



**1<sup>st</sup> Half 2011 Results**

**Madrid, July 22<sup>th</sup>, 2011**



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# Agenda

**1. Summary remarks 1H-11**

**2. Financial highlights**

**3. Revenues and operating performance**

**4. Business drivers**

**5. Risk management**

**6. Liquidity and balance sheet management**

**7. Financial Strength**

**8. Closing remarks and outlook**

## Summary remarks 1<sup>st</sup> Half 2011

- Net Profit of €305m (1H2010: €355m).
- 2Q2011 NII at €530m, 3% ahead of 1Q2011.
- Remarkable provisioning/cleaning up effort: Y-t-d provisions of €1.1 bn.
- NPL entries stable. Bad Debt ratio at 5.58%, c.1% better than the industry (6.5%).
- Customer Deposits 5.4% up y/o/y. Loan book kept at same levels.
- Comfortable liquidity position. Excellent Core Capital, at 9.84%.
- EBA stress test passed under most extreme scenarios and harsh assumptions.

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# Financial Highlights

<i>(€, million)</i>	1H-11	1H-10	Change (€m)	Change
<b>Net interest income</b>	<b>1,045</b>	<b>1,276</b>	<b>-231</b>	<b>-18.1%</b>
Fees and commissions	350	340	10	3.0%
Trading and other income	126	157	-31	-19.2%
<b>Gross operating income</b>	<b>1,521</b>	<b>1,773</b>	<b>-252</b>	<b>-14.2%</b>
Expenses	-663	-631	-32	5.2%
<b>Pre-provisioning profit</b>	<b>858</b>	<b>1,142</b>	<b>-284</b>	<b>-24.9%</b>
Provisions for loans and investments (ordinary & accelerated)	-578	-619	42	-6.8%
Net of Provisions for real estate (ordinary & accelerated), goodwill and extraordinary gains	-18	-48	30	-62.5%
<b>Net profit</b>	<b>305</b>	<b>355</b>	<b>-50</b>	<b>-13.9%</b>
<b>Non-performing ratio</b>	<b>5.58%</b>	<b>5.04%</b>		<b>+0.54 b.p.</b>
<b>Efficiency ratio</b>	<b>40.14%</b>	<b>32.87%</b>		<b>+7.27 p.p.</b>
<b>Loans to deposits ratio</b>	<b>149%</b>	<b>158%</b>		<b>-9.00 p.p.</b>
<b>Core Capital</b>	<b>9.84%</b>	<b>8.60%</b>		<b>+1.24 p.p.</b>

Note: restated 2010 following Allianz-Popular Holding

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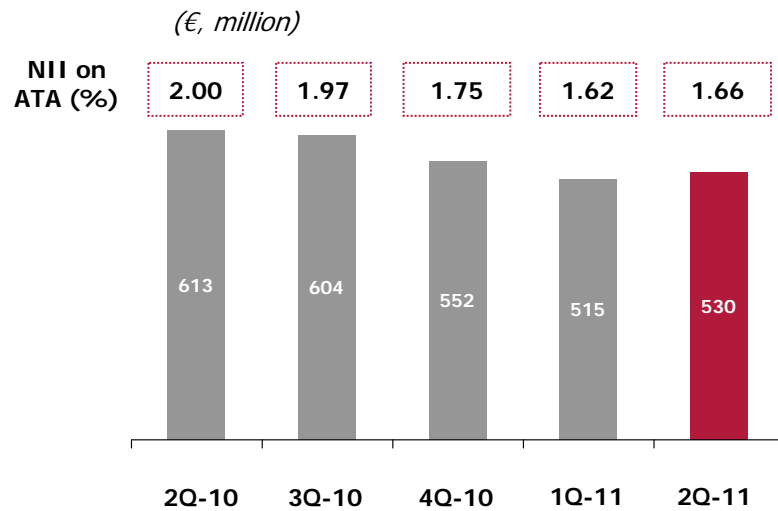
7. Financial Strength

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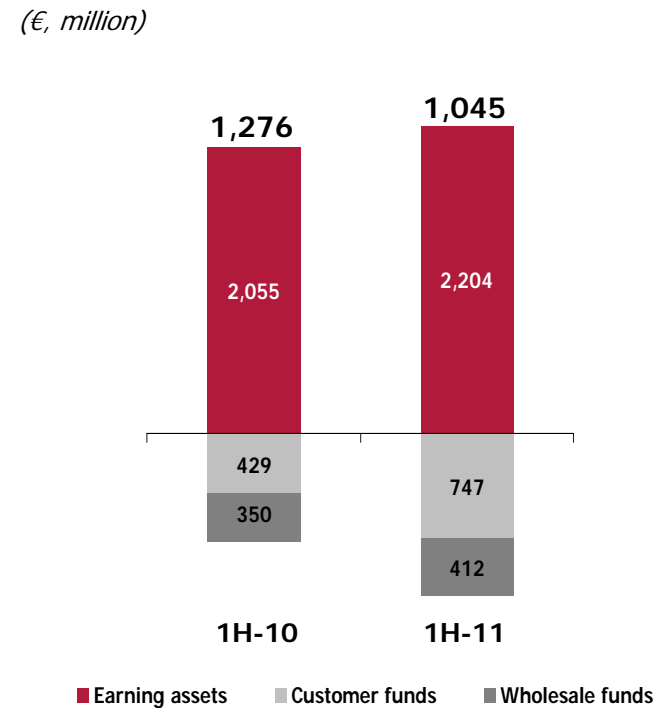


- 2Q2011 NII improves over 1st quarter, as expected. Y/o/y higher interest income did not compensate higher funding costs

### Net interest income evolution



### Interest revenues/Interest expenses

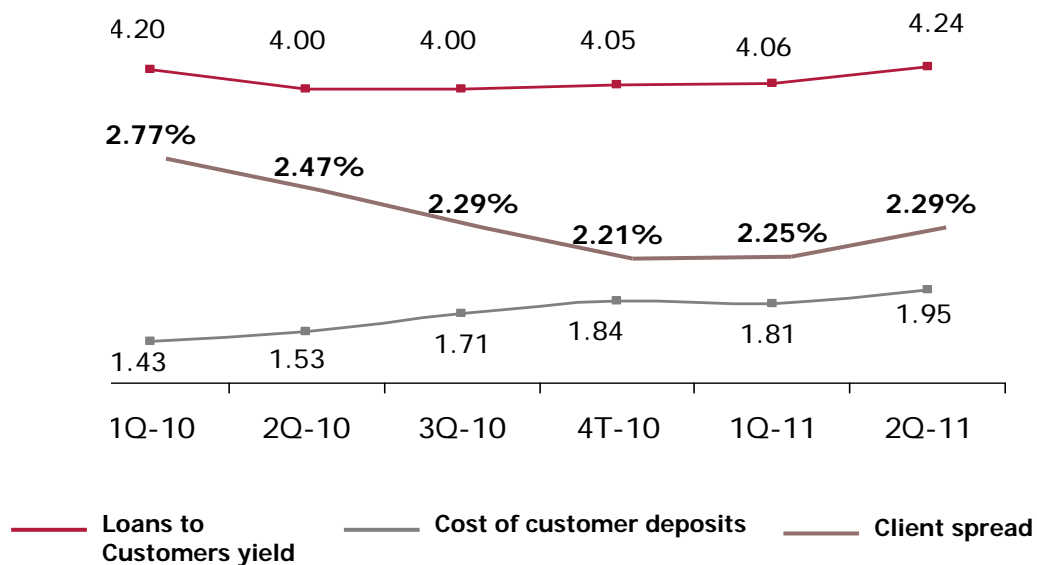


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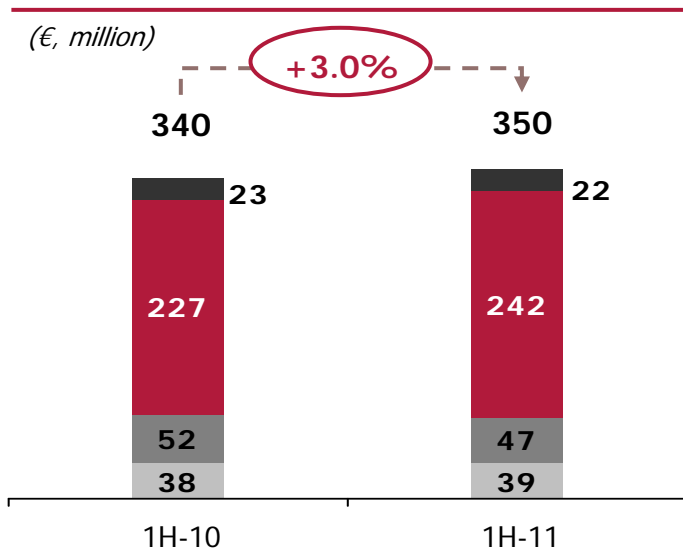
- In % terms over Average Total Assets, client spreads edging up.

### Client spread in % of Average Total Assets

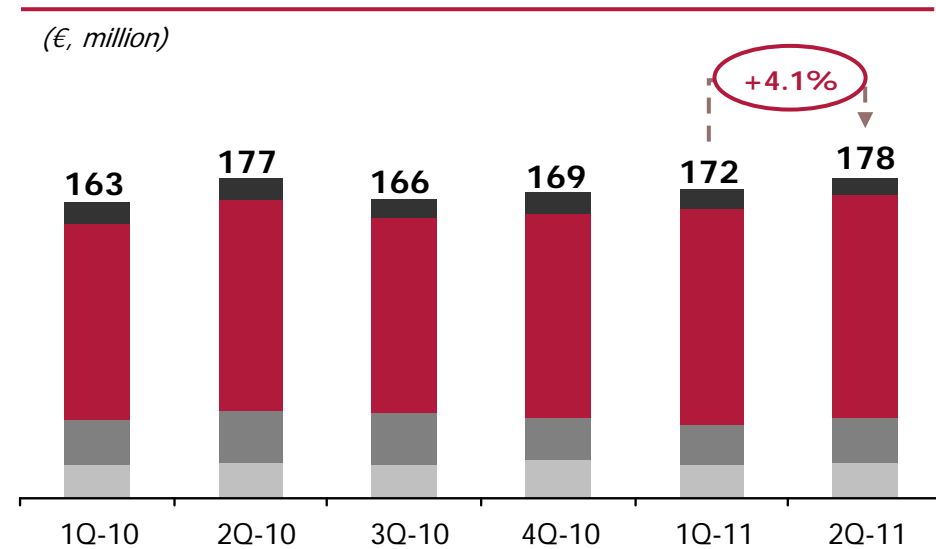


- Fee Income marginally up to €350m (3.0% YoY). Encouraging trend.

Fees and commissions (YoY)



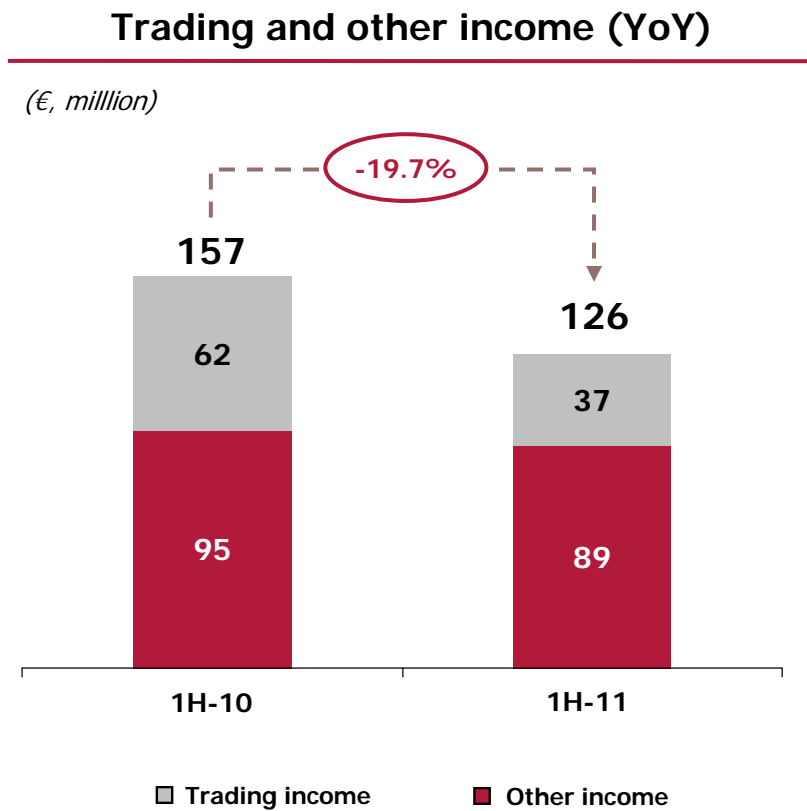
Fees and commissions (QoQ)



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

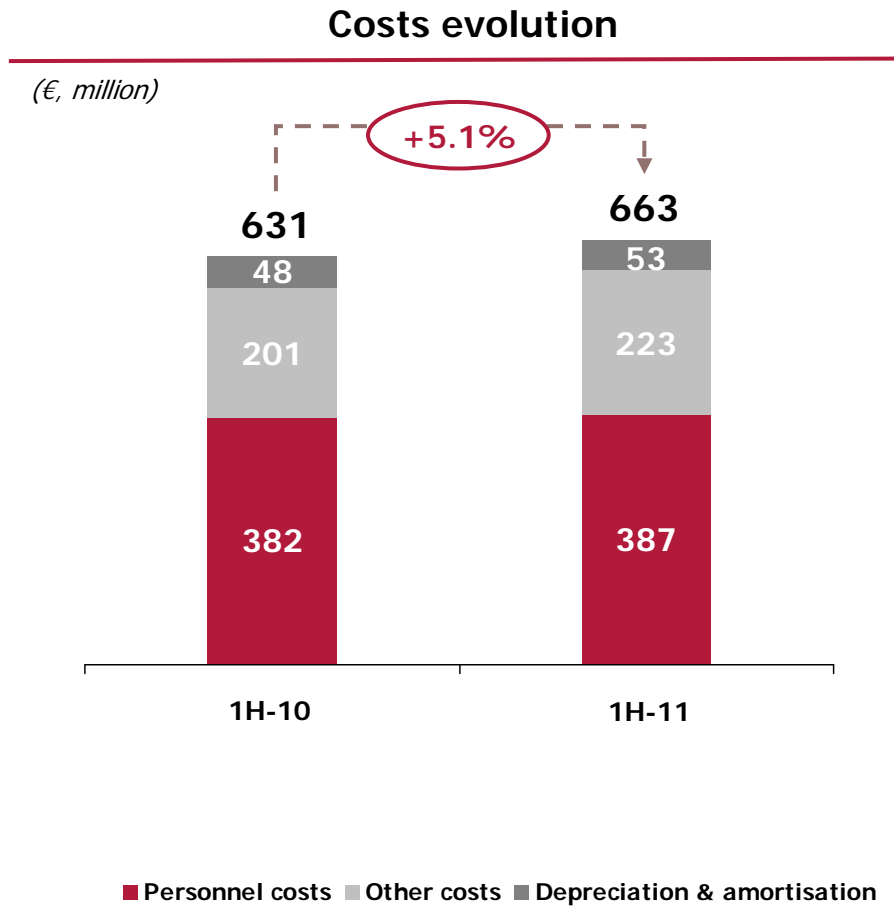
Note: restated 2010 following Allianz-Popular Holding

- Trading and other income at 126m, 19.7% down YoY (fewer buy-backs).



Note: restated 2010 following Allianz-Popular Holding

- Staff Costs flat. Other costs up driven by IT investments and VAT change.

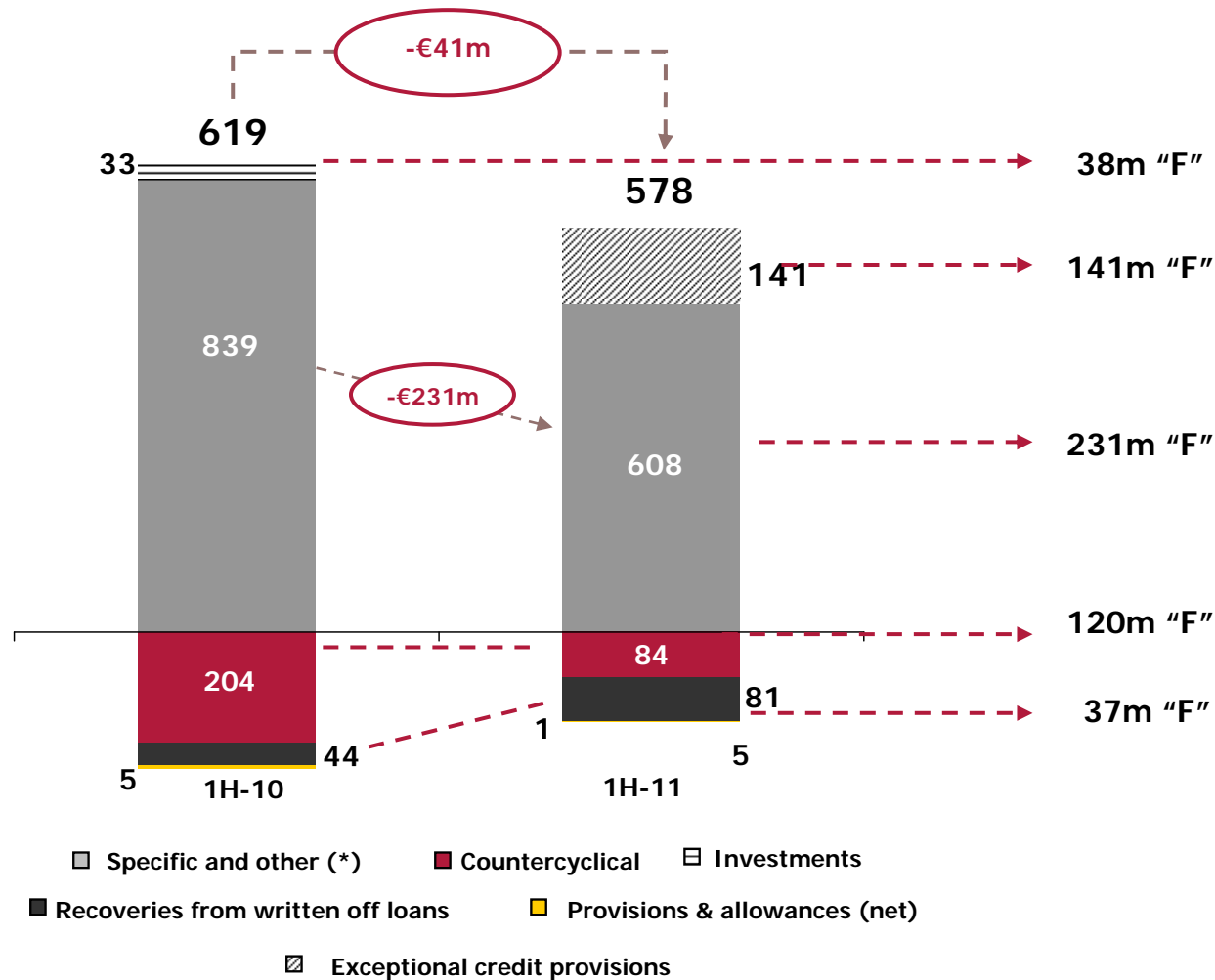


*Note: restated 2010 following Allianz-Popular Holding*

- Lower needs of specific provisions. Higher voluntary exceptional provisions and lower use of generic provisions: qualitatively a significant improvement.

### Provisions for loans and investments (YoY)

(€, millones)

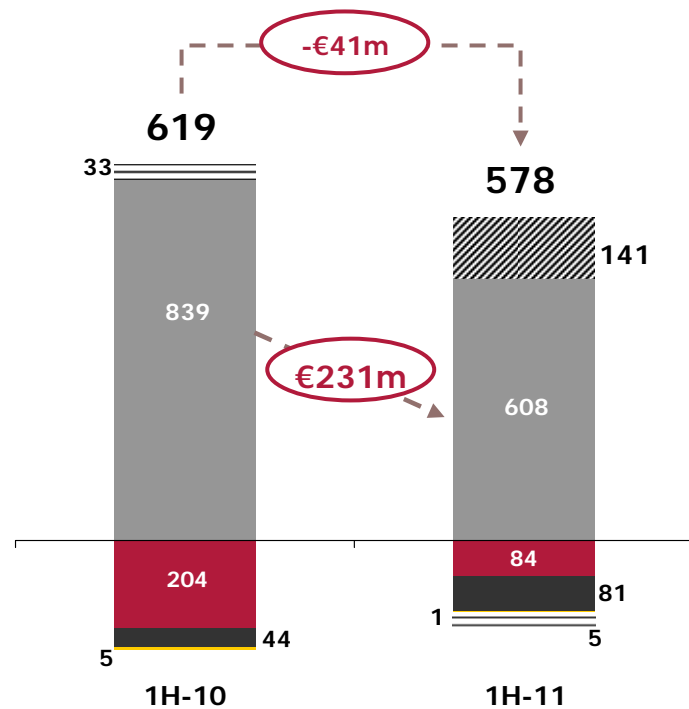


Note: restated 2010 following Allianz-Popular Holding

- As expected, lower need of specific provisions (-€231m) compensates the net interest income drop y/o/y.

### Provisions for loans and investments (YoY)

(€, million)

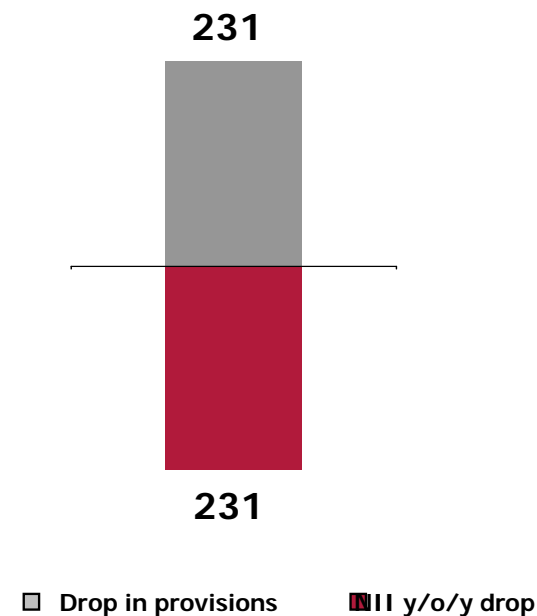


- Specific and other (\*)
- Countercyclical
- Investments
- Recoveries from written off loans
- Provisions & allowances (net)
- Exceptional credit provisions

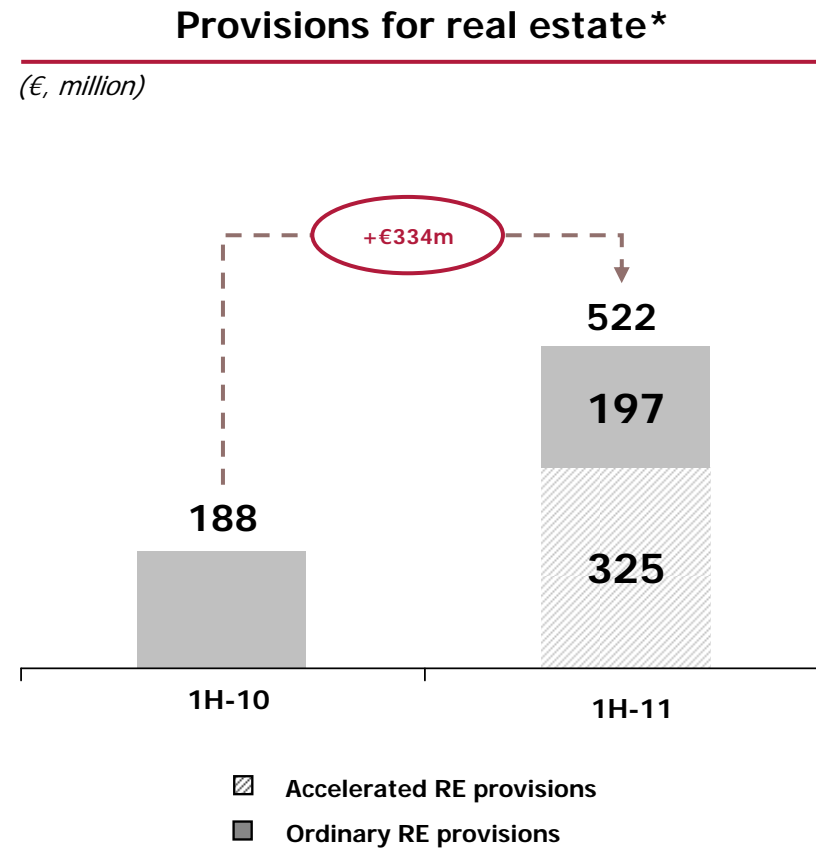
(\*) Net of country Risk

### Less specific provision y/o/y compensates NII drop y/o/y

(€, million)



- On Real Estate, we keep increasing provisions, ahead of the ordinary calendar.



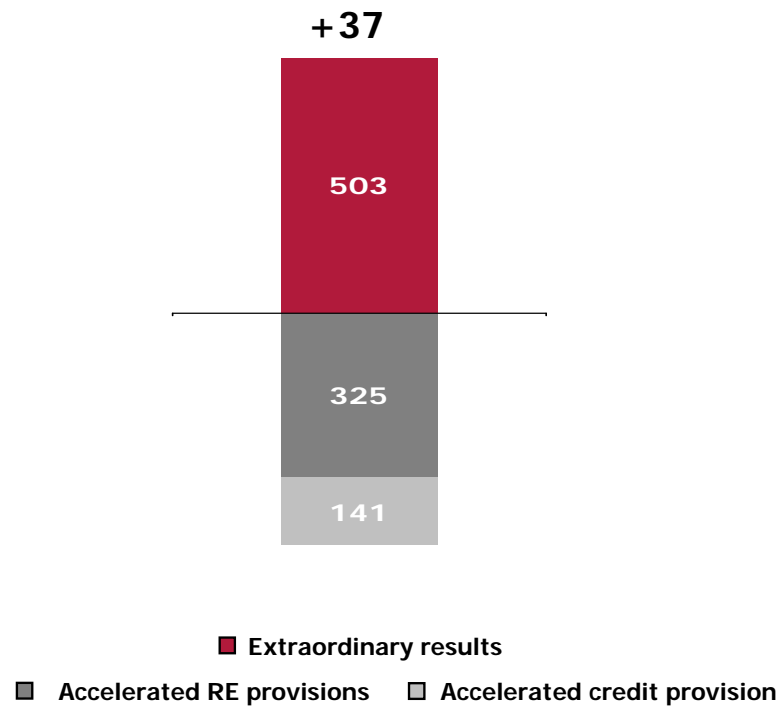
\*Includes 25 million for goodwill in 2010 and 13 million in 2011.



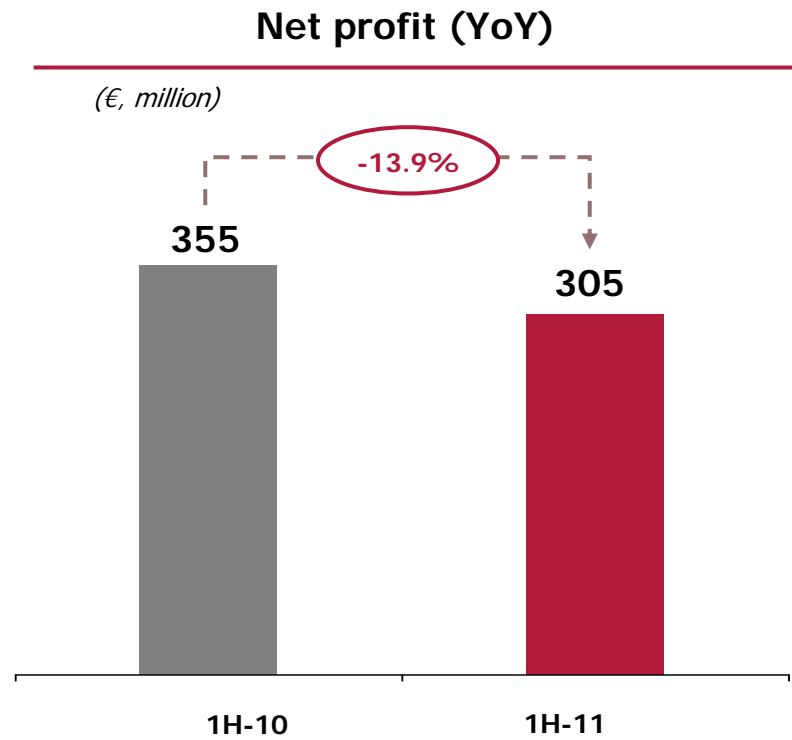
- As planned, the accelerated provisions, both credit and RE, are “offset” by extraordinary profits.

## Extraordinary results vs. accelerated provisions

(€, million)



- 1H2011 Net Profit, after ordinary & accelerated provisions, reached €305m.



## P&L recap.

(€, million)	1H-11	1H-10	Change (€m)	Change
<b>Net interest income</b>	<b>1,045</b>	<b>1,276</b>	<b>-231</b>	<b>-18.1%</b>
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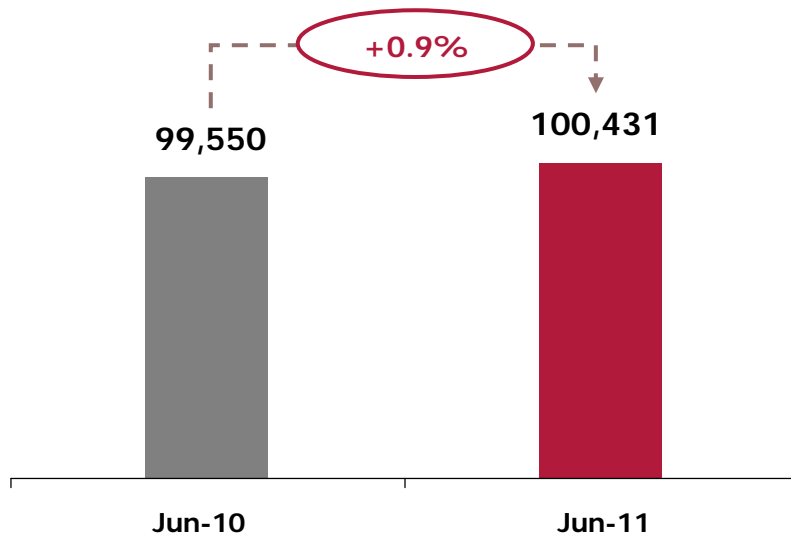
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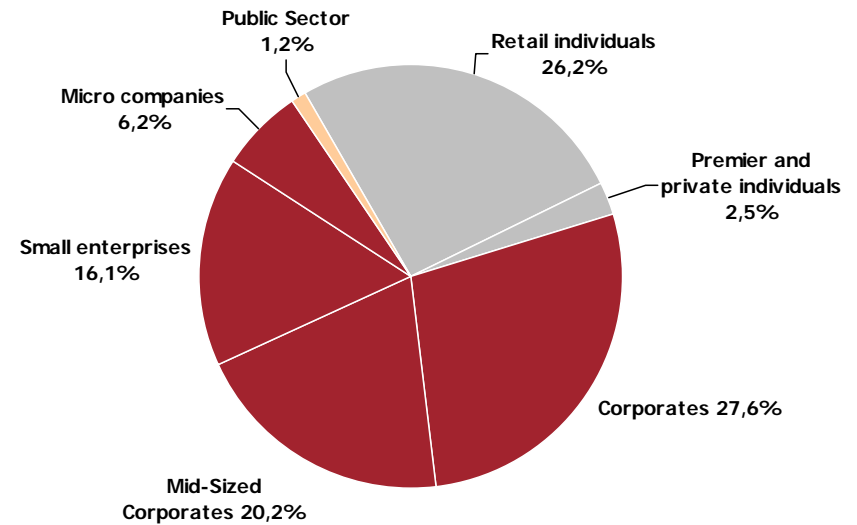
- Loans marginally up in spite of the still sluggish demand of credit.

### Loans evolution

(€, million)

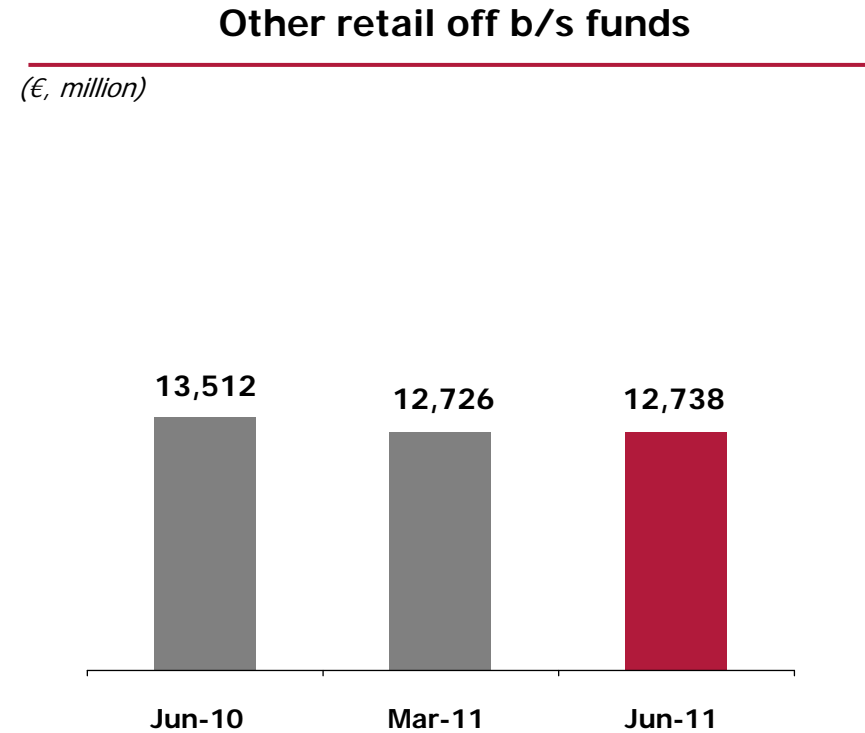
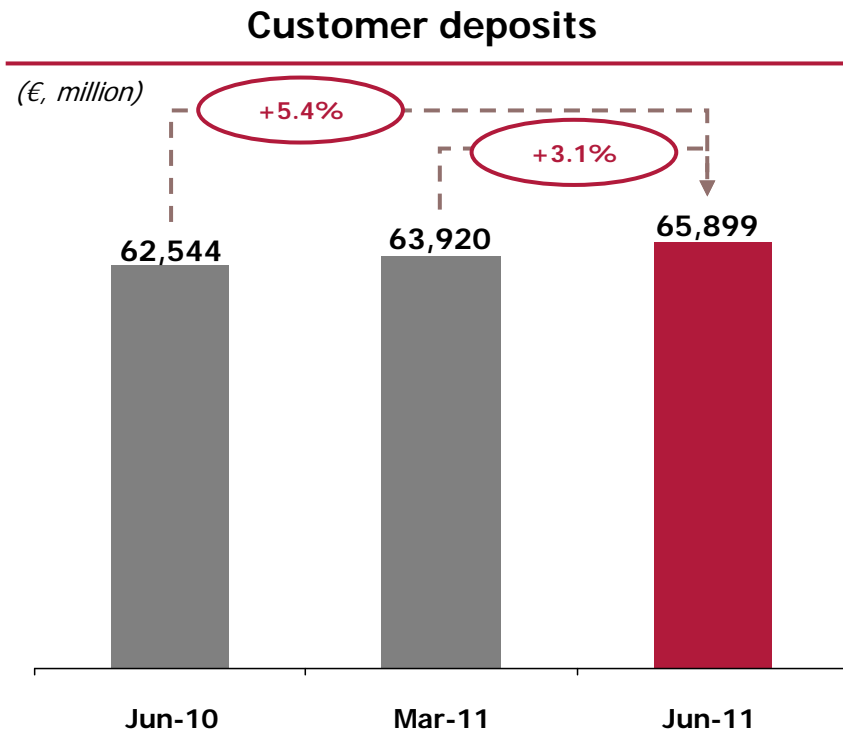


### Loans breakdown by sector (1)



(1) Data as of May 2011

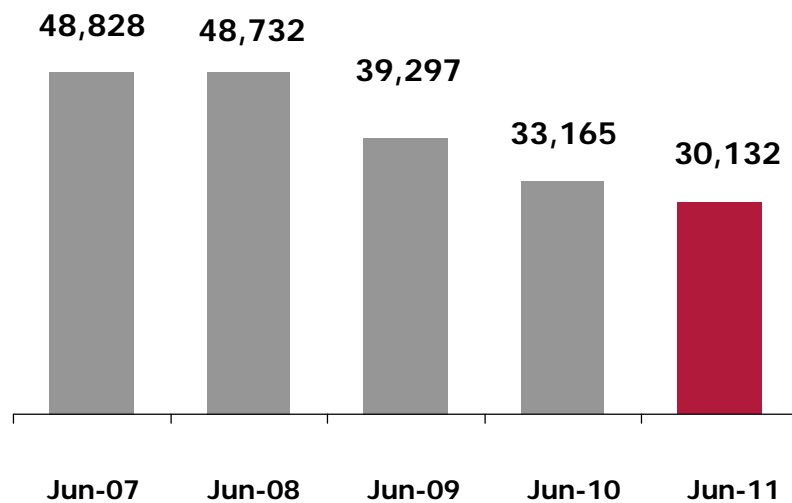
- Quality customer deposits consistently up. Other AuM holding up well in spite of m-to-market.



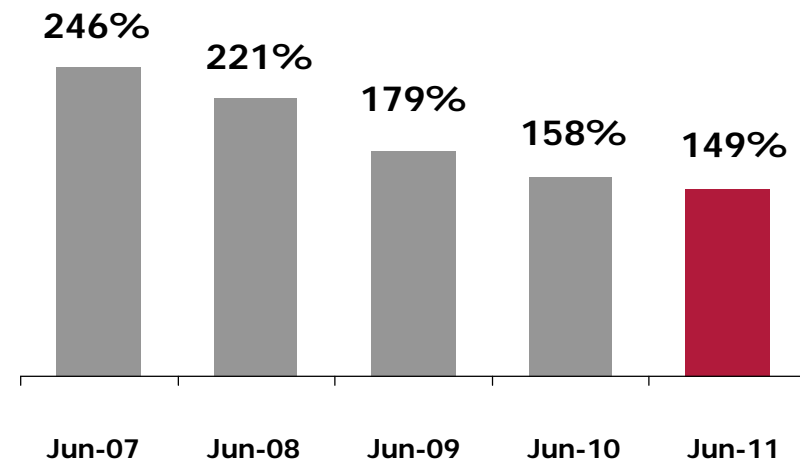
- 113,000 new Retail Customers
- 32,300 new SMEs

- Following the increase in customer deposits, the loans to deposits ratio improves

Evolution of the commercial gap



Loans/deposits ratio\*



\*Note: ex all repurchasing agreements



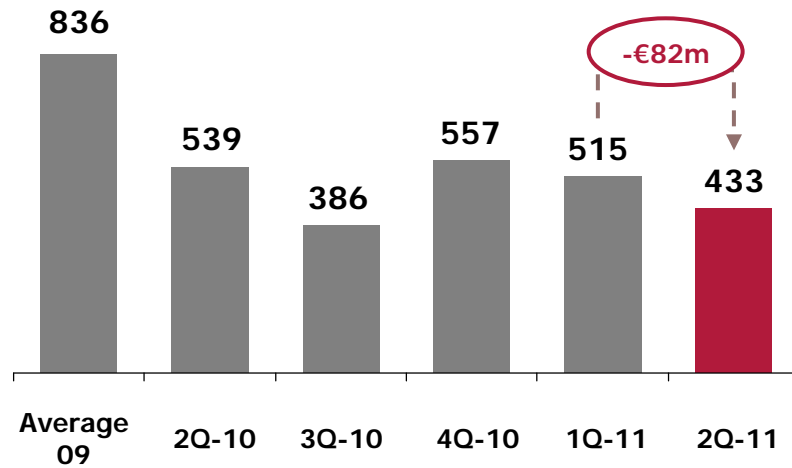
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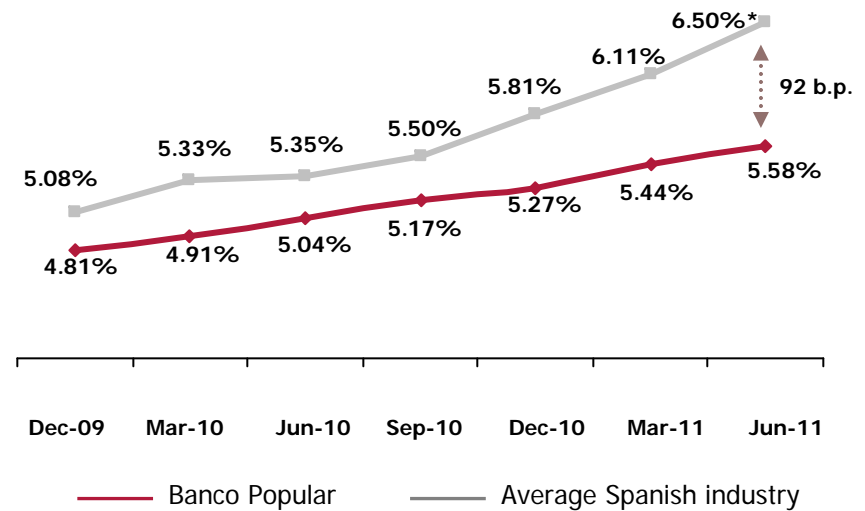
- Net NPL entries marginally down (-€82m QoQ), but still high.
- NPL ratio, c. 1% below the industry.

### Evolution of net entries of NPLs

(€, million)



### NPL ratio evolution

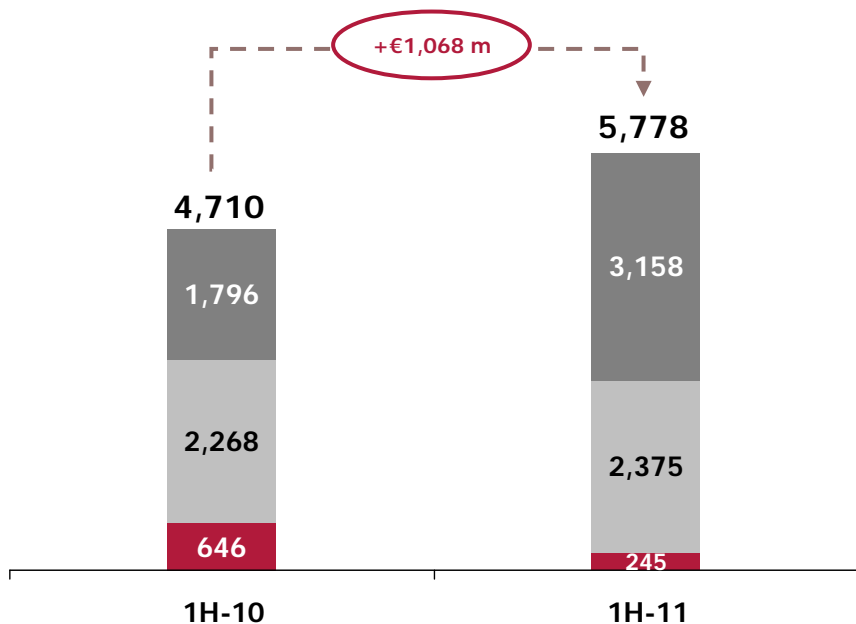


(\*) Average banks, saving banks and credit unions. Data as of May 2011

- The Credit provisions stock is up by €1.1bn. Good coverage even after haircuts in the value of the collaterals.

### Provision Stock

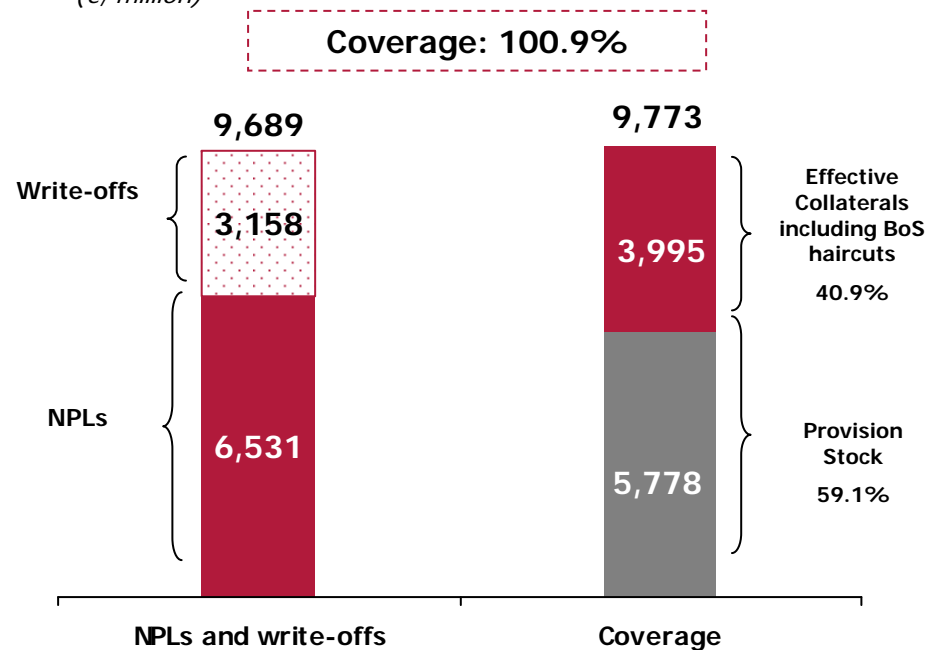
(€, million)



■ Countercyclical provisions   ■ Specific allowances & other  
■ Write-offs

### Coverage analysis

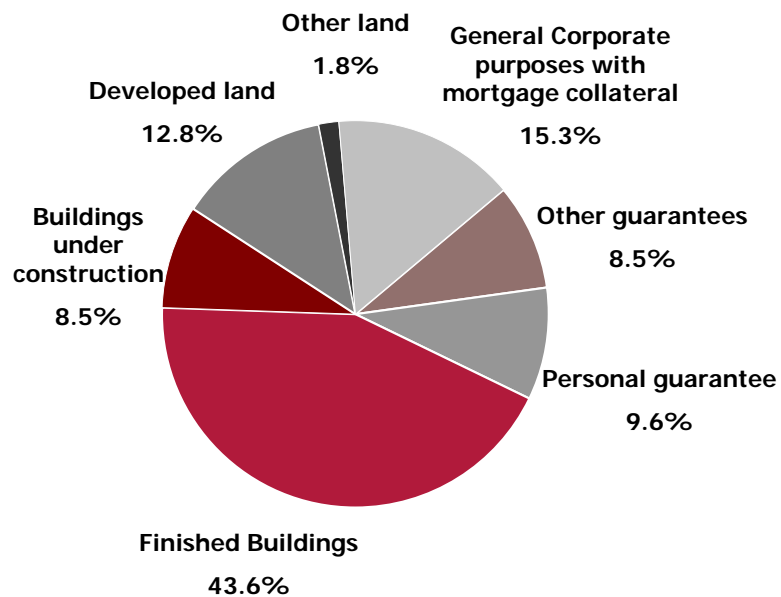
(€, million)



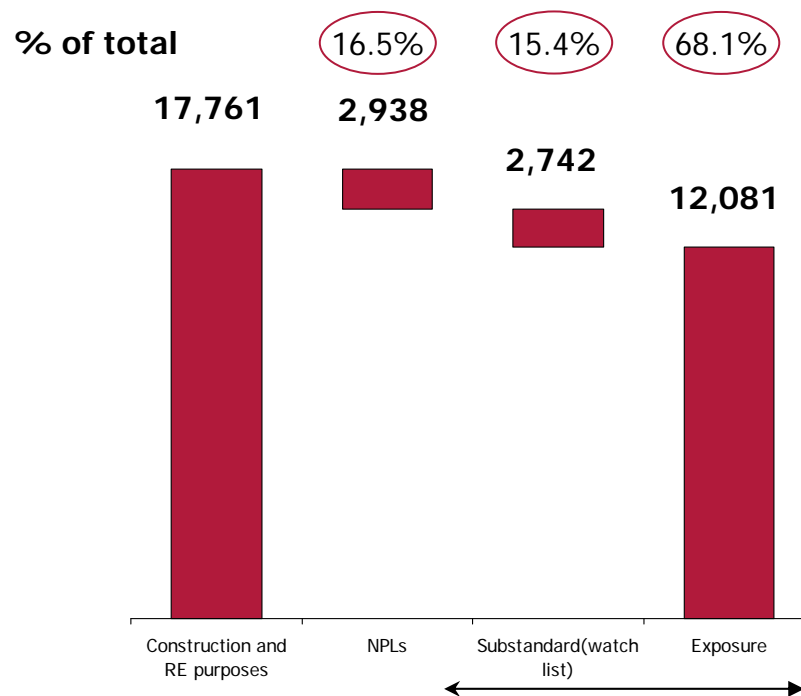
(\*) BoS haircuts: First residence, 20%; Commercial RE 30%; Other finished residences, 40%, Land, 50%

• BofS Transparency Exercise: lending to construction and RE purposes.

**Construction and real estate breakdown by type**



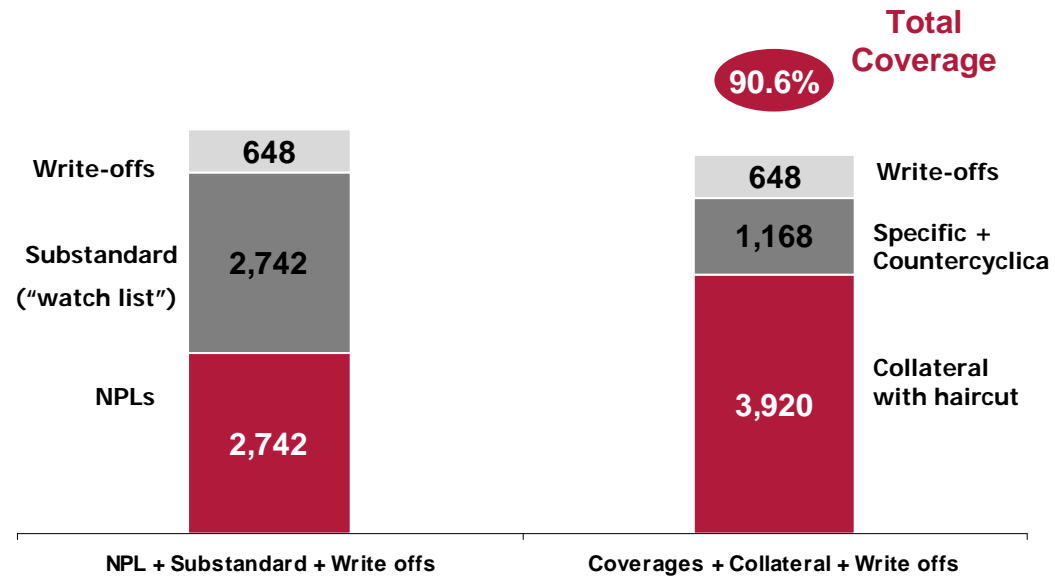
**NPLs and Substandard (“watch list”)**



• Transparency Exercise: The coverage of NPLs and Substandard is adequate.

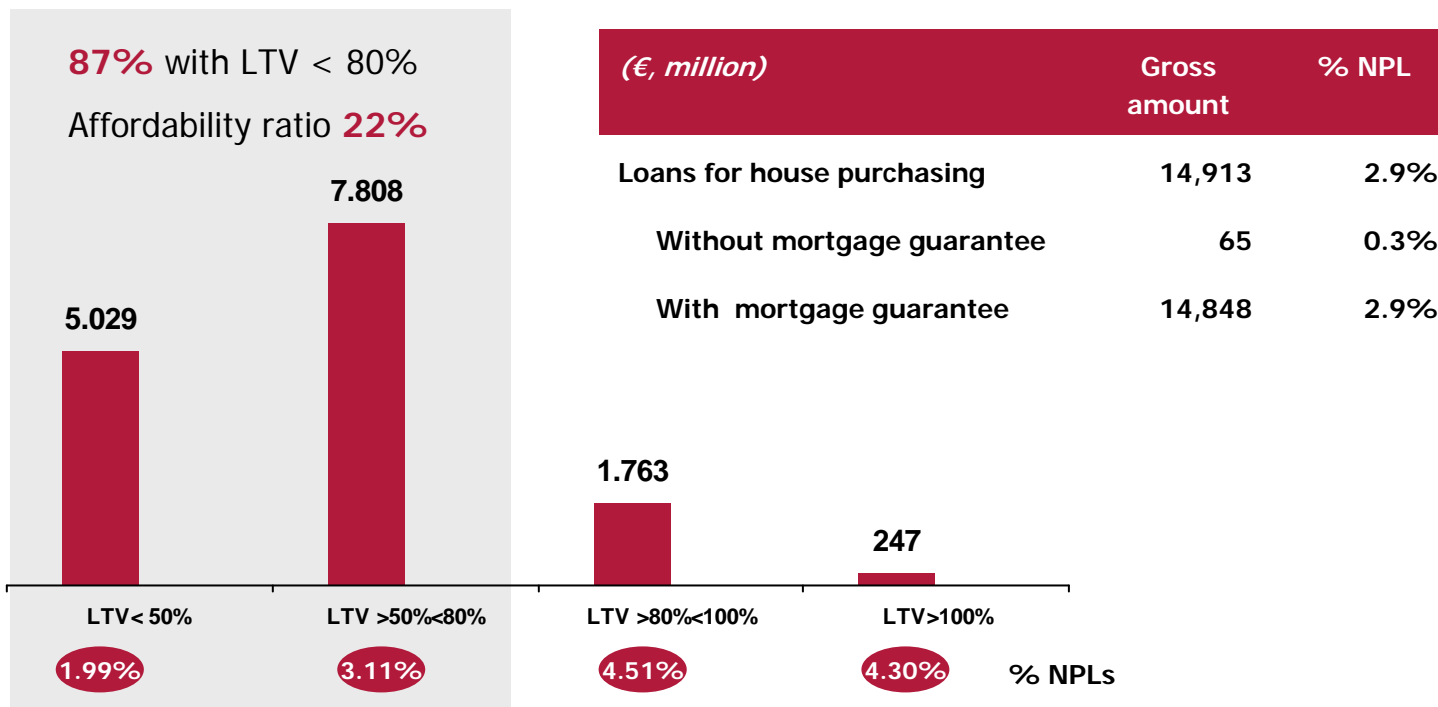
### Coverage of NPLs and Substandard loans (“watch list”)

(€, million)



- Transparency Exercise: highest quality of mortgage loans to households for house purchasing.

### Breakdown of mortgage loans to households for house purchasing



• Real Estate assets held in Spain: Provisions and coverage up.

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

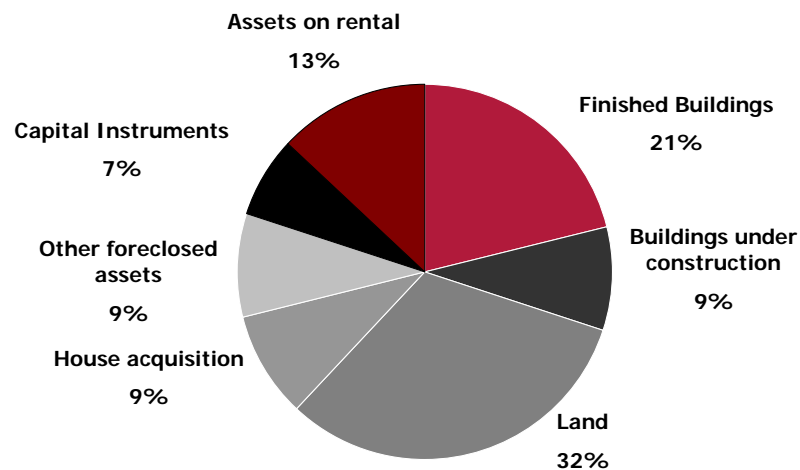
<b>Net amount</b>	<b>3,707</b>
Construction and developers	2,870
Residential repossessions	397
Other Non RE companies repossessions	440
<b>Provisions</b>	<b>1,486</b>

**Assets on rental (€,million)**

<b>Net amount</b>	<b>594</b>
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**Capital instruments (€,million)**

<b>Net amount</b>	<b>314</b>
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**Coverage<sup>(1)</sup>:**  
 Jun-11..... 35%  
 Dec-10.....29%



<sup>(1)</sup> Provision over acquired and repossessed assets and capital instruments

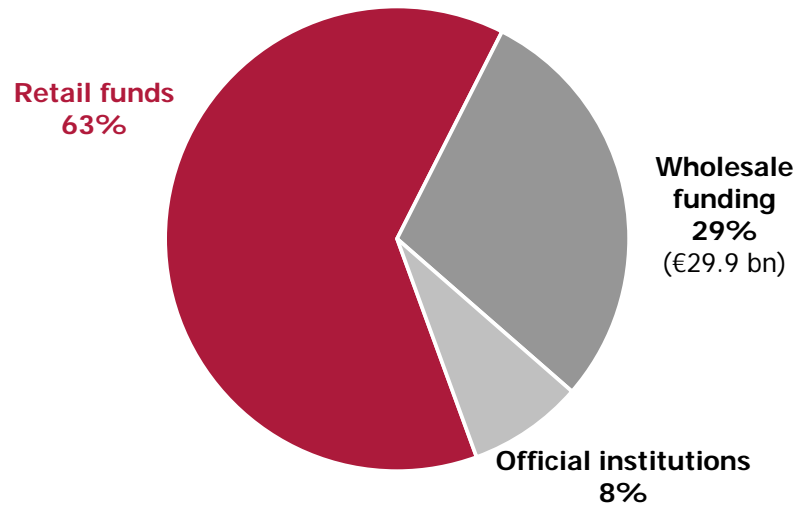


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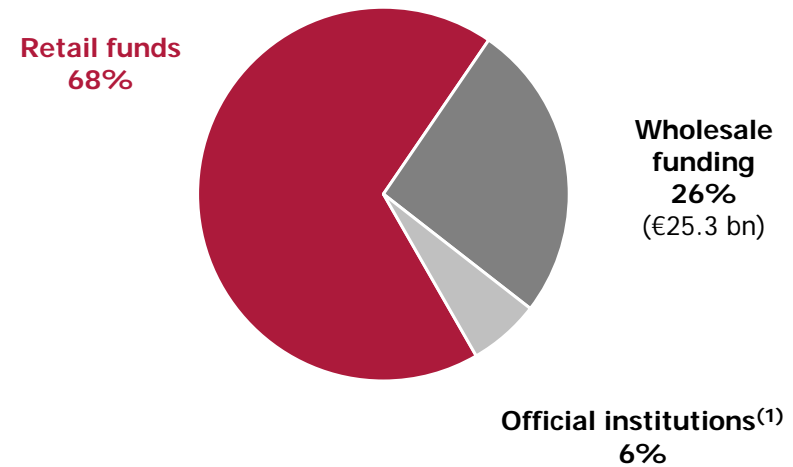
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• Wholesale funding reduced from €29.9bn to €25.3bn, 15% down YoY.  
Retail Funds accounts for 68% of needs.

Funds breakdown (Jun-10): €101.7bn



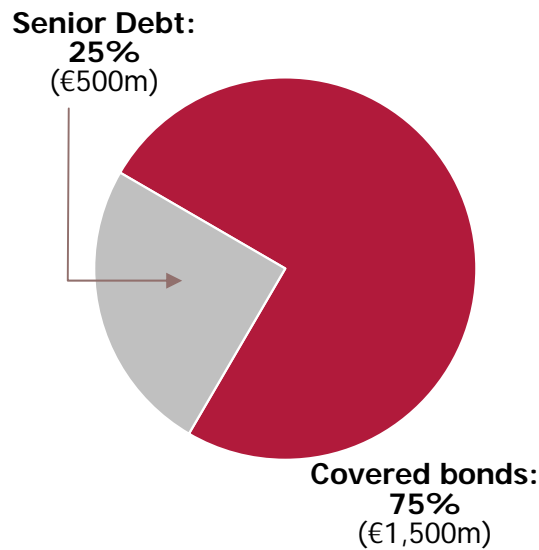
Funds breakdown (Jun-11): €97.2bn



<sup>(1)</sup> 2% ECB and 4% ICO

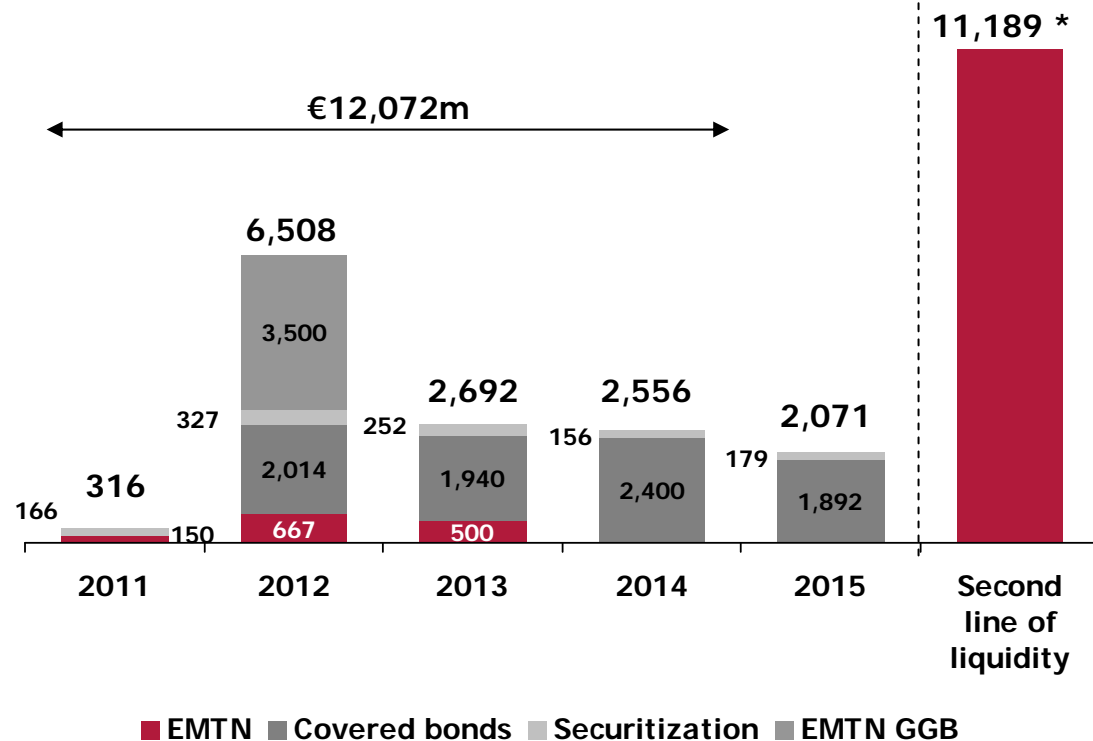
•We managed to raise senior and covered bonds in spite of dysfunctional markets. Comfortable maturities & backed by a 2nd line of liquidity, even if the gap is not improved (unlikely) and markets closes (unlikely).

New issues 2011: €2,000m



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

(€, million)



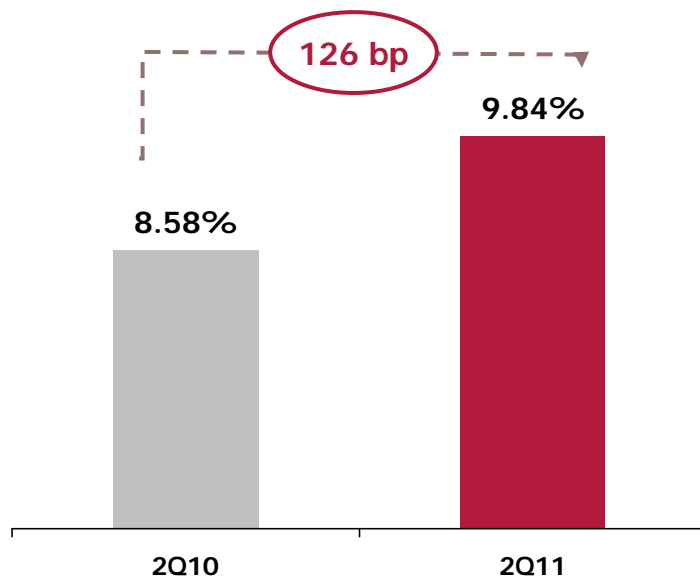
\* 4bn of unused GGB capacity not included

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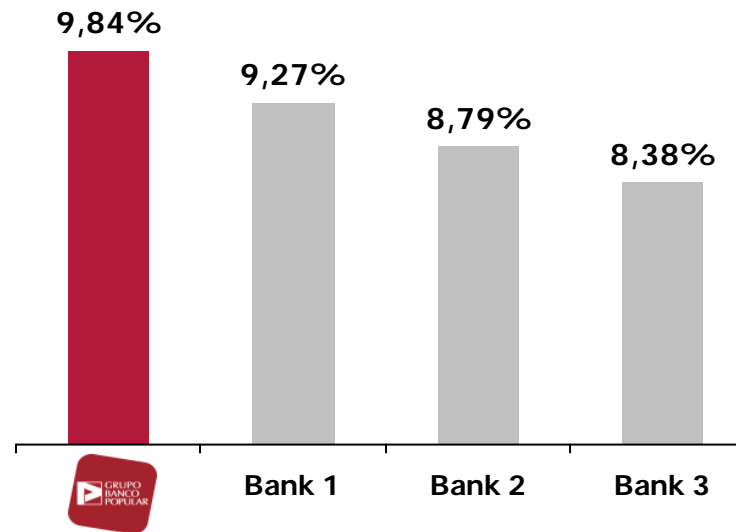
- Very good Core Capital ratio and well equipped for Basel 3.

Core capital YoY evolution



✓ Core capital : 9,0 €bn

Core capital vs peers



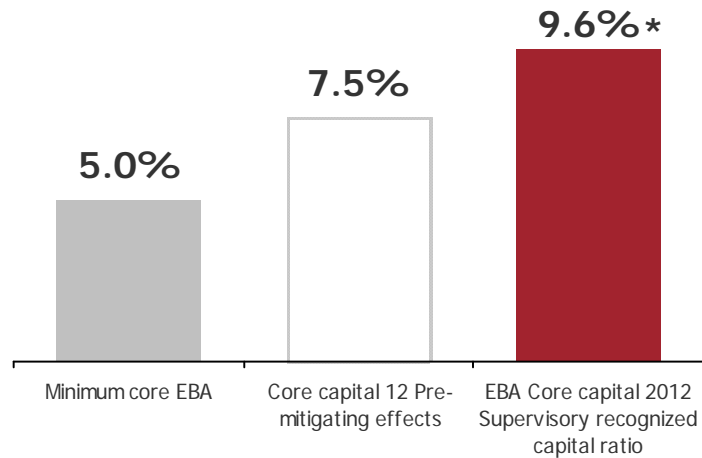
Source: Quarterly reports

Note: Comparable banks include Sabadell, Bankinter and Banesto.

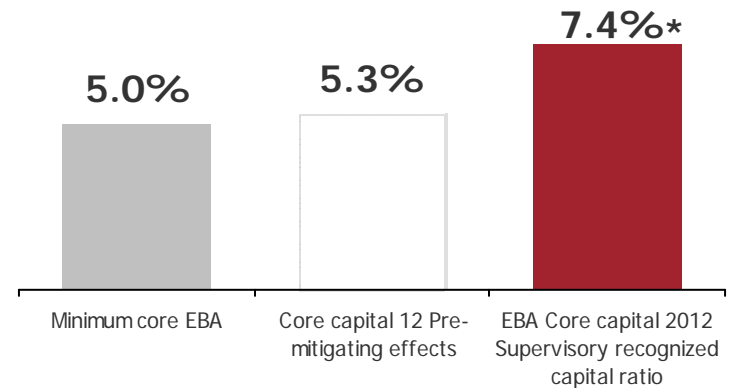


- **EBA stress test passed with a comfortable capital position (7.4%\* Core Capital) and €2.3Bn of excess capital in the case of an extreme adverse scenario (particularly tough for Spanish banks)**

Stress test results. Baseline Scenario



Stress test results. Adverse Scenario



*(\*) "Mitigating measures" (over RWA)= 1.2% MCNs already issued and booked in balance sheet before Dic.10 +0.6% generic and substandard provisions not initially accounted as capital but in balance sheet at Dic.10 +0.2% capital gains booked in 1Q11, etc.*

*Further details in our web page.*

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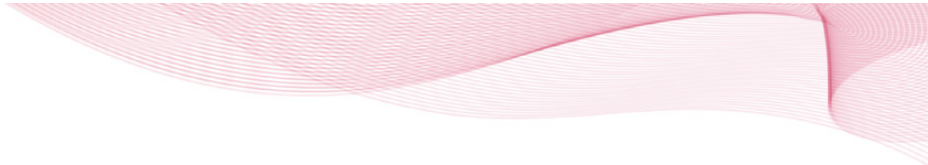
## Closing Remarks, Recap 1<sup>st</sup> Half 2011

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- Remarkable provisioning/cleaning up effort: Y-t-d provisions of €1.1 bn.
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- Comfortable liquidity position. Excellent Core Capital, at 9.84%.
- EBA stress test passed under most extreme scenarios and harsh assumptions.



## Outlook Full 2011

- Macro & micro environment will remain very challenging.
- NII : 1Q11 should be the floor.
- Net profits within the range of current market consensus.
- ....*Too interesting* year for the banking industry in Europe, but Popular keep scoring well and confident about the future.



**Many Thanks.**  
**Happy to take any questions.**



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