn
- Banco Popular 4% 2016, € 2bn
- Banco Popular 4.125% 2018, €1bn

## Summary remarks



- **Banco Popular remains faithful to its business model, which has proven resilient during, possibly, the worst part of the downturn.**
- **Results have been ahead of market expectations, thanks to our ability to generate record earnings before provisions.**
- **We expect to maintain current ratings, based on improved asset quality and capitalization.**
- **Banco Popular is committed to market oriented funding transactions and disciplined liquidity standards.**



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