



Banesto



Merrill Lynch


October 2007

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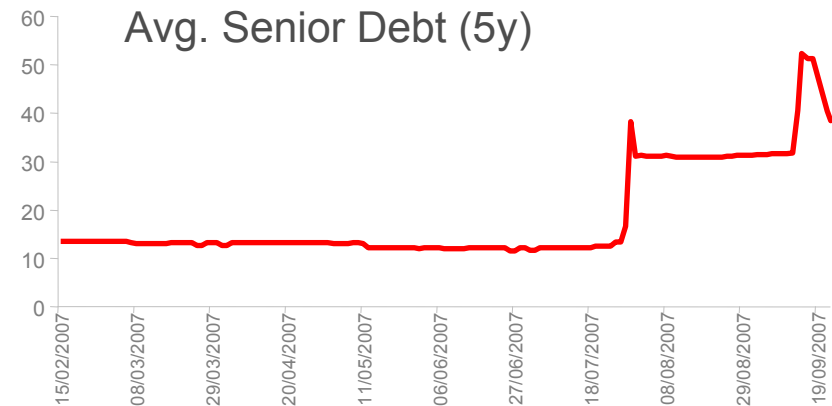
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- The background features several thin, light grey curved lines that intersect to form a series of overlapping, teardrop-shaped regions. One region on the left is filled with blue, one on the right with yellow, and a large one at the bottom with red. The text is positioned in the white space between these colored regions.
1. Our risk management in the current environment
 2. Banesto's strategy going forward
 3. Outlook 2009

Market turbulences

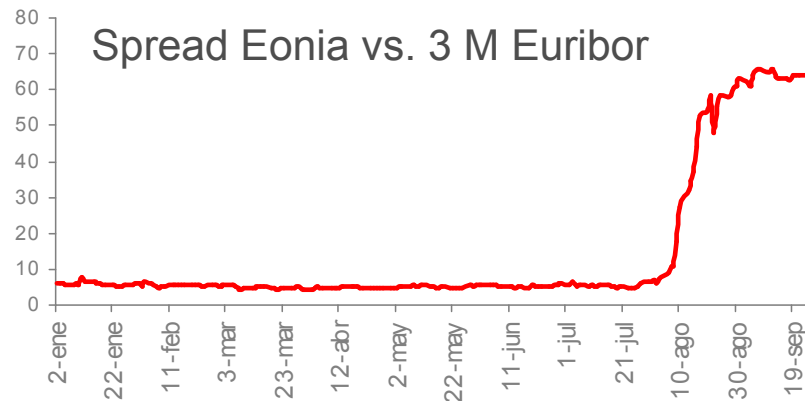
Rising credit spreads in corporates



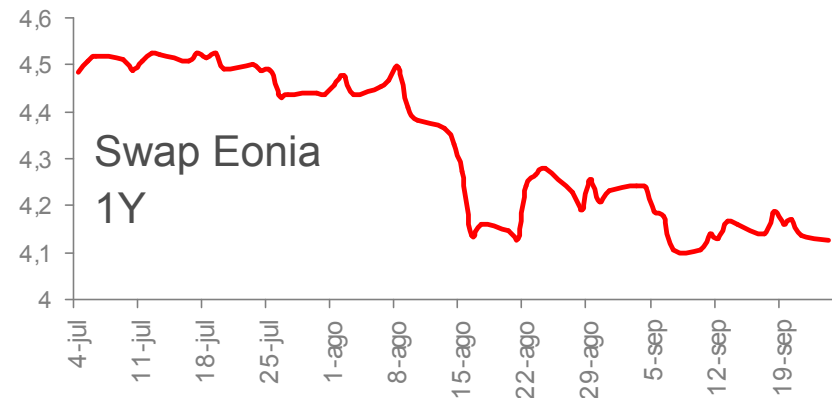
...and bank debt



Also rising liquidity risk premium



...and lower interest rate expectations



- Rises in credit and liquidity risk premiums.
- General lack of confidence due to financial complexity and lack of transparency.
- ECB committed in supplying enough liquidity.
- Market will gradually normalise, but some uncertainties remain on:
 - Lending activity.
 - Economic growth.

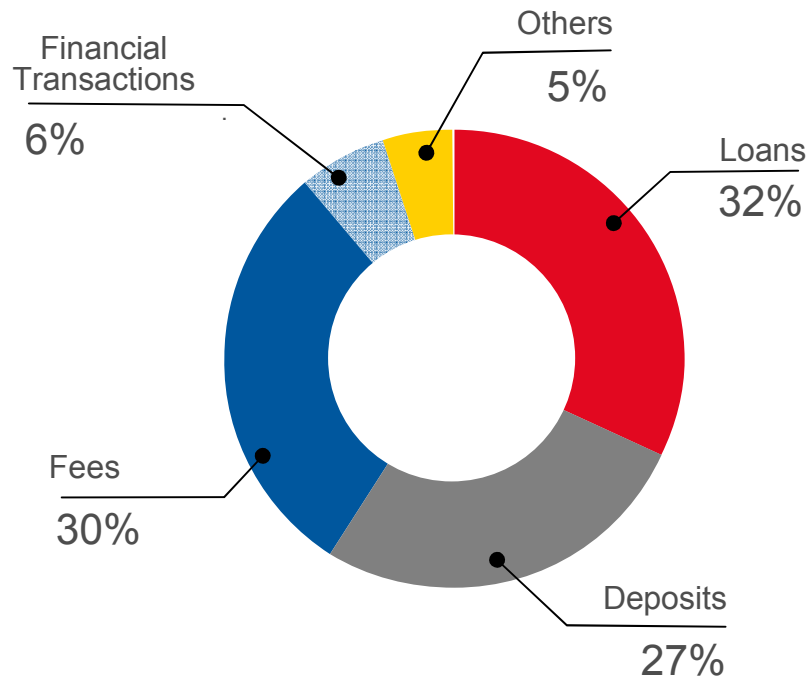
Risk Management: Old fashion retail banking sheltered from crisis...

Banesto is
well-
positioned to
face this
situation

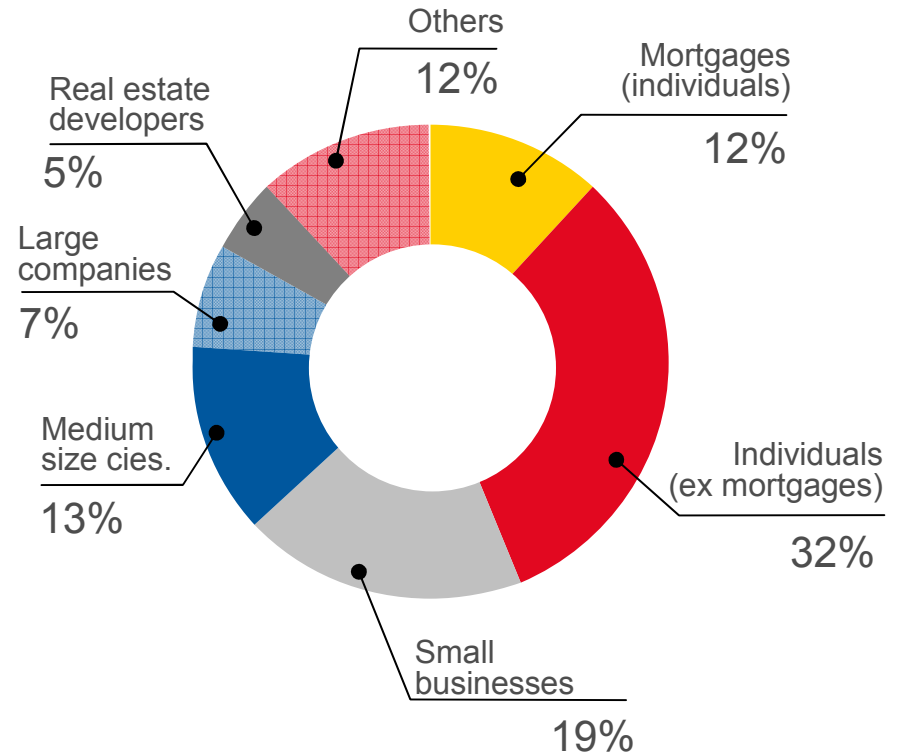
- Business Risk
 - Diversified businesses
- Credit Risk
 - Prudent policies
 - No exposure in assets damaged by the crisis (Subprime USA, ABCP...)
 - Good quality mortgage portfolio
 - NPL ratio < Sector avg.
 - NPL Coverage > Sector avg.
- Liquidity Risk
 - Strong liquidity position in the S/T and M/T
 - High capacity to generate new liquidity

Business Risk: Vindication of the deposit franchise

**Revenues by business lines
Jun 07 (%)**

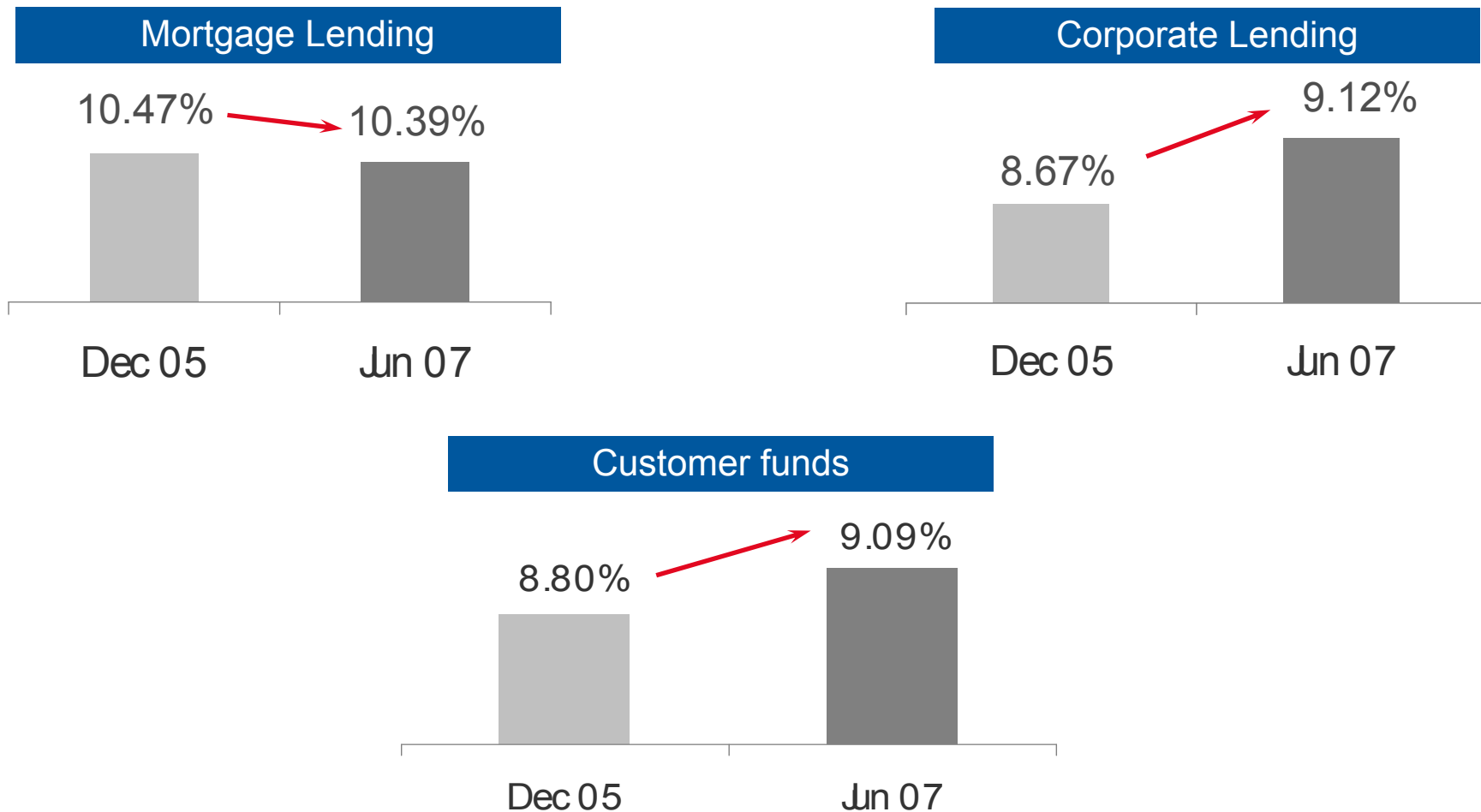


**Revenues by customer segments
Jun 07 (%)**



Business risk: Banesto has been changing its mix in the last year

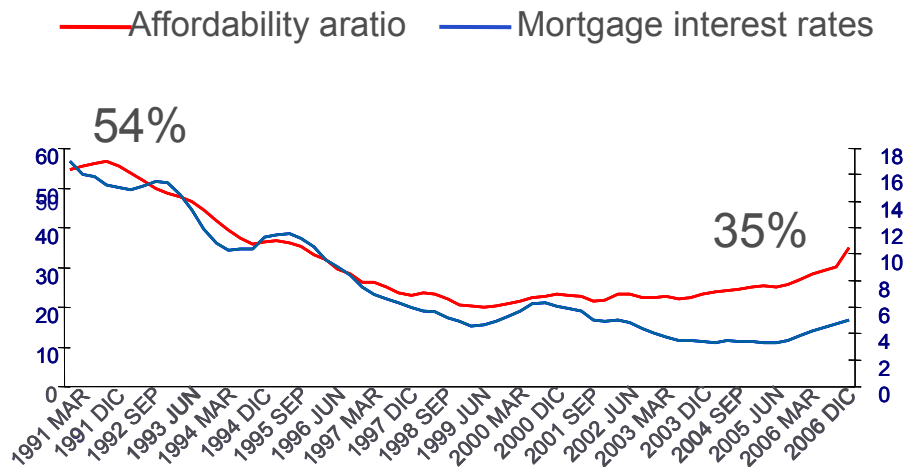
Spanish Banks market share (%)



Credit risk: Spanish economy leverage levels acceptable

Individuals

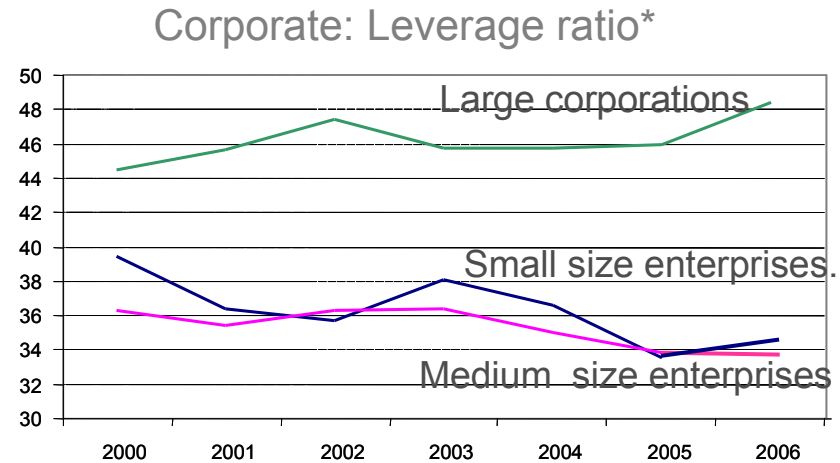
Affordability ratios are growing but clearly below 90's level



Source: AHE, Bank of Spain

Corporates

Small and midsize companies maintain leverage capacity



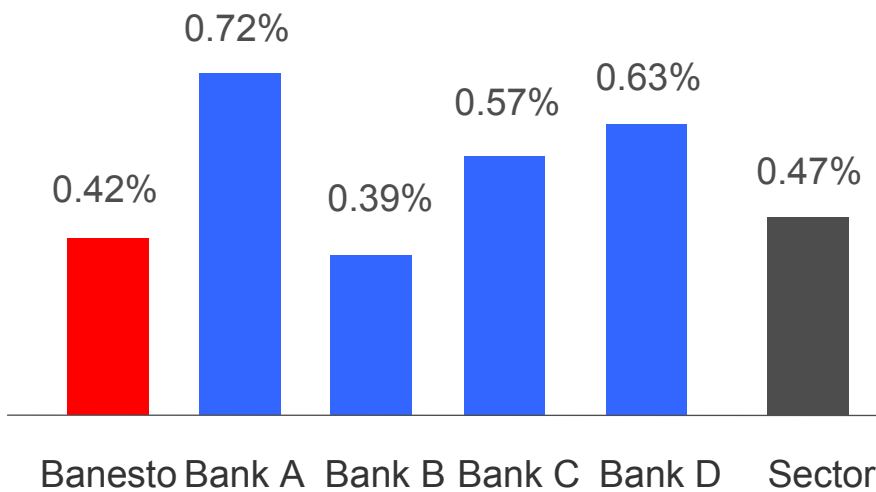
* Total debt / Debt + Equity

Source: Bank of Spain and own estimates

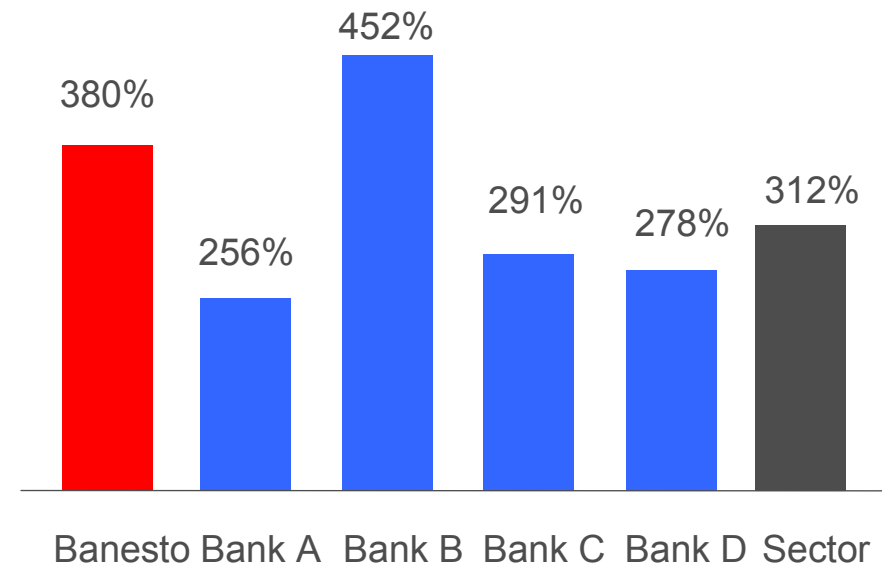
With asset quality and provisions better than our peers

NPL Ratio

Data as of June 07



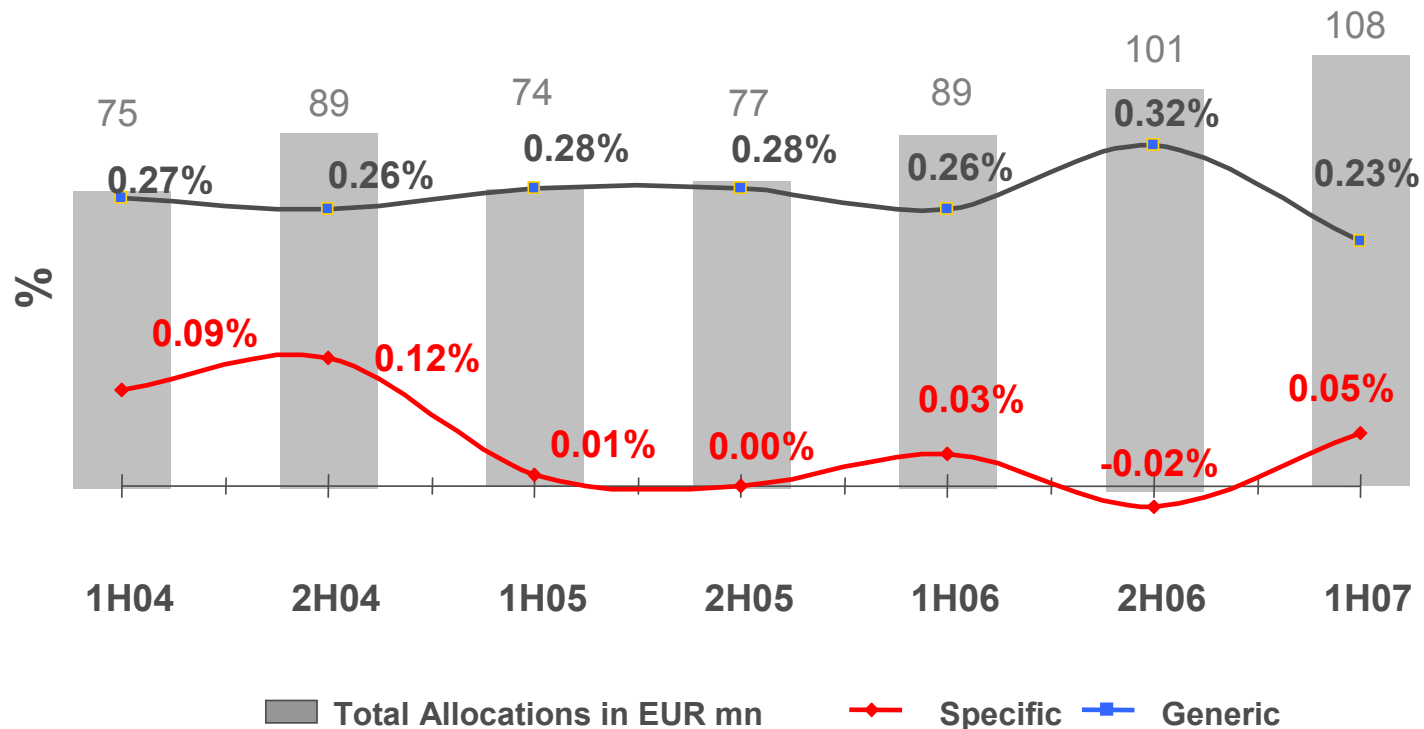
NPL Coverage



NPL coverage high above european retail banking standards...with € 1.1 Bn Generic Provisions. These provisions represent 2% of risk assets

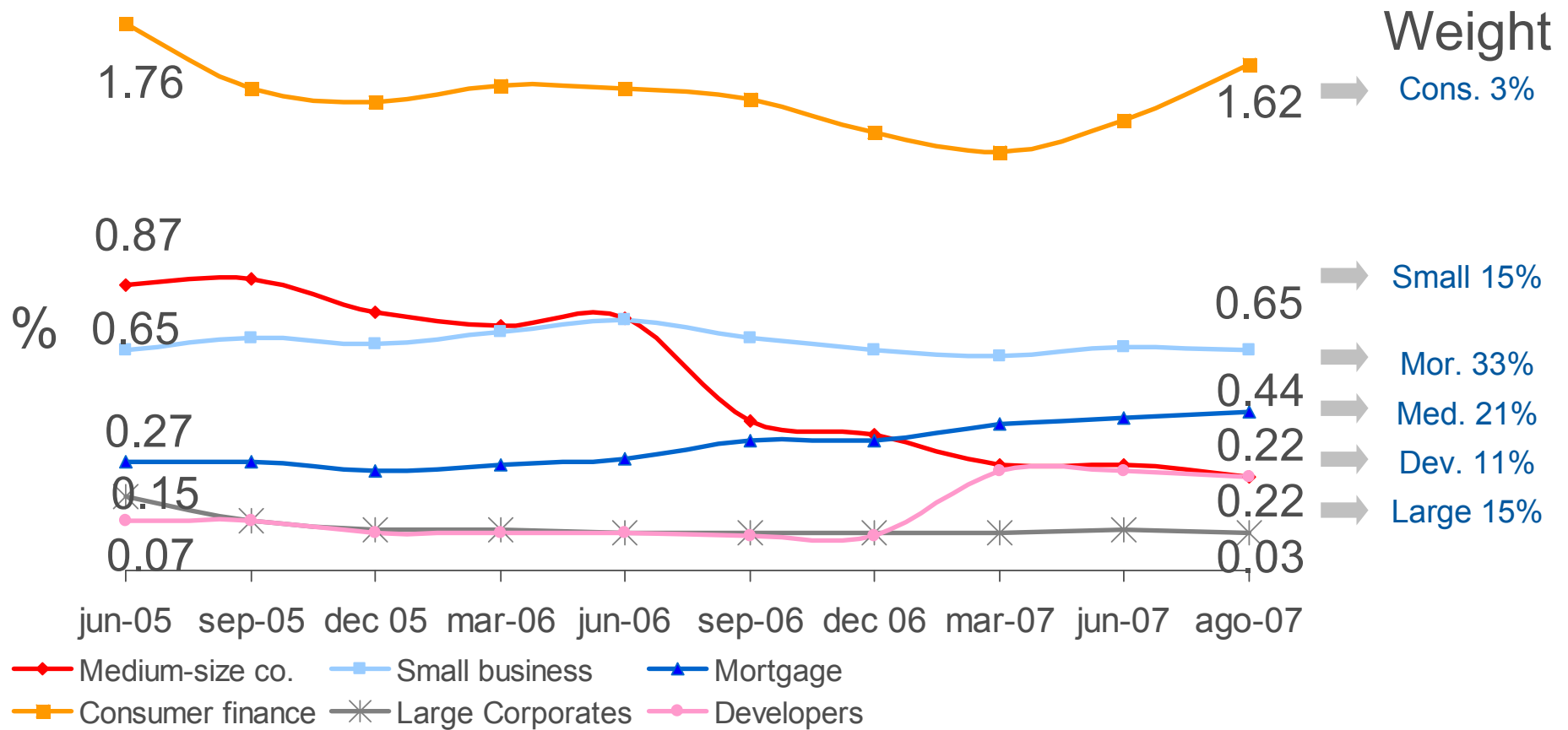
We are provisioning through the cycle...
more generic in the good times

Cost of risk (annualized)



Cost of risk: Allocation to NPL Provisions / Total risk

Credit Risk: NPLs by segment kept stable in the last quarters



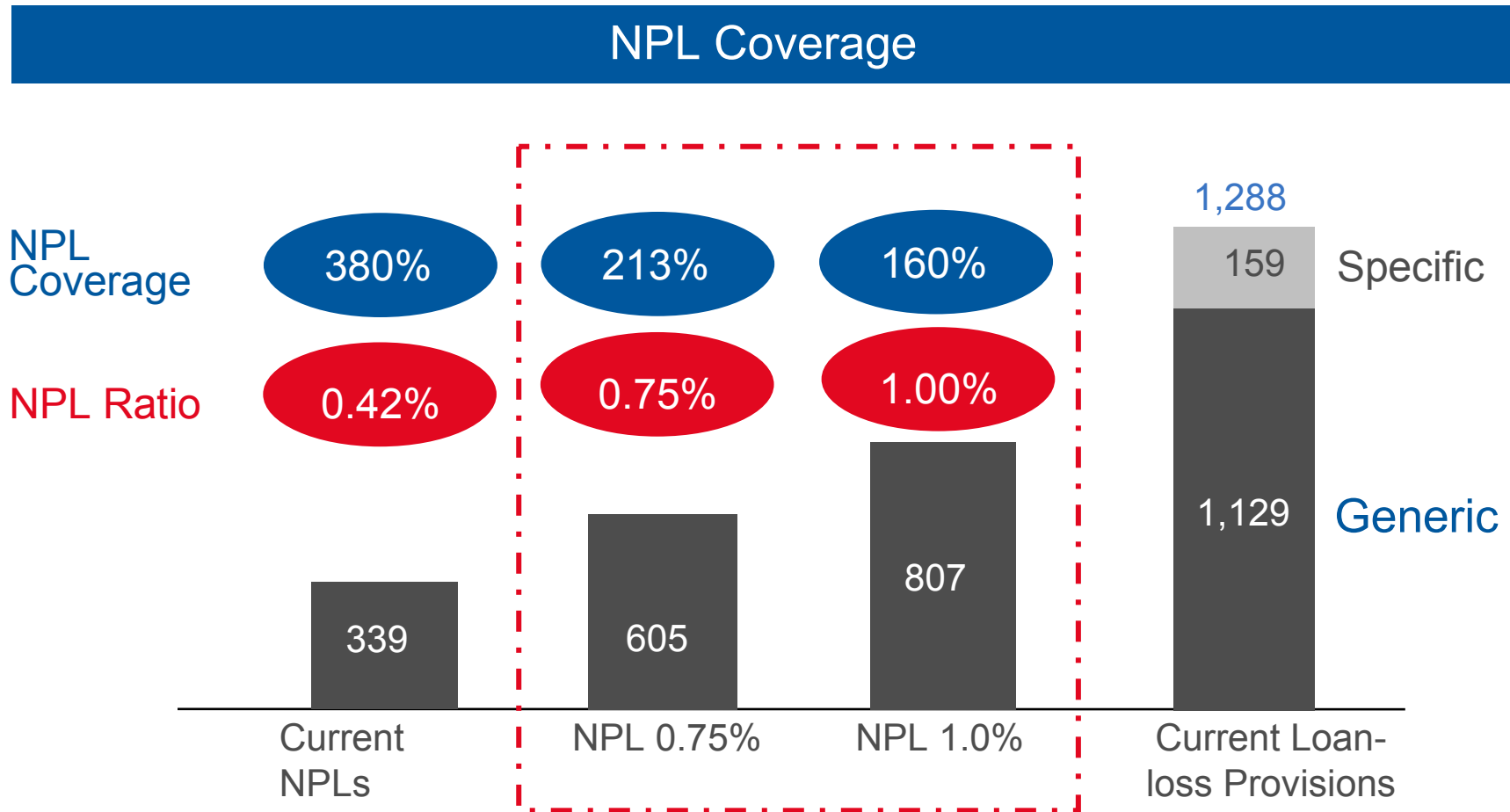
Residential Mortgage portfolio	NPL (%)	E. Loss (%)
Current	0.44%	0.15%
Scenario 1	0.75%	0.22%
Scenario 2	1.00%	0.25%
Scenario 3	1.20%	0.35%

Scenario 1: 1Y Euribor 4.50%, +0% Home prices, +0.3% Unemployment

Scenario 2: 1Y Euribor 4.50%, -5% Home prices, +1.0% Unemployment.

Scenario 3: 1Y Euribor 4.50%, -10% Home prices, +1.5% Unemployment.

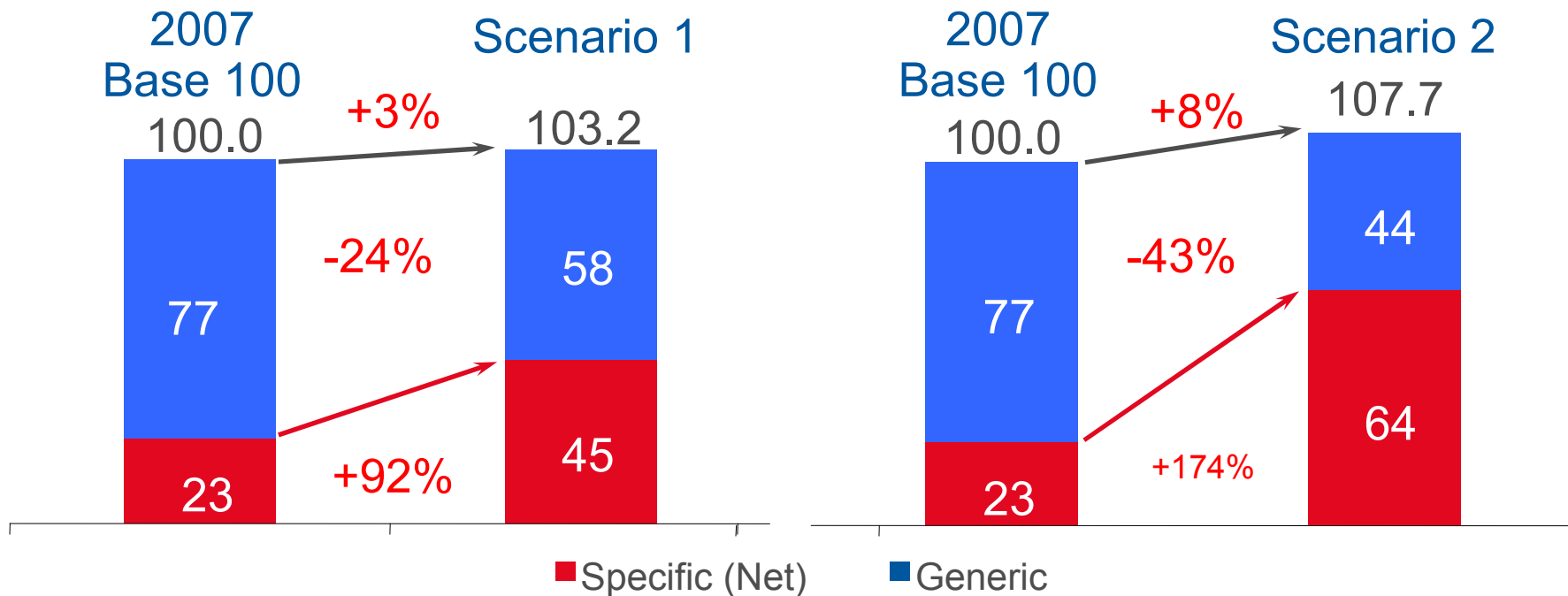
Credit Risk: High provisioning levels would cover NPLs far above current conditions



Data as of June 07

Credit Risk: Potential increase in specific provisions limited impact due to lower generic provision allocations

Potential impact on NPL Provisions (2007 = Base 100)



Scenario 1: NPL ratio rises to 0.75%. Customer Loans +16%.

Scenario 2: NPL ratio rises to 1.00%. Customer Loans +12%.

Credit Risk: Real estate risk is high quality

Data as of June 07

Home mortgage loans

Balance (EUR million)	22,419
Number of homes	180,000
% First homes	98
% Loan to Value (*)	64.7
% Affordability	31.8
% NPL	0.42
% Expected Loss	0.15

Real estate mortgage developer loans

Balance (EUR million)	7,409
Number of developments	2,200
% First homes	97
% Loan to Value (*)	67.0
% Homes sold	55
% NPL	0.25
% Expected Loss	0.28

(*) Acquisition value

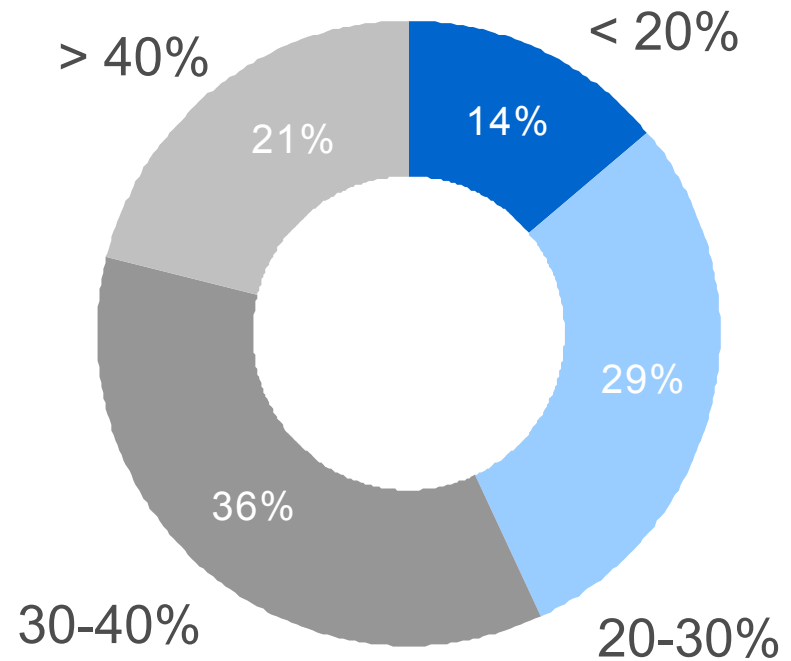
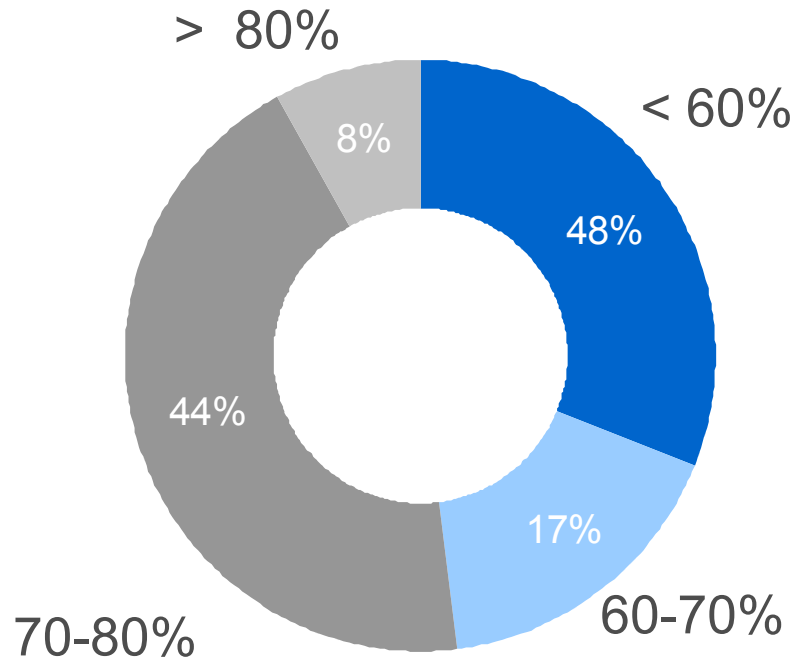
Credit Risk: Real estate risk is high quality

Data as of June 07

Residential Mortgage portfolio

LTV = 64.7%

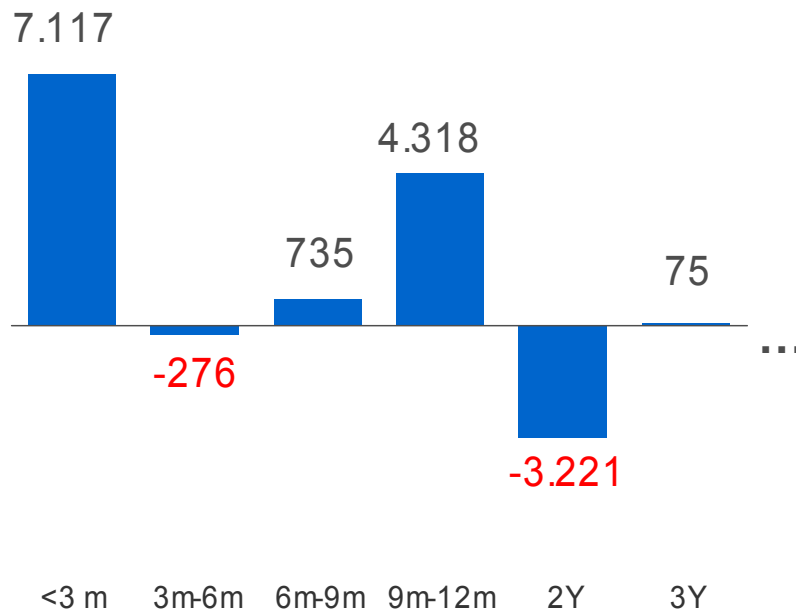
Affordability = 31.8%



(*) Acquisition value

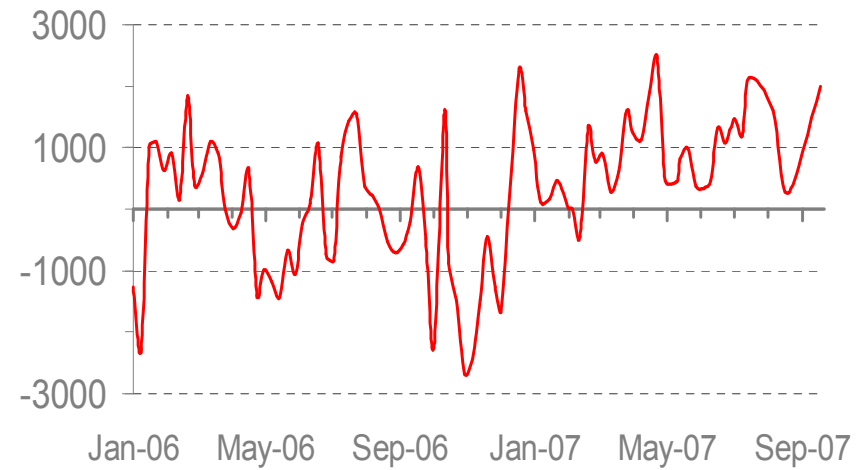
Liquidity risk: A comfortable situation

Liquidity Gaps in Balance Sheet

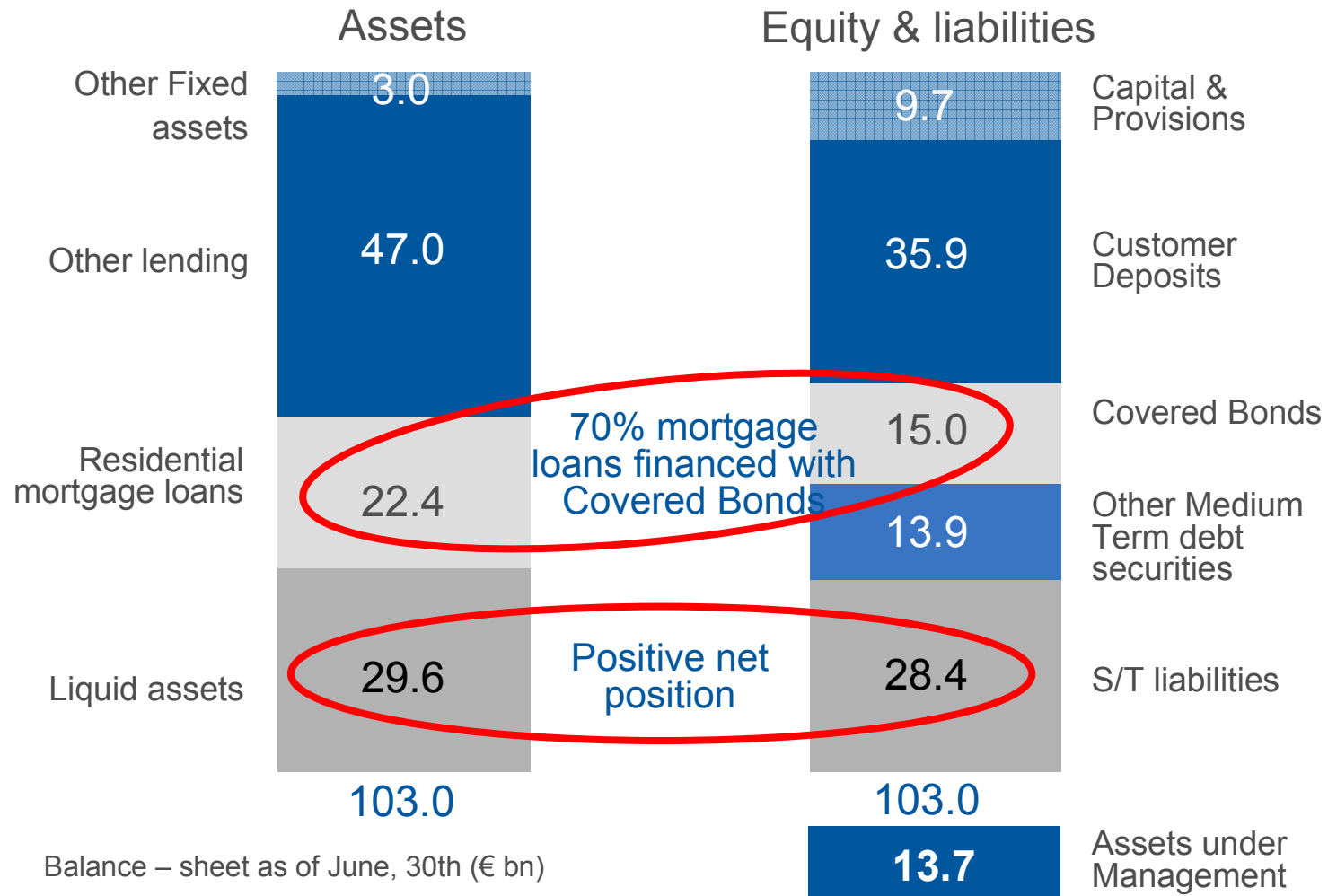


€ mn

Money Market net position



Loans fully funded with Deposits and M/LT securities

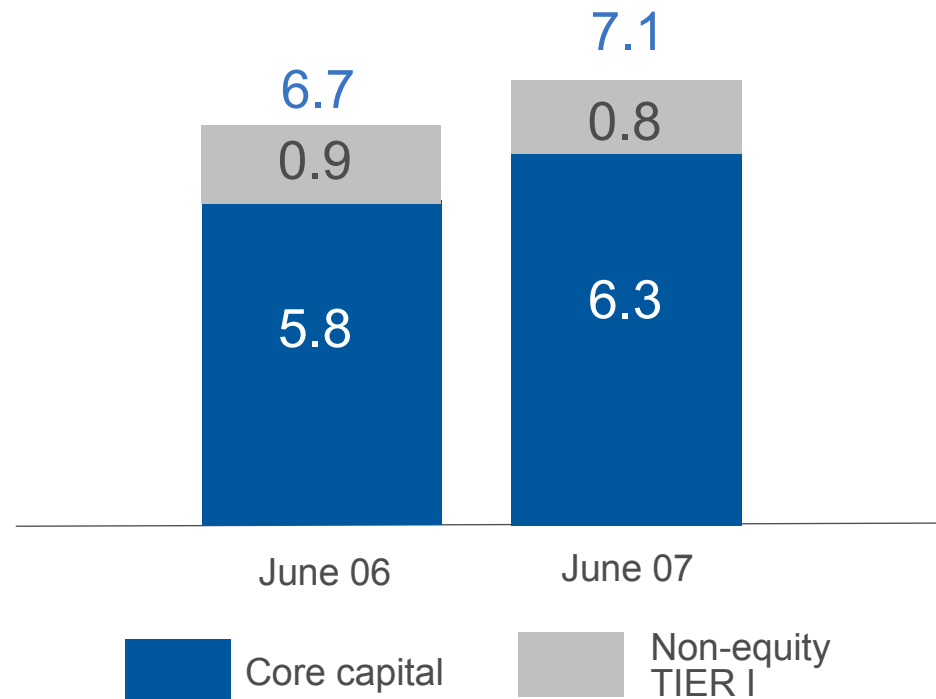



Liquidity risk: A comfortable situation

- Positive money market net position.
- Balance-sheet liquidity (positive gaps) in the coming quarters.
- Covered bonds finance 70% of mortgages.
- Capacity to securitize 20/25% of loan portfolio as source of liquidity (ECB collateral).
- Capacity to manage customer funds (deposits vs. investment funds).

Capitalisation levels are well above requirements

Banesto Core Capital and TIER I ratios



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- A decorative background consisting of several thin, light gray curved lines that intersect to form a series of overlapping, teardrop-shaped regions. These regions are filled with solid colors: a blue shape in the upper left, a yellow shape in the middle right, and a red shape at the bottom center.
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Banesto's strategy going forward

- This market situation is generating new uncertainties...
- ...that demand a more flexible management...

...but do not affect the basics of our
business model and commercial
strategy.

Our business model works well in this environment...

Our business model

- The customer is the focus of our activity
- Leading technology for efficiency, operational excellence, service quality and innovation
- Conservative risk management
- High quality management team

...and also our commercial strategy

Banesto has built the capacity to grow revenues above Peers in the coming years

A winning
**COMMERCIAL
STRATEGY**
based on our
leading
technology

We are developing a “best in class”
commercial organization

- 1.1 Improving commercial productivity
- 1.2 Innovation
- 1.3 Service quality and customer satisfaction

Increasing our
**DISTRIBUTION
CAPACITY**

- 2.1 Strengthening Multichannel Network
- 2.2 Recent Branch opening plan



Focus on **CORE BUSINESSES:**

**SMEs, Individuals and
Consumer Finance**

1.1 Improving commercial productivity

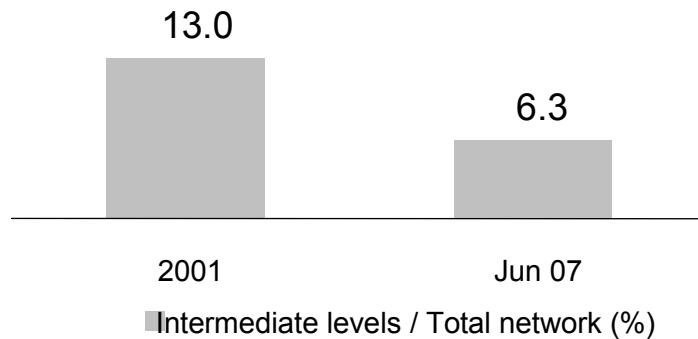
We are building a commercial organization...

- More cost-efficient
- With a flat structure
- Closer to customers

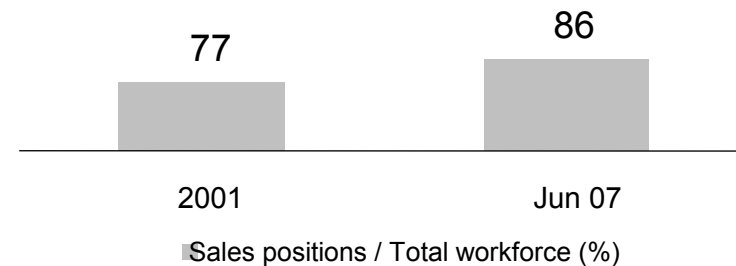
Improving efficiency in the back office...



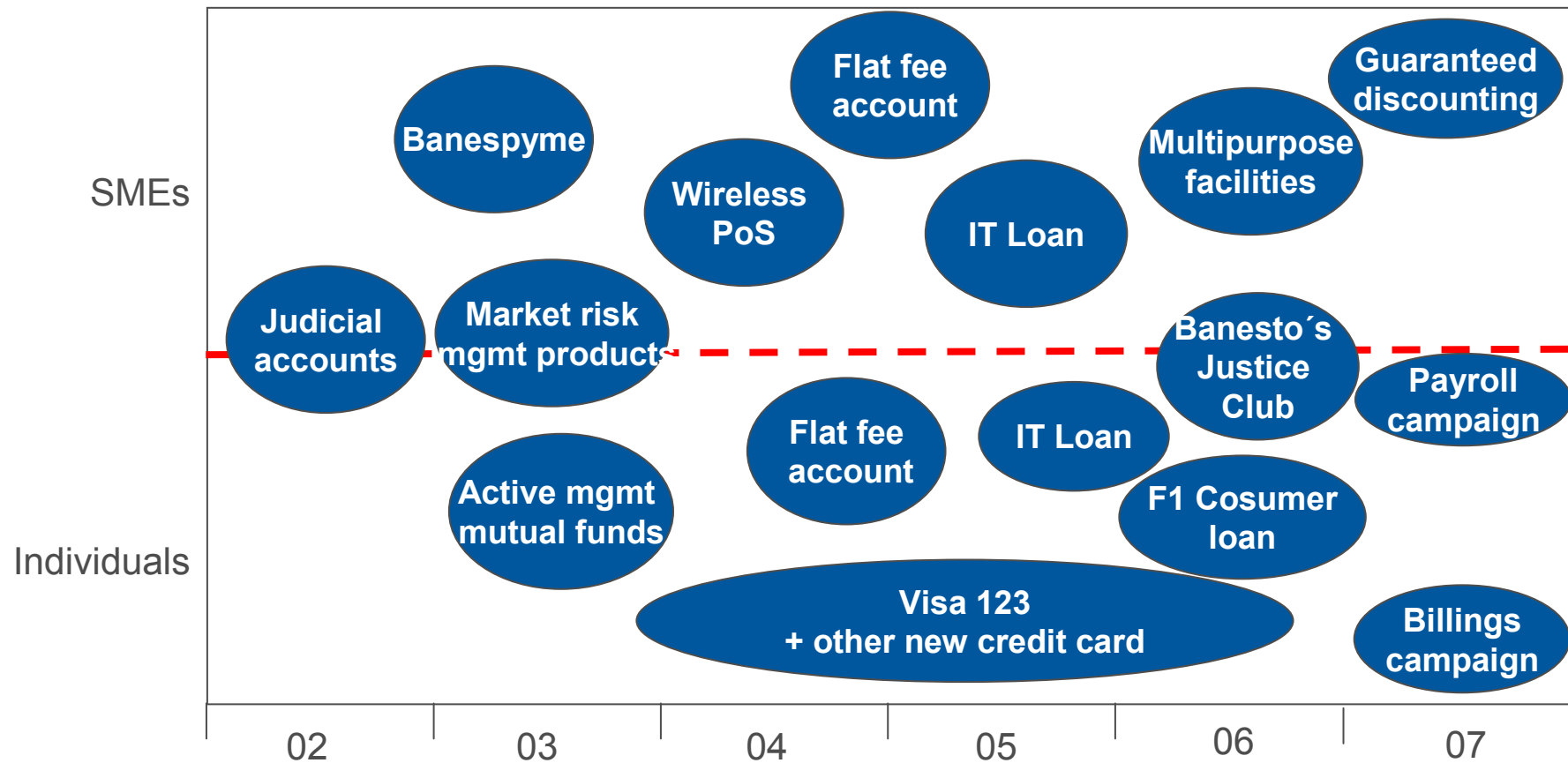
...and at intermediate levels



... while bolstering our sales force



1.2 Innovation: leaders in products and processes

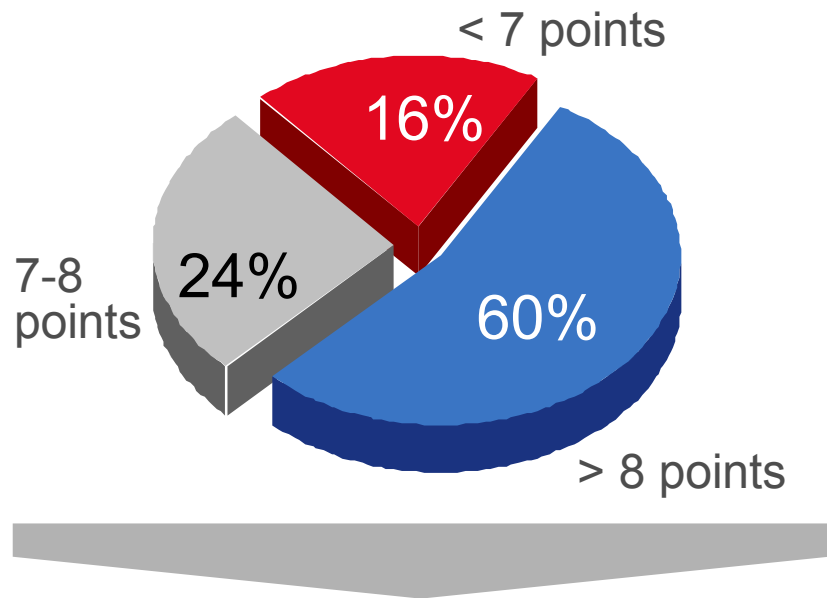


5 weeks time-to-market much better than the market

1.3 Excellence in Customer satisfaction

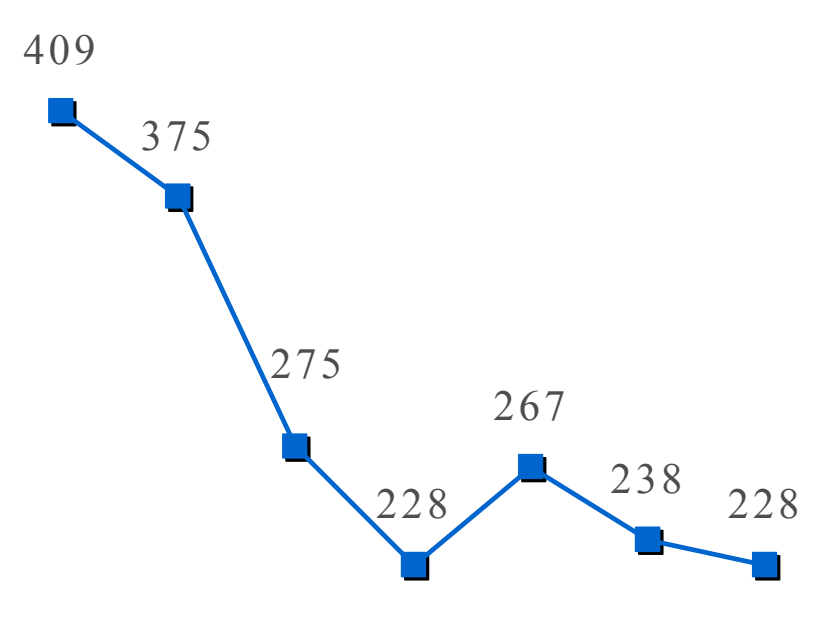
2007 has seen improvements and innovations in the **Q10** model

Q10 index Breakdown by branch



Service quality improved at 79% of branches between January-June 07 (vs. 55% in 2006)

Customer claims to SAC (per month)

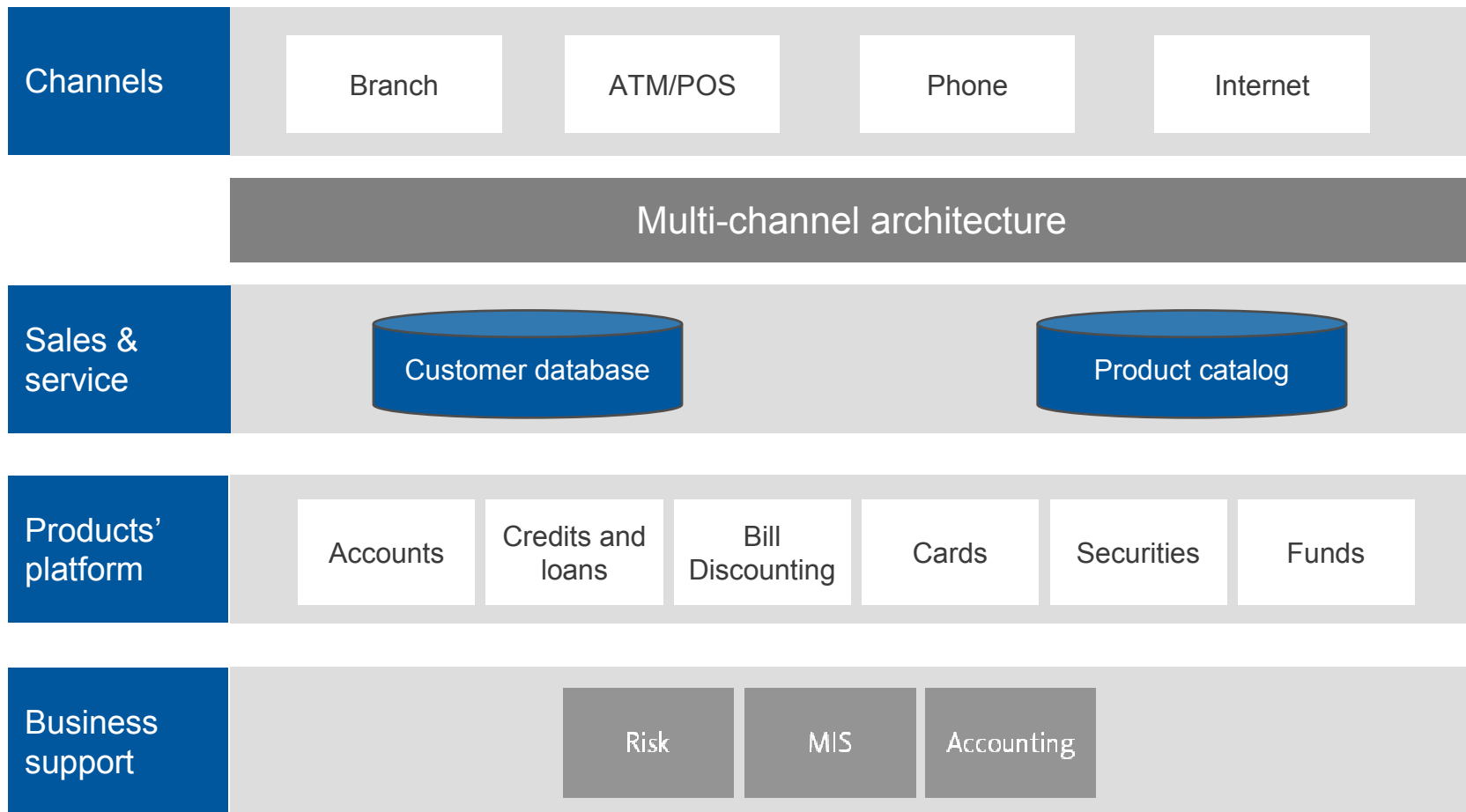


Jan'07 Feb'07 Mar'07 Apr'07 May'07 Jun'07 Jul'07

SAC: Customer service Center

This commercial strategy is based on our leading technology

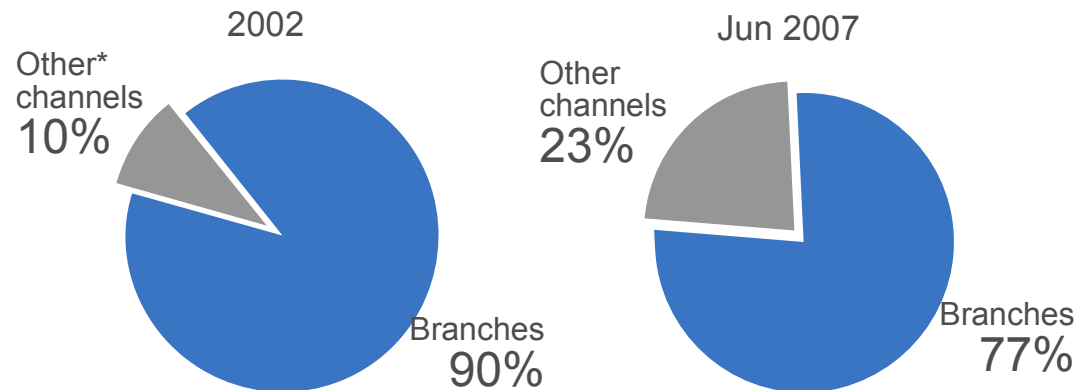
Fully-modular IT architecture



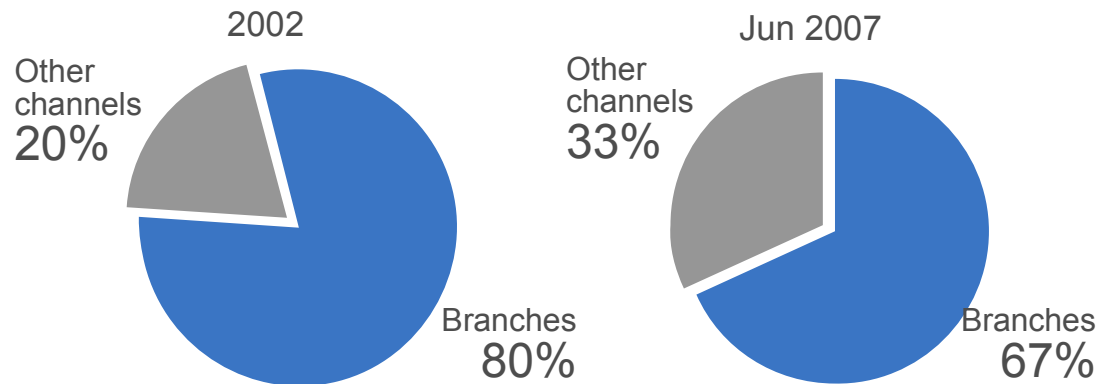
2.1 Increasing our distribution capacity: Strengthening our multichannel strategy

- To attract, cross-sell and retain customers
- To improve customer services

% Business volume



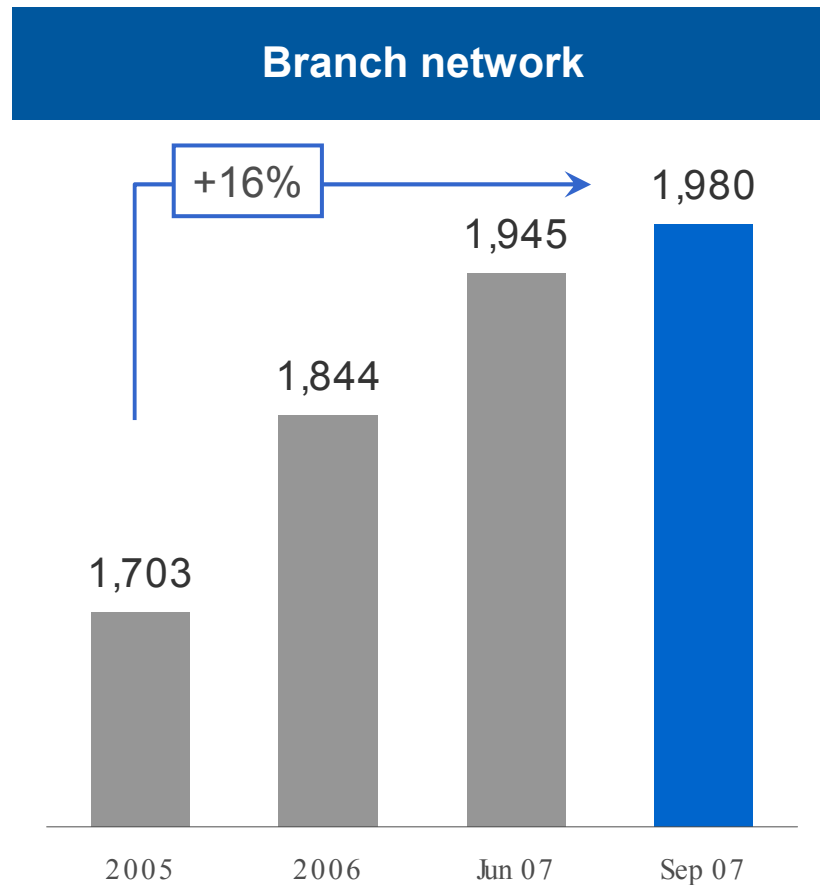
% Transactions



(*) Other channels: Internet, Telephone, ATMs, Agents and prescriptors

2.2 Increasing our distribution capacity: new branches.

Recent Expansion Plan (concluded) increases bank's growth potential



More balanced market penetration:

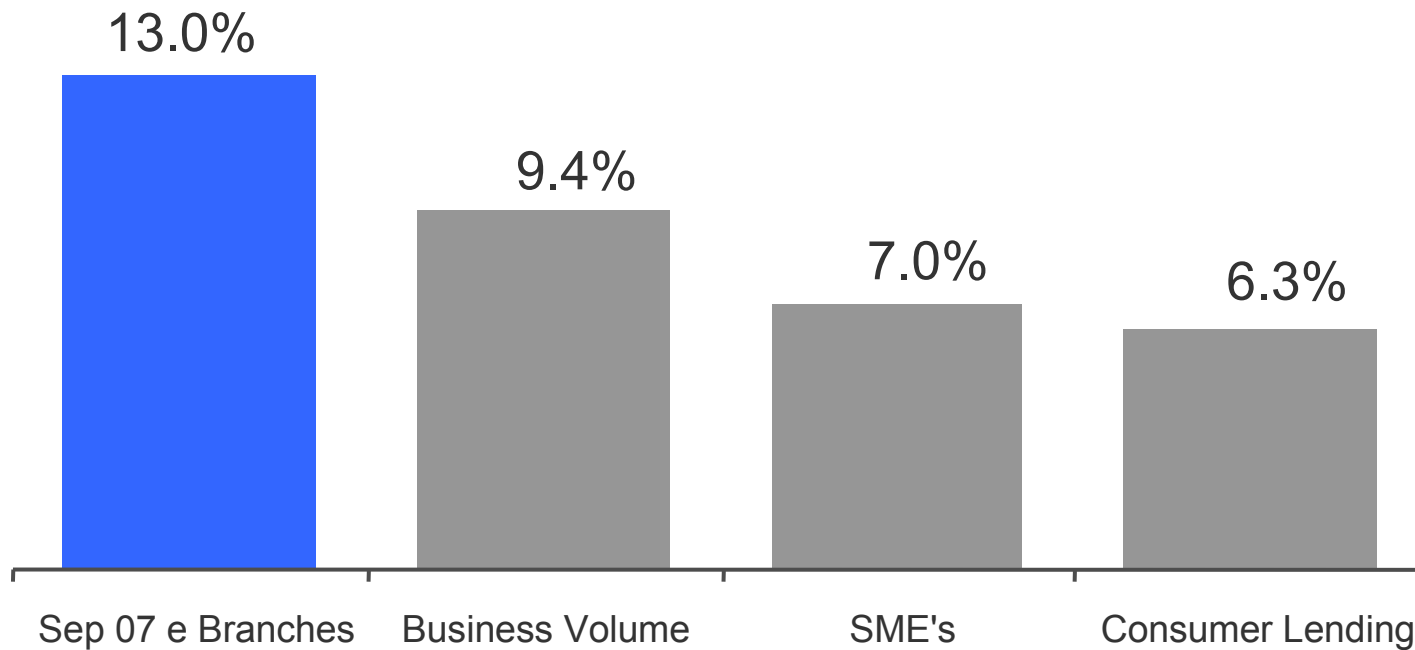
- By business lines: 80% branches are small business and individual banking
- By geographic markets: 60% new branches are in Madrid, Catalonia and Levante

Leveraging in our structural capabilities, we will focus our growth on:

Core businesses	Key goals
Small & medium sized companies	To grow, intensifying customer attraction and becoming the first financial partner of our customers
Individuals	To cross-sell and extract value through service quality and innovation, becoming our customers' first bank
Consumer Finance	Developing a leading business in credit and debit cards and consumer lending, within our customer base with high quality and innovative standards



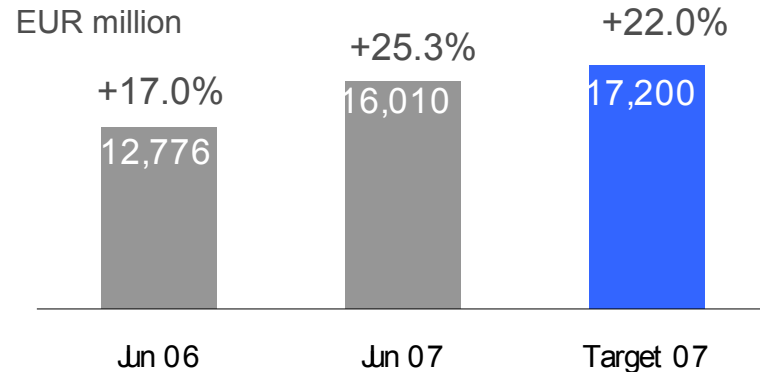
In the medium term we maintain our capacity to close the gap between branch and market share in strategic businesses



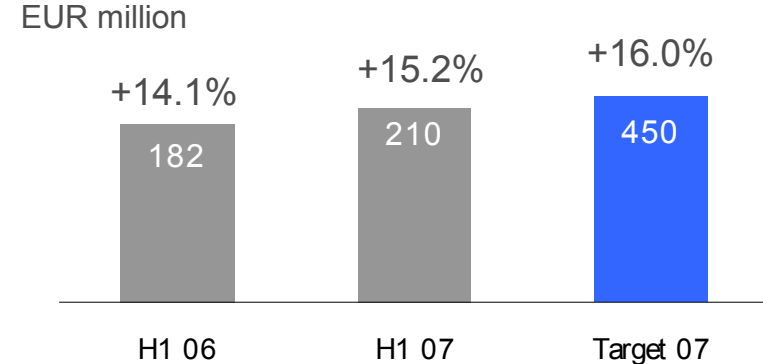
Our branch expansion and multichannel strategy gives us strong and above-market growth potential

2007 Strong growth on target

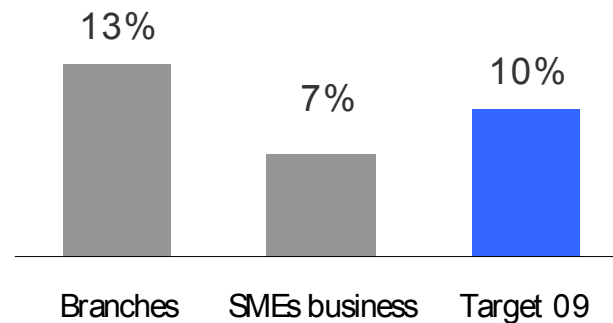
Business volume



Gross operating income**



Market share



Business volume: Customer funds + Customer loans

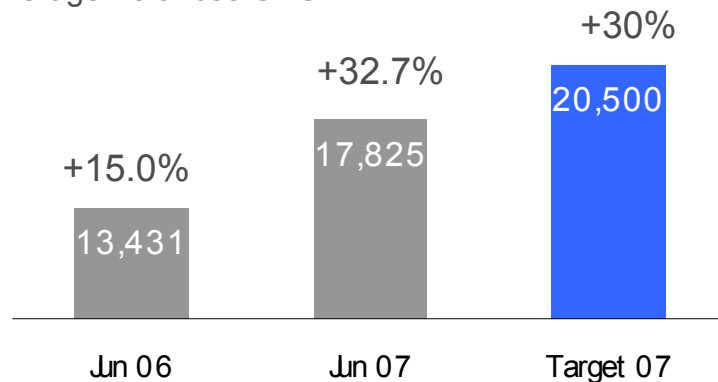
(*) Retailers and self-employed workers included

(**) Does not include ALCO results

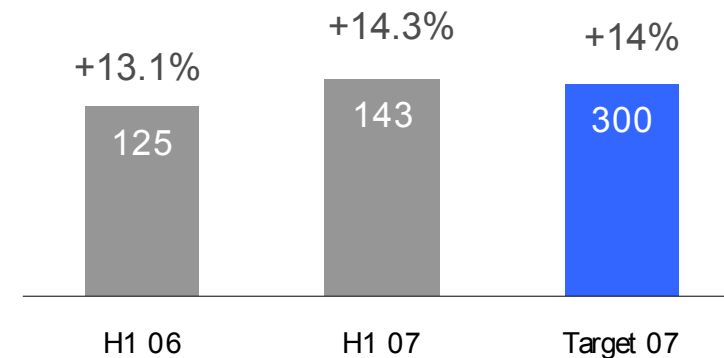
Growth in this segment is accelerating in 2007 and presence is growing

Business volume

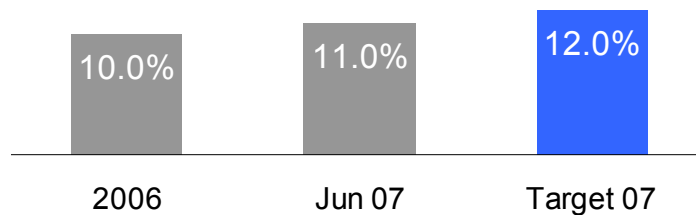
Average Balances CAGR



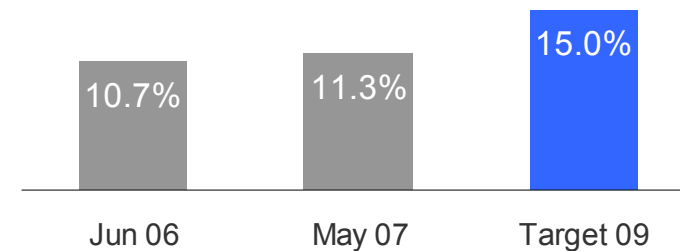
Gross operating income*



% fee income / Total income



% business share of wallet

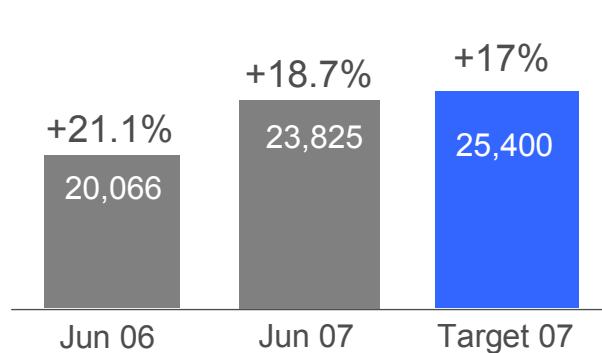


Business volume: Customer funds + Customer loans. Does not include real estate developers

(*) Does not include ALCO results

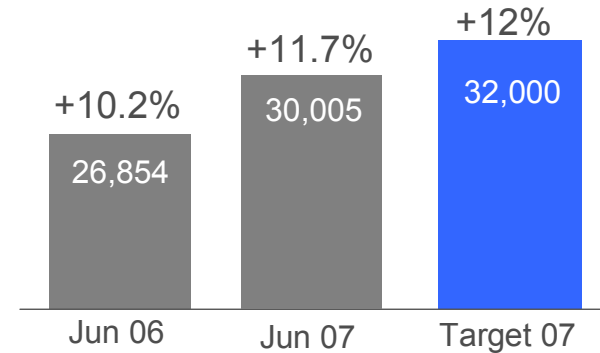
We are still growing in a balanced way, keeping pace with our targets. Cross-selling is the key target

Lending*

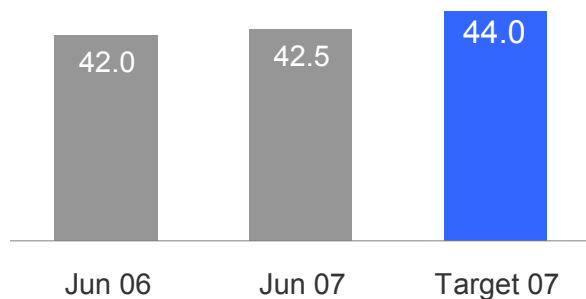


(*) Consumer Finance included

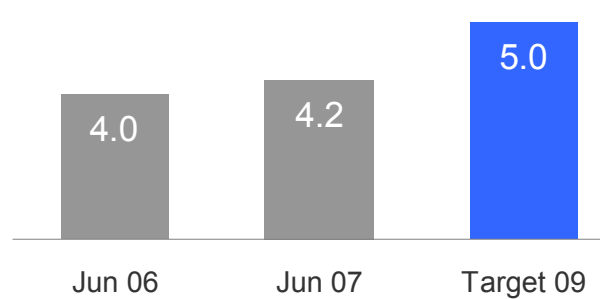
Customer funds



Cross-sold customers (%) > 4 products



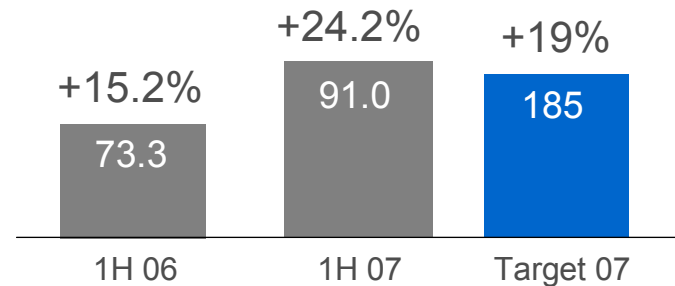
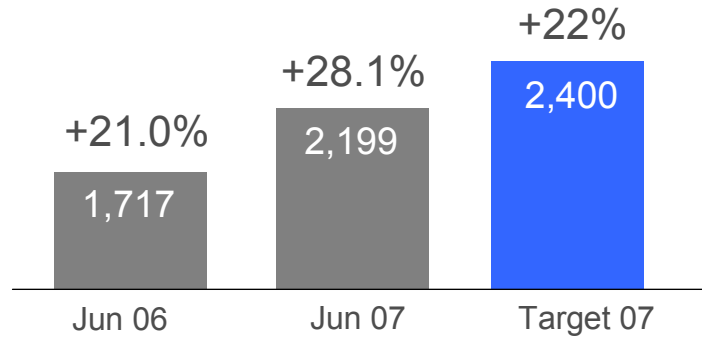
Products per customer



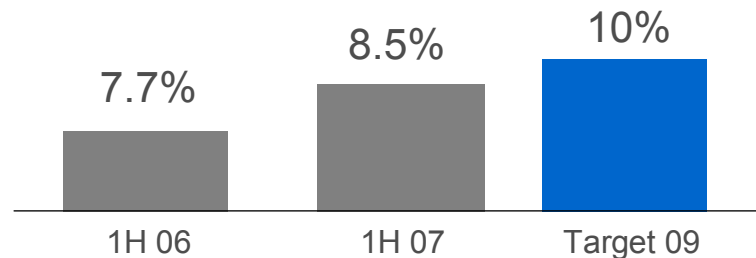
Consumer finance ahead of our targets

Consumer lending

Operating income (Consumer loans and card business)



Customers penetration*

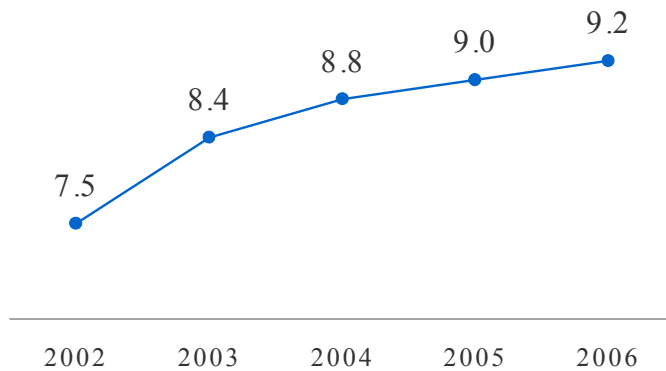


(*) % Banesto's customers with consumer finance products

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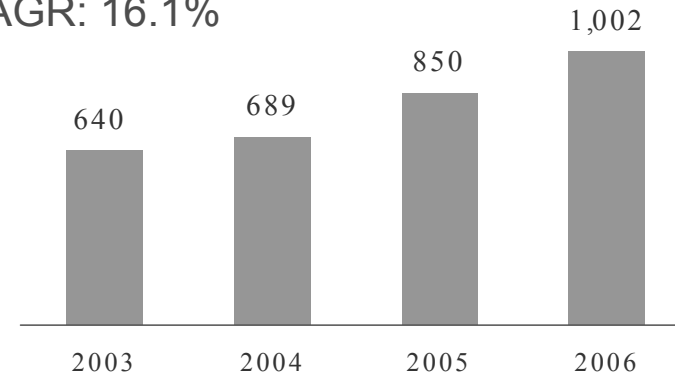
In the last few years Banesto has grown profitably above its competitors

Business Market share * (banks)

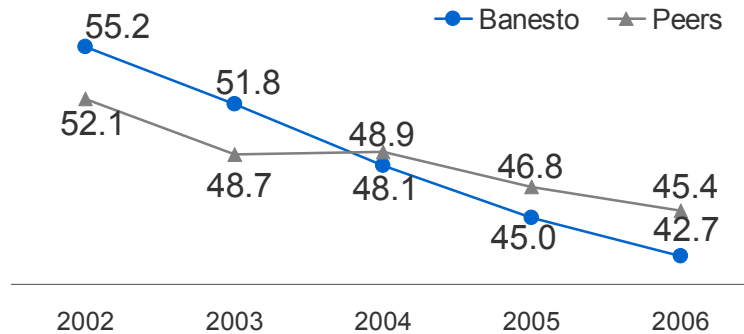


P.B.T.**

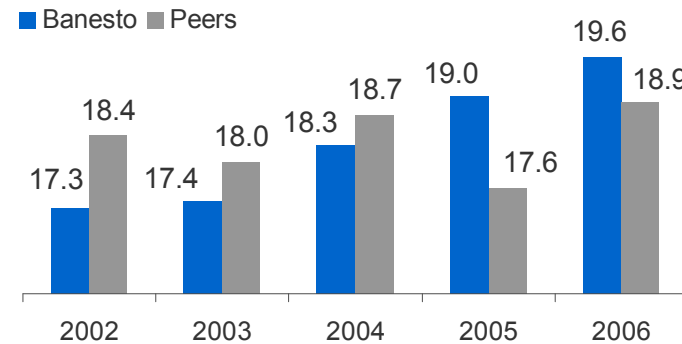
CAGR: 16.1%



Cost / Income ratio***



RoE



* Loans + customer funds

** 2006: Recurrent Income before taxes

*** Includes depreciation and amortization



And we have consistently delivered our targets

	2005		2006		2007	
	Target	Actual	Target	Actual	Target	1H07
Market share (p.p.)*	+0.25	+0.28	+0.25	+0.23	+0.25	+0.27
ROE (%)	19	19.0	19	19.6	>17**	16.6
Cost/income*** (%)	46	45.0	43	42.7	<42	42.5
NPL ratio (%)	< avg.	0.49 vs. 0.54	< avg.	0.42 vs. 0.45	< avg.	0.42 vs. 0.47

* Includes lending and customer funds over banks

** Due to Urbis sale

*** Includes depreciation and amortization

Our strategy will continue delivering above average results in the future

Targets	2007	2008	2009
%			
Market share (p.p.)*	+0.25	+0.25	+0.25
ROE	17	18	19
Cost to income**	42	40	38
NPL ratio		< sector avg.	

*Includes lending and customer funds over banks

** Cost to income includes depreciation and amortization

Our long term targets

- Constant market share gain in retail banking.
- 20% ROE.

Our vision in the long term

To be the best retail bank in Europe and our customers' first financial choice

We measure our performance against a benchmark of european peers

Peer group		To be top tier in
Spain	Banco Popular	<ul style="list-style-type: none"> • Revenue growth • EPS growth, • Efficiency, • Solvency, • Recurrent RoE, and • Total shareholder's return
	Banco Sabadell	
German	Deutsche Postbank	
	BNP Paribas	
France	Bank of Ireland	
Ireland	Unicredit Group	
Italy	Nordea	
Sweden	Svenska Handelsbanken	
	Banco Comercial Português	
Portugal	HBOS	

UK

Top management's medium term incentive plan is linked to Banesto's share performance and EPS growth (2006-09) vs. european peers

- Banesto's proven business model will combine to deliver superior value creation in the coming years due to:
 - A winning value proposition (productivity / innovation / service quality).
 - Better positioned for quality growth in SME's and consumer business.
 - Higher potential to extract value from individuals customer base.
 - High asset quality and provisions.
 - All that supported by a leading technology.