

# *Banesto*

## **BoAML BANKING & INSURANCE CEO CONFERENCE**

London, September 25th 2012

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This presentation contains forward-looking statements with respect to the business, financial position, operations, strategy, plans and objectives of the Banesto Group. Some of these statements, although not necessarily all of them, can be identified by the use of terms such as “anticipates”, “estimates”, “expects”, “believes”, “targets” or similar expressions. These expressions are considered Forward-Looking Statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

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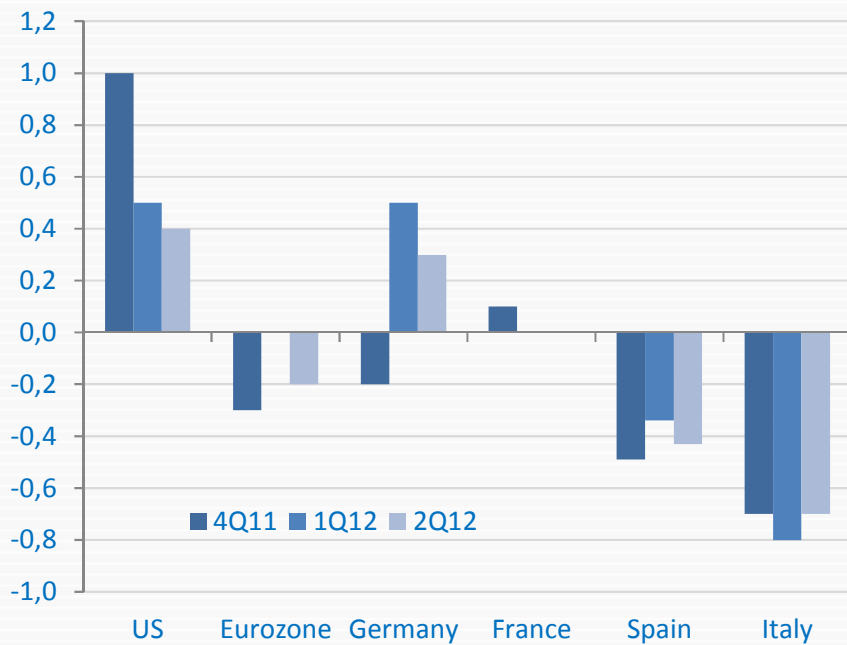
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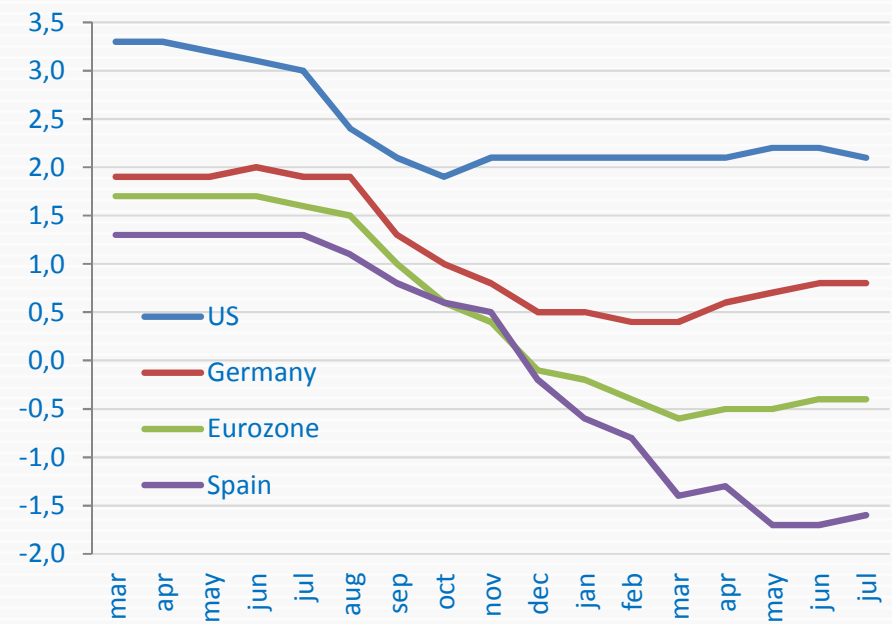
- 1. Macroeconomic Scenario**
2. Financial Reform
3. Banesto's Positioning & Opportunities

# No sign of a Spanish economy recovery short-term

GDP (QoQ)



GDP 2012 (consensus estimates)



Source: Bloomberg

## In the medium term, structural reforms underway should improve the economic outlook...

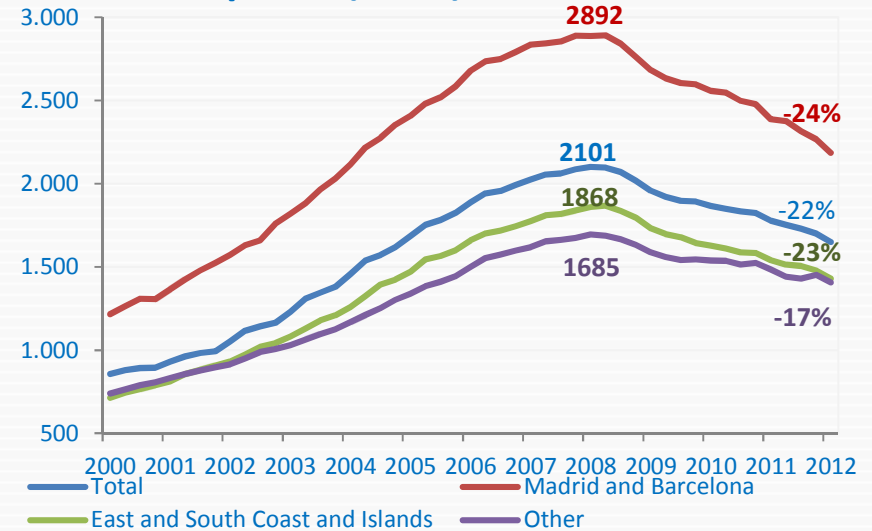


# ... and some signs of adjustments can already be seen : real estate glut receding

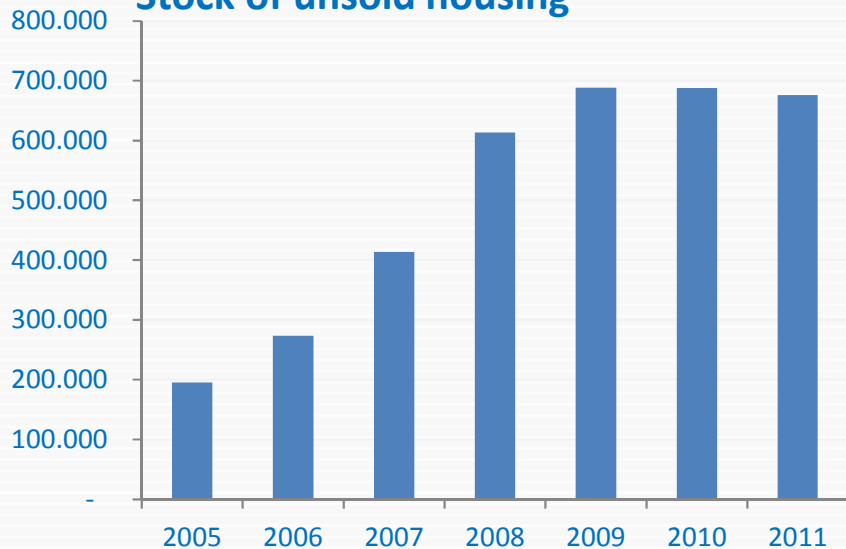
### Weight in economy and employment



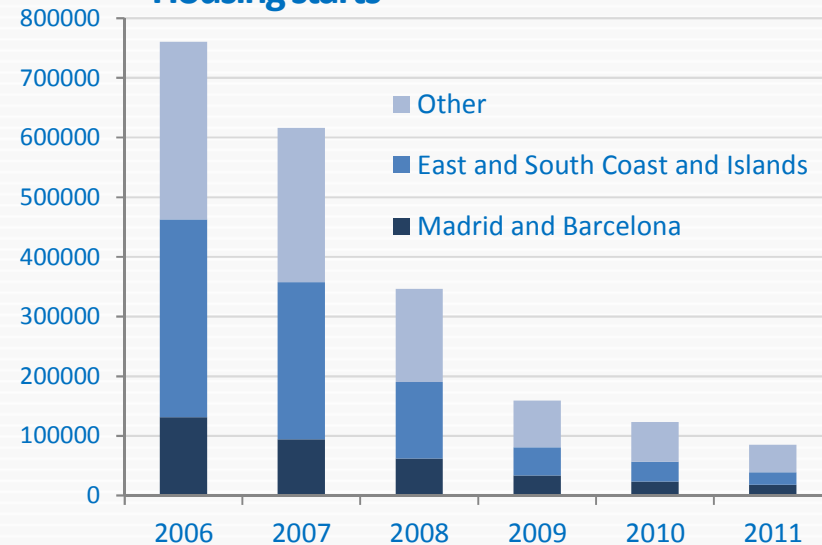
### House prices (€/m<sup>2</sup>)



### Stock of unsold housing

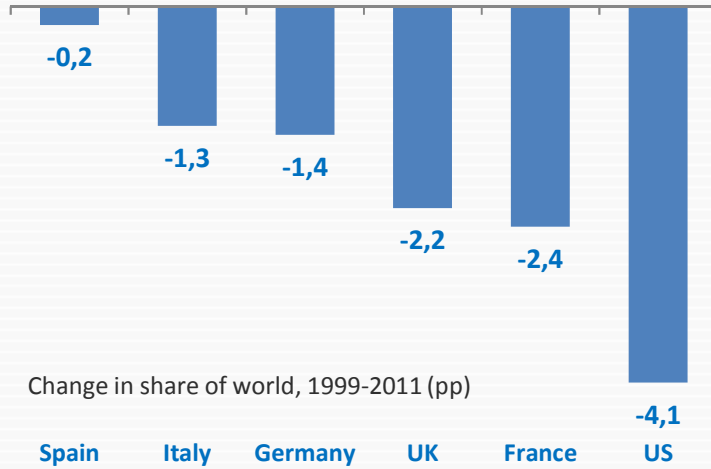


### Housing starts

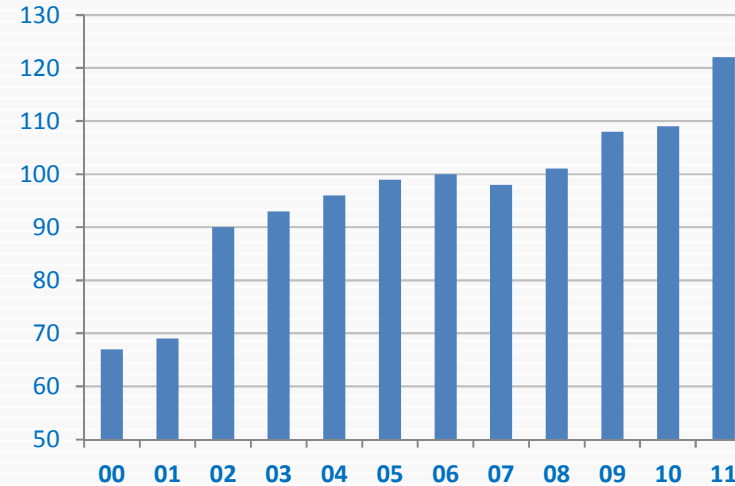


# Competitiveness is improving

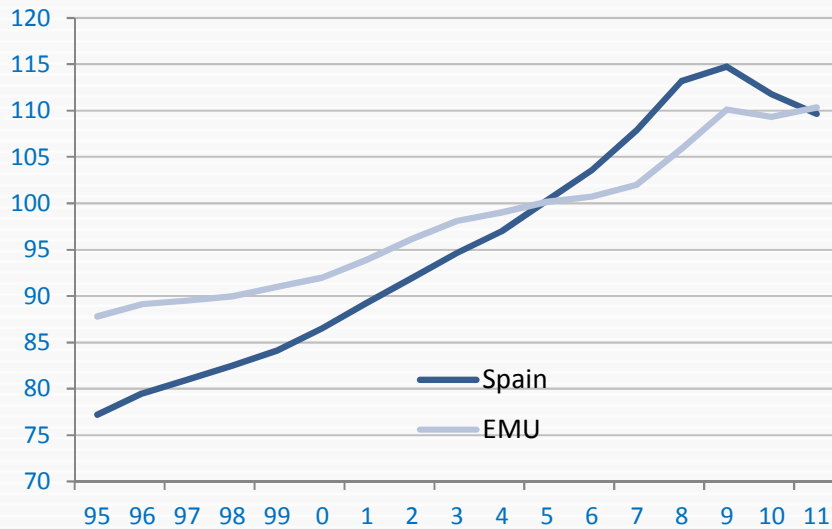
## Share of exports



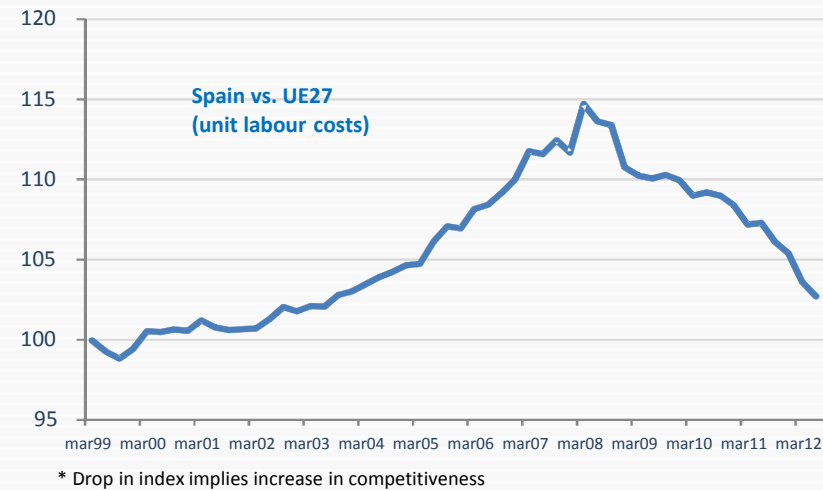
## Number of exporting companies ('000)



## Unit labour costs (Index 2005:100)

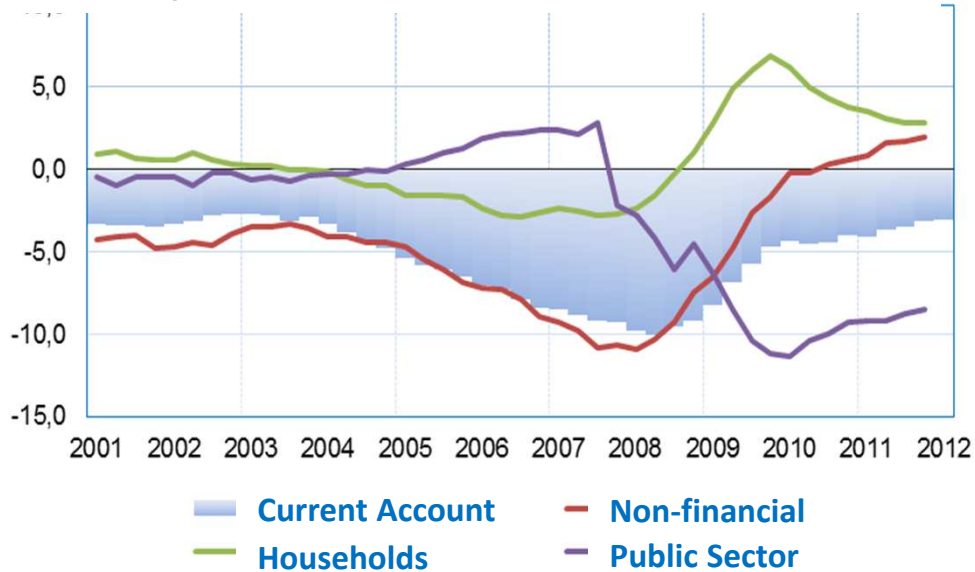


## Competitiveness index



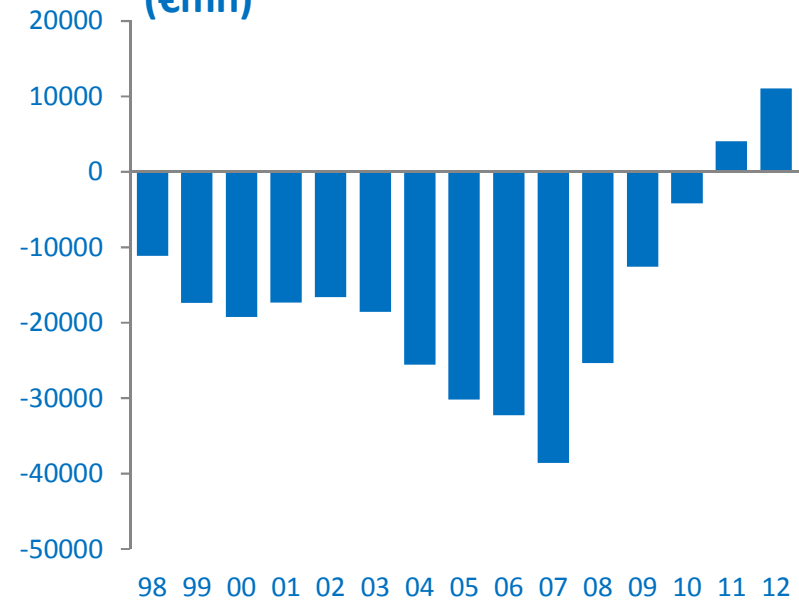
## Deleveraging is underway

Financial Surplus (+) / Shortfall (-) of Spanish Economy (% of GDP)



Source: INE

Trade Balance with the EU27 (€mn)



Annualised 1H12 figures.  
Source: Bank of Spain



## Current environment is challenging but the reforms and cuts are paving the way for more solid growth in the future

### Spanish Macroeconomic Estimates

	2011	2012*	2013*
GDP (YoY)	0,4	-1,8	-1,0
Private Consumption	-0,8	-2,5	-2,6
Public Consumption	-0,5	-4,2	-5,0
Fixed Capital Gross Investment	-5,3	-9,8	-4,5
<b>Internal Demand (contribution to GDP)</b>	<b>-1,9</b>	<b>-4,4</b>	<b>-3,5</b>
Exports of Goods and Services	7,7	2,2	4,2
Imports of Goods and Services	-0,8	-6,3	-4,7
<b>External Demand (contribution to GDP)</b>	<b>2,4</b>	<b>2,5</b>	<b>2,6</b>
CPI (dec.; YoY)	2,4	3,7	1,0
Current account (pct. Of GDP)	-3,4	-0,5	0,5
Public Deficit (pct. Of GDP)	-8,5	-6,4	-6,3

\* September 2012 estimates

Source: Banesto Macroeconomic Department

## High dependence on the external sector in the short term

1. Macroeconomic Scenario
- 2. Financial Reform**
3. Banesto's Positioning & Opportunities

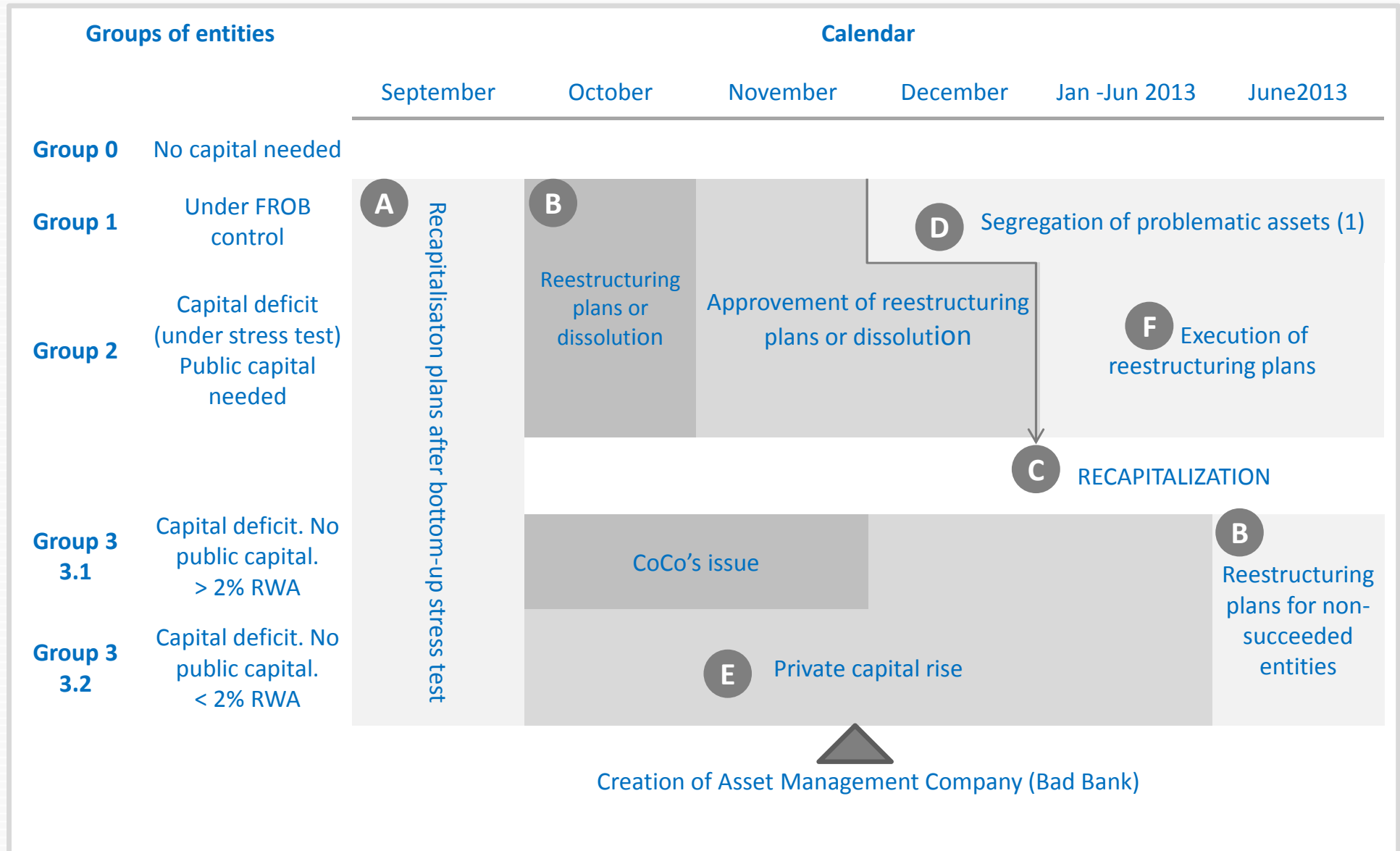
## Acceleration of financial reform in 2012



A vertical timeline showing key events in financial reform during 2012. Each event is represented by a grey rounded rectangle on the left containing the month, and a blue line extending to the right containing the event name. The events are: Feb 2012 (RDL 2/2012 First Financial Reform Act), May 2012 (RDL 18/2012 Second Financial Reform Act), Jun 2012 (OW & RB Auditing Reports. Top-Down Analysis), Jul 2012 (Memorandum of Understanding), Aug 2012 (RDL 24/2012 Transposition of MoU into National Legislation), and Sep 2012 (OW & RB Auditing Reports. Bottom-Up Analysis).

Feb 2012	RDL 2/2012 First Financial Reform Act
May 2012	RDL 18/2012 Second Financial Reform Act
Jun 2012	OW & RB Auditing Reports. Top-Down Analysis
Jul 2012	Memorandum of Understanding
Aug 2012	RDL 24/2012 Transposition of MoU into National Legislation
Sep 2012	OW & RB Auditing Reports. Bottom-Up Analysis

# Memorandum of Understanding



(1) Segregation deadline for Group 1: end of 2012

## Transposition of MoU into national legislation

### RDL 24/2012, new framework for managing banking crises

- **Roadmap for bank restructuring: FROB as the key player**  
Possible resolution or restructuring of non-viable entities
- **Deposit Guarantee Fund (FDIC) recovers its original role**  
No further role in the restructuring process
- **Creation of a bad bank: Asset Management Company**  
Private capital must have majority stake. FROB must retain a shareholding of less than 50%. Details to be unveiled in November
- **Bail-in: preferred shares and covered bonds will share part of the burden**
- **Minimum Core Capital requirement of 9% for all entities**

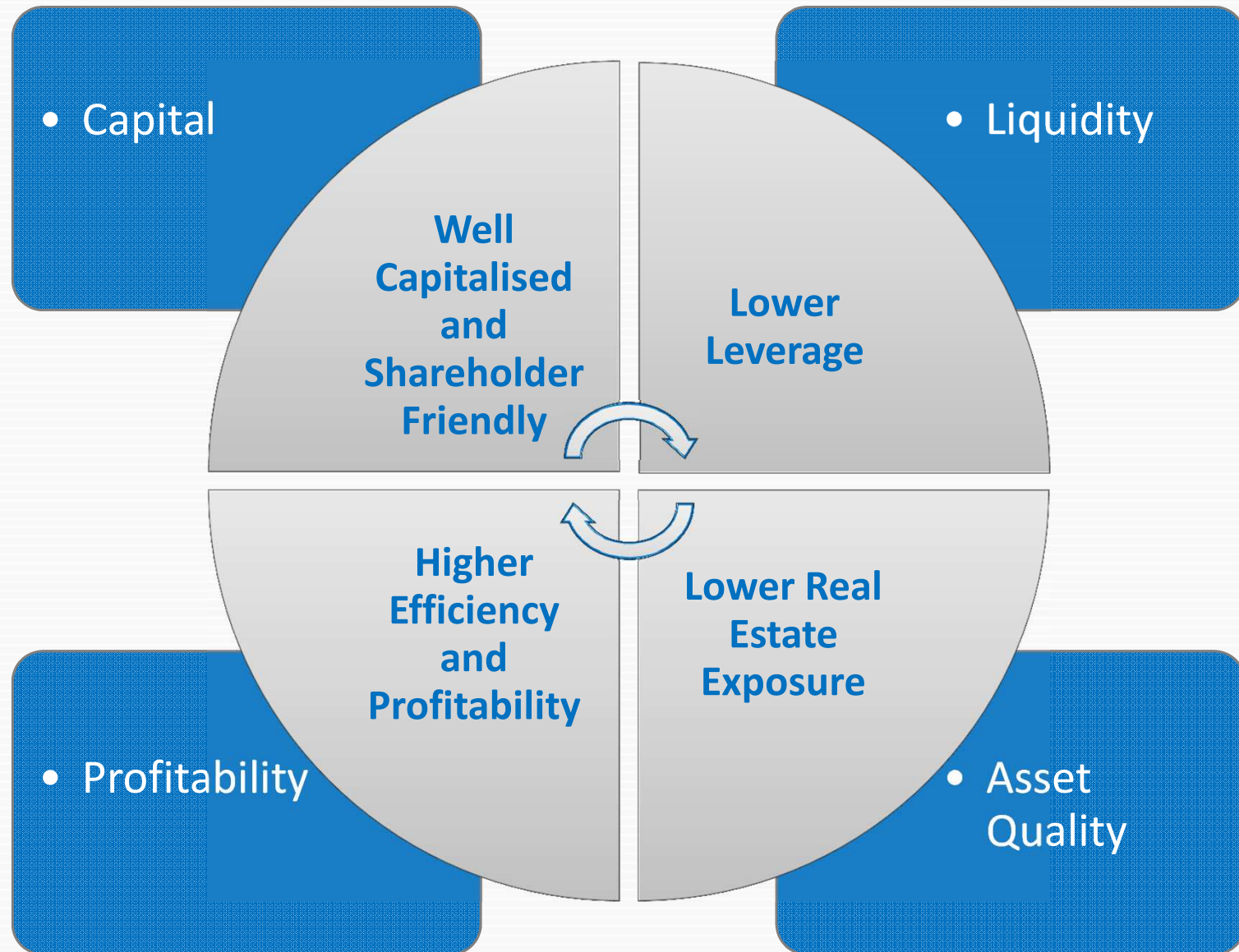
## Impact of financial reforms on Banesto

### Impact of MoU and RDL 24/2012

- ✓ **Analysis of capital requirements are made in respect of Santander Group perimeter; Banesto is not analysed as a standalone entity. Santander Group is in Group 0 (no capital shortfall)**
- ✓ **Even though not needing capital the design of the Asset Management Company (“bad bank”) by the Government is relevant as the valuation of the real estate assets to be transferred may affect market prices**
- ✓ **New minimum capital requirement of 9% for all entities. Banesto currently at 9.4%**

1. Macroeconomic Scenario
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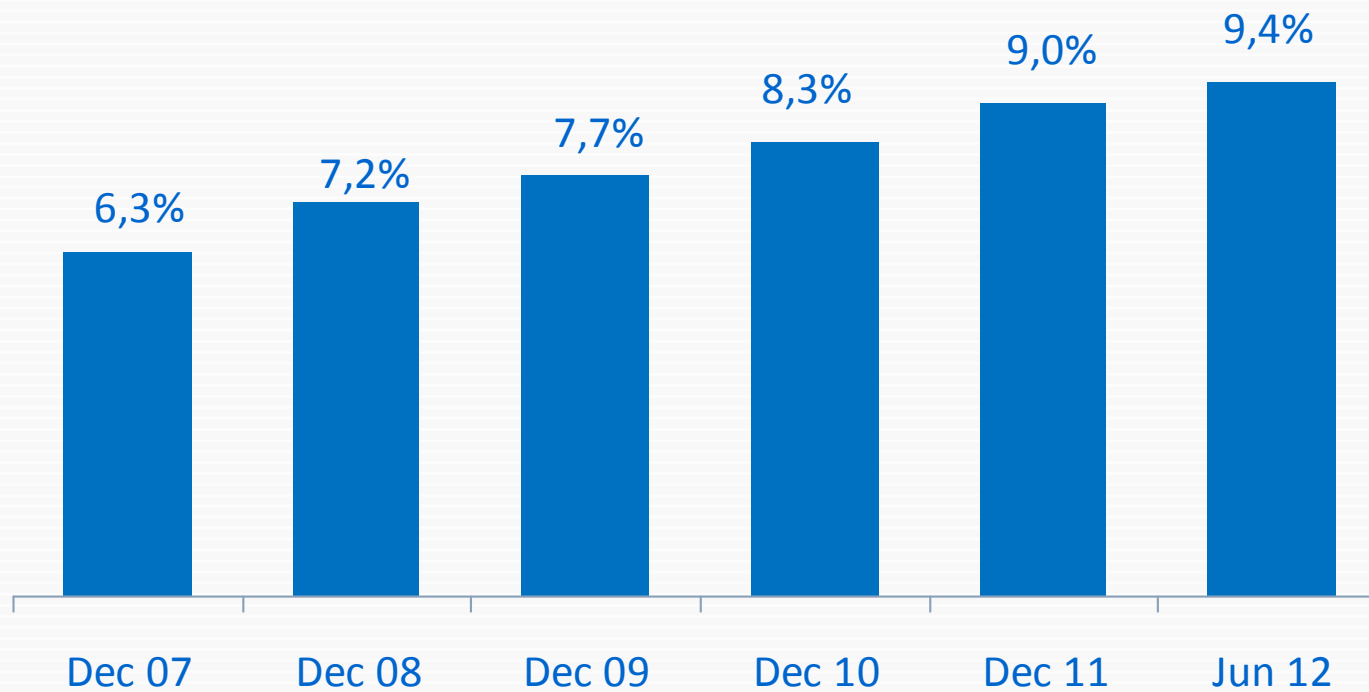
## Banesto in the new paradigm





## Banesto's competitive advantages in the current economic environment

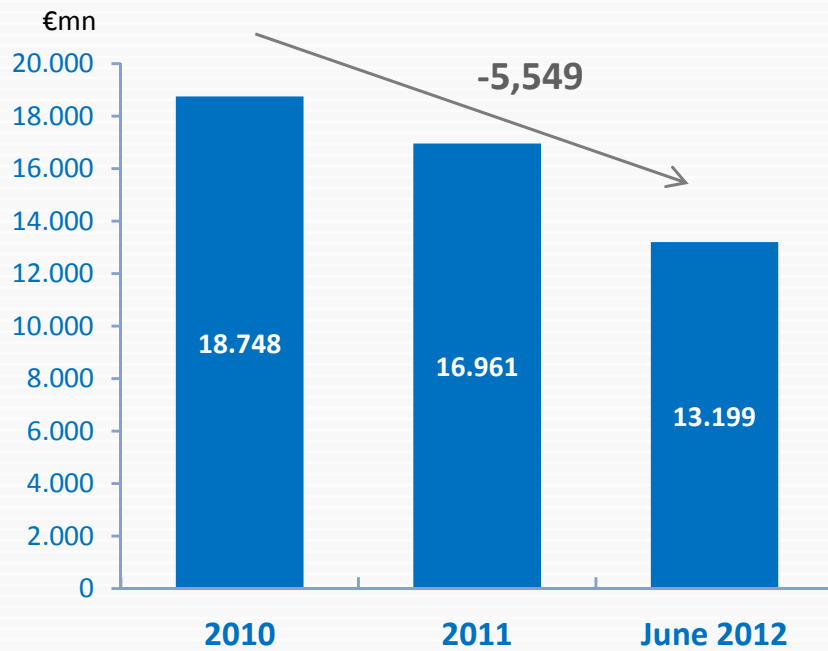
### Fulfilment of capital requirements without shareholder dilution



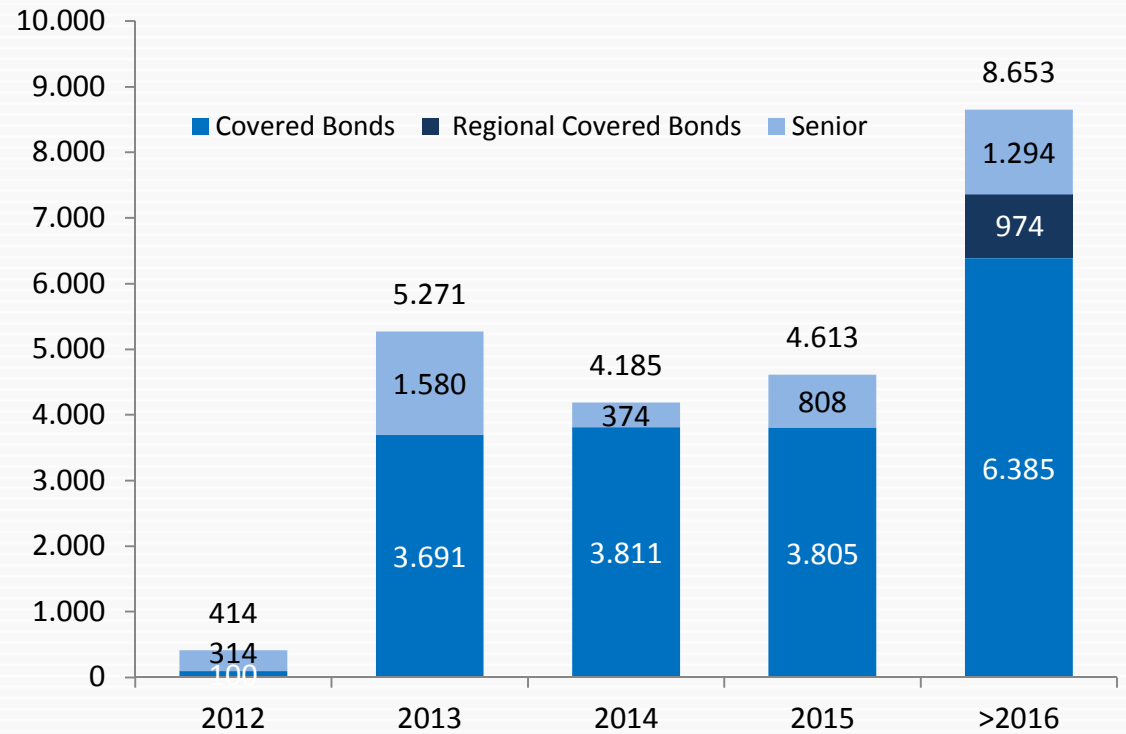
# Banesto's competitive advantages in the current economic environment

## Comfortable liquidity position

### Commercial gap contraction



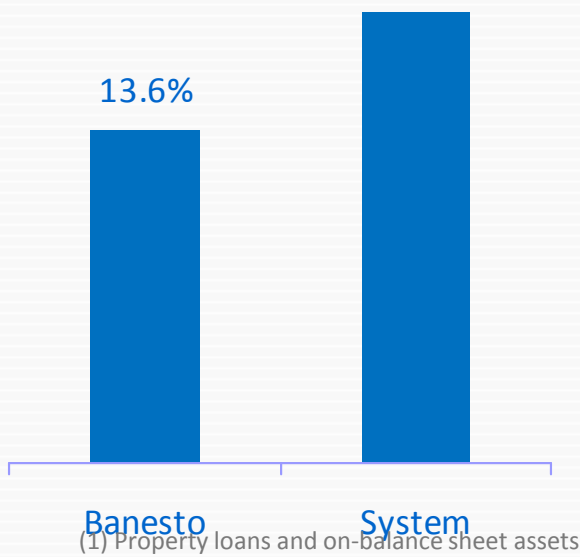
### Maturity schedule



# Banesto's competitive advantages in the current economic environment

## Lower exposure to real estate sector

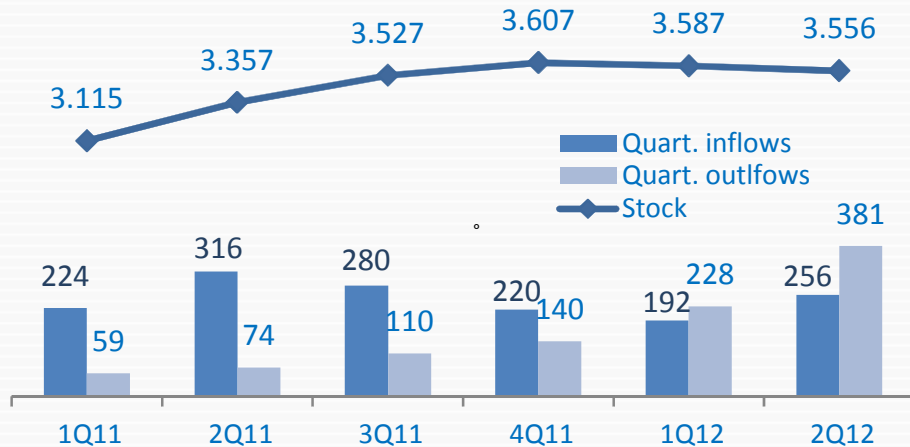
Real estate exposure<sup>1</sup>/Total loans (Jun12)



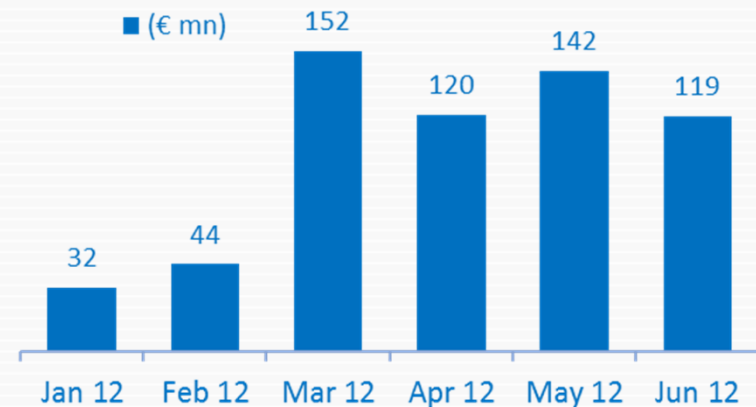
Developer loans



Reduction in stock of on-balance sheet assets

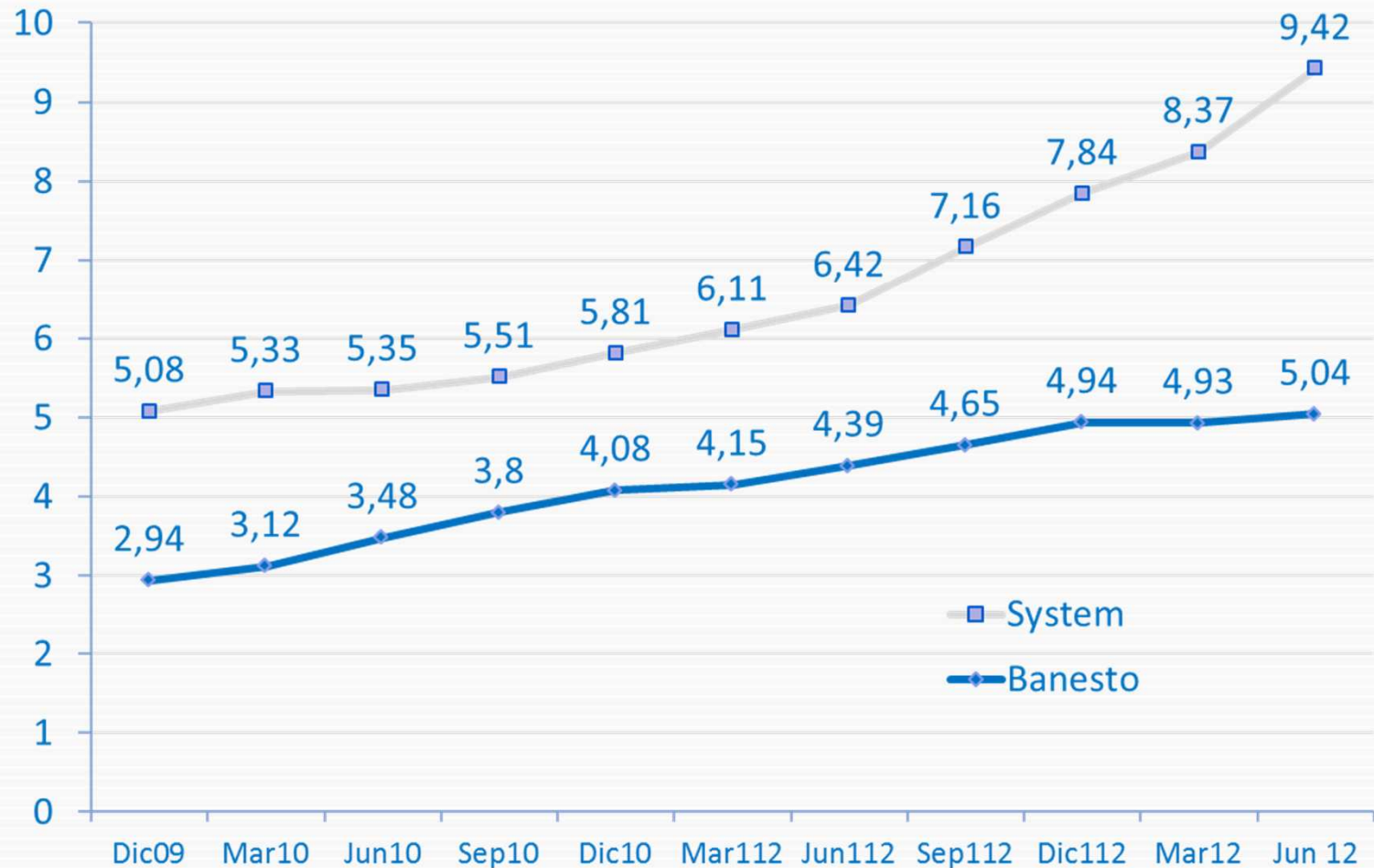


Sales of on-balance sheet assets



## Banesto's competitive advantages in the current economic environment

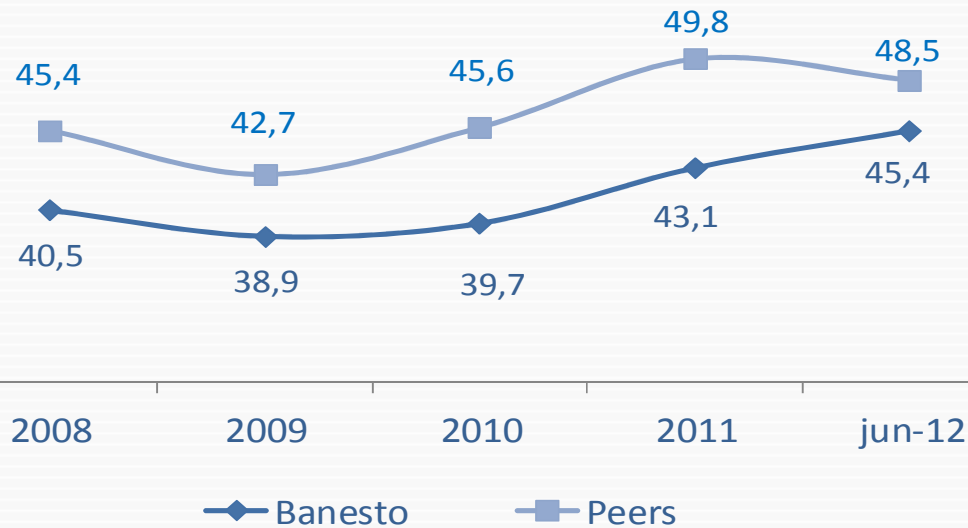
Consistently lower NPL ratio and outperformance relative to peers



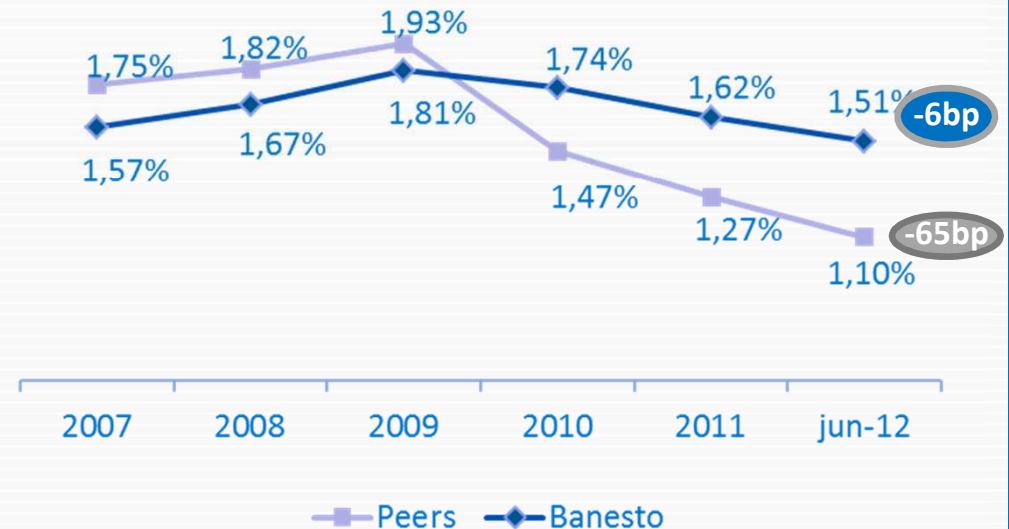
## Banesto's competitive advantages in the current economic environment

### Higher profitability than competitors

Most efficient pure-play Spanish bank (C/I ratio)



Gross Margin (ex-trading income) / Loans



## Banesto's competitive advantages in the current economic environment

Banesto's P&L is the result of a deliberately conservative strategy

2Q12	Deliberate strategy	What if...?	Impact on NII
Net Interest Income (YoY): -9.0%	Customer loans (YoY) -7.0%	0.0%	+11 p.p.
	Undrawn available funds at ECB €8.2bn	All used	+14 p.p.
	Sovereign debt 7.7% total assets	10%	+4 p.p.

## Banesto's competitive advantages in the current economic environment

### Highest ratings among pure-play Spanish banks

	S&P	Moody's	Fitch
Handelsbanken	AA-	Aa3	AA-
Nordea	AA-	Aa3	AA-
BNP Paribas	AA-	A2	A+
HSBC	A+	Aa3	AA
Deutsche Bank	A+	A2	A+
Societe Generale	A	A2	A+
JP Morgan	A	A2	A+
Barclays	A	A3	A
Deutsche Postbank	A	A2	A+
HBOS	A-	A3	A
Santander	A-	Baa2	BBB+
<b>Banesto</b>	<b>A-</b>	<b>Baa3</b>	<b>BBB+</b>
BBVA	BBB+	Baa3	BBB+
CaixaBank	BBB	Baa3	BBB
Bankinter	BB+	Ba1	-
Popular	BB+	Ba1	BB+
Sabadell	BB+	Ba1	BBB
Bankia	BB+	Ba2	BBB
Bank of Ireland	BB+	Ba2	BBB
BCP	B+	Ba3	BB+

## **Banesto's opportunities in the new banking paradigm**

**In a marketplace characterised by economic weakness and financial restructuring, Banesto is uniquely positioned to:**

- **Continue to spearhead the sector on cost efficiency**
- **Enhance the franchise value of our network, with a client-oriented business model focused on value-added segments (affluent household, corporates)**
- **Tap any and all organic growth opportunities at a time of weakened competition**
- **And, in short...**

**Position the bank optimally in the new financial paradigm**



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