

Banesto

Managing the bank through the crisis

Bank of America 
Merrill Lynch

*Banking and Insurance
CEO Conference*

London, October 4th 2011

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1. Spanish macro and financial system update

2. Managing the bank through the crisis

**1. Spanish macro and financial system
update**

2. Managing the bank through the crisis

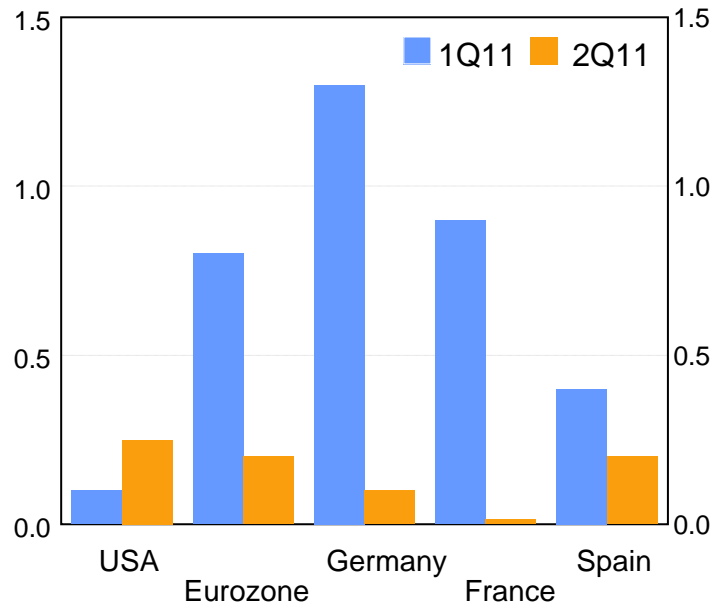
Market driven by macro factors

- Disappointing 2Q11 GDP figures have triggered downward revisions in GDP growth expectations
- Debt crisis in Europe intensifies

GDP growth

1H11 GDP Growth

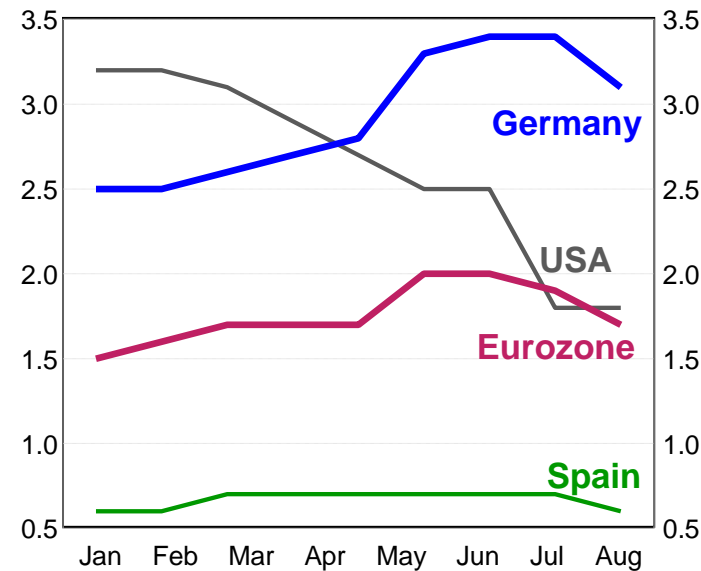
(% QoQ change)



Source: Eurostat

Consensus evolution 2011

(% YoY change)



Source: Consensus Forecast

FMI (Sept forecasts)
(% YoY change)

2011 **2012**

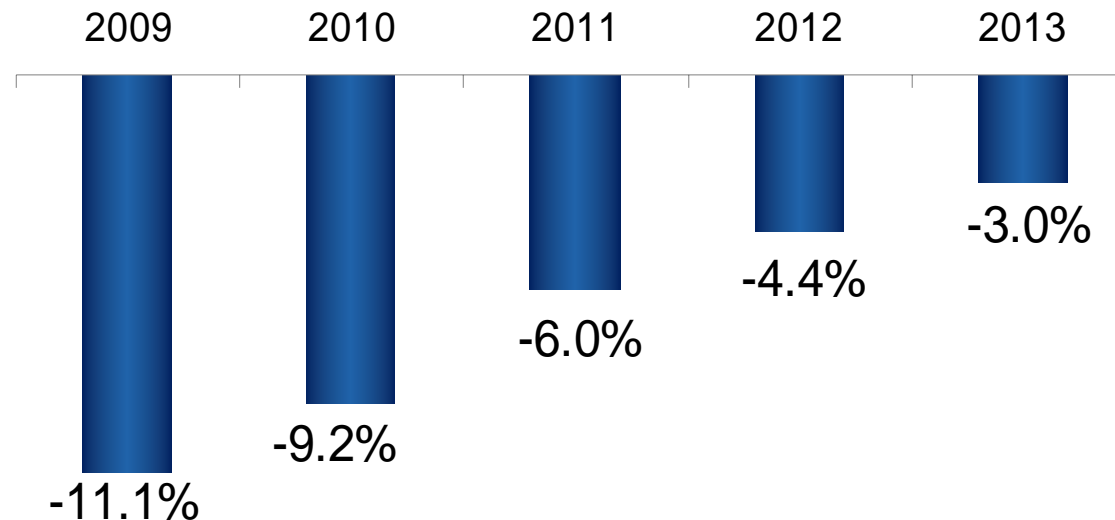
2.7%	1.3%
1.5%	1.8%
1.6%	1.1%
0.8%	1.1%

Source: FMI 5

Spain - Fiscal consolidation under way

- The Spanish Government is successfully controlling public deficit: Final 2010 deficit met the target (9.2% vs. 9.3%)
- Strong commitment to bring public deficit down to 6% in 2011. The central Government will offset deviations in some regions
- Constitutional change: principle of budget stability limiting structural deficit (0.40% of GDP) and debt (60% of GDP)

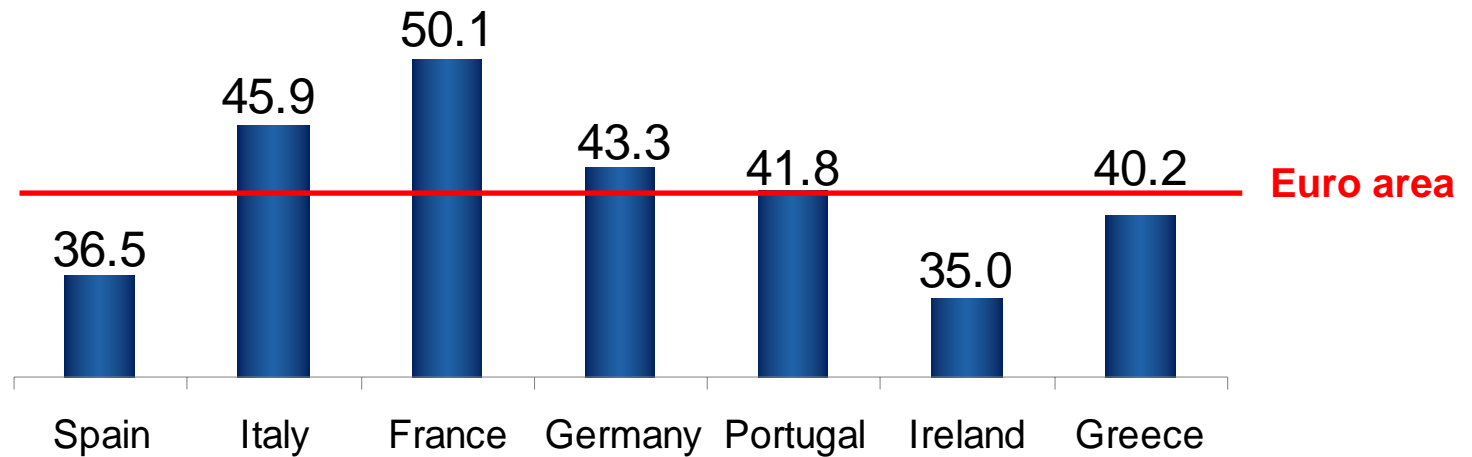
Spanish Public Deficit (% GDP)



Spain - Room for further deficit adjustment

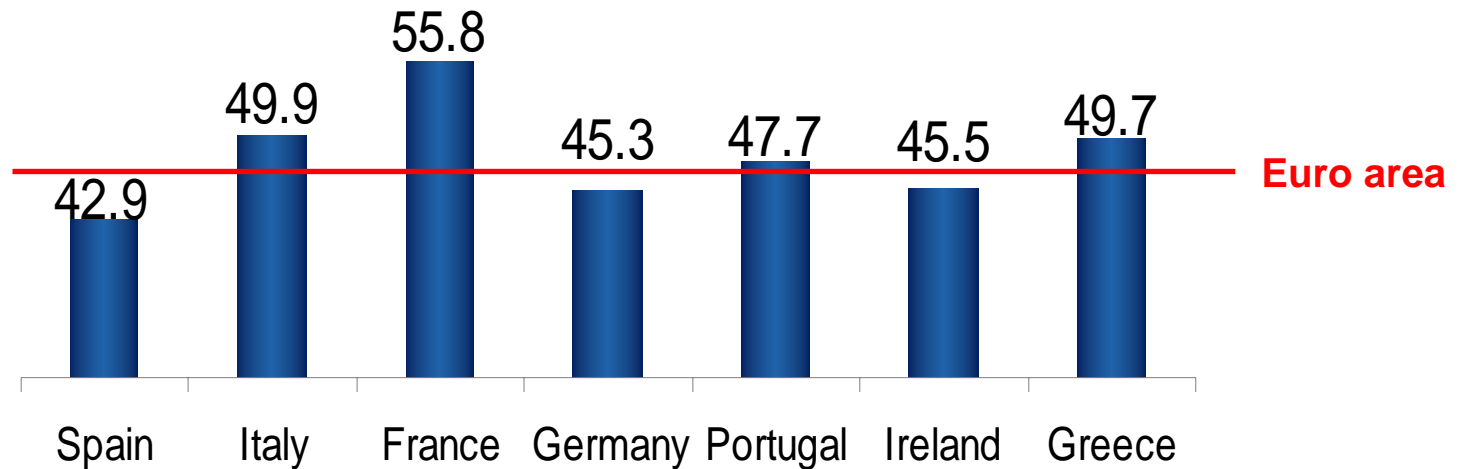
Revenues

(2011, as % of GDP)



Expenditure

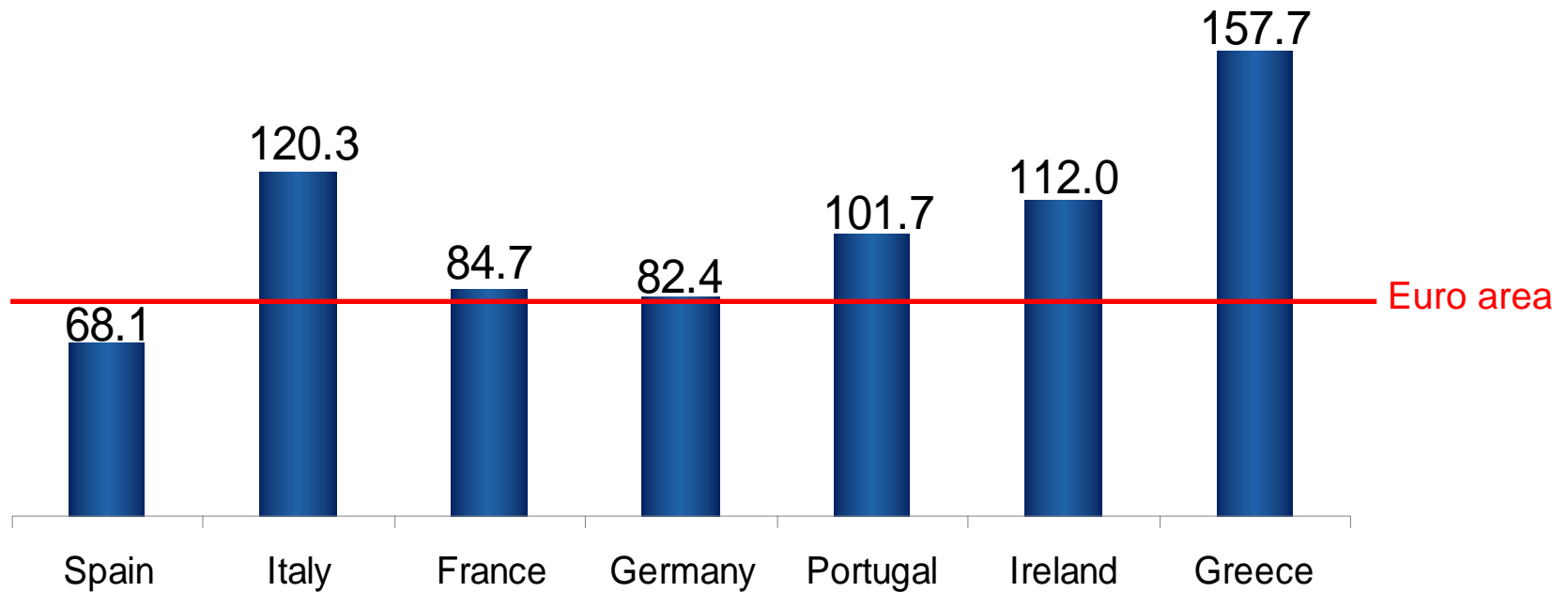
(2011, as % of GDP)



Spain - Public debt at manageable levels

2011 Public Debt

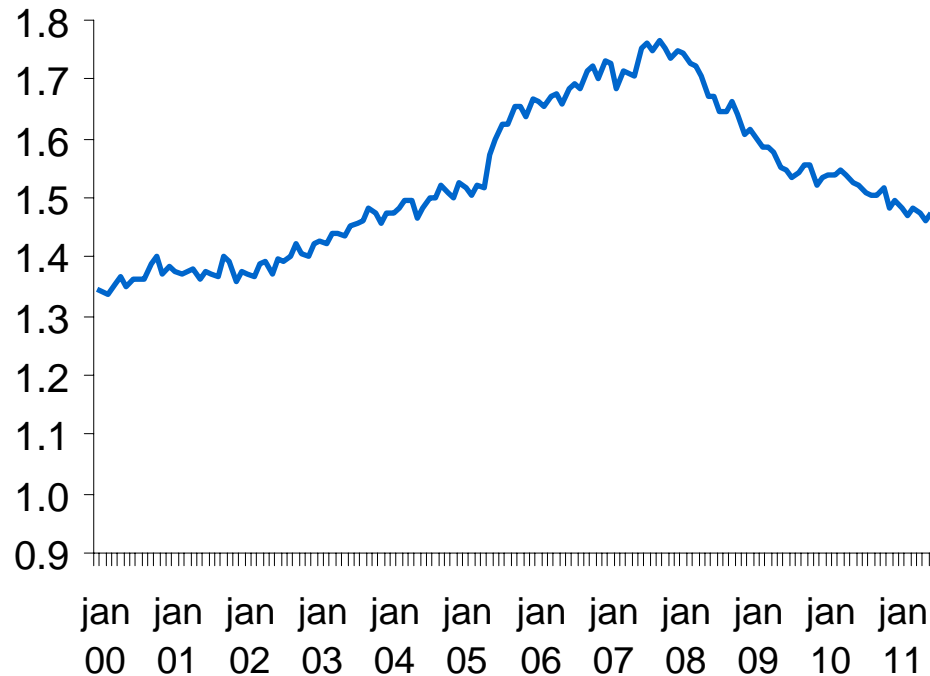
(as % of GDP)



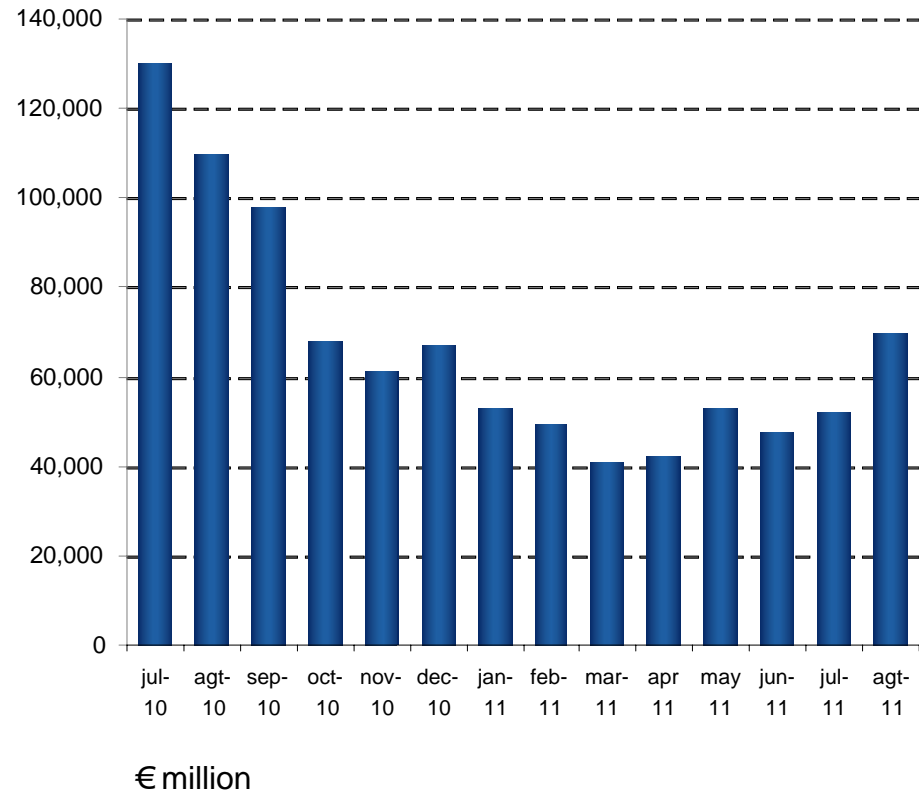
Spain-Financial sector deleverage

LTD ratio, Spanish Financial system

(x times)



Use of ECB funds by Spanish Financial system



Cajas restructuring process

- September 2011: deadline for capitalisation through private investors or FROB:
 - Private capital injections: 4,767 € mn.
 - FROB injections: 12,866 € mn.
- Not a full scale reshuffle, but adjustment of excess capacity in cajas is finally taking place:
 - Branch closure since 2009/2011: 12.0%. The process has accelerated in 2011.
 - Total employment in the financial sector, has decreased by 13.7% since July 2009. Most of this adjustment has taken place since January 2011 (-9.2%).

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Managing the bank in uncertain times

Liquidity

- Manageable refinancing schedule
- Ongoing organic liquidity generation
- Market dependence has declined by 10% this year

Capital

- Organic core capital generation, on track for delivery of 2011 target of 9%

Risk management

- Non-performing loans stable YTD. The real estate risk exposure is declining, and exposure is below the sector average
- Heavy provisioning effort to preserve overall coverage of impaired assets

Profitability

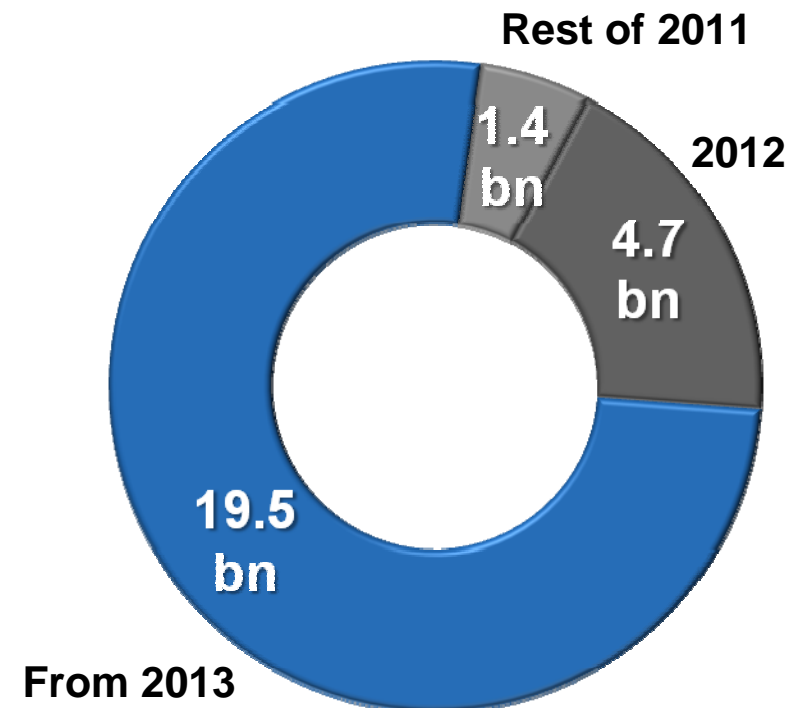
- Spreads management is offsetting lower volumes
- Strict cost control. Top-ranked sector player on cost-income

Liquidity

M/T wholesale maturities*

(Total at 30/06/11 €25.6 bn)

- Recurrent generation of internal liquidity by narrowing of the commercial gap
- No ECB funding
- Decline in reliance on markets in 1H11



* Senior debt, covered bonds and subordinated debt

Internal generation of liquidity

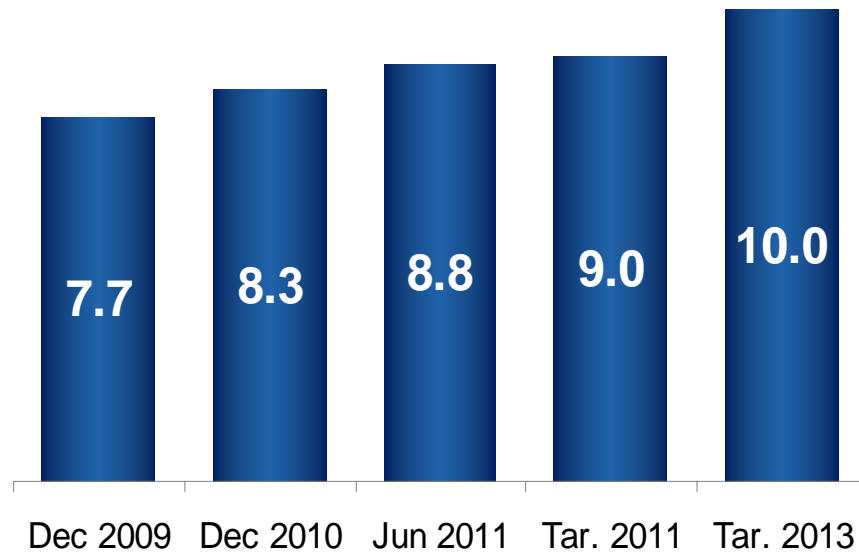
Liquidity stress to 2012 (€mn)

Net maturities	-5,214
Short term	-1,700
Medium/long term	-3,514
Internal generation of liquidity to 2012	+5,200
+ECB eligible assets (2011-2012)	+7,000

Reinforcing capital ratios

Core Capital

(%)



↓
>9% B3

B3 estimated impact

	Basic points
DTAs	25 - 30
Intangibles	15
AFS losses	5
Other	20 - 30
Total	65 - 80

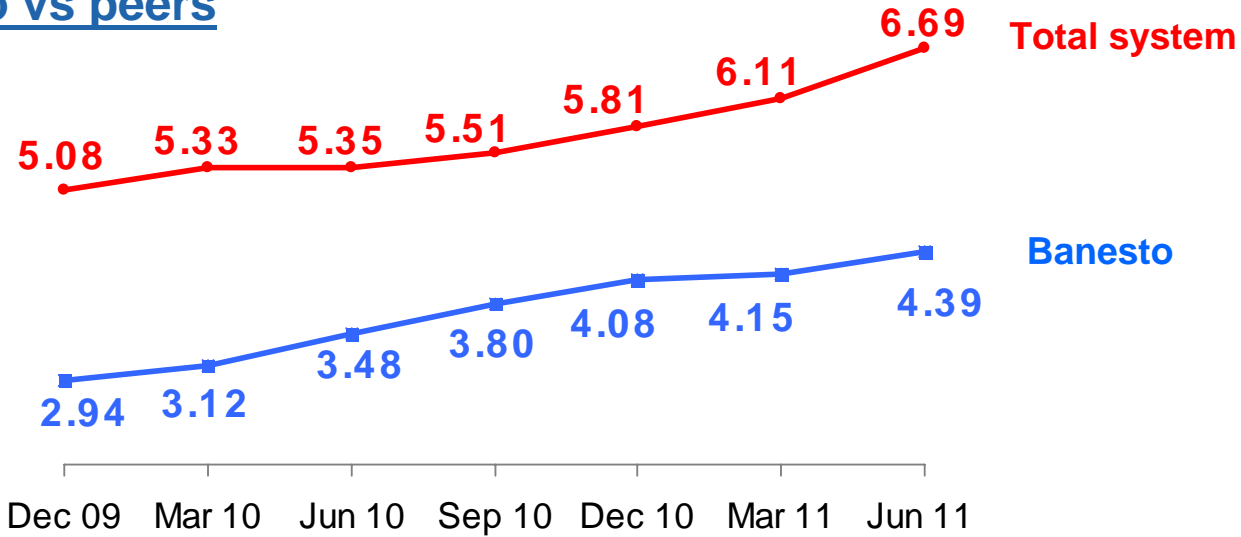
Ratings

	Dec 07	Actual
S&P	AA	AA
Moody's	Aa2	A2
Fitch	AA	AA

NPLs breakdown and peer comparison

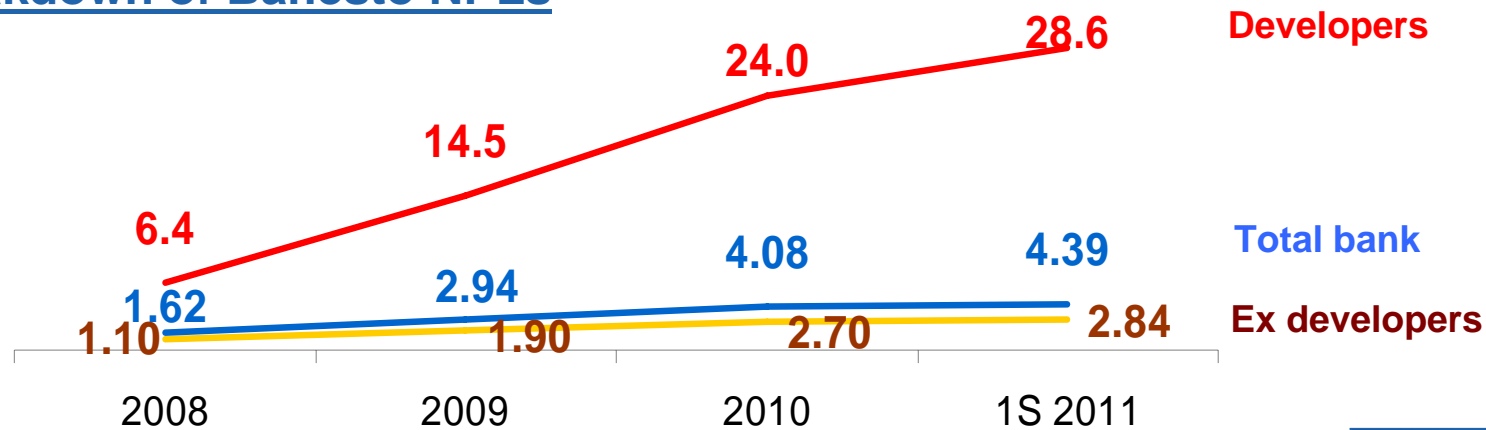
NPL ratio vs peers

(%)



Breakdown of Banesto NPLs

(%)

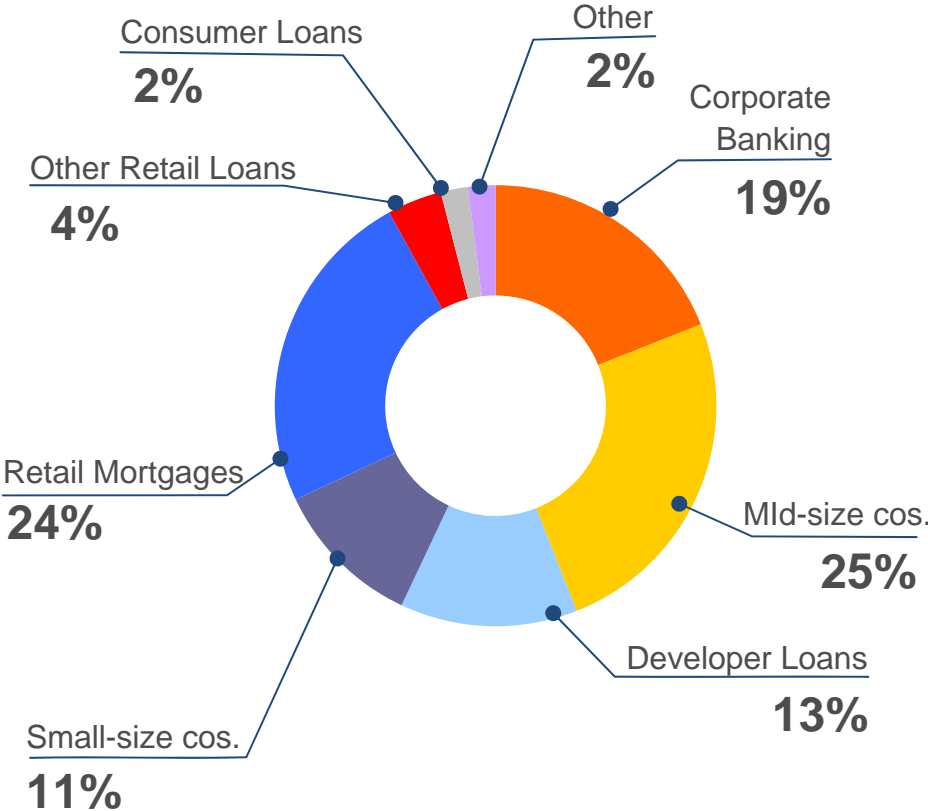


Exposure to developers as % of total

Improved risk profile

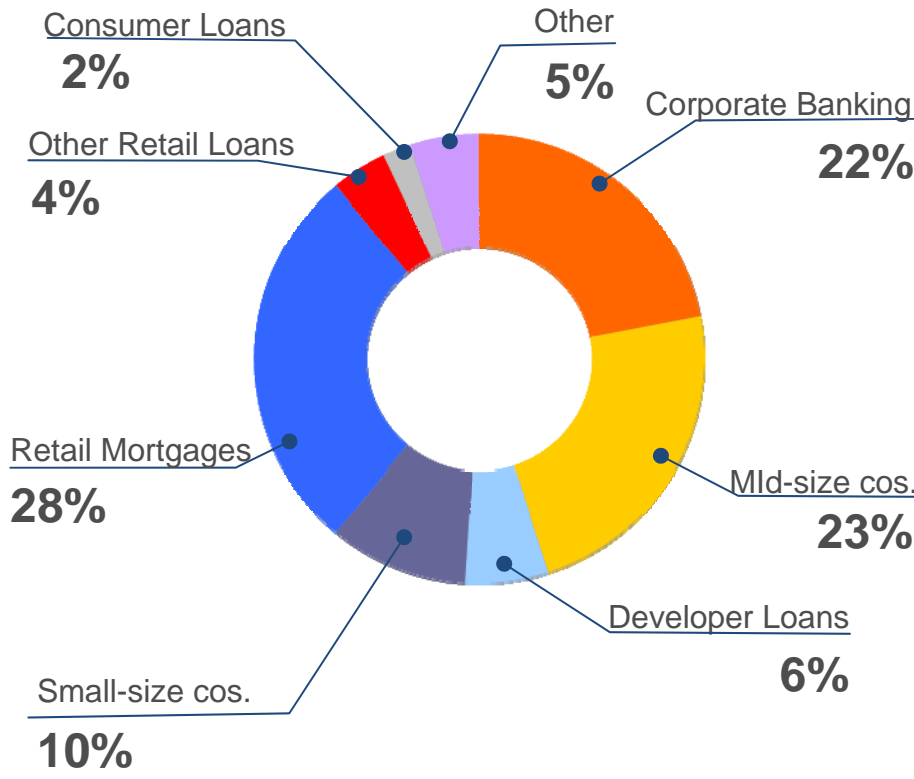
Credit Risk

2007



Credit Risk

1H11



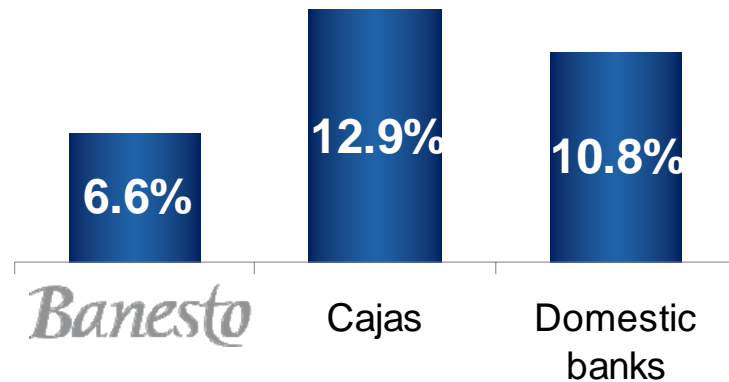
NPLs concentrated in RE developers

	NPL ratio (%)		EAD (%)
	June 2010	June 2011	June 2011
Retail mortgages	1.24	1.75	30
Other retail loans	5.68	6.15	5
Real estate developers	18.97	28.59	6
Companies	2.92	3.81	59
Total	3.48	4.39	100
Total RE developers	2.25	2.84	94

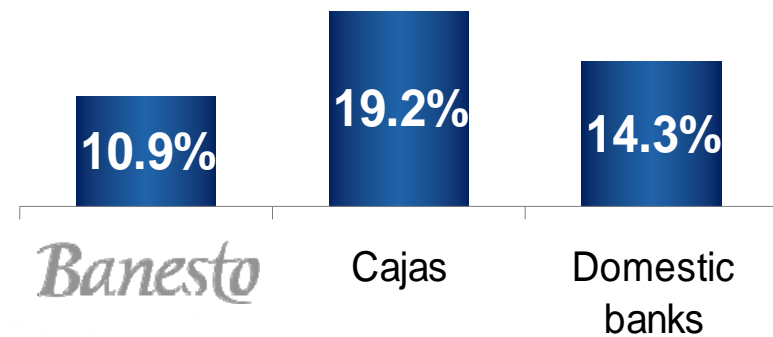
Exposure to real estate much lower than the sector

Lending to real estate (Dec.10)

% of total assets



% of total loan portfolio

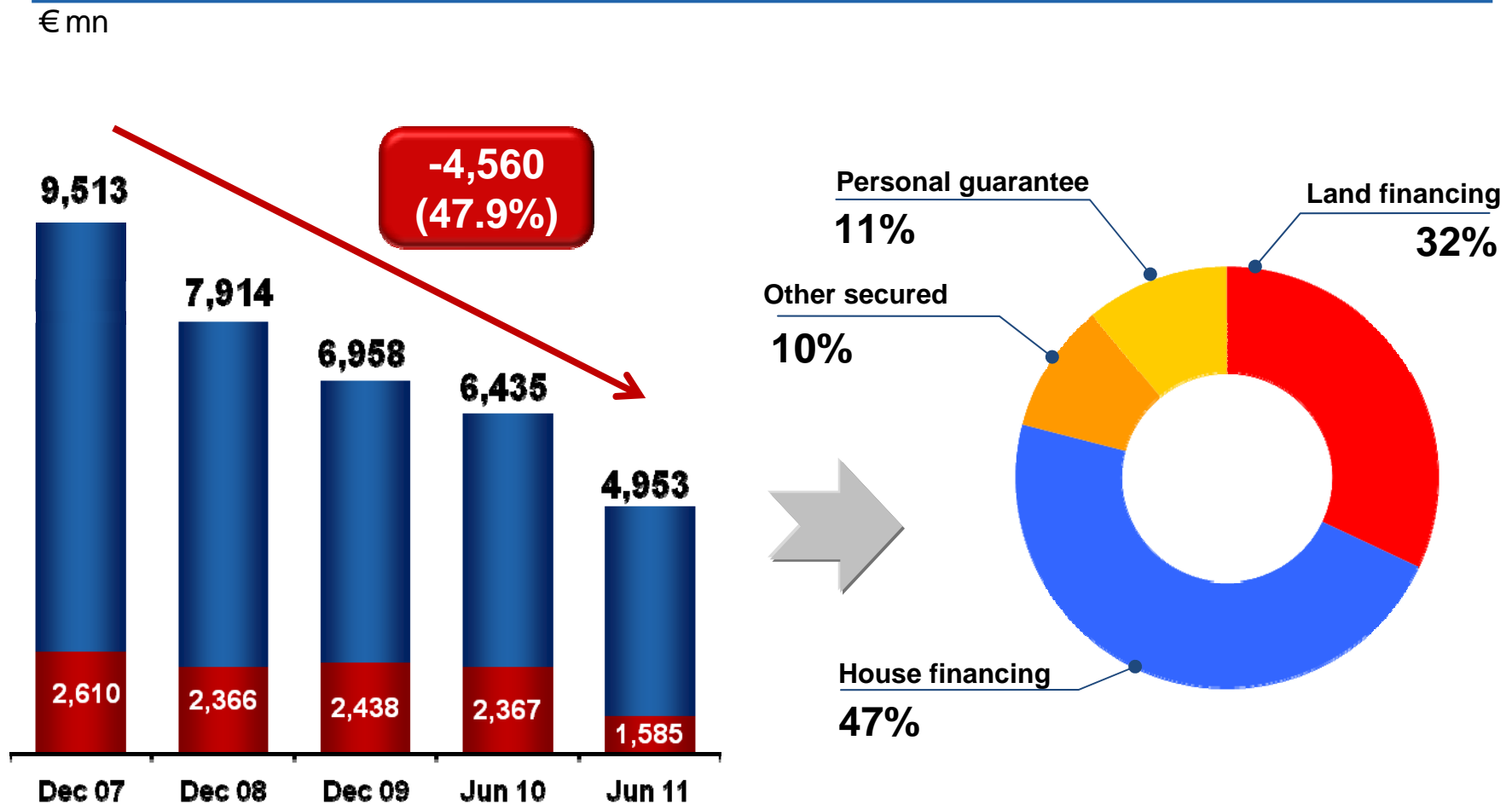


Spanish financial institution with second lowest real estate exposure as % of assets

Spanish financial institution with third lowest real estate exposure as % of loans

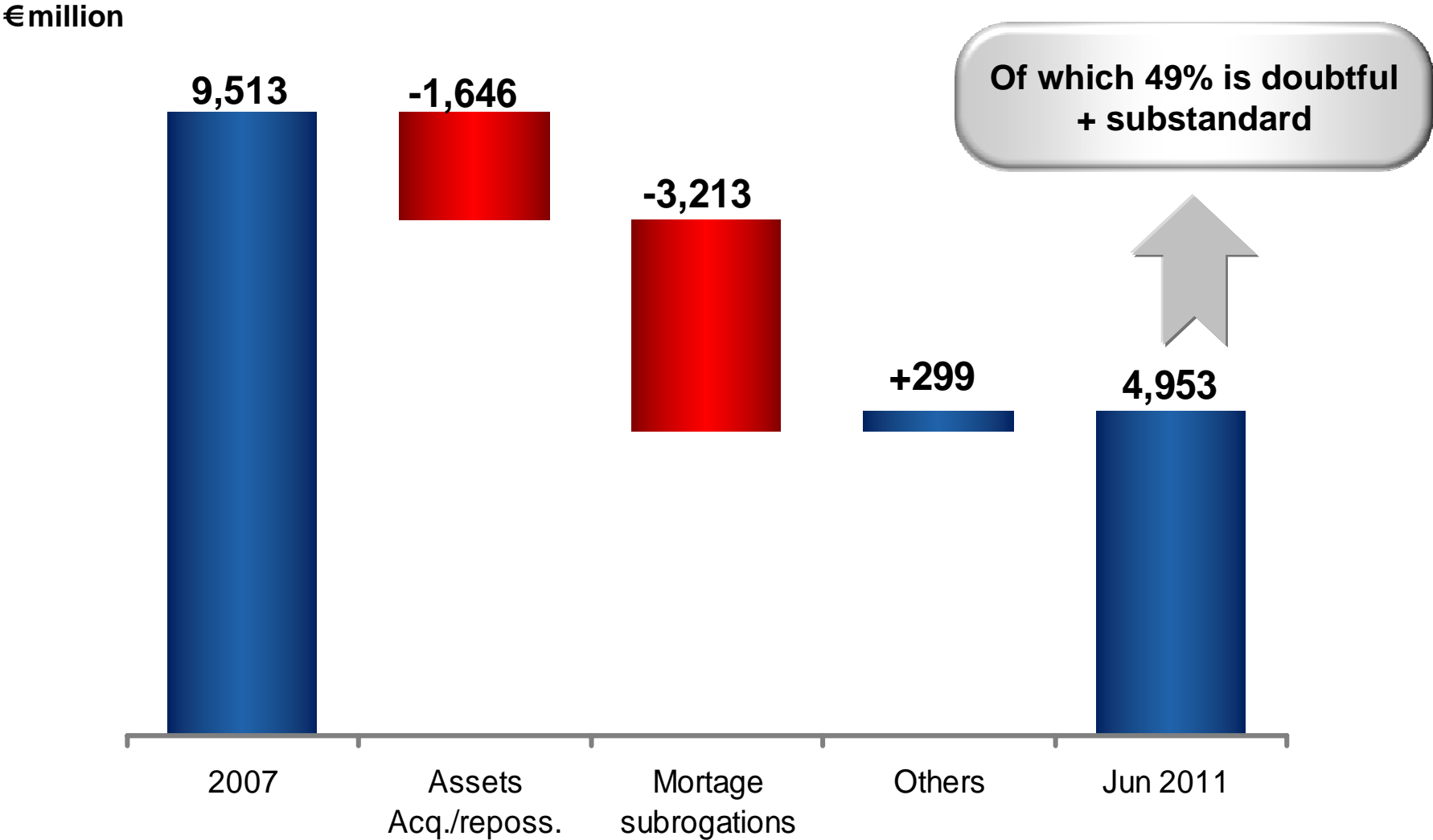
We continue to lower exposure to developers

Loans to real estate developers



89% of exposure is secured

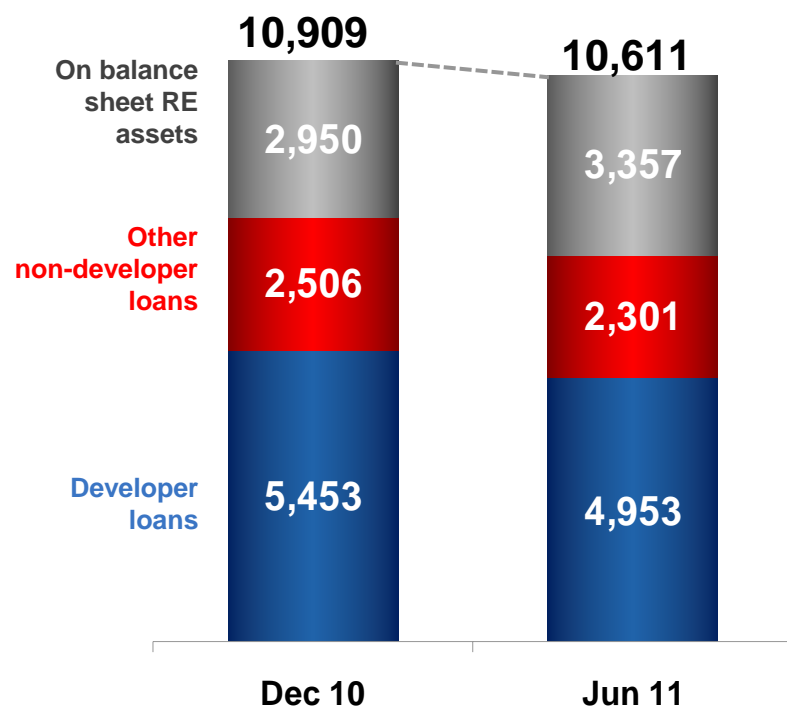
Loans to developers - how the reduction has been managed



Total real estate exposure falling while provisions are being bolstered

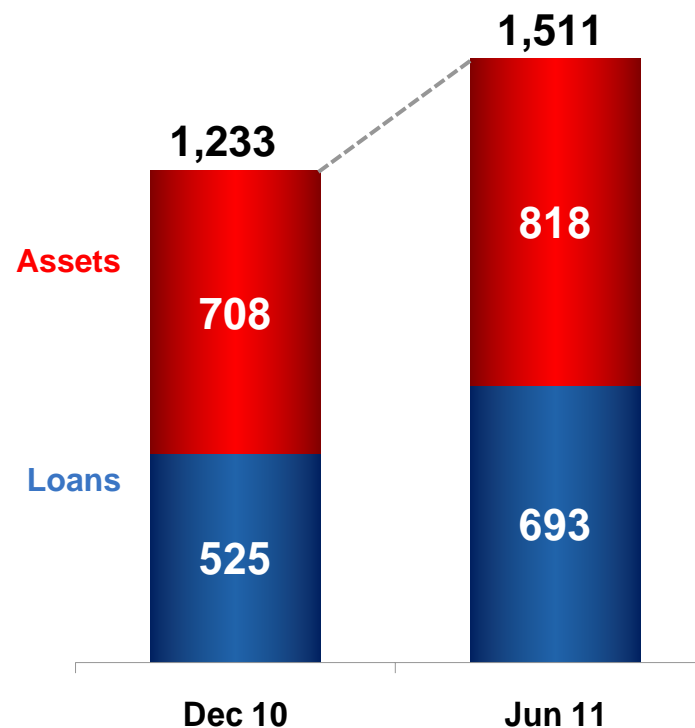
Total real estate exposure

€, mn



Impairment provisions

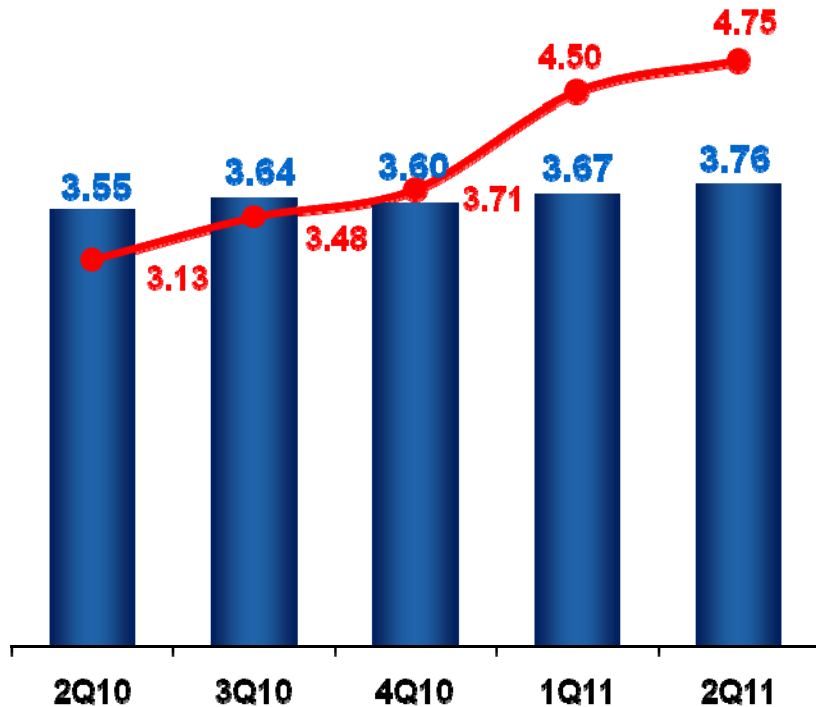
€, mn



Spreads management - Front book vs. back book

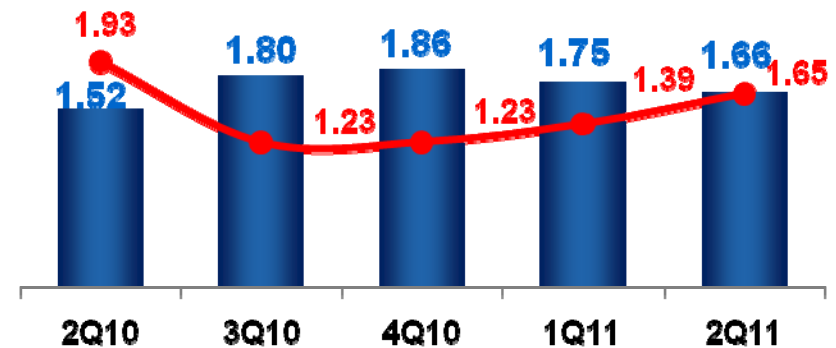
Front book vs. back book rates

Customer loans (%)



Customer deposits (%)

(Private sector)

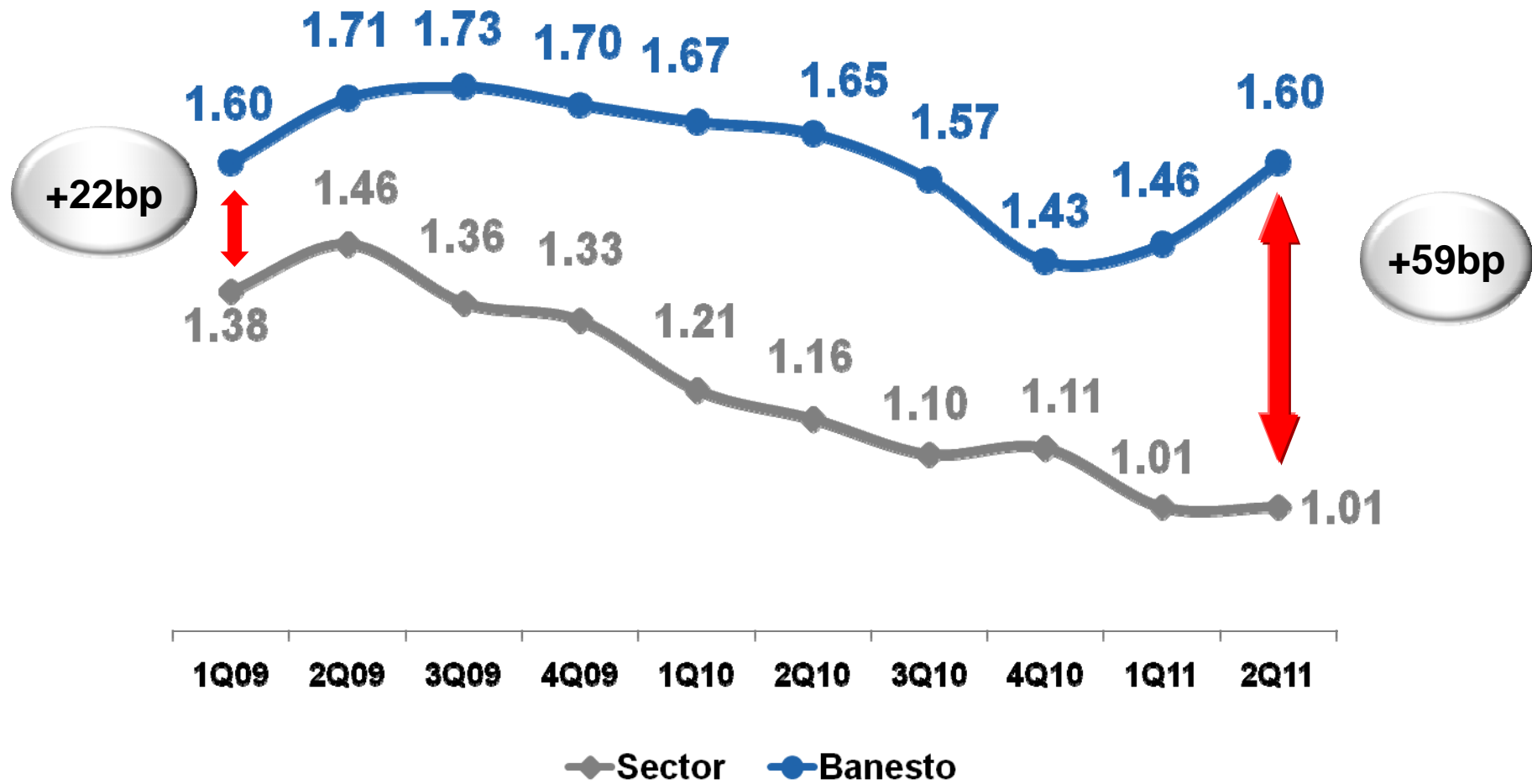


■ Back book rate

— Front book rate

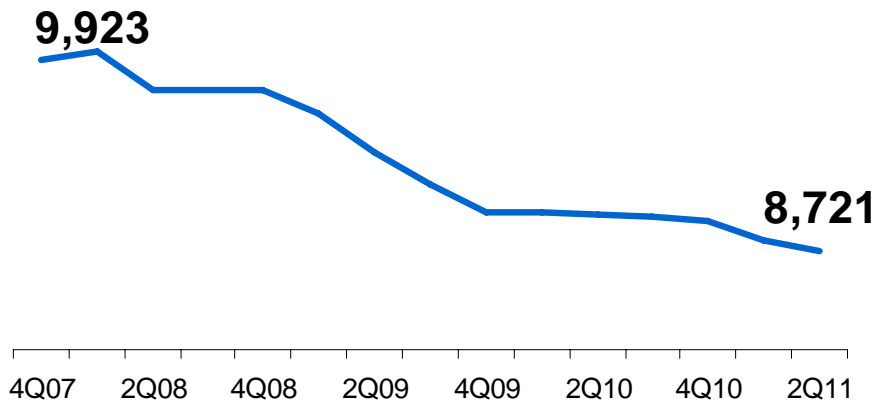
NIM has picked in 1H11

NIM (%)

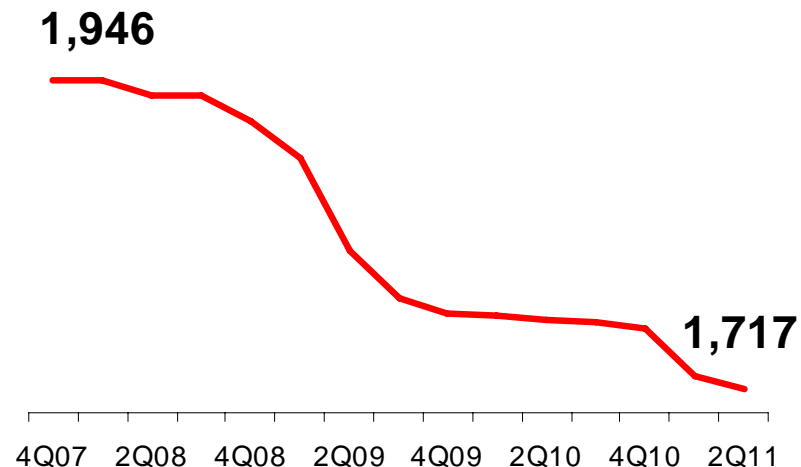


Operating costs under control, while boosting productivity

Employees

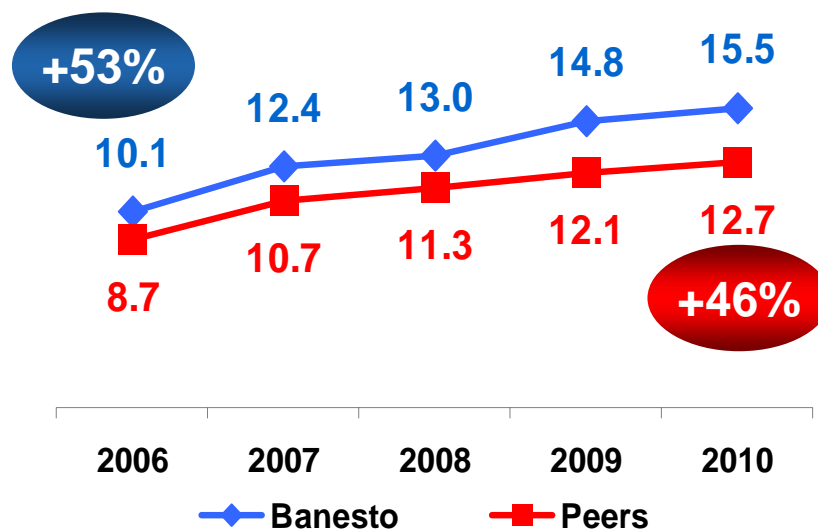


Branches



Business per employee

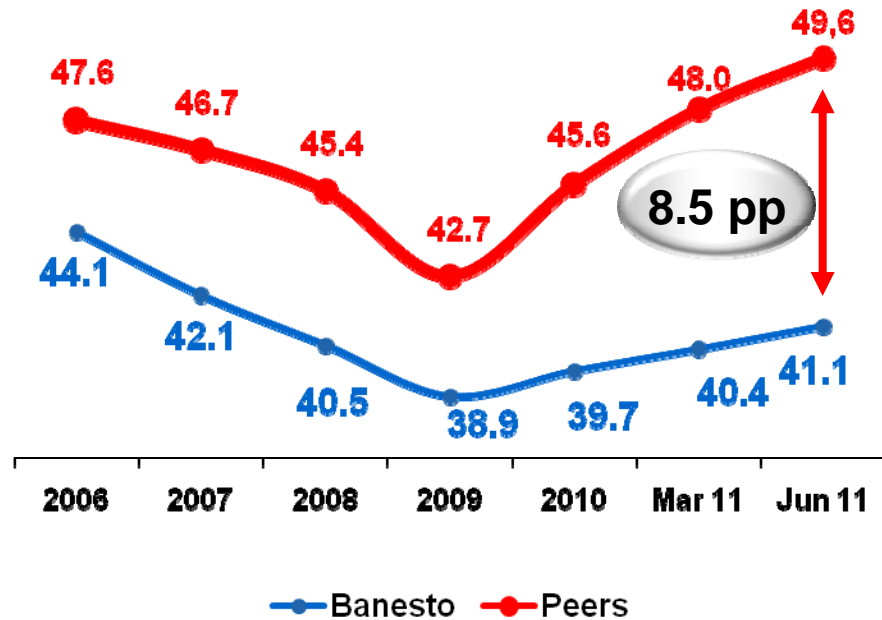
(EUR million)



Top ranked in C/I and operating profitability

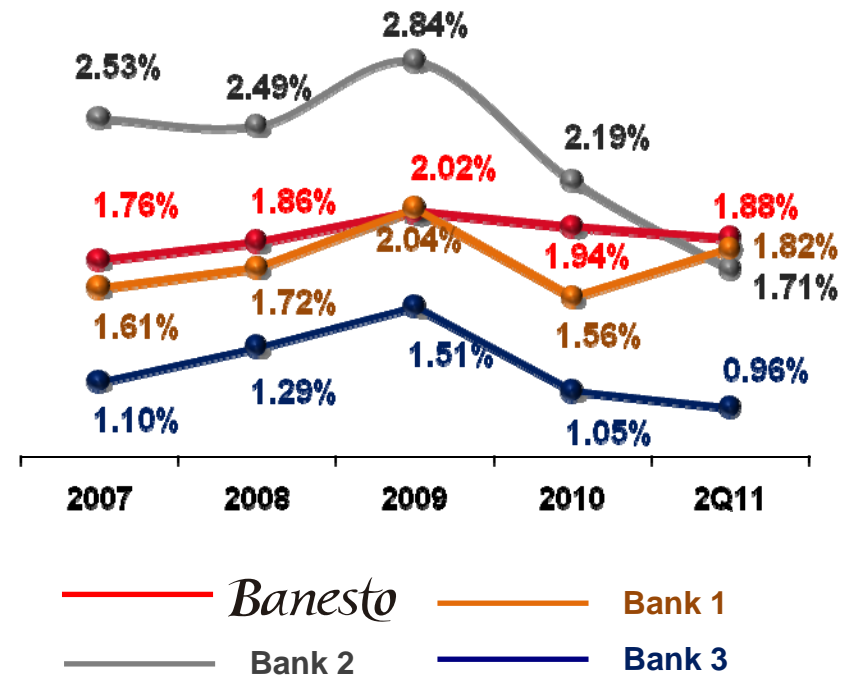
Cost-income vs. peers*

(%)



Profitability

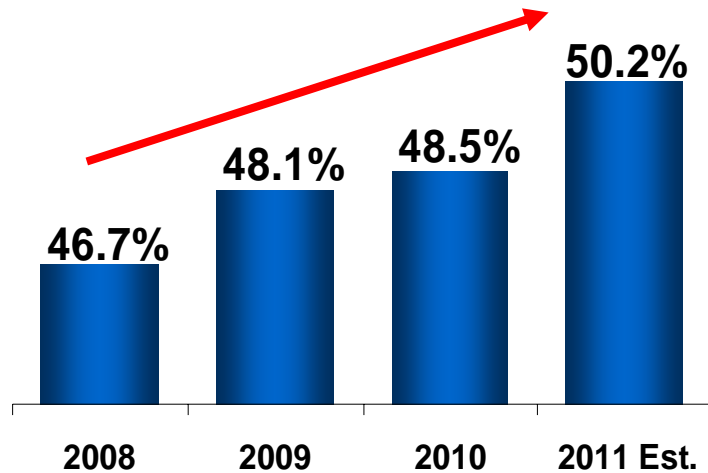
Pre provision profit/total loan portfolio



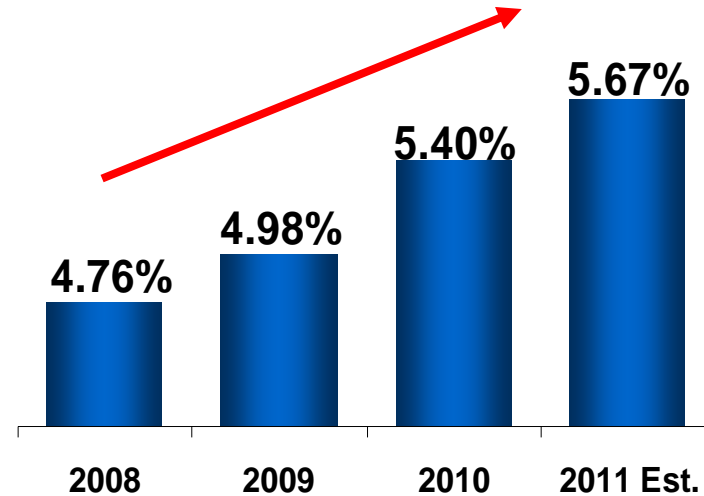
* Cost-income calculated for last twelve months

Enhancing the bank's franchise - cross selling

% of clients with payroll accounts



Market share in transactional business



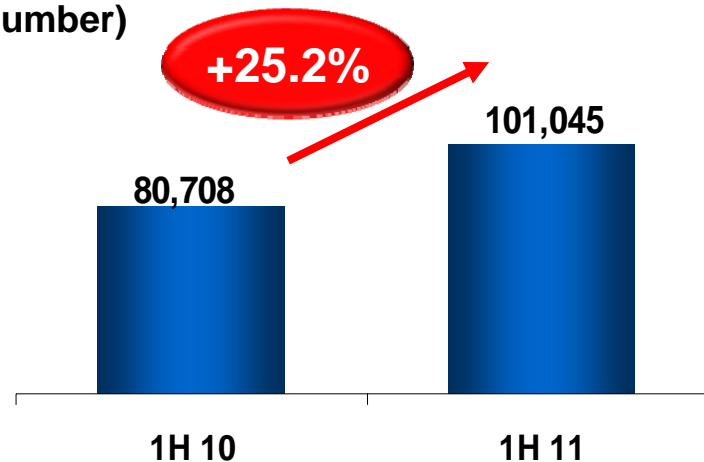
Market share according to the Spanish national electronic clearing system, the SNCE (transfers, cheques, bills and direct debits)

Number of products

Foreign trade	49,259
Non-financial insurance policies	747,199
Mortgages	209,594
Factoring	386,008
Confirming	1,984

Non-financial insurance policies

(Number)



Concluding remarks

A very challenging scenario for the Spanish economy, but progress is being made in key reforms

Our strategy: finding the right balance between liquidity, capital, risk management and profitability

- **Liquidity: narrowing of the commercial gap, no use of ECB funds**
- **Capital: organic CT1 generation**
- **Risk management: ring fenced RE exposure although provisioning effort to continue**
- **Profitability: spreads management and tight cost control**

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