



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

**Madrid, May 4<sup>th</sup>, 2011**



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# Agenda

**1. Summary remarks 1Q-11**

**2. Financial highlights**

**3. Revenues and operating performance**

**4. Business drivers**

**5. Risk management**

**6. Liquidity and balancing assets and liabilities**

**7. Financial Strength**

**8. Closing remarks and outlook**

## Summary remarks

- 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 9.9%.

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# Financial Highlights

<i>(€, million)</i>	1Q-11	4Q-10	Change (€m)	Change
<b>Net interest income</b>	<b>516</b>	<b>552</b>	<b>-37</b>	<b>-6.7%</b>
Fees and commissions	172	169	2	1.3%
Trading and other income	88	58	30	52.7%
<b>Gross operating income</b>	<b>776</b>	<b>780</b>	<b>-4</b>	<b>-0.5%</b>
Expenses	-326	-348	-23	-6.5%
<b>Pre-provisioning profit</b>	<b>450</b>	<b>431</b>	<b>19</b>	<b>4.2%</b>
Provisions for loans and investments (ordinary & accelerated)	-409	-191	-217	>
Provisions for real estate (ordinary & accelerated), goodwill and extraordinary gains	71	-144	215	-
<b>Net profit</b>	<b>186</b>	<b>69</b>	<b>117</b>	<b>&gt;</b>
Non-performing ratio	5.44%	5.27%		+17 b.p.
Efficiency ratio	38.37%	41.29%		-2.92 p.p.
Loans to deposits ratio	150%	150%		-
Core Capital	9.93%	9.43%		50 b.p.

Note: restated 2010 following Allianz-Popular Holding

# Financial Highlights

<i>(€, million)</i>	1Q-11	1Q-10	Change (€m)	Change
<b>Net interest income</b>	<b>516</b>	<b>663</b>	<b>-148</b>	<b>-22.3%</b>
Fees and commissions	172	163	-9	5.4%
Trading and other income	88	74	14	19.2%
<b>Gross operating income</b>	<b>776</b>	<b>901</b>	<b>-125</b>	<b>-13.9%</b>
Expenses	-326	-309	-17	5.3%
<b>Pre-provisioning profit</b>	<b>450</b>	<b>591</b>	<b>-141</b>	<b>-23.9%</b>
Provisions for loans and investments (ordinary & accelerated)	-409	-276	-133	48.1%
Provisions for real estate (ordinary & accelerated), goodwill and extraordinary gains	71	-39	110	-
<b>Net profit</b>	<b>186</b>	<b>204</b>	<b>-18</b>	<b>-9.0%</b>
Non-performing ratio	5.44%	4.91%	-	+53 b.p.
Efficiency ratio	38.37%	31.47%	-	+6.90 p.p.
Loans to deposits ratio	150%	159%	-	-9 p.p.
Core Capital	9.93%	8.74%	-	119 b.p.

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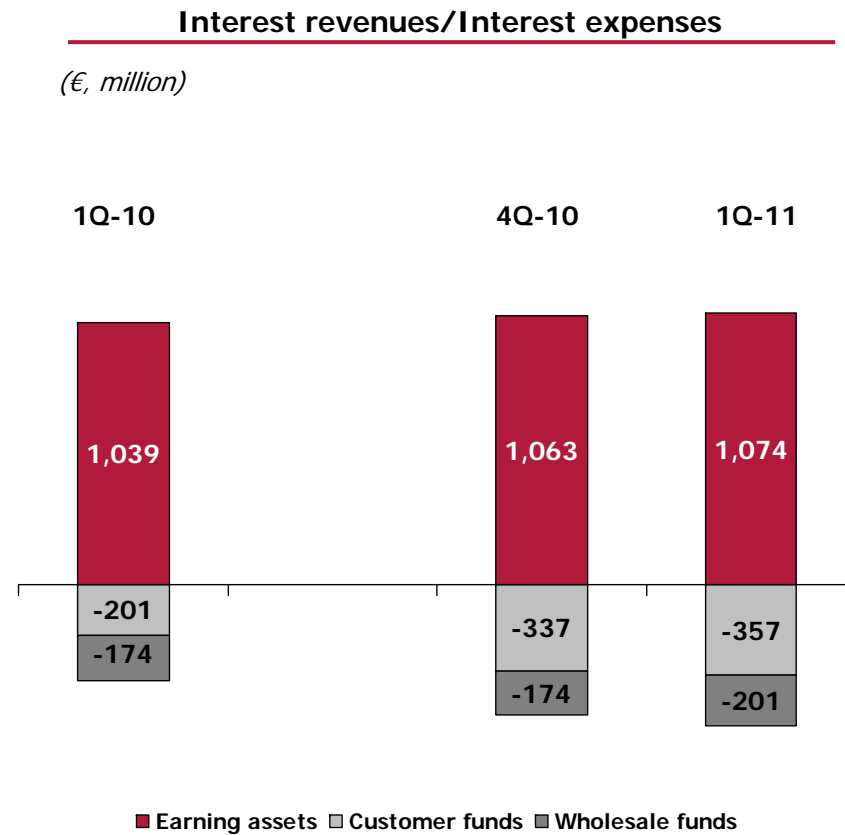
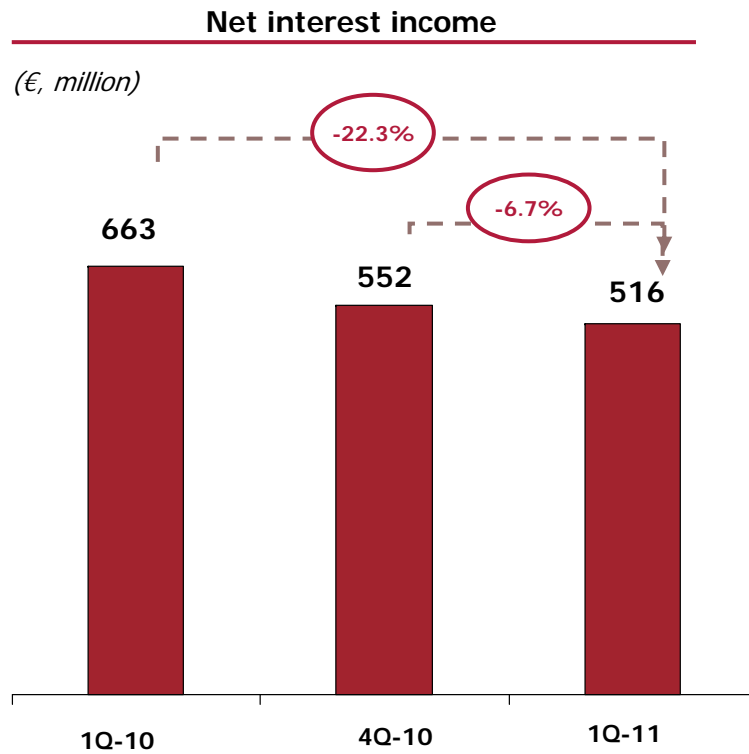
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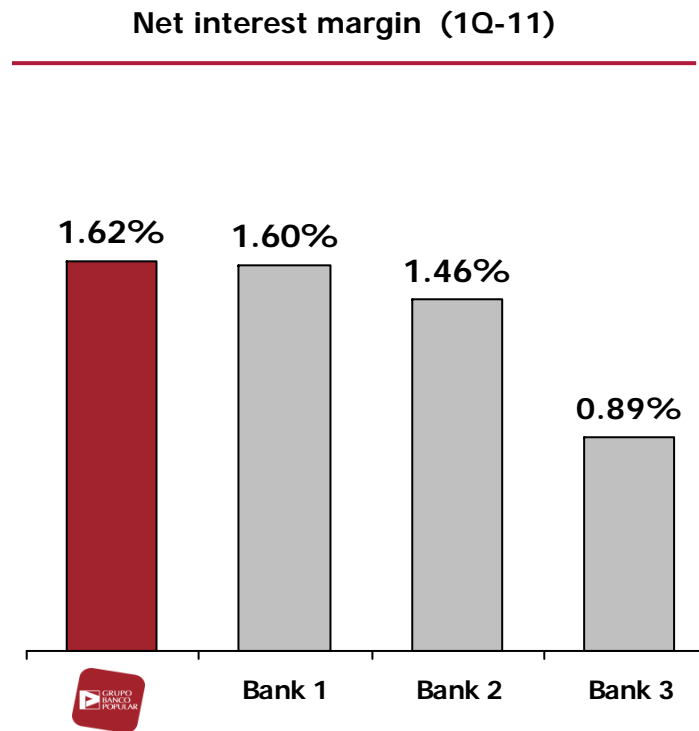
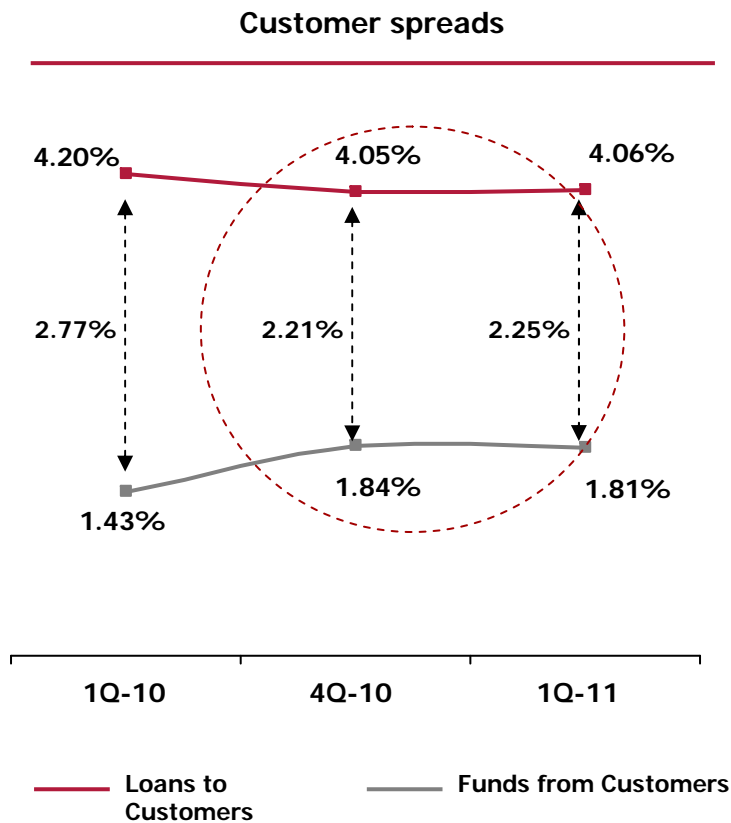


- Lower NII due to asset & liabilities repreciation mismatch & higher cost of funding, as expected.
- We expect NII to improve in the next quarters. 1Q will be probably the “floor” in 2011.



Note: restated 2010 following Allianz-Popular Holding

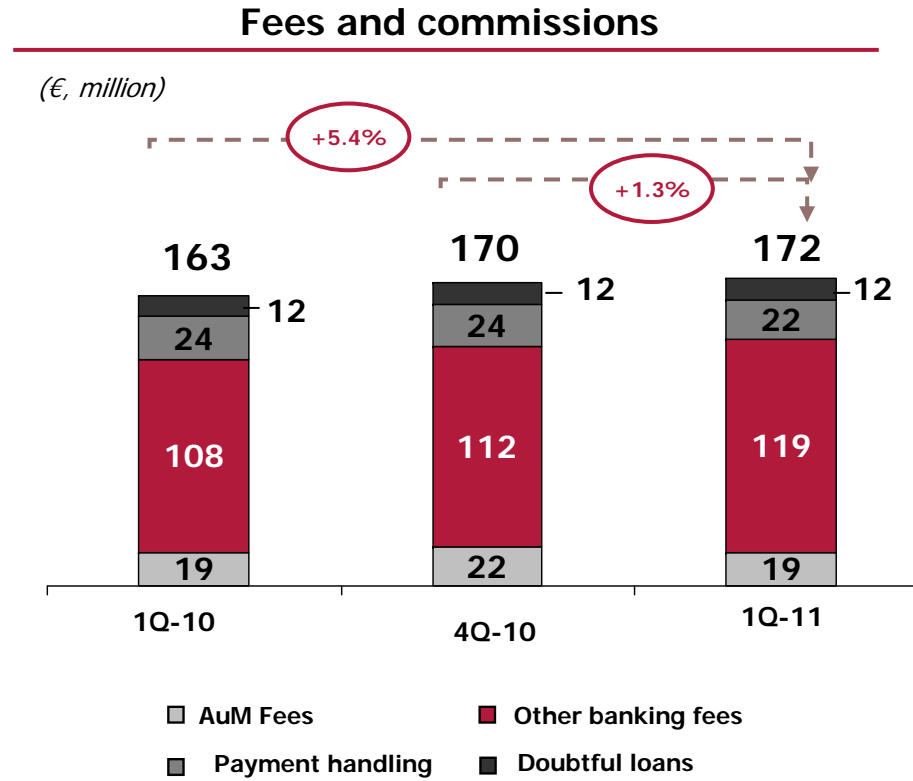
- In spite of higher cost of funding, NII better than peers. Customer spreads edging up.



Source: Quarterly reports

Note: Comparable banks include Sabadell, Banesto and Bankinter.

- Fee Income up, to €172m (+5.4% vs. 1Q-10. +1.3% vs. 4Q-10).

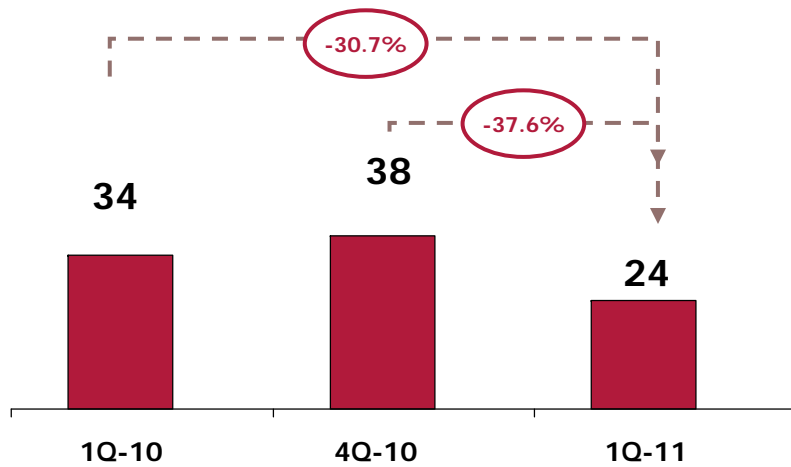


*Note: restated 2010 following Allianz-Popular Holding*

- Trading income lower as expected (fewer buy-backs). Other income up (recurrent other income flat; one-offs up) to €64m.

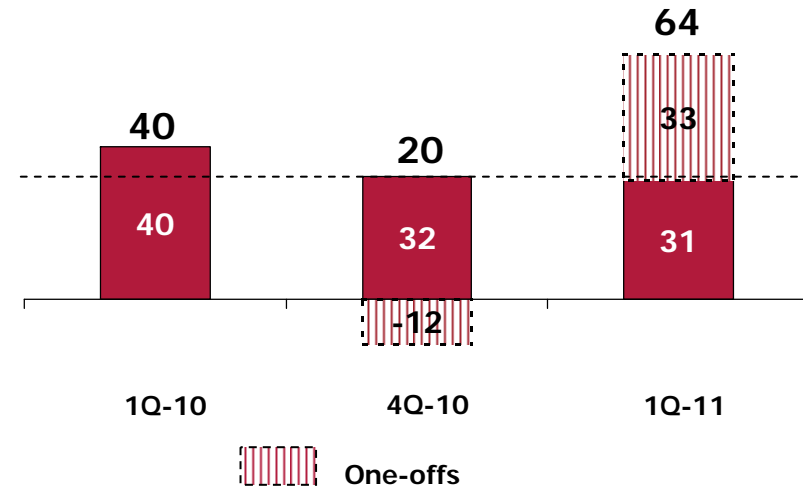
### Trading income

(€, million)



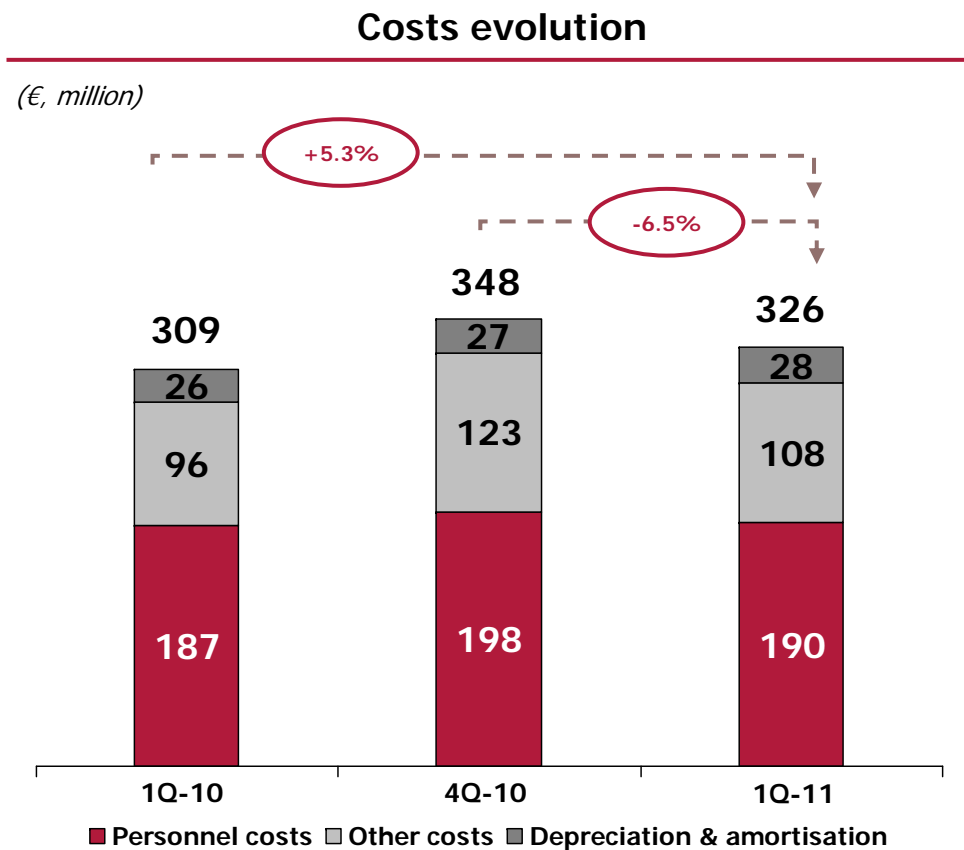
### Other income

(€, million)



Note: restated 2010 following Allianz-Popular Holding

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



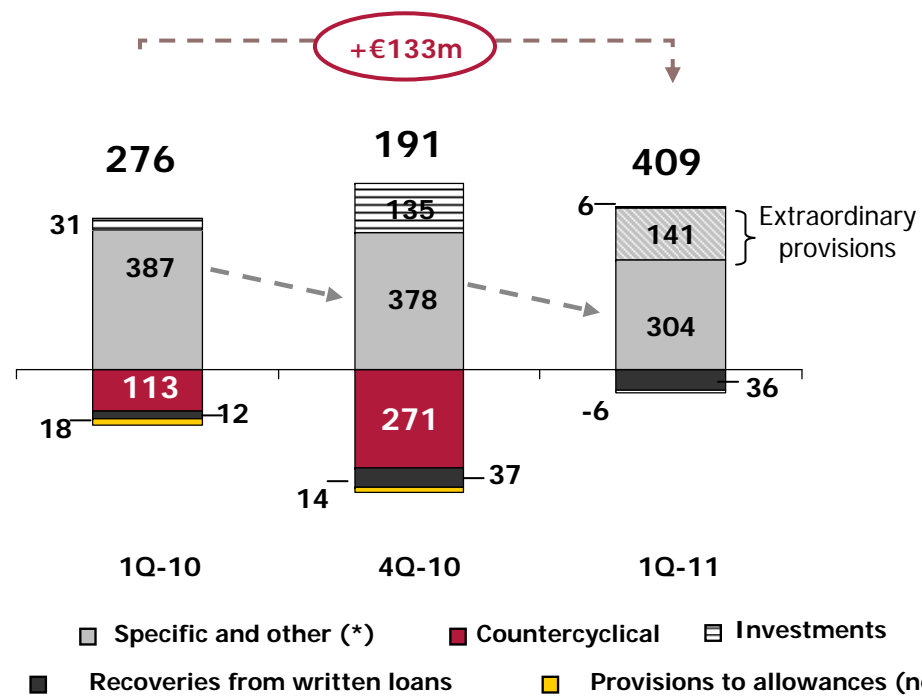
*Note: restated 2010 following Allianz-Popular Holding*

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

(i) Lower needs of specific provisions. Generic Provisions untouched in the quarter (balance remaining at €327m).

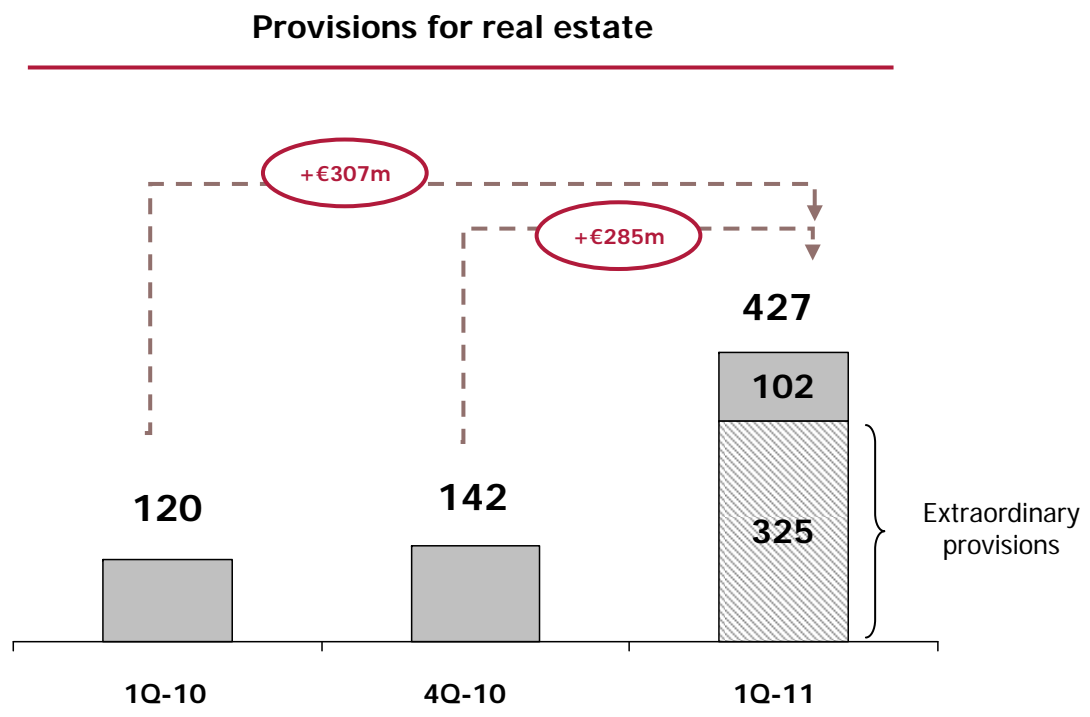
### Provisions for loans and investments

(€, million)



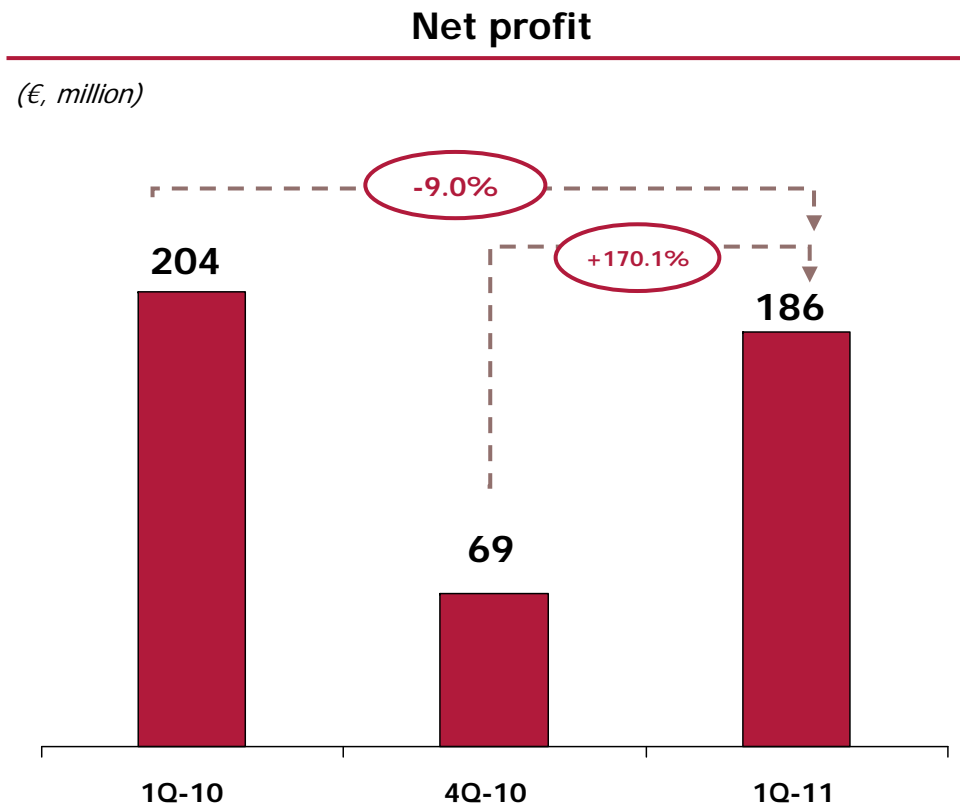
(\*) Net of country Risk

- Capital Gains arising from the Allianz-Popular holding have allowed us to (i) accelerate Credit (+€141m) & (ii) Real Estate (+€325m) provisions.
  - (ii) Lower regulatory provisions for real estate (€102m). Exceptional €325m new buffer for RE investments





- Net Profit, after ordinary & accelerated provisions, reached €186m.



## P&L recap.

<i>(€, million)</i>	1Q-11	4Q-10	Change (€m)	Change
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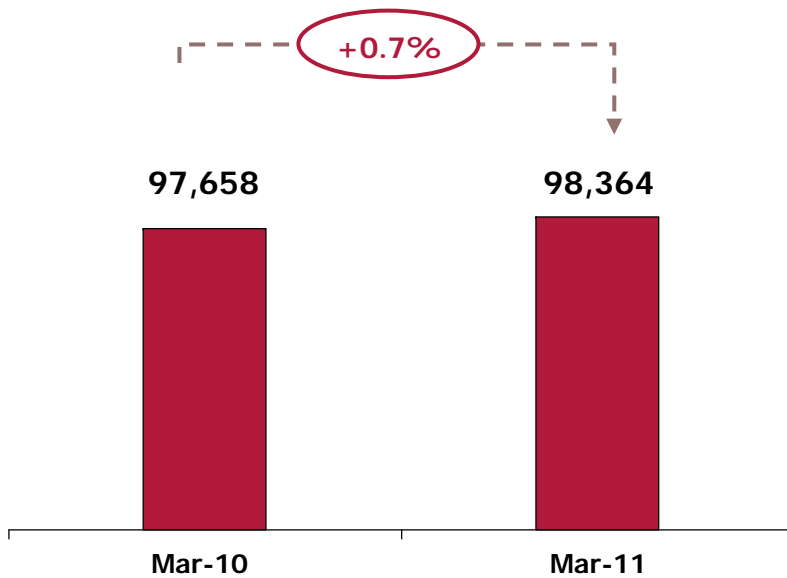
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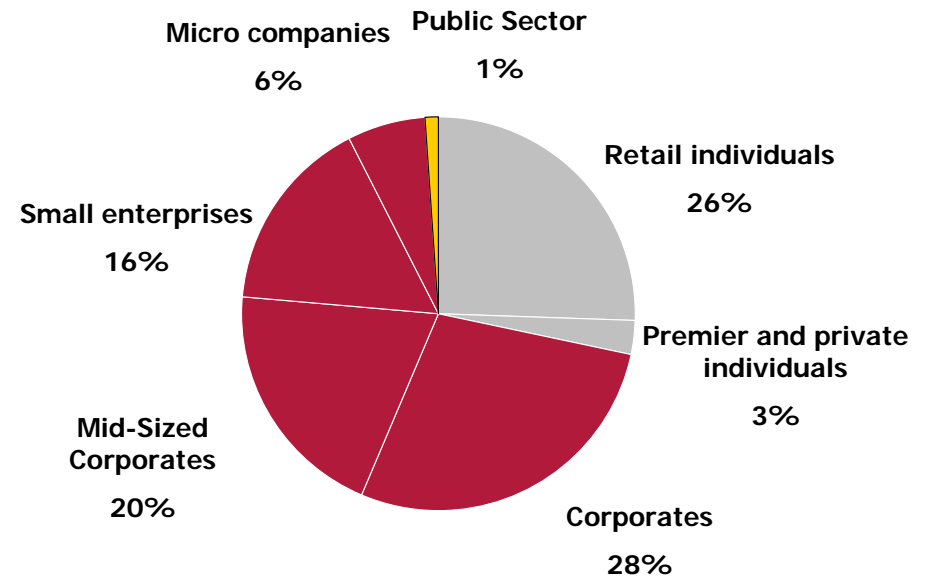
- Loans marginally up in spite of the sluggish demand of credit. We keep our good mix.

Loans evolution

(€, million)



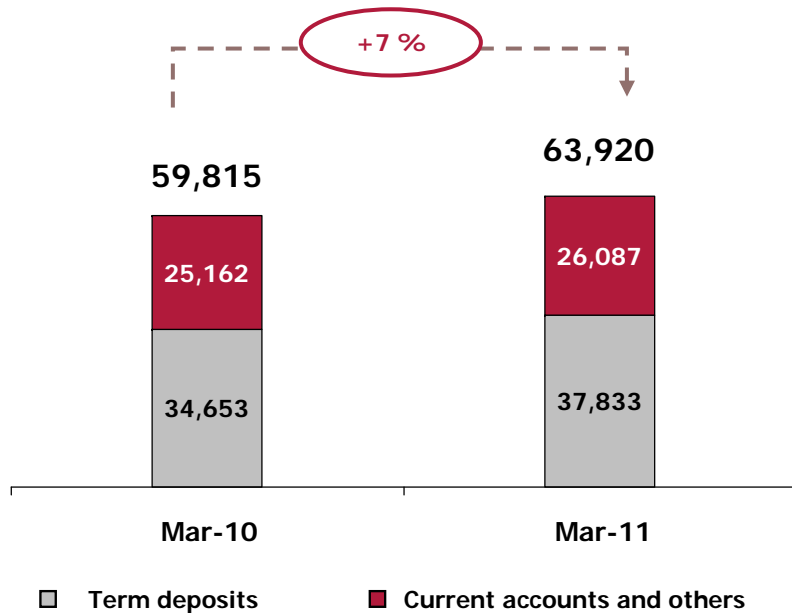
Loans breakdown by sector



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

### Retail deposits evolution

(€, million)



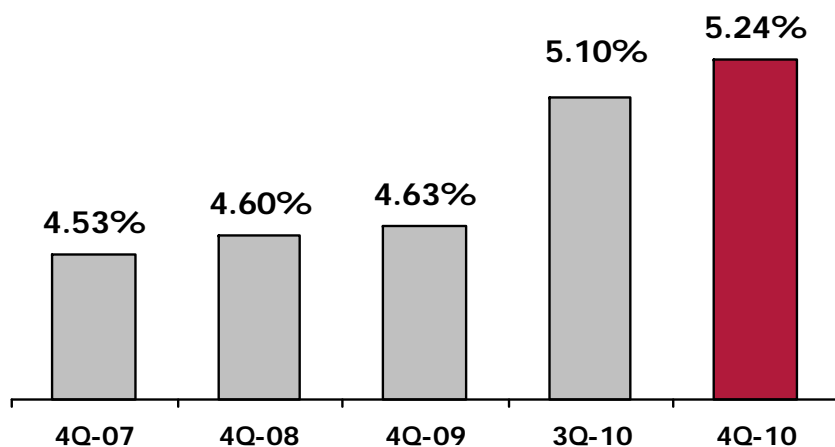
€3.2bn y/o/y reduction of the commercial gap

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

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

- We keep as well gaining new customers and increasing market share.

### Business market share<sup>(1)</sup>



✓ **49,000** new retail customers.

✓ **15,000** new SMEs

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

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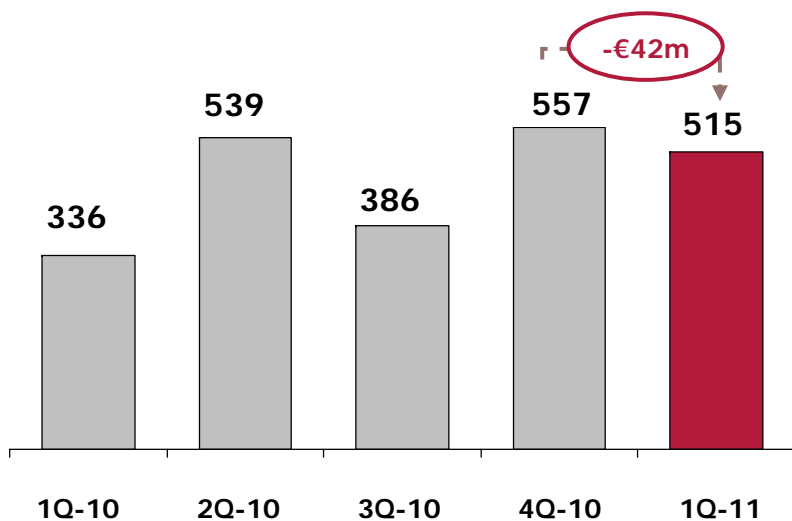
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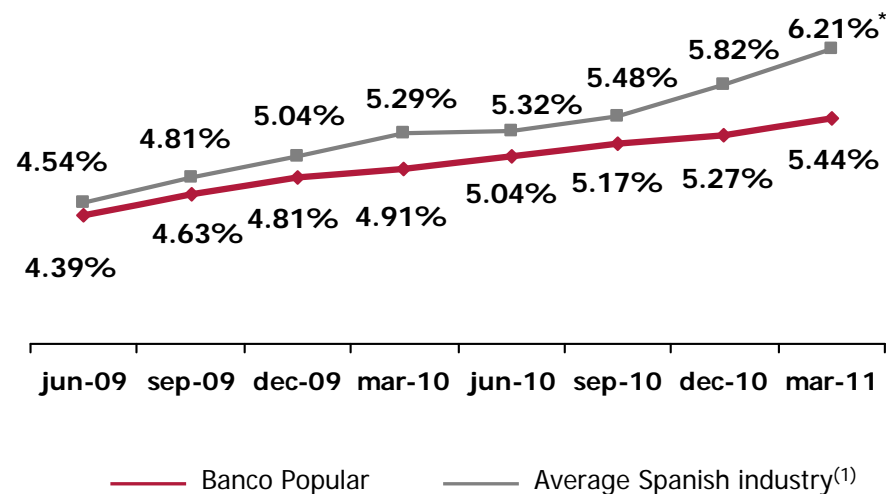
- Net NPL entries stable at 2010 levels (60% down vs. 2009 levels).
- Bad Debt ratio below the industry.

Evolution of net entries of NPLs

(€, million)



NPL ratio evolution



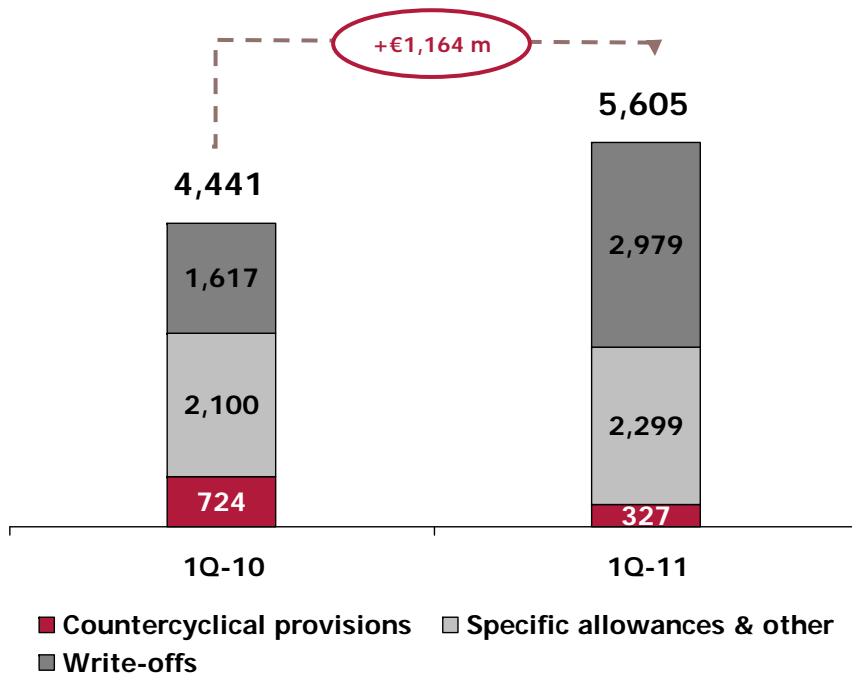
<sup>(1)</sup> Average banks and saving banks.

<sup>(\*)</sup> Data as of February 2011

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

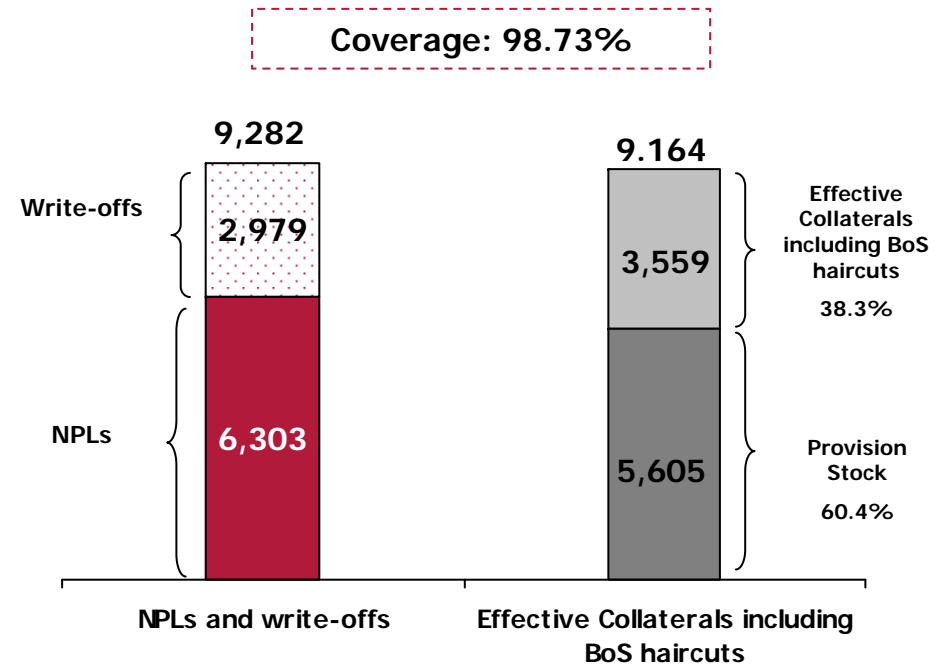
### Provision Stock

(€, million)



### Coverage analysis

(€, million)



# Real Estate assets in Spain

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

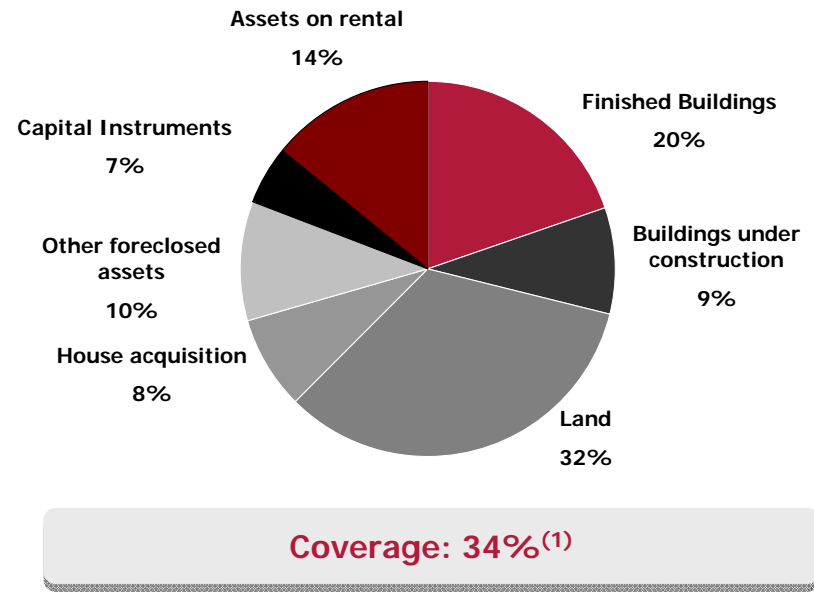
<b>Net amount</b>	<b>3,557</b>
Construction and developers	2,761
Residential repossessions	370
Other Non RE companies repossessions	426
<b>Provisions</b>	<b>1,430</b>

## Assets on rental (€,million)

<b>Net amount</b>	<b>618</b>
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## Capital instruments (€,million)

<b>Net amount</b>	<b>308</b>
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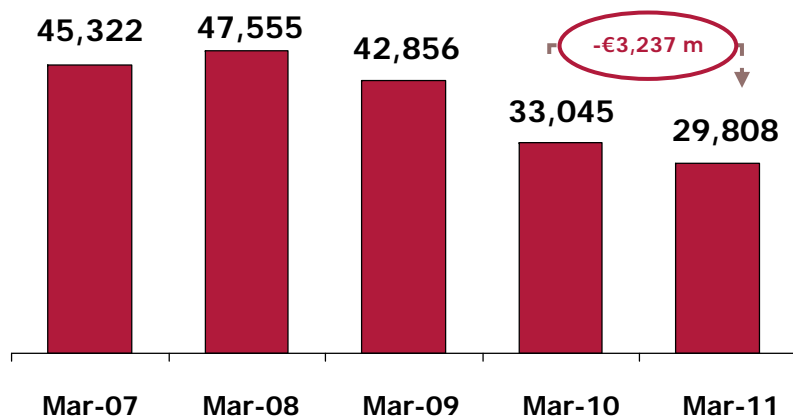
<sup>(1)</sup> Provision over acquired and repossessed assets and capital instruments

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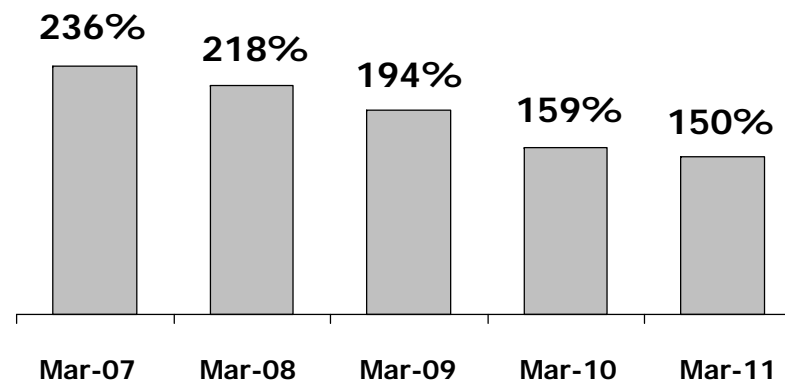
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- Following the increase in customer deposits, the loan:deposit ratio improves to 150% vs. 236% at the beginning of the crisis.

Evolution of the commercial gap



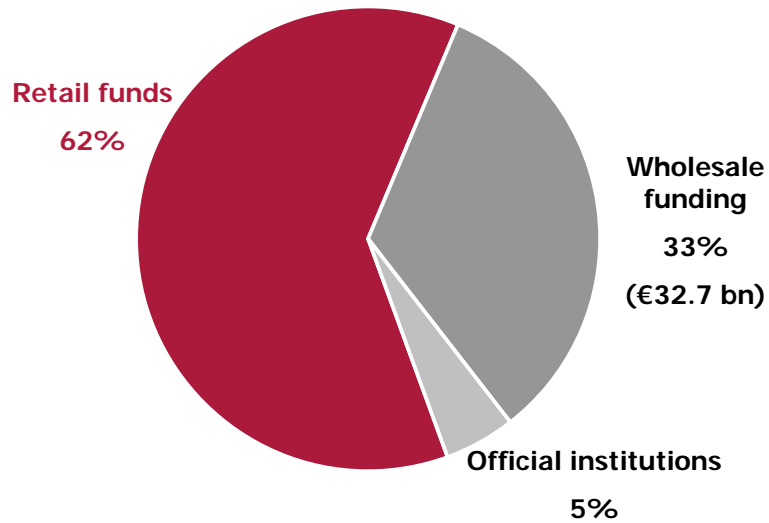
Loans/deposits ratio\*



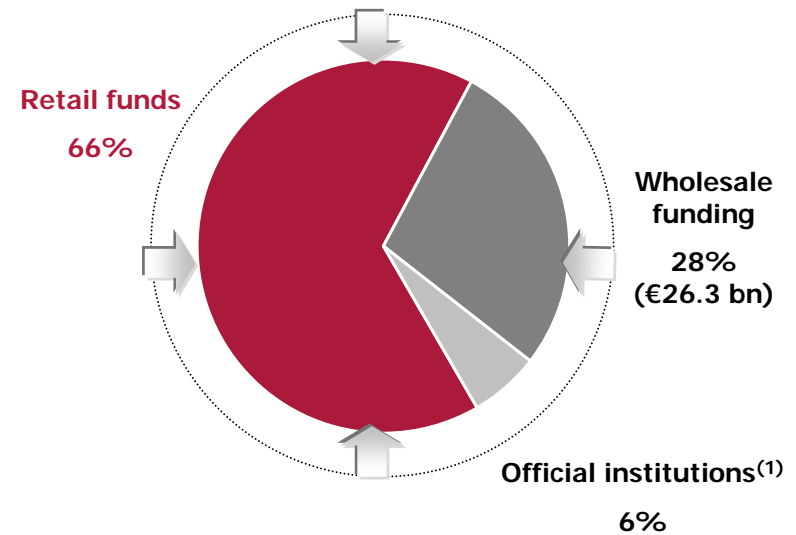
\*Note: ex all repurchasing agreements

- Wholesale funding reduced from €32.7bn to €26.3bn, 20% down y/o/y

Funds breakdown (Mar-10): €99.2bn



Funds breakdown (Mar-11): €95.0bn

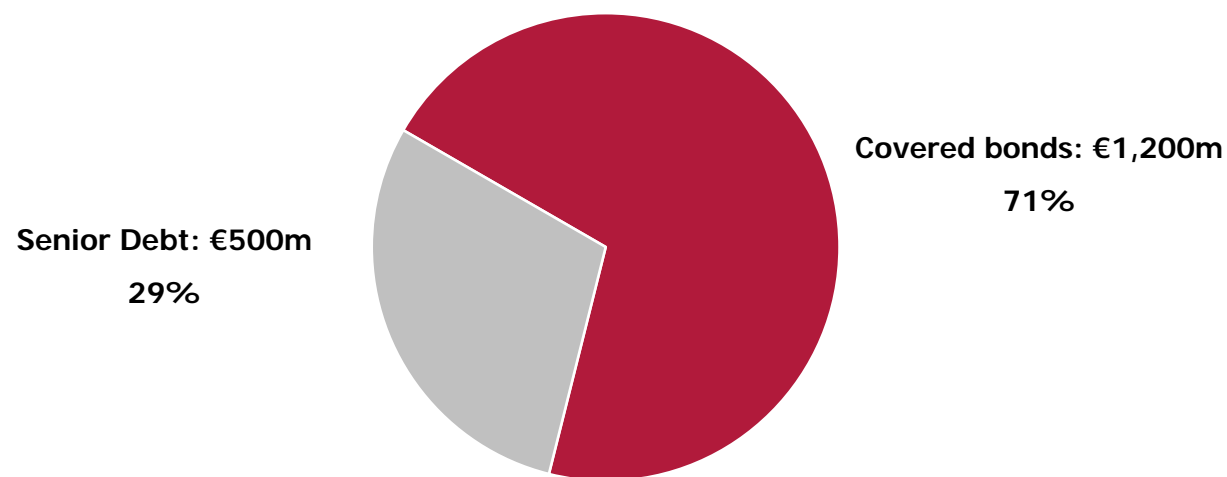


<sup>(1)</sup> 1% ECB, y and 5% ICO and EIB

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

New issues 2011: €1,700m

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- Short term Wholesale maturities €4.4 bn down from 1Q2010.

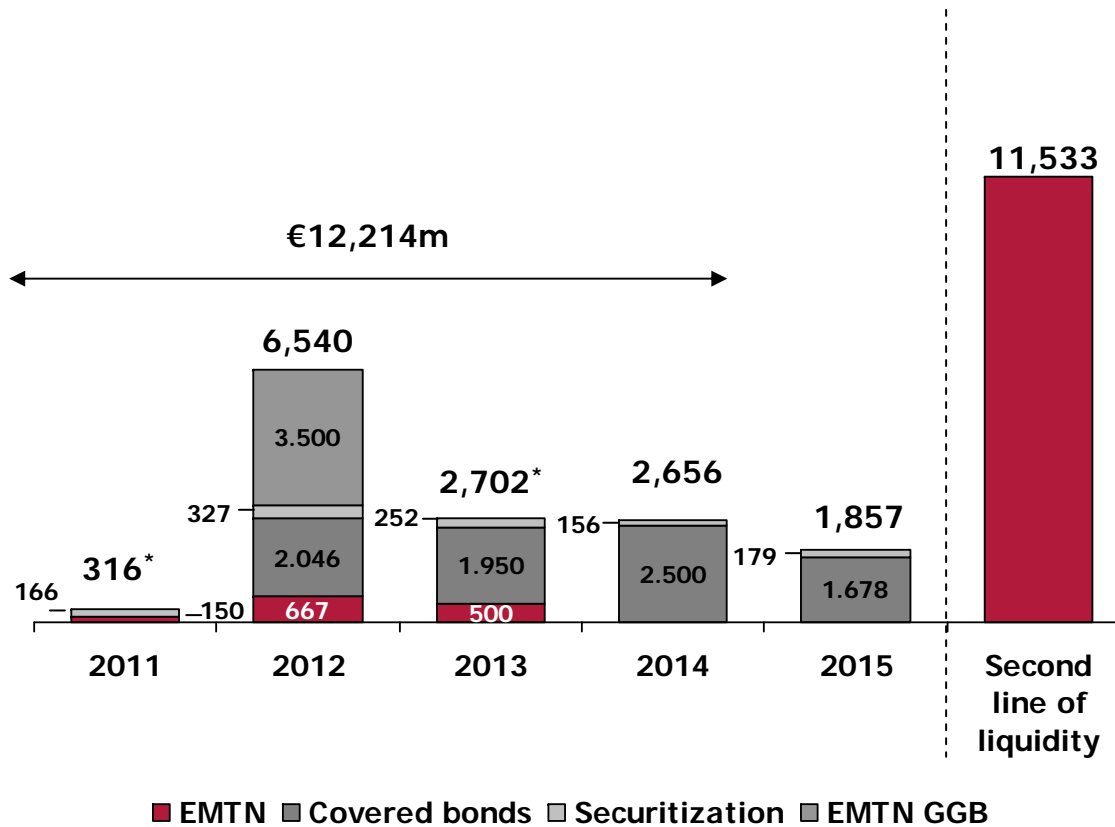
### Wholesale funding breakdown (1Q-11 vs. 1Q-10)

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

- **Comfortable Liquidity position.**

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

(€, million)

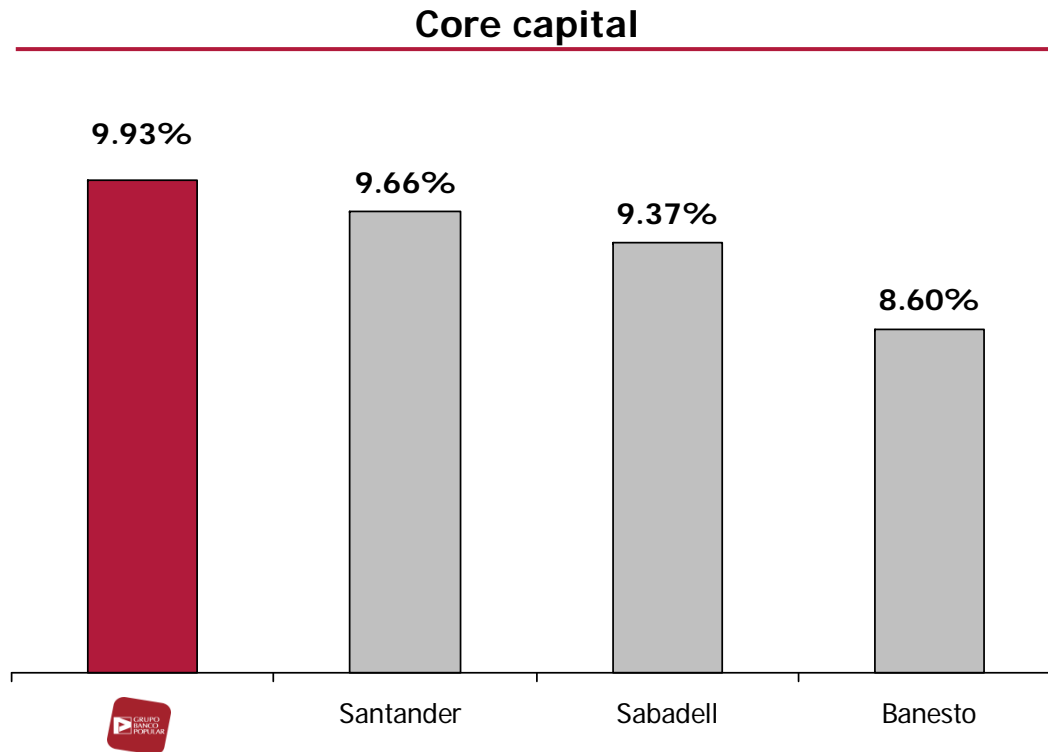


\* Data as of April-11.

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- On Solvency, we keep a very good Core Capital position at 9.9% (no need to reduce the loan book). Well prepared for Basle III both at Capital & Leverage levels.



- ✓ Core capital : €9.1bn
- ✓ Leverage Ratio: 14.22x (7.03%) vs. 30x European average\*

\* Source: KBW

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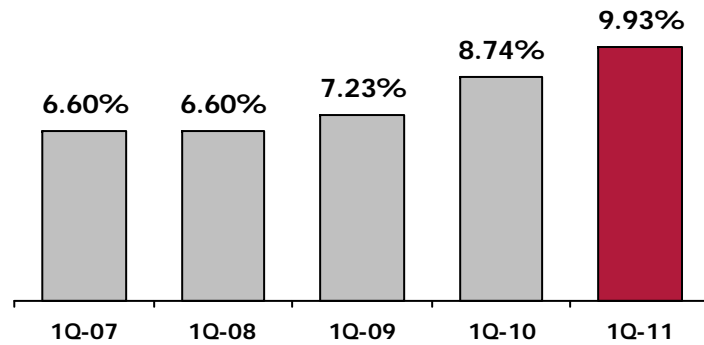
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## Closing remarks - recap

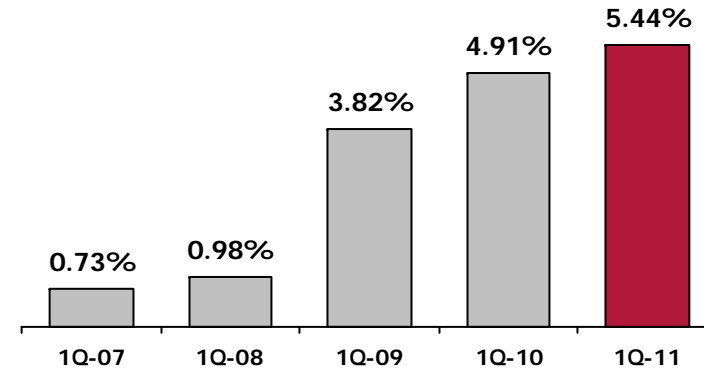
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- Comfortable liquidity position. Lower dependence of wholesale funding.
- Sound Core Capital position at 9.9%.
- ..... and our Priorities remain as outlined before ...

## ... Our priorities remain as outlined:

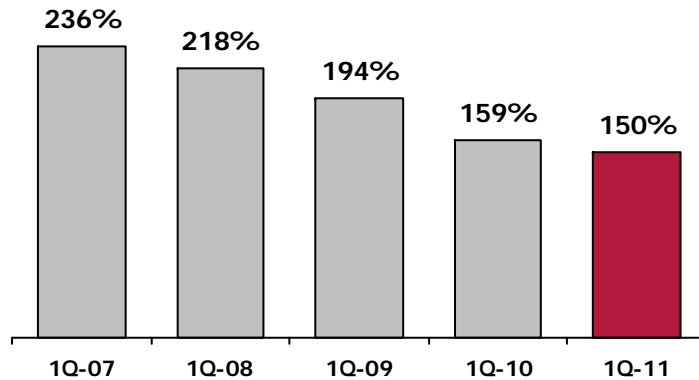
### ✓ Solvency: Core capital



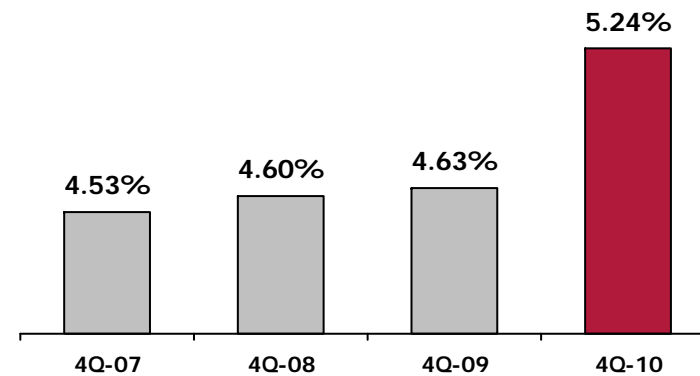
### ✓ Stabilize bad/debt ratios



### ✓ Reduce wholesale funding reliance



### ✓ Gain quality market share<sup>(1)</sup>

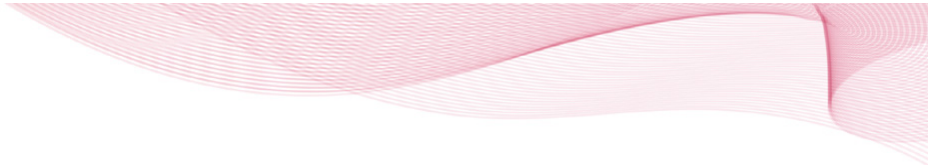


<sup>(1)</sup> Business market share: credits and deposits. Source: T7 form. Latest available data.



## Outlook Full 2011

- **Macro & micro environment will remain challenging.**
- **NII of the next 3 quarters will be above that of 1Q-2010.**
- **Again, lower NII vs 2010 will be offset by lower ordinary provisions.**
- **Net profits expect to be marginally above current market consensus.**
- **Interesting year for the banking industry & Popular well equipped to take advantage of any potential market opportunities.**



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



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