1Q17 Results Presentation

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Popular

* Please see disclaimer at the end of the presentation.

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Quarterly overview & strategic highlights

1.
1Q17 results

2.
Asset Quality & Solvency

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Final remarks

Quarterly results reassuring the value of our franchise

Positive trends both in the P&L, and…	€309M pre provision profit, 19% up QoQ like for like[1]. Higher in the main business: €435M, implying 17% RoTE
	Net interest margin recovery confirmed
	Fees improving to a level close to the strongest quarter in 2016
	Personnel restructuring delivers a 10% YoY cost reduction
… in the balance sheet	Gross NPA reduction of €569M in the quarter with provision coverage improving by +0.2% to 45.2%
	Total capital ratio at 11.91%, >50bps above regulatory threshold
Improved commercial trends	Monthly trends improving throughout the quarter, in loans and term deposits front-book volumes and in NPA reduction
	Customer spreads increases 5 bps QoQ and credit and time deposits front-book rates maintain a sound performance

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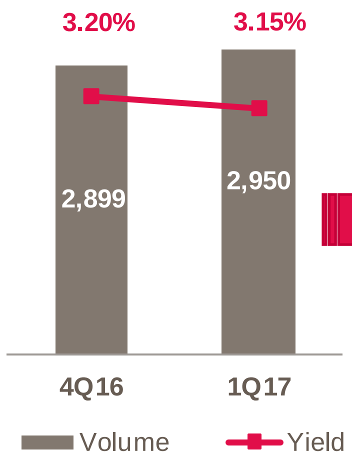
(1) Pre provision profit in 4Q16 of €259M: Ex non-recurrent items (-€495M) and contribution to the DGF (-€59M)

Improving metrics of our unique SME franchise

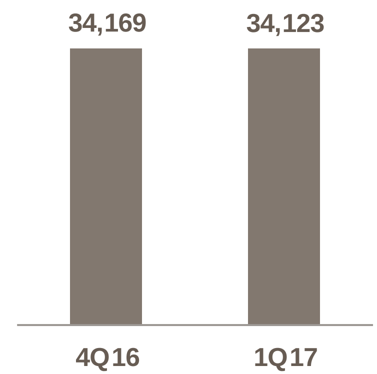
Commercial activity in the quarter

SME loan front-book (€M and %)



- **+ 8%** in **unsecured credit**
- **+ 8%** in **leasing**
- **+ 5%** in **self-employed**

SME performing lending (€M)

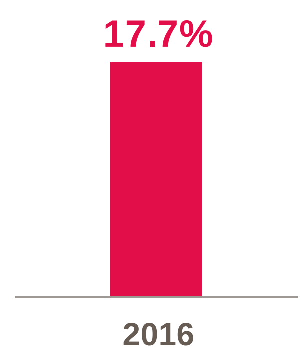


Leader in SMEs

Highly specialized structure

- **1,500 Managers**
- **800 Corporate Managers**
- **110 Specialists in Corp. Centers**
- **4 Enterprise Branches**

SME market share in Spain[1] (%)



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(1) According to EBA's 2016 Transparency Exercise.

NPA provisions mainly driven by Real Estate

Total NPA provisions booked in 1Q17 (€M)

€M	Main Business(1)	Real Estate Business	Group(1)
NPLs	175	175	350
Foreclosed	0	135	135
NPAs	175	310	486

64% of provisions in Real Estate: 310 million € (36 p.p. as NPLs)

Increased NPA coverage: 45.2%

NPL coverage 0.2 p.p. up in the quarter, to 51.4%

REO coverage 0.3 p.p. up in the quarter, to 38.5%

NITA gaining traction progressively

Lack of traction at the beginning of the quarter led to higher NPL gross entries in January and February than in March

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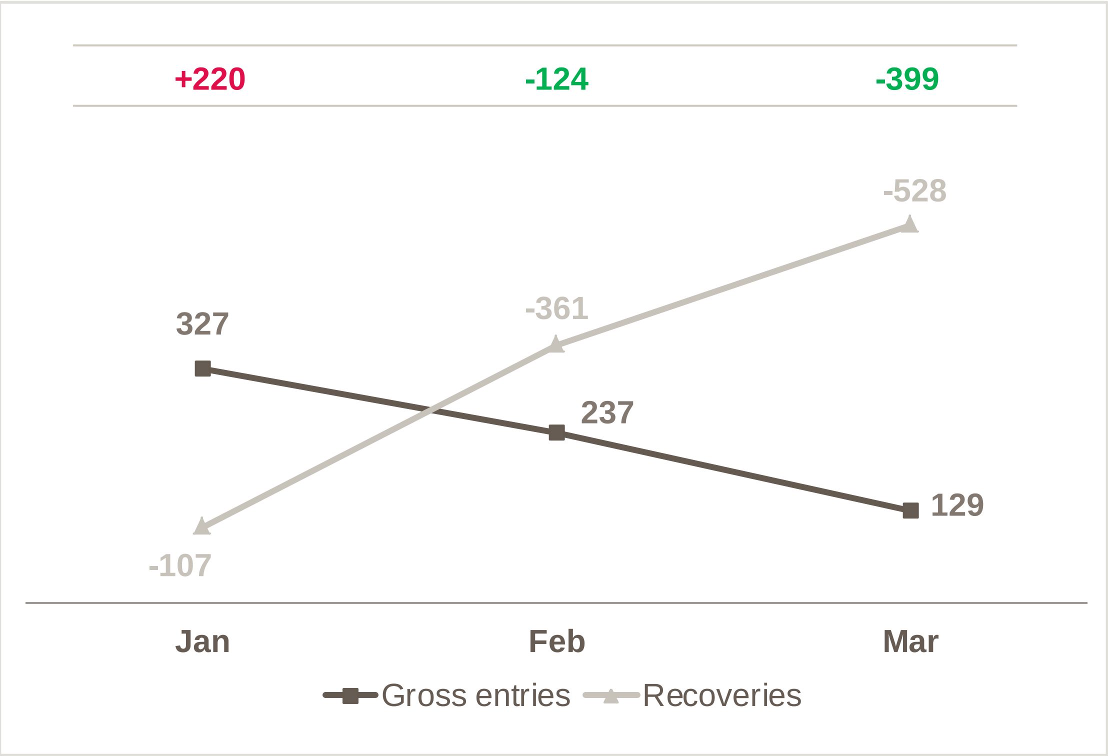
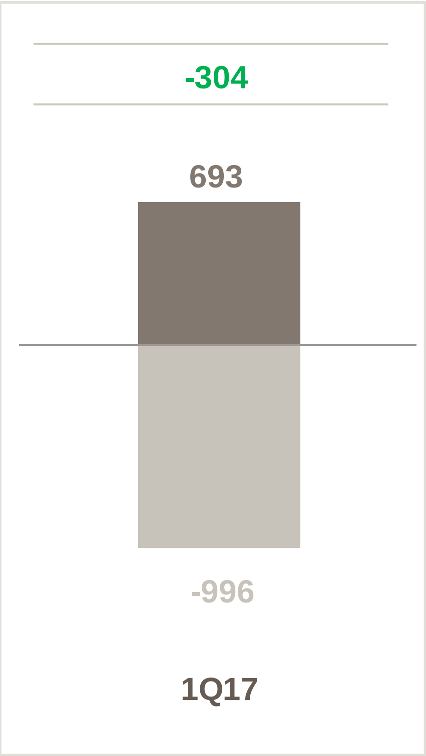
(1) Does not include provisions for pensions and reversal of provisions linked to the restructuring process, totaling €10M in 1Q17; If included, total provisions for the Group would amount to €496M.

Improving NPL trends throughout the quarter

Monthly NPL net entries (€M; ex write-offs)



1Q17 NPL net entries (€M; ex write-offs)



- **Lack of traction at the beginning of the quarter,** with high gross entries and low recoveries in January
- **Gaining momentum February and specially in March,** with gross entries falling 61% vs. January and 46% vs. February, and with recoveries being almost 5x those in January and 1.5x those in February

End-to-end approach to NPA's management

1Q shows positive results on the reduction of NPAs at all levels of the "asset quality cycle"

Gross NPL Entries	Down -24% YoY
NPL recoveries	Up +7% YoY
NPL sales	NPL sales €402M in 1Q17 vs. €20M in 1Q16
REO conversion	Down -43% YoY
REO sales	Retail Sales +19% YoY

Real Estate & Asset Transformation Unit (NITA)

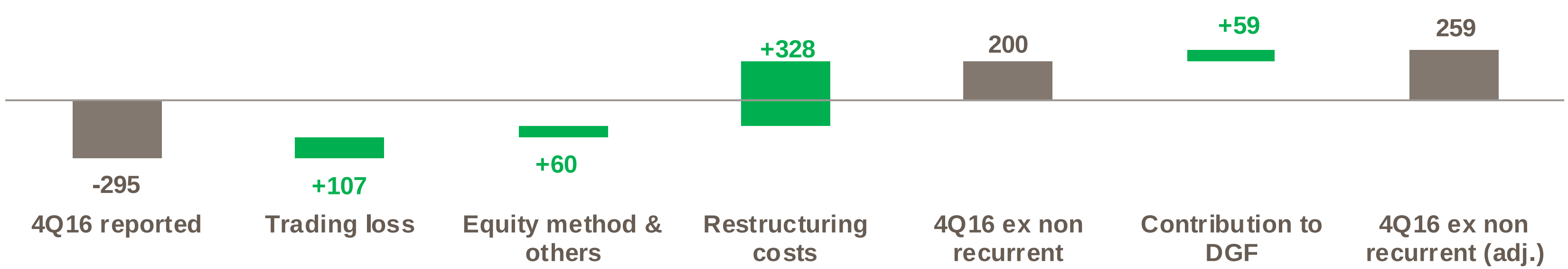
- 400 specialized managers exclusively focused on reducing gross NPL entries, increasing recoveries and selling NPL/REOs
- In order to complement wholesale portfolio sales, increased focus on NPL sales through the retail channel, totaling €172M
- Change in the recovery model, more focused on cash recoveries and sales, allowing a lower REO conversion rate
- 40 fully-dedicated branches distributed across the Spanish geography

Pre provision profit supported by core revenues and increased efficiency

P&L (€ M)	1Q17	4Q16[1]	QoQ	1Q16	YoY
Net interest income	**500**	**517**	**-3.3%**	**551**	**-9.4%**
Net fees	140	135	4.1%	141	-0.8%
Equity method	20	-29	n.a.	24	-19.1%
Trading income	13	-94	n.a.	99	-86.8%
Other income	7	-49	n.a.	15	-49.7%
Gross income	**680**	**478**	**42.1%**	**831**	**-18.2%**
Administrative expenses	-331	-738	-55.1%	-379	-12.6%
Amortization	-40	-35	12.9%	-35	13.8%
Pre provision profit	**309**	**-295**	**n.a.**	**417**	**-25.9%**
Provisions[3]	-496	-4,851	-89.8%	-292	69.6%
Other gains/losses	-11	-22	-51.3%	0	n.a.
Pre tax profit	**-198**	**-5,167**	**-96.2%**	**124**	**n.a.**
Taxes, capital gains and others	61	1,461	-95.9%	-31	n.a.
Net income	**-137**	**-3,706**	**-96.3%**	**94**	**n.a.**

- Popular's adjusted **pre provision profit** shows a **19%**[2] **QoQ increase**
- **High provisioning efforts in the Real Estate business** negatively affect the Group's net income

Bridge to 4Q16 adjusted Pre Provision Profit (ex non recurrent)[2]



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(1) Restated with the impacts included in the Significant Event announced the 3rd of April
(2) Pre provision profit in 4Q16 of €259M: Ex non-recurrent items (-€495M) and contribution to the DGF (-€59M)
(3) Includes provisions for credit, REOs, pensions and others

435 million € pre provision profit for the main business

Main Business

P&L (€ M)	1Q17	4Q16[(1)]	QoQ	1Q16	YoY
Net interest income	**551**	**561**	**-1.8%**	**593**	**-7.1%**
Net fees	138	132	4.8%	139	-0.9%
Equity method	32	-21	n.a.	36	-11.4%
Trading income	13	-94	n.a.	99	-86.8%
Other income	3	-54	n.a.	12	-76.8%
Gross income	**737**	**524**	**40.6%**	**879**	**-16.2%**
Administrative expenses	-271	-642	-57.7%	-332	-18.3%
Amortization	-31	-30	3.0%	-29	6.0%
Pre provision profit	**435**	**-148**	**n.a.**	**518**	**-16.0%**
Provisions[(2)]	-185	-1,123	-83.5%	-163	13.0%
Other gains/losses	0	-2	n.a.	-15	n.a.
Pre tax profit	**250**	**-1,273**	**n.a.**	**369**	**-32.4%**
Taxes, capital gains and others	-70	296	n.a.	-94	-26.1%
Net income	**180**	**-977**	**n.a.**	**275**	**-34.5%**

Real Estate Business

P&L (€ M)	1Q17	4Q16[(1)]	QoQ	1Q16	YoY
Net interest income	**-52**	**-45**	**15.0%**	**-42**	**23.1%**
Pre provision profit	**-126**	**-147**	**-14.3%**	**-101**	**24.8%**
Net income	**-317**	**-2,728**	**-88.4%**	**-181**	**75.0%**

- €180M Net income on tangible equity of €3.7Bn yields a **17% annualized return** (adjusted for AT1 coupon payments)
- **Lower trading income YoY for €86M** has led to the same reduction in pre provision profit
- **Cost savings of €59M YoY** offset the fall in net interest income and other items
- Net income of the **Real Estate business** falls YoY **affected by higher provisioning**

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(1) Restated with the impacts included in the Significant Event announced the 3rd of April
(2) Includes provisions for credit, REOs, pensions and others

Moving on non strategic assets' sales

1. Specific non-core assets have been identified
2. Advisors have already been engaged
3. Potential interest investors have been contacted
4. Processes are progressing
5. Sales will only be done at a fair price

A small transaction has already been executed[1]: Popular Servicios Financieros (PSF)

c.3 bps positive impact on capital	Capital gain of €6.7M	Total loan book of €185M	Consumer lending book	11 branches in Spain, 1 in Portugal & 90 employees

Popular (1) Subject to final regulatory approvals.

Re-expression of accounts: Reduced impact on 2016 P&L and Equity. Effect on capital ratio to decrease along the year

			Equity (€M)	CET1 PI (%; €M)	Net Income (2016 €M)
Reported 4Q16			11,365	12.14%	-3,485
Re-stated 4Q16			11,124	11.53%	-3,611
Difference			-241	-0.61%	-126
IMPACTS (gross; €M)	Initial	Final(1)			
Financing of shares	205	221	Not affected	-518	Not affected
Individual provisions deficit	123	123	-86		-86
Other auditor's adjustments	61	61	-42		-42
NPL collaterals	Under analysis*		-112		+3
*According to the Significant Event announced the 3rd of April, the €160M provision shortfall linked to NPLs collaterals, which was statistically estimated at first, and the €145M NPL book (net of provisions) in regards to potential derecognition of collateral, are both being analyzed. Final impact due to be announced by 2Q17				c. €80M of initial impact on solvency expected to fade away in the coming months as financing matures	Already known impacts only account for 3.6% of 2016 reported net loss

Popular (1) Final impacts subject to review by external auditor.

Complex, lengthy, strict analysis

Financing for the acquisition of shares

- Only a very small amount of contracts stated share purchase as purpose of the loan (17) or had shares pledged (3). So the potential linkage between financing and shares purchase has required a specific process
- Analysis focused on current shareholders with financing granted at the time of the rights-issue. Links were established on the basis of: (i) time coincidence (loan and share purchase); (ii) funds availability at the beginning of the period; (iii) tracking sources and uses of funds by customers; and (iv) customary behaviour of the borrower
- Close to 8,000 customers analysed, in a lengthy process

Doubtful loan collaterals

- Problems arose mainly before collaterals management was centralized in 2015
- Close to 7,700 contracts and 17,500 guaranties analyzed, including physical documents
- Very small impact in 2016 due to centralized procedure working properly

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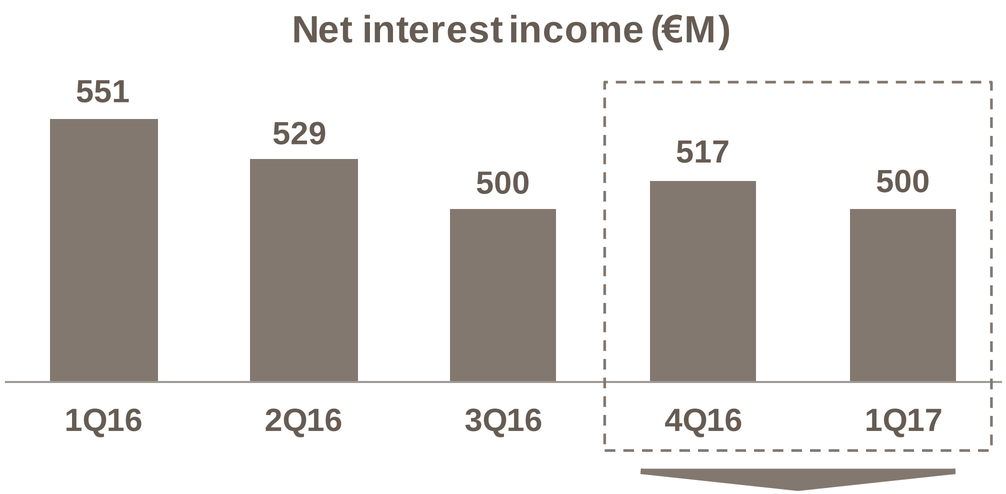
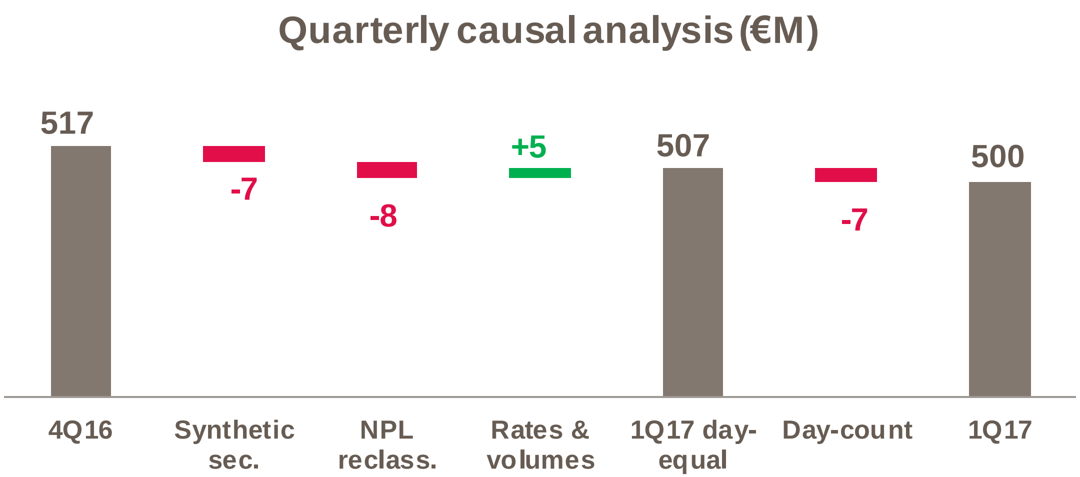
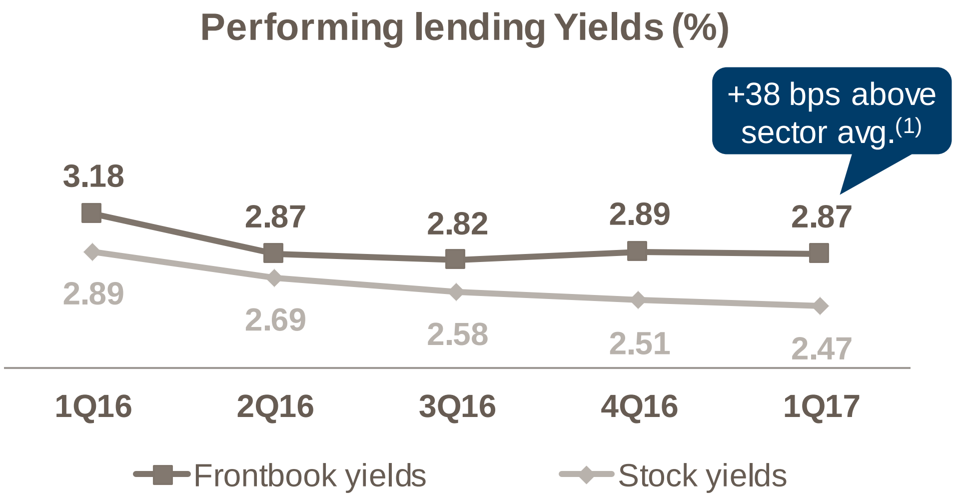
500 million € Net Interest Income shows resilience in a like for like basis

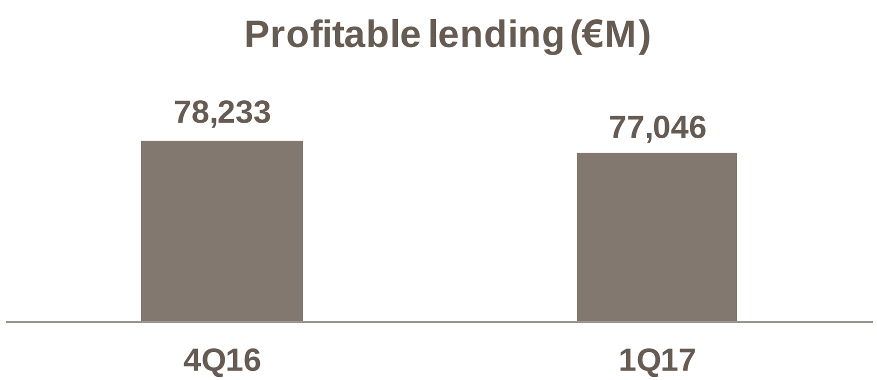




- If **adjusted to the same number of days** as Q3 and Q4 2016, the **NII would be €507M,** 1.4% up vs. 3Q 2016…
- …and **1.9% down QoQ , mainly due to a synthetic securitization** (with extra cost of €7M)…
- …while **ordinary activity trends show a good performance** in the quarter, with €8M lower income from loans classified as doubtful at year end

Good performance of new lending yields, still above stock yields





- **Credit front-book yields stand at 287 bps, 39 bps above our stock,** setting upward pressure for the medium term
- However, the average rate of our credit portfolio has moved slightly down, **from 251 bps to 247 bps,** due to the Euribor repricing impact and maturities
- Interest income coming from the lending book has decreased QoQ:
  - **€12M from lower yields,** to fade as negative impact of 12M Euribor ceases, and…
  - **€20M from deleveraging,** including €8M coming from the 4Q16 NPL reclassification

These negative impacts are offset by savings in the funding side and higher ALCO contribution

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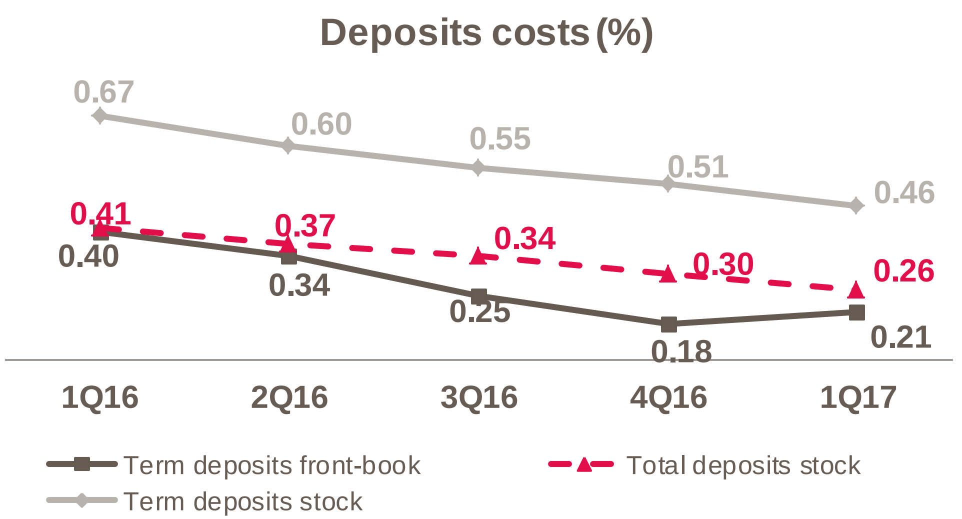
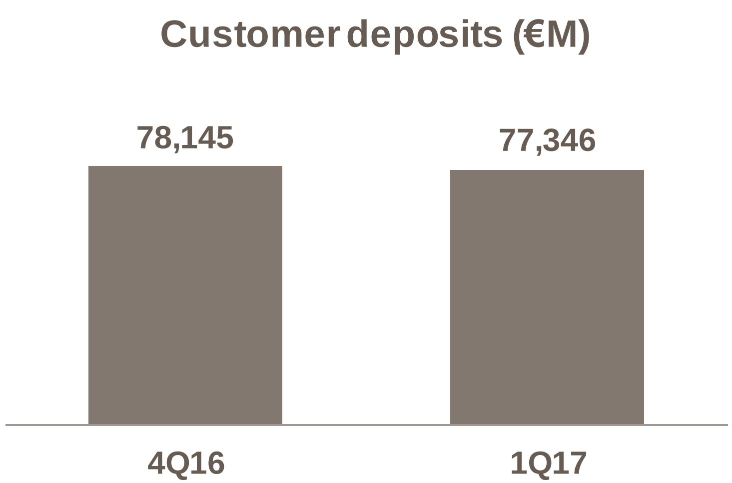
(1) Bank of Spain's public information as of Mar-17.

Deposit rates continue to show a downward trend

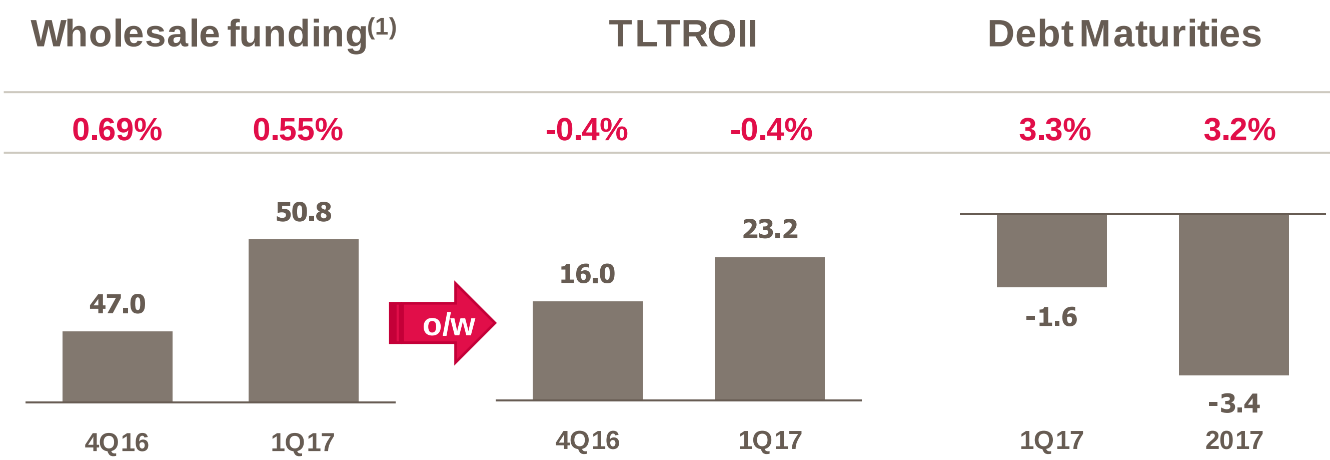




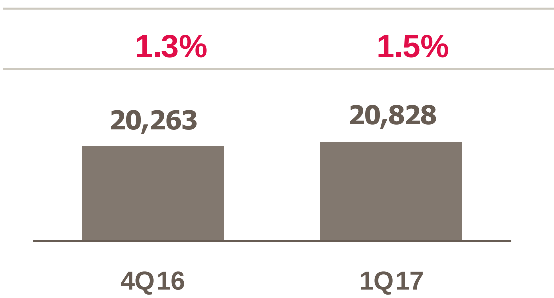
- The **interest rate of total deposits** has **fallen 4 basis points** to 0.26%....
- … driven by the cost of **front-book of term deposits at 21 bps,** well below last year average, and…
- **… 25 bps below the back-book rates,** so with plenty of room for improvements in the following quarters
- **Interest savings have amounted to €8M in the quarter,** mainly due to the interest rate reduction

Wholesale funding costs also going down

Wholesale funding (€Bn and %cost)



Fixed Income portfolio (€M and %yield)

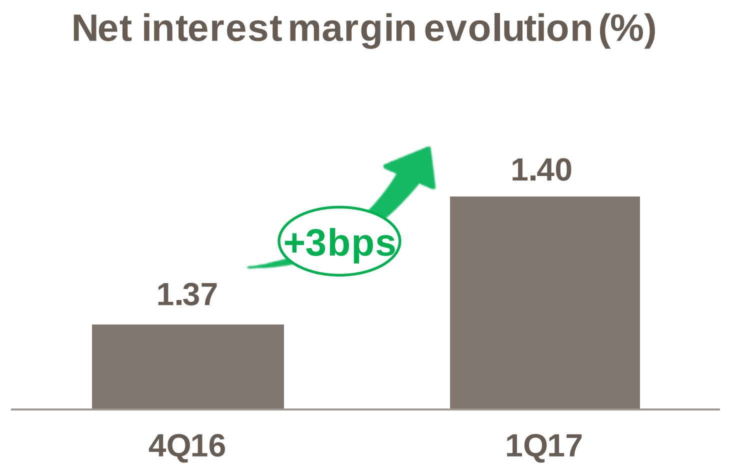


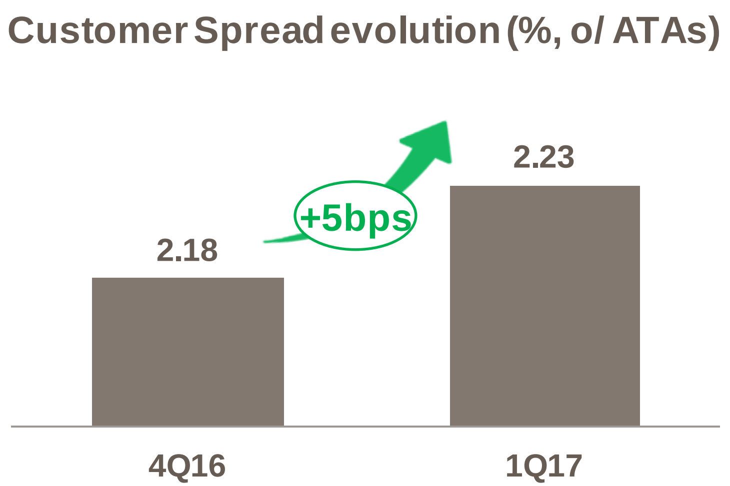
The restructuring of the ALCO portfolio in 4Q16 is already bearing fruit

- **TLTRO2 earnings up to €18.6M,** €6.2M higher than the past quarter. In late March, this facilty was increased by €7.2Bn up to €23.2Bn, therefore setting room for cost improvement in following quarters
- All in all, **wholesale funding** has contributed positively, with **€16M savings in the quarter**
- The **fixed income portfolio's contribution has increased €4M QoQ,** with the yield increasing to 1.5%

(1) Includes TLTRO II, Covered Bonds, Senior debt, subordinated debt and other

Net interest income margin up supported by customer spread



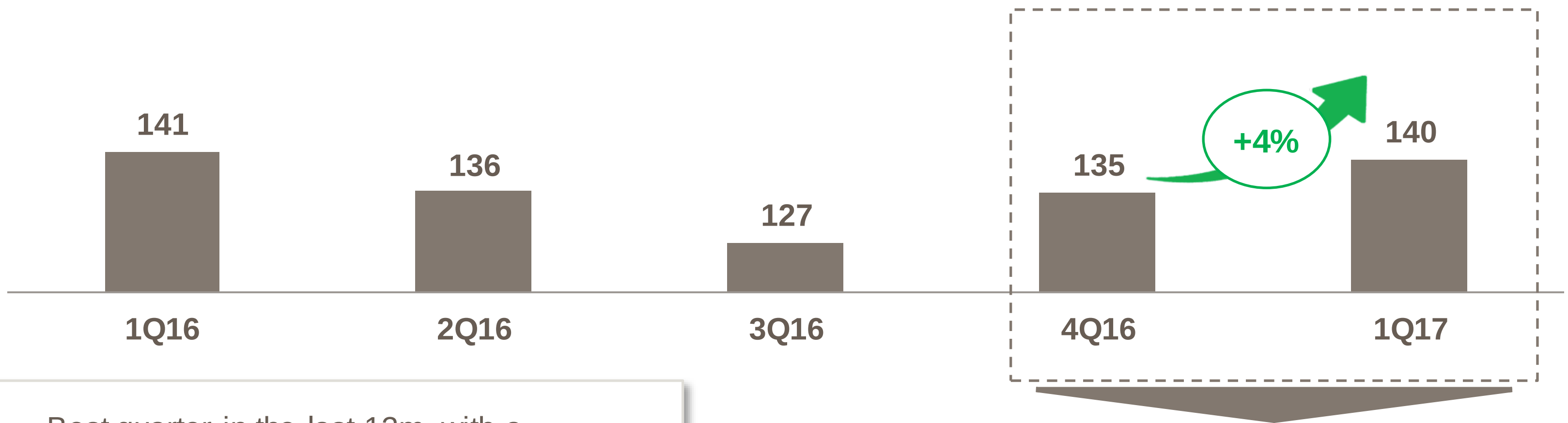


- Active spread management has resulted in an **quarterly increase of the net interest margin (+3bps QoQ)**
- Two quarters in a row with Net Interest Margin growth

- **Customer spread growth: +5bps QoQ,** given the downward path shown in deposit costs and the stabilization of credit yields

Fees 4% up, to 140 million € in the quarter, best in the last 12 months

Fees & commissions (€M)

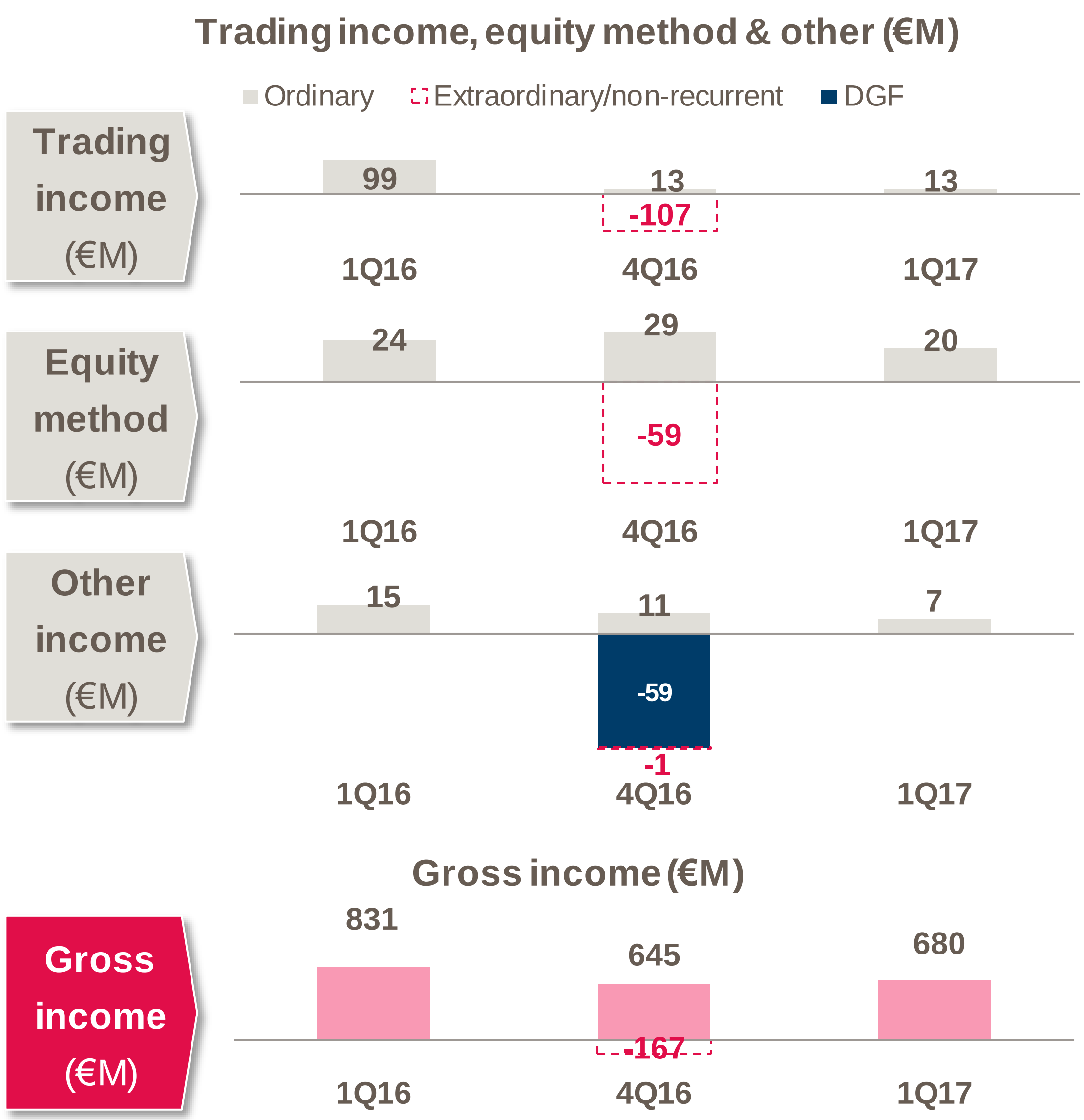


- Best quarter in the last 12m, with a **quarterly growth of +4%,** and broadly flattish YoY
- **Second quarter in a row with fee growth,** and therefore consolidating the recovery trend
- **Broad-based improvement,** with most of the growth explained by collection and payment handling (+20% QoQ) and asset transaction services (+5% QoQ)

	QoQ	Weight
Securities & FX	+24%	1%
Collection and payment handling	+20%	12%
Asset transaction services	+5%	17%
Demand account administration	+1%	19%
Portfolio administration	+1%	18%
Others(1)	+2%	33%

(1) Others include: Insurance sales fees, provision of collateral and other guarantees and others

680 million € gross income

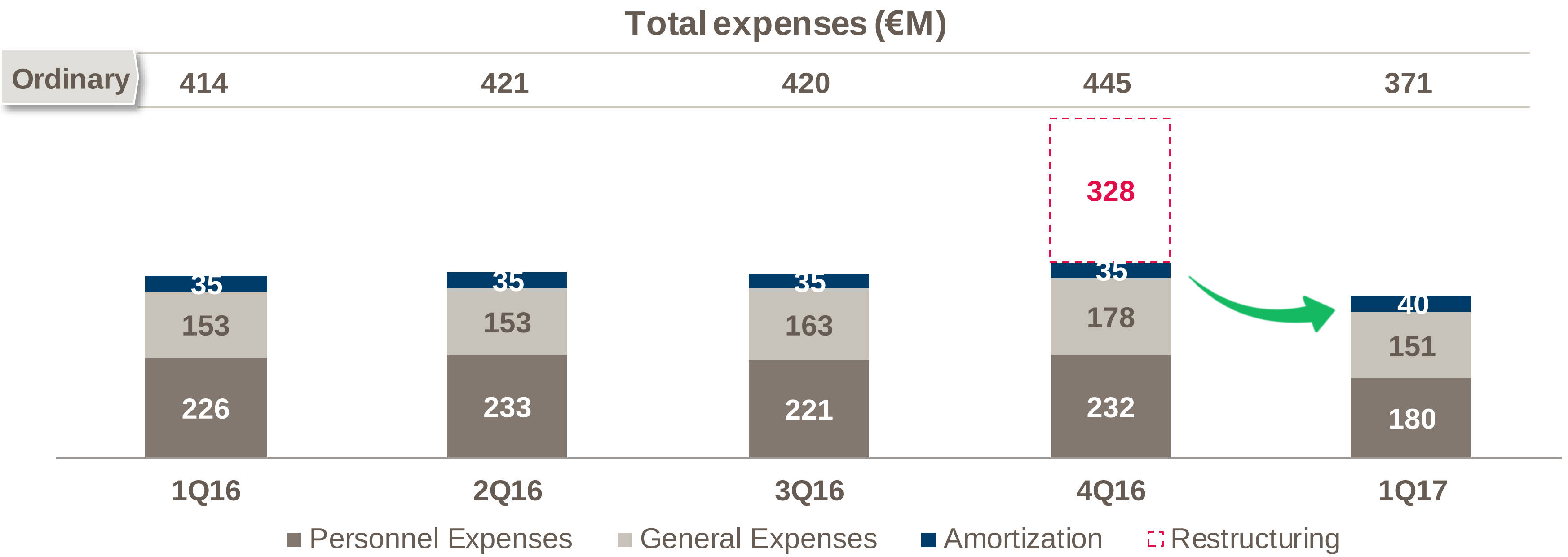


- **Trading income has reached €13M,** in line with the underlying performance of 4Q16

- **Results from investees still negatively affected by Targobank's contribution,** which amounts to -€3.4M, dragging the overall performance of this line

- All in all, **gross income reaches €680M.** So **QoQ** growth is:
  - **+42%** as reported
  - **+ 5.4%** if excluding one-off items from 4Q16
  - **-3.4%** if eliminating also DGF contribution from 4Q16

Costs 10% down YoY, to 371 million €



- **Personnel expenses have decreased by 20% YoY,** down €46M to €180M, following last year's restructuring, in line with guidance communicated at year-end results
- **Depreciation increase (€5M) due to software investment** is partially offset by general expenses reduction
- So, **total expenses have fallen by €43M (10% reduction yoy)**

This leads to a €309M Pre-Provision Profit, 19% up vs. 4Q16 pro-forma[1]

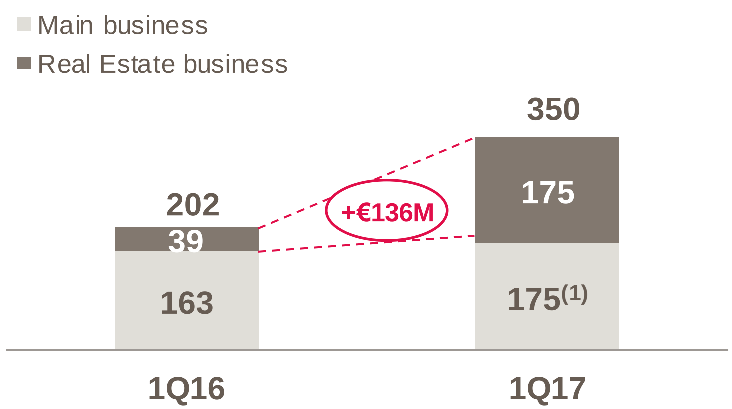
Popular (1) Pre provision profit in 4Q16 of €259M: Ex non-recurrent items (-€495M) and contribution to the DGF (-€59M)

Provisions of €496M explained by the increase in the real estate business

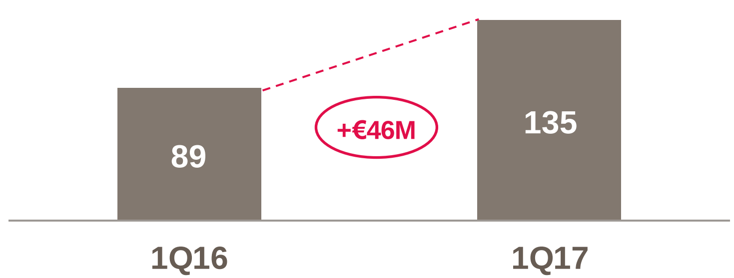
Total NPA provisions (€M)

1Q16	1Q17
292	486[1]

Credit provisions (€M)



REOs provisions (€M)

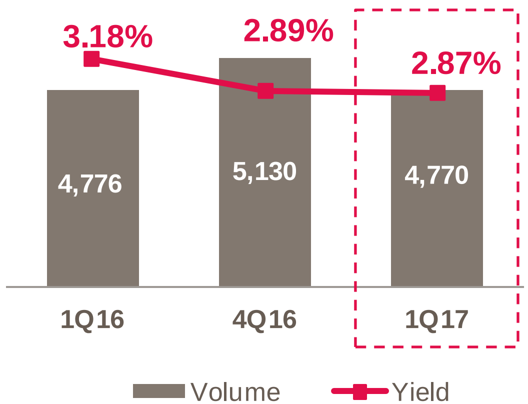


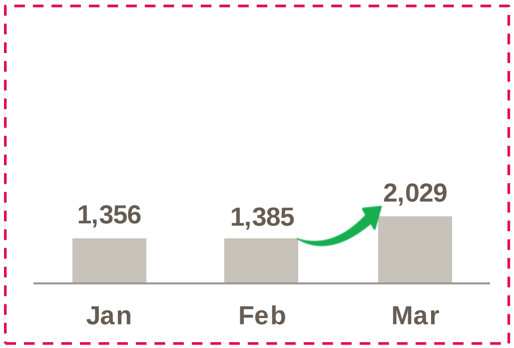
- The **€148M YoY increase in credit provisions is mainly explained by the considerable rise in the Real Estate Business's charges**, which have gone up from €39M in 1Q16 to €175M 1Q17
- **Foreclosed assets provisions are also up** YoY, a total of €46M
- On the other hand, credit provisions for the Main Business have increased by €12M (+7%YoY)
- Total NPA provisions amount to €486M, €194M higher than in 1Q16. **94% of the yearly increase is due to the Real Estate Business**
- If non-credit provisions[1] were included, **total provisions** for the Group would amount to **€496M**

Popular (1) Does not include provisions for pensions and reversal of provisions linked to the restructuring process, totaling €10M in 1Q17; If included, total provisions for the Group would amount to €496M

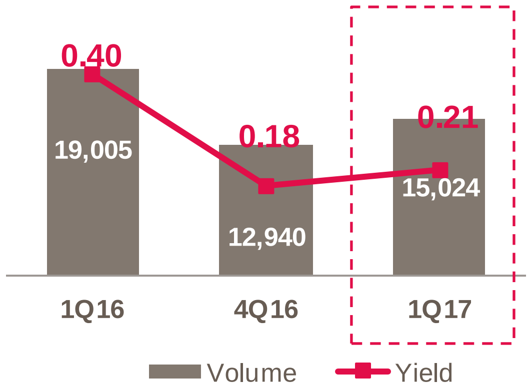
Intense commercial activity during the quarter

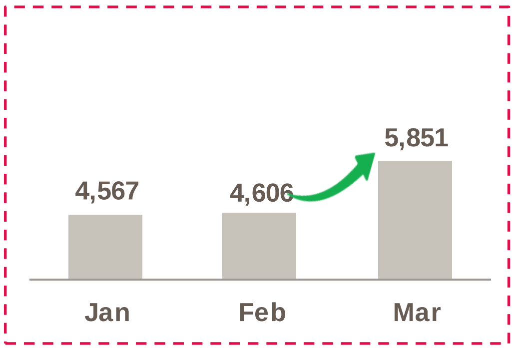
Lending frontbook volumes and yields (€M and %)





Term deposits frontbook volumes and yields (€M and %)





- **Lending production** remains **steady YoY**
- **Monthly differences within the quarter** follow the same pattern than last year, with only 3 p.p. of extra production weight in **March 17 (42.5% of total)**
- **Term deposits' new production** shows a **16% QoQ increase**
- This, however, has not prevented the overall stock of customer deposits from falling QoQ
- Both **lending and term deposit rates are similar to last quarter**

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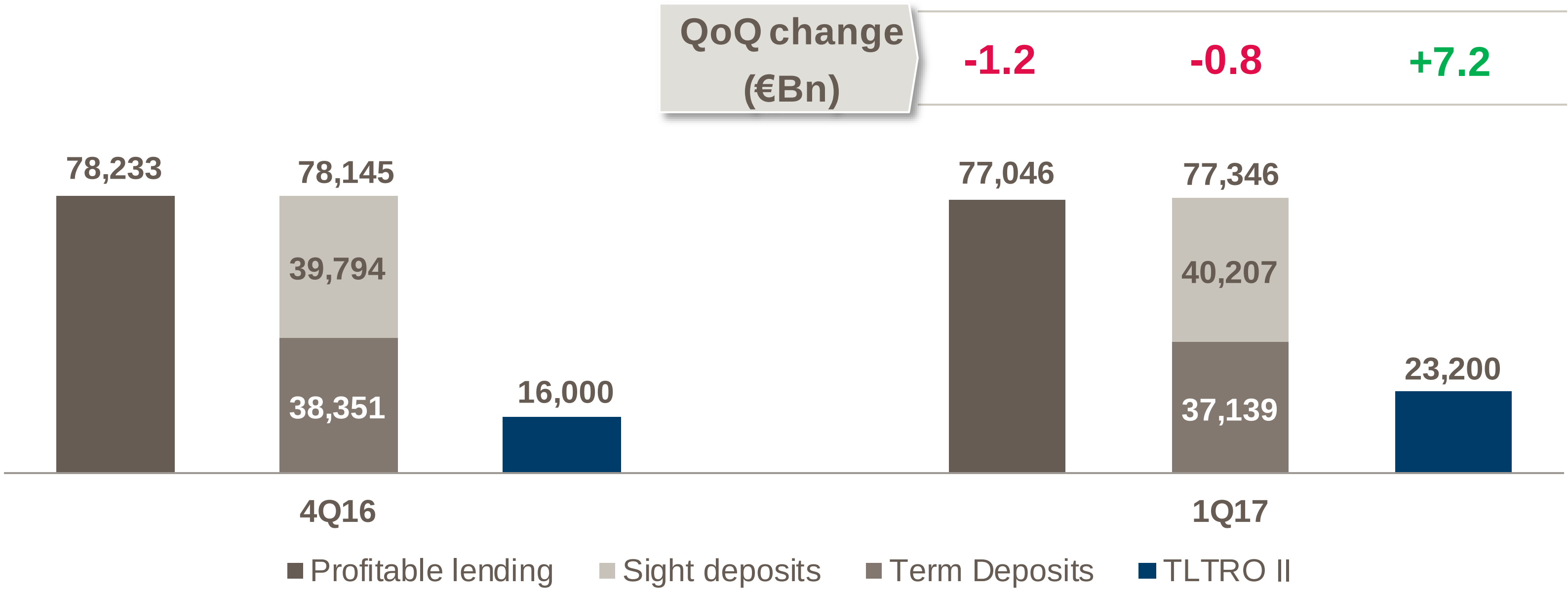
Our lending book is fully funded by our customer deposits



- **Customer deposits' (-€0.8Bn)** evolution **aligned with that of profitable lending (-€1.2Bn),** showing a decrease of -1% QoQ to €77,346M in 1Q17. This leads to a Loan to Deposits ratio **(LTD) of 102%**
- **Sight deposits grew 1% QoQ.** Deposits from **SMEs** have increased **(+€180M)**
- **TLTRO II funds have increased €7.2Bn** in the quarter, up to €23.2Bn.
- **Liquidity Coverage Ratio at 146%** as of March 31st (to be compared with 80% regulatory requirement).

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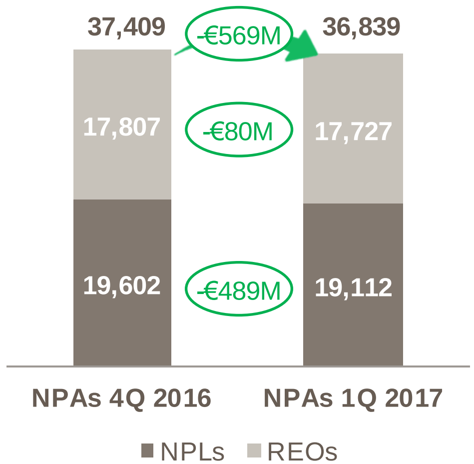
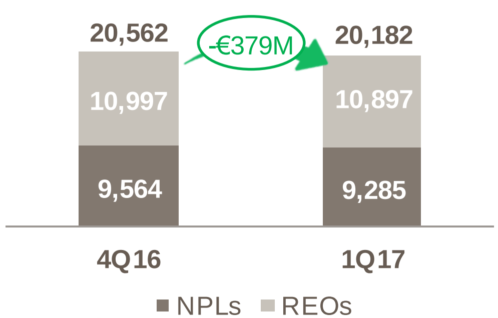
NPA 569 million € lower in the quarter

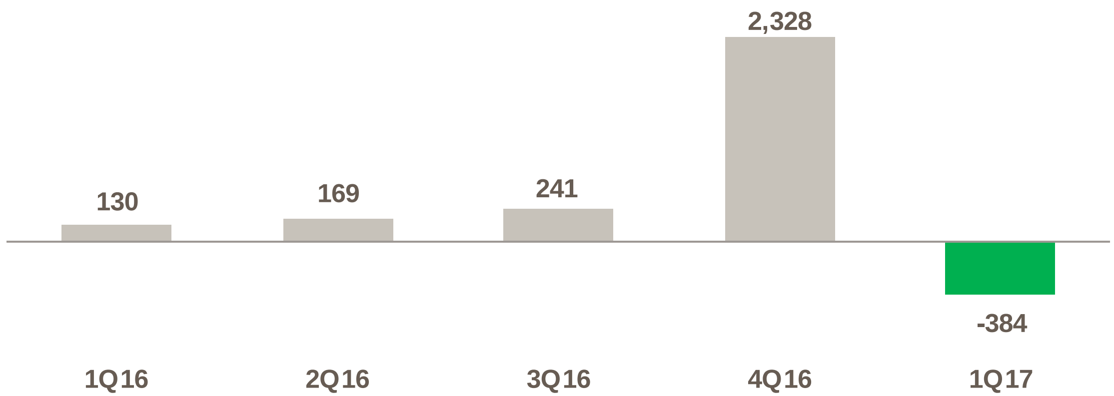
Breakdown of gross NPAs quarterly evolution (€M)



Breakdown of net NPAs quarterly evolution (€M)



NPA quarterly net entries (€M; ex write-offs)



- **NPAs have decreased a total of €569M in the quarter,** with NPLs down €489M and REOs down €80M
- **First quarter with NPA negative net entries excluding write offs (-€384M),** implying a turning point in asset quality trends.
- Again, **improving trend during the quarter,** with Recoveries & REO Sales in February more than doubling January, and March exceeding February in more than 60%.
- The **net book value of NPAs** has also been **reduced, by €379M,** to ~20.2 billion €.

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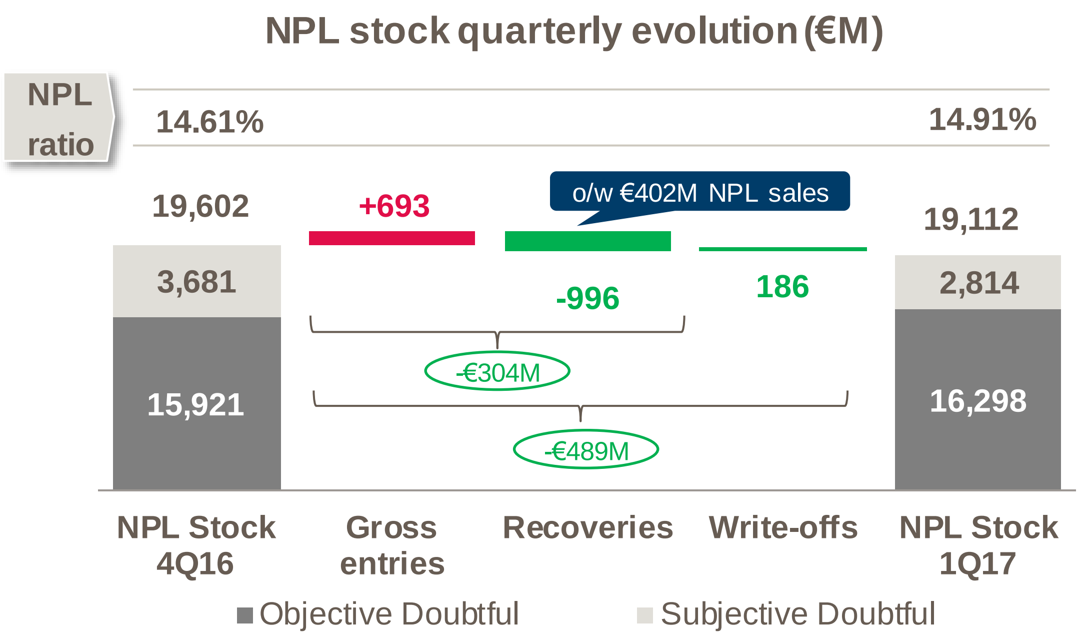
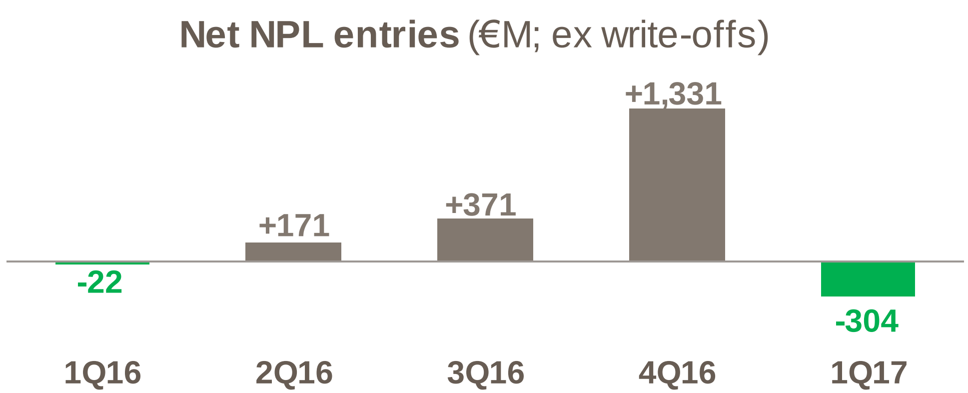
NPL reduction supported by higher sales and lower entries





- Total **NPL reduction of €489M** in the quarter:
  - Sharp decrease in **NPL gross entries (-24% YoY)**
  - **Recoveries 7% up YoY,** to €996M, supported by €402M NPL sales, which reach 69% of total NPL sales in 2016.
  - **Write-offs lose weight** and only amount to **€186M,** being 65% lower than in 1Q16
- **NPL ratio has increased 0.3 p.p.** despite the decrease of the NPL stock, due to lower risk assets.

- **Significant change in trend in net entries** (gross entries – recoveries), with a **€304M reduction**

Increased focus on NPL sales

A specialized and focused NPA management allows us to keep selling NPLs, with total sales amounting to €402M, including €230M in portfolio sales

Portfolio 1

- **€133M** of gross book value
- Collateral composed of **houses, hotels and land**

Portfolio 2

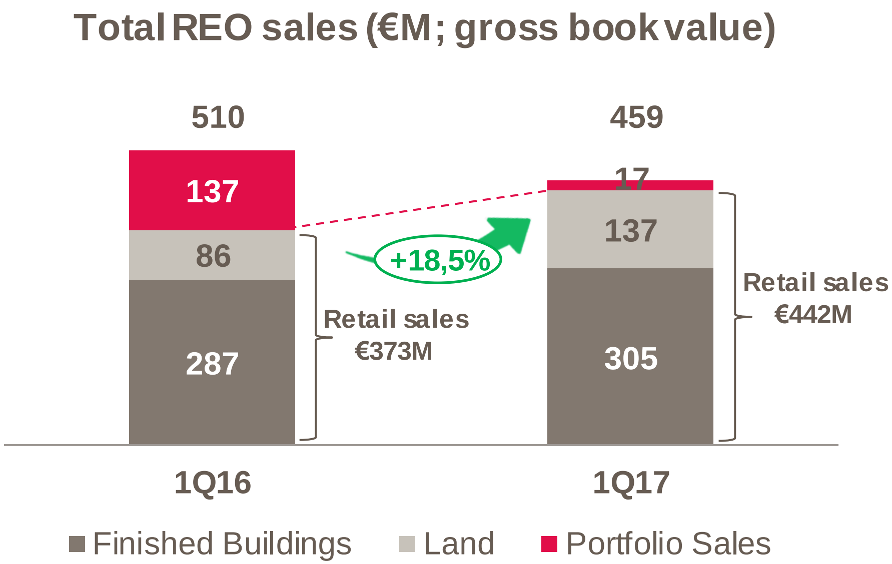
- **€97M** of gross book value
- **Project finance** related NPLs. Collateral composed of **highways**

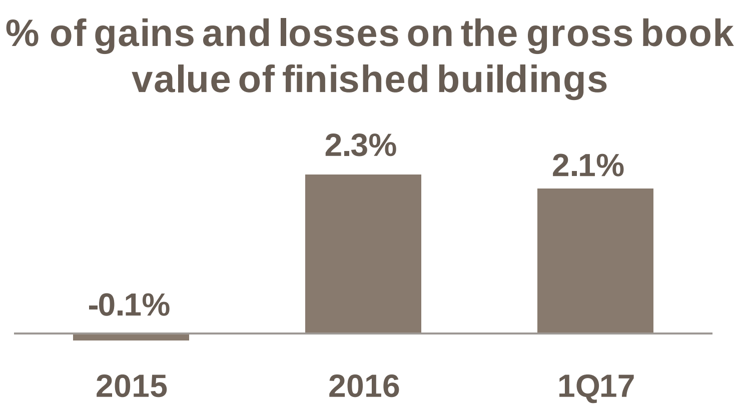
Retail NPL sales

- Total NPL sales through the retail channel amount to **€172M**
- **Home and industrial property, land, hotels and commercial RE** collateral
- **High YoY boost,** with 1Q16 NPL retail sales amounting to €20M

On average sold **above net book value, with positive impact on solvency** ratios

459 million € REO sales, similar to previous quarter



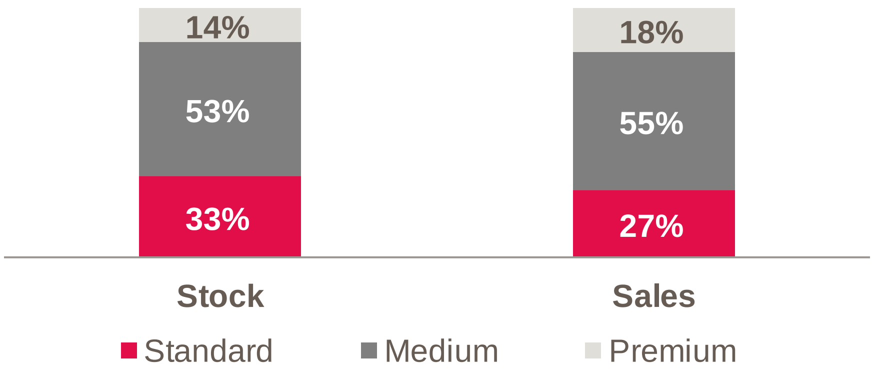


- **REO sales are 10% down yoy** due to the extraordinary contribution made last year to Metrovacesa, though **similar to 4Q16** (€469M)
- **REO retail sales have grown 18.5% yoy** (€442M vs €373M), supported specially by land sales, 59% up yoy, and…
- **… Portfolio sales have been reinitiated** in the middle market after absence for three quarters, though with a small amount (€17M)
- **Retail sales** could be **increased by 30%** with an average **discount close to 10%** on finished buildings
- **Accelerating path in the quarter:** >50% of total quarterly sales took place in march

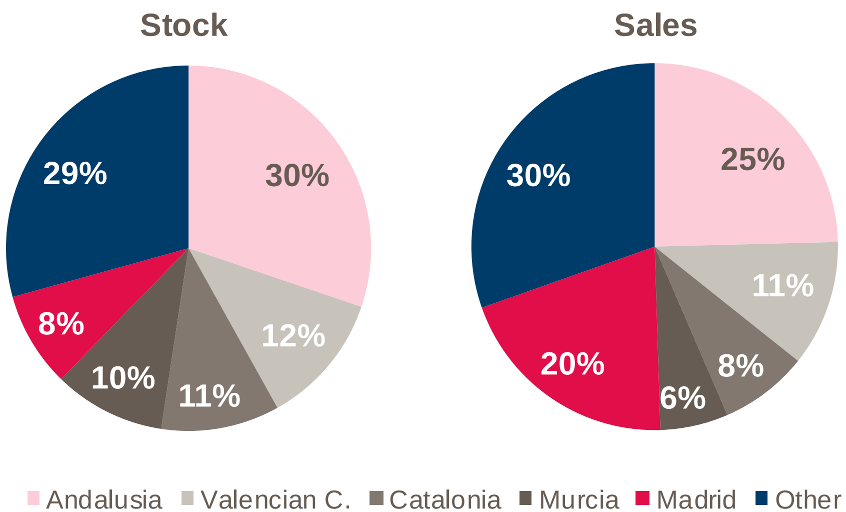
- **Finished buildings sales** executed slightly **above the net book value** as an average, but prices have diverged up and down around the accounting value

REO sales are well balanced both geographically and by quality of the asset

Breakdown by type as of 1Q17



Distribution of REO by region (% of total)



- **Well balanced distribution of REO sales** across all geographies and quality types
- **Quality of sales of REOs aligned with the quality of the stock.** Sales are not only concentrated in premium quality assets, but also in all other categories
- **Higher sales in regions with a higher stock concentration** such as Andalusia (30.2% of the total REO stock), Valencia Community (11.7%), Catalonia (10.5%), Murcia (9.9%) and Madrid (8.4%)

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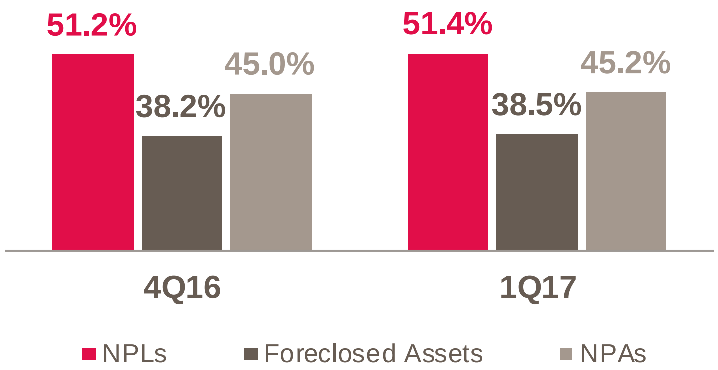
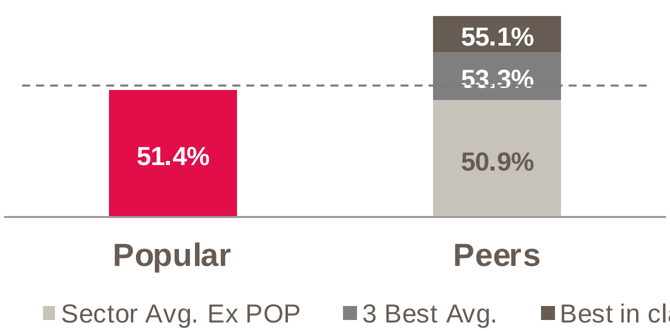
NPA coverage slightly improved QoQ to 45.2%

NPA coverage(1)(2) (%)

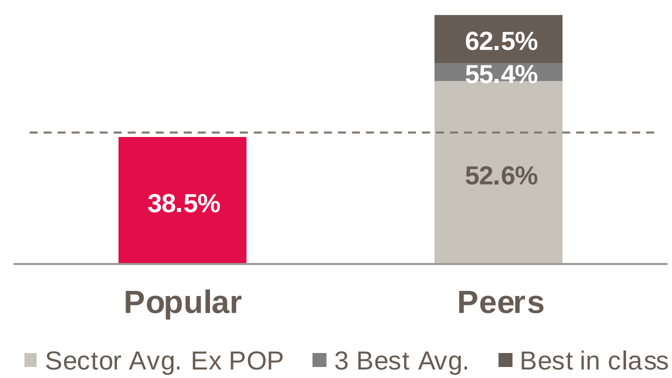


- **NPA coverage** has reached **45.2%,** 0.2 p.p. up QoQ
- **Improving both NPL coverage** (+0.2% to 51.4%) **and REO coverage** (+0.3% to 38.5%)
- **Popular coverage is above the peers average for NPLs,** and below for foreclosed assets
- **Coverage dependent on the disposal strategy,** in order to achieve the book value in the sale process

NPL coverage(1)(2) comparison(%)



Foreclosed assets coverage(2) comparison (%)

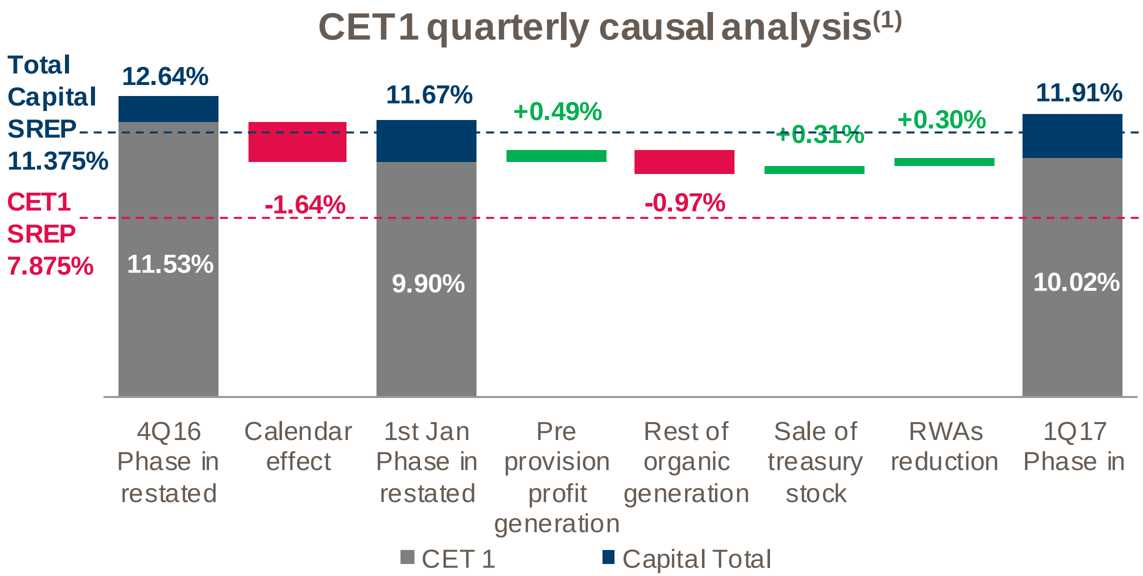


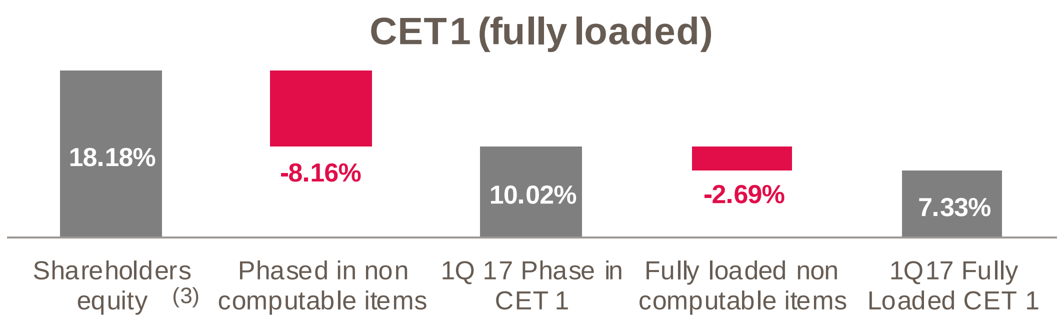
(1) Excluding mortgage floors provisions of €490M for 1Q17 and €511M for 4Q16. If included, NPL coverage of 54.0% and 53.8%, respectively, and NPA coverage of 46.5% and 46.4%, respectively.
(2) 4Q16 restated with the impacts included in the Significant Event announced the 3rd of April
Peers: Santander, BBVA, Caixabank, Bankia and Sabadell; Latest available data (BoS Transparency data as of year end 2016); Excluding floors;

Core Equity Tier 1 slightly up since January 1st, post adjustments

- **CET 1 Phase-in up 12 bps** in the quarter, as pre-provision profit and other factors offset provisions.
- **Phased path has deducted 1.64 p.p.** from CET 1 Phase in starting January, with no underlying change in solvency

- **7.33% CET1 FL** stable since January 1st, to benefit c.3 bps from PSF divestment[(2)].
- Regulatory deductions reduce **Shareholders Equity** from **18.18%** of risk weighted assets to just 7.33%.





Popular has a capital buffer:
Phase in Total capital: 11.91%, 0.53 p.p. above regulatory requirement

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(1) 4Q16 restated with the impacts included in the Significant Event announced the 3rd of April
(2) Subject to final regulatory approvals.
(3) Shareholders equity over 1Q17 PI stated RWAs

0.

Quarterly overview & strategic highlights

1.

1Q17 results

2.

Asset Quality & Solvency

3.

Final remarks

Taking the driving seat to recovery

Foster the value of our franchise

- Interest margin letting the bottom behind
- Increased fees
- Cost reduction already in place
- Upwards commercial trend within the quarter
- Significant NPA reduction

Increased transparency and soundness

- Increased NPL coverage ratio
- Provisions up affected by real estate and lags before new management model (NITA) implementation

- In-depth review of our asset portfolio
- Increasing quarterly information

Aiming to restore investors confidence

1. Building an attractive investment proposition
2. Comprehensive operating and financial strategy

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