

UBS Global Financial Services Conference



Francisco Sancha, General Manager
NYC, May 11th 2011



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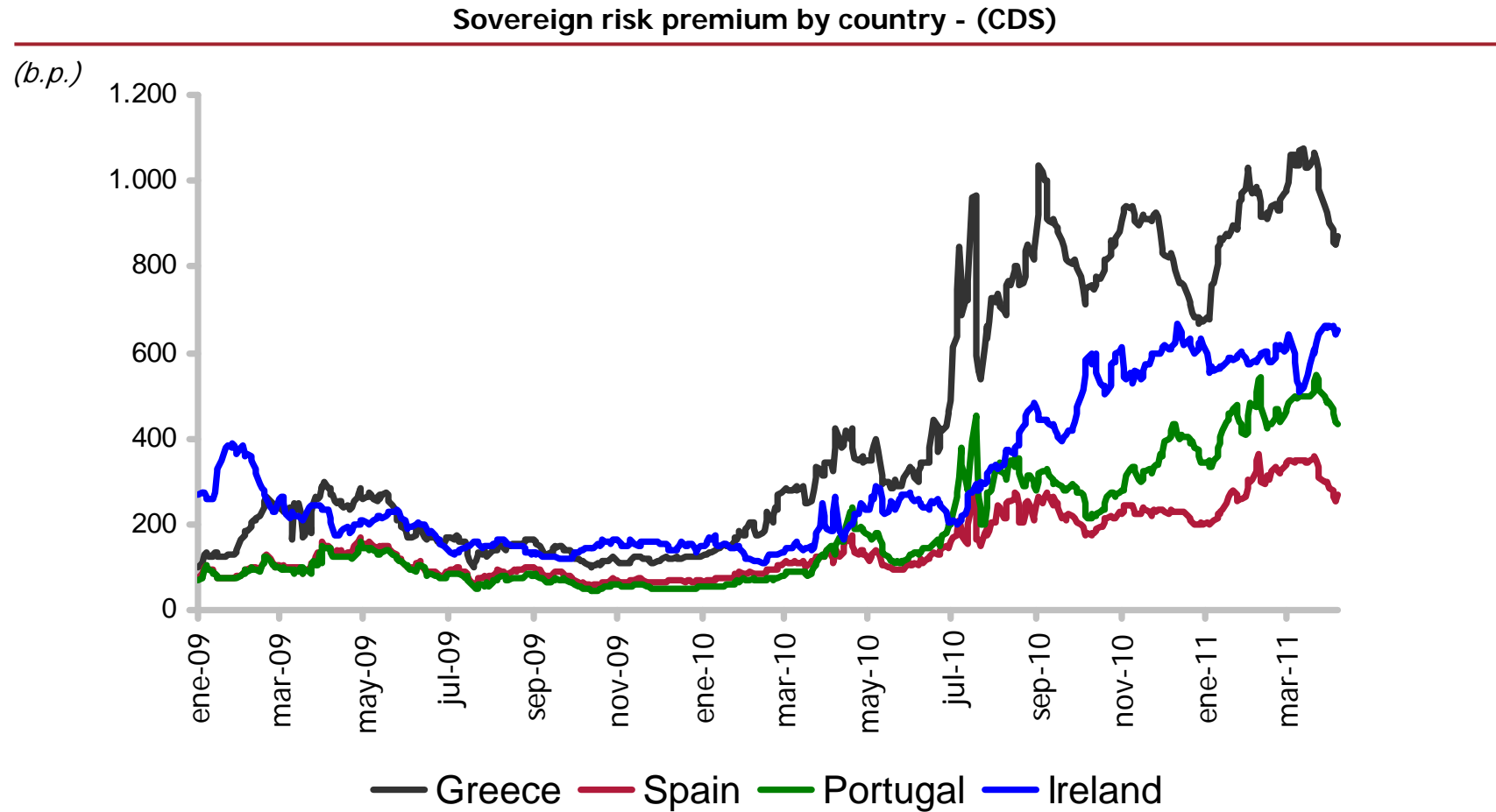
1. Macroeconomic overview

2. Past, Present and Future. Our Path to a profitable and sustainable business model

3. Conclusions



Spain has decoupled from other "peripheral countries"



CDS show a decoupling as the markets are differentiating between Spain and the rest of the peripheral economies



Source: FactSet.

... supported by fiscal consolidation and key structural reforms...

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

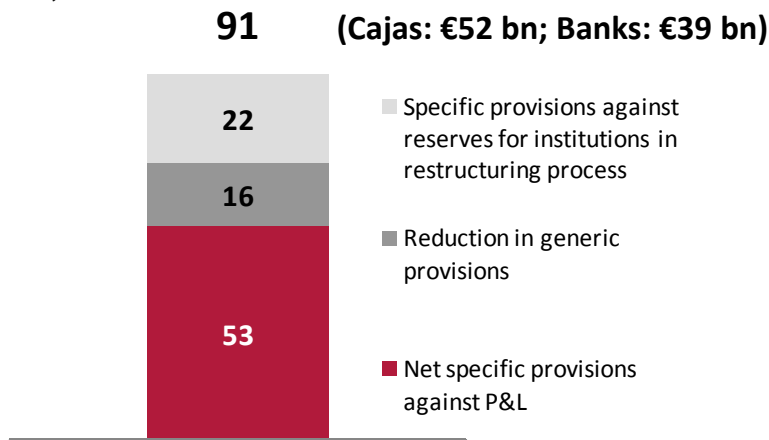
The Spanish financial sector has so far “cleaned” balance sheets substantially (c. 10% of GDP) while reinforcing solvency levels...

During 2008-2010, the Spanish financial sector has recognized and assumed asset impairment losses for an amount equivalent to almost 9% of GDP ...

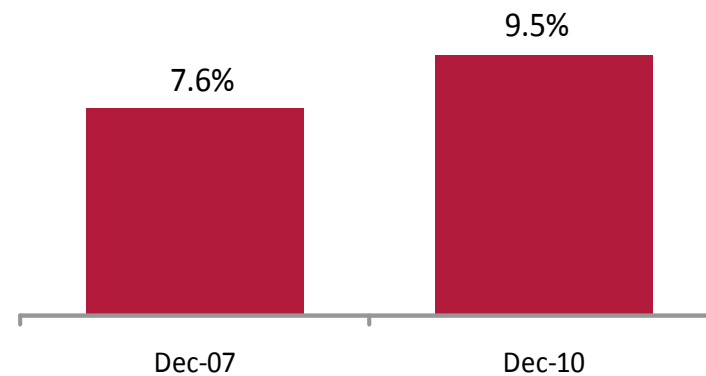
... and has reinforced the Tier 1 capital of the system by 190 b.p.

Consolidated provisions since Jan 2008 for the whole system

(€, billion)



Tier 1 capital of Spanish financial system



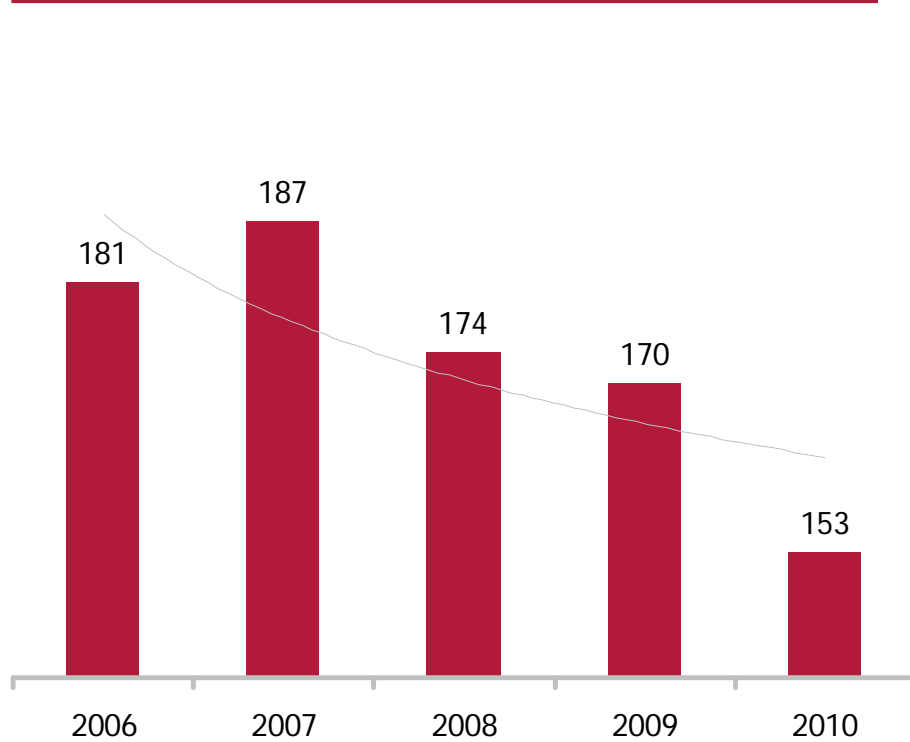
The accumulated provisions and the excess of capital over the minimum required throughout this 3-year period represent 12.5% of GDP. The coverage of the €15.2 bn additional capital needs announced by the BoS will increase it to almost 14% of GDP



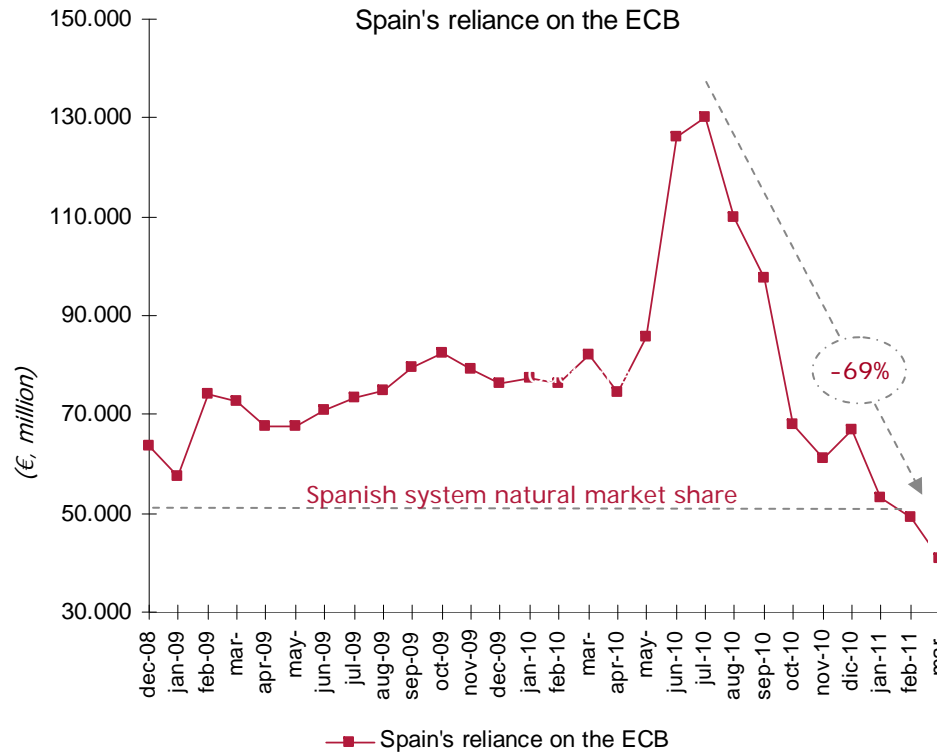
Source: Bank of Spain.

...and has also improved its funding position and liquidity

Loan to deposits Spanish banks



Spain's reliance on the ECB has decreased to pre-Lehman levels, in line with its natural market share



Source: Banco Popular, Santander Spain, BBVA Iberia, Bannesto, Sabadell and Bankinter

Wholesale funding markets are gradually reopening for Spanish banks. Prices, while still high, are improving

Debt issuances by Spanish financial institution in 2011

Entity	Volume (mn €)	Avg. maturity	Cost / average spread over midswap			
			Jan-11	Feb-11	Mar-11	Apr-11
BBVA	8,250	3.5 years	225 b.p.	200 b.p.	163 b.p.	180 b.p.
Santander	7,250	3.2 years	225 b.p.	177 b.p.	175 b.p.	132 b.p.
La Caixa	4,500	4.7 years	-	220 b.p.	200 b.p.	195 b.p.
Caja Madrid	2,000	4 years	-	-	240 b.p.	-
Popular	1,700	2 years	270 b.p.	245 b.p.	-	240 b.p.
Sabadell	1,200	2 years	-	260 b.p.	-	-
Bankinter	900	3 years	310 b.p.	-	265 b.p.	-
Banesto	600	4 years	-	-	190 b.p.	-
Kutxa	600	4 years	-	-	235 b.p.	-
Unicaja	500	5 years	-	-	250 b.p.	-
Pastor	252	3 years	-	-	8.25% annual	-
FROB	2,000	3 years	220 b.p.	-	-	-
TOTAL	29,552	3.4 years	250 b.p.	220 b.p.	215 b.p.	187 b.p.

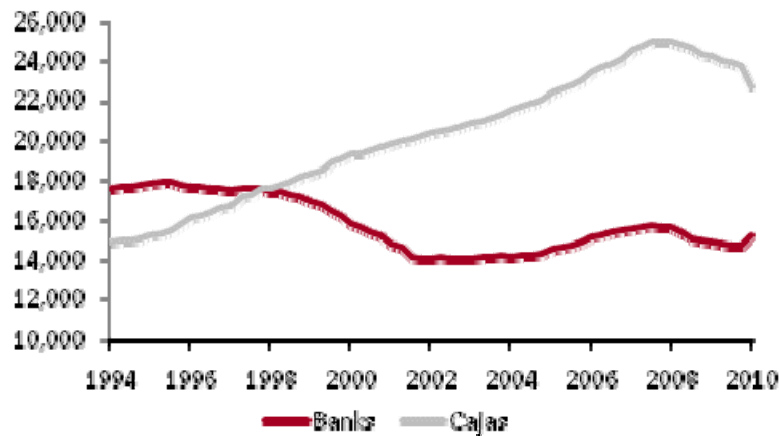


Source: Bank of Spain, company data.

A remarkable restructuring process is taking place , but more has to be done on the consolidation front to reduce a significant overcapacity

The consolidation process of the Spanish financial sector will bring new opportunities ...

Number of branches in Spain

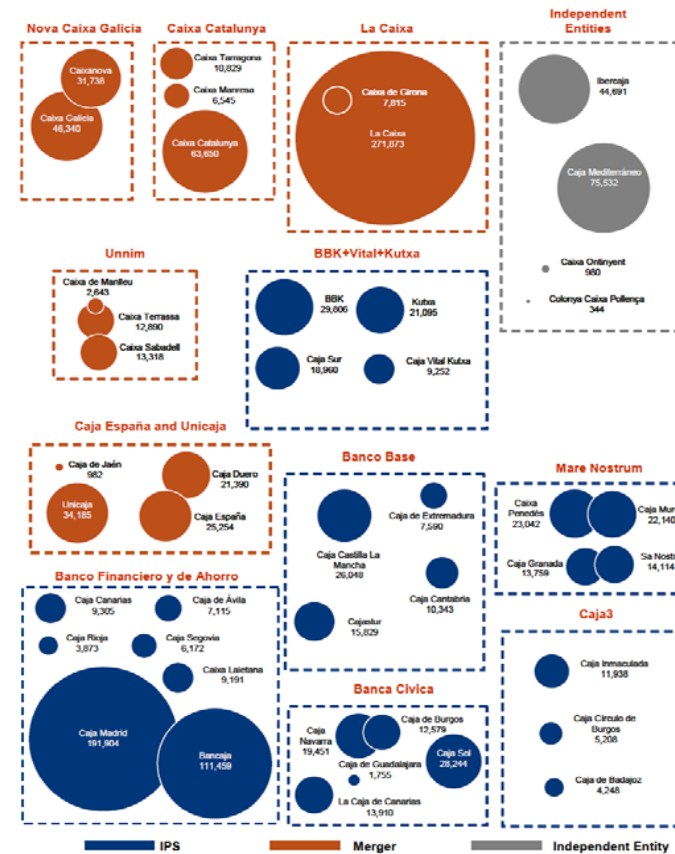


Source: Bank of Spain

BoS expects average reductions of 25% in offices and 15%-18% in staff among the cajas

Consolidation process (from 45 to 15 cajas)

(assets, € mn)



Source: BofA Merrill Lynch.



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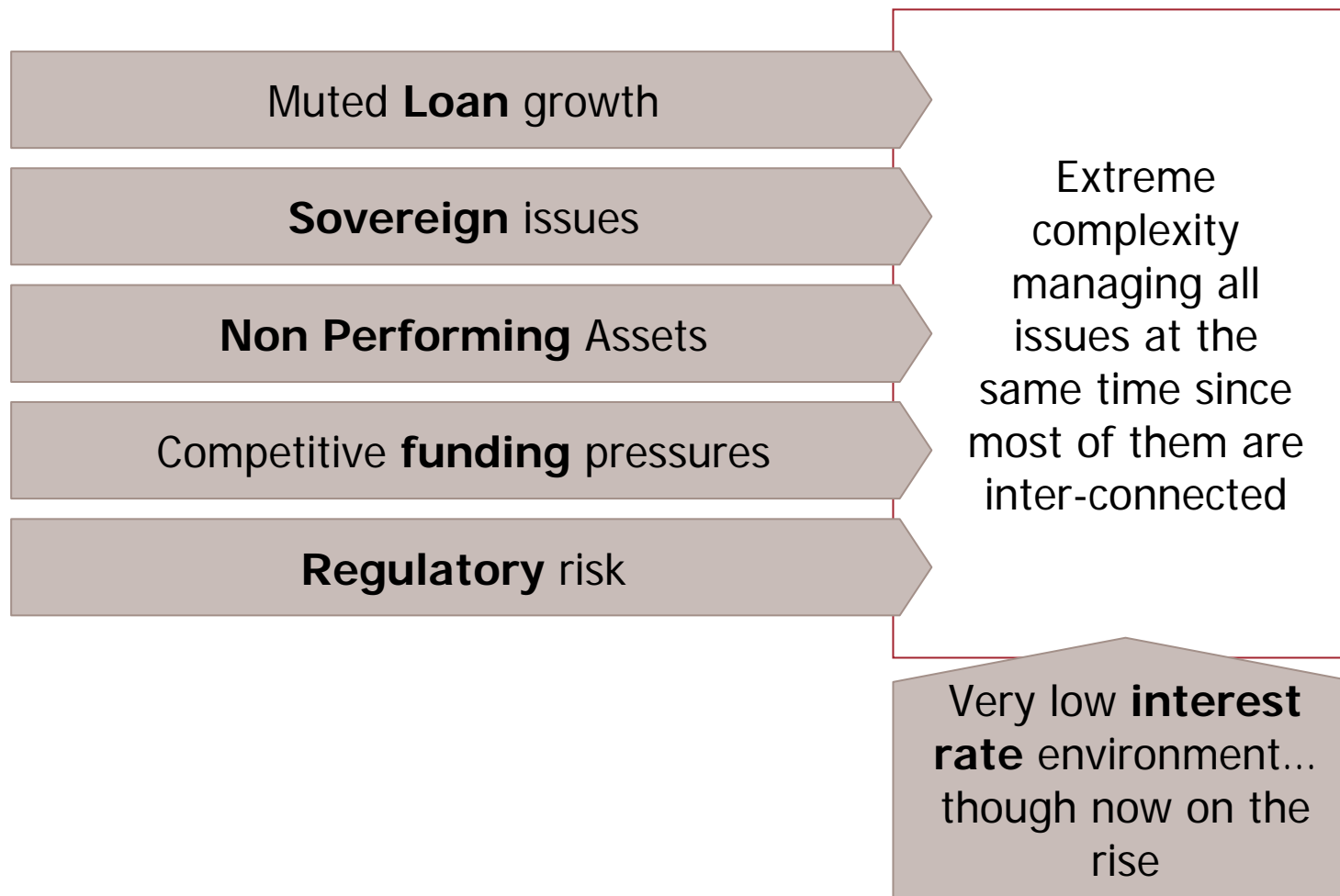
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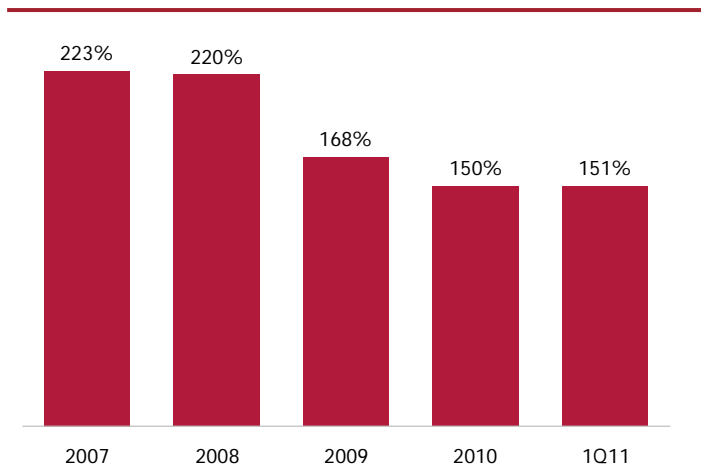


Over the past few years, we have been managing the bank in an extremely hostile environment

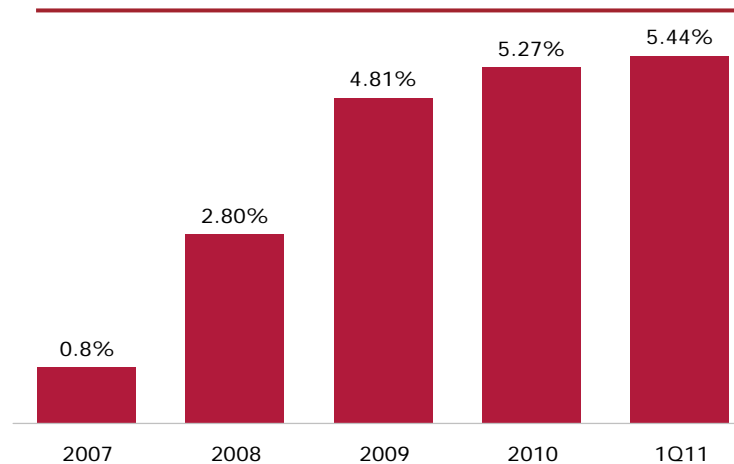


We correctly decided to give priority to the balance sheet management reinforcing our Liquidity, Solvency heavily and closely monitoring and controlling our credit quality...

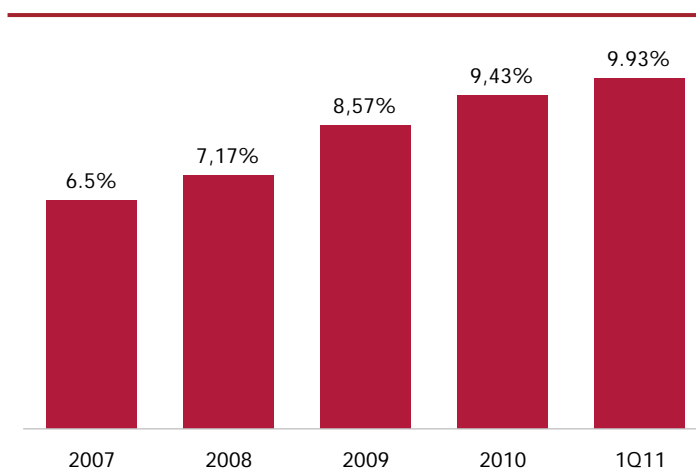
Loan to Deposits ex repo



NPL ratio

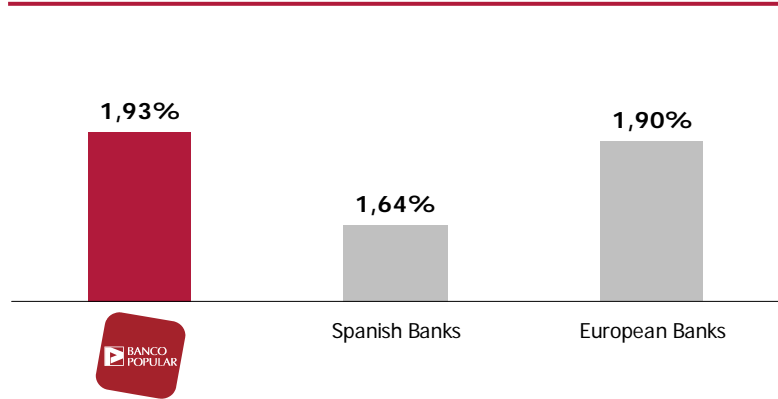


Core capital

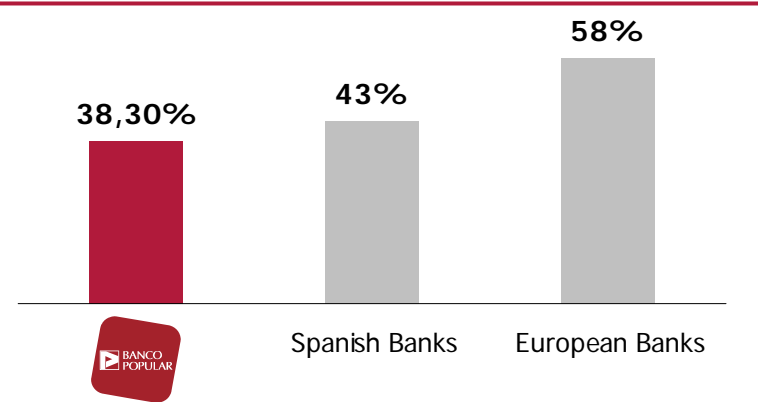


...while maintaining our hallmarks: Efficiency and Profitability but also gaining market share in both loans and deposits

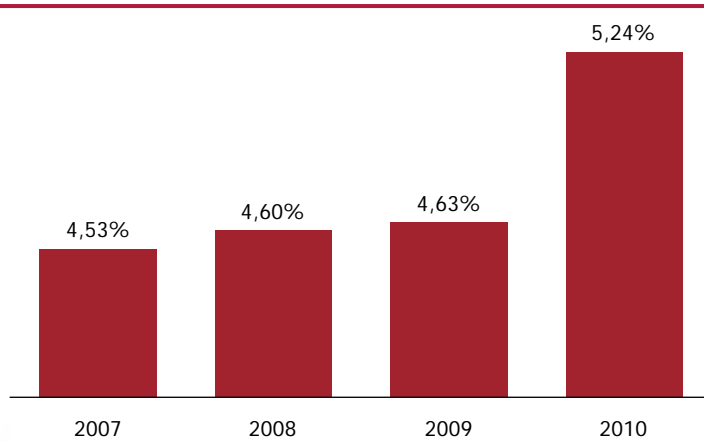
A privileged Pre-Provision Margin



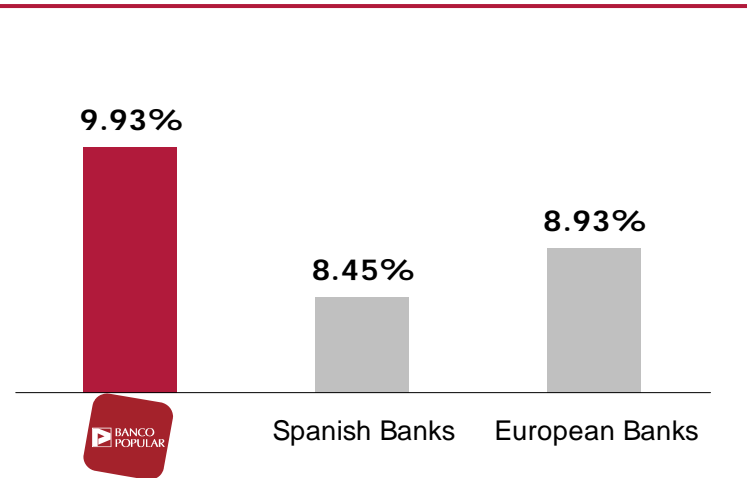
Best in class cost to income ratio



Business market share



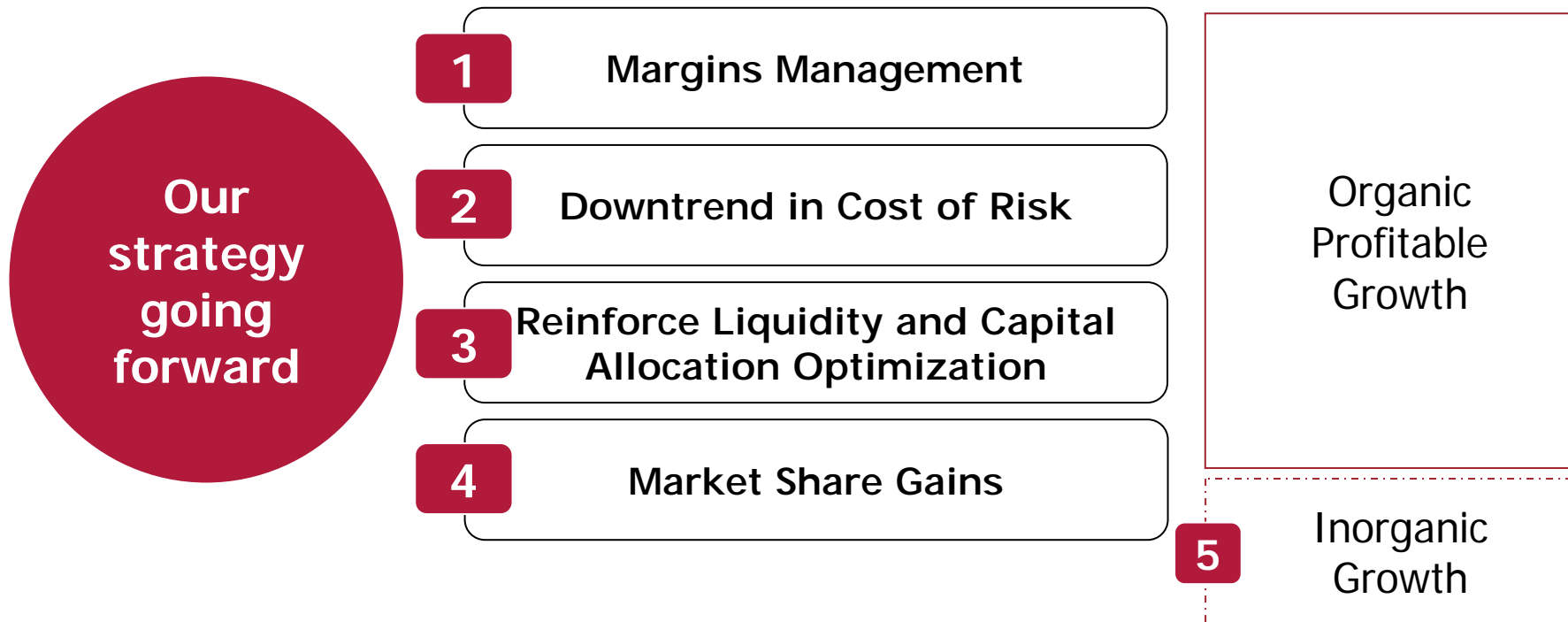
A leading Core Capital position



Source: Quarterly reports, BoS and Market Estimates.

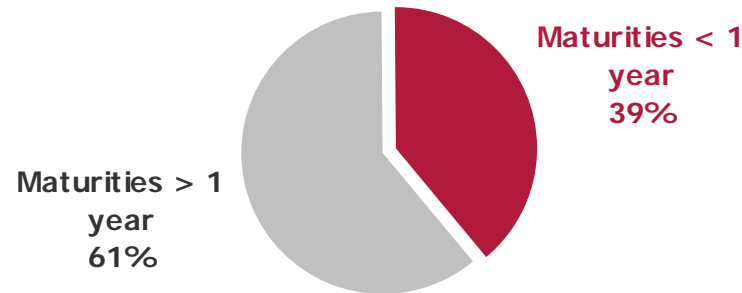


Today, we are moving into a less difficult environment where winners and losers will start to decouple: We own a profitable and sustainable business model

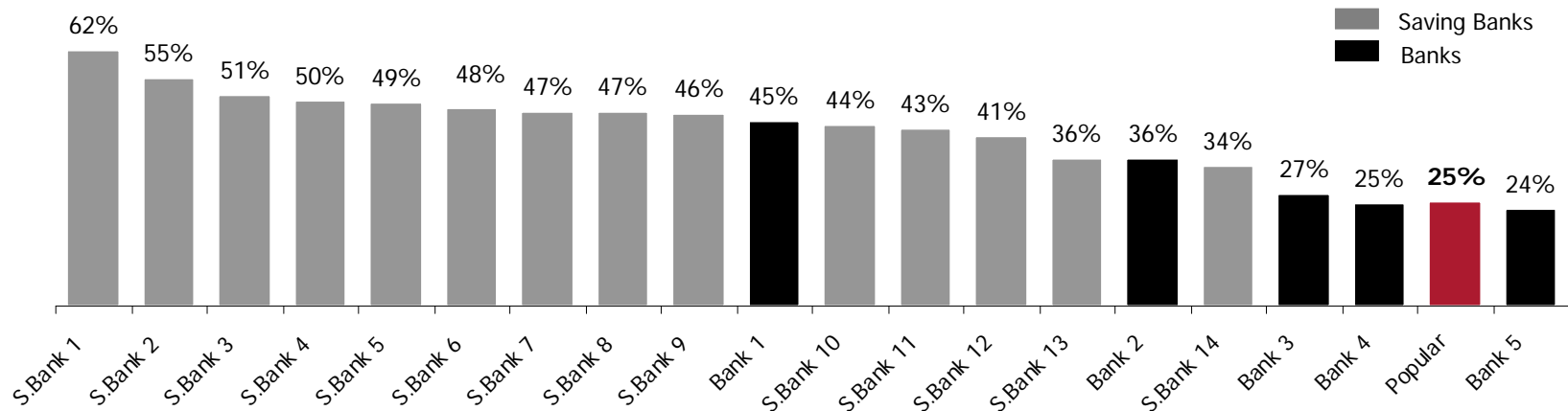


The short duration of out lending book will allow us to reprice and transfer changes in funding cost

Capacity: Short duration of lending book



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



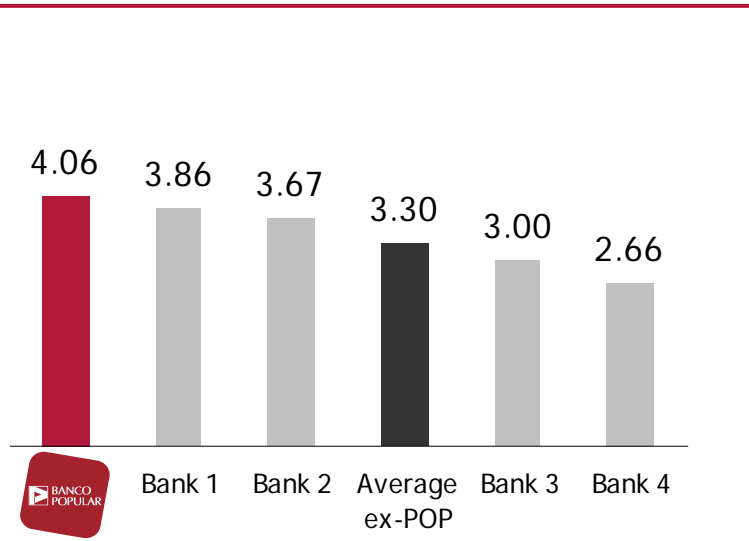
Source: Companies corporate presentations, Dec. 2010. Business in Spain.

Banks: Santander Spain, BBVA Iberia, Sabadell, Pastor and Banesto. Savings banks: Caja España-Caja Duero, Banco Base, Cajatres, Caixa Catalunya, Mare Nostrum, NovaCaixaGalicia, BFA, Unnim, Vital, Banca Civica, CaixaBank, Ibercaja, Unicaja, Kutxa, BBK

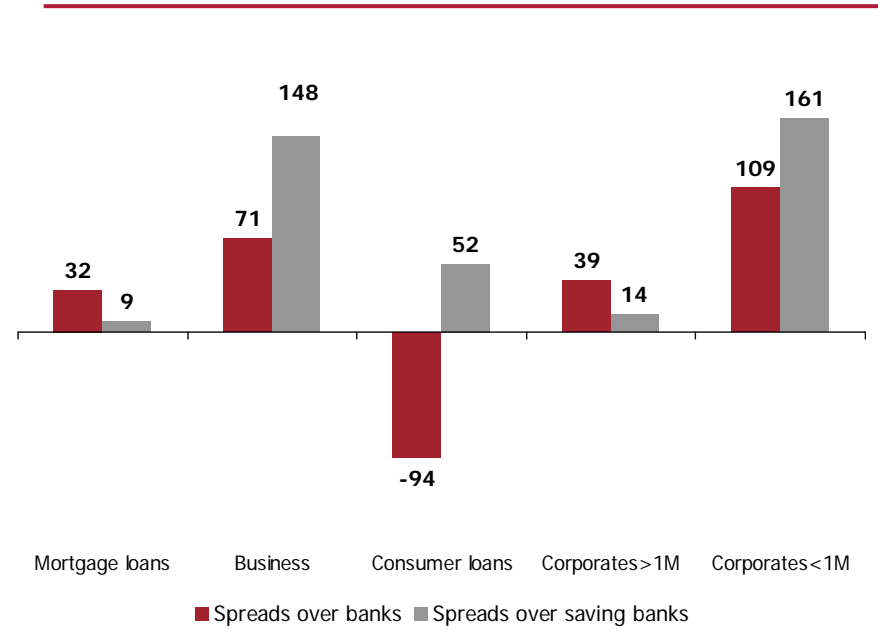


We maintain the highest asset spread in the industry and we will continue to increase it in the coming quarters

Loans yield comparison 1Q11(%)



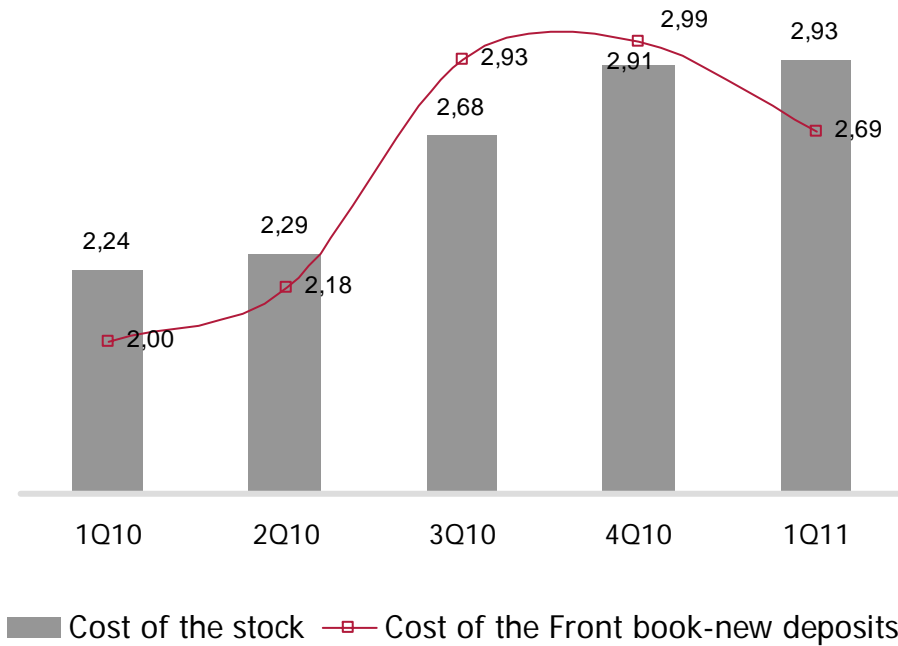
Spreads over industry (bp) ⁽¹⁾



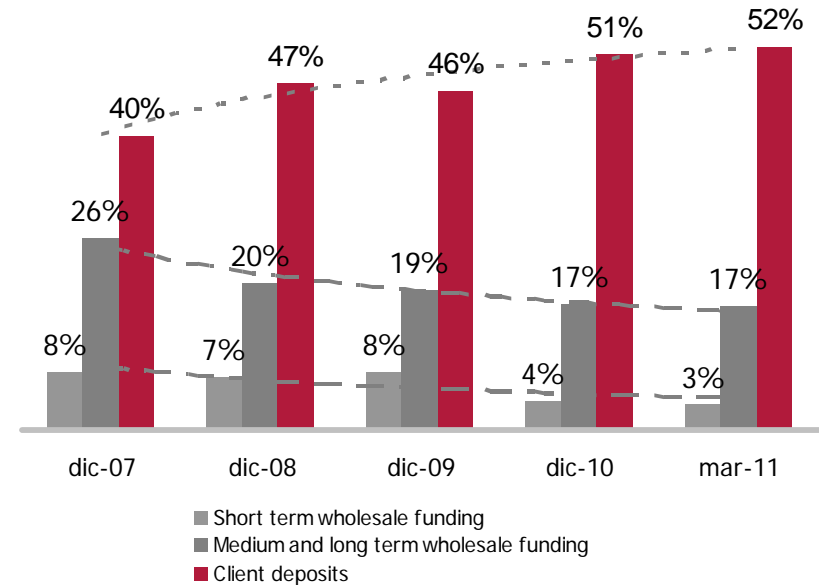
Source: Quarterly reports. Peers: Sabadell, Banesto, CriteriaCaixa Bank and Bankinter
 (1) New production February 2011. Source: Bank of Spain. Last available information

The deposit war is easing while we have already drastically shifted our funding structure

Cost of the stock of time deposits and front book cost of deposits (%)



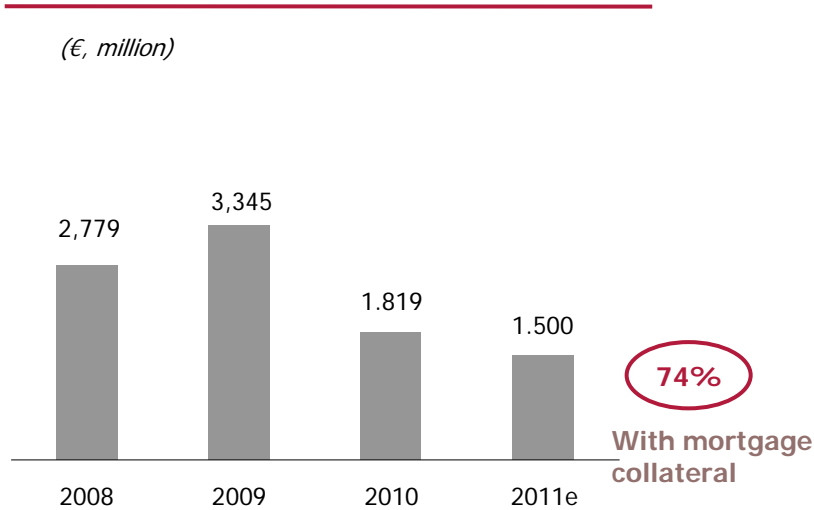
Total funding evolution (%/Total assets)



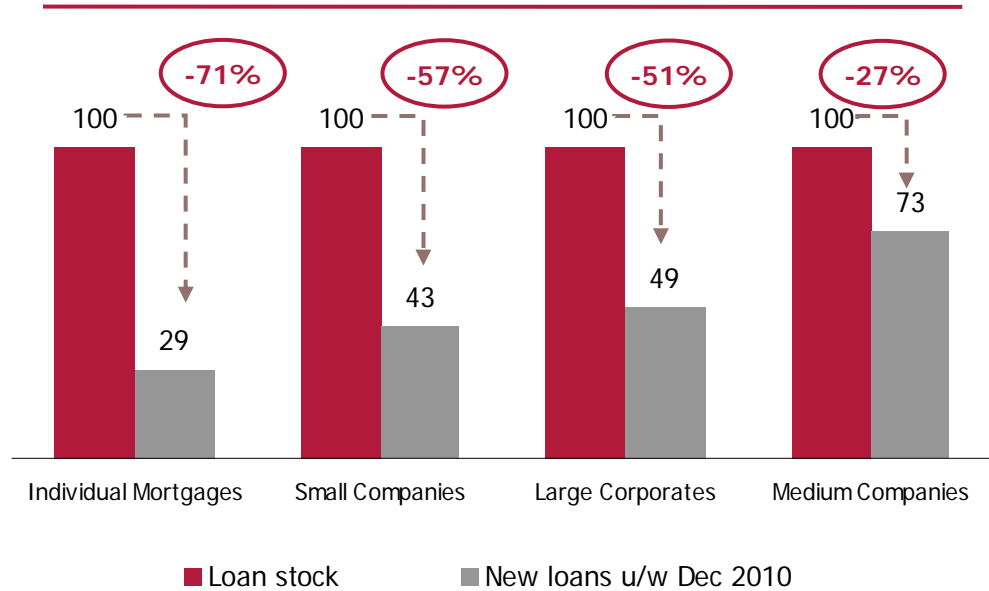
NPL net entries continue in the right direction. The expected loss (EL) of the new business underwritten shows a remarkable improvement

2 Downtrend in Cost of Risk

NPL Entries evolution



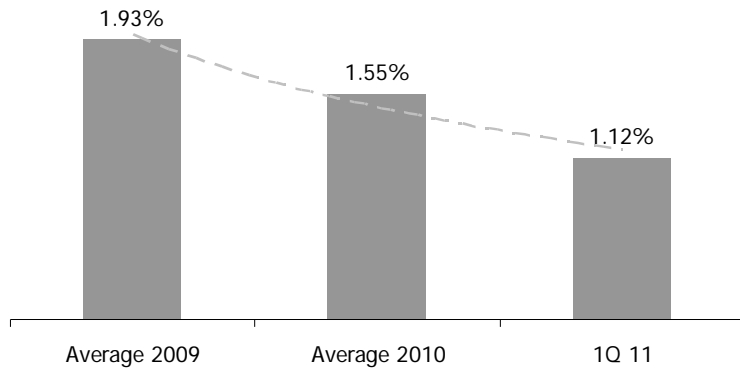
Expected loss new production vs stock – (Index 100)



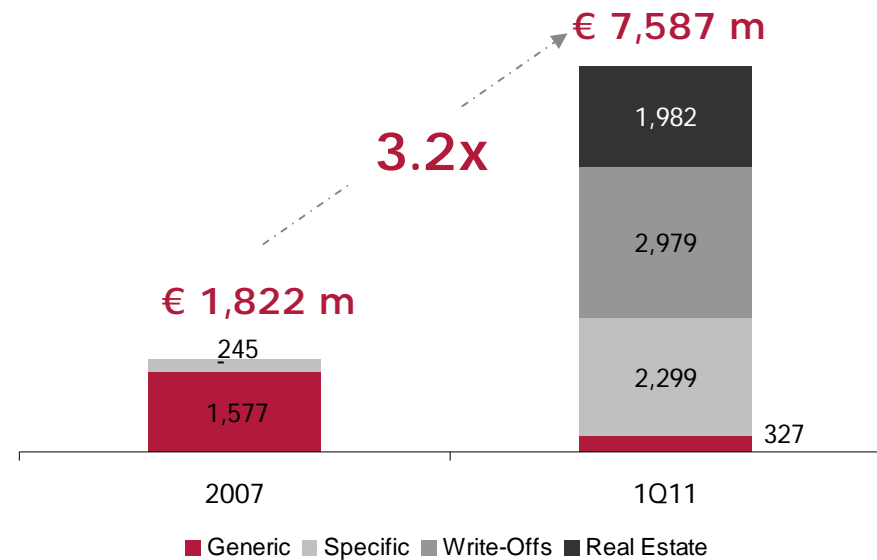
As a consequence of lower net entries, cost of risk is starting to normalize QoQ.

2 Downtrend in Cost of Risk

Ordinary specific provisions
cost of risk evolution



Stock of provisions 1Q11



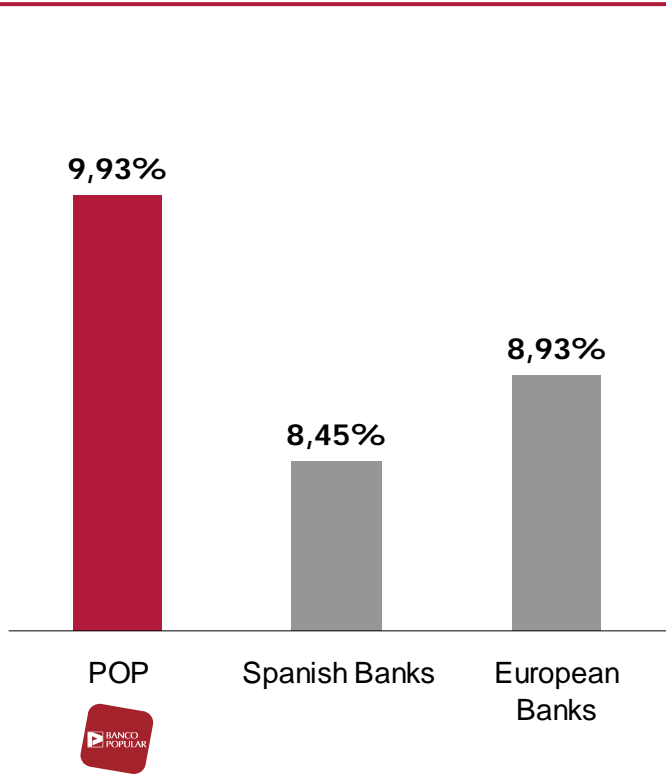
NPA's coverage at 48.5%



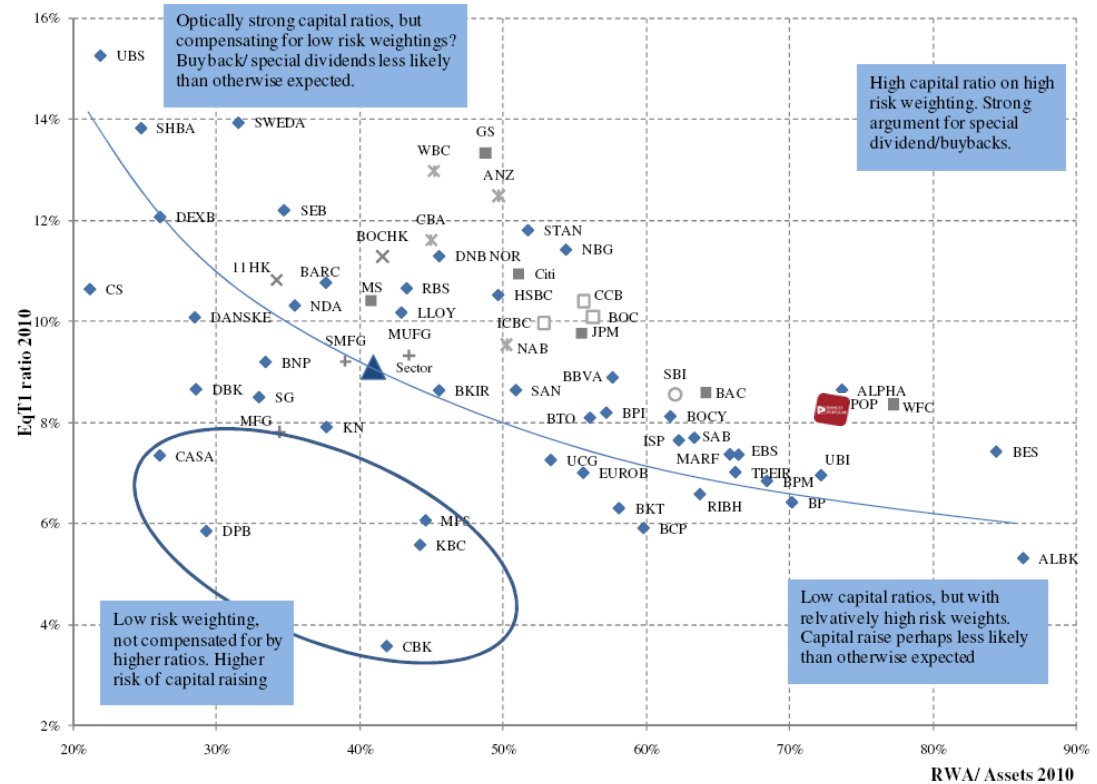
And finally, and very important these days... Not only Low Leverage & High Solvency but also high capital quality

3 BS Deleveraging and Capital Allocation Optimization

Core capital 1Q11



RWA/Assets to Equity Tier 1 ratio Dec'10



Note: Chinese (CCB, BOC, ICBC) and US (GS, Citi, BAC, MS, JPM, WFC) still report under Basel 1. All other geographies shown report under Basel 2. European bank total assets have been 'cleaned' to exclude accounting noise from derivatives.

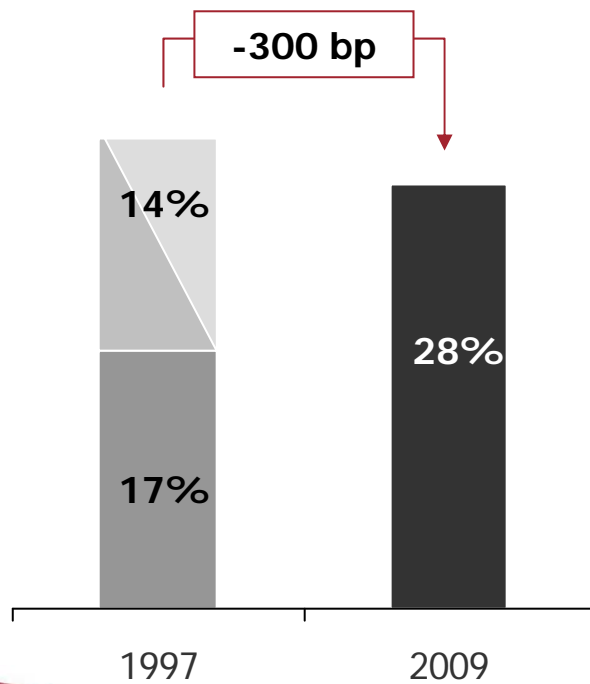
Source: KBW Research; KBW Asia Ltd; Keefe, Bruyette & Woods Inc.



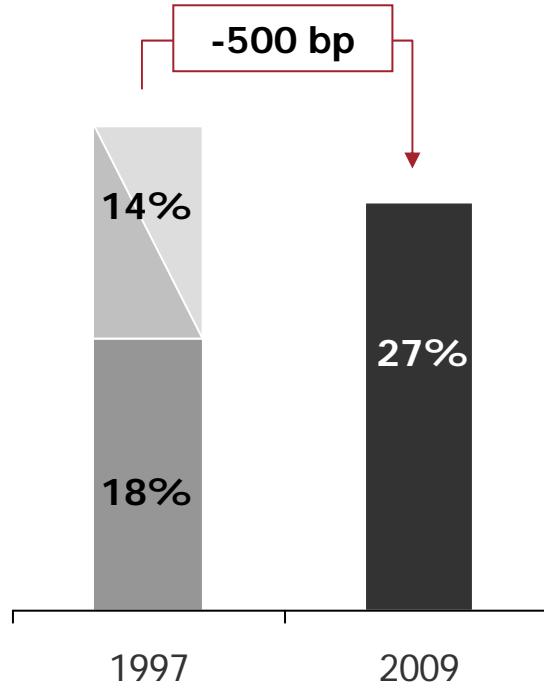
Popular has proved in the past, its capacity and ability to gain market share organically

4 Market Share Gains

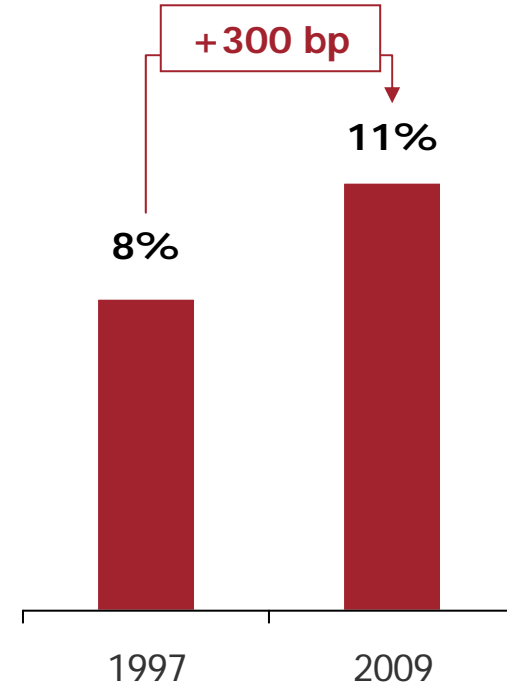
Three Spanish banks merger (I)



Three Spanish banks merger (II)



Banco Popular market share in that period



Source: Bank of Spain, Banco Popular

PS: Banks loan market share

Popular will take advantage of all the opportunities that may appear in a one in a life time market consolidation...



- ✓ Solvency and liquidity
- ✓ Efficiency
- ✓ Profitability
- ✓ Business model

...keeping its independence and business model

Taking advantage of its competitive position

Developing alliances and JV's

Reinforcing and implanting its commercial business model

And consequently...

Gaining market share

Keeping its brand leadership

Increasing profitability



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Still in a challenging environment but....

Revenues

- Margins should start to normalize. Trough 1Q11
- Funding pressures less acute

Costs

- Cost control part of our culture
- Maintain our best in class efficiency

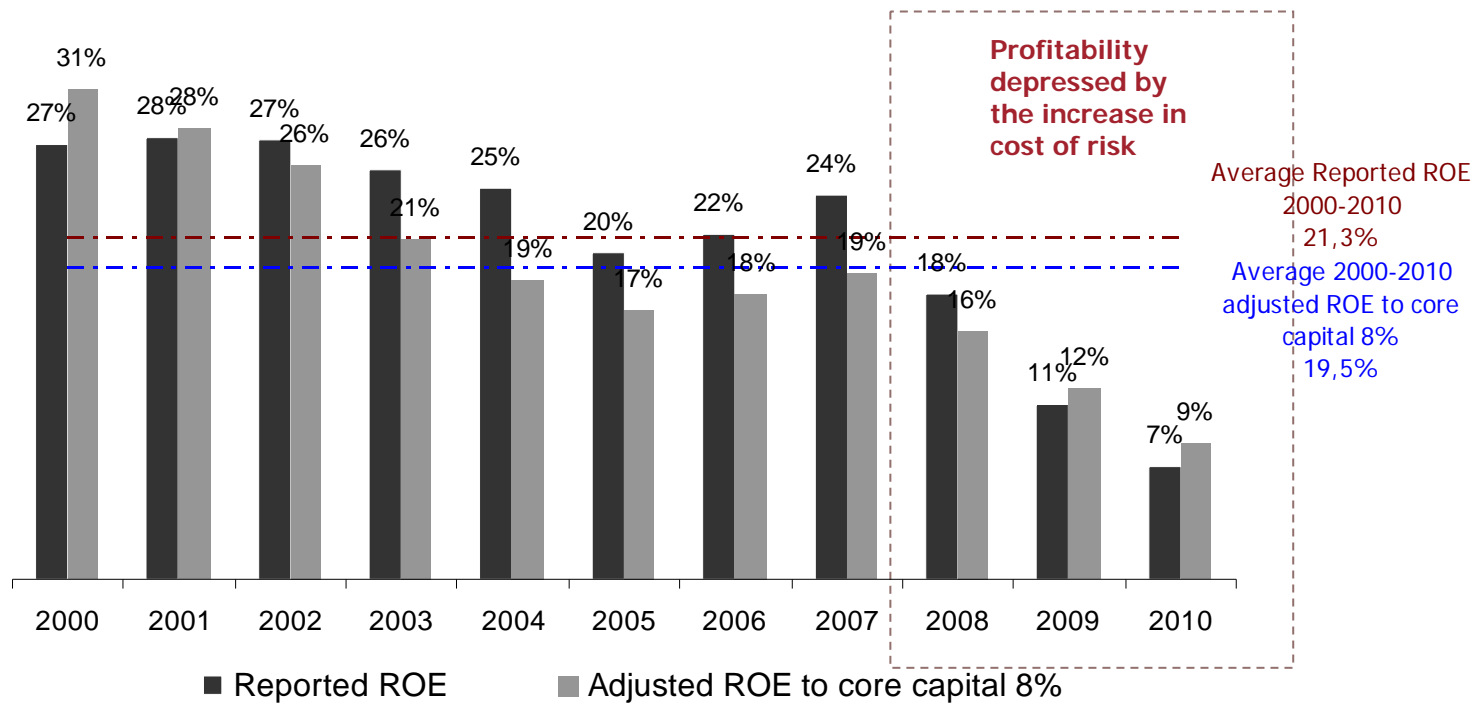
Provisions

- Cost of risk improving
- NPL peaking

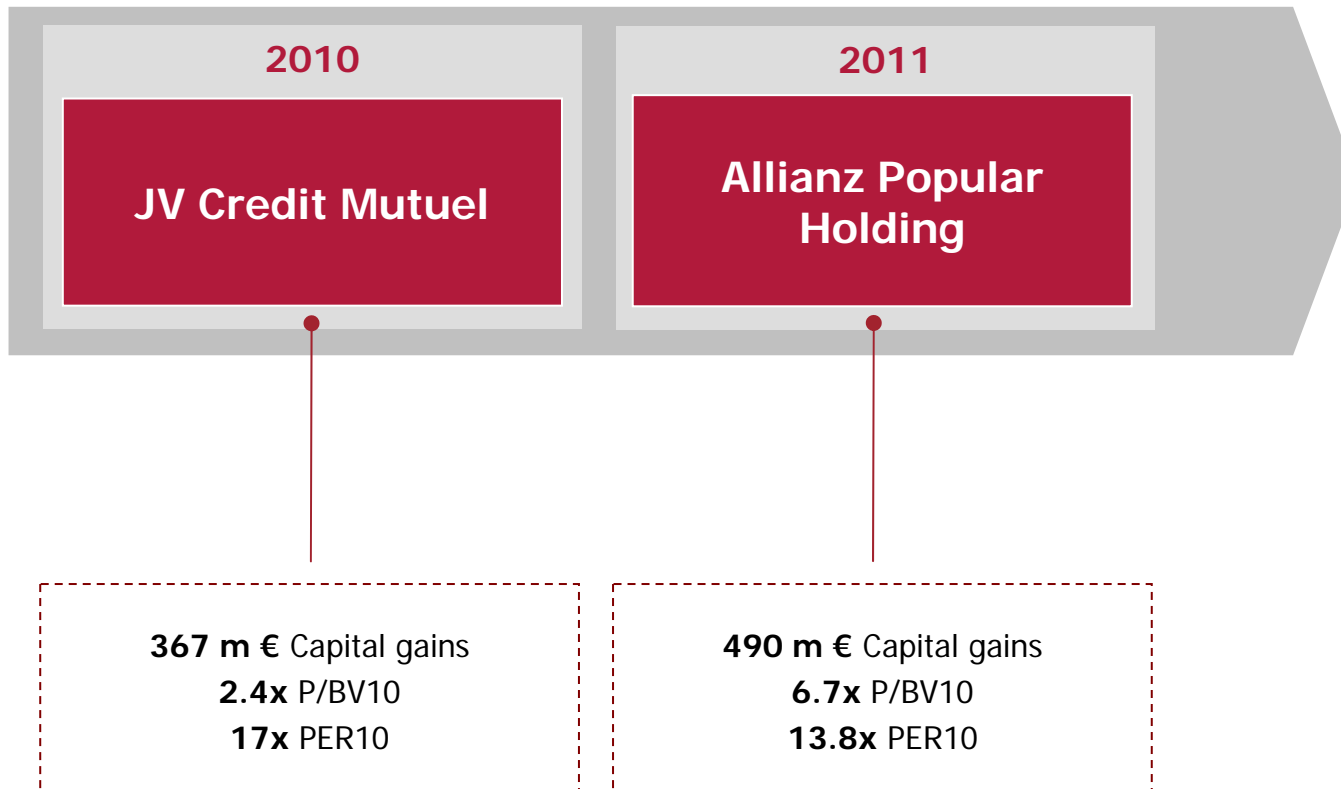


Popular has shown in the past its ability to deliver high profitability based on efficiency rather than leverage. It's all about a gradual normalization of the cost of risk

ROE Reported vs. ROE adjusted to an 8% core capital evolution



We own a proven high quality franchise with a high intrinsic value. Long term & strategic investors are already recognizing this value. Some examples...



Conclusions

- Popular is demonstrating a superior **capacity** to obtain **recurrent revenues** in a very demanding environment (Economic & credit contraction, low interest rates, volatile markets...).
- And also a strong capacity to generate a high level of **capital gains** thanks to its **highly valued franchise**.
- The combination of these capacities, has allowed us to implement a **conservative provisioning policy** over the last three years (c.EUR7.5bn provisions) while we have **improved our liquidity & solvency** well above our peers.
- We view the **future with confidence** because of the high value and sustainability of our franchise. We own a **WINNING MODEL**





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