

Banco Popular Español, S.A.

PRESENTATION TO
FIXED INCOME INVESTORS
1Q 2011



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Agenda

1. Starting Point: A robust and profitable model

2. Business resilience & solid operating performance

3. Risk management

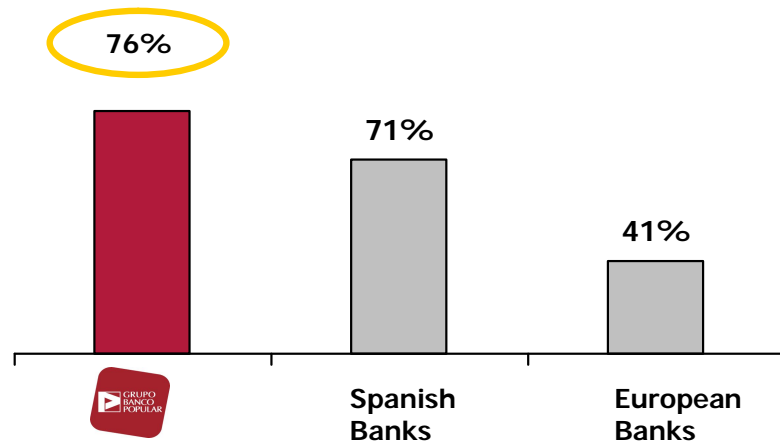
4. Capital excellence

5. Liquidity & funding policy

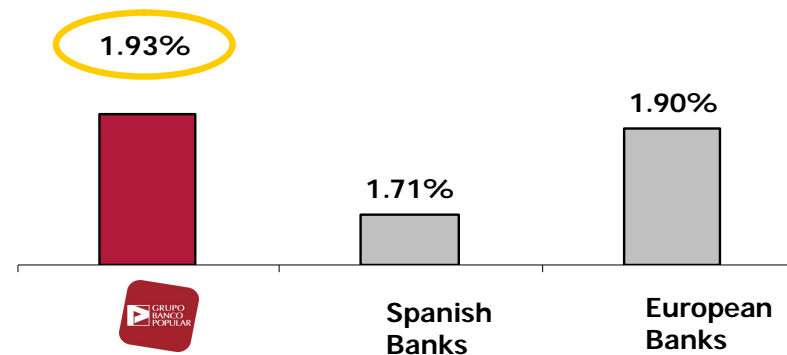
Appendix: A view on Spain

In spite of the crisis our strengths remains in good shape

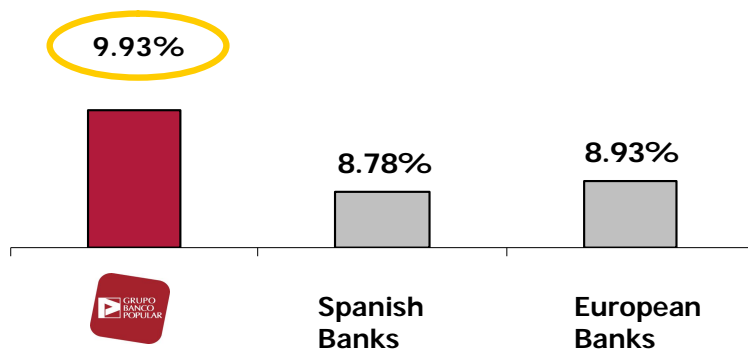
- ✓ A pure retail and commercial bank:
 - ✓ loan to assets



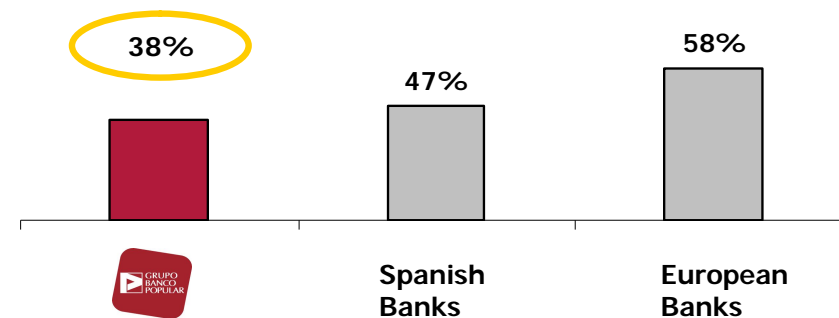
- ✓ The highest pre-provision profit over loans ⁽¹⁾



- ✓ The strongest core capital



- ✓ The most efficient bank: C/I ratio

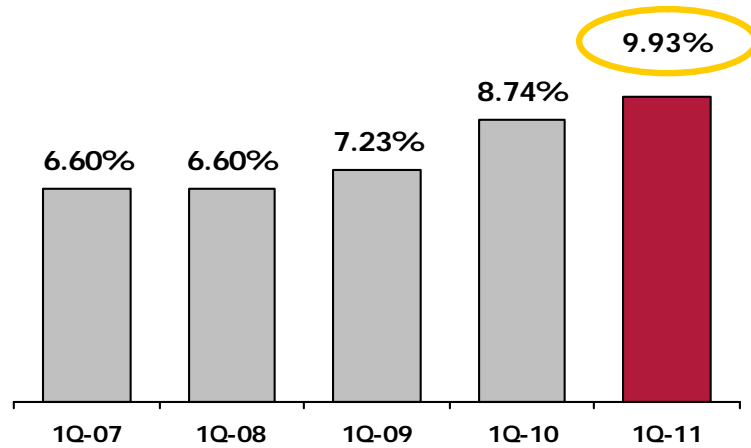


(1) Pre-provisioning profit/average gross loans

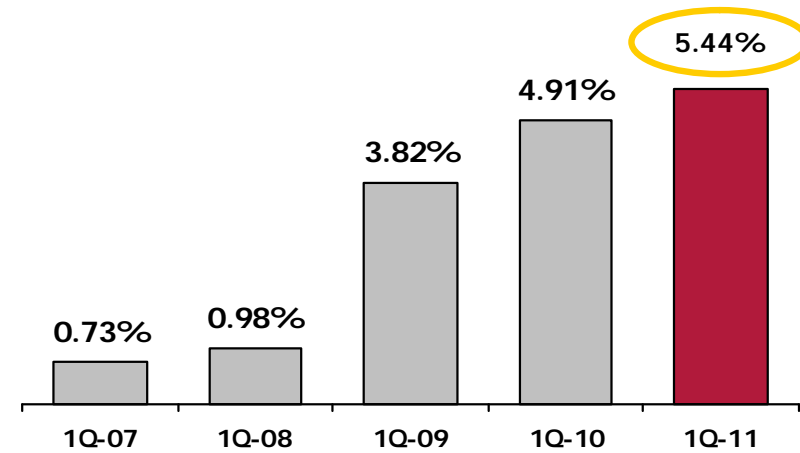
Source: Quarterly reports as of March 11; Spanish Banks: Santander Spain, BBVA Iberia, Banesto, Sabadell, Bankinter & Criteria European Banks, analyst' estimations

Our priorities remain focused:

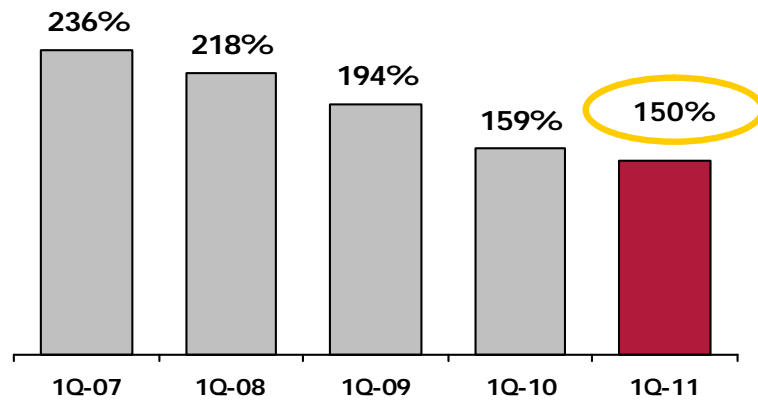
✓ Solvency: Core capital



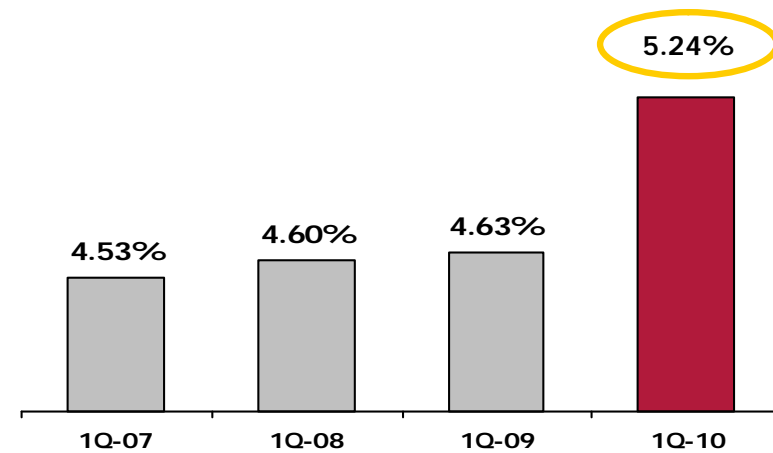
✓ Stabilize bad/debt ratios



✓ Reduce wholesale funding reliance



✓ Gain quality market share⁽¹⁾



⁽¹⁾ Business market share: credits and deposits. Source: T7 form. Latest available data.

Financial Highlights

(€, million)	1Q-11	4Q-10	Change	1Q-10	Change
Net interest income	516	552	-6.7%	663	-22.3%
Fees and commissions	172	169	1.3%	163	5.4%
Trading and other income	88	58	52.7%	74	19.2%
Gross operating income	776	780	-0.5%	901	-13.9%
Expenses	-326	-348	-6.5%	-309	5.3%
Pre-provisioning profit	450	431	4.2%	591	-23.9%
Provisions for loans and investments (ordinary & accelerated)	-409	-191	>	-276	48.1%
Provisions for real estate (ordinary & accelerated), goodwill and extraordinary gains	71	-144	-	-39	-
Net profit	186	69	>	204	-9.0%
Wholesale funding dependence (% assets)	28%	28%	-	33%	-5%
Efficiency ratio	38.37%	41.29%	-2.92%	31.47%	+6.90%

N° of shareholders up by 11,700 (+8%) in 2010

Note: restated 2010 following Allianz-Popular Holding

Summary remarks 1Q2011

- Net Profit of €186m (4Q-2010: €69m; 1Q-2010: €204m).
- Lower NII and lower Credit provisions, as expected. In the next 3 quarters NII will go up.
- €498m capital gains devoted to accelerated provisions (mainly RE). Total provisions for the quarter, €836m.
- No use of Generic Provisions this quarter (balance €327m).
- NPL entries stable. Bad Debt ratio at 5.44%, 77 b.p. below the industry. RE coverage at 34%.
- Comfortable liquidity position. Lower dependence of wholesale funding.
- Sound Core Capital position, at 9.93%.

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2. Business resilience & solid operating performance

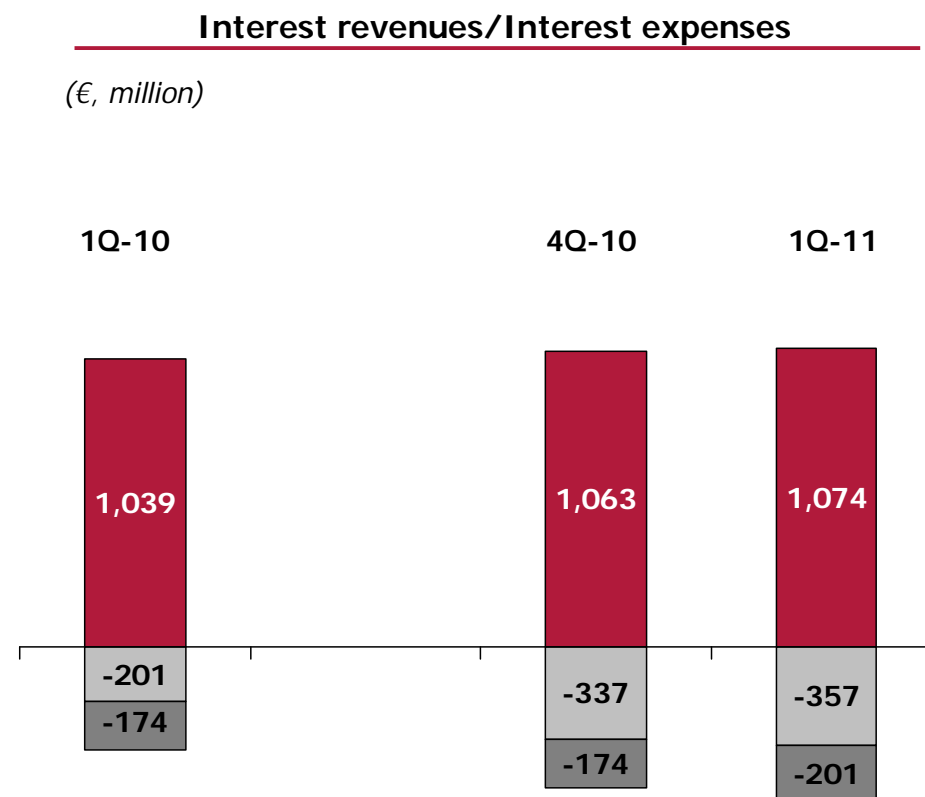
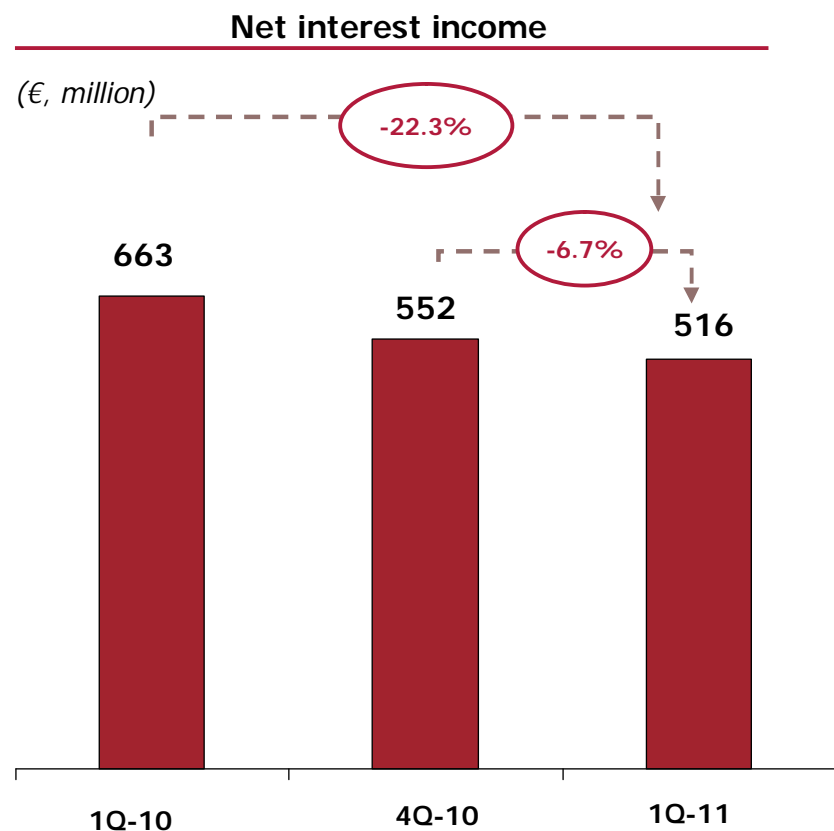
3. Risk management

4. Capital excellence

5. Liquidity & funding policy

Appendix: A view on Spain

- Lower NII due to asset & liabilities repreciation mismatch & higher cost of funding, as expected.
- We expect NII to improve in the next quarters. 1Q will be probably the “floor” in 2011.

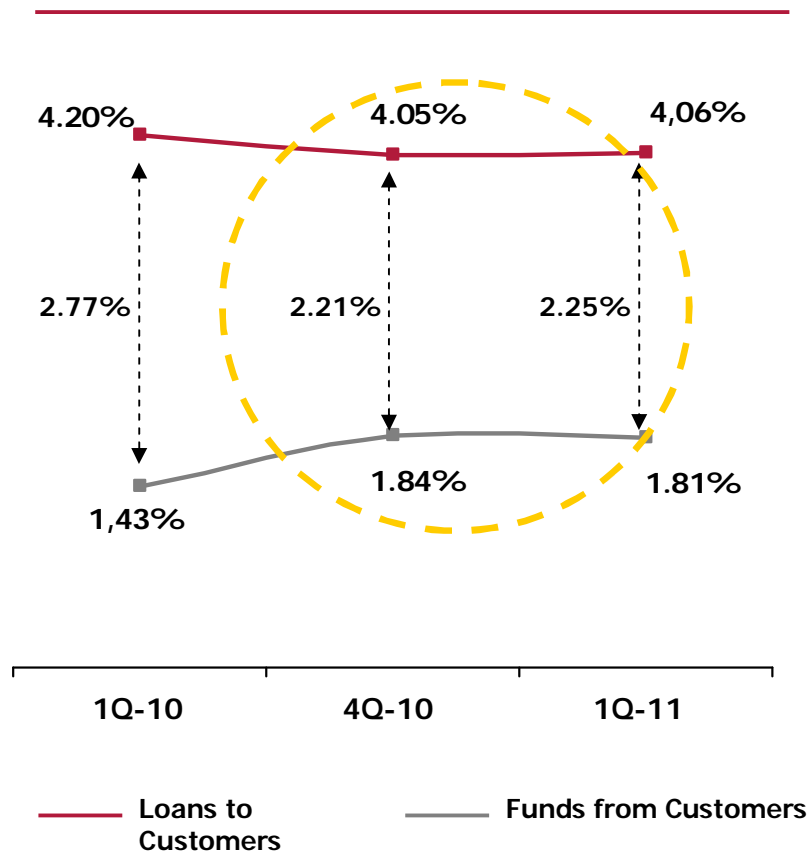


■ Earning assets ■ Customer funds ■ Wholesale funds

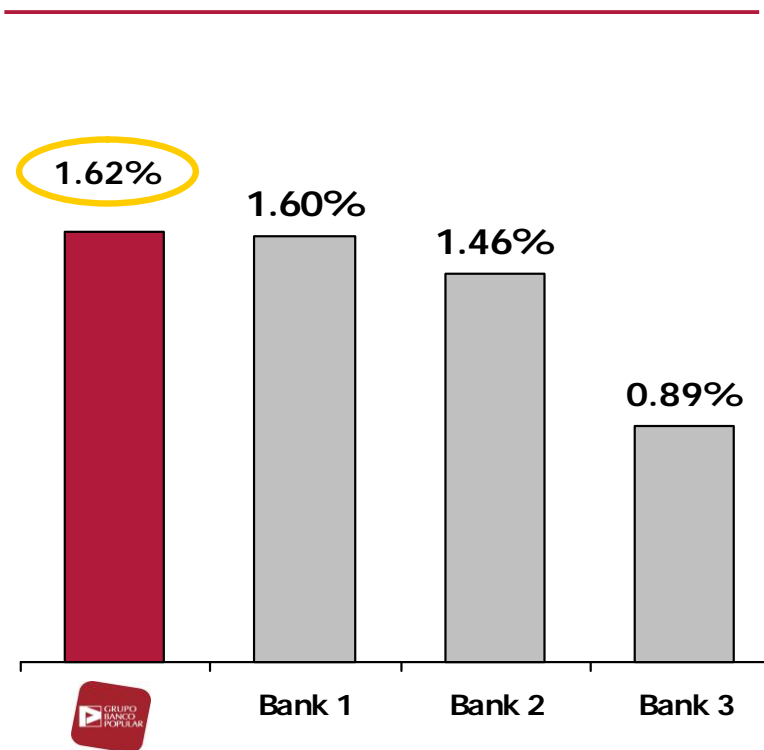
Note: restated 2010 following Allianz-Popular Holding

- In spite of higher cost of funding in Spain, NII better than peers. Customer spreads edging up.

Customer spreads



Net interest income (1Q-11)



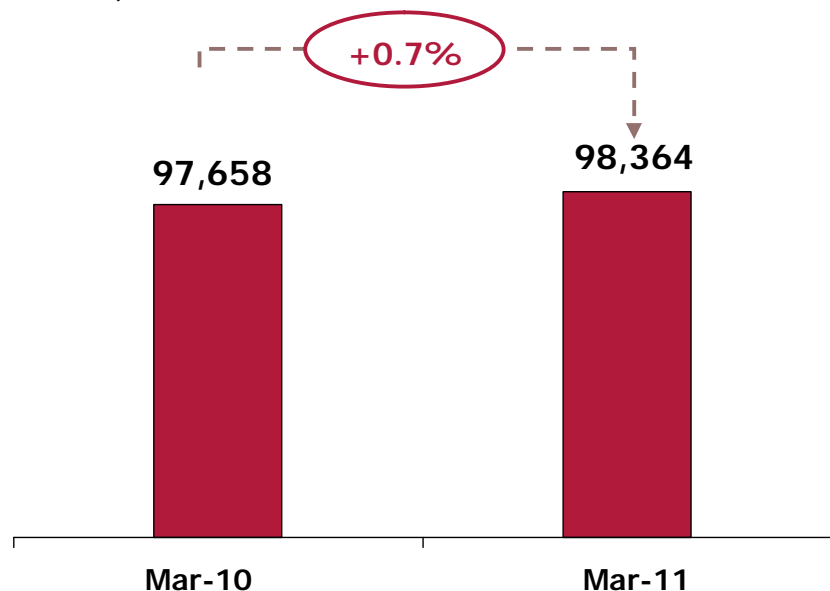
Source: Quarterly reports

Note: Comparable banks include Sabadell, Banesto and Bankinter.

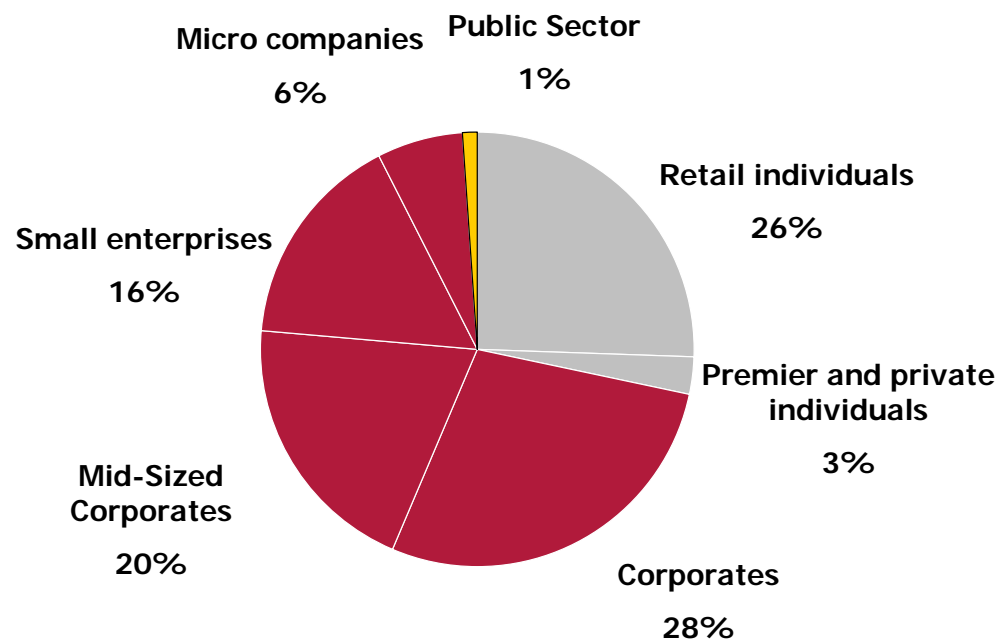
- Loans marginally up in spite of the sluggish demand of credit. We keep our good mix.

Loans evolution

(€, million)



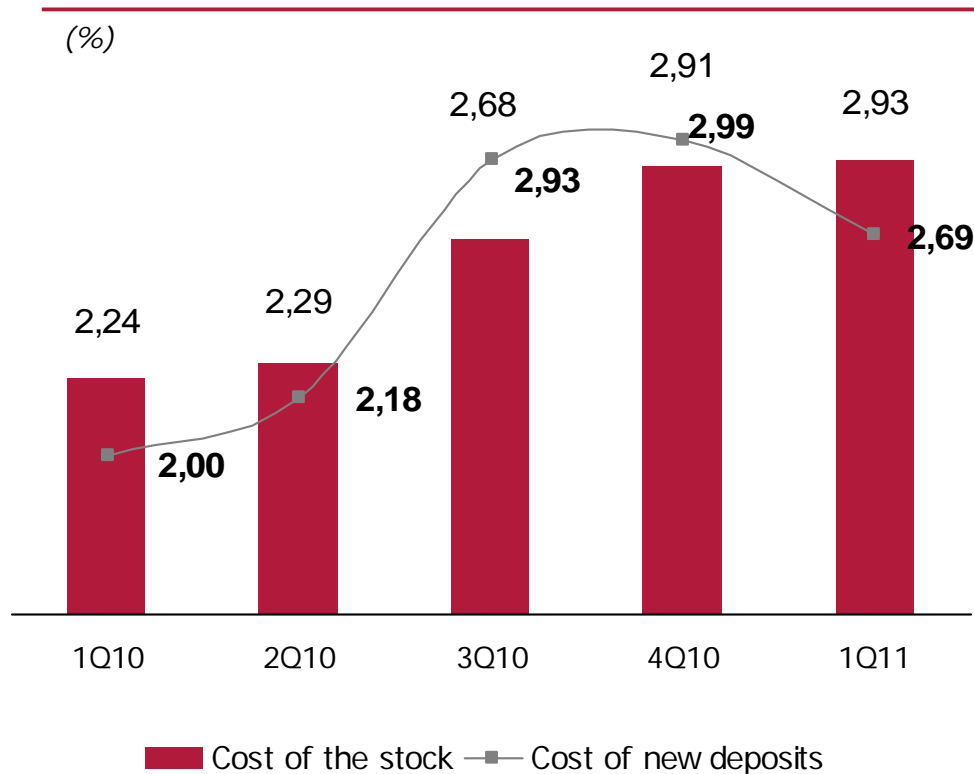
Loans breakdown by sector



- ✓ New retail customers: 340,000 in 2010; 49,000 in 1Q11
- ✓ New SMEs: 54,000 in 2010; 15,000 in 1Q11

- Customer deposits up again. Growth of 7%, allowing for a further reduction in the commercial gap.

Cost of the stock of time deposits and front book cost of deposits



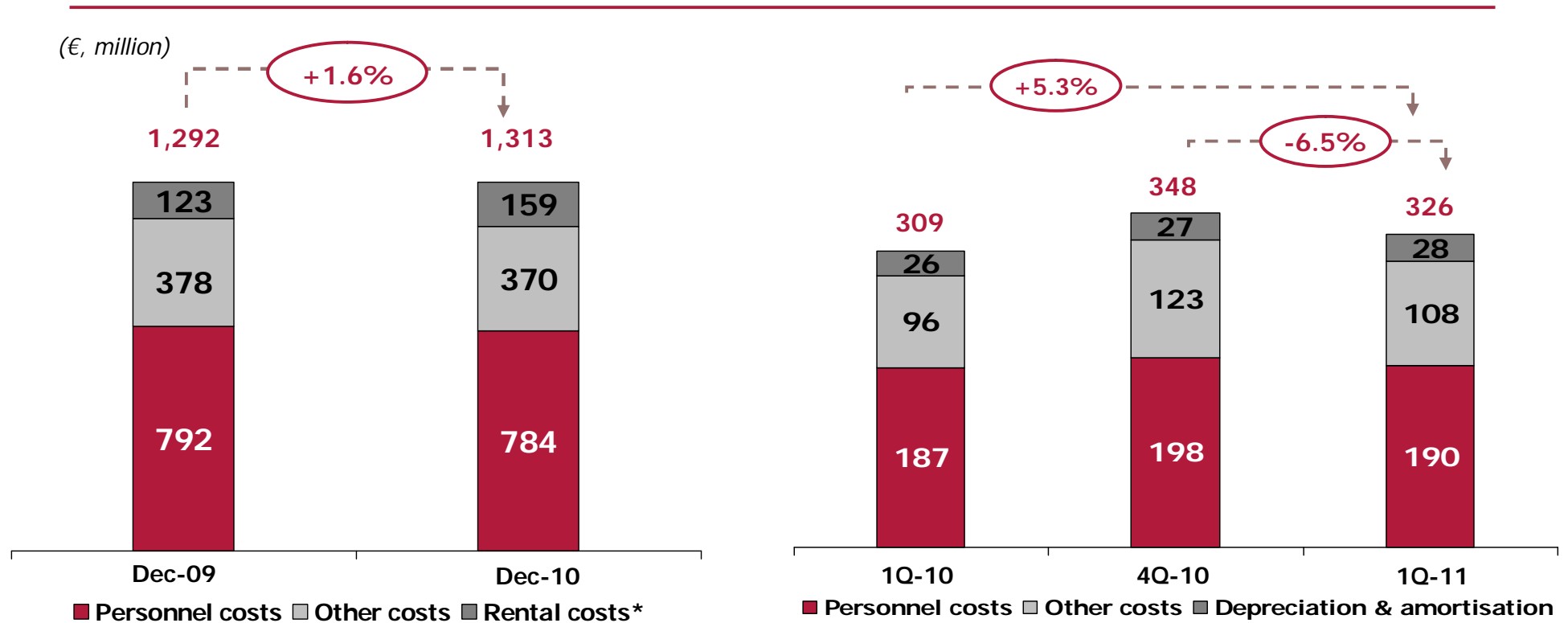
€3.2bn y/o/y reduction of the commercial gap

- 100% renewals
- At a lower cost 2.93% (vs 3.60% 1Q-2010)
- Lengthening maturities

1Q-11: New deposits at lower rate than stock

- Costs under control (down 6.5% in the quarter) in spite of higher IT investments.

Costs evolution 09-10 & 1Q10 – 4Q10 – 1Q11



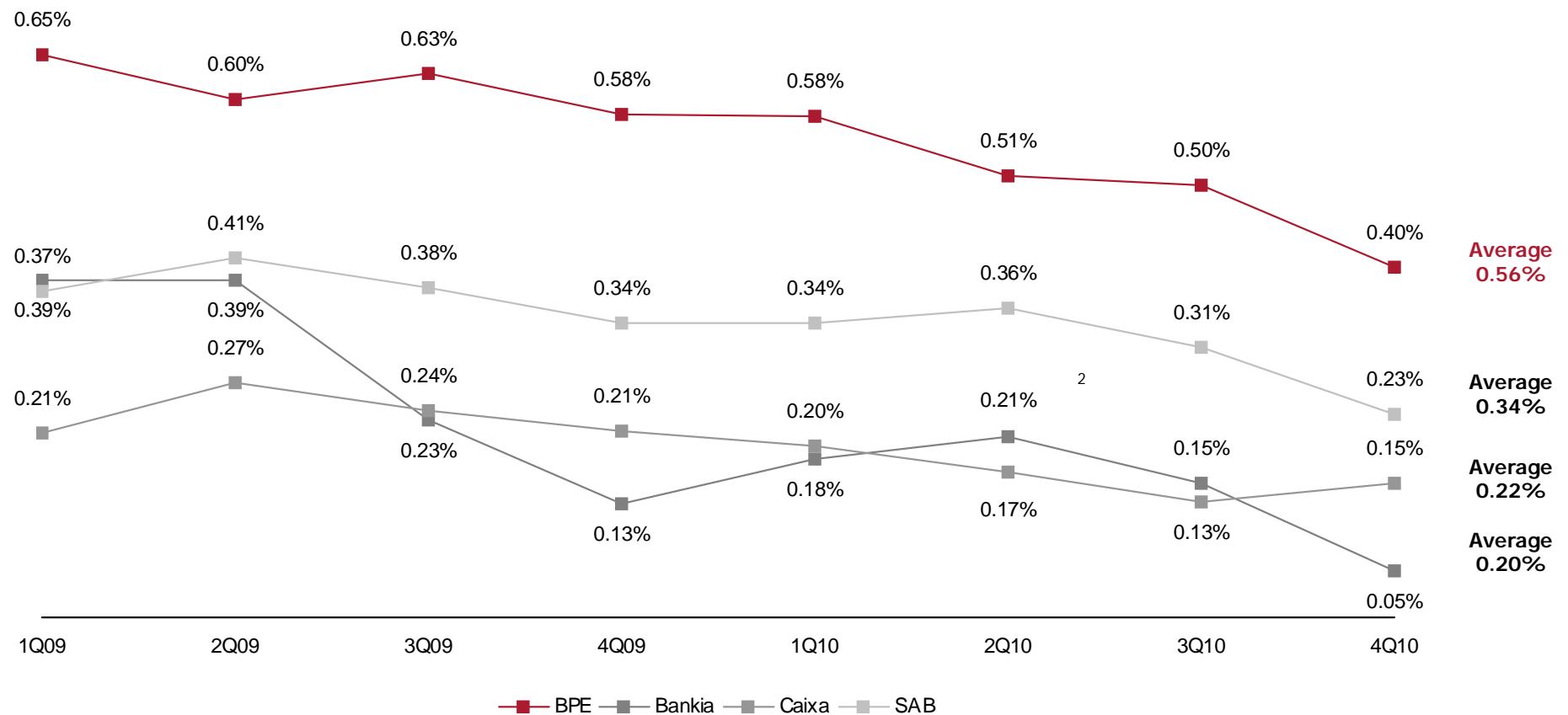
Optimized branch network and still capturing synergies from the merger of our subsidiaries

Note: restated 2010 following Allianz-Popular Holding

• Recurrent operating performance remains stronger than peers'

- ✓ BPE recurrent pre-provision margin recurrently above peers
- ✓ BPE average 2009-2010 PPP margin of 0.56% is significantly higher than that of peers
- ✓ Risk absorption capacity much higher than peers'

Quarterly pre-provisioning margin over loans ⁽¹⁾



(1) PPP margin calculated as: Net interest income + net commissions + trading income. Bankia: 2Q10 trading income for Bancaja has been normalised assuming the average of the analysed period

Source: Annual and quarterly reports and CECA

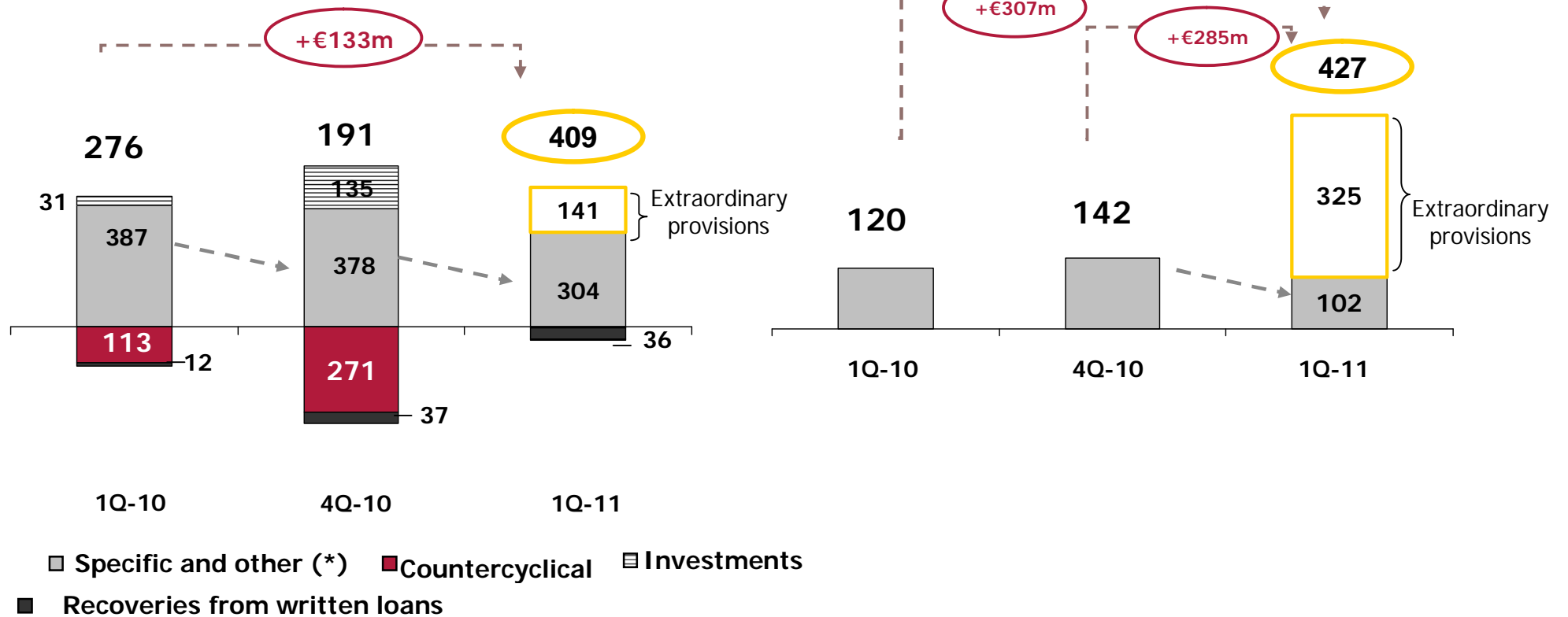
- Capital Gains arising from the Allianz-Popular holding have allowed us to accelerate Credit (+€141m) & Real Estate (+€325m) provisions.

- (i) Lower needs of specific provisions. Generic Provisions untouched in the quarter (balance remaining at €327m).
- (ii) Lower regulatory provisions for real estate (€102m). Exceptional €325m new buffer for RE investments

Provisions for loans and investments

Provisions for owned real estate

(€, million)



(*) Net of country Risk

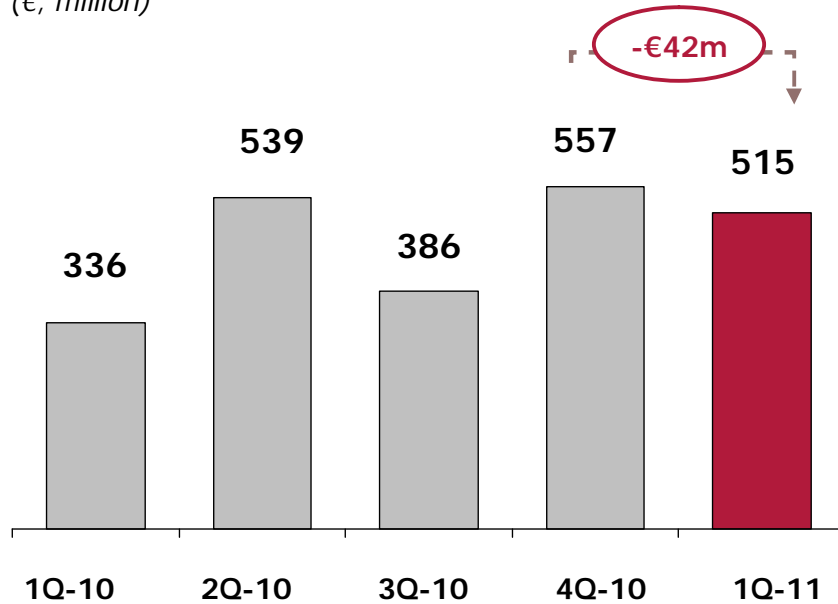
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 - 3. Risk management**
 4. Capital excellence
 5. Liquidity & funding policy
- Appendix: A view on Spain

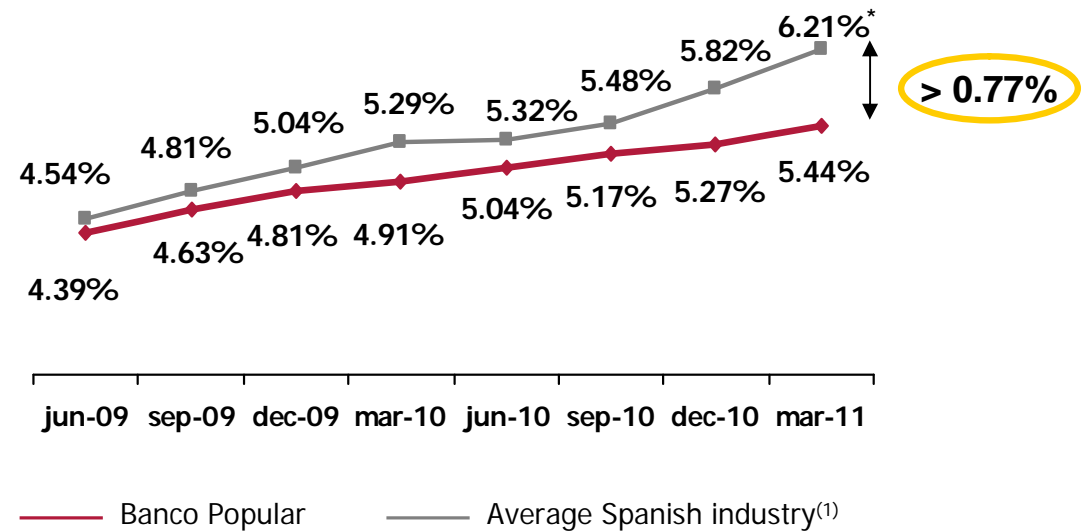
- Net NPL entries stable at 2010 levels (60% of 2009 levels).
- Bad Debt ratio below the industry.

Evolution of net entries of NPLs

(€, million)



NPL ratio evolution



74% of NPL entries with mortgage collateral

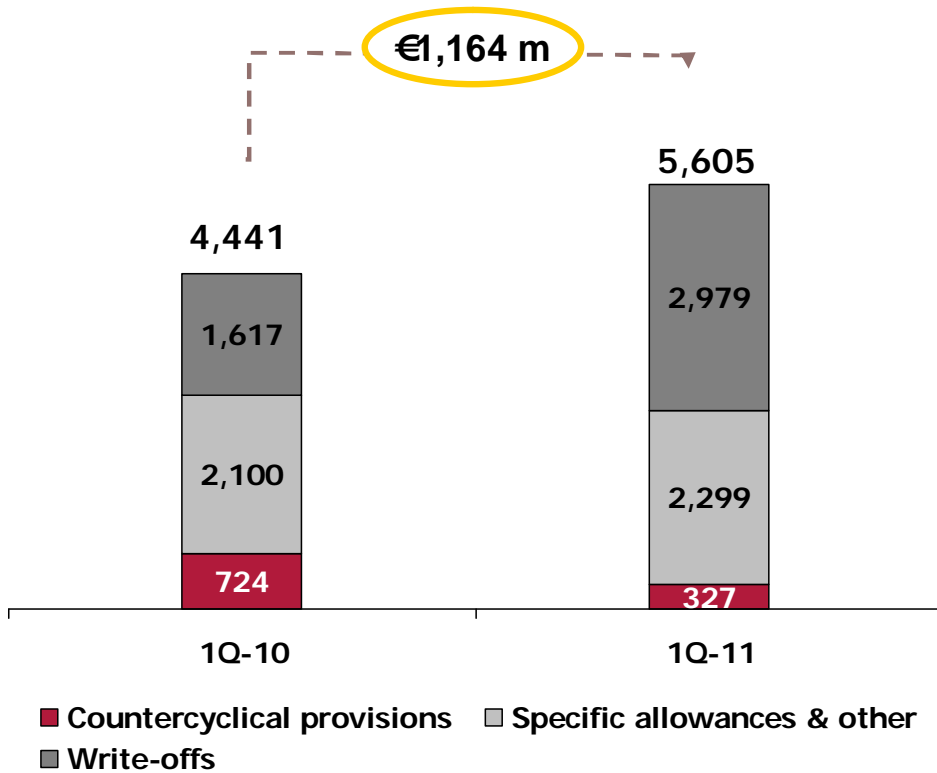
⁽¹⁾ Average banks and saving banks.

^(*) Data as of February 2011

- Provisions stock up by €1.1bn. Adequate coverage at 98.73% (after haircuts).

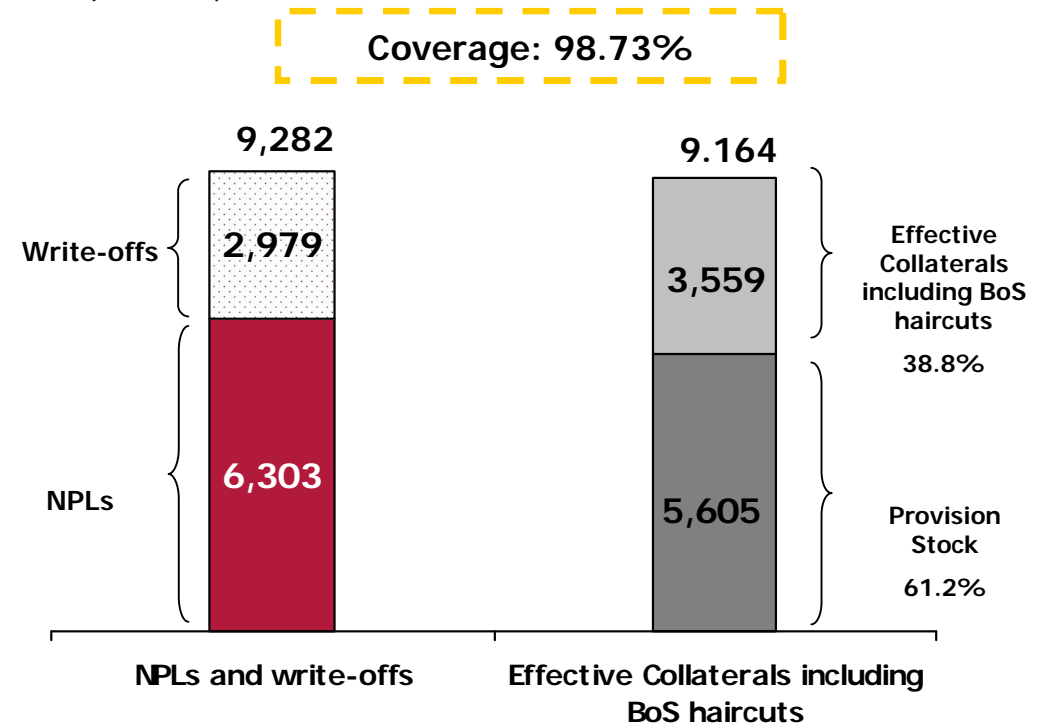
Provision Stock

(€, million)



Coverage analysis

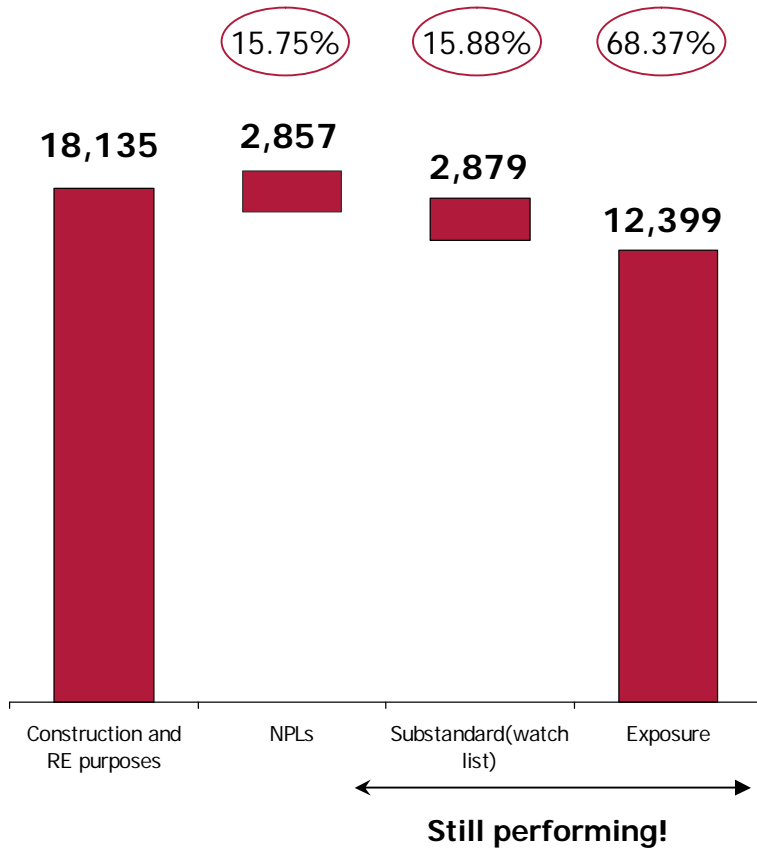
(€, million)



Loans to Real Estate & Construction

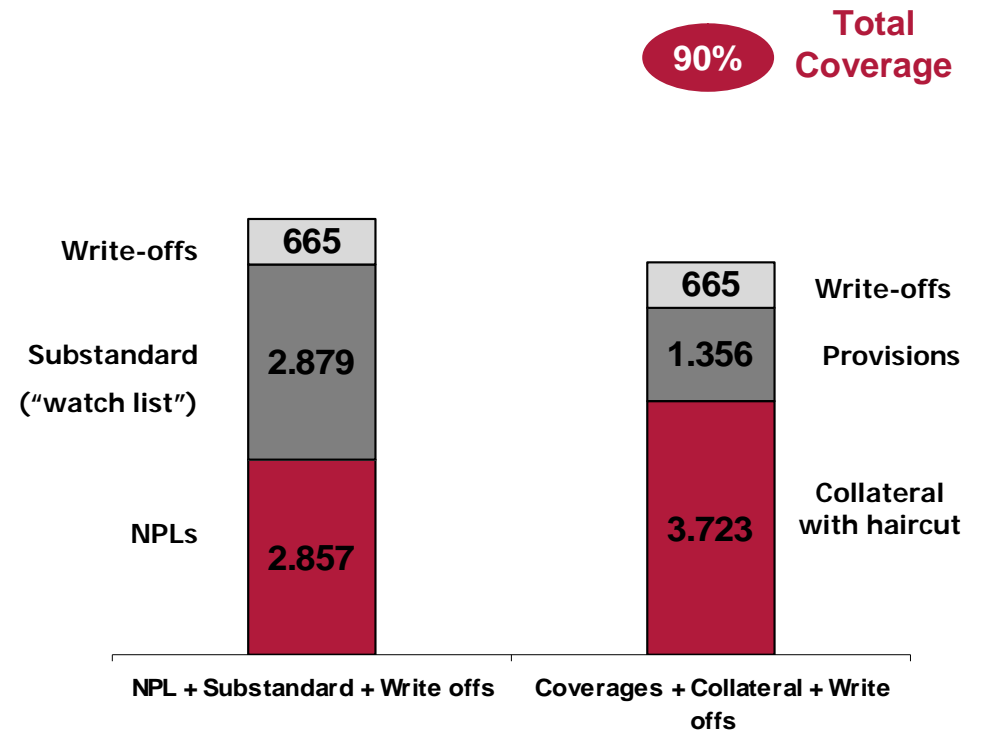
NPLs and Substandard (“watch list”)

(€, million)



Coverage of NPLs and Substandard loans (“watch list”)

(€, million)



Global Coverage without haircuts: 162%

Real Estate assets in Spain

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

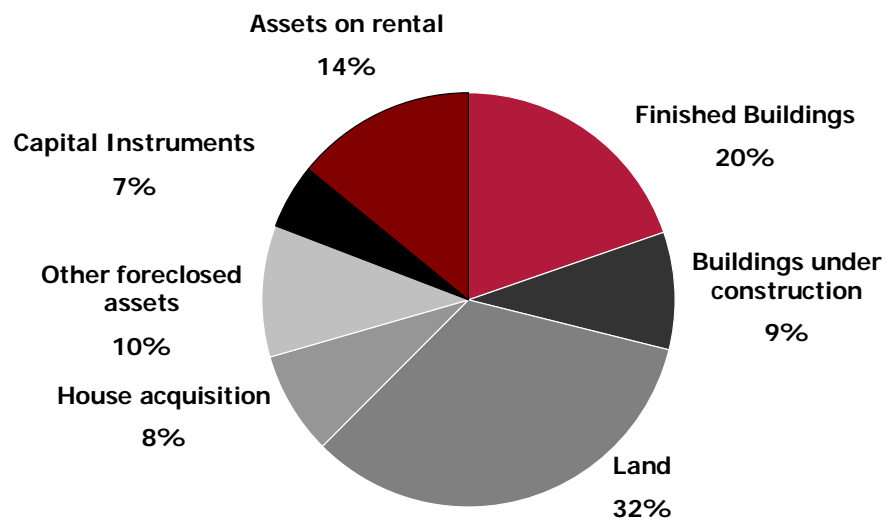
Net amount	3,557
Construction and developers	2,761
Residential repossessions	370
Other Non RE companies repossessions	426
Provisions	1,430

Assets on rental (€,million)

Net amount	618
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Capital instruments (€,million)

Net amount	308
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Coverage: 34%(1) (up from 29% (2))

(1) Provision over acquired and repossessed assets and capital instruments. Data as of 31.03.11

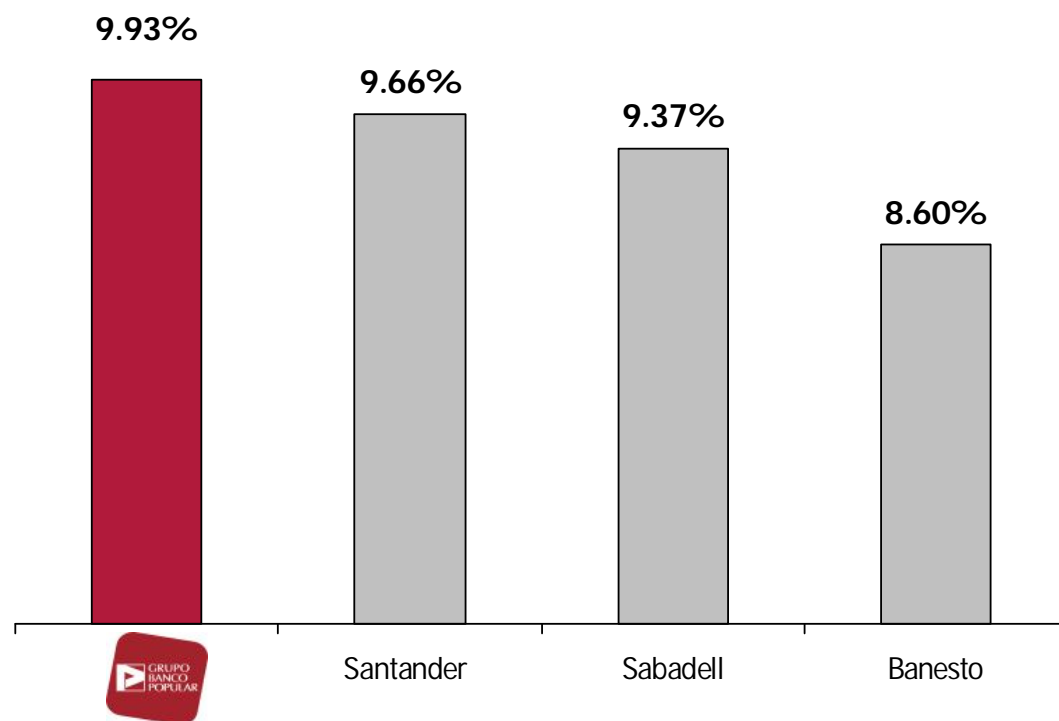
(2) As of December 2010

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- On Solvency, we keep a very good Core Capital position at 9.93% (no need to reduce RWA). Well prepared for Basle III both at Capital & Leverage levels.

Core capital

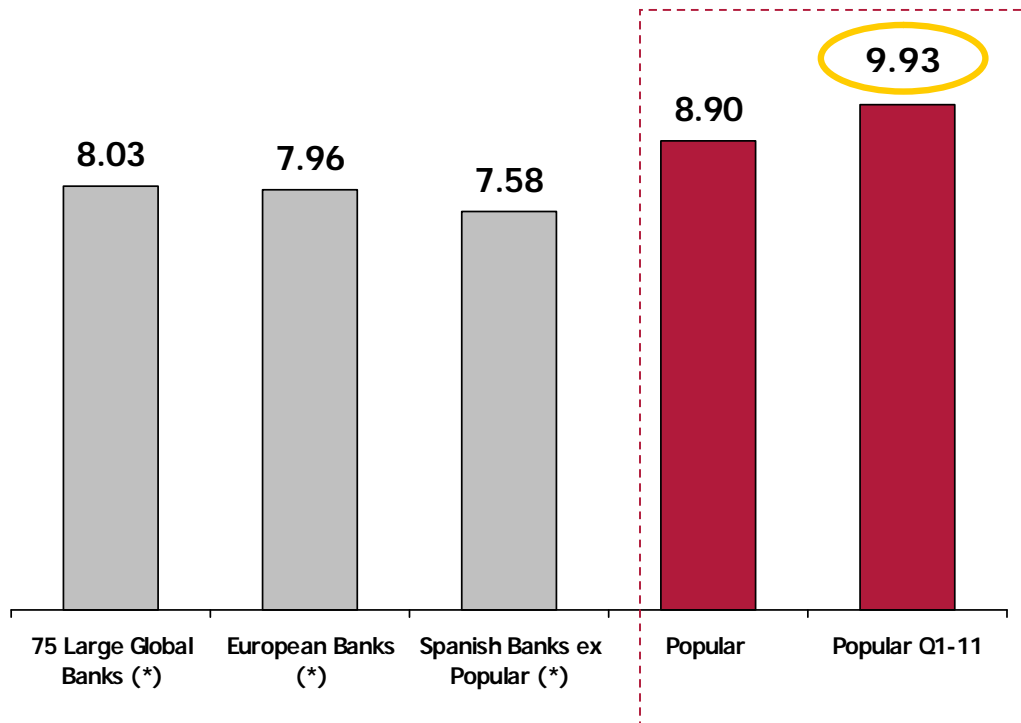


- ✓ Core capital : €9.0 bn
- ✓ Leverage Ratio: 14.22x (7.03%) vs. 30x European average*

* Source: KBW

- According to Standard & Poors Risk Adjusted Capital (RAC) measure, as of June we hold the leading capital position amongst Spanish Banks and a privileged position amongst Euro banks. S&P criteria is very much aligned with Basel III approach

Estimated RAC ratio as of June 2010-after diversification/concentration (%)



* Average RAC Ratio. Banks means Banks and Savings

Source: Standard & Poor's

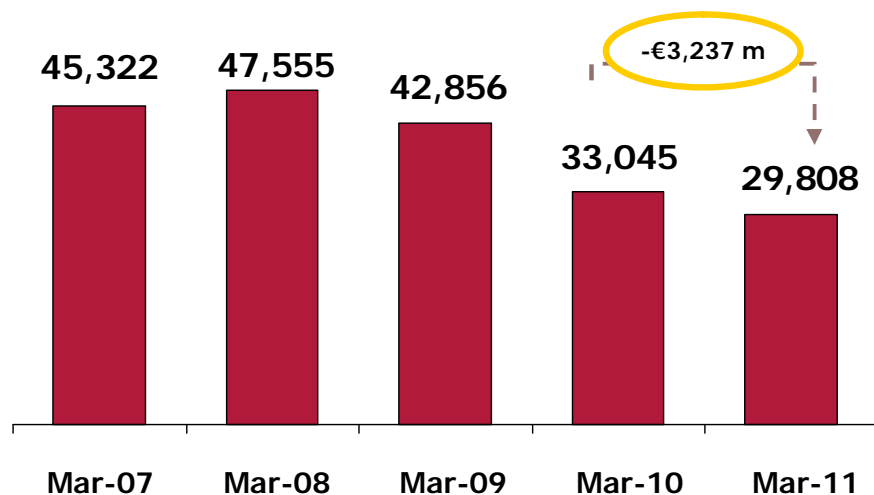
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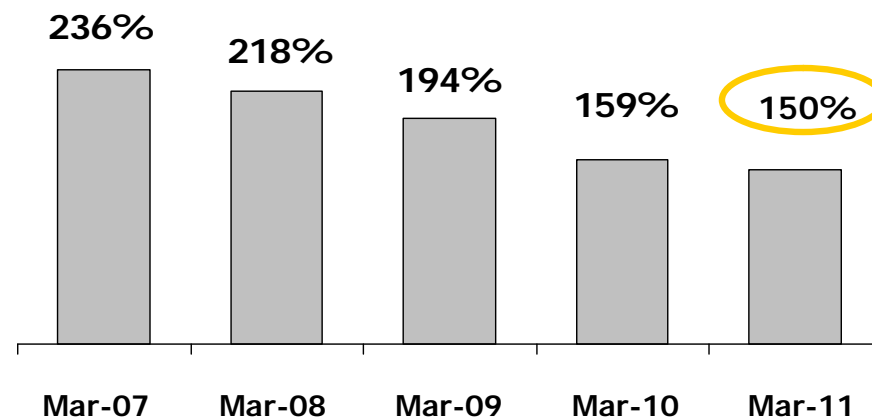
Appendix: A view on Spain

- Following the increase in customer deposits, the loan:deposit ratio improves to 150% vs 236% at the beginning of the crisis.

Evolution of the commercial gap



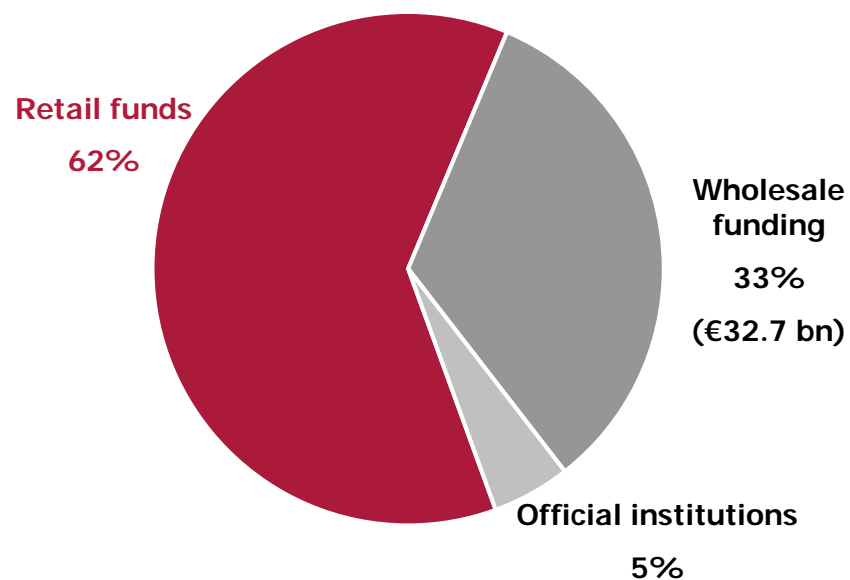
Loans/deposits ratio*



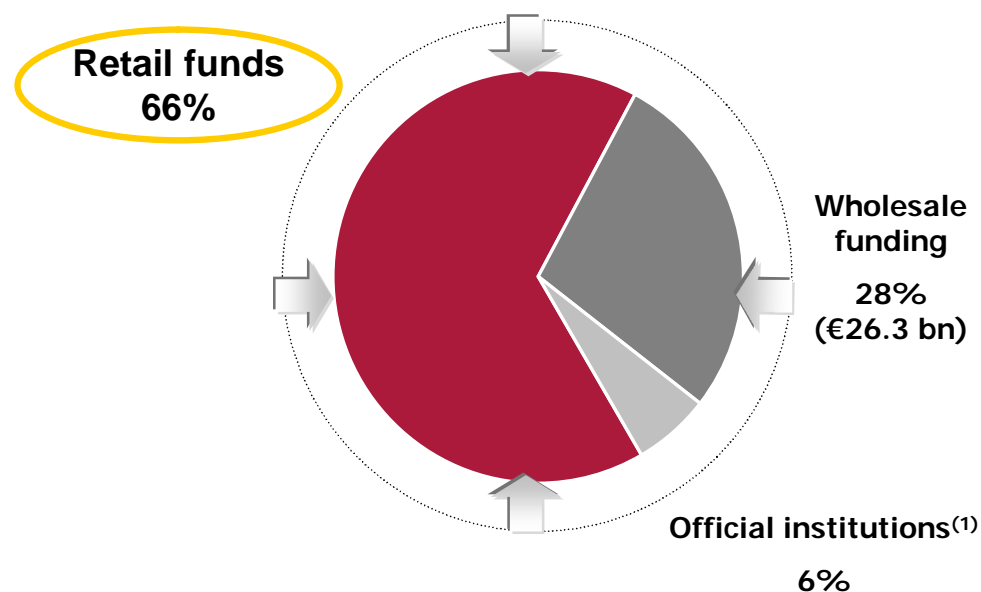
*Note: ex all repurchasing agreements

- Wholesale funding reduced from €32.7bn to €26.3bn, 20% down y/o/y
we are moving the balance sheet in the right direction

Funds breakdown (Mar-10): €99.2bn



Funds breakdown (Mar-11): €95.0bn

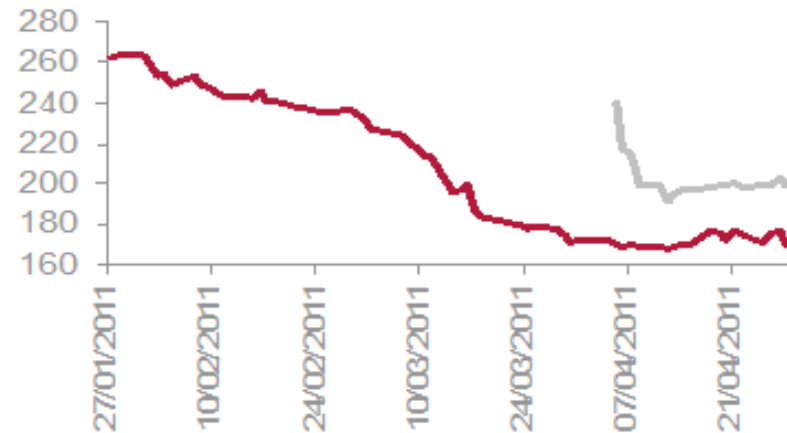
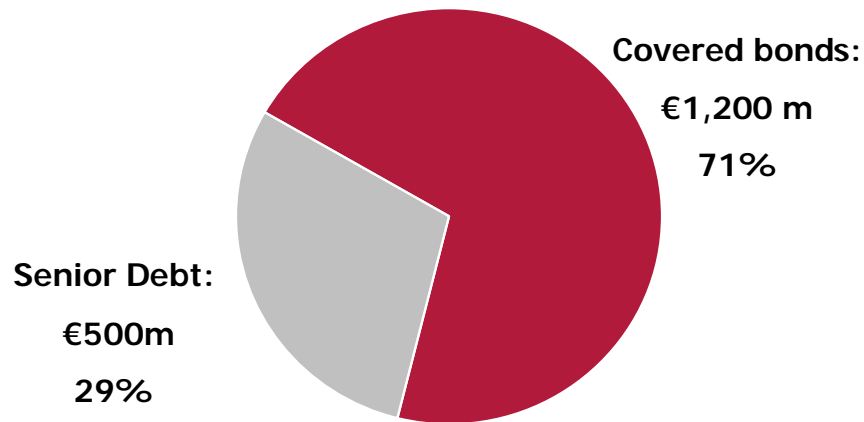


⁽¹⁾ 1% (€1 bn) ECB, y and 5% ICO y EIB

- In spite of the difficult environment for Spanish issuers, markets remain open for us. First senior issue since 2007.

New issues 1Q-11: €1,700m

ASW New issues' performance



— Cédulas €1bn 02/13

— Senior €500m 04/13

All issues as of May 1st 2011

- Short term Wholesale maturities €4.4 bn lower vs 1Q2010.

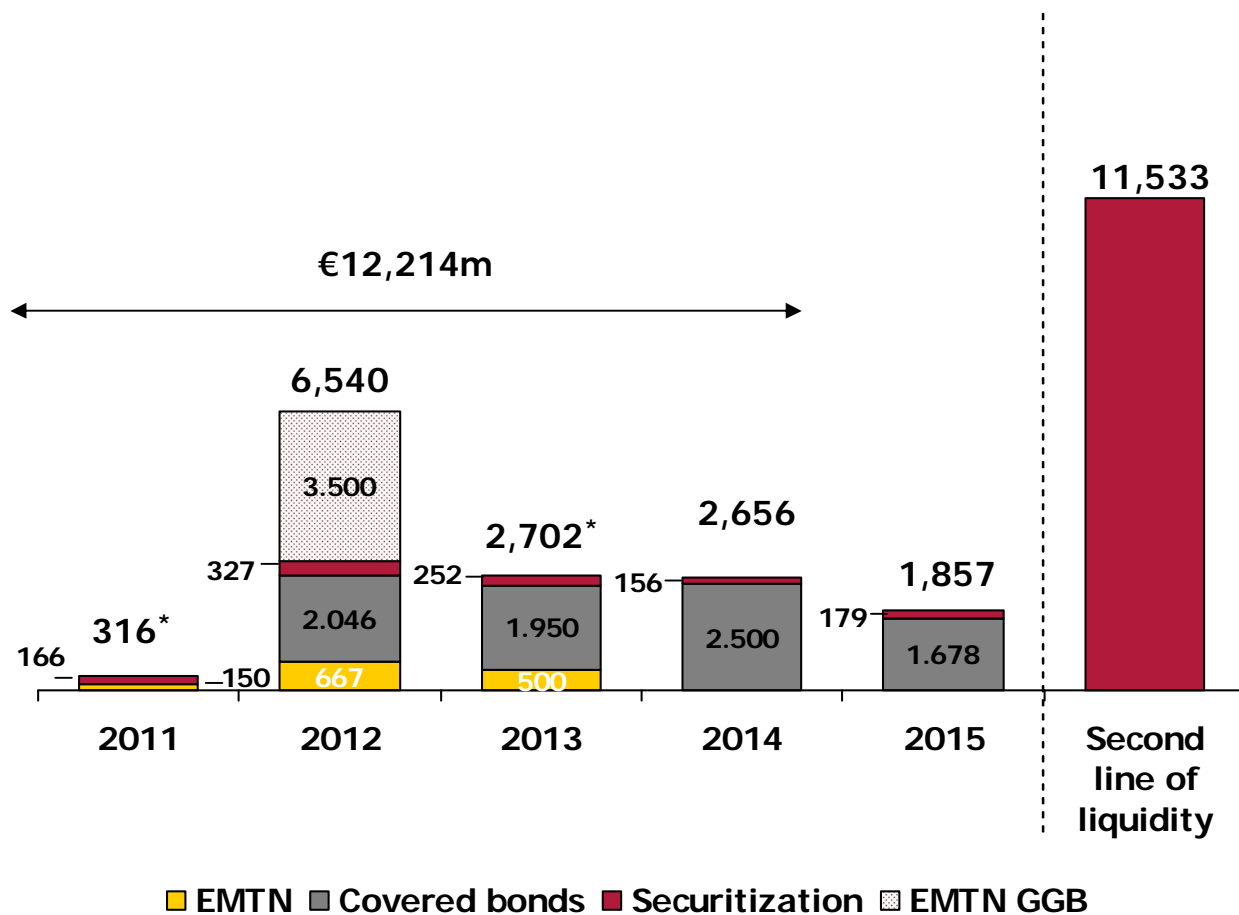
Wholesale funding breakdown (1Q-11 vs 1Q-10)

	1Q-10	1Q-11
ECP	5.4	1.2
Interbank funds	3.5	3.3
Short term funding	8.9	4.5
EMTN	8.3	4.6
Covered Bonds	11.9	13.8
Securitization	1.8	1.1
Subordinated debt	1.8	2.3
Long term funding	23.8	21.8
Total	€32.7bn	€26.3bn

• Comfortable Liquidity position

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

(€, million)



* Data as of April-11.

• Ratings of Banco Popular

	Long Term	Short Term	Subordinated	Individual Financial Strength	Outlook	Action / Date
Moody's	A2	P-1	A3	C-	Negative	Downgrade ⁽¹⁾ / Mar 11
Fitch	A	F1	A-	B/C	Stable	Downgrade ⁽²⁾ / Jul 10
DBRS	AA-	R-1M	AH		Stable	Downgrade / May 11
S&P	A-	A-2	A-		Negative	Downgrade / Feb11

Cédulas Hipotecarias Programme Aaa/AAA by Moody's and S&P

(1) Moody's revision on 30 Spanish bank due to reassessment of Spanish Government's support

(2) Following downgrade of the Kingdom of Spain in July

•Wrap – up:

10 Credit highlights summary

- Strong and well-established commercial and retail focused banking franchise
- Adequate and improving funding profile
- Commercial strategy focused on the customer
- Strong recurrent income generation / top-of-the-class pre-provision margin
- Best-in-class efficiency levels

- Management focus and commitment to improve BPE's credit fundamentals
- Strong capitalization
- Prudent risk management policies
- Strong and long-standing support from core shareholders
- High systemic importance

Many Thanks.
Happy to take any questions.

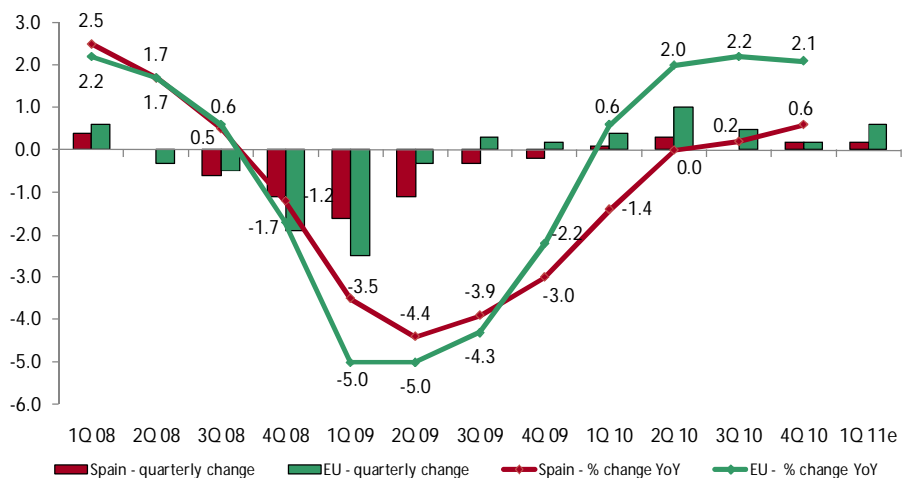
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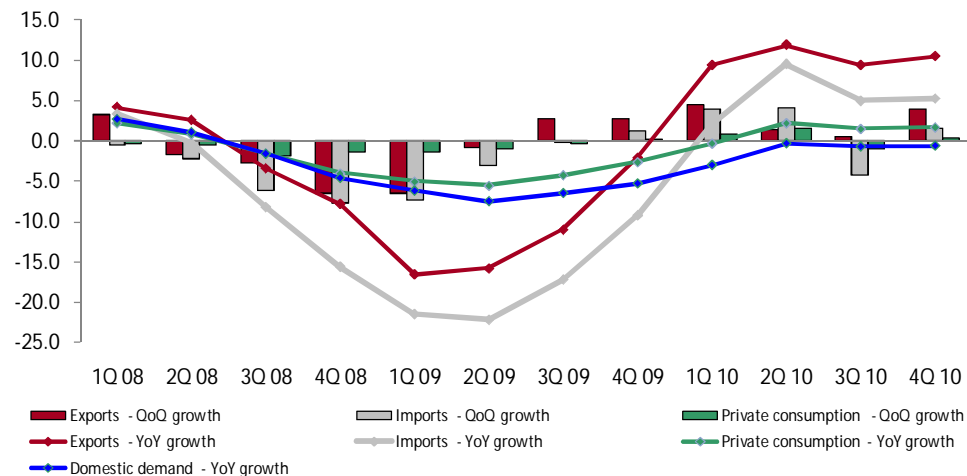
Appendix: A view on Spain

• Macro economic indicators are improving and imbalances in the economy are adjusting...

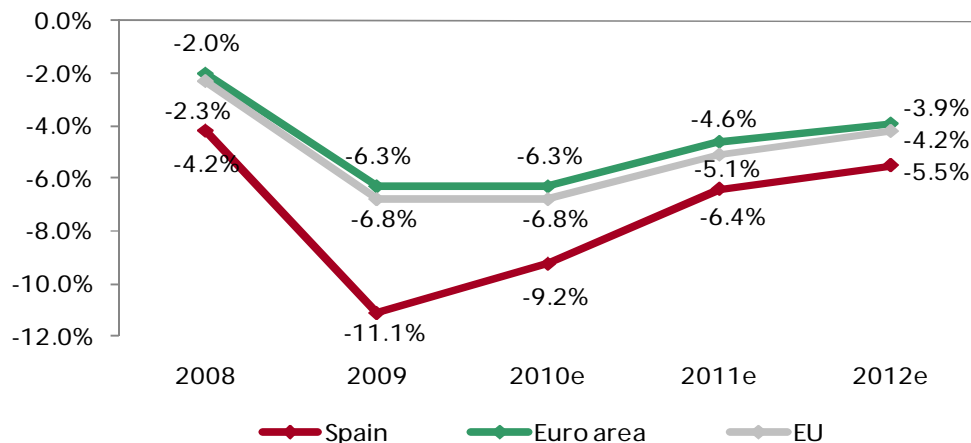
GDP (%)



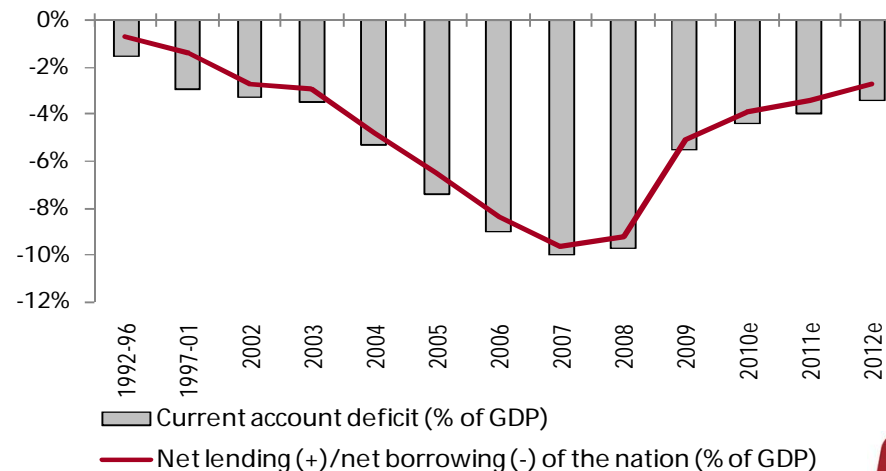
GDP components



Public deficit is starting to decrease



Improving current account deficit



• Supported by fiscal consolidation and key structural reforms

Fiscal consolidation

- Public expenditure reduction of €5.3 bn in 2010 (~0.5% of GDP) and €10 bn in 2011 (~1% of GDP).
- Sizable cuts in public investment, transfers and subsidies.
- Cut in wages for civil servants and “freeze” of public pensions in 2011.
- Increases in VAT, excise duties and income tax.
- Partial privatization of the lottery business and Aena. These partial privatisations could raise ~ €14 bn.
- Tax cut for SMEs, elimination of contributions to chambers of commerce.

Deficit reduction, increased confidence in public finances, decreased sovereign risk

Public pensions system reform

- Gradual increase in retirement age to 67 years from 65, and tougher conditions to access a full pension.
- Exceptions: People who have contributed to the pension scheme for 38.5 years can retire at 65 with full benefits.
- Age of premature retirement raised to 63 from 61 years.
- The period used to calculate the pension will gradually increase from the current 15 years to 25.
- This reform will enter into force gradually between 2013 and 2027.

Lower public expenditure, higher confidence in future savings and earnings

Labour market reform

- General application of the “contract to promote indefinite hiring” with termination payment of 33 days per year of service vs. the previous 45 days.
- FOGASA to pay for 8 days of this payment.
- More legal certainty and less burdensome firing process for permanent contracts.
- Clarification of the terms for laying off employees due to “economic reasons” with a termination payment of only 20 days per year of service.
- Negotiations going on for making collective bargaining less rigid.

Increased flexibility of labour markets, reduction of unemployment levels

Financial sector reform

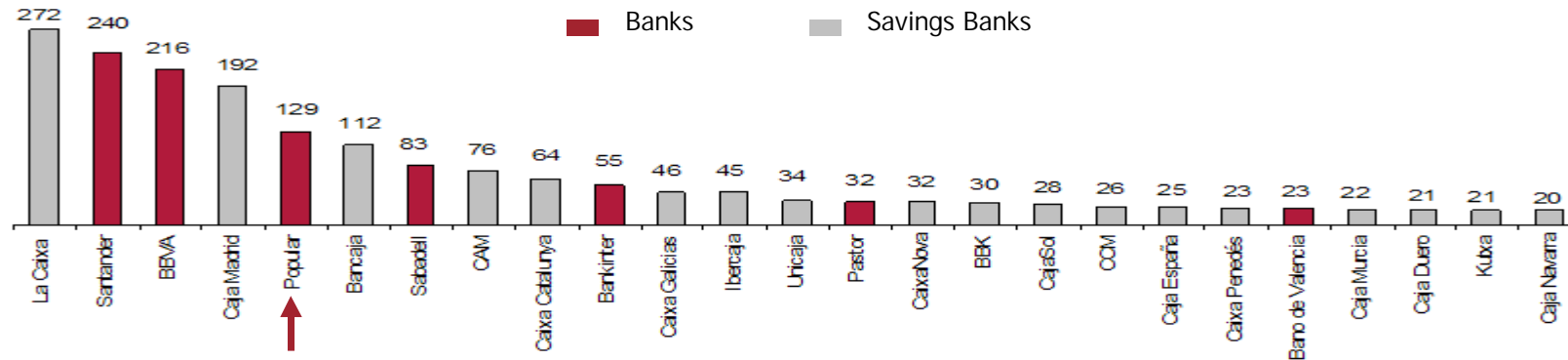
- Restructuring processes have reduced the number of cajas from 45 to 15, with total capital requests to the FROB of around €11.5 bn.
- Additional transparency requirements with publication of detailed data on exposure to real estate and construction.
- New core capital minimum requirements (8% for banks, 10% for cajas).
- Additional capital needs for the sector of €15.2 bn. The FROB will act as a backstop for those entities that cannot obtain the required capital from the private sector.

Increased solvency of the system, recovery of credit, higher confidence from markets



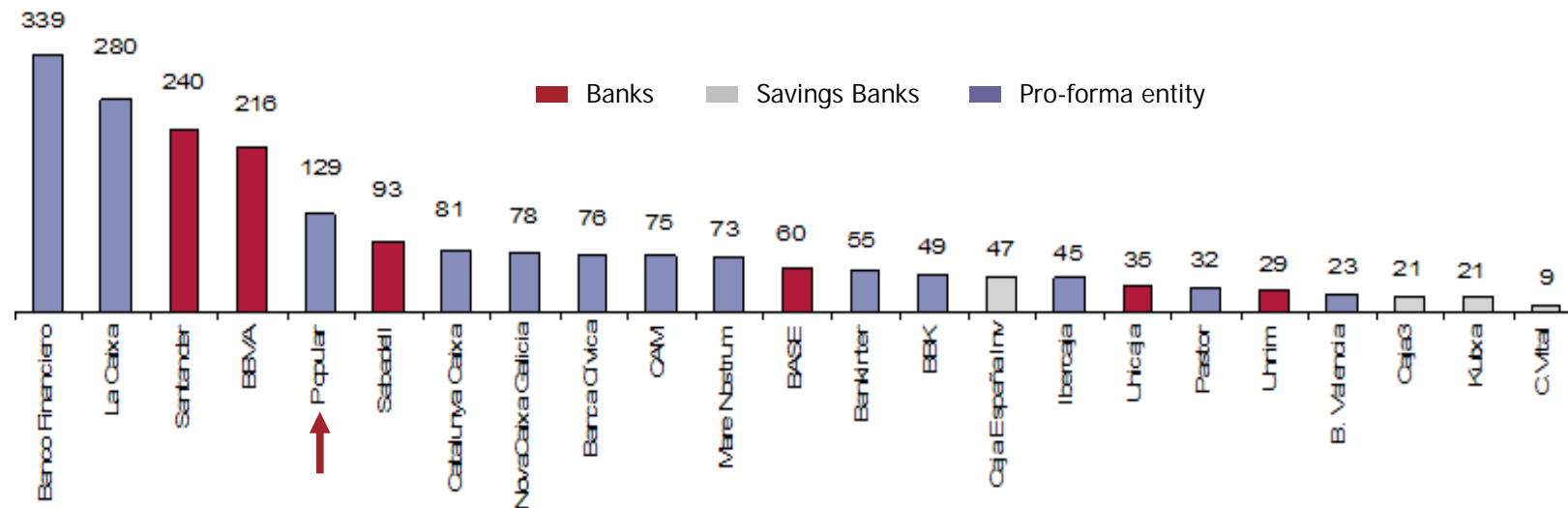
- The largest consolidation process in the Spanish financial sector in recent decades

Banks and savings banks ranking by total assets pre-consolidation (2009, €bn)



Source: Annual accounts of all entities & JP Morgan

Banks and savings banks ranking by total assets post-consolidation (2010 pro forma, €bn)



The number of savings banks have been reduced from 45 to 17 in One year but could be reduced further...

• Capital requirements established by the RD 2/2011 will force savings banks to operate as banks and become foundations or banking franchises

Goals of the new legislation RD Law 2/2011

- Improvement of capital ratios of all financial institutions to restore market confidence on Spanish financial system solvency
- Complete the ongoing restructuring process among the financial institutions

New capital requirements from 10th march 2011

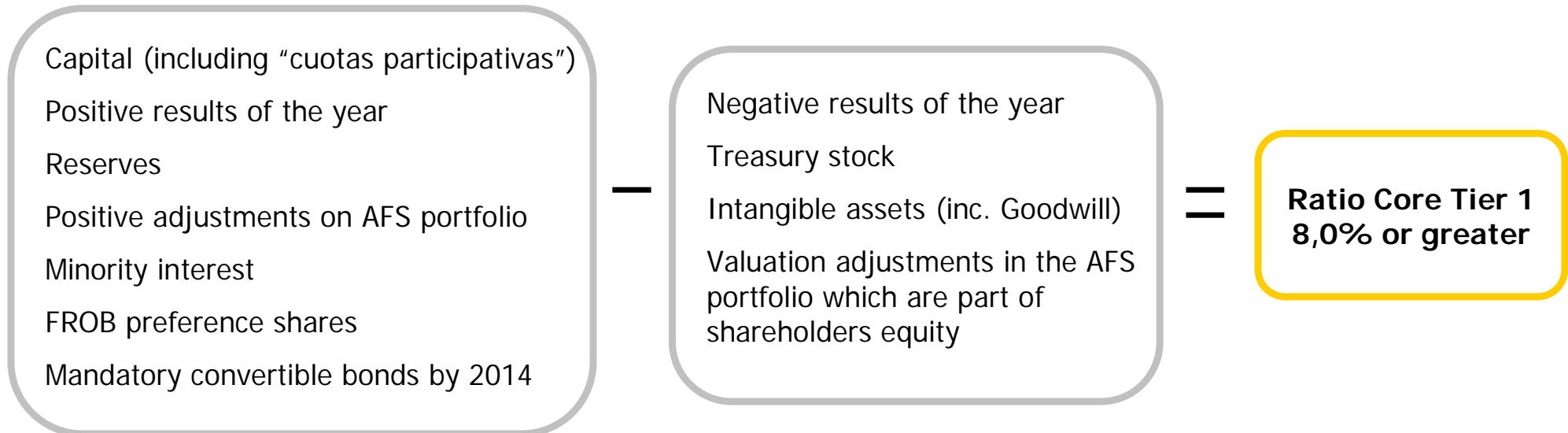
- New minimum core capital ratio that applies "Basel III definition of Core Capital as of 2013
 - This ratio will be 8% for all entities...
 - And 10% for those entities that at least 20% of their share capital has not been placed with third parties and also, the proportion of funding in wholesale markets exceeds 20%
 - The new core capital will be set relative to the RWA existing as of 31st December 2010.
- If the BoS deems or stress tests indicate additional capital is necessary, the above requirements may be increased
- BoS could impose restrictions on dividends pay-outs, compensations to senior management, treasury stock increases, and payments to preference shares if the core capital of an entity is 20% below the minimum established on this law

Under the new legislation the FROB increase their existing functions

- Corporate governance: Steering Committee increase from 8 to 9 members with changes in the composition
- FROB is now authorised to acquire ordinary shares to improve capital ratios
 - This measure comply with the EU directive
 - The purchase price would be conducted under market conditions. In absence of market pricing, the FROB will request a valuation from an independent expert.
 - The acquisition of shares will have a limited horizon (no more than 5 years). The entity will have 2 years to buy-back the shares from the FROB or to suggest a private investor
 - The FROB participation will be restricted to acquire shares from a bank, Therefore, if the beneficiary is a savings bank, the saving bank will have 3 months to transfer all assets/liabilities to a bank
 - An entity that receives the FROB aid would need to present a recapitalisation plan (approved by Ministry of Economy and executed under the supervision of the BoS)
 - The FROB will be in Management Board of the bank and will have voting rights in line with their stake in the bank

• Spain is the first country in Europe to implement Basel III definition of core capital

Definition of core capital – in line with Basel III for 2013



Calendar established to comply with the new legislation

10th March 2011

- 15 days to elaborate a restructuring plan and calendar
- If FROB injection, the entity would have 30 days to present the restructuring plan

June – July 2011

- Stress test result

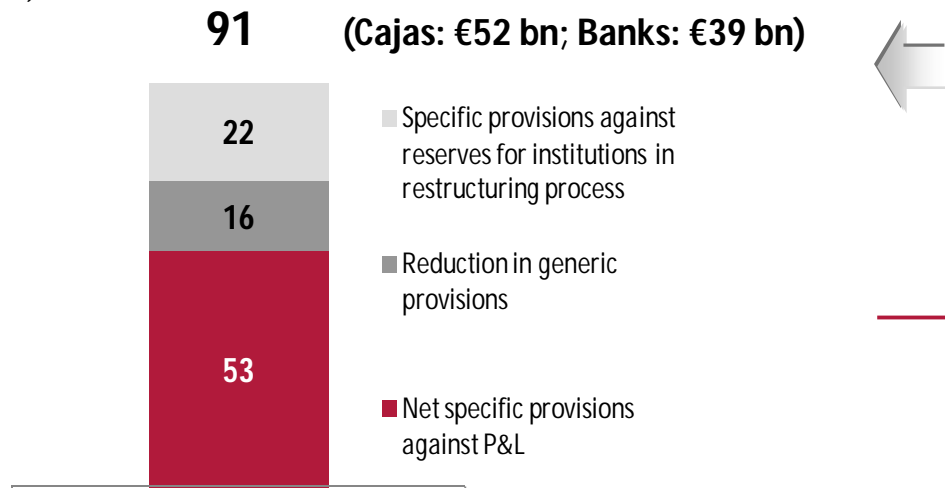
30th September 2011

- If there are any bureaucracy issues, during the restructuring process, Bank of Spain could approve an extension of 3 months
- In an IPO situation, the extension would be until March 2012, but the entity would need to present the following information:
 - Mandates given to investment bank
 - Detailed calendar
 - Approval from the Board

• The Spanish financial sector has so far “cleaned” balance sheets substantially (c. 10% of GDP) and it has at the same time reinforced solvency levels

Consolidated provisions since Jan 2008 for the whole system

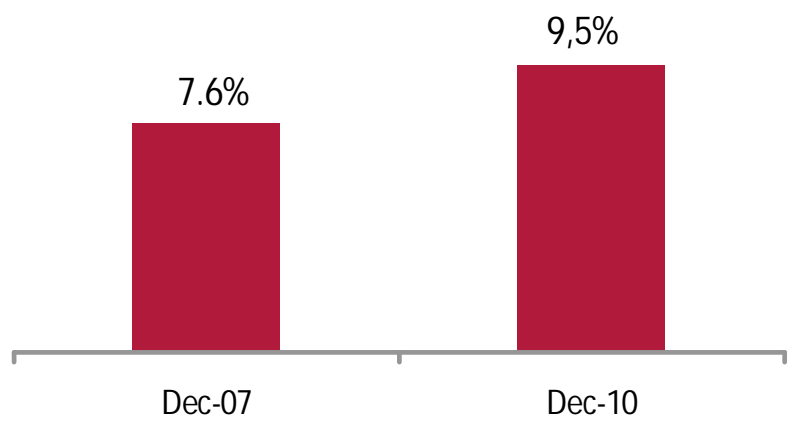
(€, billion)



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.

Tier 1 capital of Spanish financial system



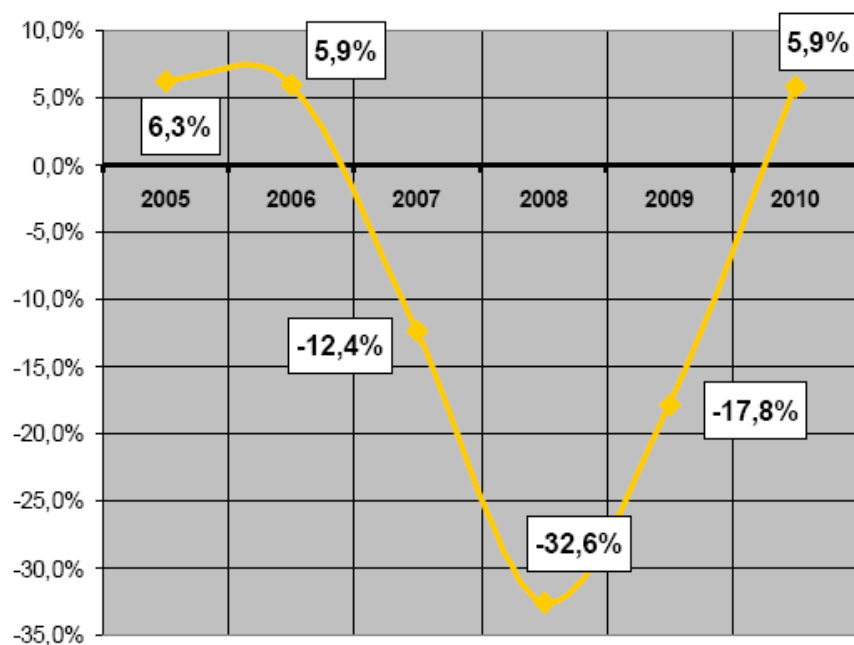
The accumulated provisions and the excess of capital over the minimum required along this 3-year period represent 12.5% of GDP. The coverage of the €15.2 bn additional capital needs announced by the BoS will increase it to almost **14% of GDP**

Source: Bank of Spain.

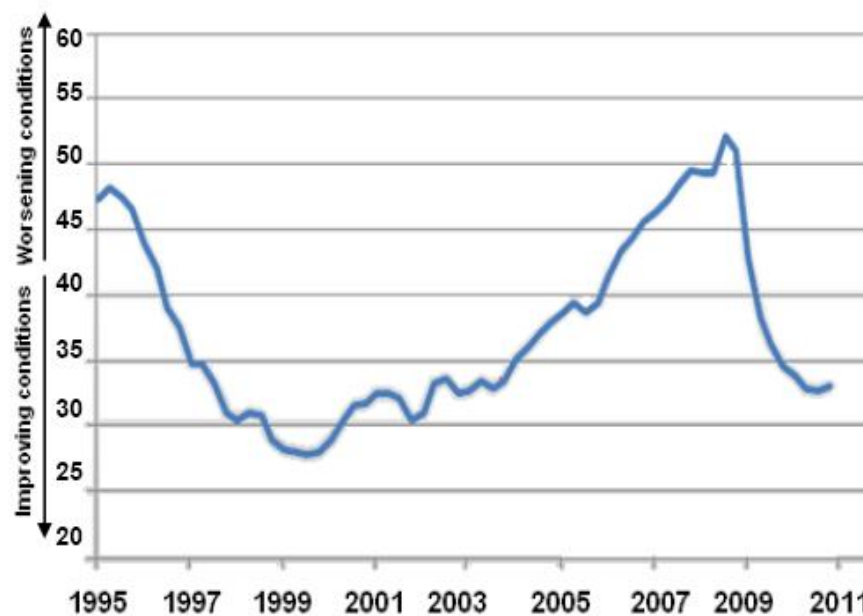
• Housing market tends to stabilization

- The number of housing transactions (491,000) tends to recovery, partly due to fiscal incentives, partly because affordability indicators are once again at historically low levels
- Foreign demand is starting to react to price signals

y/o/y housing transactions variation*



Affordability indicator % of disposable income



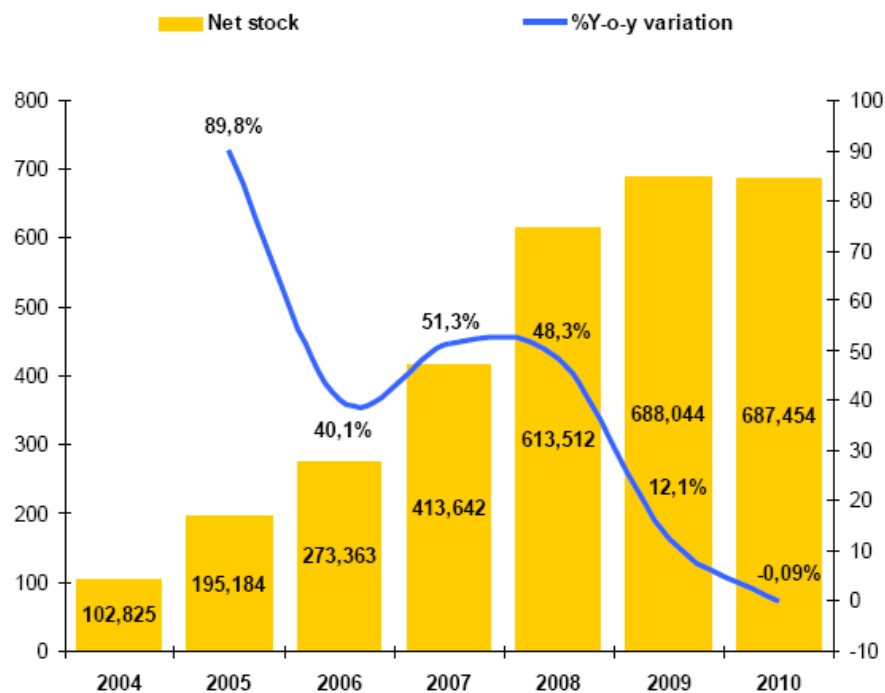
Source: Ministry of public works

* (Base 1996)

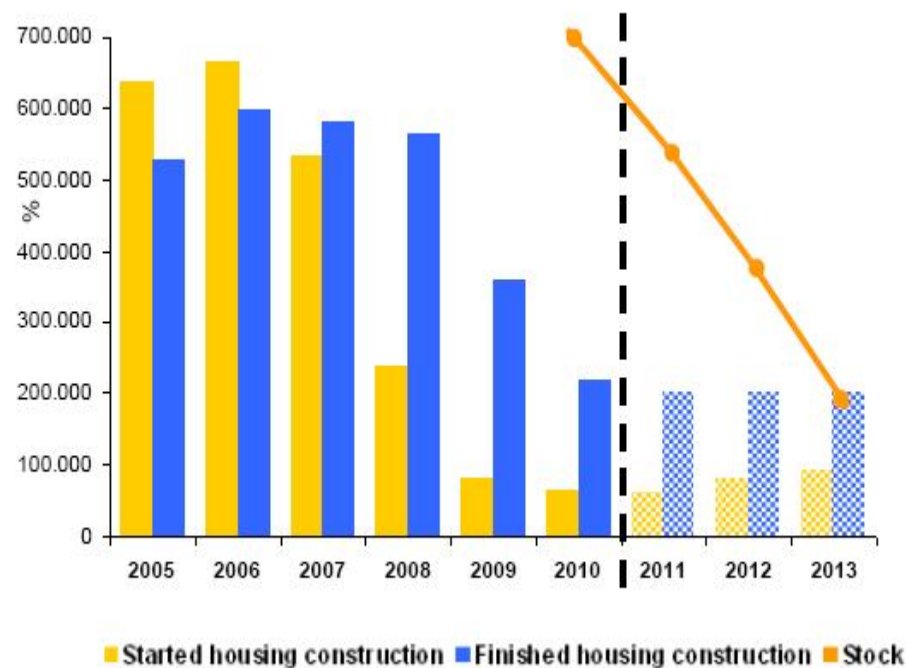
• Stock reduction on the real estate sector

- Stock on unsold houses has started shrinking in 2010

Net stock & stock variation



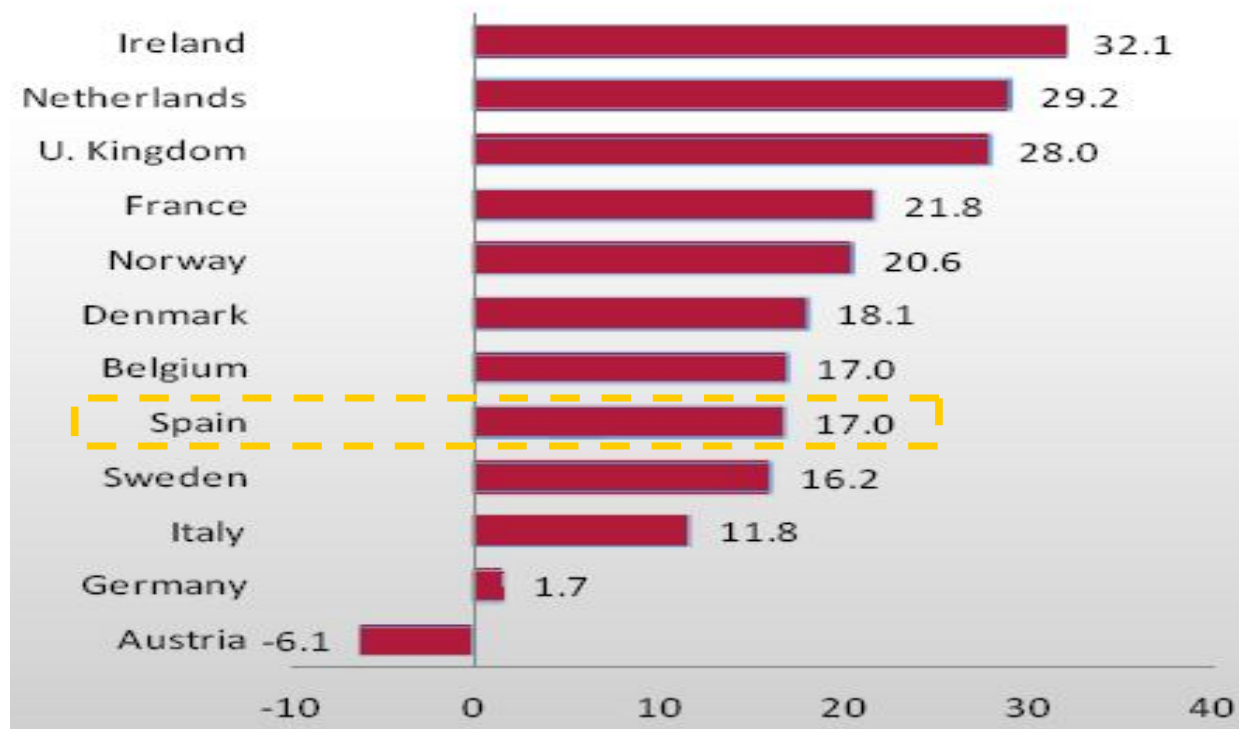
Stock reduction path



Source: Ministry of public works

- The growth of house prices in Spain evidenced a lower overvaluation component than that in the other countries (IMF, April 2008)
- It was, therefore, largely based on fundamentals, and this is reflected in a lesser need for downward corrections
 - Demographic and socioeconomic factors
 - Spanish euro area membership, with a permanent real interest rate reduction effect, implying a permanent increase in asset valuations

Percentage increase in house prices not attributable to fundamentals, %



• Fiscal stability rules for Regional Governments

General Rules

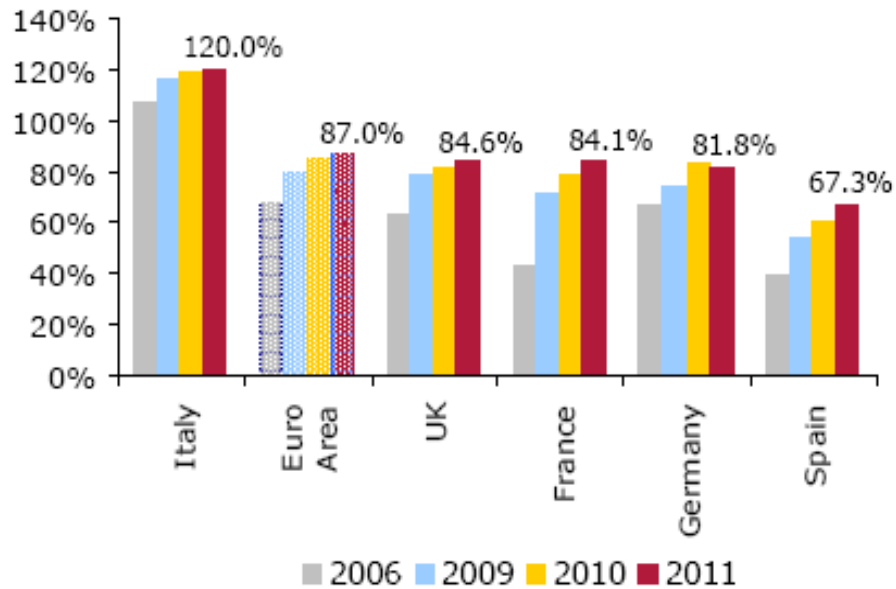
- Regional Governments are subject to the principle of budgetary stability over the business cycle: surplus target when positive output gap, deficit real GDP equals potential GDP
- When an Autonomous Community breaches its fiscal target, it should submit an economic-financial rebalancing plan to the Fiscal and Financial Policy Committee (FFPC) which includes all the measures to be adopted to grant the come back to budgetary stability on a three year period
- Indebtedness is restricted to the following limitations:
 - Destination: Long term debt should be devoted to finance capital expenses, although in 2009 and 2010 it was possible to finance current expenses on social policies.
 - Solvency: annual payments (amortization and interest rates) should not overpass 25% of revenues
 - Maximum amount: the limit at the end of each year should be equal to the stock at the end of the previous year plus the net debt allowed in order to finance the deficit target. In case an AC issues debt above its limit, the excess will be subtracted the following year
 - Authorization to issue public debt or foreign currency debt

Monitoring & Enforcement

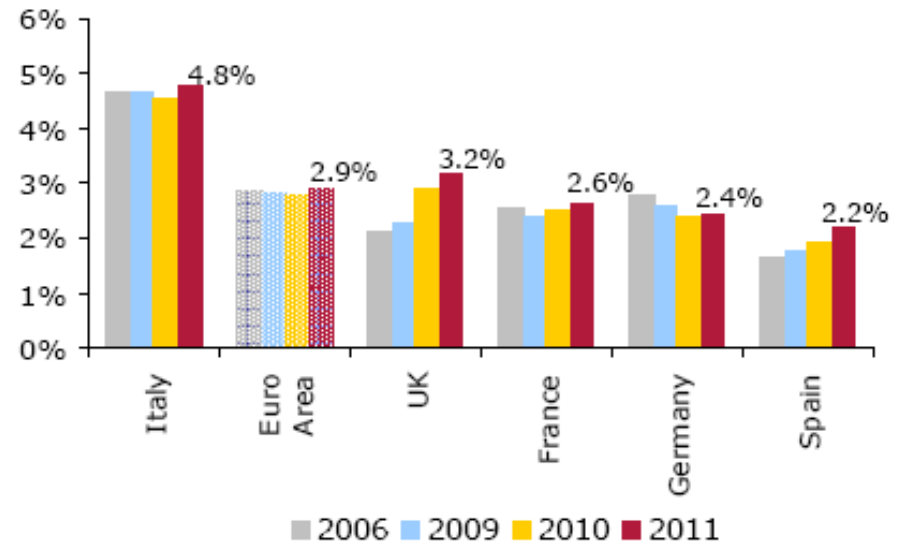
- Actions to enforce the compliance with the budgetary stability objectives could be divided in two groups:
 - Actions to prevent deviations: monitoring and warning
 - The Ministry of Economy and Finance should notify the FFPC regarding the budget execution of each region and their debt authorizations during the first half of the year. This review will include, for those regions that are at risk of not fulfilling their target, a plan to adjust revenues and expenses according to the program.
 - If the report concludes that there is a risk of not fulfilling their plans the rest of debt authorizations (more than 50%) will be stopped until adopting new measure. If the risk is high, a warning might be sent to the region.
- Actions to correct deviations: tightening on the regime of debt authorizations and graduation of transfers
 - The regions will need authorization for all long term credits asked to the market
 - Some transfers from the central government will be graduated or banned upon the fulfilment of the directions specified in the report by the Ministry of Economy and Finance that specifies the amount of the deviation, the causes and measures to fight it.

Spain's consolidated indebtedness

Debt to GDP in 2009



Interest expenditures (% of GDP)



Spanish Treasury's funding plan runs on target

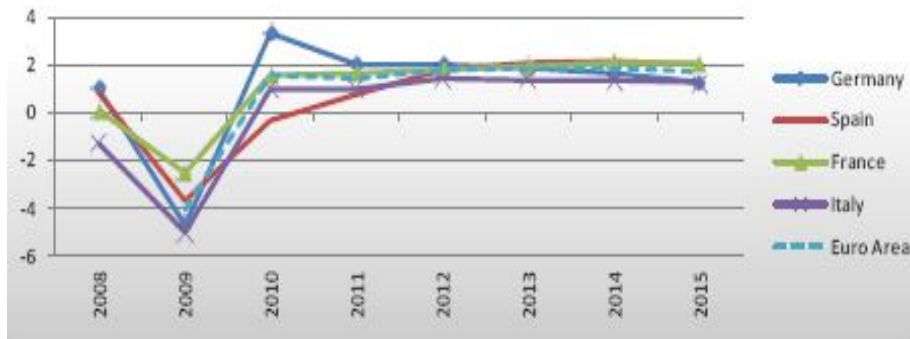
- Private consumption, equipment and export are sustaining growth

Updated macroeconomic scenario 2011-2014

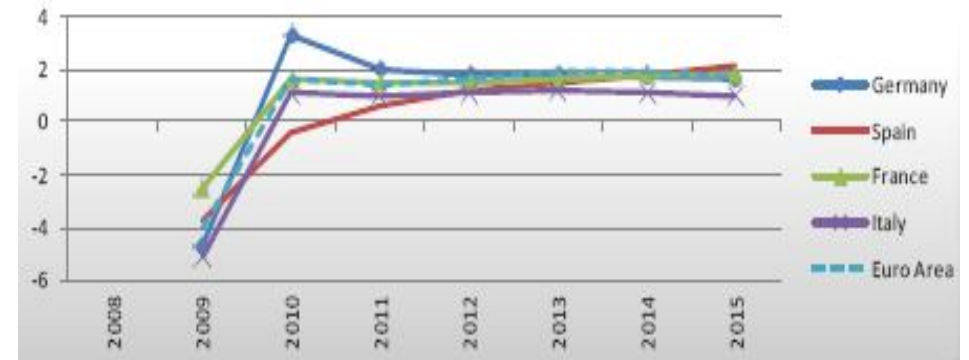
Macroeconomic scenario 2011-2014 <i>(Growth rate in percent)</i>	2010	2011	2012	2013	2014
GDP	-0.1	1.3	2.3	2.4	2.6
Final Private Consumption Expenditure	1.2	0.9	1.4	1.6	1.9
Final Public Consumption Expenditure	-0.7	-1.3	-0.8	-0.6	-0.6
Gross Fixed Capital Formation	-7.6	-1.3	2.7	3.7	4.5
Equipment and other products	-2.4	3.2	5.2	5.9	6.6
Construction	-11.1	-4.7	0.7	1.7	2.4
National Demand (contribution to GDP growth)	-1.2	0.0	1.3	1.7	2.0
Exports of Goods and Services	10.3	8.3	7.9	7.2	7.1
Imports of Goods and Services	5.4	3.0	4.1	4.7	5.2
External demand (contribution to GDP growth)	1.1	1.3	1.0	0.7	0.6

- IMF and market consensus GDP growth projections are at similar levels for the Spanish economy as for other area countries from 2012

y/o/y change in GDP. IMF forecasts, %



y/o/y change in GDP. Consensus forecasts, %



Source: INE, Eurostat, IMF & Market data

- Nonetheless, and thanks to a good starting position, and to the fiscal consolidation plan approved by the government, IMF projections place Spain's debt/GDP ratio below that of other developed countries

2012 projections, as a proportion of GDP

	Deficit	Cyclically-adjusted deficit	Public debt
USA	-7.2	-5.4	102
Euro area	-4.0	-3.1	88.7
France	-4.9	-3.8	89.4
Germany	-2.3	-2.2	77.1
Italy	-3.5	-2.3	120.1
Spain	-6.0	-5	72.6
Japan	-8.0	-7	232.8
U. Kingdom	-6.1	-4.5	84.5
Canada	-3.3	-2.5	84.8

Source: IMF & Citi



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