

# KBW - European Financials Conference



Francisco Sancha, General Manager  
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1. Macro environment: Sovereign crisis and economic recovery

2. Dealing with the crisis

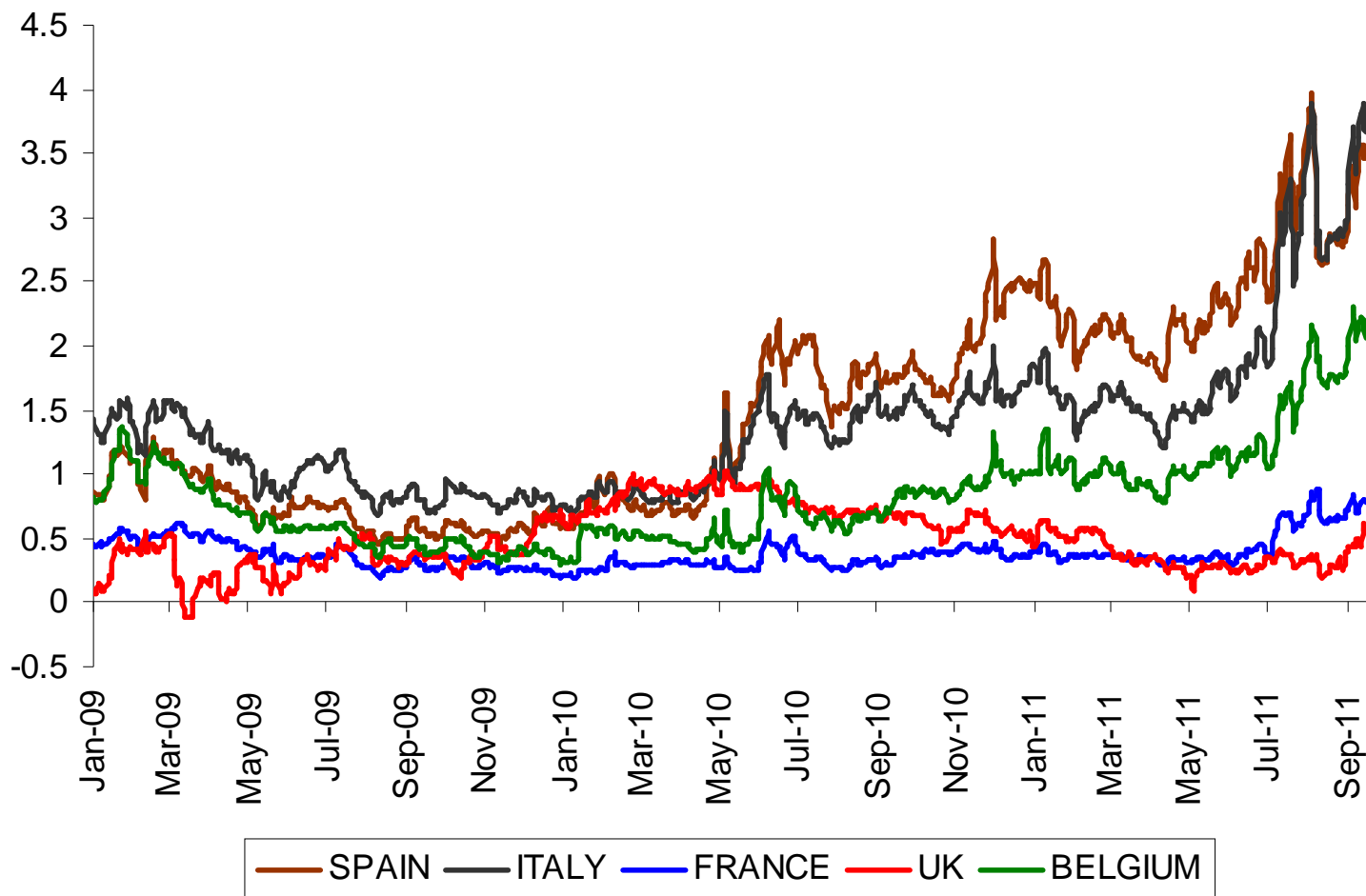
3. Challenges: Liquidity & Funding, AQ and ROA

4. Conclusions and Q & A

# 1. Macro environment: Sovereign crisis and economic recovery

## From country specific issues to Eurozone's (global?)...

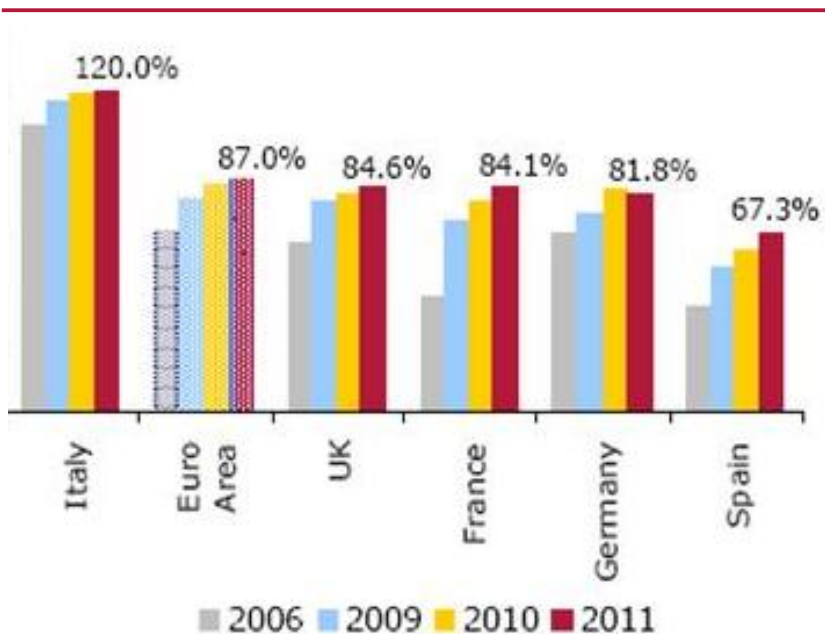
✓ 10yr spreads over bund (pp)



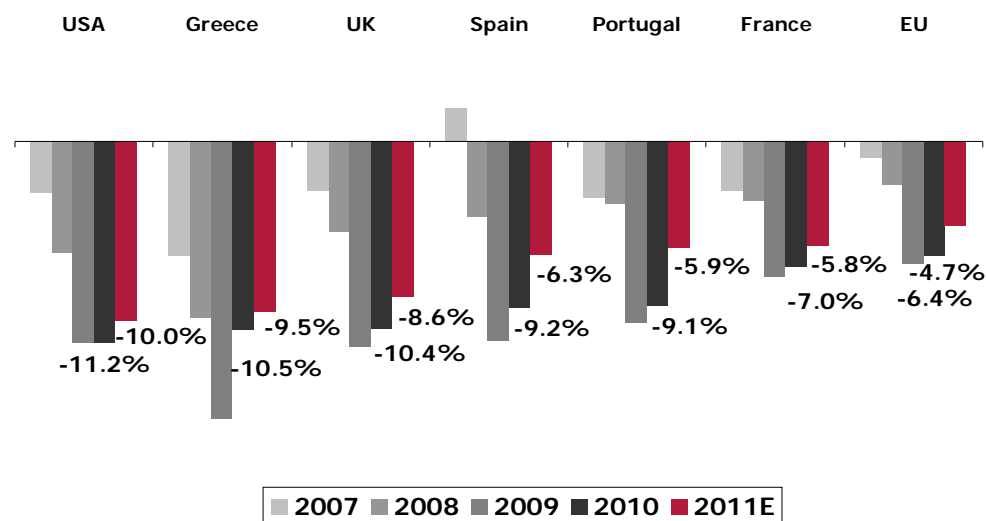
# 1. Macro environment: Sovereign crisis and economic recovery

## Kingdom of Spain's indebtedness is not the issue. Deficit well on track to achieve goals...

✓ Debt to GDP



✓ Public deficit (% of GDP)



Source: INE, Eurostat, EC estimates (European Economic Forecast – June 2011)

# 1. Macro environment: Sovereign crisis and economic recovery **Structural reforms: delivering...**

| 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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1. Macro environment: Sovereign crisis and economic recovery

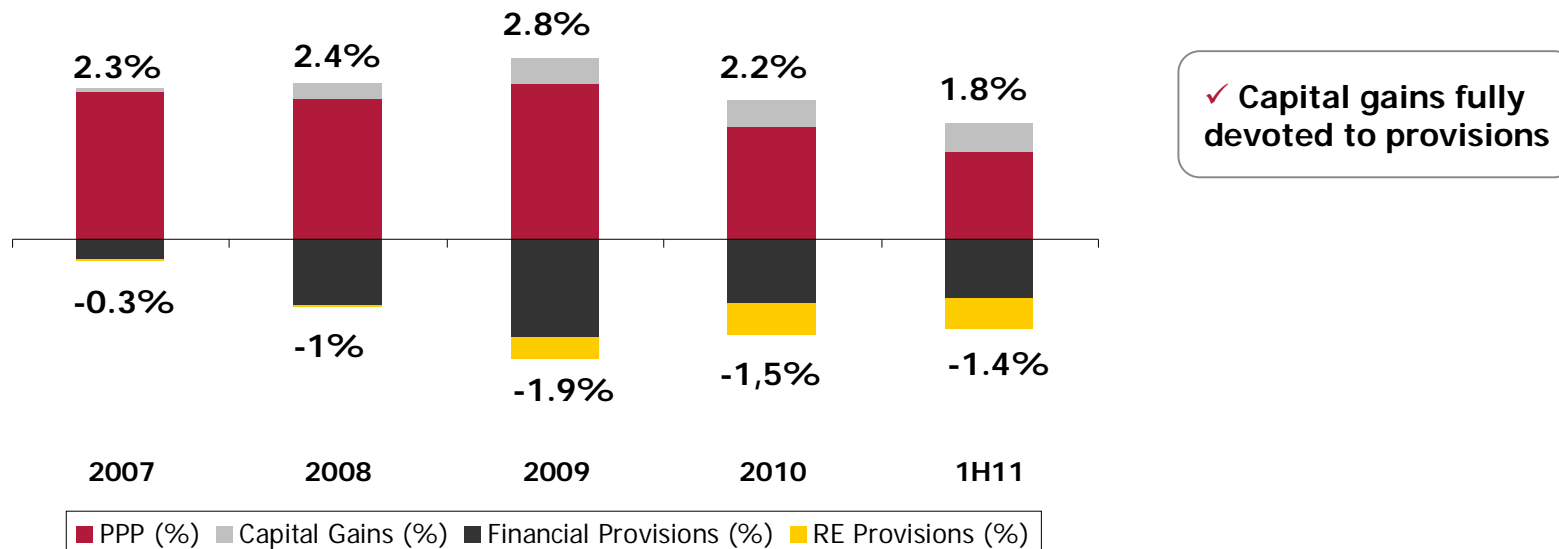
2. Dealing with the crisis

3. Challenges: Liquidity & Funding, AQ and ROA

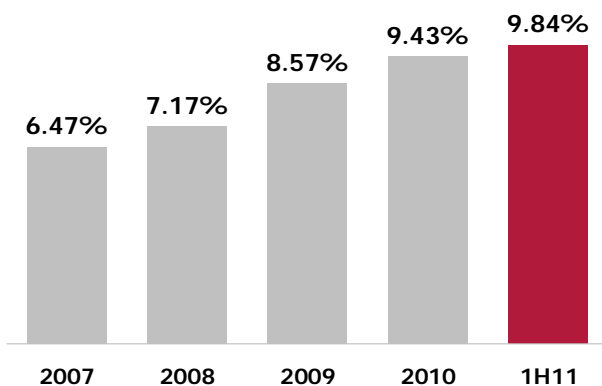
4. Conclusions and Q & A

## 2. Dealing with the crisis Reasonably well in uncharted waters

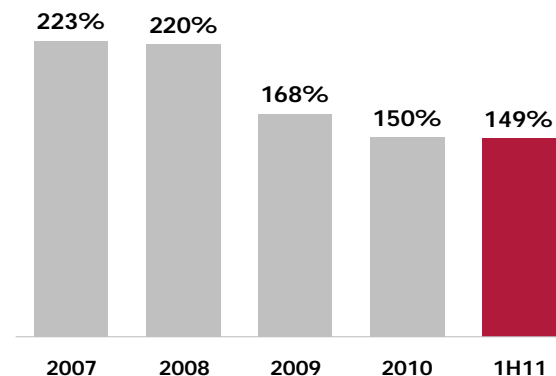
✓ Business potential vs Total Cost of Risk\*



✓ The strongest core capital



✓ The highest effort in LTD improvement

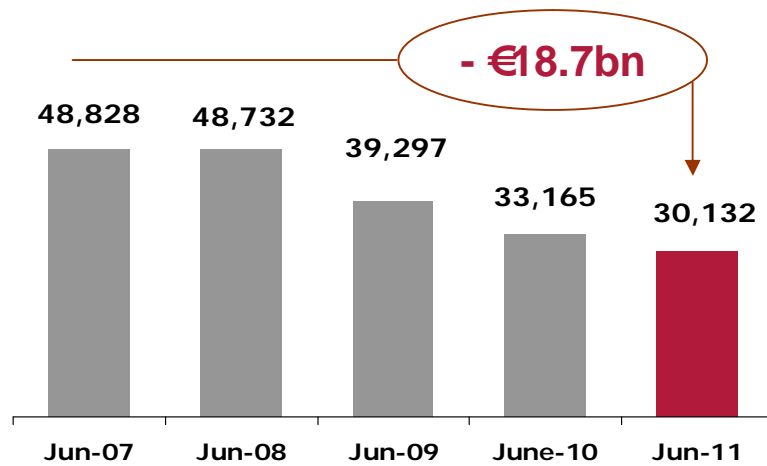


\* Business potential = Pre-provision profit + Capital gains over ATA's. Total Cost of Risk = Credit provisions + RE provisions over ATA's  
Source: Quarterly reports <sup>8</sup>

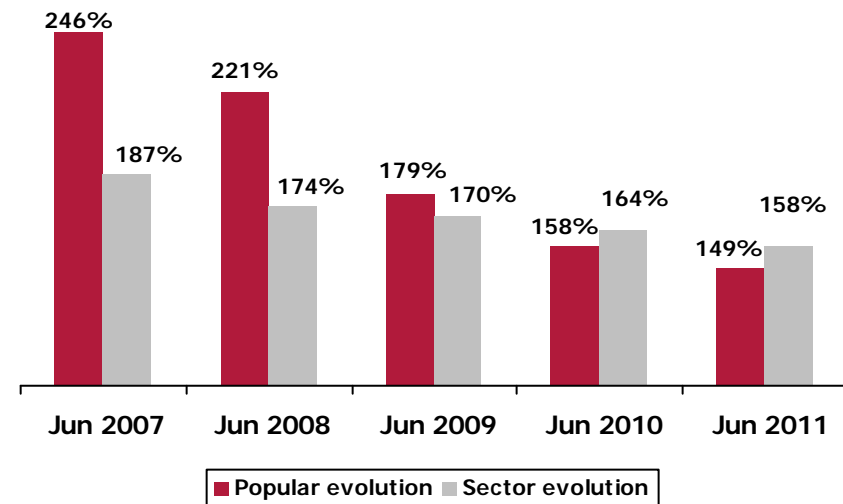
## 2. Dealing with the crisis

**Proven track record capturing deposits from our branch network:**

✓ Evolution of the commercial gap\*



✓ Spanish banks vs Popular LTD evolution\*



✓ **Biggest effort in the industry reducing LTD ratio (97pp vs 29pp)**

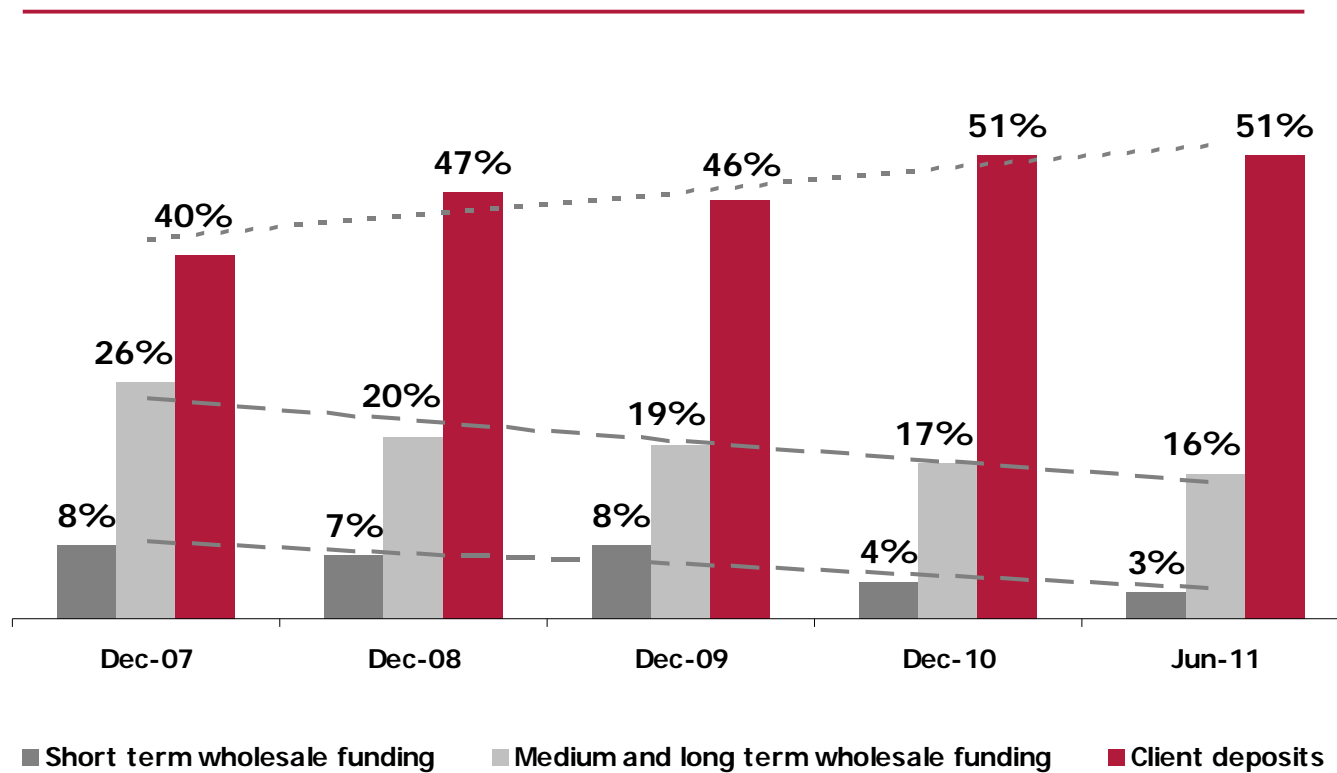
Source: Spanish commercial banks

\*Note: ex all repurchasing agreements

## 2. Dealing with the crisis

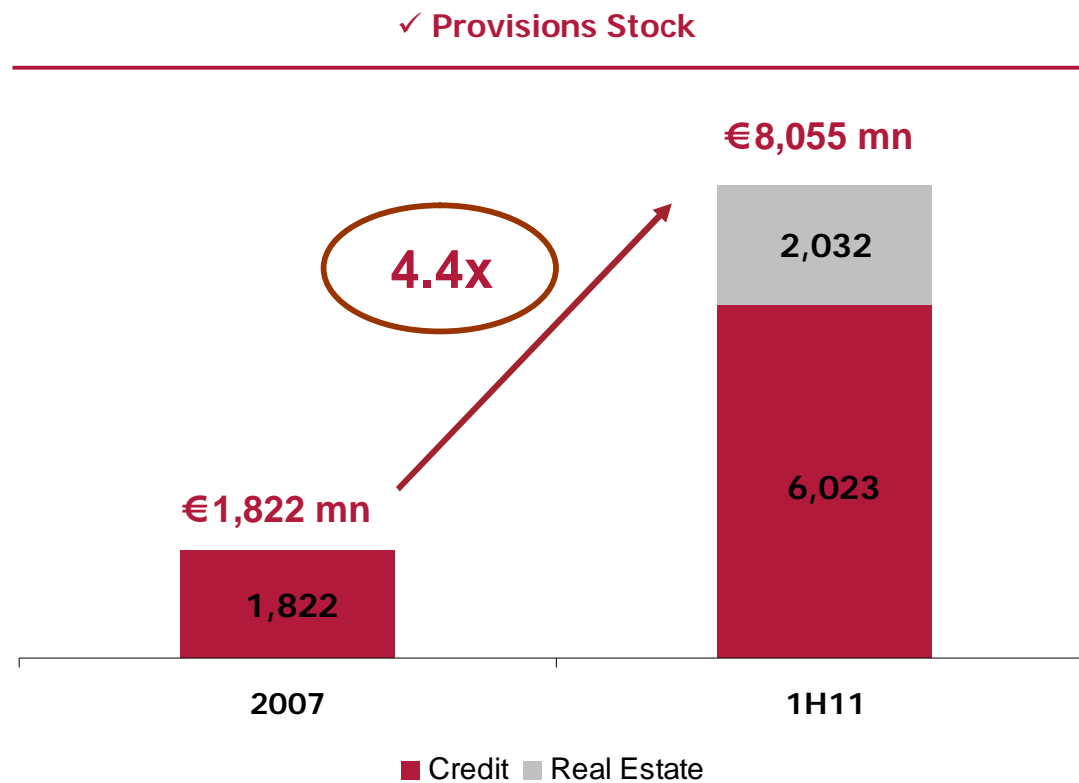
**We keep on reducing our reliance on wholesale markets**

✓ Total funding evolution (%/Total assets)



## 2. Dealing with the crisis

Total credit and RE provisions over €8bn since the beginning of the crisis



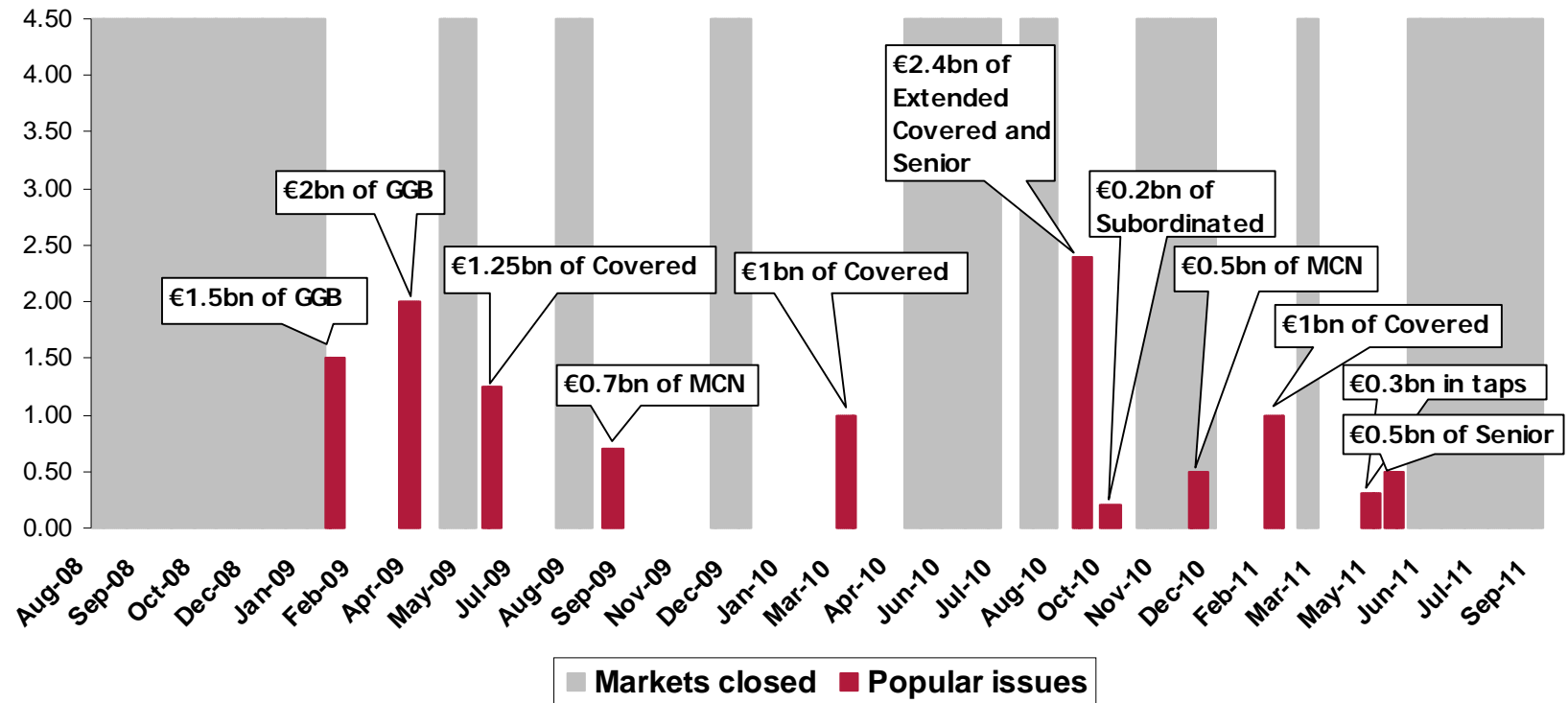
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### 3. Challenges: Funding & Liquidity

## Profiting from any single market opportunity

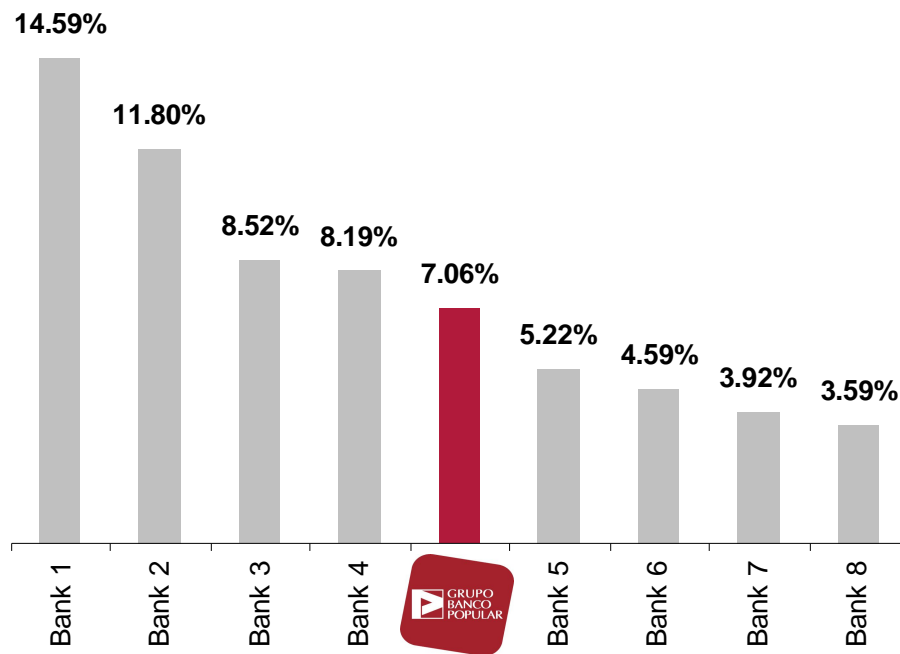
✓ Debt markets evolution and Popular issues (€bn)



### 3. Challenges: Funding & Liquidity

## Manageable calendar in funding renewals

#### ✓ 2012-13 Funding maturities as % of 1H11 Total Assets



Source: Bloomberg

✓ Maturities of €6.5bn in 2012 funded through:

✓ Our plans

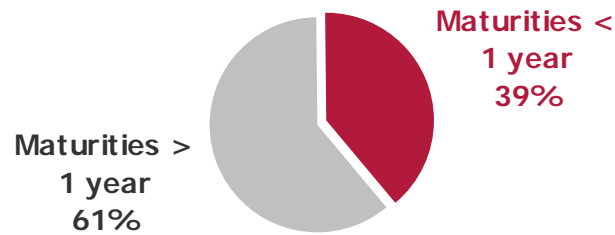
1. Commercial gap reduction
2. Additional capacity if markets stabilize
3. €4bn GGB capacity (€3.5bn of the 6.5bn maturing are GGB)

✓ Second contingent approach

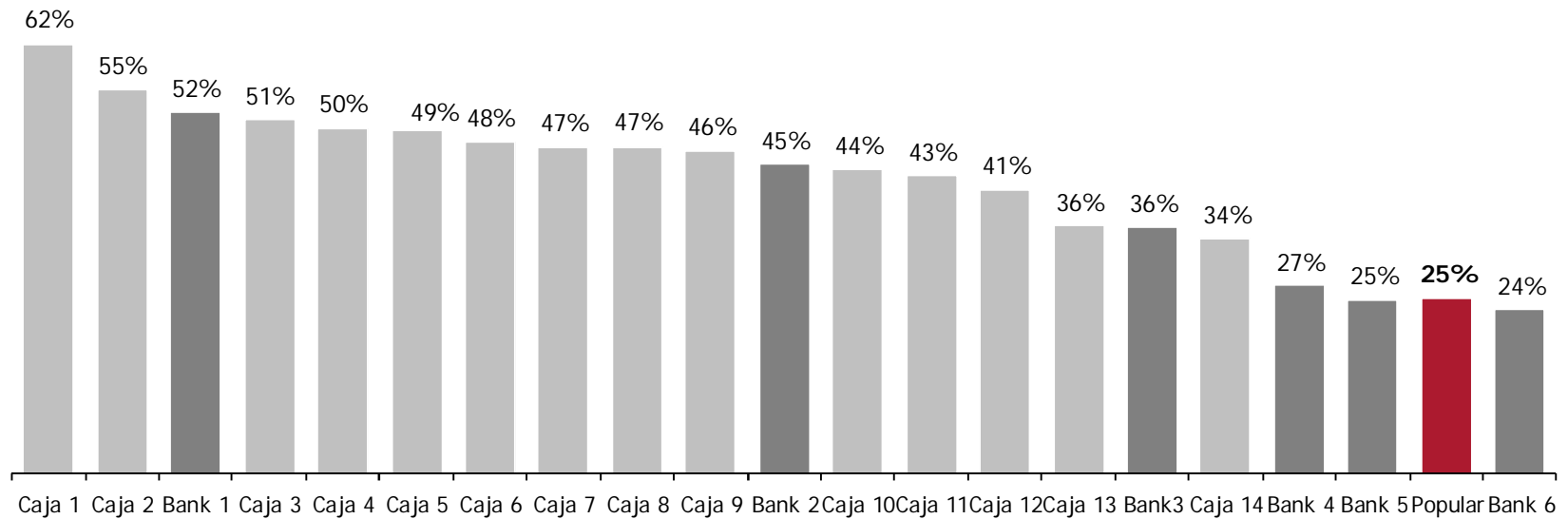
1. Second line of liquidity: €11.2bn
2. Easy deleverage: short assets duration

### 3. Challenges: Funding & Liquidity Flexibility of our loan book

✓ Capacity: Short duration of lending book



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



Dec. 2010. Business in Spain.

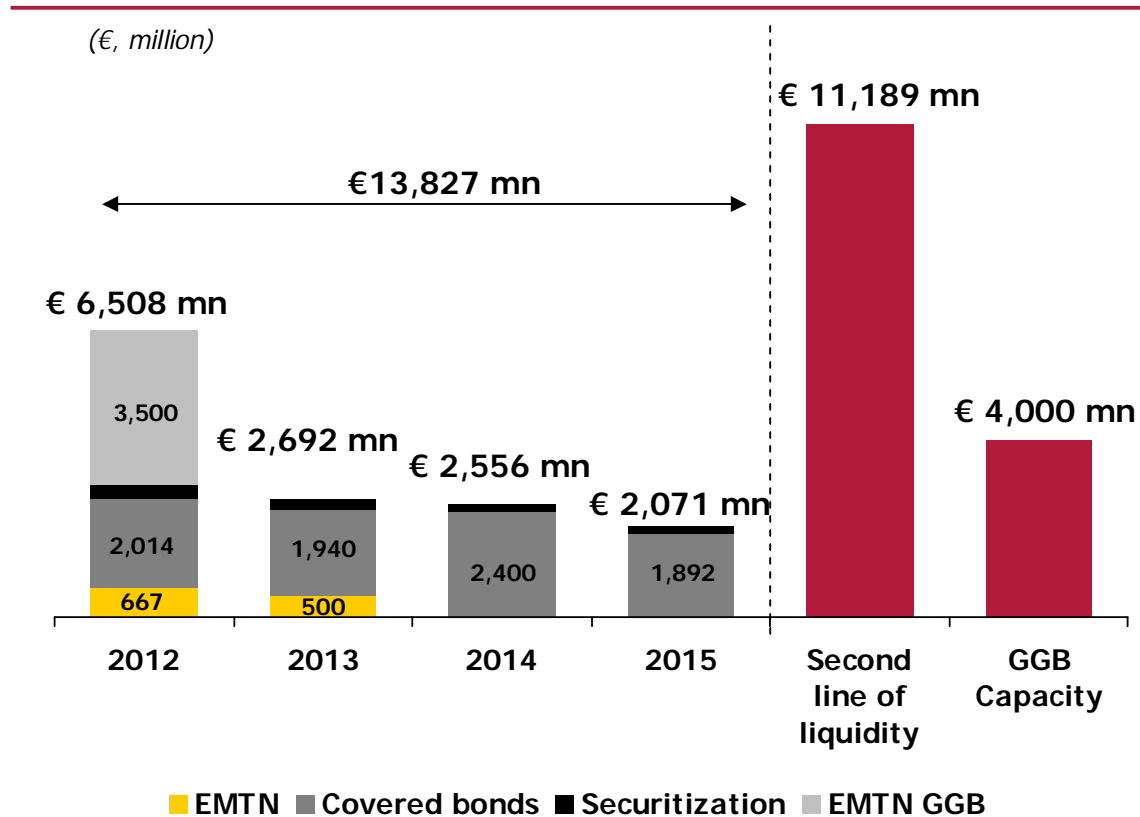
Banks: Bankinter, BBVA Iberia, Pastor, Santander Spain, Sabadell and Banesto

Saving Banks: Ibercaja, Kutxa, Caixa Catalunya, Caja Vital, BBK, Unnim, Banco Base, Marenostrum, Banca Cívica, Cajatres, Unicaja, Caja España-Duero, BFA, NovaCaixaGalicia, CaixaBank

### 3. Challenges: Funding & Liquidity

**In case of extreme scenarios, maturities are well covered**

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

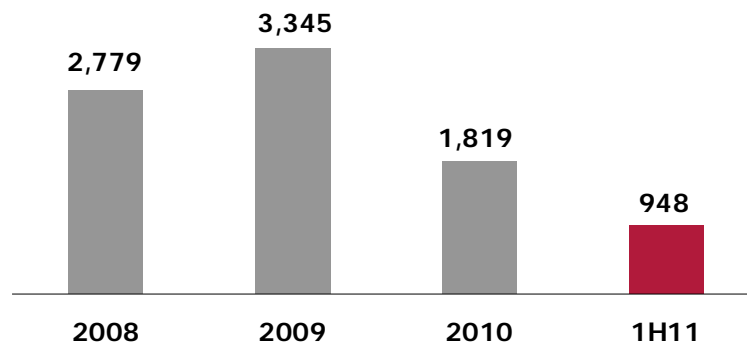


### 3. Challenges: Asset Quality

**Still adverse scenario. Lower expected loss in new production.**

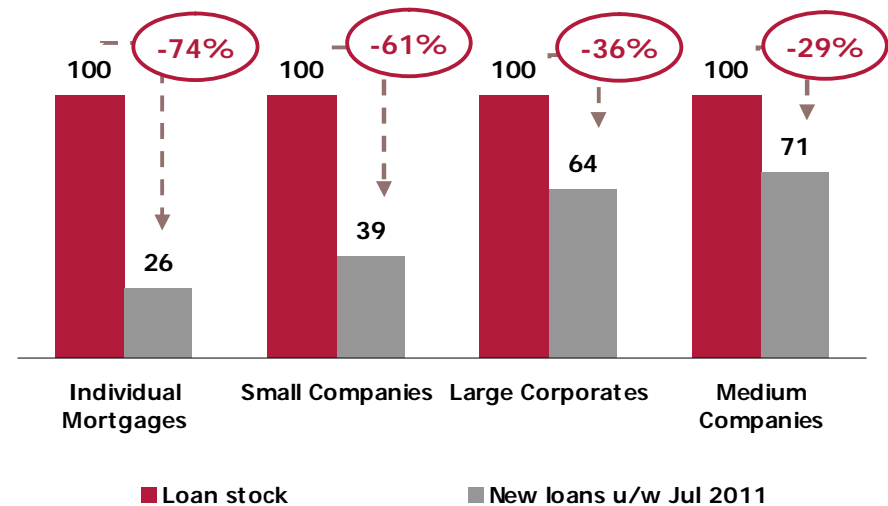
#### ✓ Evolution of net entries of NPLs (Quarterly average)

(€, million)



#### ✓ Expected loss new production vs stock – (Index 100)

Data as of Jul-11

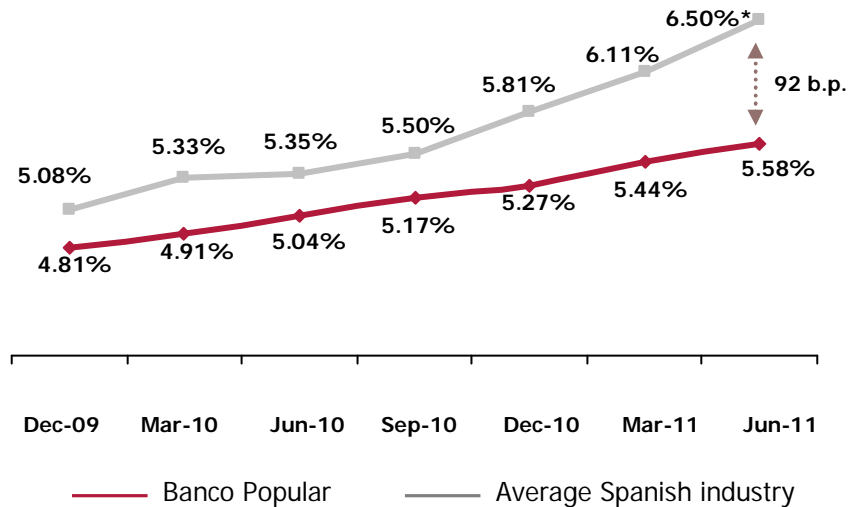


✓ 82% of new entries carry mortgage collateral thus provisioning effort should not grow

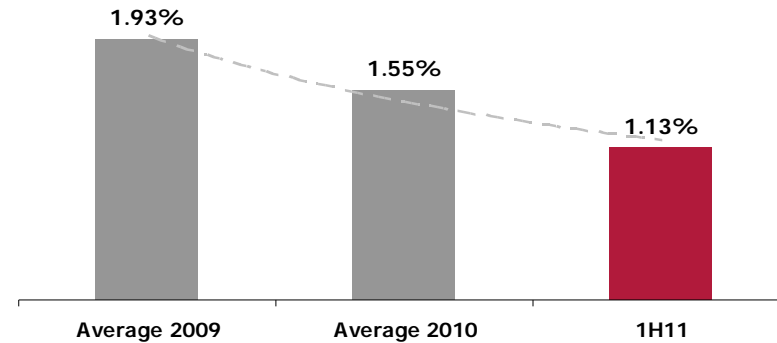
### 3. Challenges: Asset Quality

#### Cost of risk easing and building provisions on NPA's

##### ✓ NPL ratio evolution



##### ✓ Ordinary specific provisions cost of risk evolution<sup>(1)</sup>



✓ **NPA's coverage at 41%\***

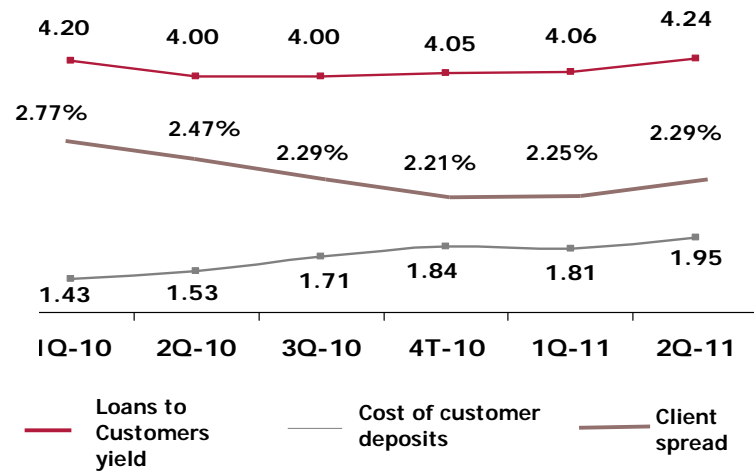
(1) Average ordinary specific over average loans

\* NPA = NPL's + Substandard risk + RE Assets + Write-offs

### 3. Challenges: ROA

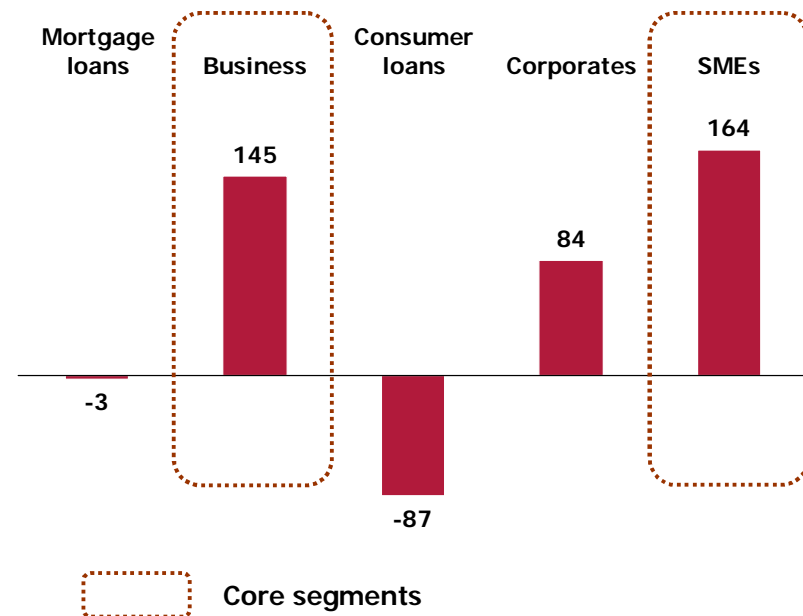
Despite tough interest rates environment, increasing spreads over industry peers

#### ✓ Client spread in % of Average Total Assets



✓ Popular's 2.29% vs average peers 1.38%

#### ✓ Spreads over industry bps (\*)

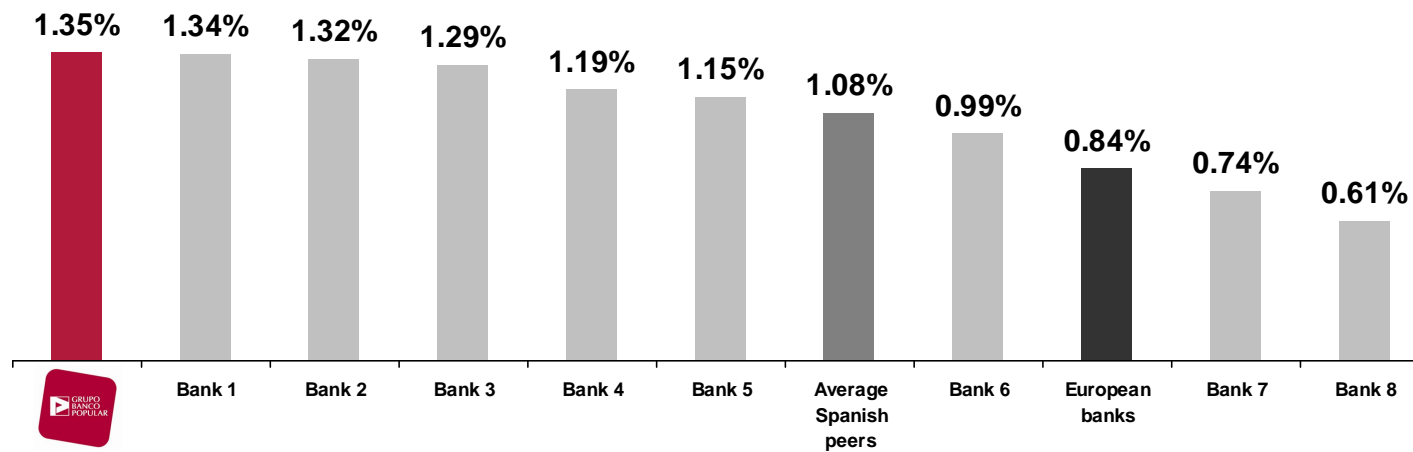


(\*) New production May 2011. Source: Bank of Spain. Last available information

### 3. Challenges: ROA

## Top ranked to take advantage of the cost of risk easing

✓ Recurrent PPP 1H2011<sup>(\*)</sup>/Average total assets

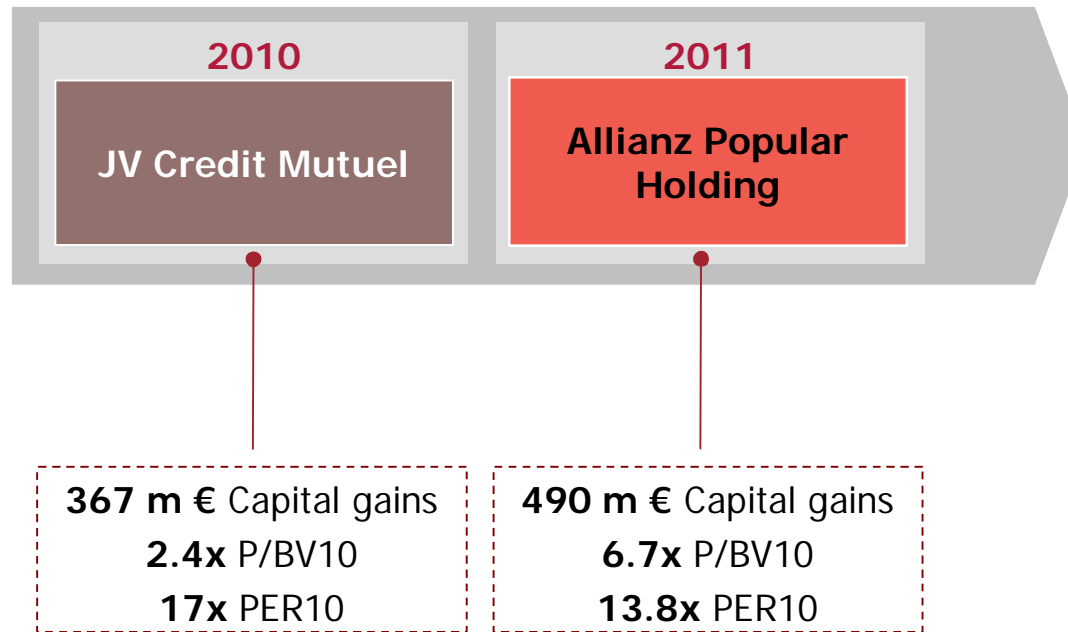


<sup>(\*)</sup> Recurrent PPP = Profit Before Provisions and capital gains

Source: Quarterly reports 2Q11. European Banks: Credit Suisse valutaion 22.07.11

### 3. Challenges: ROA

We own a proven superior franchise with a high intrinsic value



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#### 4. Conclusions

### Challenging times, but clear priorities



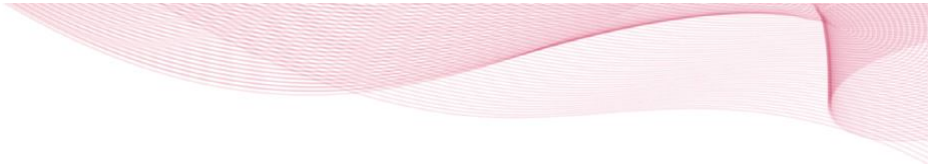
**Our  
Priorities**

✓ **Strengthen solvency, liquidity  
and funding profile**

✓ **Reducing the Cost of Risk**

✓ **Keep capital strength**

✓ **Gain market share at a low cost**



**Many Thanks.**

**Happy to take any questions.**



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