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Myths and Realities in P.R. Banking

Jorge Junquera
CFO, SEVP
Popular, Inc.



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Are banks on 'hold'???

Allegations

- 1 Low capital due to operational losses
- 2 Not enough liquidity
- 3 Rigorous client scrutiny and overly conservative
- 4 Squeezing clients with high interest rates
- 5 Clients: "Banks don't trust us anymore..."

The Complete Picture

Banks did not cause:

- 1 Decline in Manufacturing
- 2 Fiscal Crisis
- 3 High Bankruptcies
- 4 High Energy Costs
- 5 Decline in Population
- 6 “Irrational Exuberance”

Circulation of Money

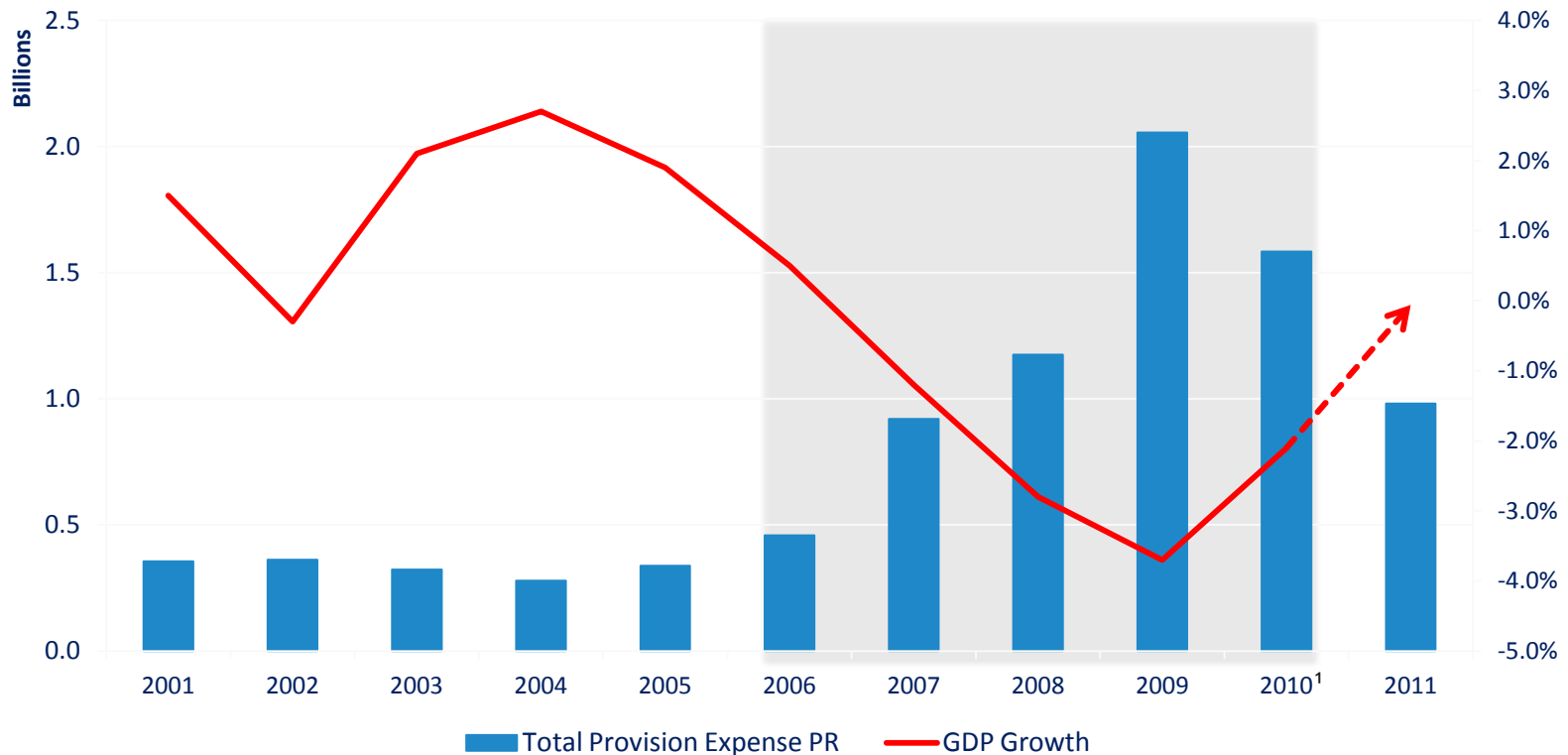
Banks are an integral part of the economy

- 1 Banks mobilize savings from savers to borrowers to finance economic activities
- 2 Banks promote capital formation
- 3 Banks are the main source of financing of small- and mid-size businesses
- 4 Lending is banks' most vital business activity

Provision Expense vs. Economic Growth



Effect of Recession on Banks: Dramatic Increase in Loan Losses



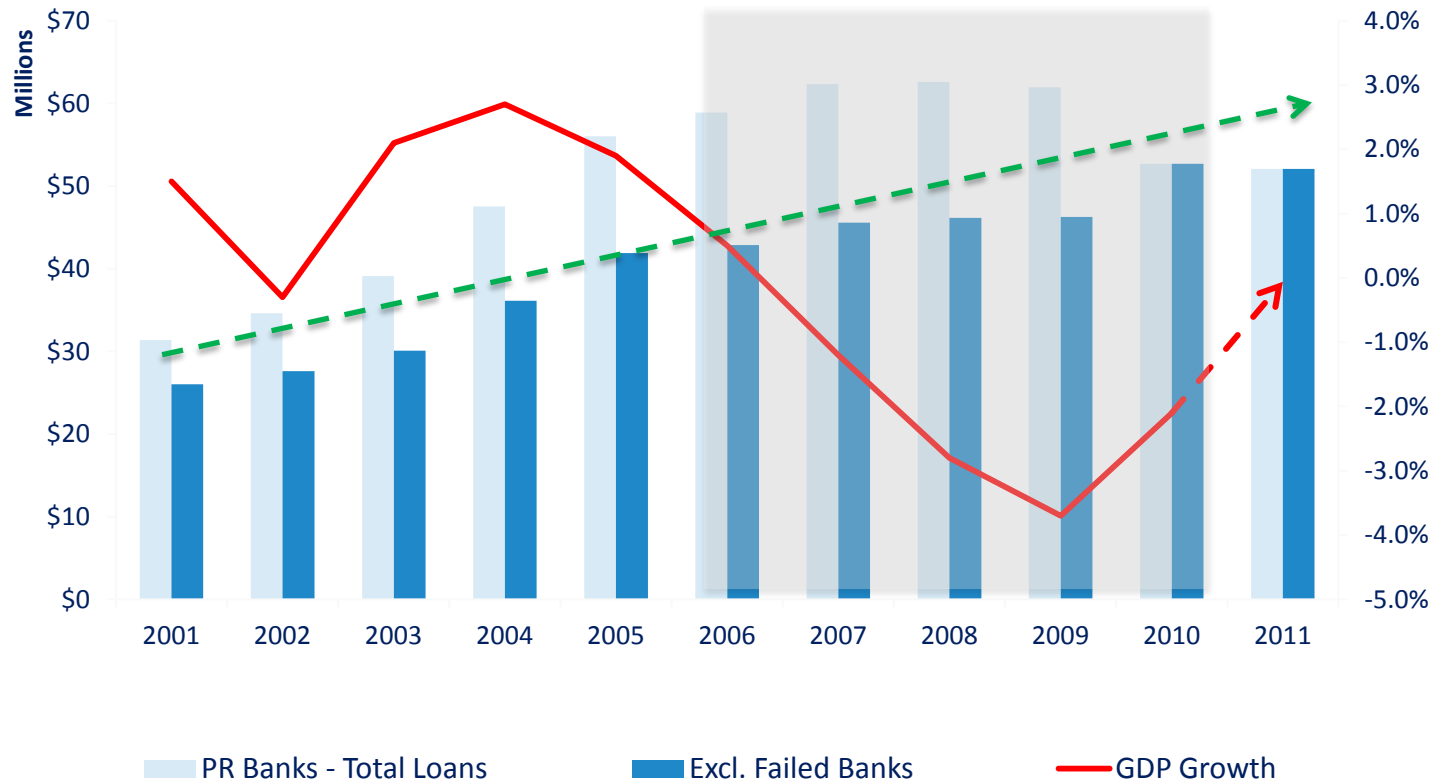
¹ Does not include FDIC-covered losses of \$6.8 billion from three failed banks

Source: SNL Financial, Puerto Rico Planning Board

Economy vs. Loan Growth 2001-2011



Banks Have Continued Lending Through the Economic Cycle
Total Loans at Local Banks (Excluding Failed Banks) Grew at 7.2% CAGR from 2001 to 2011



Banking and the Economy

Neither the cause nor the cure

- ✓ **Banking alone cannot fix the economy**
- ✓ **Fierce competition in local banking sector ensures best products and prices**
- ✓ **P.R. banking sector is in optimal conditions to lend and help businesses expand**
 - ✓ **\$2 billion in new capital raised in 2010; FDIC injected an additional \$7 billion in loss-share agreements**
- ✓ **What is good for Puerto Rico, is good for the Banks**



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THANK YOU!

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