

## Banco Popular Espanol, S.A.

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# Banco Popular Espanol, S.A.

## Major Rating Factors

### Strengths:

- Solid franchise and high systemic importance in Spain's financial industry.
- Adequate solvency.
- Better efficiency than peers'.

### Weaknesses:

- High credit risk.
- Meaningful reliance on wholesale funding.
- More limited diversification than for other large universal banks.

### Counterparty Credit Rating

A-/Negative/A-2

## Rationale

The ratings on Spain's fifth-largest bank Banco Popular Español, S.A. (Popular) incorporate Standard & Poor's Ratings Services' view of the bank's high systemic importance in the Spanish financial industry, adequate solvency, and better efficiency than peers'. The ratings are constrained by our view of Popular's high credit risk, improving but still substantial reliance on wholesale funding, and weaker diversification than that of other Spanish universal banks.

We consider Popular to have high systemic importance within the Spanish financial system as it ranks as the fifth largest banking group in the country. As a result, we believe it is likely to receive timely and sufficient extraordinary financial support from the Spanish State (Kingdom of Spain; AA/Negative/A-1+) if necessary. Our long-term counterparty credit rating on Popular incorporates one notch of uplift from our assessment of its stand-alone credit profile (SACP) to reflect the extraordinary support.

Our SACP on Popular also factors in implicit ongoing government support, given our view that the Spanish authorities are "supportive" of the country's banking system. By this, we mean the benefits derived from being a bank in a regulated and supervised environment with access to extraordinary liquidity, such as funding from the European Central Bank.

Popular has a sound franchise particularly in retail banking. It has adequate business and geographic diversification, but is less diversified internationally than other large universal domestic banks.

The bank's accumulation in 2010 of nonperforming assets (NPAs, comprising nonperforming loans, repurchased or repossessed fixed assets, and write-offs), although slightly lower than in the previous two years, remained substantial and grew faster than the market average. Consequently, gross NPAs grew to €14.7 billion or about 15% of year-end 2010 gross loans. We believe that Popular's asset quality deterioration will continue in 2011 at a pace only moderately below that of 2010. We base our forecast on the rapid pace of deterioration we have observed to date not only in Popular's sizable real estate development exposure--the main source of its NPAs--but also in portfolios such as other real estate and construction related sectors. We therefore now anticipate that Popular's NPAs are likely to peak at very high levels, both in absolute terms and comparatively, in our opinion showing a degree of credit risk higher than that of peers rated at the same level.

In our opinion, Popular's operating profitability is likely to be less resilient than in the past few years and we believe that the bank will post weaker recurring profits in 2011 than in 2010. In our view, Popular's recurring revenues will probably be under pressure in 2011. This stems mainly from the impact of higher retail and wholesale funding costs, as well as low interest rates and business volumes, and follows an already substantial decline in 2010, when revenue generation was 14% lower than in 2009. The bank's significantly better efficiency than other domestic and international peers will only partly mitigate, in our opinion, pressured revenues and still high impairment charges. We believe, however, that Popular's existing provisions and earnings will likely cover the credit losses we anticipate associated with its high stock of NPAs.

Popular took several actions in 2010 to enhance its solvency, which improved our risk-adjusted capital (RAC) ratio for the bank to 8.5% and 9.3% before and after diversification and concentration effects, as of Dec. 31, 2010. Despite this, we believe that given Popular's significantly higher than the Spanish banking industry average credit risk profile, our RAC ratios--which are calibrated to the industry average--overstate Popular's solvency. We therefore incorporate into our assessment of Popular's SACP only adequate solvency relative to the bank's risk profile.

Popular remains mainly retail-funded and has managed to reduce substantially the funding gap generated by commercial activities over the past few years as its loan to deposits ratio declined to 150% as of March 31, 2011 from 218% as of March 31, 2008. However, the bank still exhibits a significant reliance on wholesale resources, which, although manageable under normal market conditions, exposes Popular, as well as other banks with similar reliance on wholesale funding, to tight liquidity on capital markets. We nevertheless take into consideration the liquidity reserves Popular has built up in the form of assets eligible for discount at the ECB.

## Outlook

The negative outlook reflects the possibility of a downgrade if we lower our assessment of Popular's SACP. Lowering the ratings would not be automatic because, in accordance with our criteria, we could incorporate additional notches for extraordinary government support above our SACP assessment into our long-term counterparty credit rating.

We could lower our assessment of the SACP if Popular underperforms with respect to our asset quality or financial estimates.

Given the relatively high stock of NPAs we already believe Popular will accumulate, indications that asset quality performance will likely be marginally worse than we currently anticipate could lead us to lower our assessment of Popular's SACP. This could occur, specifically, if we anticipate that Popular's stock of NPAs will likely reach or exceed €18 billion. We could also lower our SACP if we believe that its earnings generation will deteriorate to an extent that its ability to absorb high provisions weakens.

We could revise the outlook to stable if we see that pressure on Popular's SACP is likely to abate.

## Related Criteria And Research

- Bank Rating Analysis Methodology Profile, March 18, 2004
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007
- External Support Key In Rating Private Sector Banks Worldwide, Feb. 27, 2007
- Negative Rating Actions Taken On Four Spanish Banks In The Context Of A Difficult 2011, Feb. 22 2011

Table 1

| <b>Banco Popular Espanol, S.A. Risk-Adjusted Capital Framework Data</b> |                  |                       |                                |                                  |   |
|---|------------------|-----------------------|--------------------------------|----------------------------------|---|
| <b>(Mil. €)</b>   | <b>Exposure*</b> | <b>Basel II RWA</b>   | <b>Average Basel II RW (%)</b> | <b>Standard &amp; Poor's RWA</b> | <b>Average Standard &amp; Poor's RW (%)</b> |
| <b>Credit risk</b>  |                  |                       |                                |                                  |   |
| Government and central banks  | 13,790           | 1,040                 | 8                              | 522                              | 4   |
| Institutions  | 18,496           | 1,686                 | 9                              | 4,125                            | 22  |
| Corporate   | 57,148           | 53,419                | 93                             | 69,786                           | 122   |
| Retail  | 37,341           | 16,323                | 44                             | 14,672                           | 39  |
| Of which mortgage   | 29,631           | 10,540                | 36                             | 8,889                            | 30  |
| Securitization  | 3                | 0                     | 13                             | 7                                | 225   |
| Other assets  | 9,679            | 11,884                | 123                            | 10,889                           | 113   |
| Total credit risk   | 136,458          | 84,351                | 62                             | 100,000                          | 73  |
| <b>Market risk</b>  |                  |                       |                                |                                  |   |
| Equity in the banking book¶   | 513              | 509                   | 148                            | 4,883                            | 953   |
| Trading book market risk  | --               | 407                   | --                             | 611                              | --  |
| Total market risk   | --               | 917                   | --                             | 5,494                            | --  |
| <b>Insurance risk</b>   |                  |                       |                                |                                  |   |
| Total insurance risk  | --               | --                    | --                             | 1,167                            | --  |
| <b>Operational risk</b>   |                  |                       |                                |                                  |   |
| Total operational risk  | --               | 6,294                 | --                             | 7,220                            | --  |
| <b>(Mil. €)</b>   |                  | <b>Basel II RWA</b>   |                                | <b>Standard &amp; Poor's RWA</b> | <b>% of Standard &amp; Poor's RWA</b>       |
| <b>Diversification adjustments</b>                                      |                  |                       |                                |                                  |   |
| RWA before diversification  |                  | 91,562                |                                | 113,881                          | 100   |
| Total adjustments to RWA  |                  | --                    |                                | (8,981)                          | (8)   |
| RWA after diversification   |                  | 91,562                |                                | 104,900                          | 92  |
| <b>(Mil. €)</b>   |                  | <b>Tier 1 capital</b> | <b>Tier 1 ratio (%)</b>        | <b>Total adjusted capital</b>    | <b>Standard &amp; Poor's RAC ratio (%)</b>  |
| <b>Capital ratio</b>  |                  |                       |                                |                                  |   |
| Capital ratio before adjustments  |                  | 9,034                 | 9.9                            | 9,703                            | 8.5   |
| Capital ratio after adjustments§  |                  | 9,034                 | 9.9                            | 9,703                            | 9.3   |

\*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

**Table 2**

| <b>Banco Popular Espanol S.A. Asset Quality, Funding, And Liquidity Ratios</b> |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>   | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Gross nonperforming assets/customer loans + other real estate owned (%)        | 6.1                           | 5.9         | 5.5         | 3.0         | 0.9         |
| Net nonperforming assets/customer loans plus other real estate owned           | 3.6                           | 3.5         | 2.9         | 0.9         | (1.0)       |
| Loan loss reserves/gross nonperforming assets (%)                              | 43.5                          | 42.0        | 48.4        | 70.9        | 202.8       |
| Loan loss reserves/customer loans  | 2.7                           | 2.5         | 2.6         | 2.2         | 1.9         |
| New loan loss provisions/average customer loans (%)                            | 3.0                           | 1.9         | 2.2         | 1.2         | 0.4         |
| Net charge-offs/average customer loans (%)                                     | 1.1                           | 1.3         | 0.9         | 0.2         | 0.2         |
| Customer deposits/funding base   | 58.8                          | 58.4        | 51.0        | 51.5        | 46.3        |
| Total loans/customer deposits  | 167.1                         | 166.0       | 184.4       | 208.4       | 224.1       |
| Total loans/customer deposits plus long-term funds                             | 141.1                         | 141.2       | 149.8       | 161.4       | 157.7       |
| Customer loans (net)/assets (adjusted)   | 75.0                          | 74.2        | 73.7        | 83.5        | 81.2        |

\*Data as of March 31.

**Table 3**

| <b>Banco Popular Espanol S.A. Profitability Ratios</b> |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>   | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Net interest income/average earning assets             | 1.7                           | 2.0         | 2.5         | 2.5         | 2.4         |
| Net interest income/revenues (%)                       | 65.1                          | 70.0        | 69.1        | 69.3        | 66.0        |
| Fee income/revenues (%)                                | 21.7                          | 21.3        | 18.7        | 23.6        | 25.6        |
| Market-sensitive income/revenues (%)                   | 4.4                           | 5.7         | 9.9         | 3.5         | 3.6         |
| Personnel expense/revenues                             | 24.0                          | 22.4        | 19.4        | 22.4        | 21.9        |
| Noninterest expenses/revenues                          | 42.9                          | 38.2        | 31.9        | 36.5        | 35.8        |
| New loan loss provisions/revenues                      | 94.7                          | 53.6        | 51.3        | 29.6        | 9.4         |
| Preprovision operating income/LLP (%)                  | 60.3                          | 115.3       | 132.6       | 214.6       | 686.5       |
| Operating income after loss provisions/revenues (%)    | (37.6)                        | 8.2         | 16.7        | 33.9        | 54.9        |
| Pretax profit/revenues                                 | 14.2                          | 23.8        | 26.3        | 39.9        | 56.2        |
| Tax/pretax profit                                      | (68.5)                        | 27.4        | 27.3        | 26.7        | 31.2        |
| Core earnings/revenues                                 | N/A                           | 6.5         | 12.8        | 25.0        | 37.8        |
| Core earnings/average adjusted assets                  | N/A                           | 0.2         | 0.5         | 0.9         | 1.3         |
| Noninterest expenses/average adjusted assets           | 1.1                           | 1.1         | 1.1         | 1.3         | 1.3         |
| Core earnings/average risk-weighted assets             | N/A                           | 0.2         | N.M.        | 2.1         | 1.6         |
| Core earnings/average adjusted common equity           | N/A                           | 3.1         | 7.7         | 15.0        | 23.7        |
| Pretax profit/average common equity (%)                | 5.8                           | 11.0        | 14.8        | 22.5        | 33.0        |

\*Data as of March 31.

N/A--Not applicable. N.M.--Not meaningful.

**Table 4**

| <b>Banco Popular Espanol S.A. Capital Ratios</b> |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>                                       | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Adjusted common equity/risk assets (%)           | N.M.                          | 7.8         | N.M.        | N.M.        | 6.5         |

Table 4

| Banco Popular Espanol S.A. Capital Ratios (cont.)                               |      |      |      |      |      |
|---|------|------|------|------|------|
| Tier 1 capital ratio (%)  | 9.9  | 9.4  | 9.2  | 8.0  | 7.9  |
| Adjusted total equity/adjusted assets   | 7.4  | 7.3  | 7.0  | 6.9  | 7.4  |
| Adjusted total equity/managed assets  | 7.4  | 7.3  | 6.9  | 6.9  | 7.4  |
| Adjusted total equity plus loan loss reserves (specific)/customer loans (gross) | 12.3 | 12.1 | 11.8 | 10.2 | 9.9  |
| Common dividend payout ratio  | 0.0  | 51.9 | 39.1 | 40.6 | 47.5 |

\*Data as of March 31.

N.M.--Not meaningful.

Table 5

| Banco Popular Espanol S.A. Summary Balance Sheet                 |                        |           |           |           |           |
|--|------------------------|-----------|-----------|-----------|-----------|
| (Mil. €)   | --Year-ended Dec. 31-- |           |           |           |           |
|  | 2011*                  | 2010      | 2009      | 2008      | 2007      |
| <b>Assets</b>  |                        |           |           |           |           |
| Cash and money market instruments                                | 4,746.2                | 6,737.6   | 11,090.6  | 6,764.9   | 11,411.3  |
| Securities   | 18,388.7               | 17,085.1  | 14,233.6  | 4,559.3   | 5,429.6   |
| Trading securities (marked to market)                            | 236.0                  | 50.1      | 520.0     | 427.4     | 717.6     |
| Nontrading securities  | 18,152.7               | 17,035.0  | 13,713.6  | 4,131.9   | 4,712.0   |
| Mortgage-backed securities included above                        | N/A                    | N/A       | N/A       | 0.0       | 0.0       |
| Loans to banks (net)   | 0.0                    | 0.0       | N/A       | 0.0       | 0.0       |
| Customer loans (gross)   | 98,653.8               | 98,480.5  | 97,539.3  | 93,724.5  | 88,306.8  |
| Loan loss reserves   | 2,626.1                | 2,448.2   | 2,582.8   | 2,023.0   | 1,664.4   |
| Customer loans (net)   | 96,027.8               | 96,032.3  | 94,956.5  | 91,701.5  | 86,642.4  |
| Earning assets   | 121,156.9              | 121,620.3 | 119,114.8 | 103,189.1 | 103,192.4 |
| Equity interests/participations (nonfinancial)                   | 0.0                    | 0.0       | 0.0       | 0.0       | 20.4      |
| Investments in unconsolidated subsidiaries (financial companies) | 566.0                  | 168.8     | 56.2      | 32.2      | N/A       |
| Intangibles (nonservicing)                                       | 640.2                  | 657.1     | 486.9     | 546.6     | 524.8     |
| Interest-only strips   | N/A                    | N/A       | N/A       | N/A       | N/A       |
| Fixed assets   | 1,669.7                | 1,890.5   | 1,806.8   | 1,355.4   | 729.6     |
| Derivatives credit amount  | 1,674.2                | 2,219.6   | 2,303.6   | 1,899.5   | 571.7     |
| Accrued receivables  | N/A                    | 136.9     | 74.5      | 95.0      | 65.4      |
| All other assets   | 5,028.3                | 5,212.0   | 4,281.5   | 3,421.8   | 1,774.3   |
| Total assets   | 128,741.1              | 130,139.8 | 129,290.2 | 110,376.1 | 107,169.4 |
| Intangibles (nonservicing)                                       | 640.2                  | 657.1     | 486.9     | 546.6     | 524.8     |
| Minus insurance statutory funds                                  | N/A                    | N/A       | N/A       | N/A       | N/A       |
| Adjusted assets  | 128,100.9              | 129,482.8 | 128,803.2 | 109,829.5 | 106,644.6 |
| <b>Liabilities</b>   |                        |           |           |           |           |
| Total deposits   | 70,469.1               | 71,973.8  | 76,808.1  | 59,237.0  | 48,825.2  |
| Noncore deposits   | 11,433.5               | 12,649.7  | 23,900.0  | 14,263.9  | 9,421.4   |
| Core/customer deposits   | 59,035.6               | 59,324.1  | 52,908.2  | 44,973.1  | 39,403.8  |
| Acceptances  | N/A                    | N/A       | N/A       | 0.0       | 0.0       |
| Repurchase agreements  | 21,789.8               | 20,059.5  | 6,649.2   | 6,692.3   | 3,257.8   |
| Other borrowings   | 8,159.4                | 9,556.8   | 20,241.9  | 21,376.4  | 32,993.9  |
| Other other borrowings   | 7,701.6                | 8,591.6   | 6,497.2   | 3,221.0   | 4,626.4   |

Table 5

| <b>Banco Popular Espanol S.A. Summary Balance Sheet (cont.)</b> |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Other credit reserves   | N/A       | N/A       | N/A       | N/A       | N/A       |
| Other liabilities   | 4,119.4   | 5,654.0   | 5,230.6   | 5,564.2   | 4,763.4   |
| Total liabilities   | 118,337.6 | 120,216.1 | 119,623.8 | 102,029.9 | 99,240.3  |
| Total equity  | 10,402.2  | 9,923.5   | 9,666.0   | 8,346.2   | 7,929.1   |
| Limited life preferred and quasi equity                         | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Preferred stock and other capital                               | 1,203.0   | 1,203.0   | 1,918.0   | 1,288.5   | 1,288.5   |
| Mandatorily convertible securities                              | 1,191.3   | 1,191.3   | N/A       | 0.0       | 0.0       |
| Enhanced trust preferred  | N/A       | N/A       | N/A       | 0.0       | 0.0       |
| Government-owned hybrids included in TAC without limit          | N/A       | N/A       | N/A       | N/A       | N/A       |
| Minority interest-equity  | 88.9      | 49.1      | 47.8      | 292.5     | 402.3     |
| Common shareholders' equity                                     | 7,919.0   | 7,480.1   | 7,700.2   | 6,765.2   | 6,238.3   |
| Share capital and surplus                                       | 2,100.2   | 2,100.2   | 2,024.8   | 1,513.7   | 1,337.8   |
| Revaluation reserve   | (437.0)   | (604.2)   | (15.7)    | 30.8      | 14.0      |
| Retained profits  | 185.7     | 590.2     | 766.1     | 1,052.1   | 1,260.2   |
| Other equity  | (16.0)    | (284.6)   | (355.9)   | (388.4)   | (305.7)   |
| Total liabilities and equity                                    | 128,739.8 | 130,139.5 | 129,289.8 | 110,376.1 | 107,169.4 |

\*Data as of March 31.

N/A--Not applicable.

Table 6

| <b>(Mil. €)</b>   | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
|---|-------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Common shareholders' equity   | 7,919.0                       | 7,480.1     | 7,700.2     | 6,765.2     | 6,238.3     |
| Plus minority interest (equity)   | 88.9                          | 49.1        | 47.8        | 292.5       | 402.3       |
| Minus dividends (not yet distributed)                                       | (72.7)                        | (167.3)     | (100.1)     | (103.5)     | (302.1)     |
| Minus revaluation reserves  | 437.0                         | 604.2       | 15.7        | (30.8)      | (14.0)      |
| Minus nonservicing intangibles  | (640.2)                       | (657.1)     | (486.9)     | (546.6)     | (524.8)     |
| Minus interest-only strips (net)  | N/A                           | N/A         | N/A         | N/A         | N/A         |
| Minus tax loss carryforwards  | 0.0                           | 0.0         | 0.0         | 0.0         | 0.0         |
| Minus postretirement benefit adjustment                                     | 0.0                           | 0.0         | 0.0         | 0.0         | 0.0         |
| Minus cumulative effect of credit-spread related revaluation of liabilities | N/A                           | N/A         | N/A         | N/A         | N/A         |
| Minus other adjustments   | 3.4                           | 0.0         | N/A         | 0.0         | 0.0         |
| Adjusted common equity  | 7,728.6                       | 7,309.0     | 7,176.6     | 6,376.8     | 5,799.7     |
| Plus admissible preferred and hybrids                                       | 2,394.3                       | 2,394.3     | 1,918.0     | 1,288.5     | 1,288.5     |
| Total Adjusted Capital  | 10,122.9                      | 9,703.3     | 9,094.6     | 7,665.3     | 7,088.2     |
| Plus general reserves   | 0.0                           | 0.0         | 0.0         | 0.0         | 843.8       |
| Plus unrealized gains   | N/A                           | N/A         | N/A         | 0.0         | 0.0         |
| Minus equity in unconsolidated subsidiaries                                 | (566.0)                       | (168.8)     | (56.2)      | (32.2)      | N/A         |
| Minus capital of insurance subsidiaries                                     | (93.4)                        | (93.4)      | (72.0)      | (61.5)      | 0.0         |
| Minus adjustment for securitized assets                                     | 0.0                           | 0.0         | 0.0         | 0.0         | 0.0         |
| Adjusted total equity   | 9,463.5                       | 9,441.2     | 8,966.5     | 7,571.6     | 7,932.1     |

\*Data as of March 31.

**Table 6****Banco Popular Espanol S.A. Equity Reconciliation Table (cont.)**

N/A--Not applicable.

**Table 7****Banco Popular Espanol S.A. Profit And Loss**

| (Mil. €)  | --Year-ended Dec. 31-- |         |         |         |         |
|---|------------------------|---------|---------|---------|---------|
|   | 2011*                  | 2010    | 2009    | 2008    | 2007    |
| Net interest income                               | 515.5                  | 2,452.3 | 2,822.6 | 2,535.3 | 2,283.6 |
| Interest income                                   | 1,073.6                | 4,163.4 | 5,059.1 | 6,289.3 | 5,213.1 |
| Interest expense                                  | 558.1                  | 1,711.1 | 2,236.5 | 3,754.0 | 2,929.5 |
| Operating noninterest income                      | 276.4                  | 1,052.9 | 1,261.0 | 1,124.0 | 1,173.9 |
| Fees and commissions                              | 171.6                  | 746.5   | 763.4   | 864.6   | 883.6   |
| Net brokerage commissions                         | N/A                    | N/A     | N/A     | 0.0     | 0.0     |
| Trading gains                                     | 10.8                   | 70.2    | 67.4    | 16.5    | 55.2    |
| Other market-sensitive income                     | 23.7                   | 128.8   | 337.1   | 112.2   | 69.4    |
| Net insurance income                              | 2.0                    | 26.6    | 19.6    | 23.3    | 53.4    |
| Equity in earnings of unconsolidated subsidiaries | 11.6                   | (1.5)   | 0.8     | 14.4    | 3.9     |
| Other noninterest income                          | 56.6                   | 82.2    | 72.6    | 93.2    | 108.3   |
| Operating revenues                                | 791.8                  | 3,505.2 | 4,083.5 | 3,659.3 | 3,457.4 |
| Noninterest expenses                              | 340.0                  | 1,340.3 | 1,304.4 | 1,335.5 | 1,237.3 |
| Personnel expenses                                | 189.9                  | 784.1   | 792.1   | 818.1   | 755.9   |
| Other general and administrative expense          | 122.1                  | 492.1   | 440.4   | 439.5   | 395.5   |
| Provision operating income                        | 451.8                  | 2,165.0 | 2,779.1 | 2,323.9 | 2,220.1 |
| Credit loss provisions (net new)                  | 749.8                  | 1,877.3 | 2,096.2 | 1,082.7 | 323.4   |
| Operating income after loss provisions            | (297.9)                | 287.7   | 682.9   | 1,241.2 | 1,896.7 |
| Nonrecurring/special income                       | 495.9                  | 533.8   | 472.8   | 272.4   | 94.6    |
| Nonrecurring/special expense                      | 85.8                   | (78.4)  | (13.5)  | 29.5    | 33.2    |
| Amortization of intangibles                       | N/A                    | 32.3    | 32.9    | 22.9    | 14.2    |
| Impairment of intangibles                         | N/A                    | 35.0    | 64.2    | 0.0     | 0.0     |
| Pretax profit                                     | 112.2                  | 832.6   | 1,072.1 | 1,461.0 | 1,943.9 |
| Tax expense/credit                                | (76.9)                 | 228.1   | 292.6   | 390.3   | 607.3   |
| Net income (before minority interest)             | 189.1                  | 604.5   | 779.5   | 1,070.7 | 1,336.6 |
| Minority interest in consolidated subsidiaries    | 3.4                    | 14.3    | 14.2    | 58.6    | 76.4    |
| Net income before extraordinary                   | 185.7                  | 590.2   | 766.1   | 1,012.1 | 1,260.2 |
| Net income after extraordinary                    | 185.7                  | 590.2   | 766.1   | 1,052.1 | 1,260.2 |

\*Data as of March 31.

N/A--Not applicable.

**Table 8****Banco Popular Espanol S.A. Core Earnings Reconciliation Table**

| (Mil. €)                              | --Year-ended Dec. 31-- |         |         |         |         |
|---------------------------------------|------------------------|---------|---------|---------|---------|
|                                       | 2011*                  | 2010    | 2009    | 2008    | 2007    |
| Net income (before minority interest) | 189.1                  | 604.5   | 779.5   | 1,070.7 | 1,336.6 |
| Minus nonrecurring/special income     | (495.9)                | (533.8) | (472.8) | (272.4) | (94.6)  |

**Table 8**

| <b>Banco Popular Español S.A. Core Earnings Reconciliation Table (cont.)</b> |      |        |        |       |         |
|--|------|--------|--------|-------|---------|
| Plus nonrecurring/special expense  | 85.8 | (78.4) | (13.5) | 29.5  | 33.2    |
| Plus or minus tax impact of adjustments                                      | N/A  | 167.7  | 132.7  | 64.9  | 19.2    |
| Plus amortization/impairment of goodwill/intangibles                         | 0.0  | 67.3   | 97.1   | 22.9  | 14.2    |
| Minus preferred dividends  | 0.0  | 0.0    | 0.0    | 0.0   | 0.0     |
| Plus or minus other earnings adjustments                                     | N/A  | N/A    | N/A    | 0.0   | 0.0     |
| Core earnings  | N/A  | 227.3  | 523.1  | 915.7 | 1,308.6 |

\*Data as of March 31.

N/A--Not applicable.

**Ratings Detail (As Of July 27, 2011)\*****Banco Popular Español S.A.**

|                               |                 |
|-------------------------------|-----------------|
| Counterparty Credit Rating    | A-/Negative/A-2 |
| Certificate Of Deposit        | A-/A-2          |
| Commercial Paper              |                 |
| <i>Local Currency</i>         | A-2             |
| Junior Subordinated (1 Issue) | BB              |
| Preference Stock (2 Issues)   | BB              |
| Preferred Stock (4 Issues)    | BB              |
| Senior Secured (1 Issue)      | AAA             |
| Senior Secured (7 Issues)     | AAA/Negative    |
| Senior Unsecured (13 Issues)  | A-              |
| Short-Term Debt (5 Issues)    | A-2             |
| Subordinated (9 Issues)       | BBB+            |

**Counterparty Credit Ratings History**

|             |                   |
|-------------|-------------------|
| 22-Feb-2011 | A-/Negative/A-2   |
| 10-Jul-2009 | A/Negative/A-1    |
| 04-Mar-2009 | A+/Negative/A-1   |
| 02-Oct-2008 | AA-/Negative/A-1+ |
| 07-Jul-2008 | AA/Negative/A-1+  |
| 08-Jan-2007 | AA/Stable/A-1+    |

**Sovereign Rating**

|                    |                  |
|--------------------|------------------|
| Spain (Kingdom of) | AA/Negative/A-1+ |
|--------------------|------------------|

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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