

Financial Results 2011

Presentation to
Fixed Income Investors



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Agenda

1. A bit of perspective: A robust and profitable model

2. Annual results 2011: Business drivers & operating performance

3. Risk management

4. Capital position & EBA capital requirements update

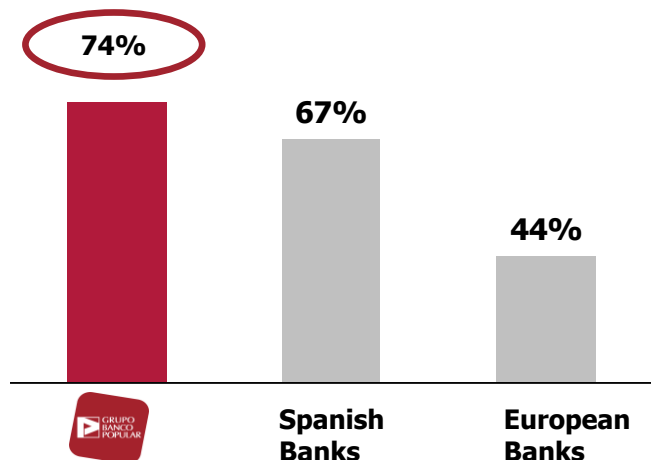
5. Liquidity & funding policy

6. Corporate actions: Crédit Mutuel & Allianz JVs and Banco Pastor acquisition

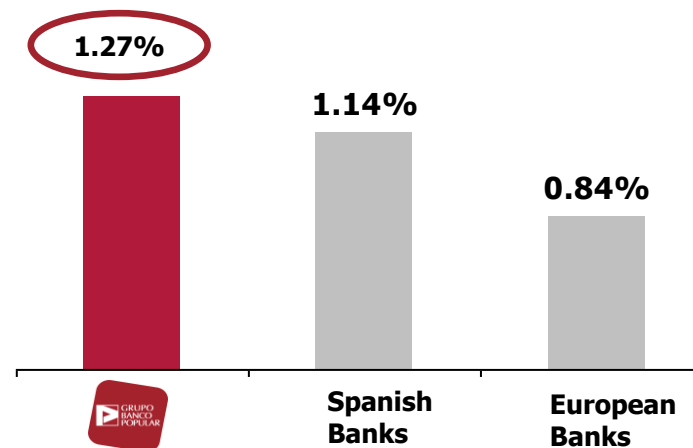
7. Conclusions

In spite of the crisis our strengths remains in good shape

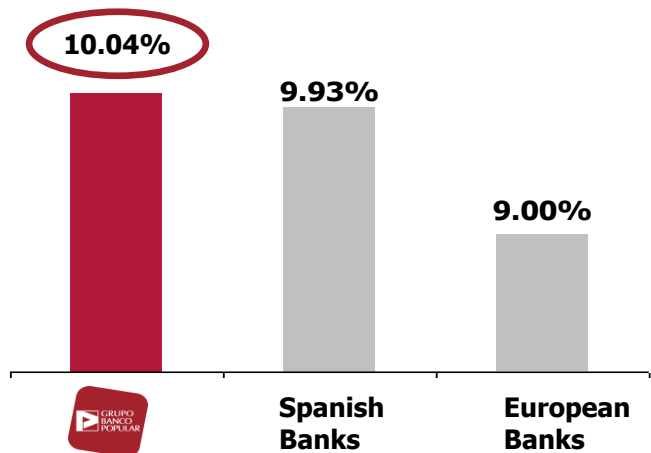
✓ A pure retail and commercial bank:
loan to assets



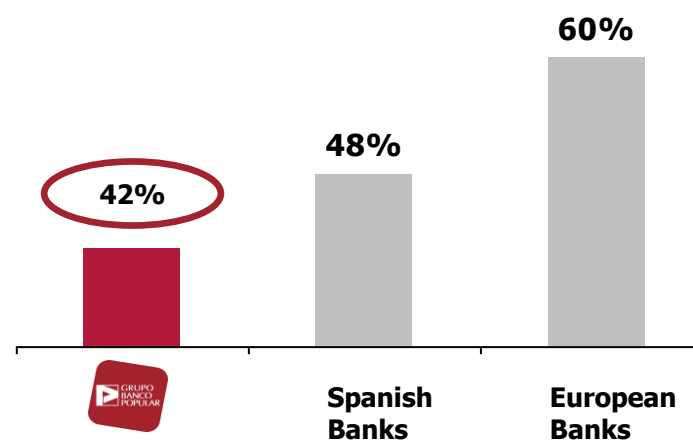
✓ A privileged operating margin ⁽¹⁾



✓ A strong core capital ⁽²⁾



✓ The most efficient bank: C/I ratio



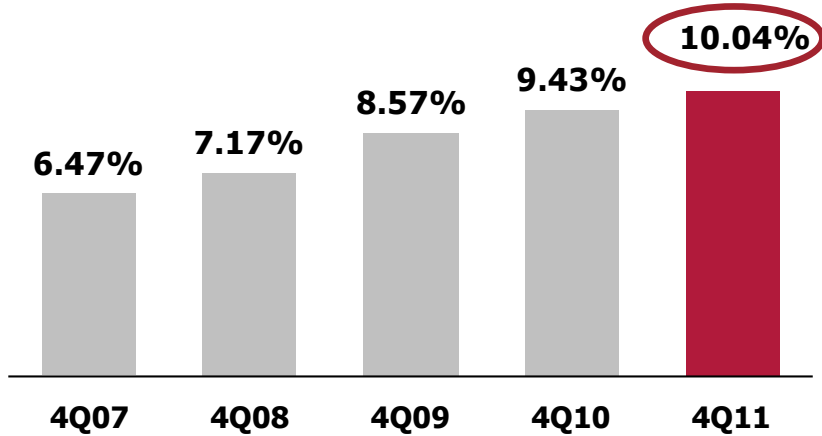
(1) Pre-provision profit/ ATAs

(2) Core capital under local regulation, which includes MCNs and local deductions

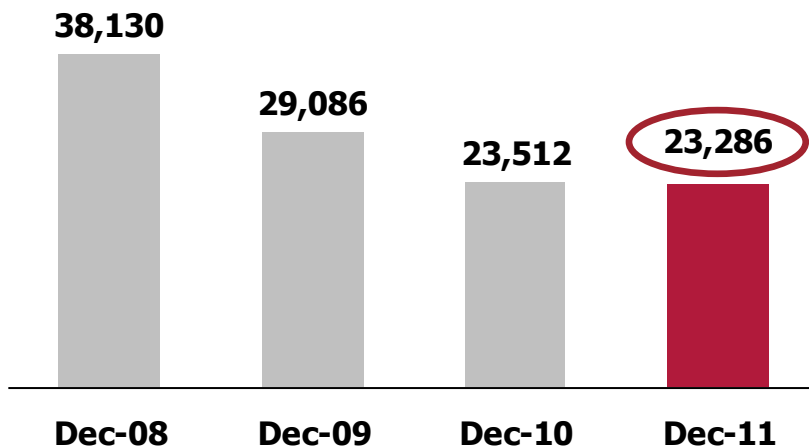
Source: Quarterly reports as of Dec 11; Spanish Banks: Caixabank, Sabadell, Bankia, Banesto and Bankinter
European Banks, KBW European Banks & Credit Suisse Banks valuation

Our priorities remained focused throughout the crisis

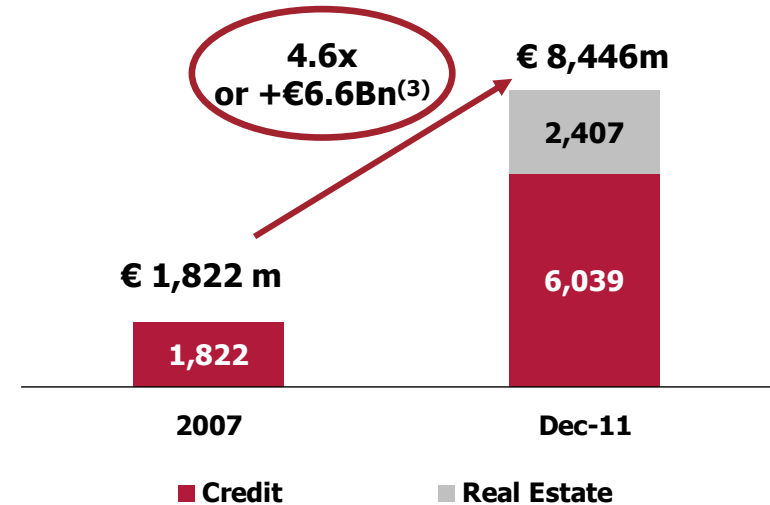
✓ Solvency: Core capital*



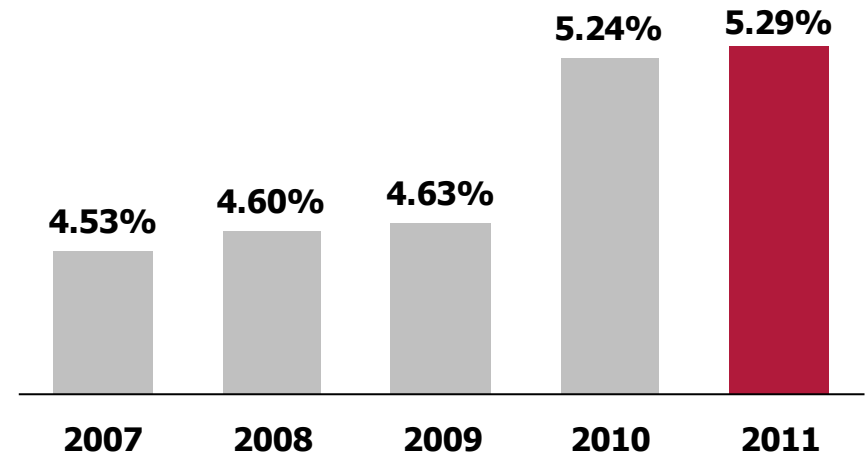
✓ Reduce wholesale funding reliance; Commercial Gap ⁽¹⁾



✓ Reinforce credit & RE provisions



✓ Gain quality market share⁽²⁾



* Core Capital definition under local criteria

⁽¹⁾ Commercial Gap = Loans: Total loans to customers (net) - Other credits - Repos - Valuation adjustments of Repos - ICO Credit lines - Securitizations; Deposits: Demand deposits + time deposits + Other accounts and valuation adjustments + Collection accounts (included in Other financial liabilities)

⁽²⁾ Business market share: credits and deposits. Source: T7 form. Latest available data November 2011.

⁽³⁾ Equivalent to 7.5% of RWA

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Summary remarks

- **Net Profit** of €480m (Dec-2010: €590m), in line with guidance
- Total **Ordinary Revenues** of €2,997m, 12% down driven mainly by higher funding cost and lower buy-backs
- Retail **customer funds** up YoY (+1.2%)
- **Customer loans**: +0.7% YoY
- **NPL** net entries stable. Bad Debt ratio at 5.99%. Remarkable provisioning/cleaning up effort: Ytd gross specific & RE provisions of €2bn (2.33% of RWAs)
- **Liquidity**: Pool of liquidity covers well on excess all medium and long term maturities
- Sound **core capital** (local regulation): up 61bp YoY to 10.04%
- **EBA**: plan submitted, new targets will be reached without any State aid
- **Long term alliances** with Allianz and Crédit Mutuel firmed up
- **Pastor**: expected completion by February 17th and synergies planned on track

Financial Highlights

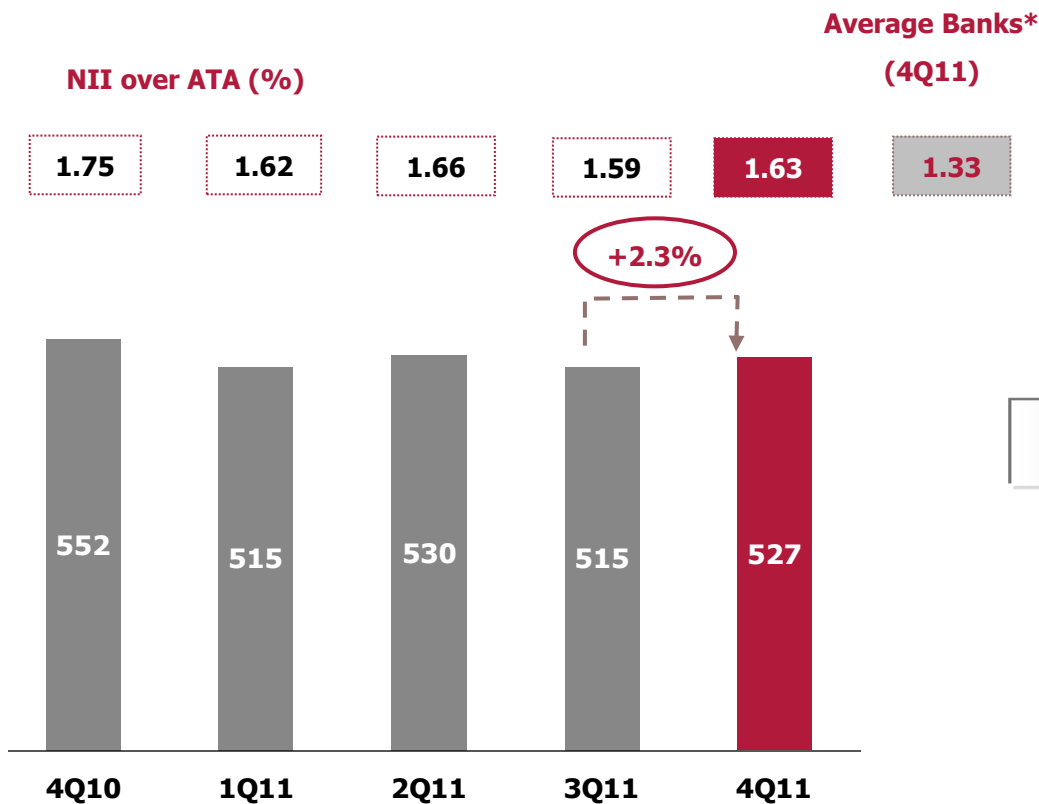
(€, millions)	Dec-11	Dec-10	Change	Change (€m)
Net interest income	2,087	2,432	-14.2%	-345
Fees and commissions	686	675	1.6%	11
Trading and other income	224	291	-23.0%	-67
Gross operating income	2,997	3,398	-11.8%	-401
Personnel expenses	-779	-778	0.1%	-1
General expenses & amortization	-590	-525	12.3%	-65
Pre-provisioning profit	1,627	2,095	-22.3%	-468
Provisions for loans and investments (ordinary & accelerated)	-952	-1,232	-22.7%	280
Net of Provisions for real estate (ordinary & accelerated), goodwill and extraordinary gains	-231	-84	>	-147
Net profit	480	590	-18.7%	-110
Non-performing ratio	5.99%	5.27%	+ 72 b.p.	
Efficiency ratio	42.15%	35.52%	+6.63 p.p.	
Loans to deposits ratio	135 %	136%	- 1 p.p.	
Core Capital (local rules)	10.04 %	9.43%	+ 61 b.p.	

Note: restated 2010 following Allianz-Popular Holding Joint Venture

In 2011 higher interest revenues did not compensate higher funding costs. We do not expect, however, a further decline in 2012

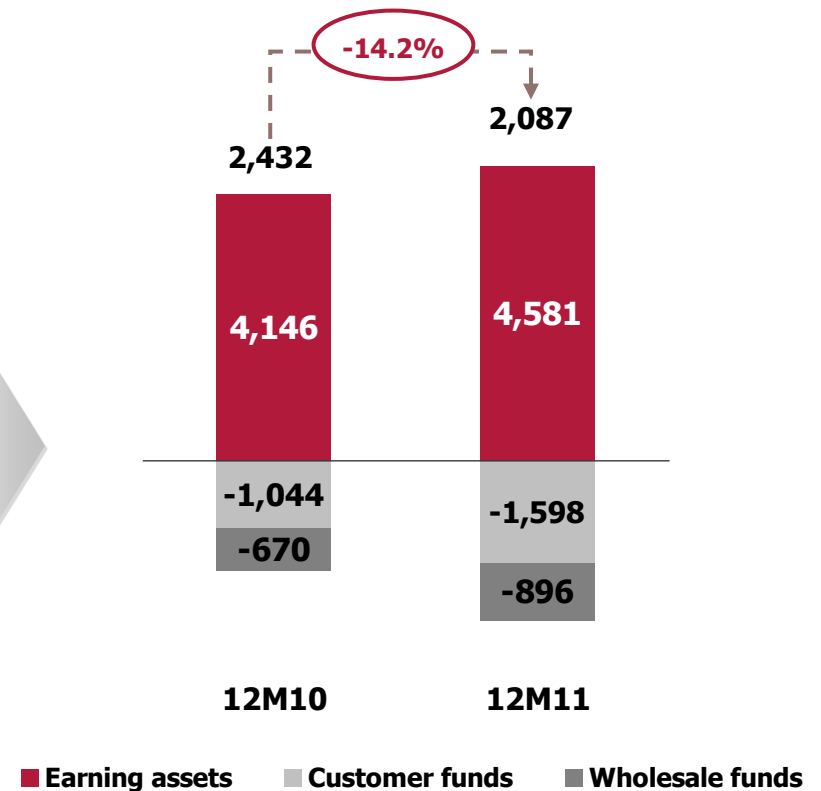
Net interest income evolution

(€, million)



Interest revenues/Interest expenses

(€, million)



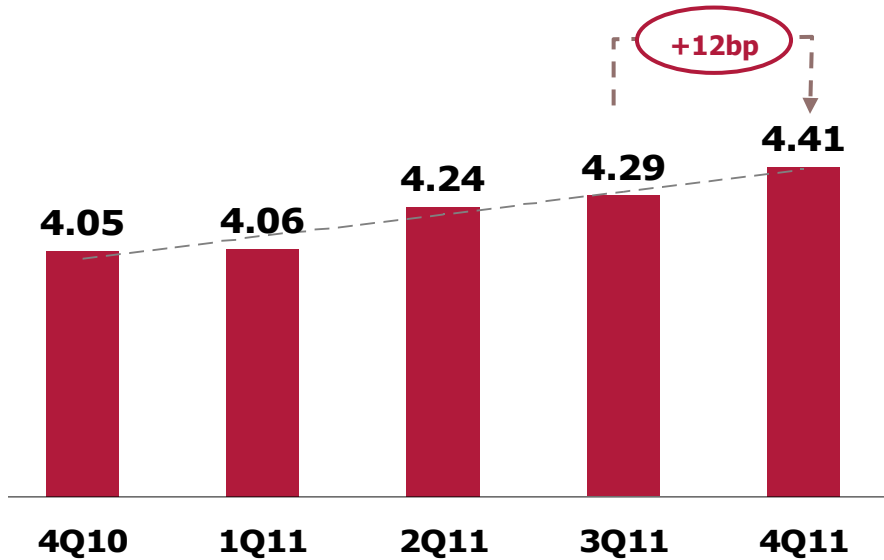
*Average banks: Sabadell, Banesto and Bankinter 4Q11 results.

Note: restated 2010 following Allianz-Popular Holding Joint Venture.

We maintain our leadership in loans yields allowing us to achieve the best client spread

Loans Yields. Quarterly evolution

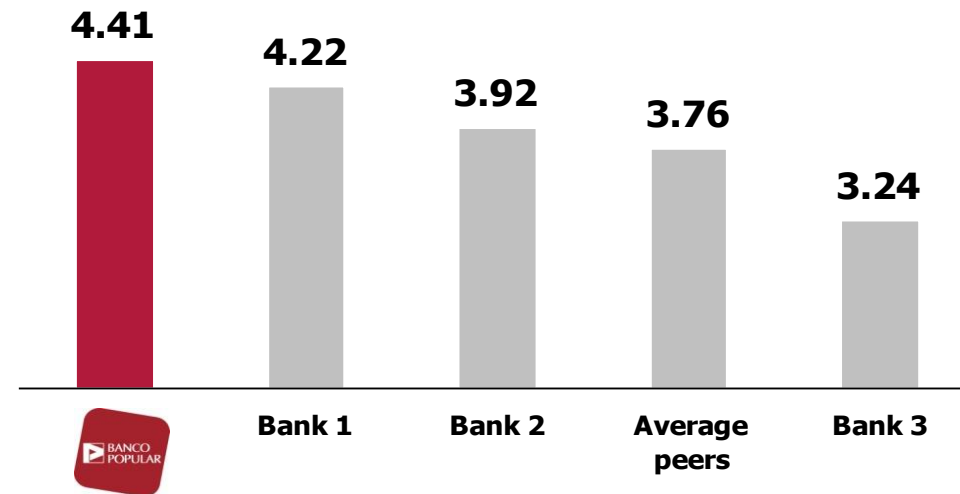
(%)



Loans Yield 4Q11 vs. industry ⁽¹⁾

(%)

- ✓ Client spread Popular: 2.18%
- ✓ Client spread Peer Group: 1.73%

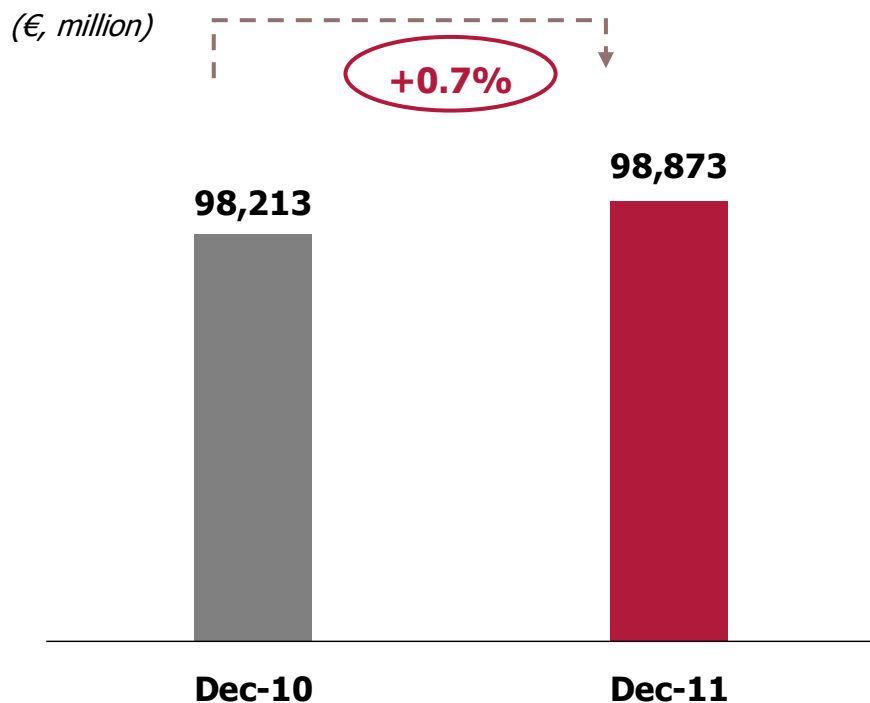


Balance Sheet well protected through floors (c.50% of lending portfolio) from a lower for longer interest rates environment

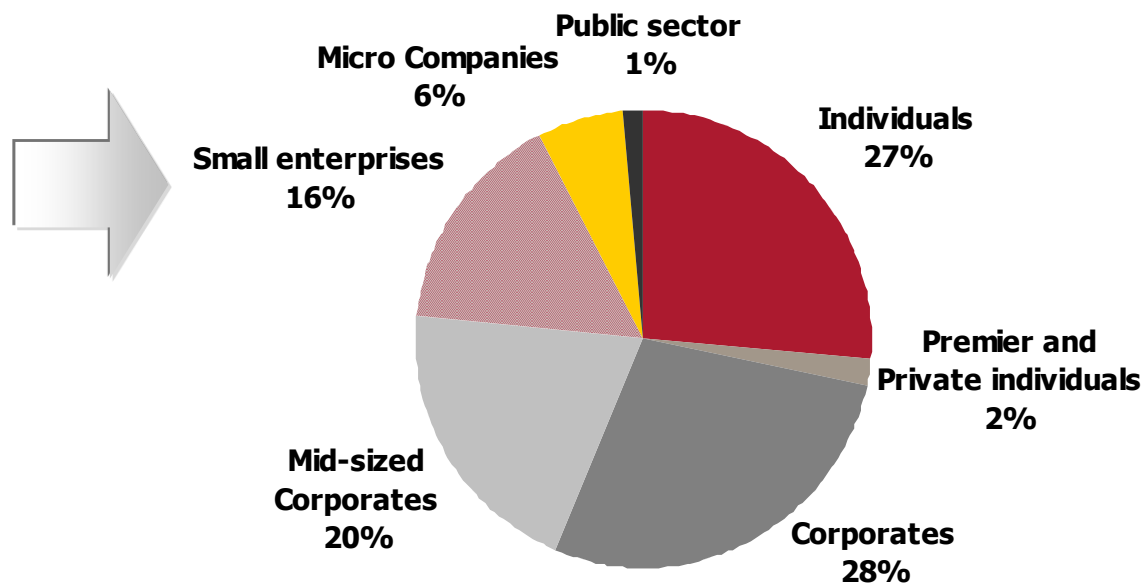
⁽¹⁾ Peer: Sabadell, Banesto and Bankinter. Source: Quarterly reports 4Q11

Loans up (+0.7% YoY) in spite of adverse economic environment. Outperforming the industry (-2.9% YoY) ⁽¹⁾

Gross loans evolution



Loans breakdown by sector

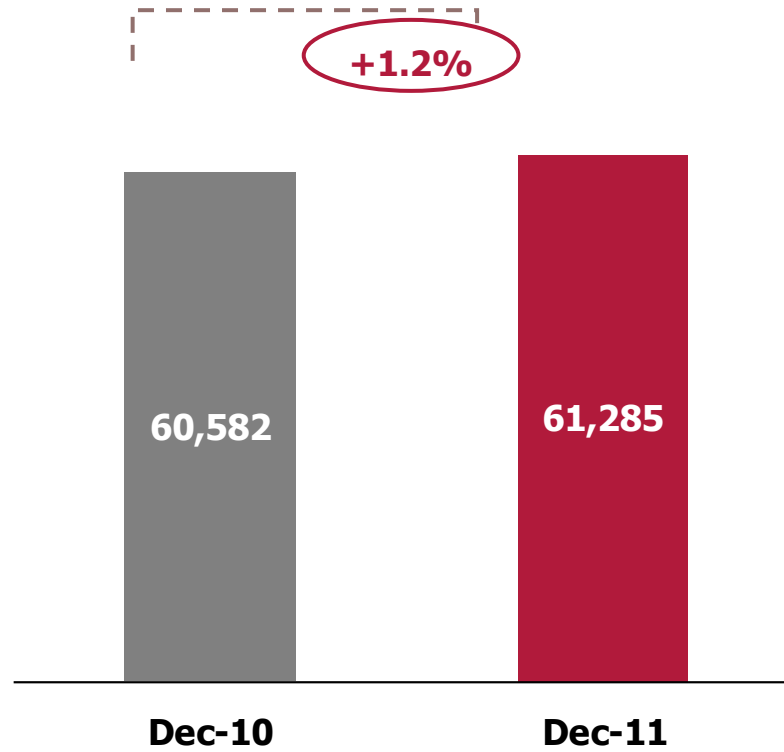


⁽¹⁾ Source: BoS, latest available data as of November 2011

Retail funds up YoY (+1.2%)

Retail funds

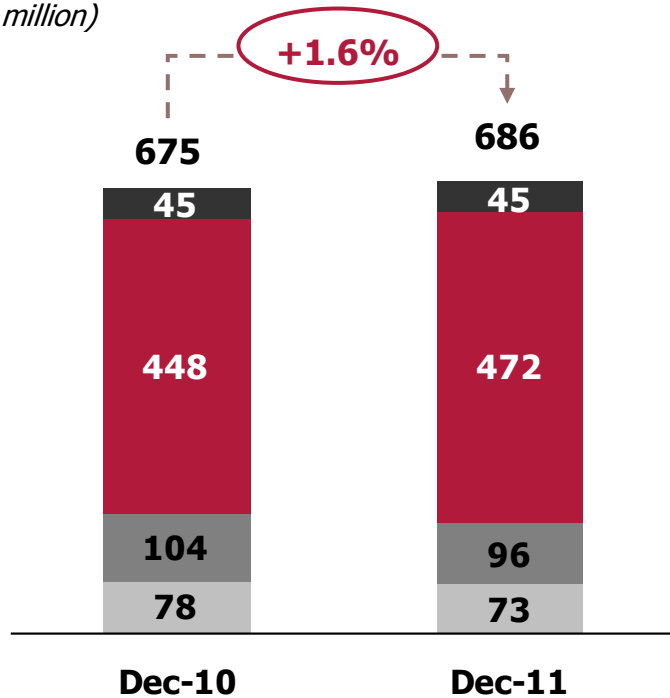
(€, million)



Our Fee Income increased to €686m (+1.6% YoY)

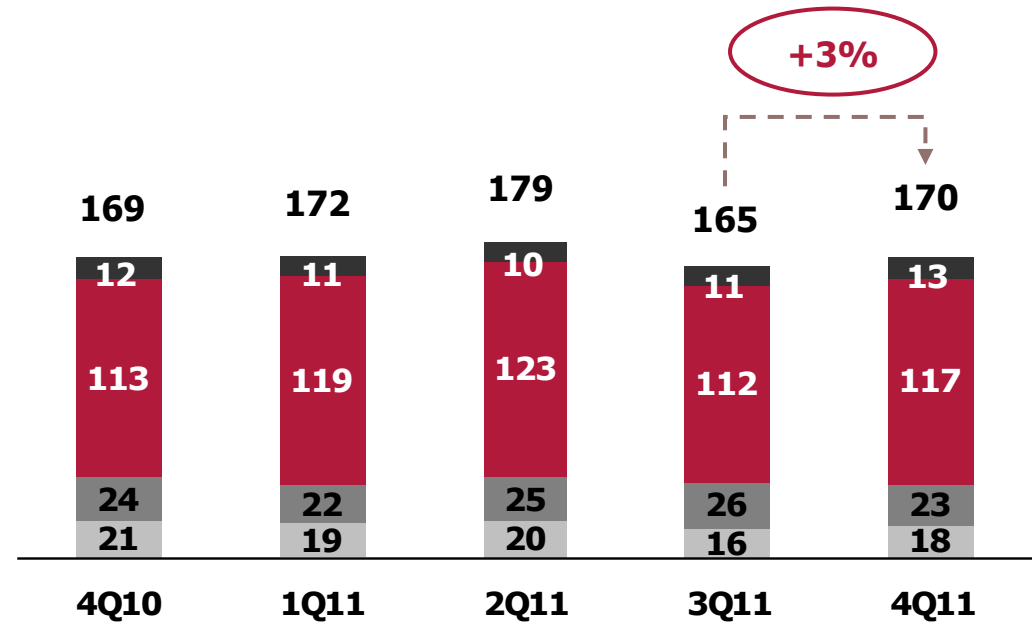
Fees and commissions (YoY)

(€, million)



Fees and commissions (QoQ)

(€, million)



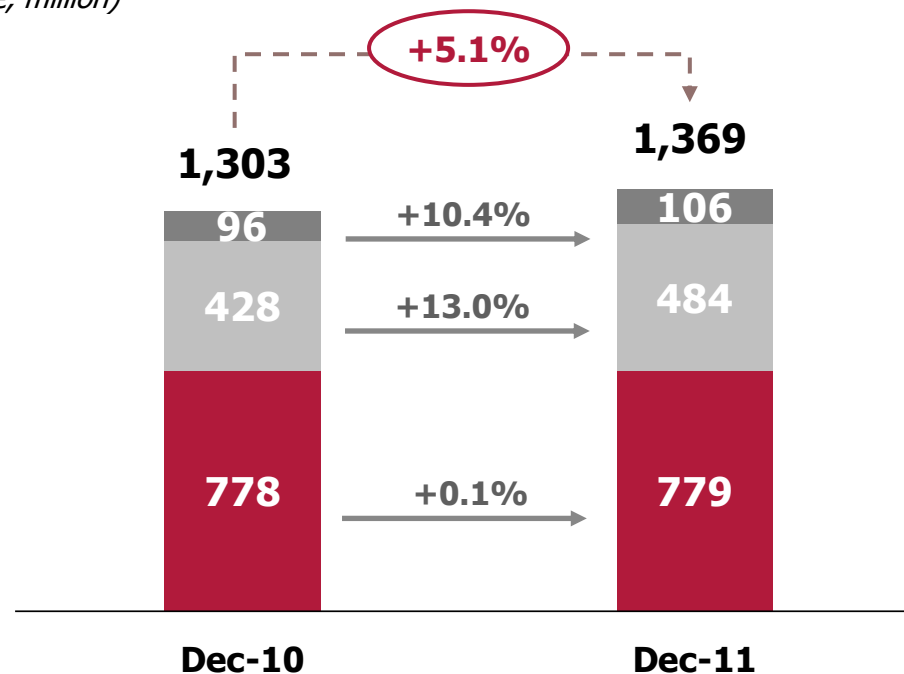
- AuM Fees
- Payments handling
- Other banking fees
- Debt-in-arrear handling

Note: restated 2010 following Allianz-Popular Holding Joint Venture

Staff Costs flat. General costs up driven in by IT investments, VAT increase and marketing (TV, etc.)

Costs evolution

(€, million)

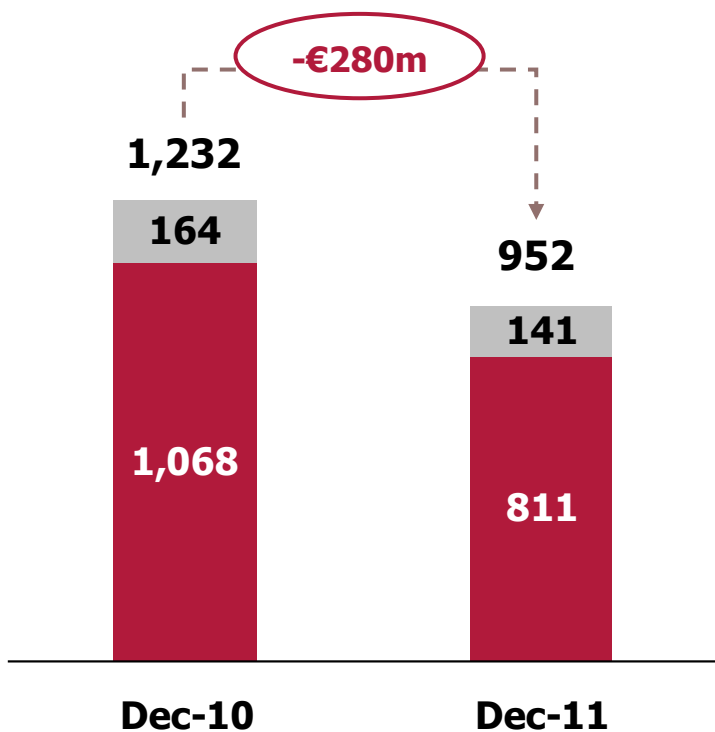


■ Personnel costs ■ General Costs ■ Depreciation & amortisation

We have been able to book €1.7bn net provisions of which €466m were extraordinary or accelerated. On Real Estate, we have achieved a 34% coverage

Provisions for loans and investments

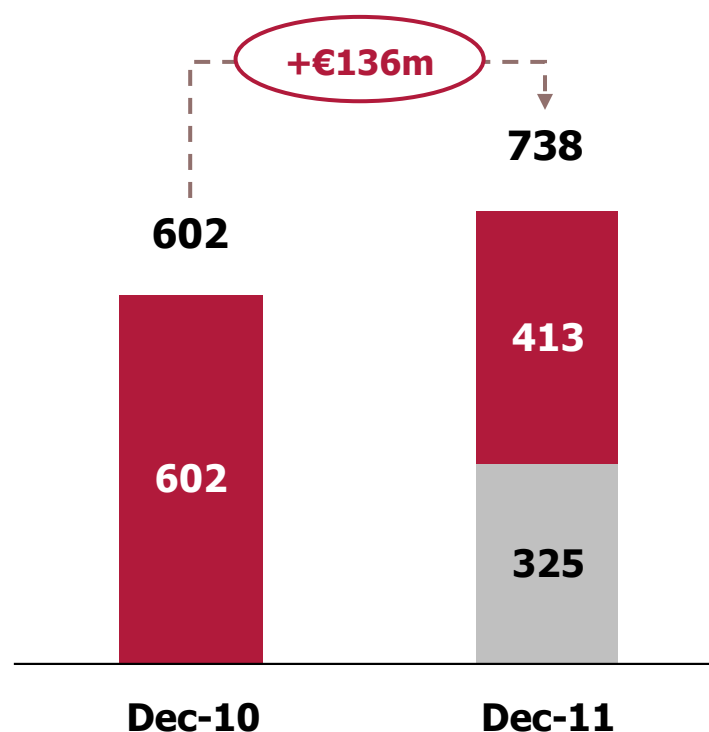
(€, million)



■ Extraordinary provisions
■ Ordinary provisions

Provisions for real estate⁽¹⁾

(€, million)



■ Accelerated RE provisions
■ Ordinary RE provisions

⁽¹⁾ Includes €35 million for goodwill in 2010 and €30 million in 2011.

As expected, we had lower needs of specific provisions which more than compensated the lower usage of countercyclical funds:

Provisions for loans and investments evolution

(€, million)	12M-10	12M-11	Change (€m)
Specific and other ⁽¹⁾	1,701	1,292	-410
Investments	169	30	-139
Other provisions & allowances (net)	4	-6	-10
Total provisions charged (A)	1,874	1,316	-559

(€, million)	12M-10	12M-11	Change (€m)
Countercyclical	-522	-215	+307
Recoveries from written off loans	-120	-148	-28
Total provisions released (B)	-642	-363	+279

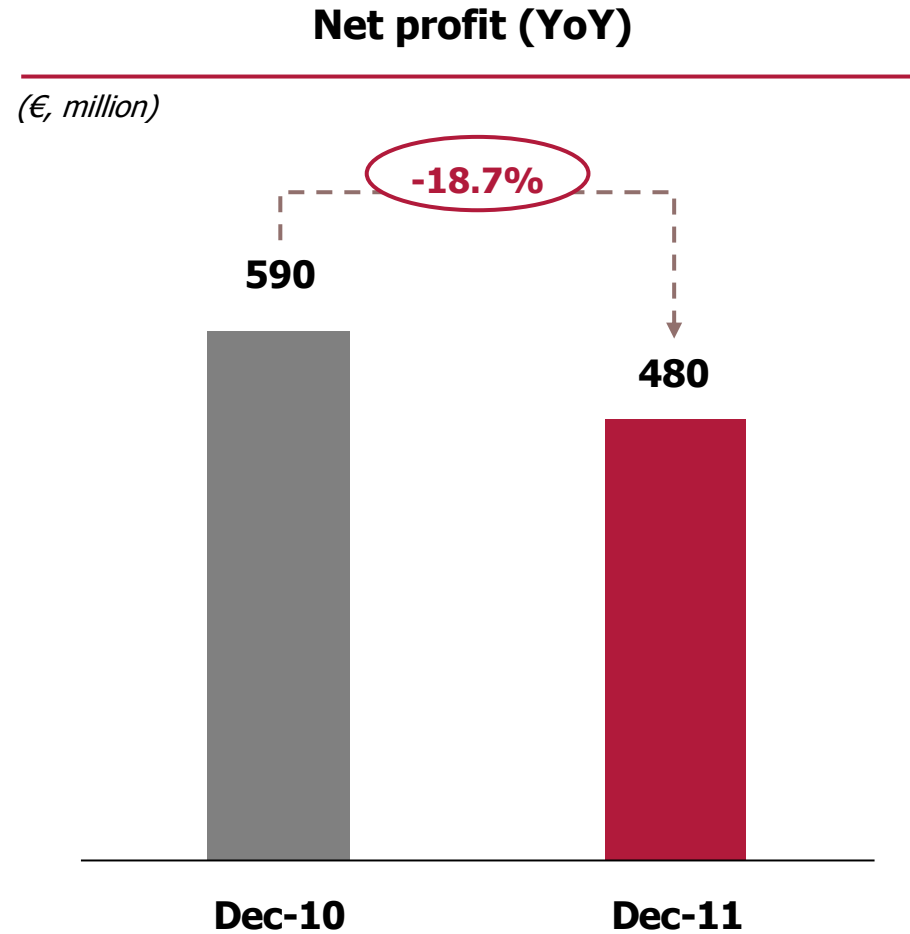
Total provisions (A) + (B)	1,232	952	-279
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Recoveries of write offs (4.7% of average stock) becoming an important source of revenues

⁽¹⁾ Net of country Risk

Note: restated 2010 following Allianz-Popular Holding Joint Venture

Full 2011 Net profit in line with guidance, after ordinary & accelerated provisions, reaching €480m

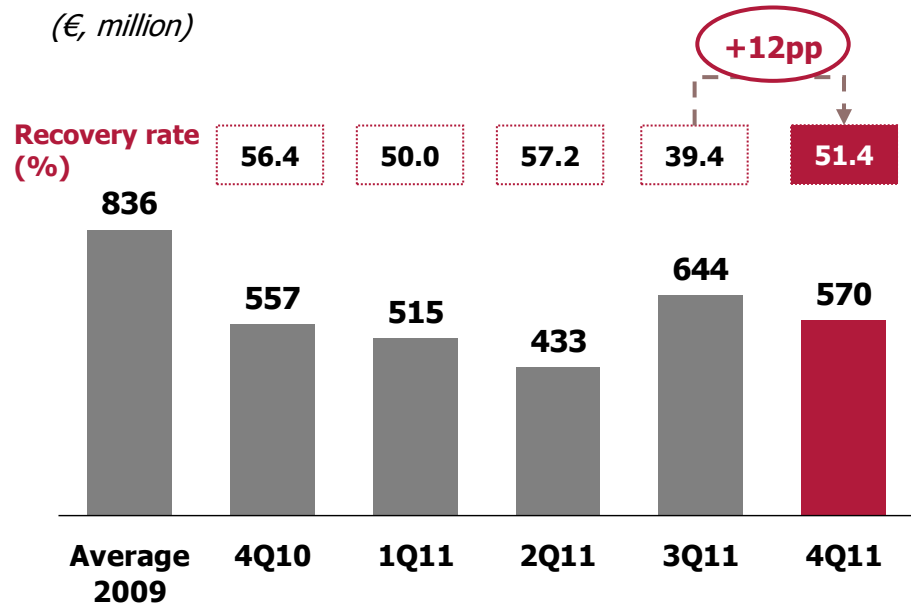


Agenda

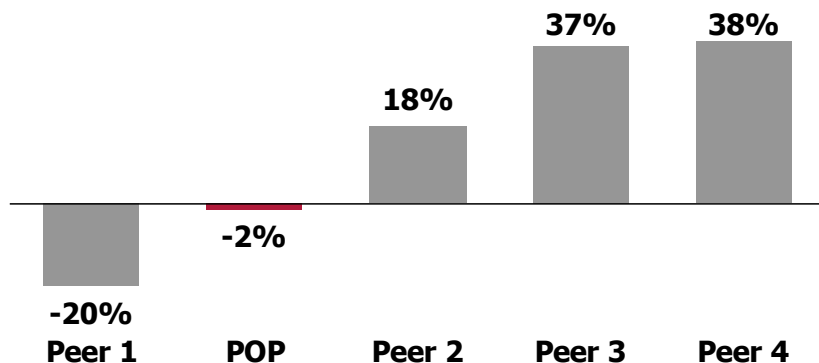
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Net NPL entries down QoQ (-€74m) due to normalization of the recovery rate (+12pp QoQ)

Evolution of net entries of NPLs

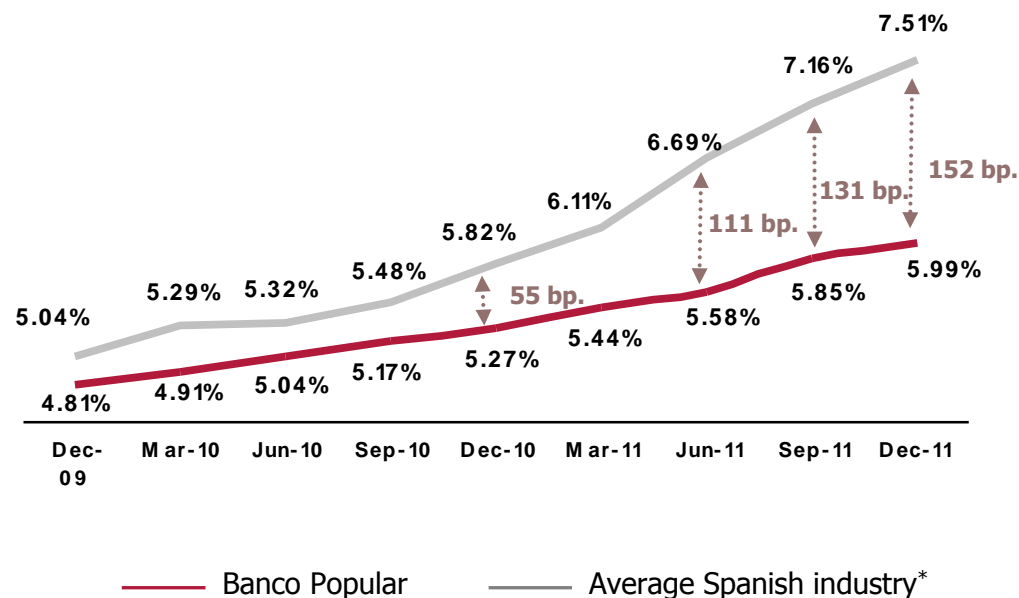


Evolution of gross entries YoY vs. peers (%)



Peers: Banesto, Sabadell, Caixabank and Bankinter

NPL ratio evolution

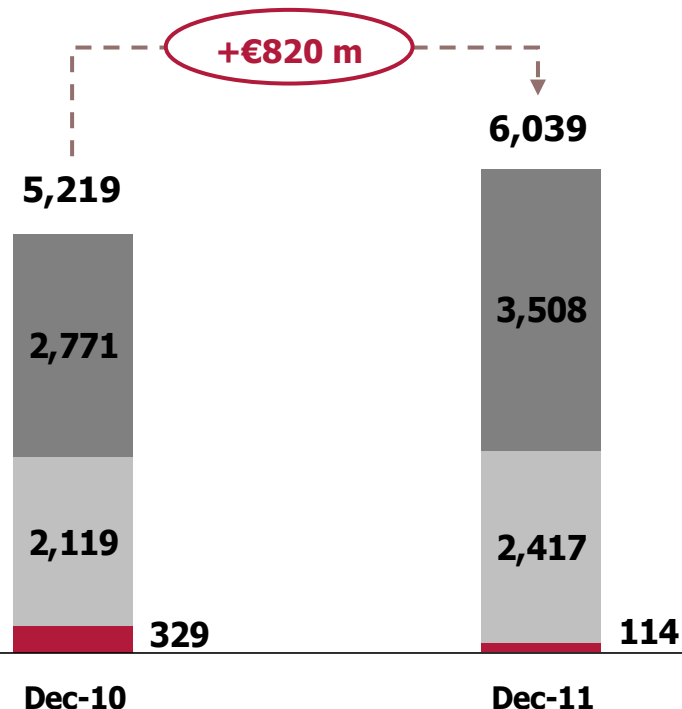


(*) Average banks, saving banks and credit unions as of November 2011 (latest available data).

Our credit provisions stock is up by +€820m. Good coverage even after strict haircuts in the face value of the collaterals (i.e.: other finished residences 40%)

Provision Stock

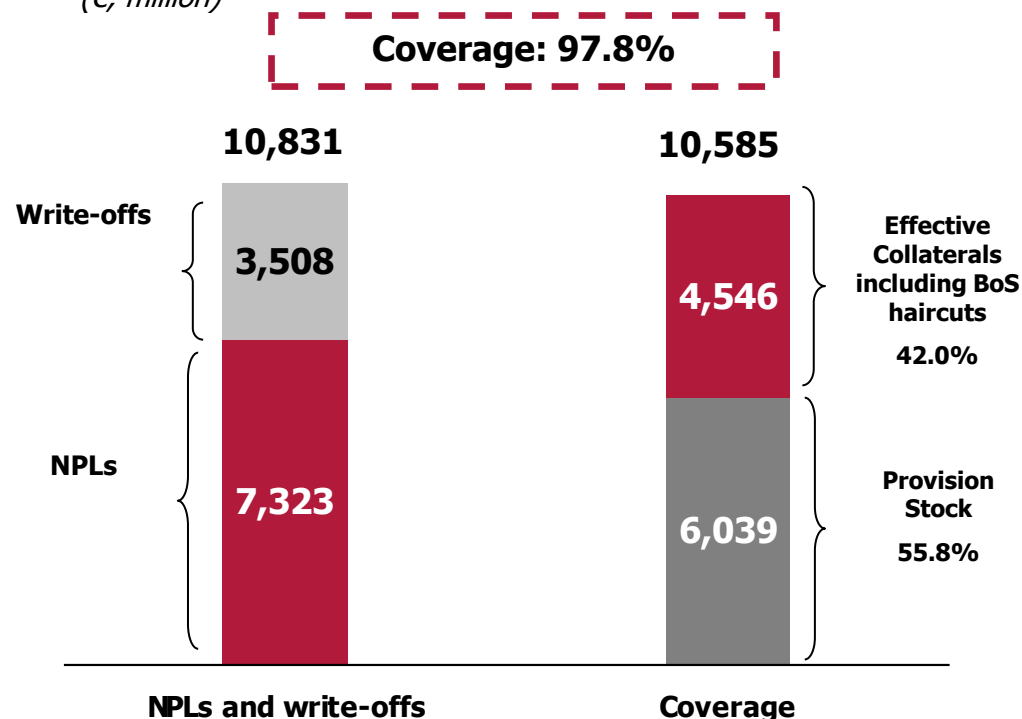
(€, million)



■ Counter-cyclical provisions ■ Specific allowances & other
■ Write-offs

Coverage analysis

(€, million)



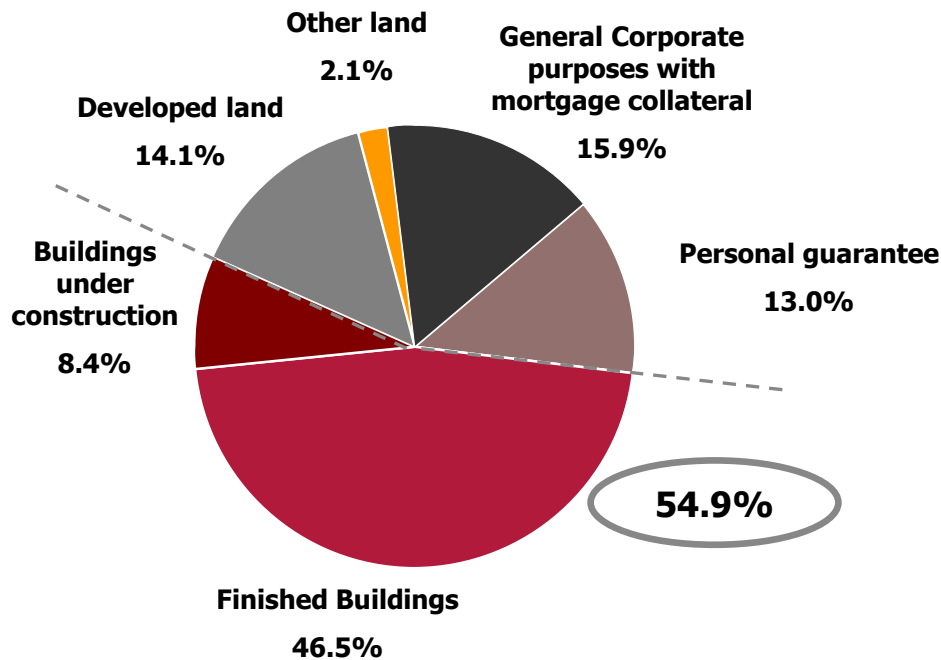
NPAs ⁽¹⁾ coverage up to 47%, and will rise to mid-fifties after PAS merger

(*) BoS haircuts: First residence, 20%; Commercial RE 30%; Other finished residences, 40%, Land 50%

(1) NPA: NPLs+ RE assets+ Write-offs

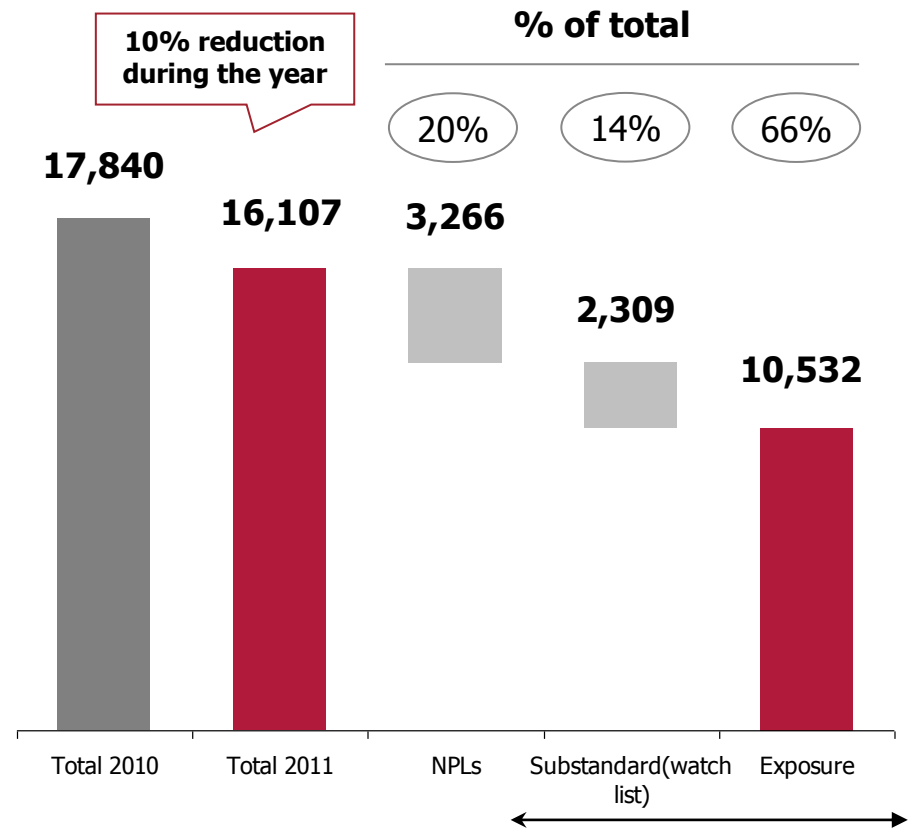
On the BoS transparency exercise: Lending to construction and RE purposes in Spain remains our most affected sector

Construction and real estate breakdown by type



Total exposure to RE lending

(€, million)



Still performing!

Again on the BoS Transparency exercise: Real Estate assets held in Spain. Provisions and coverage, up

Real Estate assets, including long term investments (€, million)

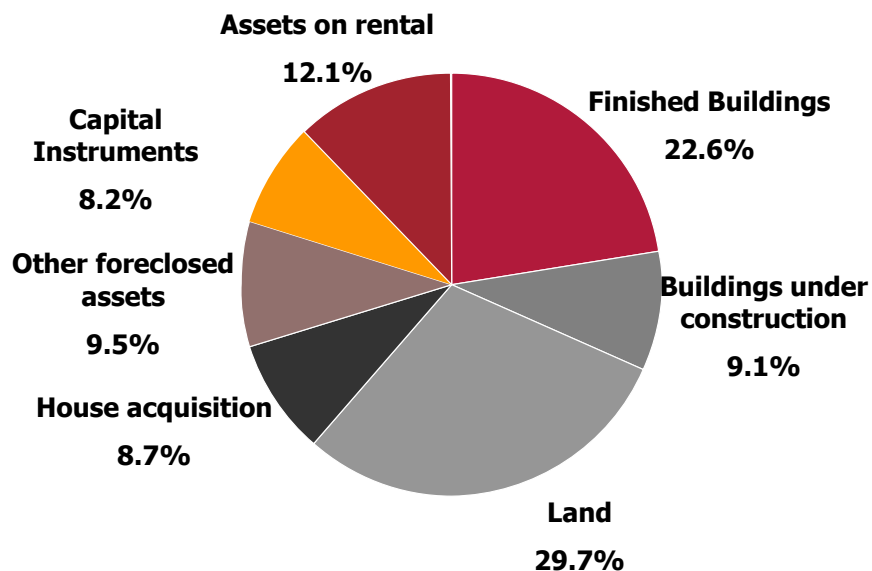
Net amount	4,028
Construction and developers	3,105
Residential repossessions	442
Other Non RE companies repossessions	481
Provisions	1,640

Assets on rental (€,million)

Net amount	609
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Capital instruments (€,million)

Net amount	416
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Coverage⁽¹⁾:

Dec-11..... 34%

Dec-10..... 29%

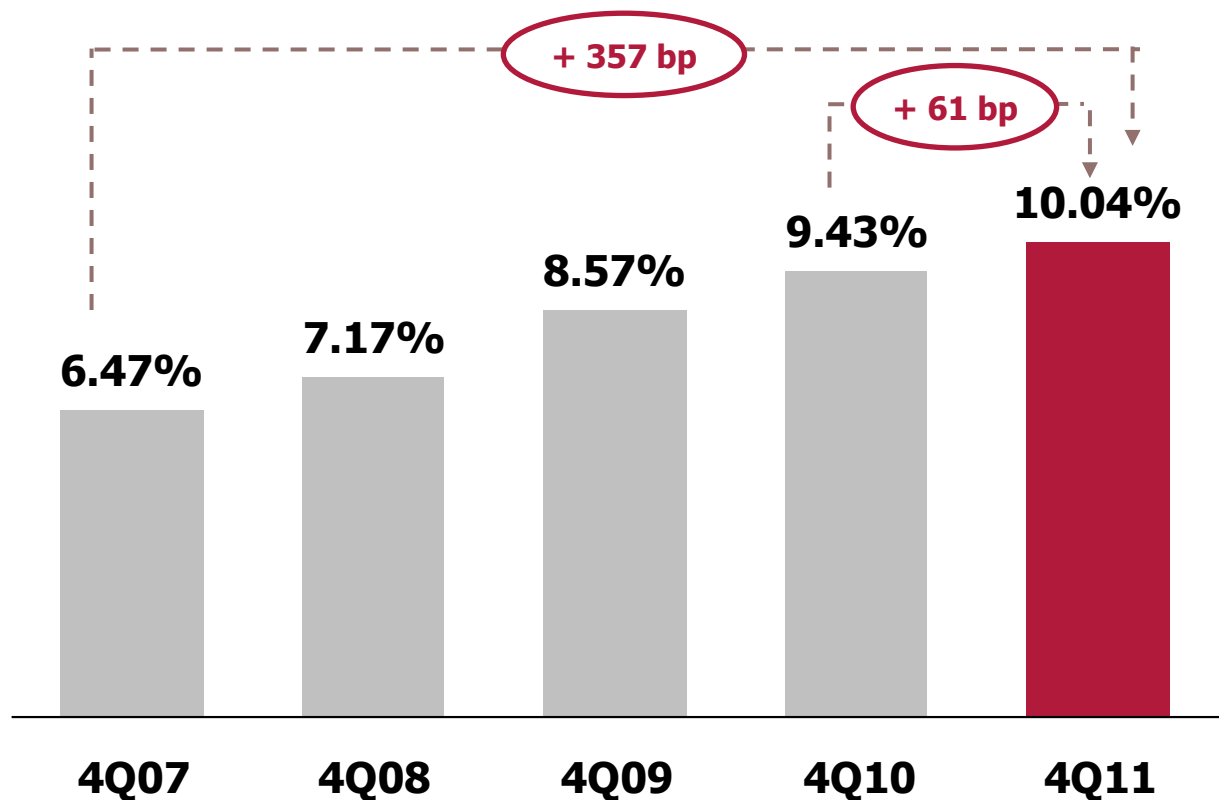
⁽¹⁾ Provision over acquired and repossessed assets and capital instruments

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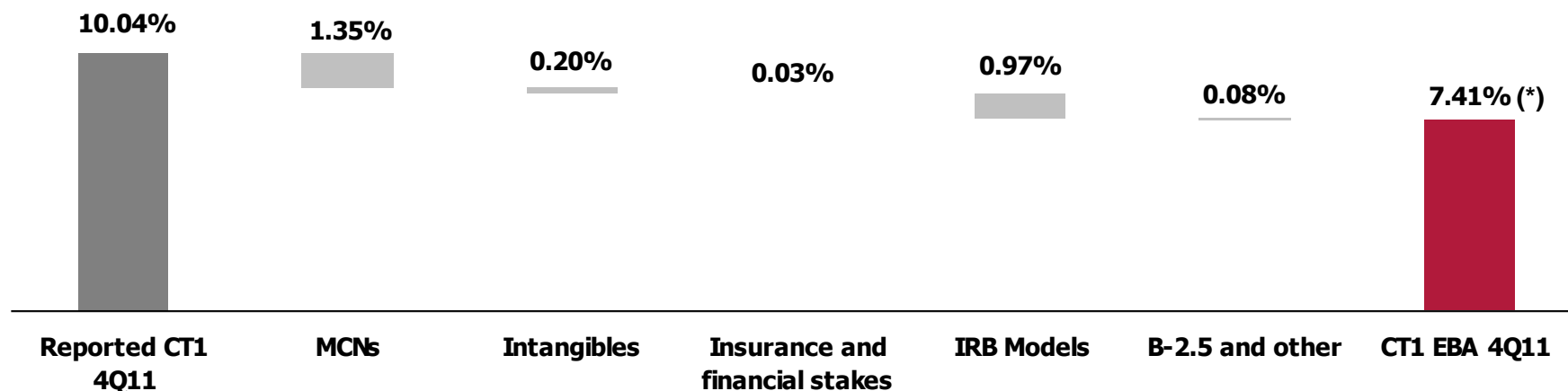
As we have been showing over the last few years, we have a strong capital generation

Core Capital evolution (local regulation)

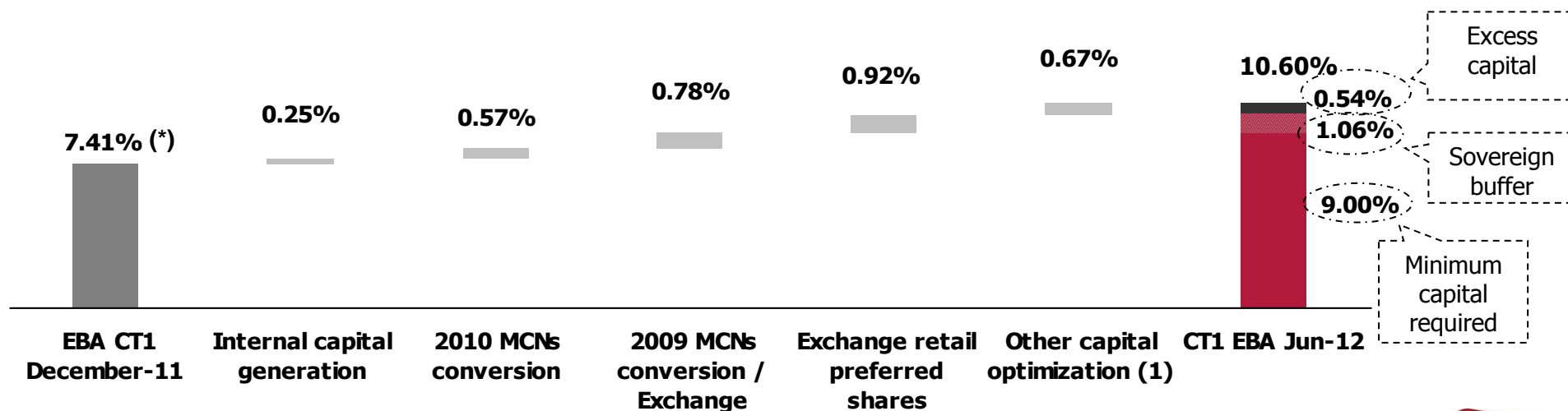


On EBA, an update and a confirmation of our full confidence in bridging the gap to the new EBA definitions without any kind of State capital injection

Reconciliation reported CT1 and new EBA CT1



Capital measures submitted to comply with the new EBA capital requirements



(*) Without the impact of the sovereign buffer

(1) Capital optimization (ie; Improvement of collaterals or development of internal models;...)

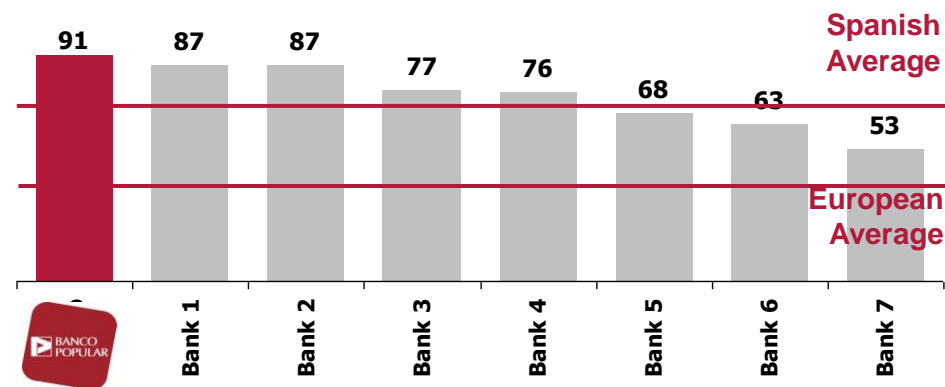
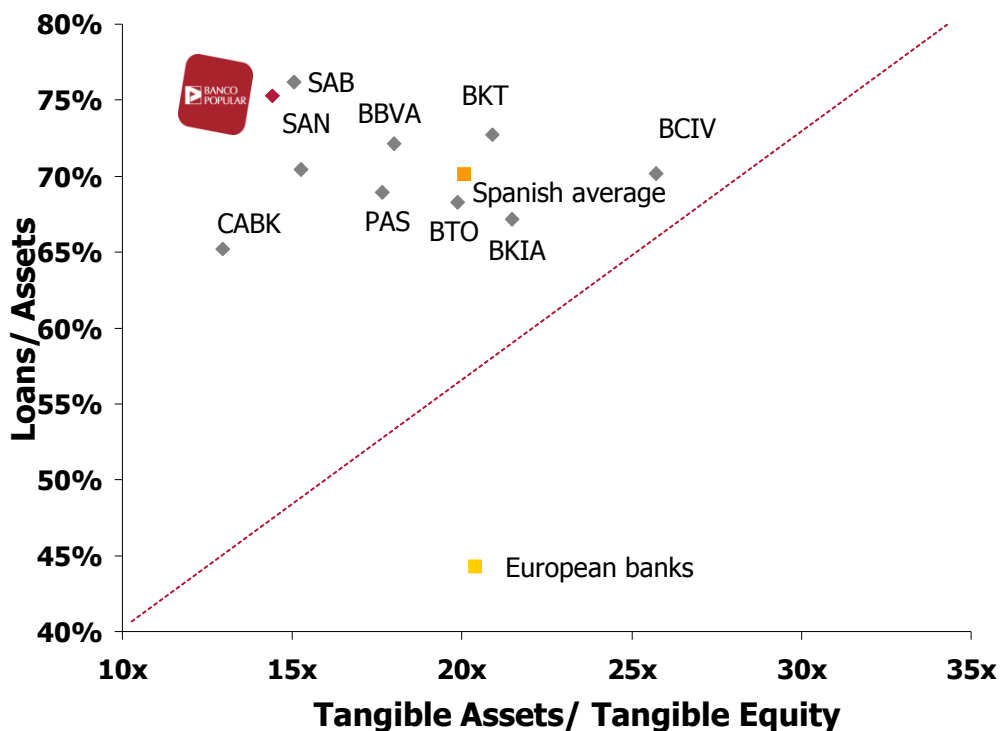
Let us remind that we are not only one of the least leveraged European institutions, but we have one of the most conservative IRB models. Some examples...

⇒ The lowest leverage ratio and the purest retail franchise

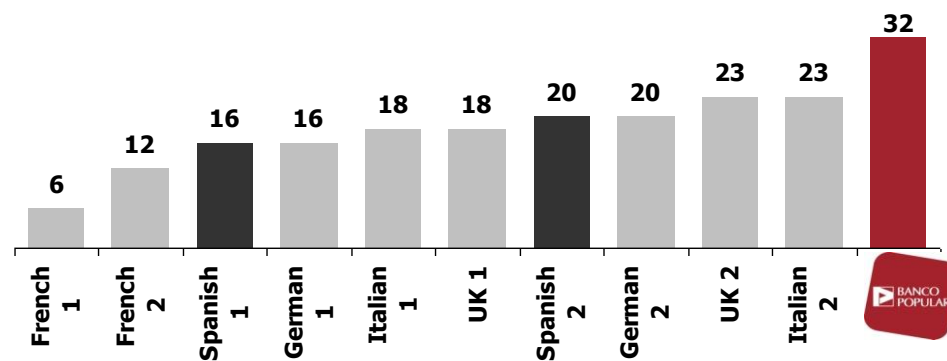
⇒ The highest capacity to optimize capital

TA/TE vs. Loans/Assets

RWA/Net Loans (%) POP vs. Spanish peers



RWA for mortgages portfolios Euro & Spanish peers (%)



Source: Quarterly reports, Financial Analyst and Market Estimates.

Spanish peers: Banesto, Bankia, Caixabank, Bankinter, Sabadell, BBVA Spain and Santander Spain

European banks mortgage RW: Deutsche Bank, Santander, BBVA, Crédit Agricole, Société Générale, Intesa San Paolo, Unicredito, RBS & Bonds. Source: BoS Financial Stability report



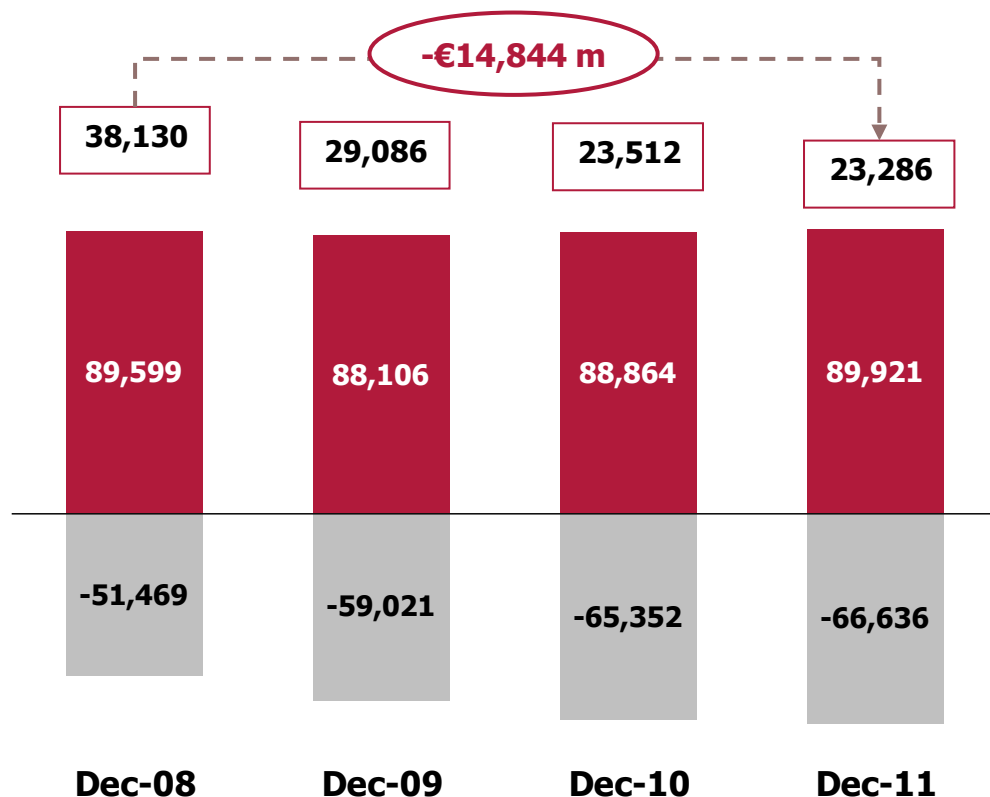
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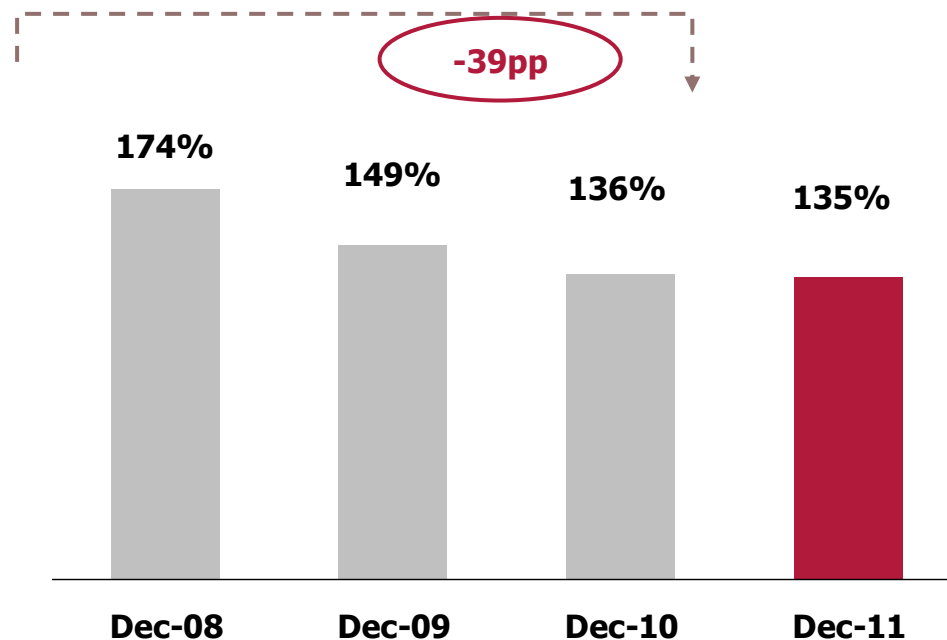
Following the increase in customer deposits, the loans to deposits ratio has improved by c.40 p.p. since the start of the crisis

Evolution of the commercial gap¹

(€, million)



Loans/deposits ratio (%)

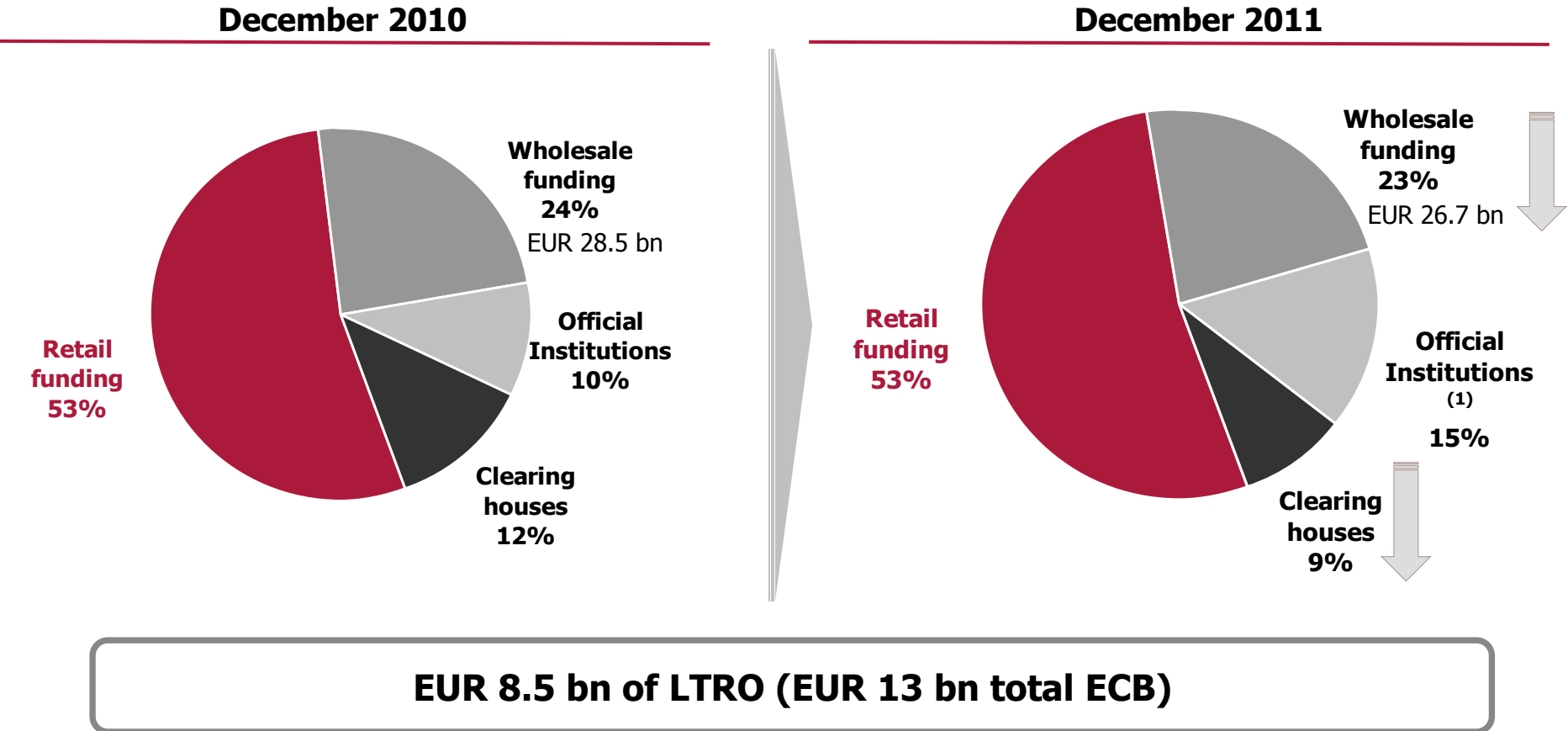


¹GAP: Loans: Total loans to customers (net)- Other credits- Repos- Valuation adjustments of Repos – ICO Credit lines - Securitisations;
Deposits: Demand deposits + time deposits + Other accounts and valuation adjustments + Collection accounts (included in Other financial liabilities)

ICO Credit lines: credit lines to SMEs prefunded by State

Funding split

We have reduced our wholesale funding to EUR 26.7 bn

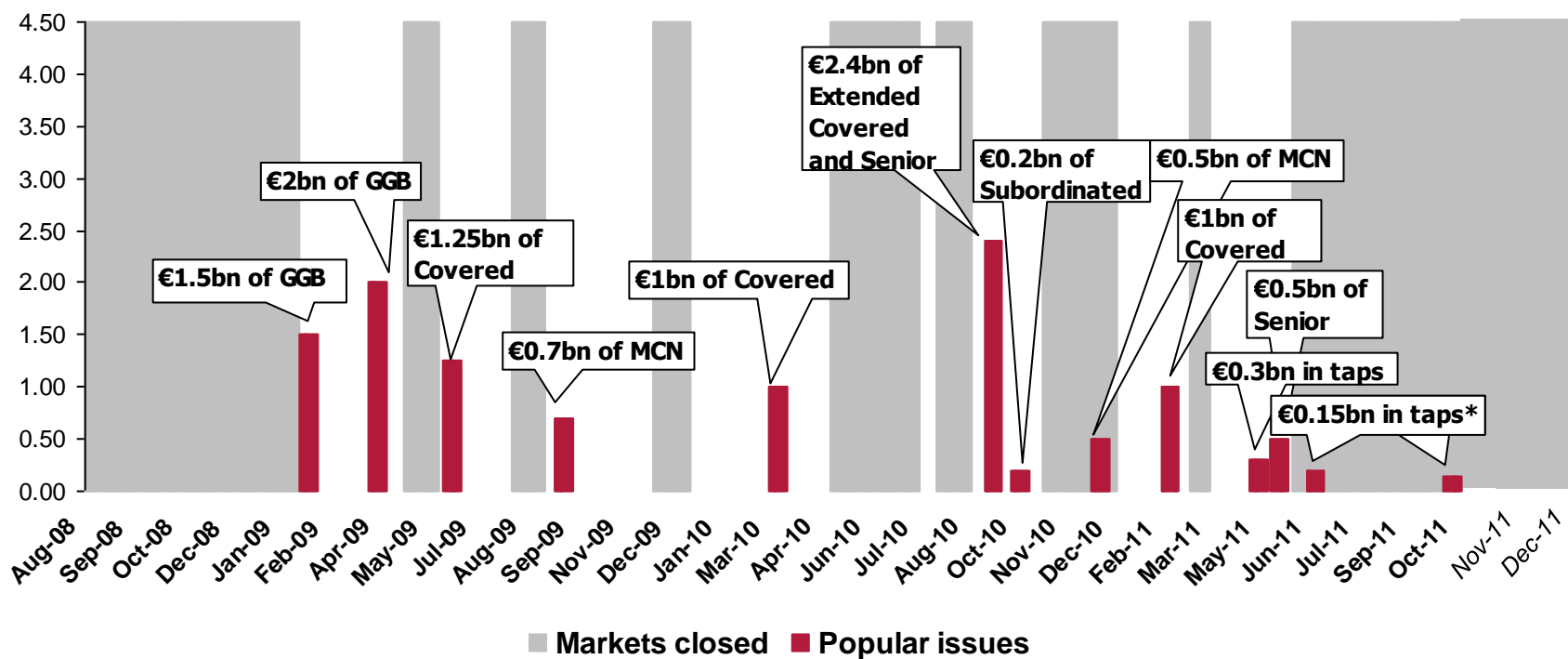


⁽¹⁾13% ECB+ 4% ICO credit lines to customers

Access to capital markets

We have tap the market in all windows opportunities in 2011

Debt markets evolution and Popular issues (€bn)

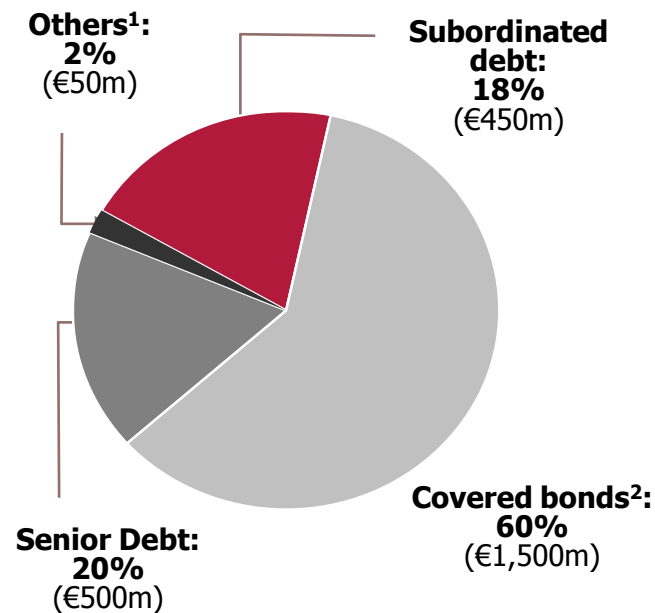


*0.15bn in October 11

Senior and covered bonds 2011

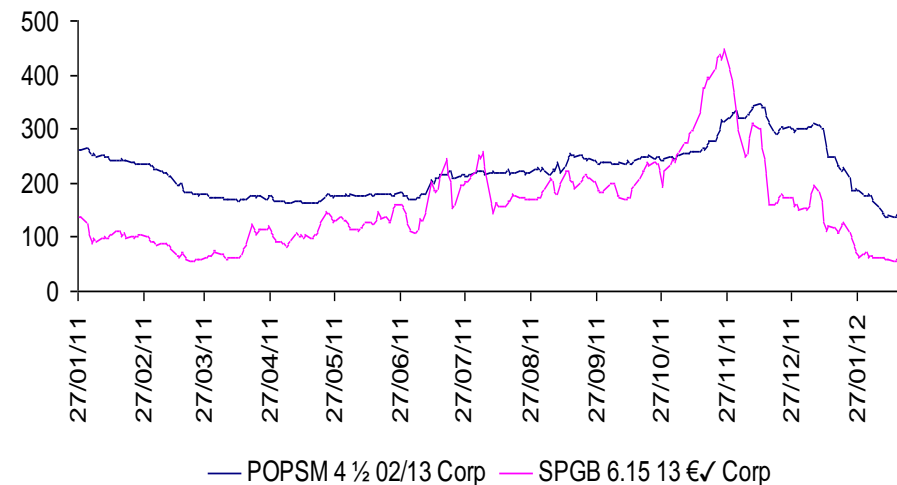
Managed to raise senior & covered bonds despite of markets

New issues in 2011: €2,500m



In October 2011 we were able to issue €150m of CB





ASW New issues' performance



Our last public CB has shown lower volatility and higher returns than the Spanish Treasury

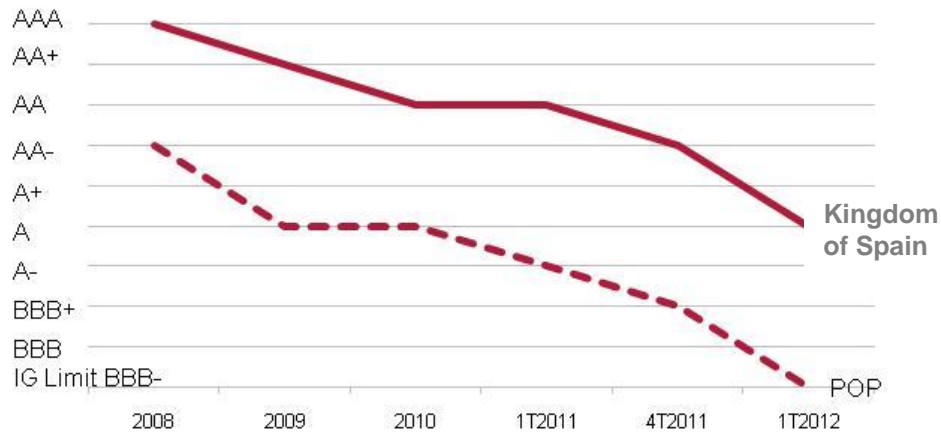
Rating agencies: comments on latest actions

BPE's rating downgrades basically mirror Spain's downgrades

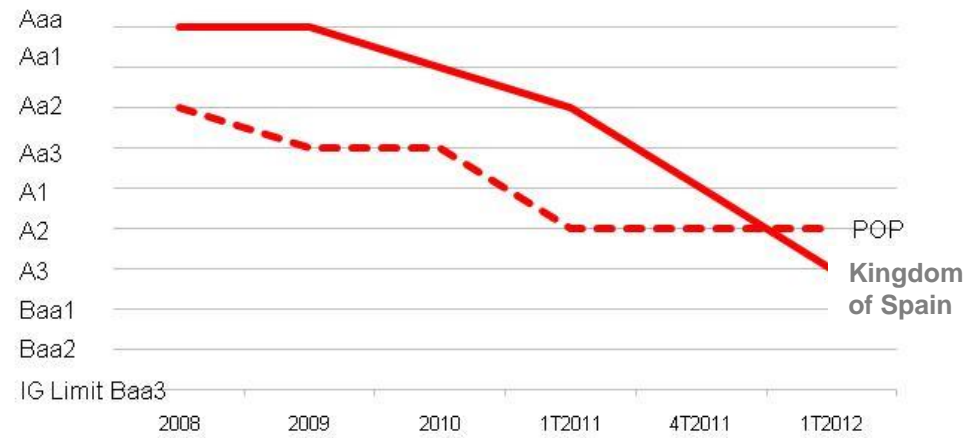
	Banco Popular	Kingdom Spain (Long term rating & date)	
	A2 / RWN	A3 / Neg	<ul style="list-style-type: none">Rating actions on 30 Spanish banks further to sovereign downgrade and Moody's reassessment of extraordinary support .New criteria reduces support to max 2 notches.
	BBB-/ RWN	A / Neg	<ul style="list-style-type: none">Rating actions on several Spanish banks in the context of a difficult 2011 from an operative and credit quality perspective .New methodology applied causes general downgrades in the system.
	BBB+/ RWN	A / Neg	<ul style="list-style-type: none">Rating action based on Spanish weak economic conditions and prospects and its impact on real estate development sector.Sovereign downgrade in October
	A (high)/RWN	AA (low) / Stable	<ul style="list-style-type: none">Rating actions reflecting impact of the still challenging environment in Popular's home marketSovereign downgrade

Compared evolution: Banco Popular vs. Kingdom of Spain

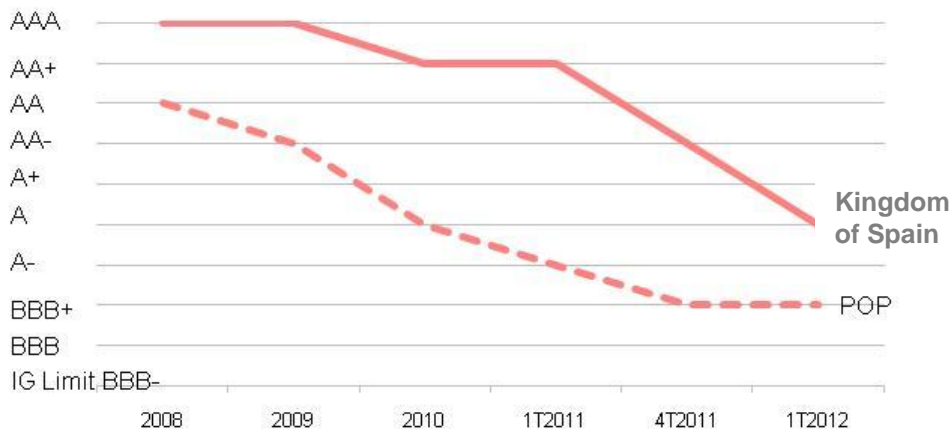
**STANDARD
& POOR'S**



Moody's



FitchRatings

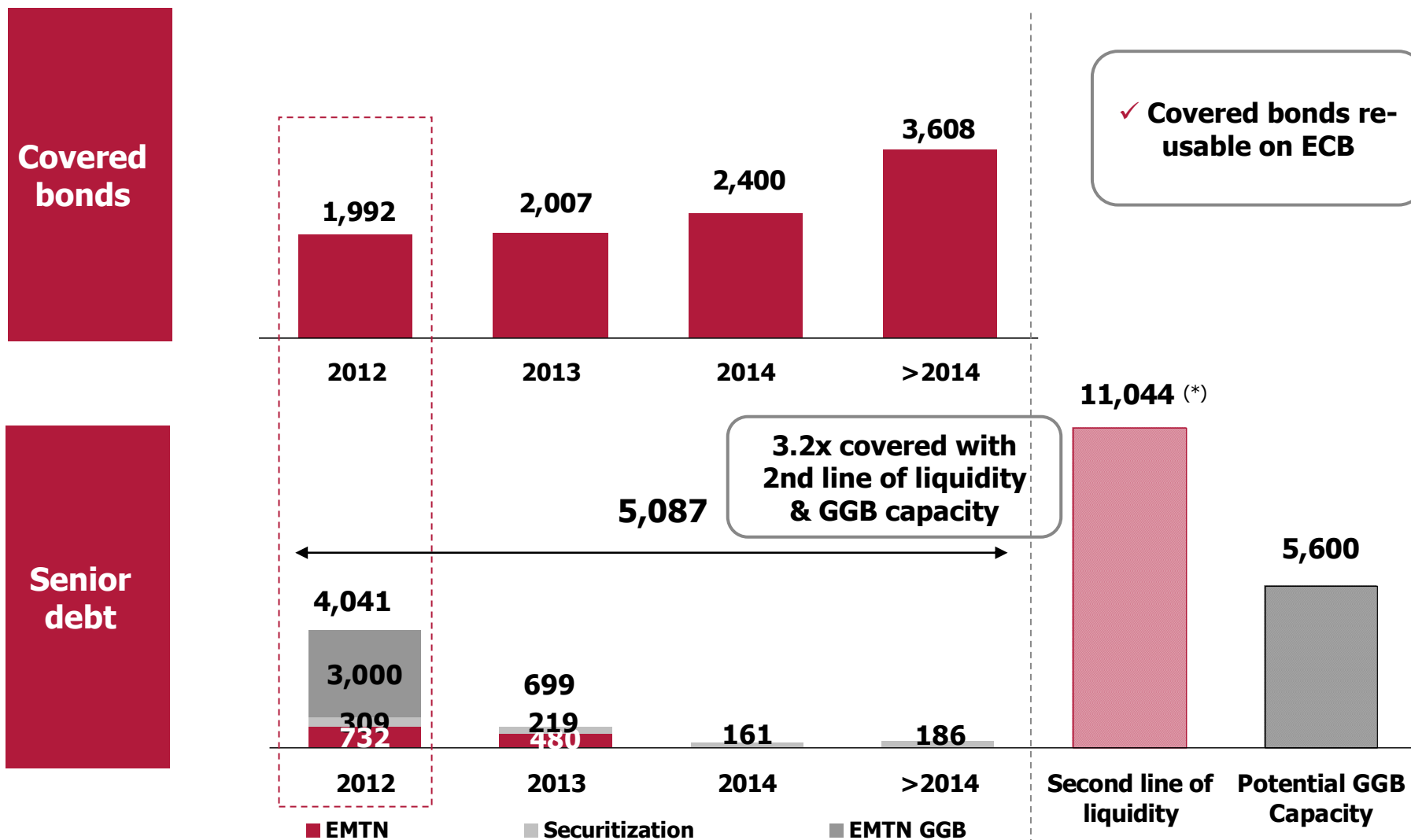


- High correlation between Kingdom of Spain's rating evolution and BPE rating evolution (Moody's qualification outstanding)

The medium and long term maturities are more than 3x covered with the available pool of liquidity and unused GGB facilities

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

(€, million)



(*) After haircuts

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Over the past two years we have been focusing on Alliances and Corporate transactions that create value to our shareholders

Corporate deals



+



Banco Pastor

Banco Pastor acquisition



+

Allianz 

Allianz-Popular
joint venture in bancassurance

In 2011, we have launched the new brand Targobank

TARGO  **BANK**

Crédit Mutuel-Popular joint venture to launch a new bank in Spain

Key Next Steps on Pastor

Preliminary Calendar – Main Events 1Q 2012

January

- 18th Jan: CNMV & CNC approval
- 19th Jan: Prospectus filling
- 20th Jan: Takeover bid acceptance period

February

- Mid February:
- End of acceptance period.
 - Publication of the success on the Takeover bid. Potential Squeeze out to be announced
 - Takeover bid closing

March

- Early March: Potential Squeeze Out
- End of March: Corporate approval of the legal merger between Popular - Pastor

- ⇒ **Synergies planned and pre-integration process well on track within reach**
- ⇒ **Acceptance levels: bid becoming unconditional**

Agenda

- 1. A bit of perspective: A robust and profitable model**
- 2. 2011 Annual results: Business drivers & operating performance**
- 3. Risk management**
- 4. Capital position & EBA capital requirements update**
- 5. Liquidity & funding policy**
- 6. Corporate actions: Crédit Mutuel & Allianz JVs and Banco Pastor acquisition**
- 7. Conclusions**

Outlook 2012

- **Macro, micro** and regulatory environment will remain very **challenging**, though we **remain very confident with our strengths** to cope with it:
 - ✓ We have **proved our capacity** to face a tough environment and to build provisions over the recent past (c.€7bn last 4Y or 7.5% RWA)
 - ✓ We have **kept our solvency** at very strong levels (CT1 up +28 bp QoQ to 10.04%) and we have identified organic additional buffers to keep reinforcing our balance sheet.
- We expect **net interest income to grow slightly in 2012** due to lower wholesale and retail funding pressure.
- **Cost to Income ratio to remain best-in-class** in Spain but also in Europe
- Still **flows of NPLs but stabilized** c.75% covered with mortgage collateral.
- **Successful alliances plus now the Pastor acquisition** will be key as it will lower the combined provisioning needs and will allow us to build substantial synergies.



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