

*Banesto*

Earnings Presentation

2<sup>nd</sup> Quarter 2012

27 JULY 2012

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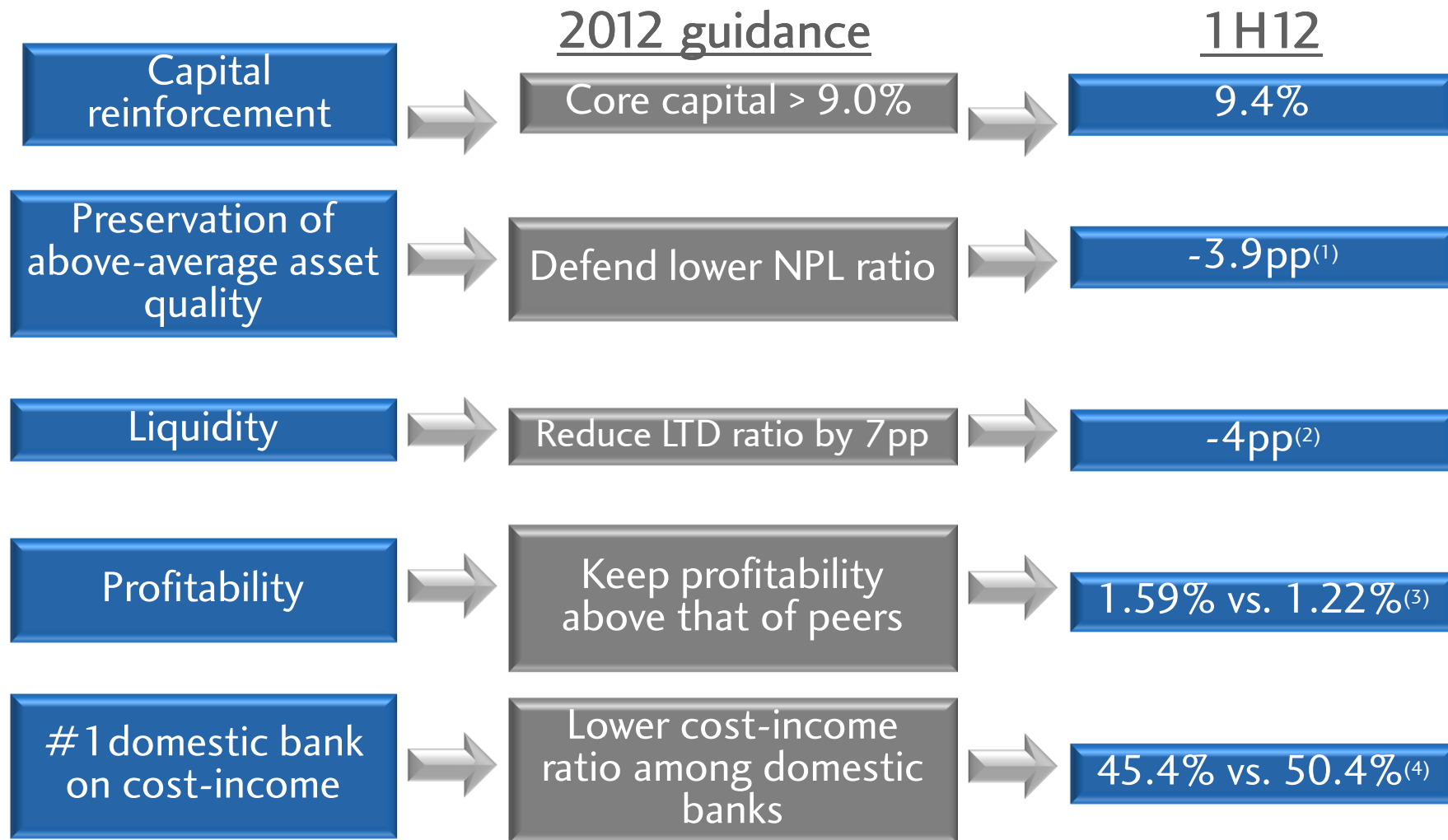
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1. 2Q12 results

2. Risk, capital and liquidity management

3. Business performance

## Delivery of 2012 guidance



(1) Figures as of June 2012 for Banesto and as of May 2012 for the broader financial system.

(2) Reduction in the loan-to-deposit ratio between December 2011 and June 2012.

(3) Net operating income (excluding gains on financial instruments) over investment, data as of March 2012.

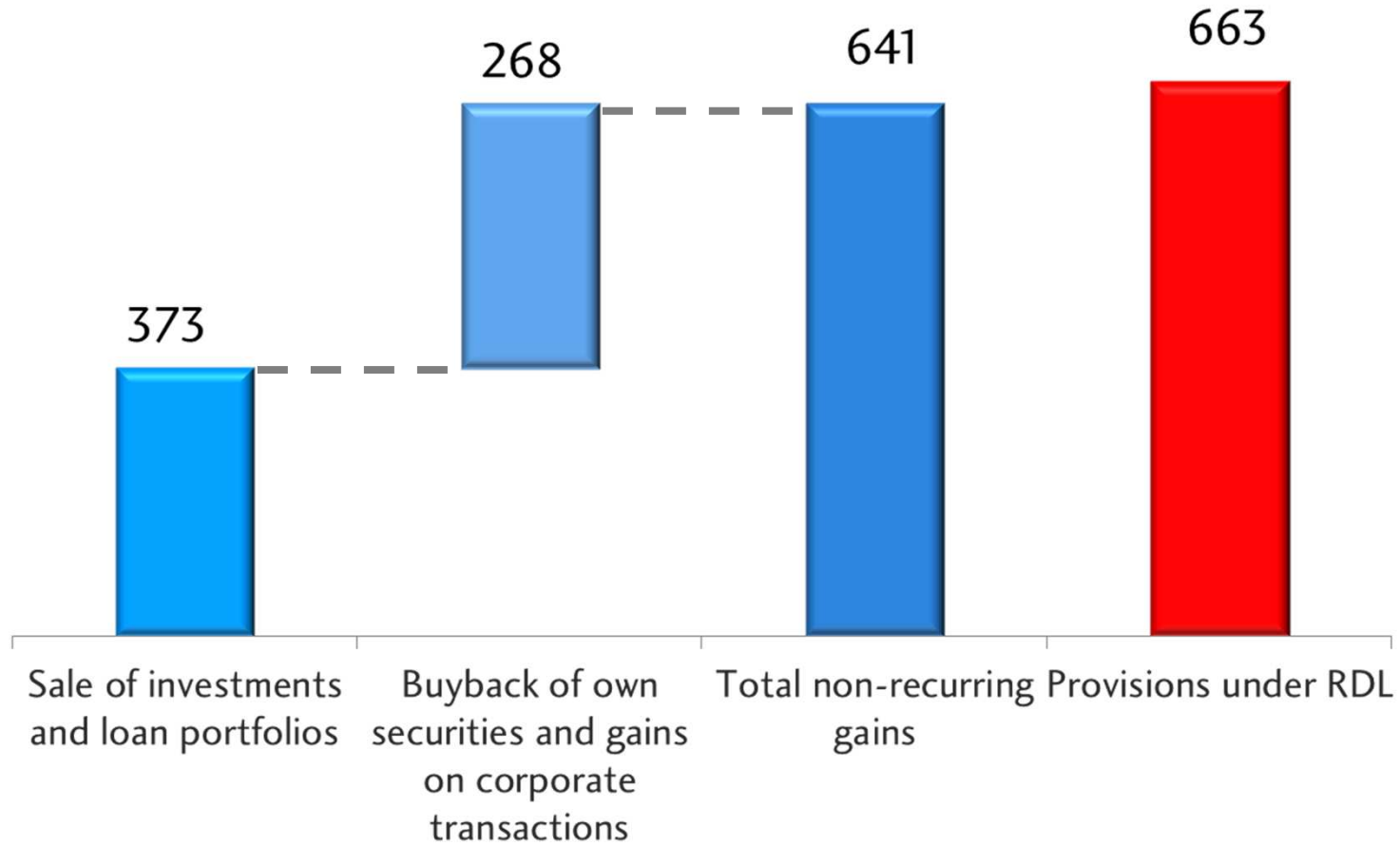
(4) Total costs including depreciation and amortisation as a percentage of total income. LTM figures to June 2012 for Banesto and to March 2012 for its peers.

## Income statement shaped by heavy provisioning effort

€ mn	1H12	1H11	Chg. %	LFL change (%)*
<b>Net interest income</b>	700.5	769.4	(9.0)	
Net fee and commission income	303.6	310.3	(2.2)	
Net gains on financial instruments	78.6	77.7	1.2	
Other gains of losses	(12.8)	26.7	N/M	
<b>Gross operating income</b>	<b>1,069.9</b>	<b>1,184.1</b>	<b>(9.6)</b>	<b>(6.0)</b>
Net transformation costs	488.1	489.5	(0.3)	
<b>Net operating income</b>	<b>581.8</b>	<b>694.6</b>	<b>(16.2)</b>	<b>(10.4)</b>
Loan-loss provisions	457.2	266.0	71.9	
Other net gains/losses and provisions	(69.1)	6.1	N/M	
<b>Ordinary profit before tax</b>	<b>55.5</b>	<b>434.7</b>	<b>(87.2)</b>	
Non-recurring gains and write-downs	640.6	(62.7)	N/M	
Real estate provisions RDL	663.4	-	N/M	
Tax expense and minority interests	(1.9)	85.1	N/M	
<b>Net profit</b>	<b>34.6</b>	<b>286.8</b>	<b>(87.9)</b>	

(\*) Adjusted for the sale of the insurance company and fund management companies and the increased contribution to the Deposit Guarantee Fund.

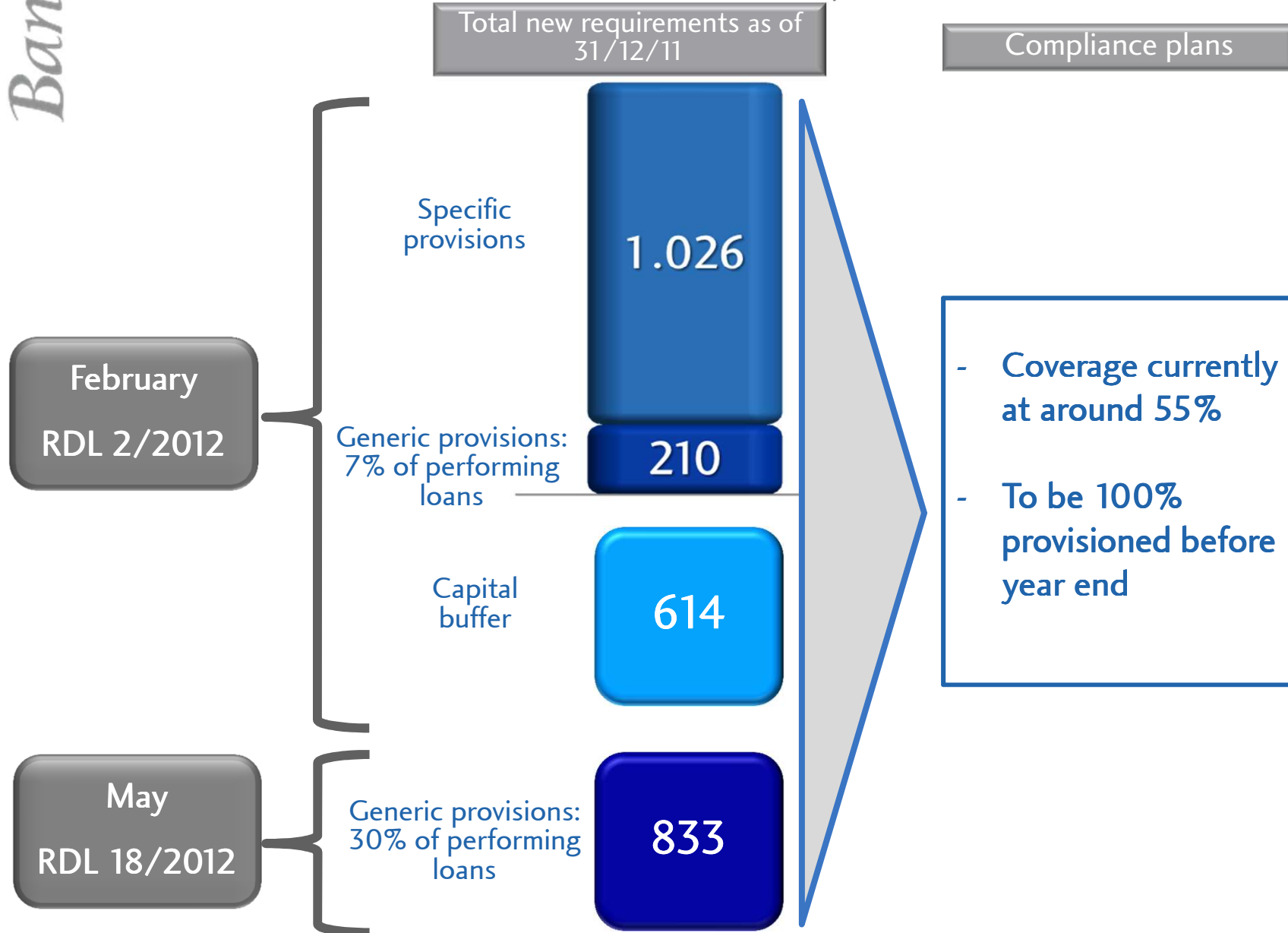
## Generation of gains to cover higher real estate provisioning requirements...



€ mn

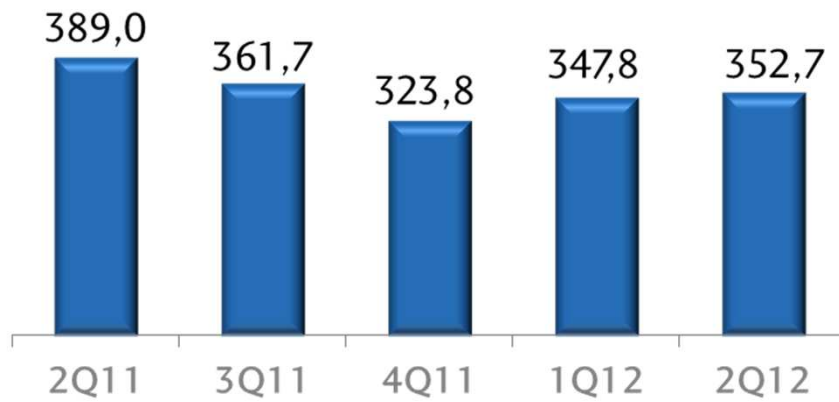
# ...on track to achieve full compliance in 2012

## Impact of new provisioning requirements (RDL 2/2012 and RDL 18/2012)

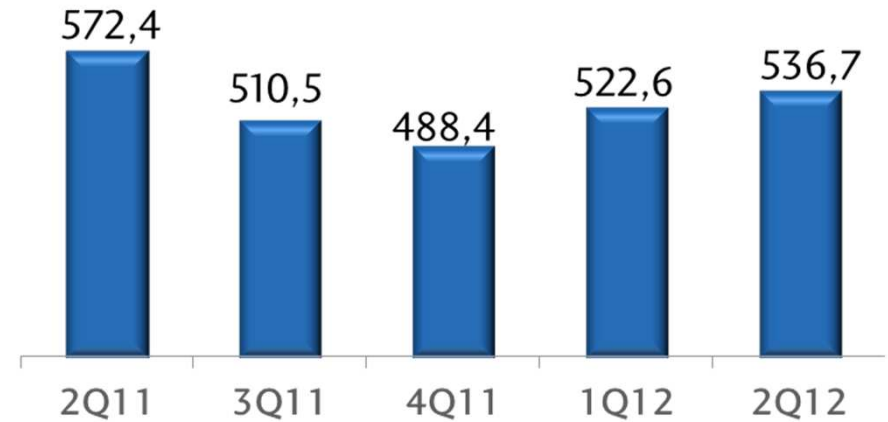


Income has been gradually improving since 4Q11

Quarterly net interest income



Quarterly gross operating income \*



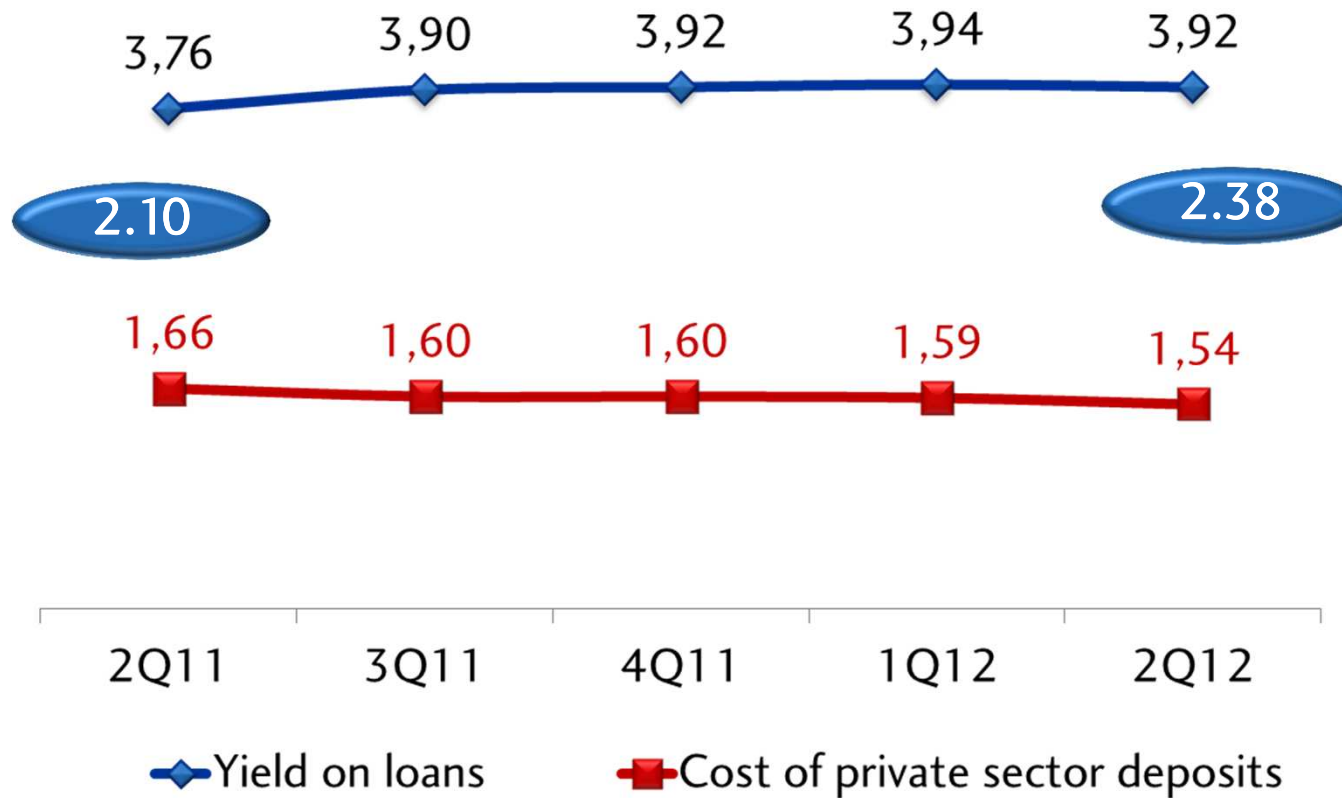
(\* ) Like-for-like figures, i.e., adjusted for the sale of the insurance and fund management companies and the increased contribution to the Deposit Guarantee Fund.

€ mn



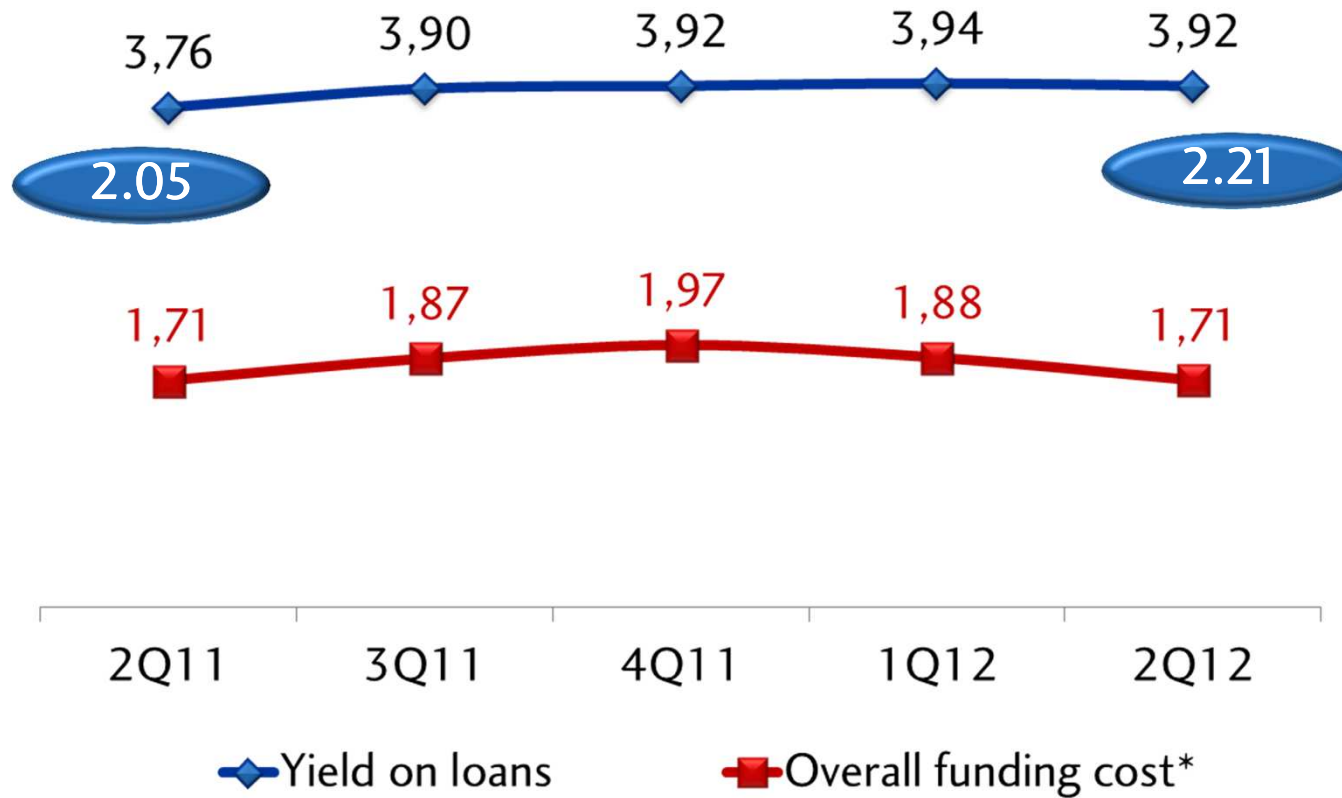
## Improvement in customer spread...

Yield on loans and cost of deposits (%)



...as in the overall spread

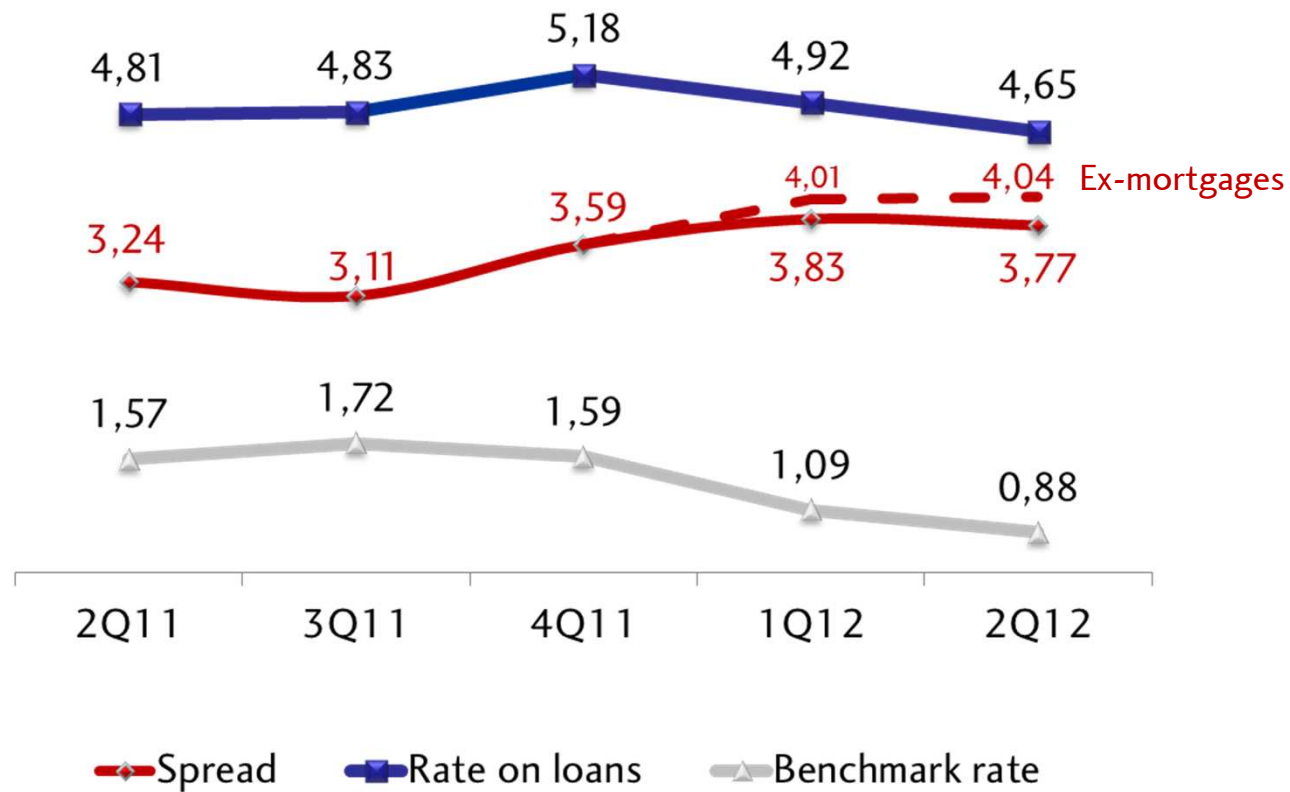
Yield on loans and overall funding cost (%)



(\*) Weighted average rate of private sector customer deposit funding cost and cost of marketable securities

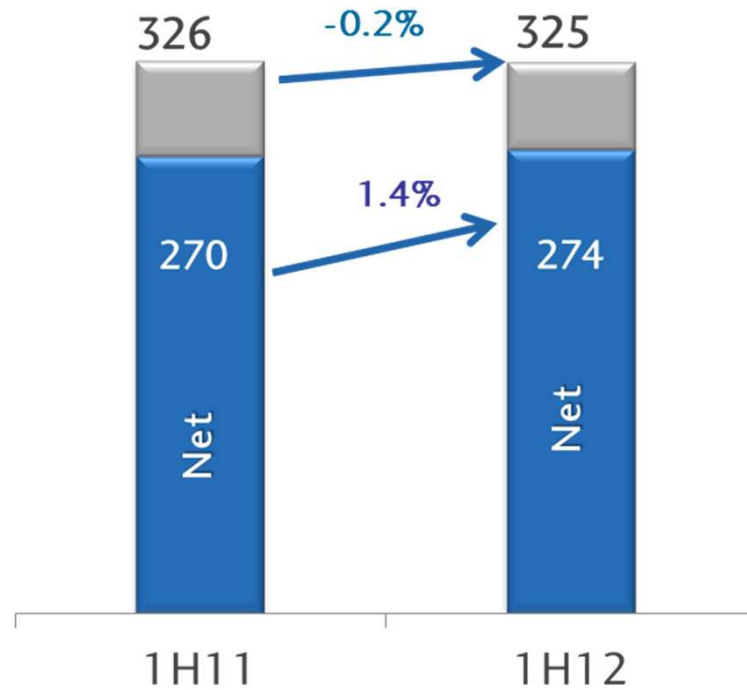
The improvement in the spread on loans is offsetting the decline in interest rates

Rates on new loans (%)



# Preservation of service fee and commission income

## Fee and commission income(\*)



## Breakdown of fee and commission income

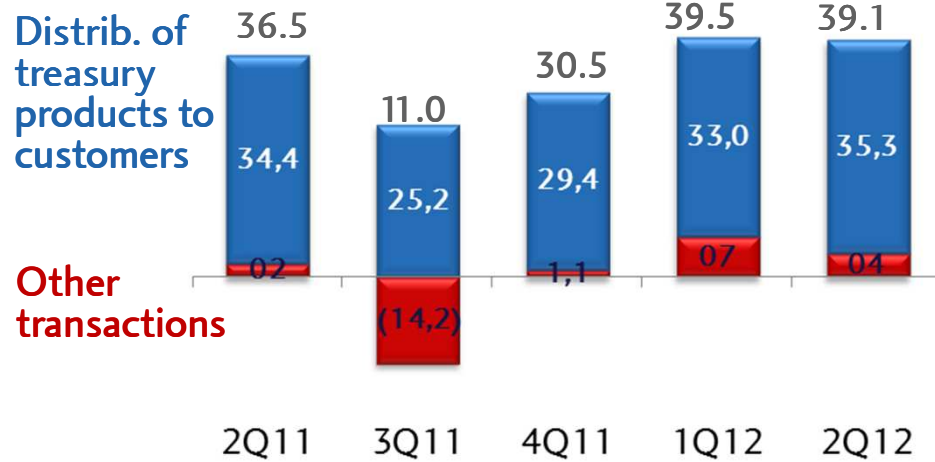
€ mn	1H12	Chg. %
<b>Fee and comm. income</b>	<b>325.0</b>	<b>(0.2)</b>
Collection and payment services	139.7	(1.3)
Risk underwriting	55.0	5.2
Securities services	13.5	9.6
Insurance	31.1	(21.6)
Other	85.7	7.2
<b>Memorandum item:</b>		
- Foreign trade	32.9	19.6
- Factoring	11.0	22.3

(\*) Excluding mutual funds

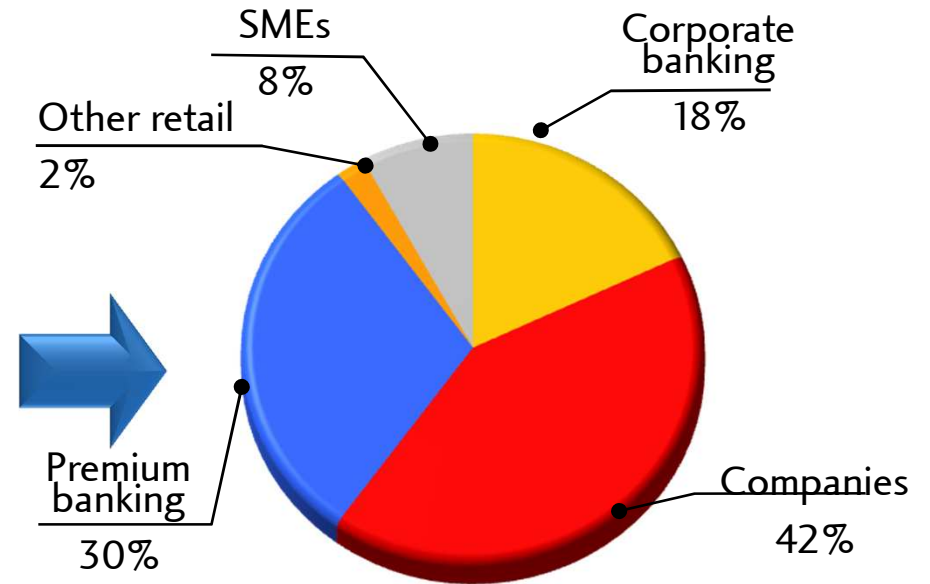
€ mn

# Strong contribution from net gains on financial transactions, underpinned by customer business

## Net gains on financial transactions



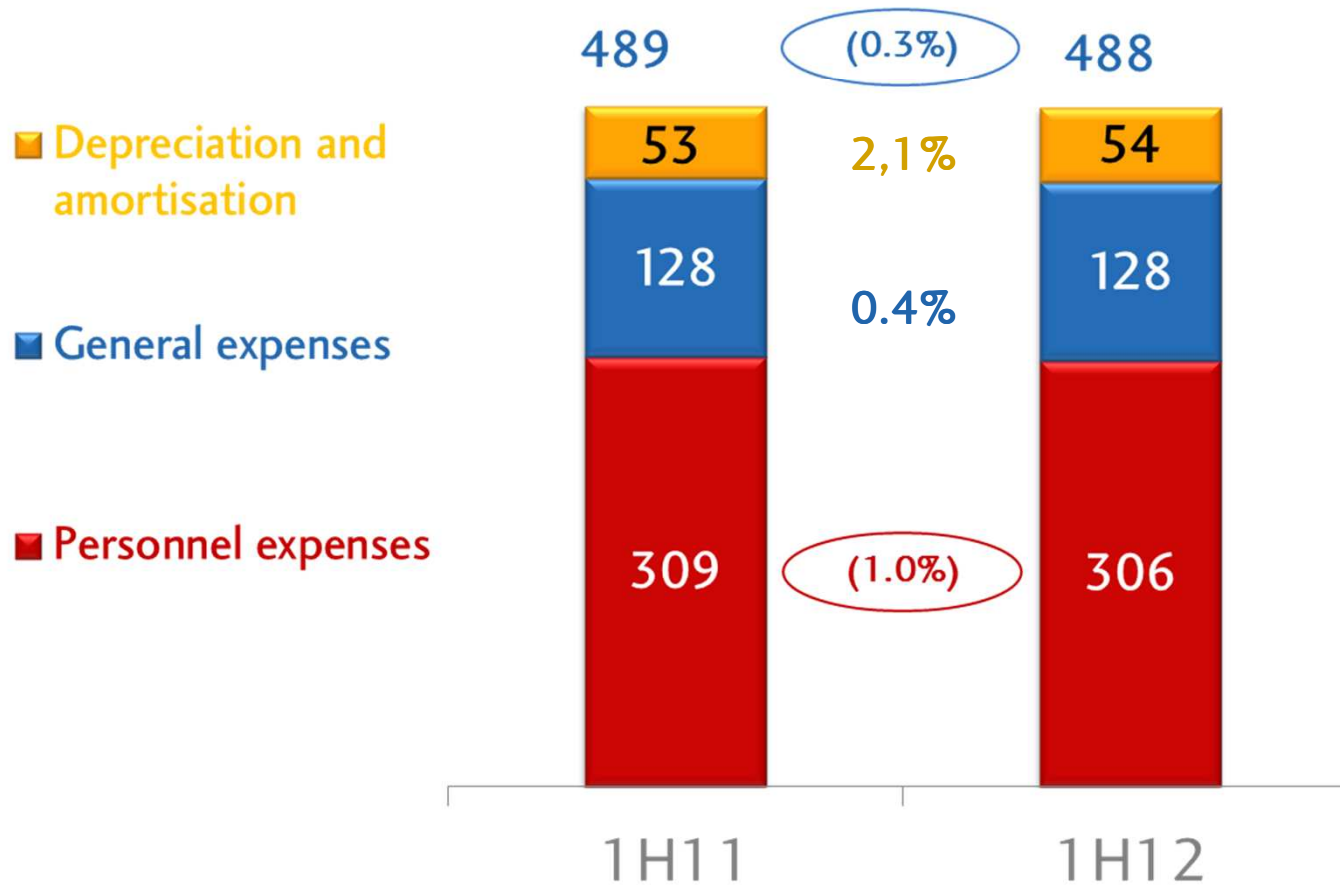
## Breakdown by segment



€ mn

# Expenditure remains under control...

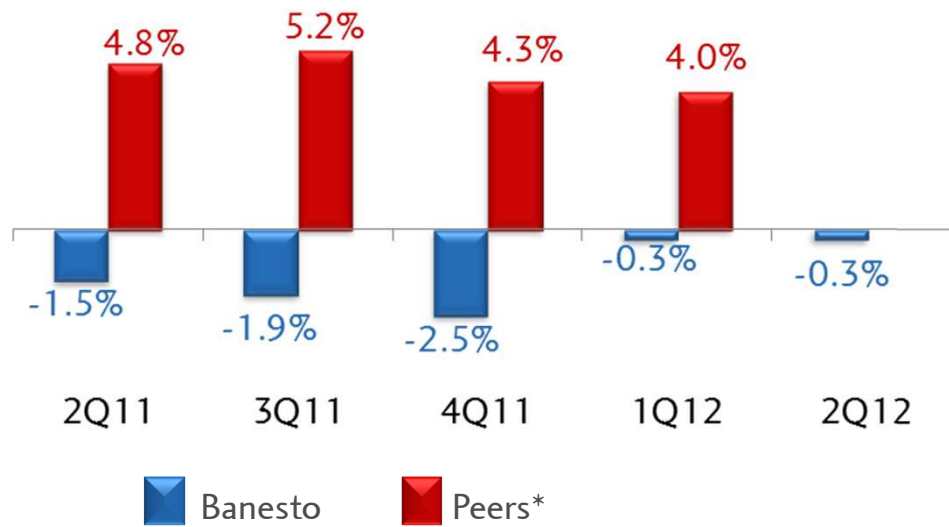
## Trend in operating expenses



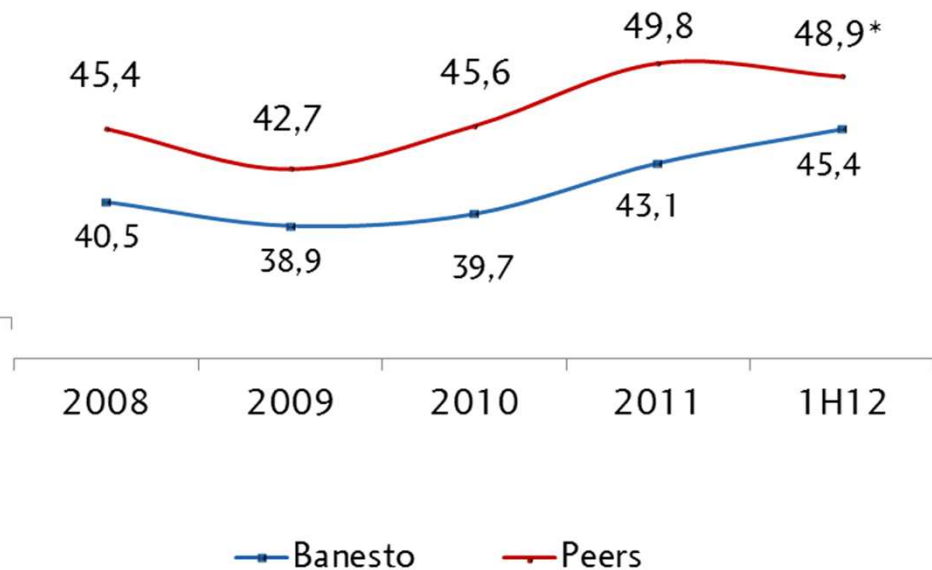
€ mn

...shoring up the cost-income gap with the sector

Change in operating expenses vs. peers



Cost-income vs. peers\*\* (%)



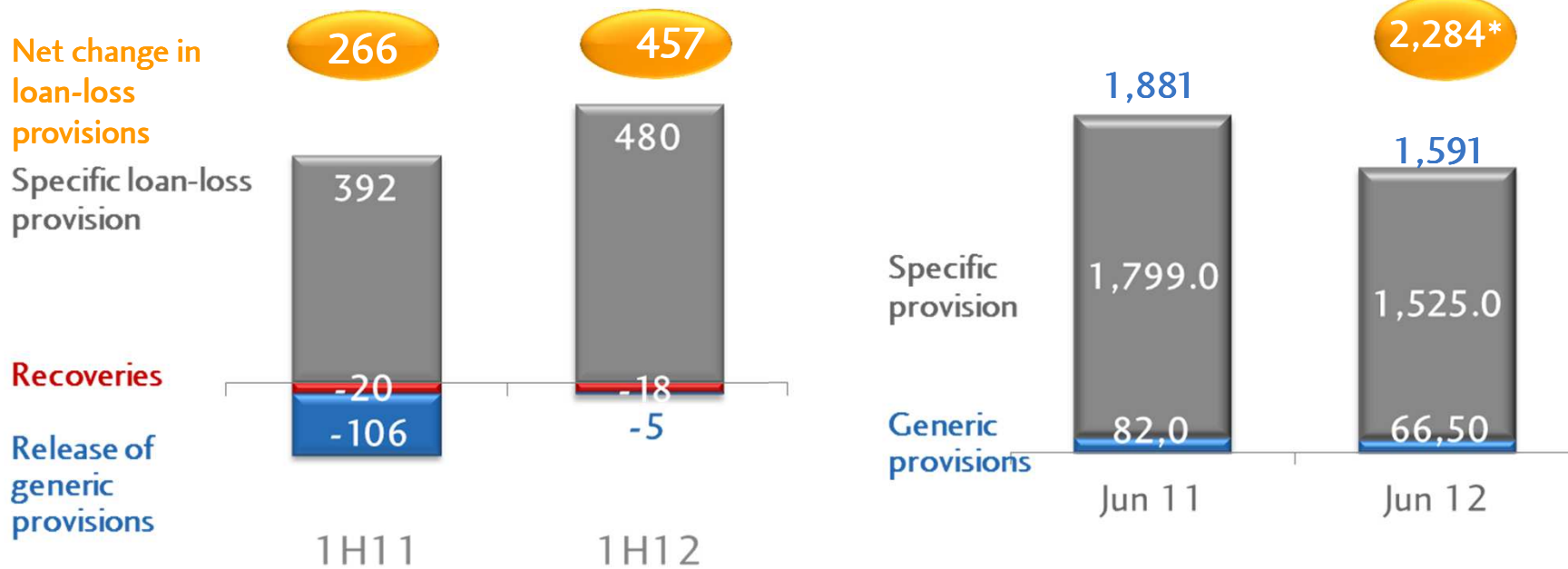
\* Popular, Sabadell and Bankinter. Data as of 1 Q12.

\*\* Cost-income ratios calculated on a trailing 12-month basis

# Higher loan provisioning and coverage

## Movement in loan-loss provisions

## Loan-loss provisions



**NPL coverage ratio: 42%**

(\*) Excluding sale of loan portfolios



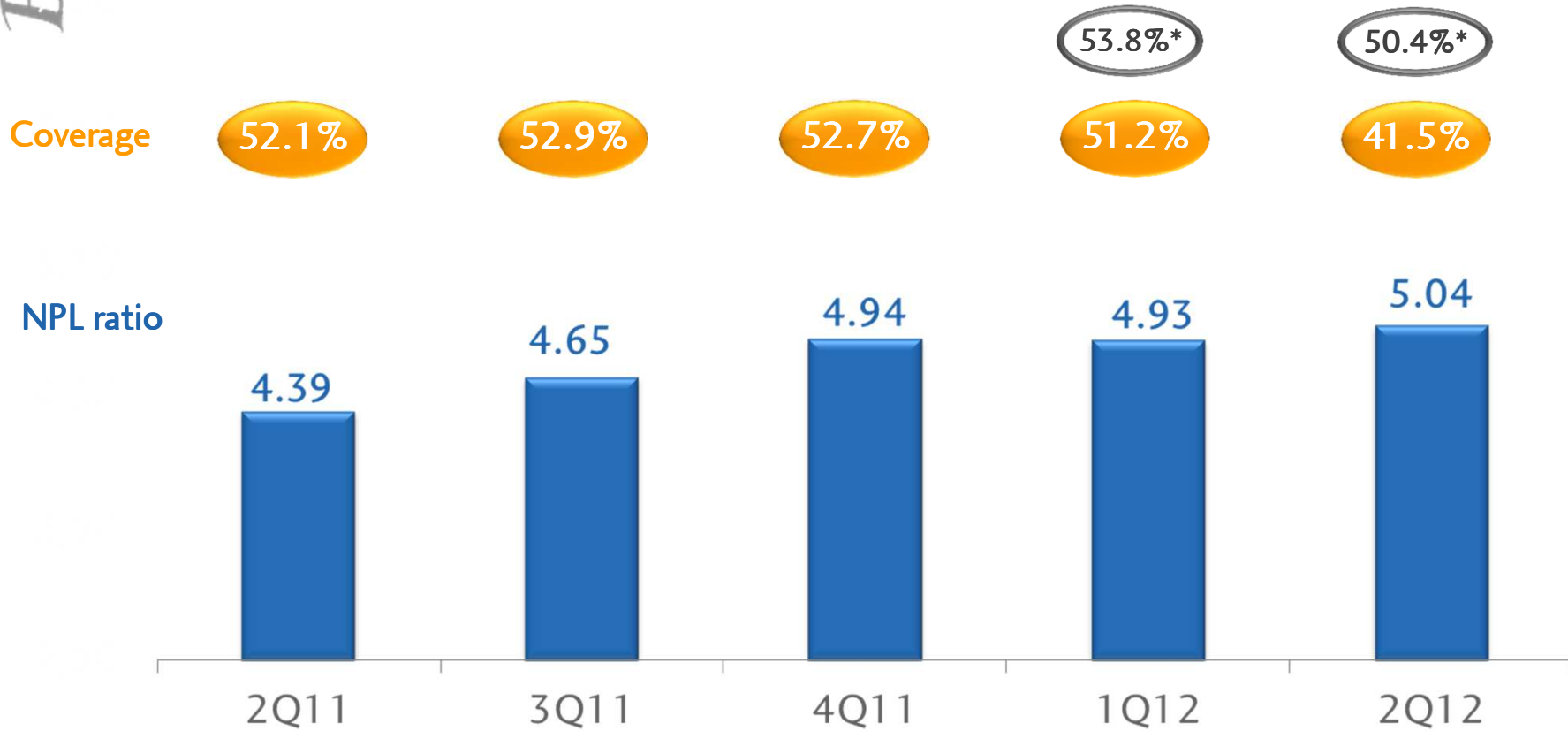
1. 2Q12 highlights

2. Risk, capital and liquidity management

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# Contained increase in NPL ratio

## NPL ratio and coverage (%)



Deterioration vs. sector average: 181 bp less\*  
 NPL ratio vs. sector average: 3.9pp lower\*\*

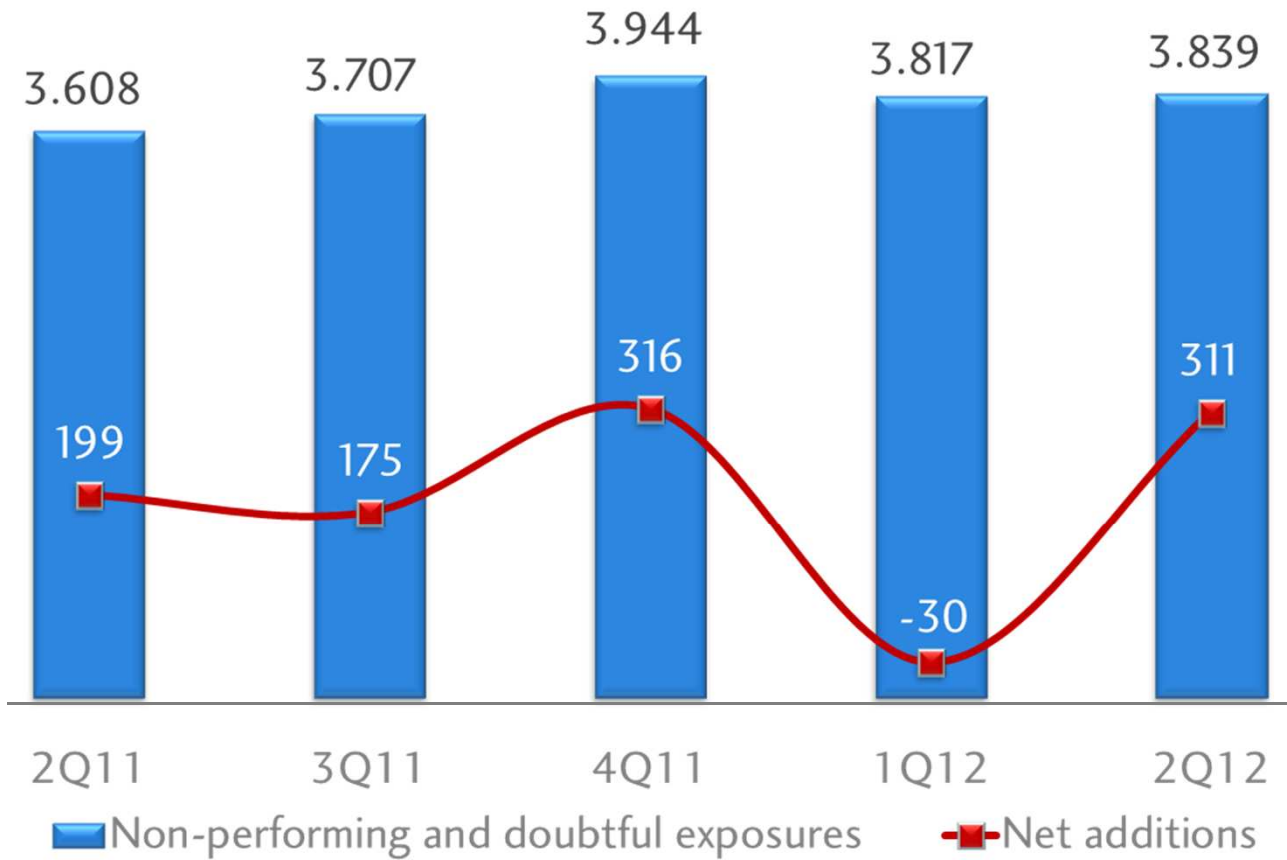
\* Excluding sale of loan portfolios

\*\* Sector data as of May 2012.

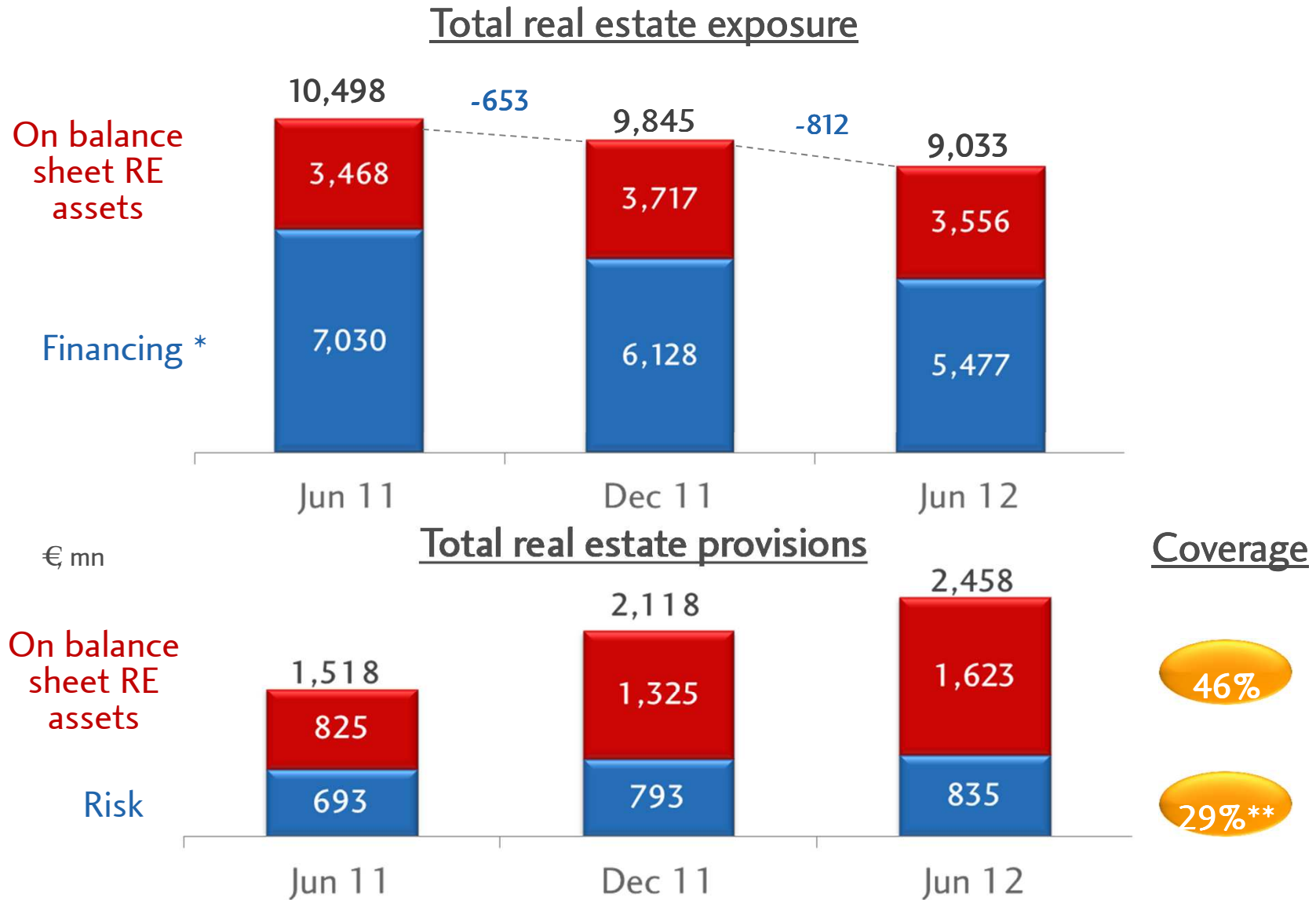
# Non-performing loan balance stable and moderate growth in net additions

€ mn

## Non-performing and doubtful exposure



# Overall exposure to real estate risk continues to decline and provisions to rise

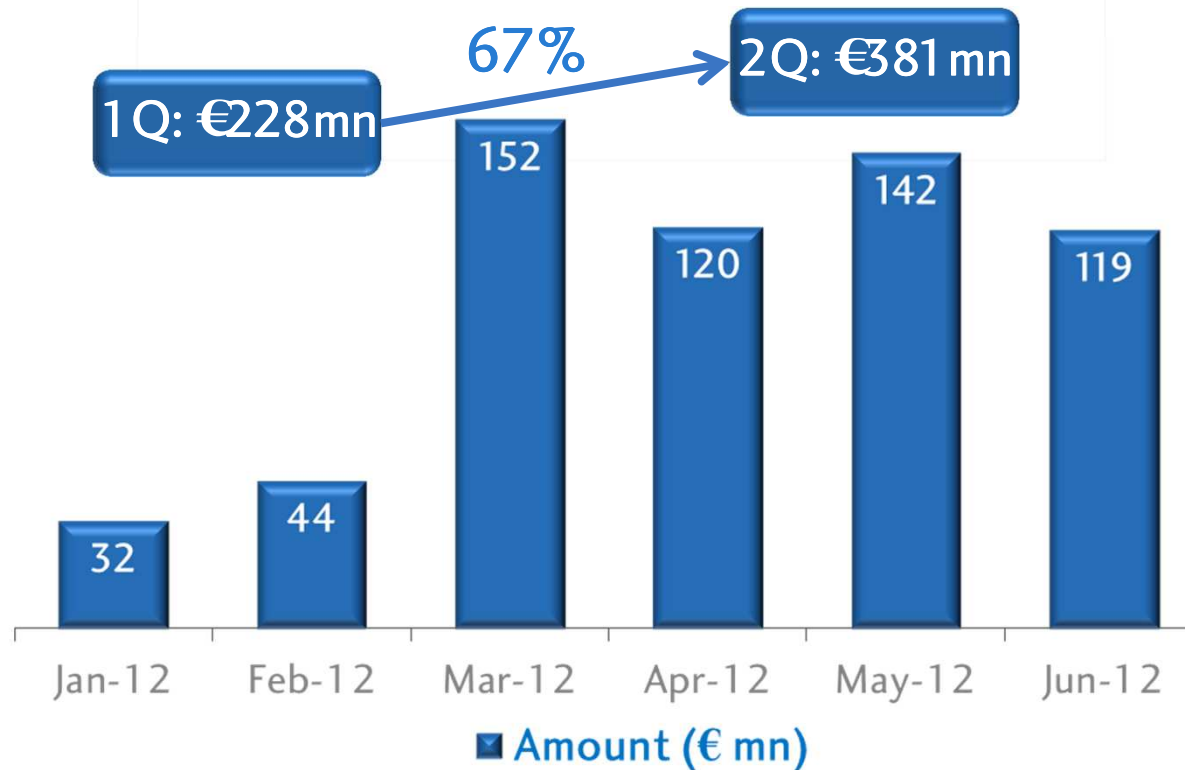


\* Using the updated scope defined under Spanish RDL 2/2012

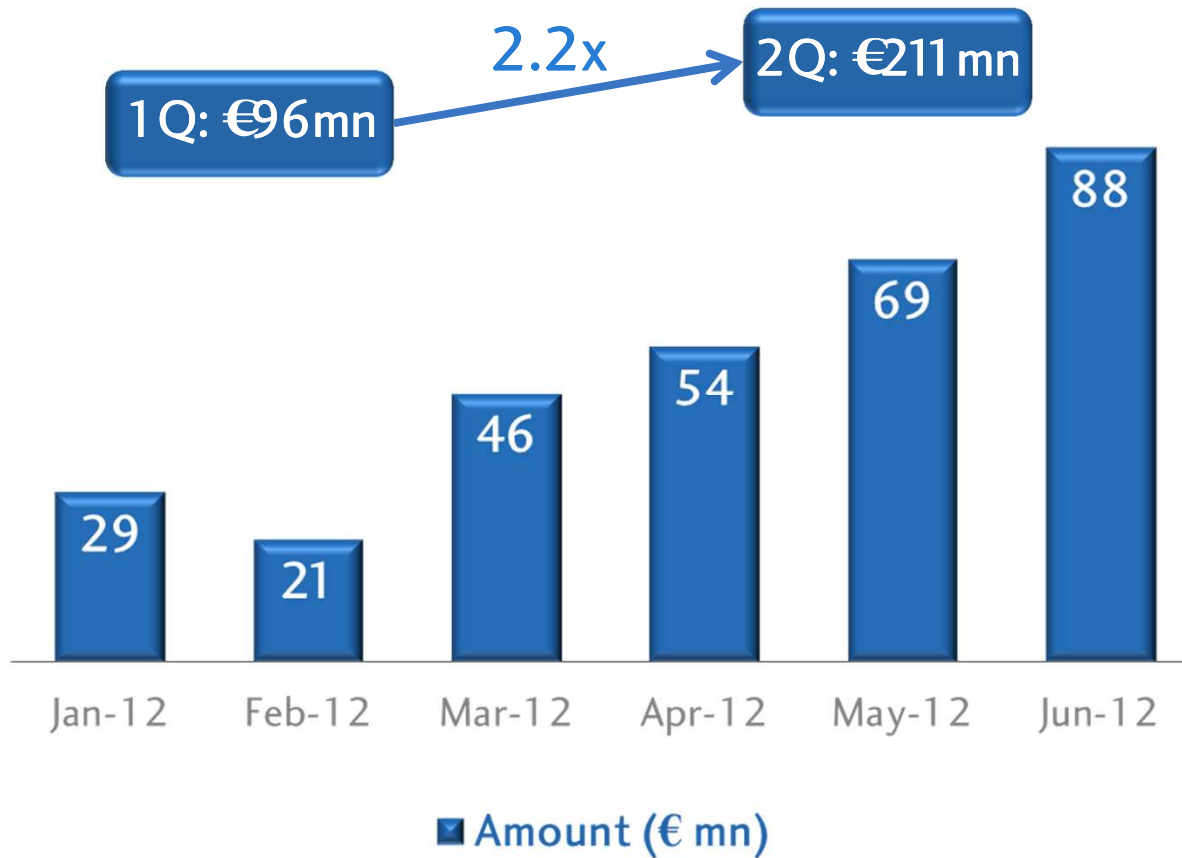
\*\* Provisions as a percentage of non-performing and substandard real estate risk

## Downtrend in properties on the balance sheet thanks to accelerating sales

€mn	<u>Total on-balance sheet RE assets</u>
At 31/12/11	3,717
Incoming	448
Outgoing	(609)
At 30/06/12	3,556



Sales are also accelerating due to the assignment of developer loans



## The liquidity position continues to improve

- ✓ €2.15bn improvement in liquidity gap in 1 H12
- ✓ Reliance on wholesale funding markets cut by €8bn year-on-year
- ✓ M/L-term issuance of €951 mn in 1 H12
- ✓ Undrawn ECB liquidity buffer of €8.2bn

## Reduced reliance on wholesale funding markets

	<u>Jun. 11</u>	<u>Dec. 11</u>	<u>Jun. 12</u>
M/L-term debt	26,538	23,823	20,726
Covered bonds	17,965	16,512	15,814
Senior debt	6,534	5,878	4,700
Other	2,039	1,433	212
Short-term debt	2,689	580	464
<b>TOTAL</b>	<b>29,227</b>	<b>24,403</b>	<b>21,190</b>



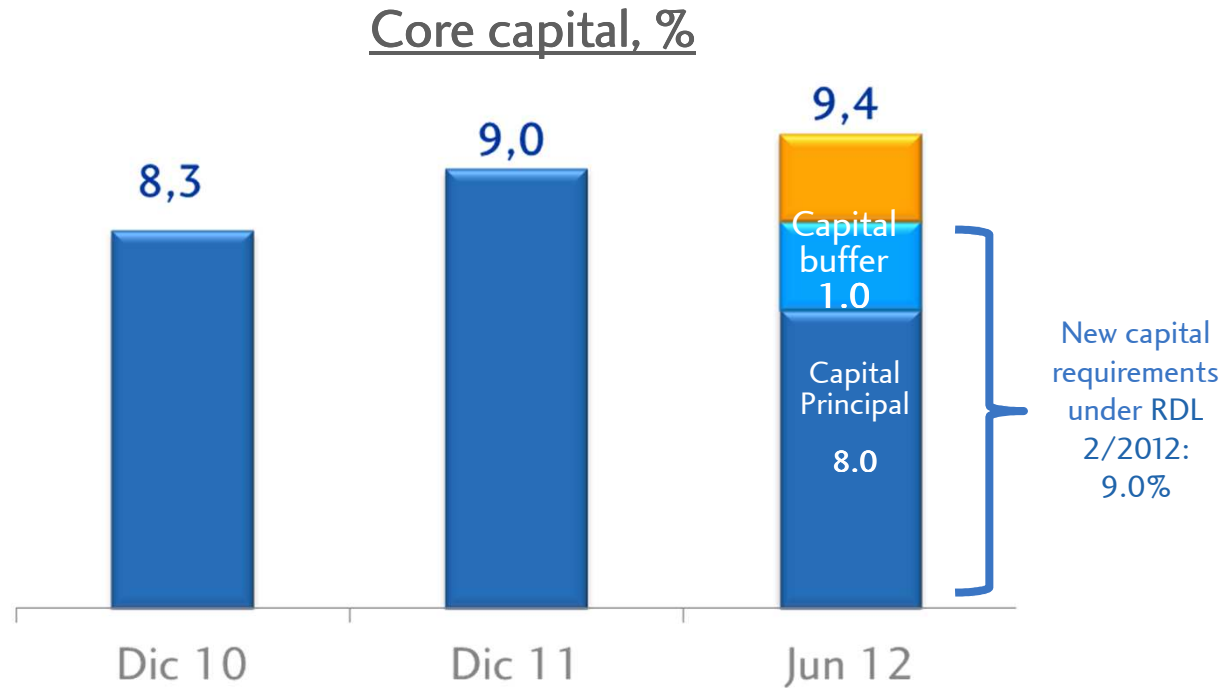
# Liquidity situation and outlook for 2012

€ mn

Refinancing requirements (2H12)	3,359
M/L term debt	2,895
ST debt	464
Forecast reduction in liquidity gap (2H12)	3,300
Undrawn liquidity at close	9,800
Liquid assets	1,600
Undrawn ECB buffer	8,200



# We continue to shore up our capital ratios



€ mn	<u>Jun. 12</u>	<u>Dec. 11</u>	<u>% Chg.</u>
Core capital	5,339	5,429	(1.7)
Risk-weighted assets	56,767	60,206	(5.7)

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# Healthy deposit trend with costs coming down

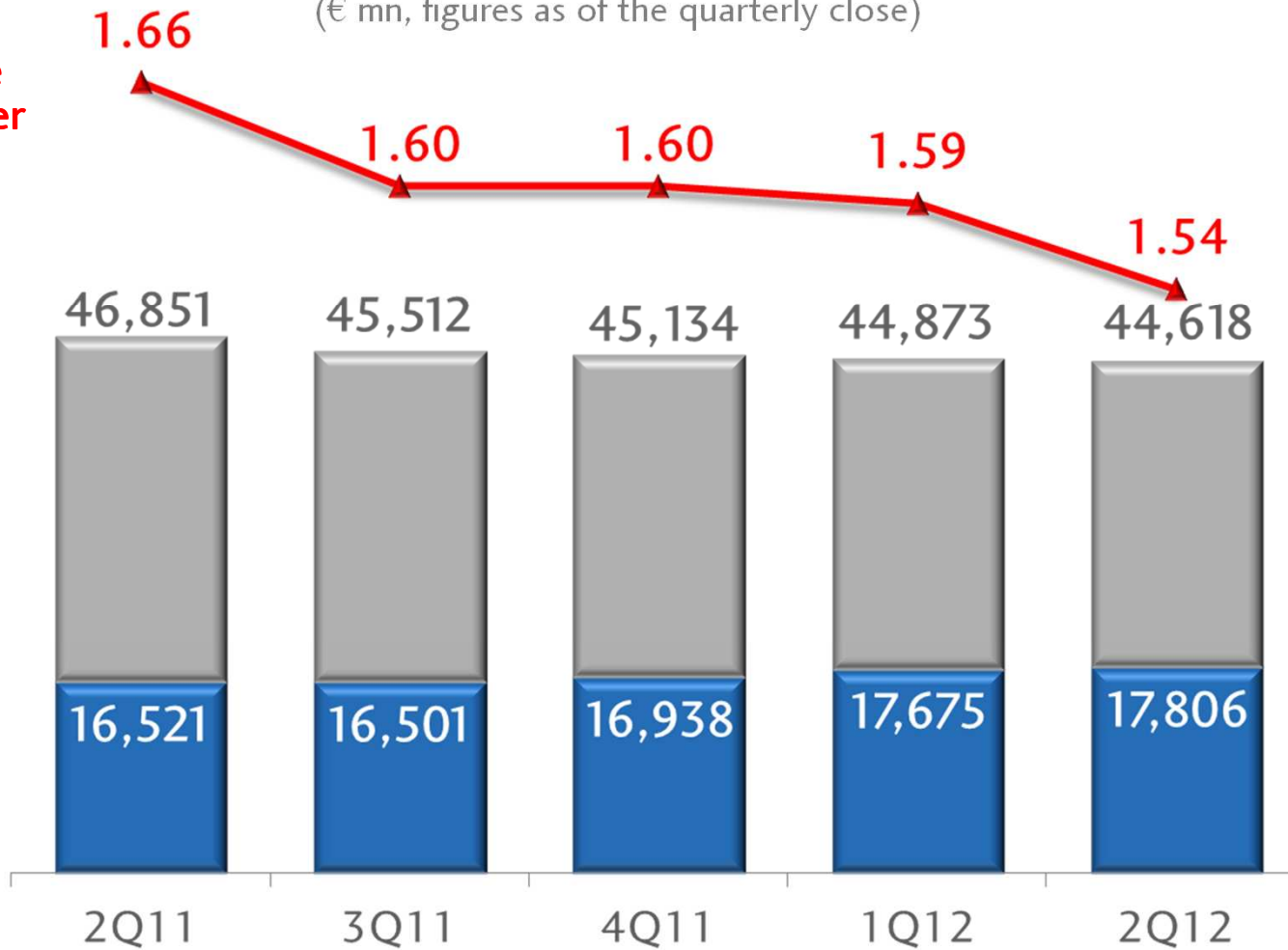
## Trend in customer funds

(€ mn, figures as of the quarterly close)

Cost of private sector customer deposits

Private sector funds

Term deposits



Lending narrowed against the backdrop of deleveraging, shaped by scant demand and active management of credit risk

June 2012	Lending	YoY chg. (%)
<b>Public sector*</b>	3,805	25.8
<b>Private sector</b>	57,818	(10.3)
Commercial loan book	3,407	9.3
Secured loans	32,686	(8.8)
Other loans and credit facilities	21,724	(14.9)
<b>Non-resident sector</b>	2,684	(5.9)
<b>Net doubtful assets</b>	2,153	33.6
<b>Total lending</b>	<b>66,459</b>	<b>(7.7)</b>
Memorandum item:		
<b>Real estate exposure</b>	5,477	(22.1)
<b>Total lending, ex. RE exposure</b>	<b>60,982</b>	<b>(5.5)</b>

(\*) Includes Banesto's share of funding the government-sponsored supplier financing plan

- Earnings remain under pressure due to the prevailing adverse economic environment and more stringent real estate provisioning requirements
- Nevertheless, Banesto continued to shore up its core capital ratio which stood at 9.4% at the end of June
- Internal liquidity generation remains strong: €2.15bn in 1 H12
- The NPL ratio remains moderate in comparison with the sector average
- Accelerating pace of real estate asset sales, reducing exposure to related risk by €812mn

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