

Banesto

Outperforming the sector
through the cycle

Morgan Stanley

London, March 2010

1. Four pillars of our business model

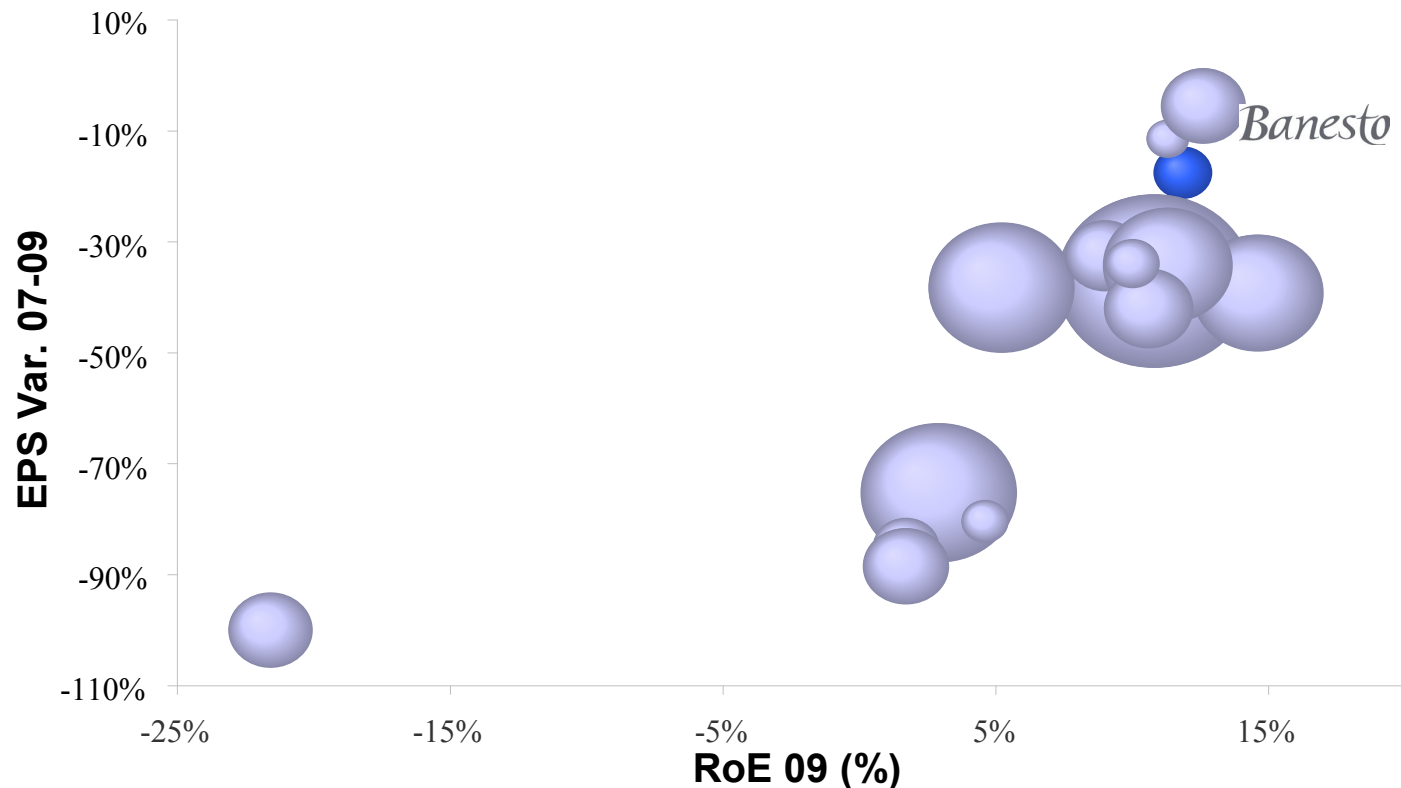
2. Risk & Capital management

3. Outperforming local peers

1. Four pillars of our business model

Banesto has proved to be **resilient** to a downturn scenario...

EPS variation 07-09 vs. RoE 09

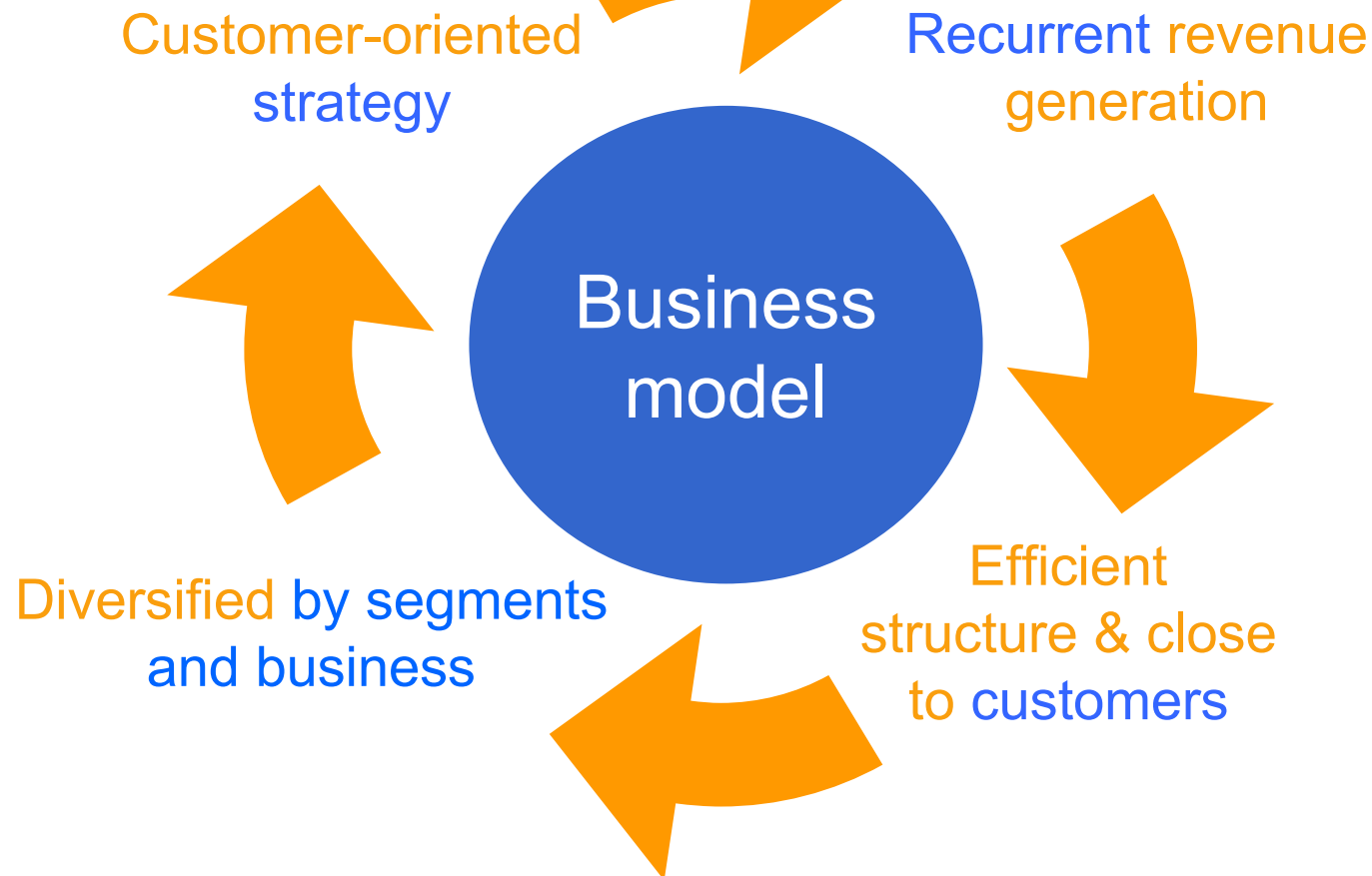


Peer group: Banco Popular, Banco Sabadell, Bankinter, Unicredit, Intesa Sanpaolo, BMPS, BCP, Banco Espirito Santo, Deutsche Bank, BNP Paribas, KBC, Nordea, Danske bank, DNB Nor, Svenska Handelsbanken.

Source Banesto data as of dec 09 excluding voluntary generic provision

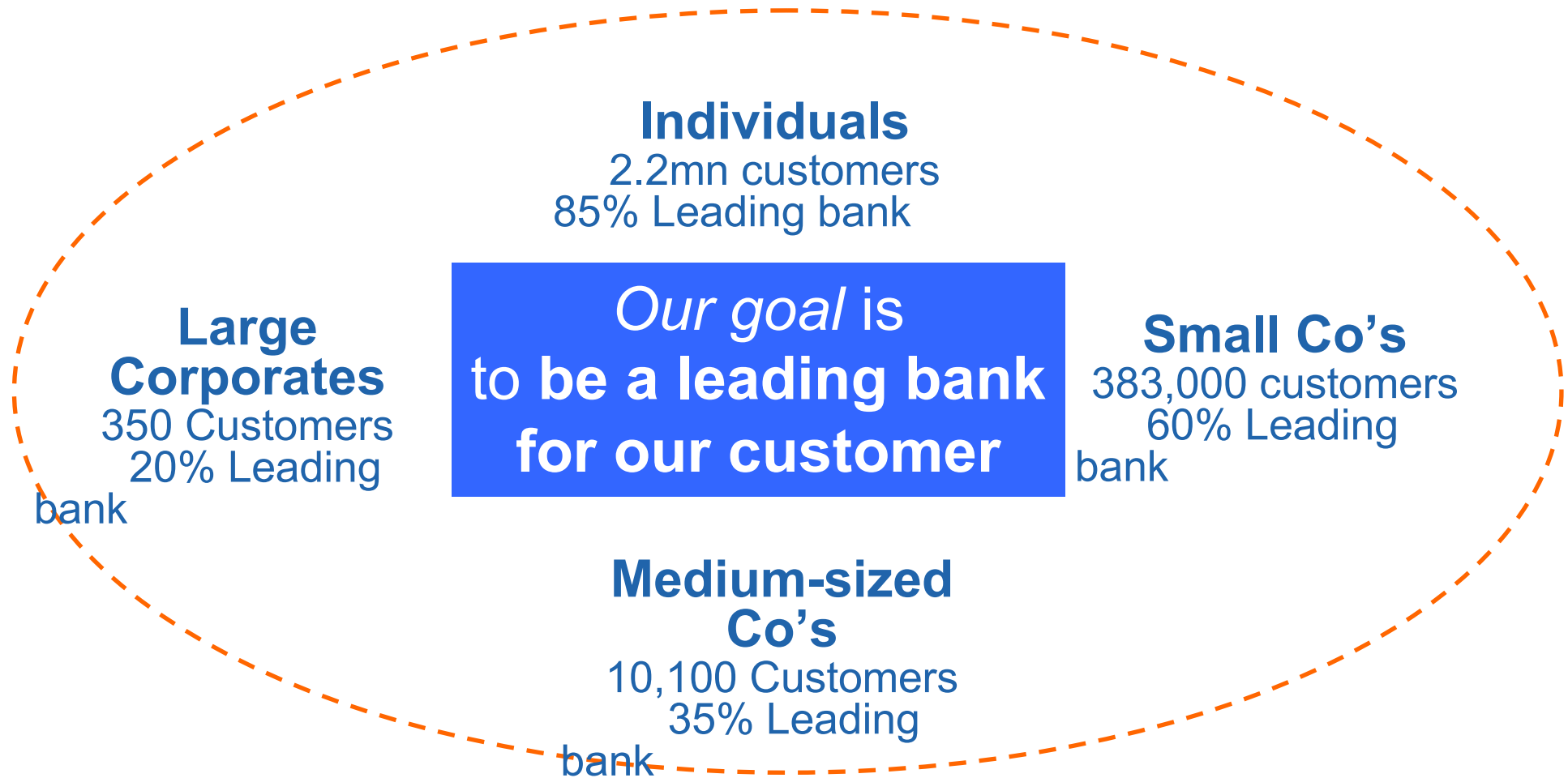
1. Four pillars of our business model

...thanks to **4** key strenghts behind
our
business model



1. Four pillars of our business model

1.- A customer oriented strategy



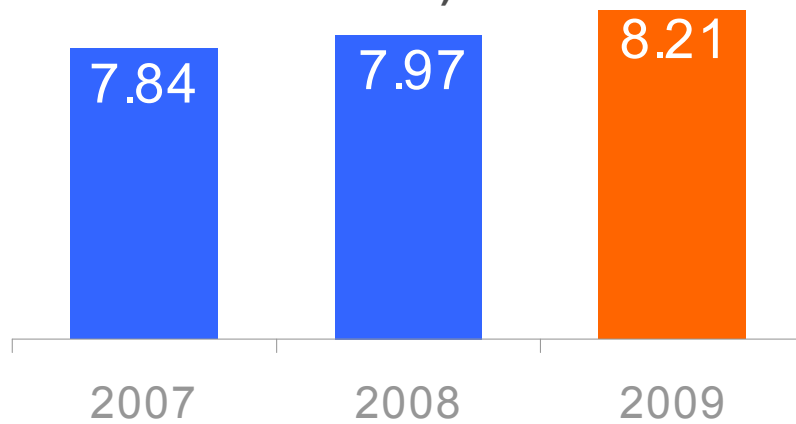
Leading bank meaning Top 3 banking services provider for the customer

1. Four pillars of our business model

...achieving high standards of **service**

Customer Quality Survey

(Annual survey on 100,000 customers)

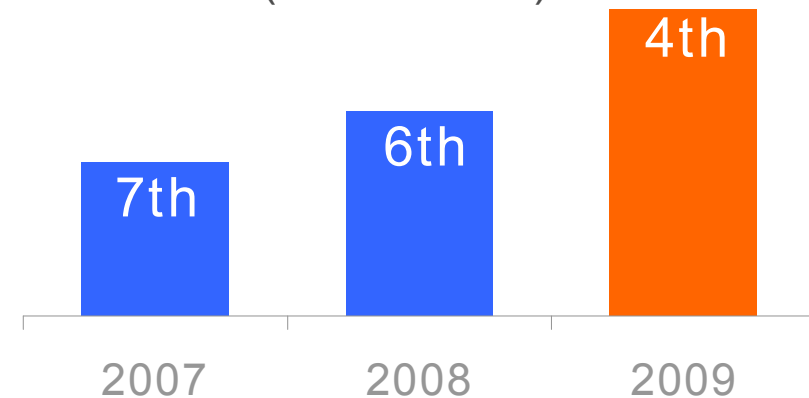


quality

Global ranking by customer

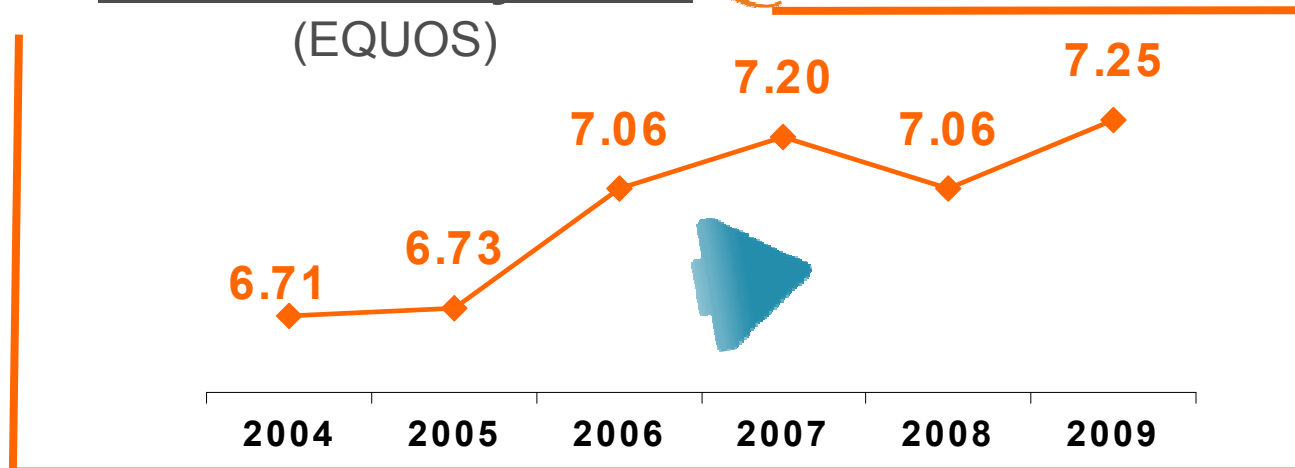
satisfaction

(FRS Inmark)



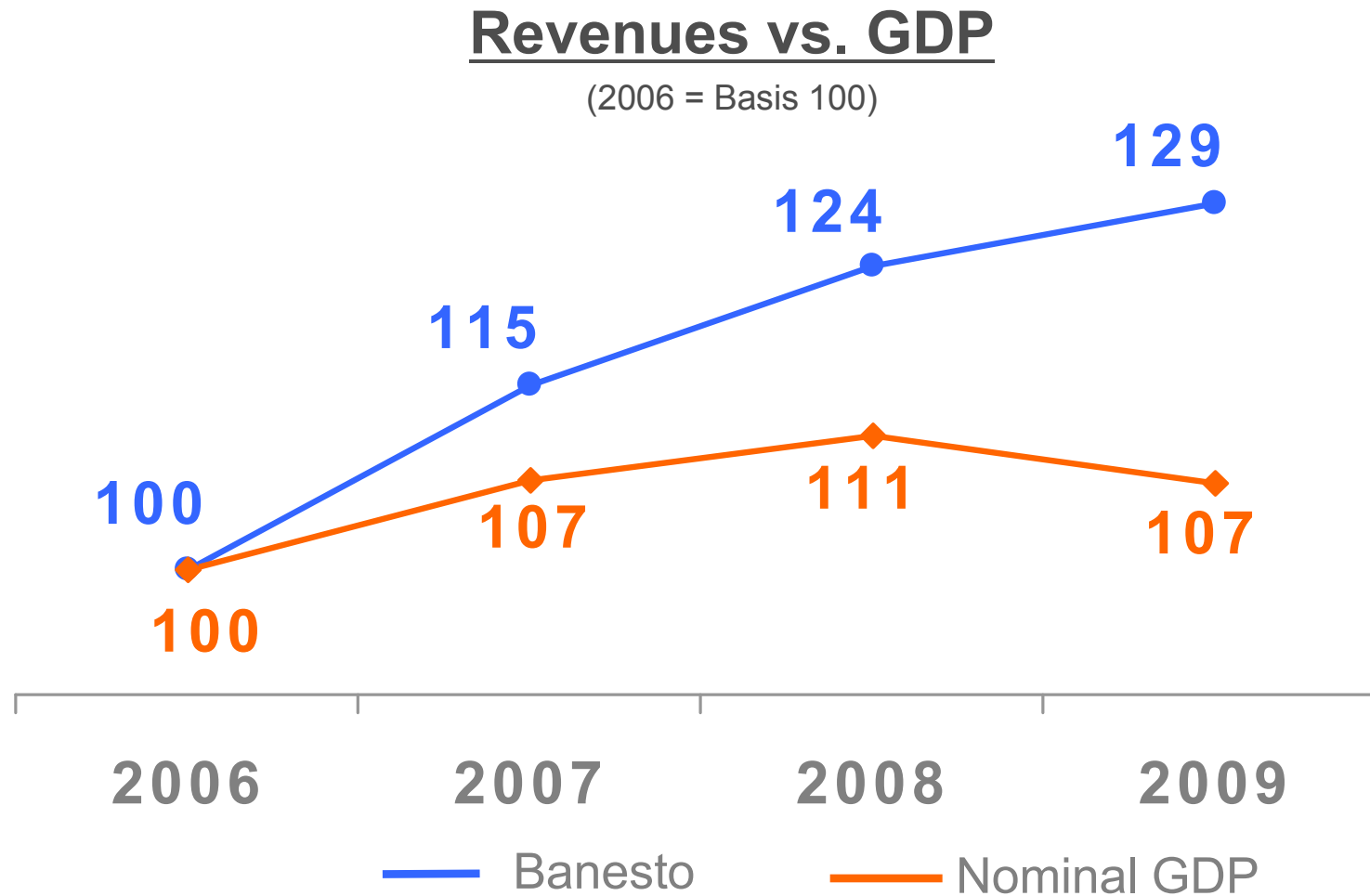
Service Quality Index **Q10**

(EQUOS)



1. Four pillars of our business model

2.- Recurrent revenue generation

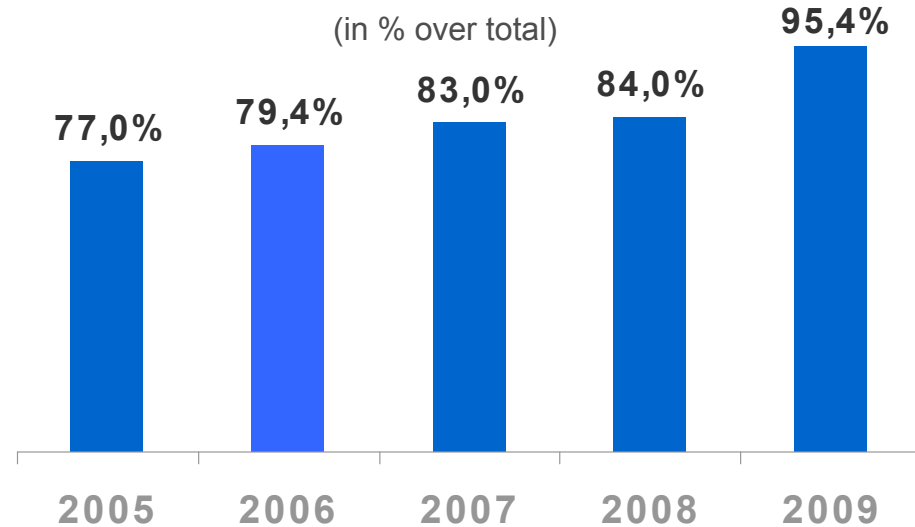


1. Four pillars of our business model

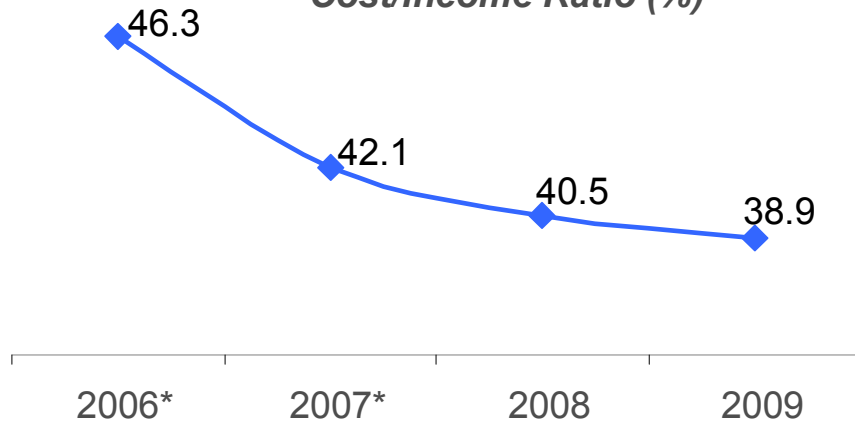
3.- Efficient structure & close to customers

- ✓ Process reengineering
- ✓ Streamlining back-office, and
- ✓ Reducing intermediate levels

% Commercial roles at distribution network

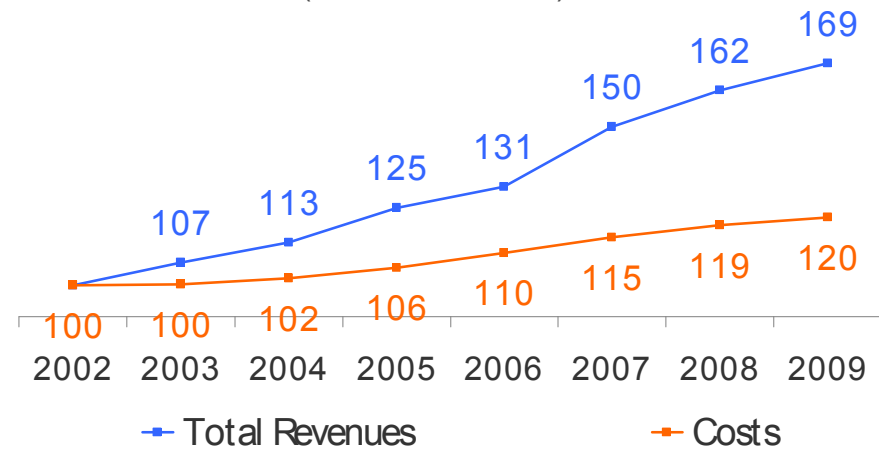


Cost/Income Ratio (%)



Cost and Revenue Growth

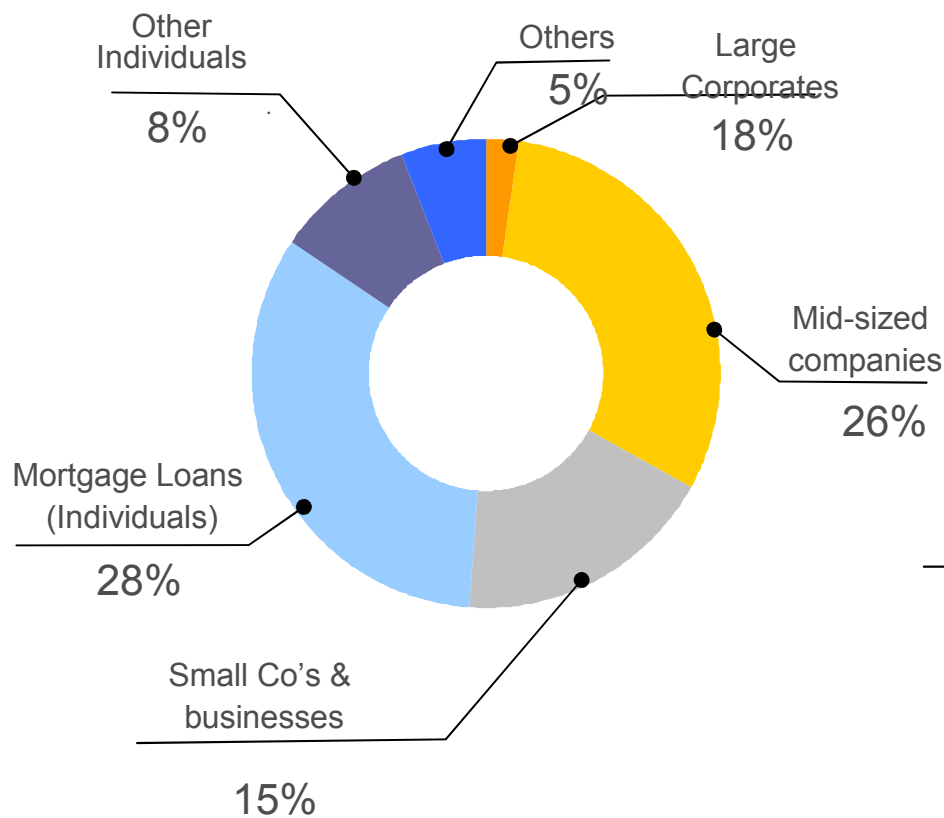
(2002 = 100 basis)



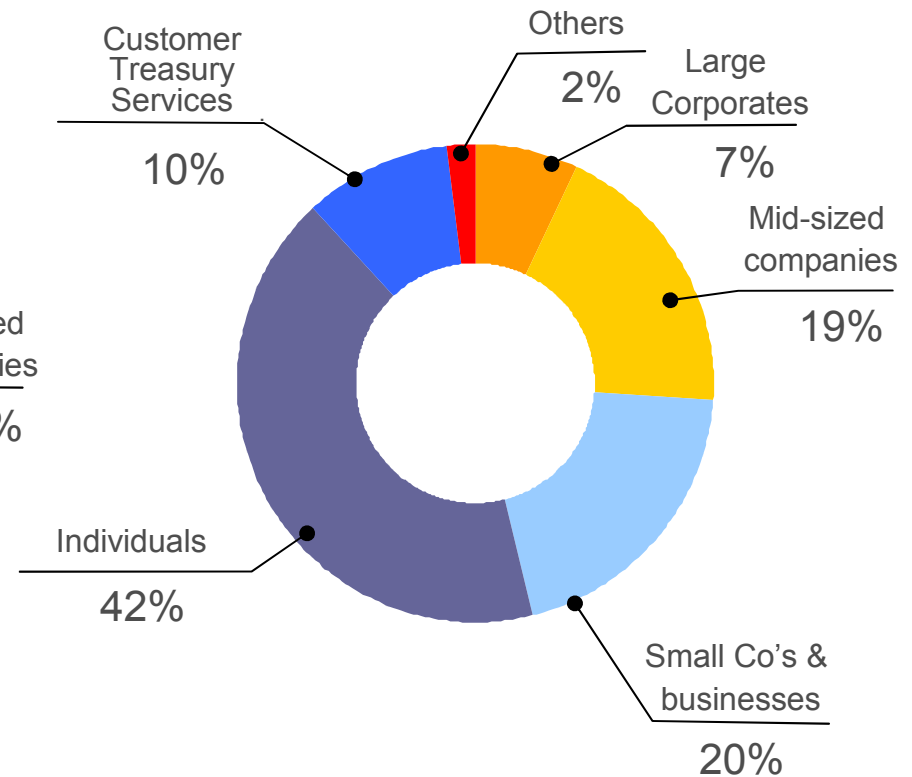
1. Four pillars of our business model

4.- Diversified by segments and businesses

Loan Portfolio (Dec 09)



Revenues (2009)



1. Four pillars of our business model

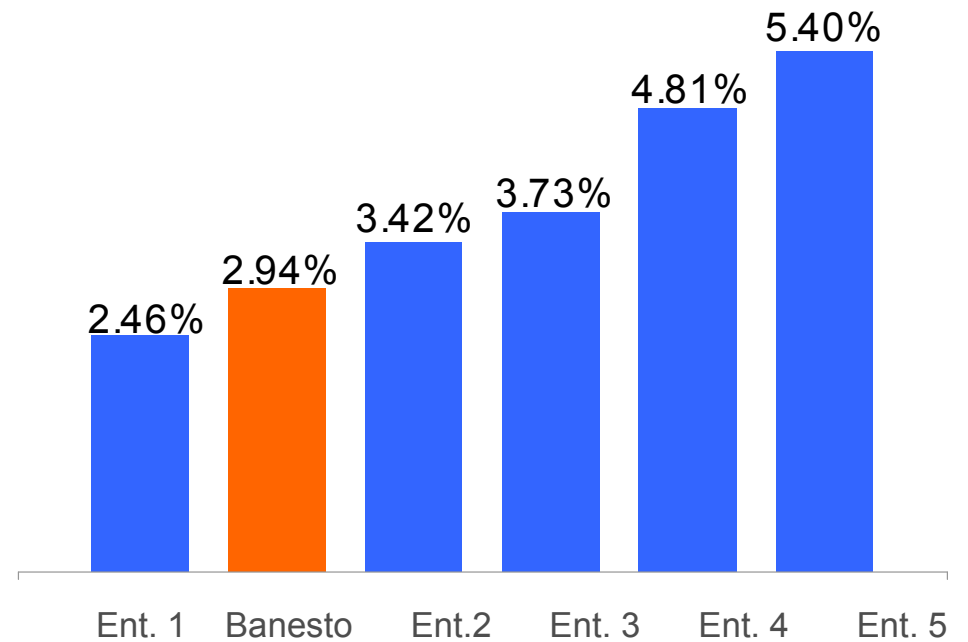
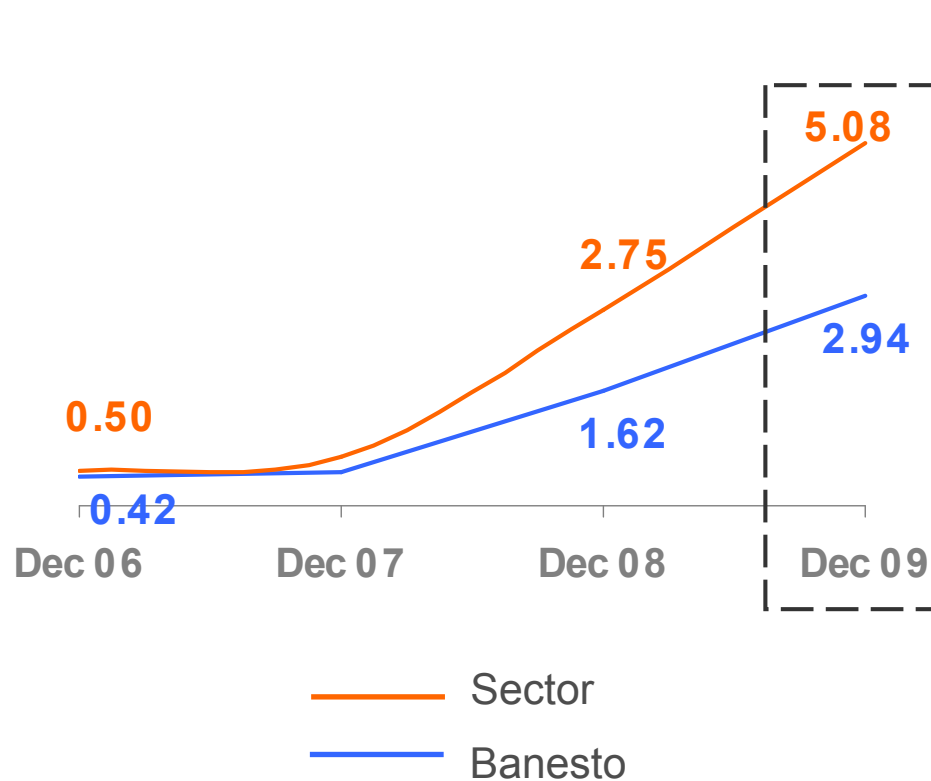
2. Risk & Capital management

3. Outperforming local peers

2. Risk & Capital Management

Outperforming the sector in asset quality...

NPL ratio (%)

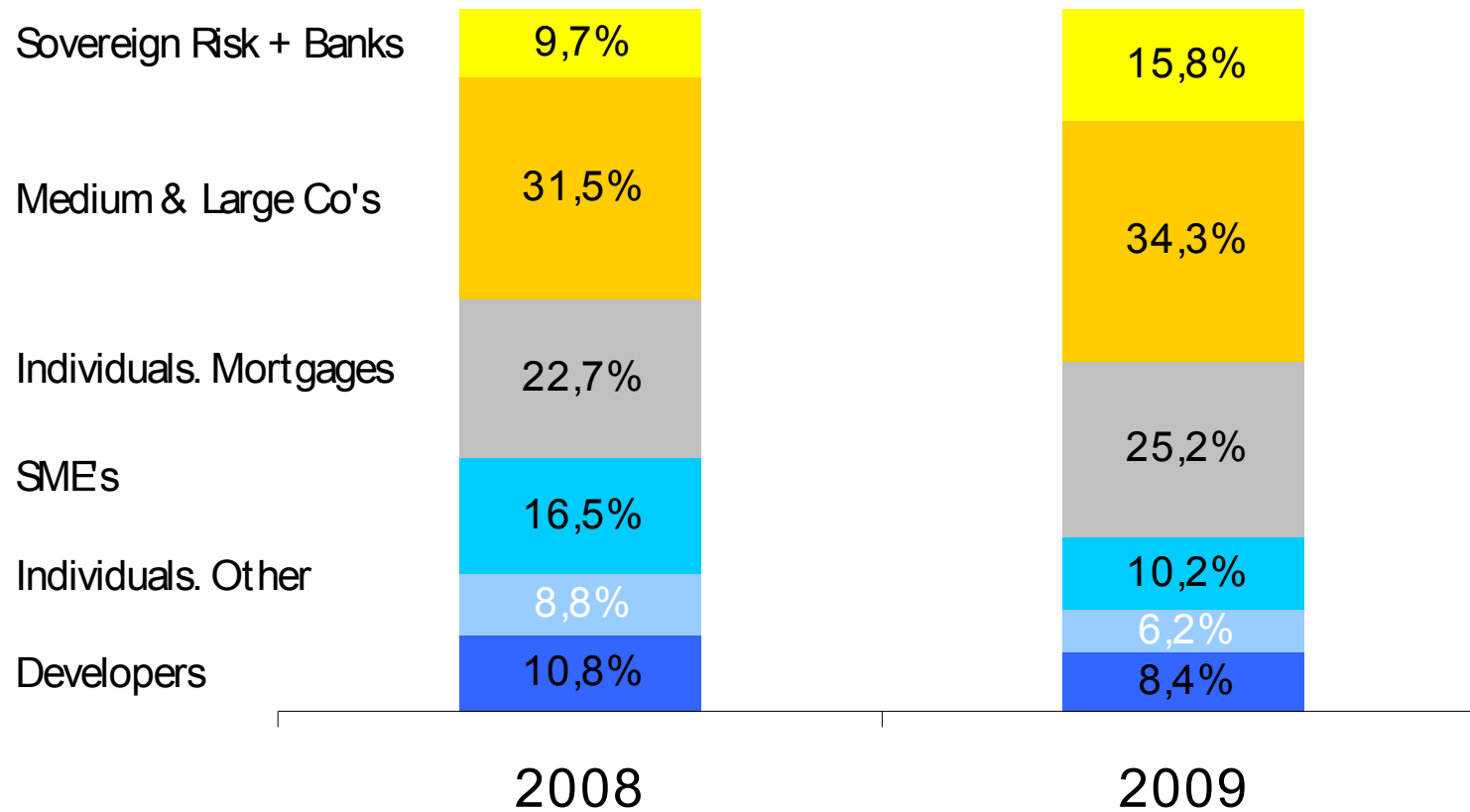


* Entities: Banco Popular, Banco Sabadell, Bankinter, La Caixa, Caja Madrid

2. Risk & Capital Management

...improving our credit risk profile...

EAD* evolution (%)

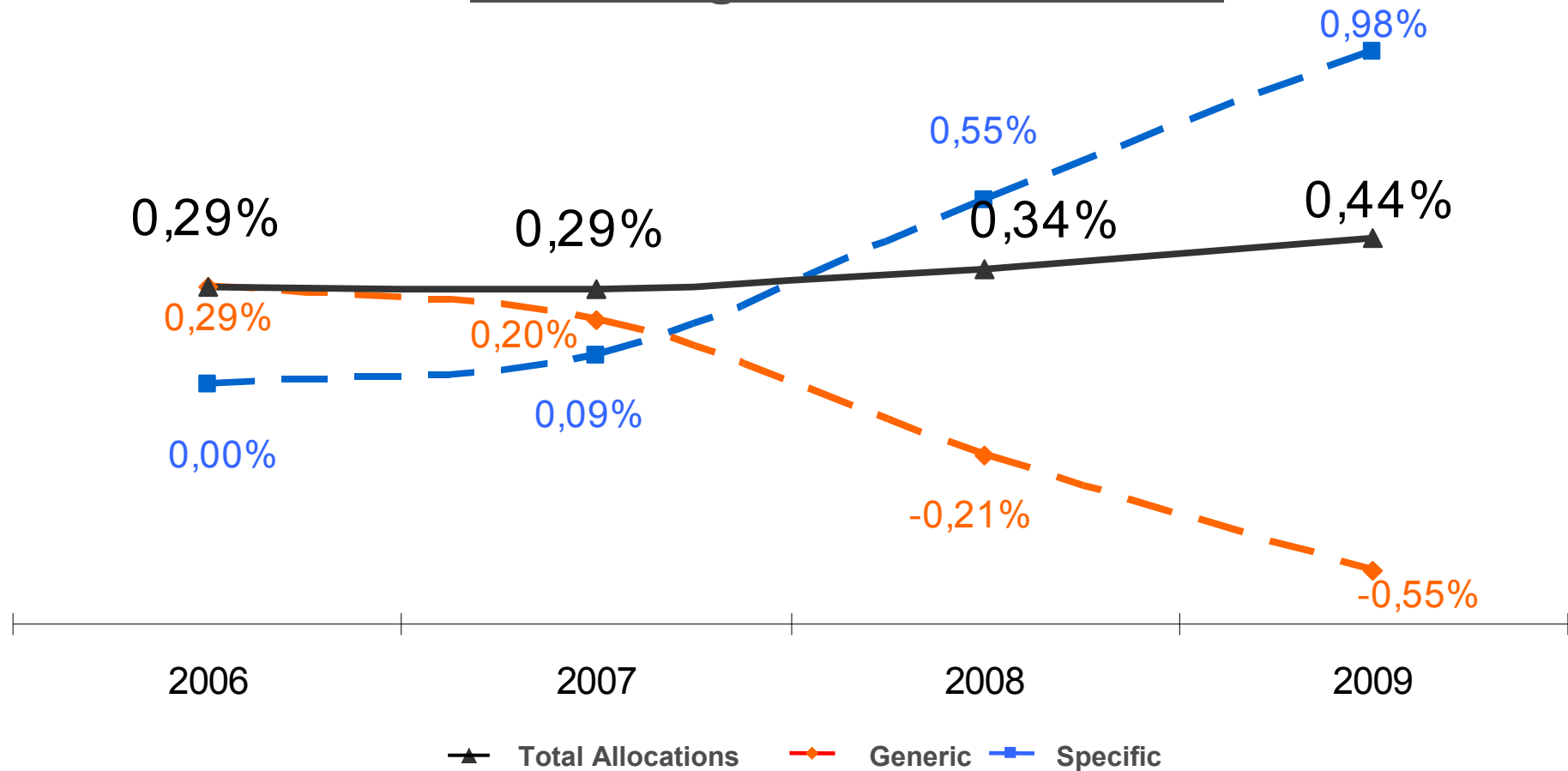


*Exposure at default

2. Risk & Capital Management

...and delivering **stable provision charges**

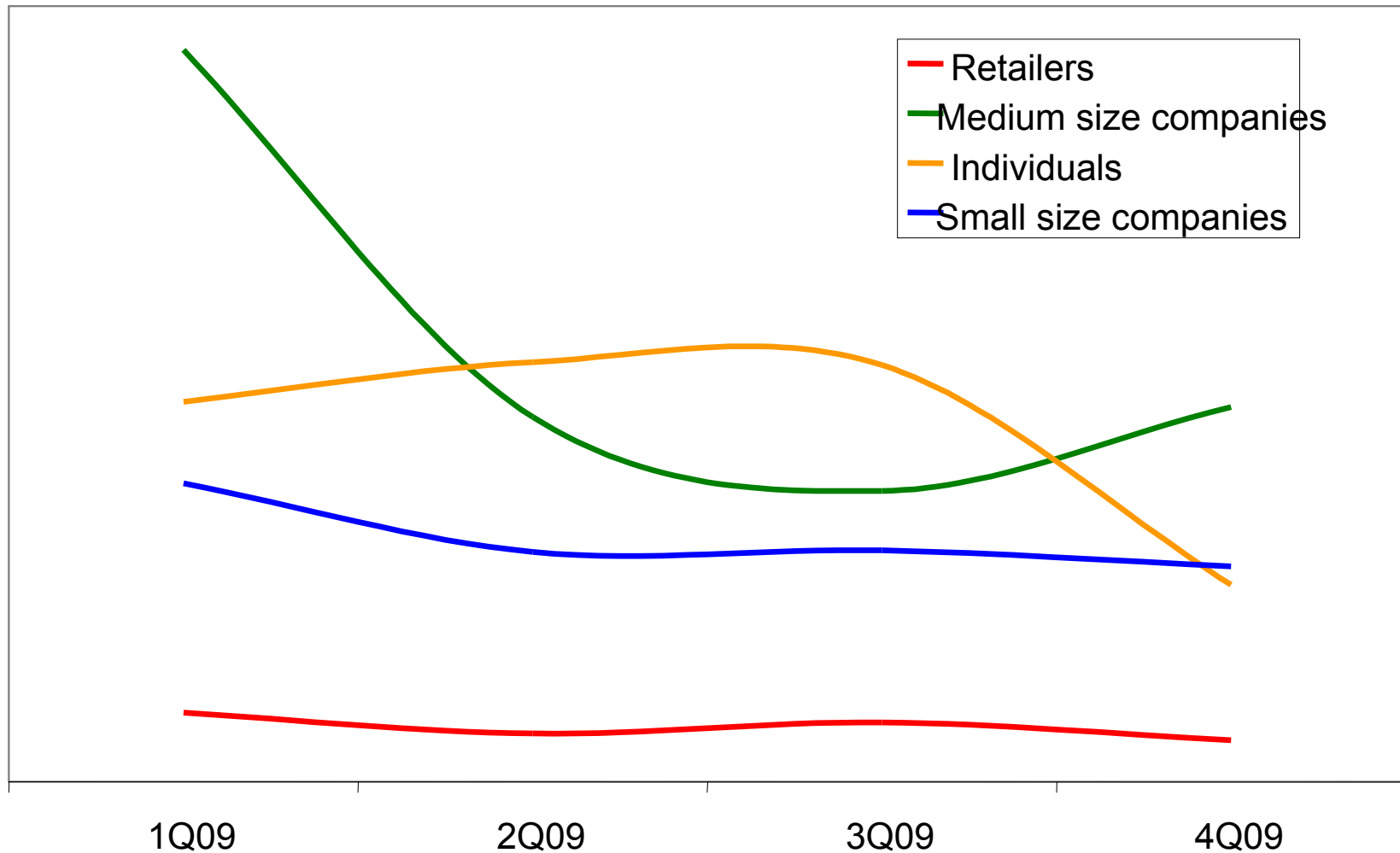
LLP charges/ total credit risk



2. Risk & Capital Management

...with **asset quality improving** in some segments...

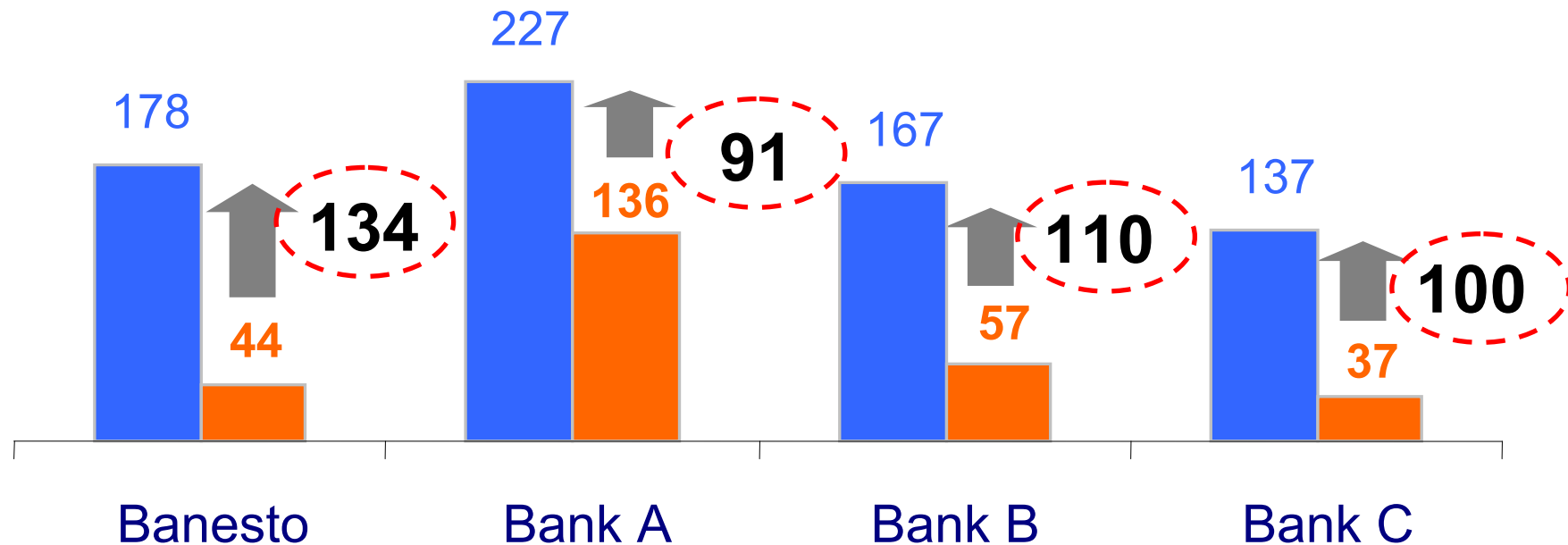
Net NPL entries as a % of total credit risks



2. Risk & Capital Management

Pre-provision profit **well above** provision charges...

B.p. over Average credit risk



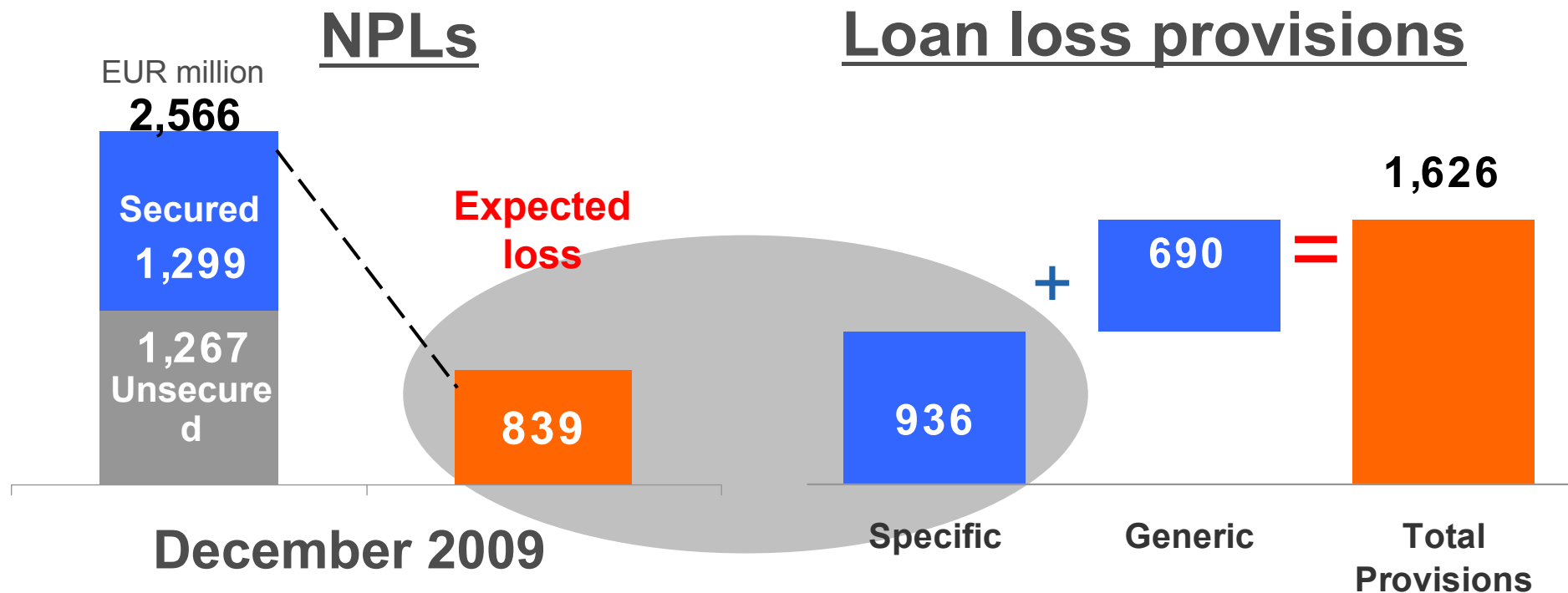
■ Recurrent Net operating Income ■ Loan loss Provisions

○ Recurrent NOI - LLPs

Banks A, B & C being our closest Spanish peers

2. Risk & Capital Management

Specific Loan loss Provisions **cover the expected loss**

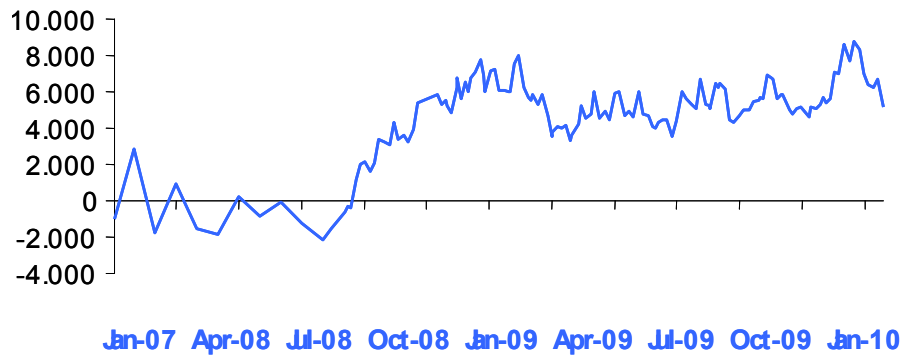


- In 2009 EUR 100 mn voluntary Generic Provision, extending generic buffer until 2011
- 23% coverage on Real Estate assets acquired to developers

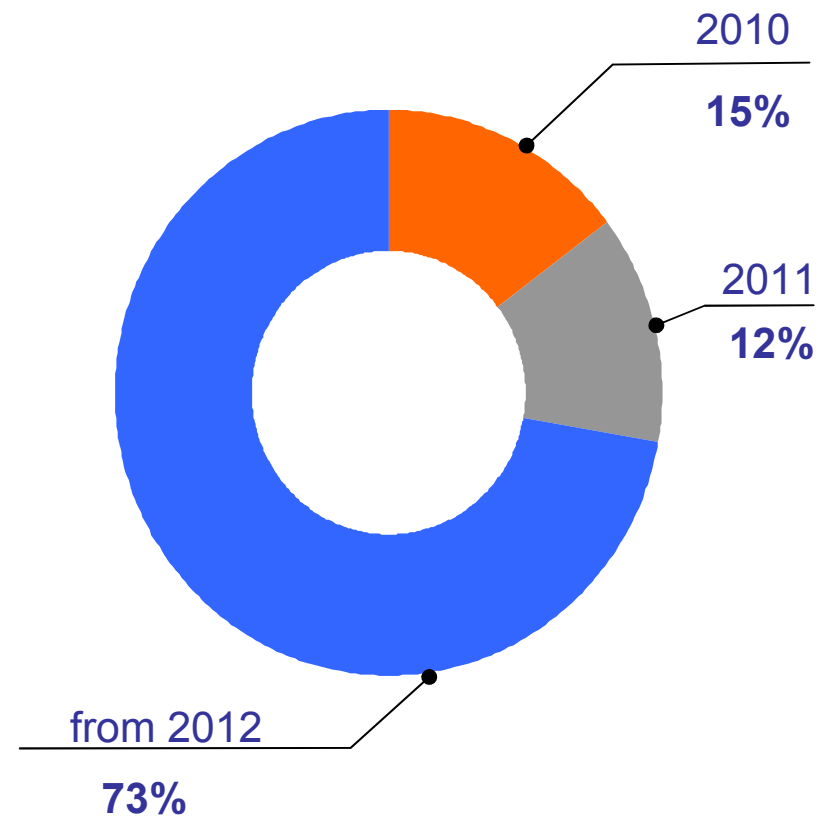
2. Risk & Capital Management

Comfortable liquidity position and prudent wholesale funding structure

Net liquidity position
(Jan 2007 - Jan 2010)



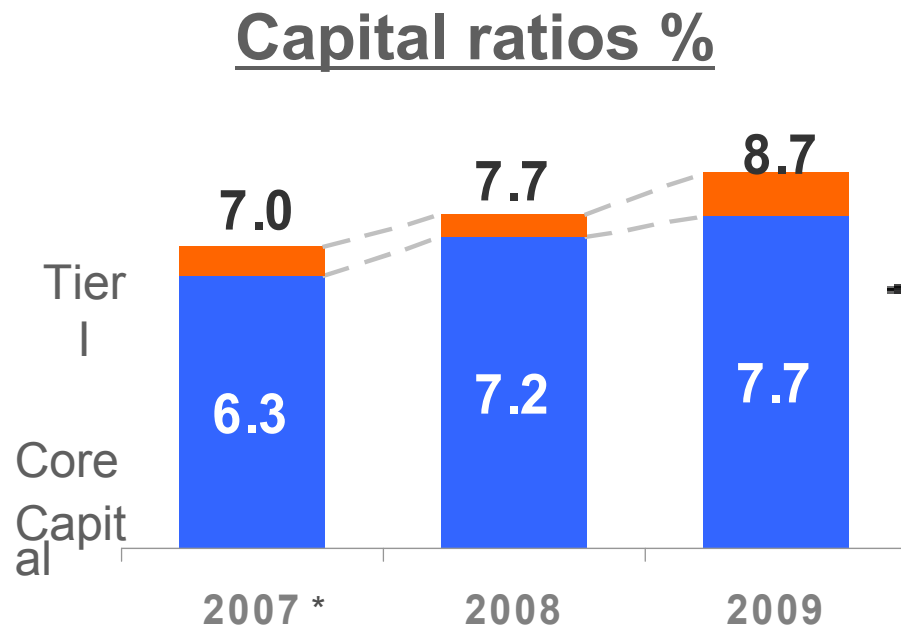
Wholesale Issue Maturities*
(Total: EUR 24,5 bn at 31/12/09)



* Covered bonds and Senior debt 17

2. Risk & Capital Management

Banesto is one of the very few European banks with **no capital increase in the last 7 years**



* 2007 Capital ratios under Basel I rules

GLOBAL
FINANCE

25. Banesto

- 26. Caisse centrale Desjardins
- 27. Pohjola Bank
- 28. Deutsche Bank
- 29. Intesa Sanpaolo
- 30. La Caixa
- 31. Bank of Montreal
- 32. The Bank of New York Mellon Corporation

The "World's 50 Safest Banks" for 2009 were selected through a comparison of the long-term credit ratings and total assets of the 500 largest banks around the world. Ratings from Moody's, S&P and Fitch were used

Negligible impact due to **Basel III** Capital proposals Liquidity

- Goodwill & intangible assets
- Minority interests
- Deferred tax assets

Liquidity Coverage ratio (LCR)

Liquidity Buffer $\geq 100\%$

Net cash outflows over a 30-day time period

Net Stable Funding Ratio (NSFR)

Available Stable Funding $> 100\%$
Required Stable Funding

2. Risk & Capital Management

- **Credit quality clearly above peers**
- **Stable cost of risk** expected for 2010-2011
- **Specific provisions cover current NPL's**

Expected loss

- **Comfortable liquidity and Capital position**

1. Four pillars of our business model

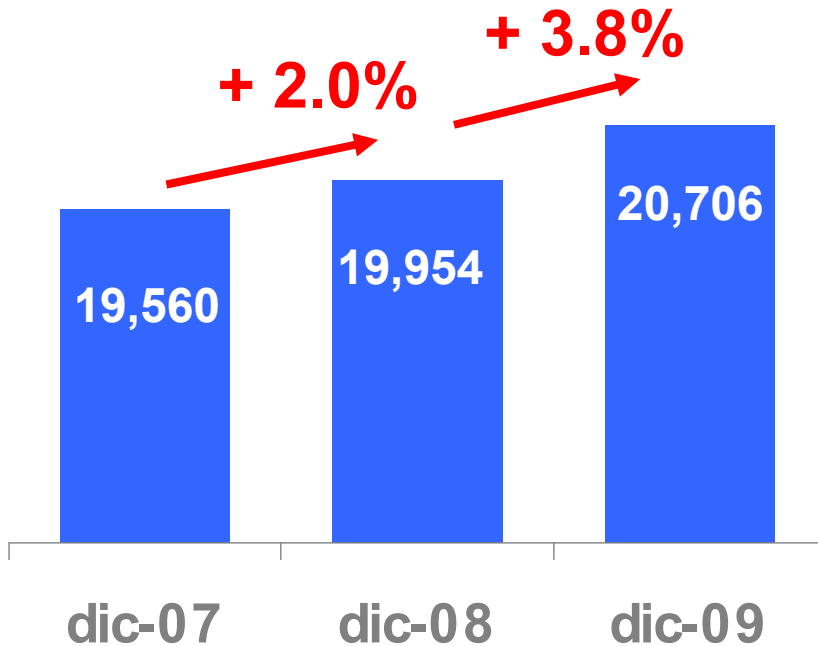
2. Risk & Capital management

3. Outperforming local peers

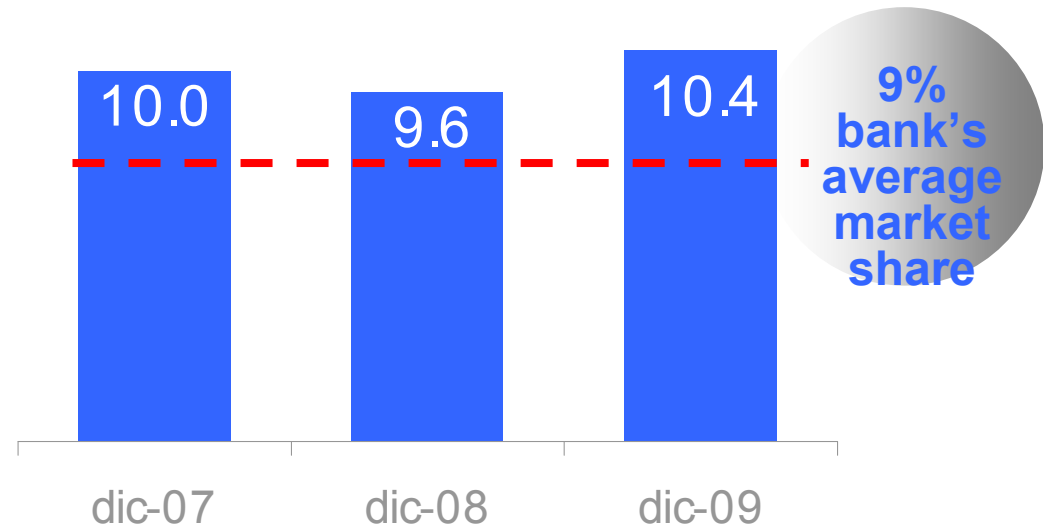
3. Outperforming local peers

Gaining market share in mortgage lending

Loan book growth...
(EUR million)



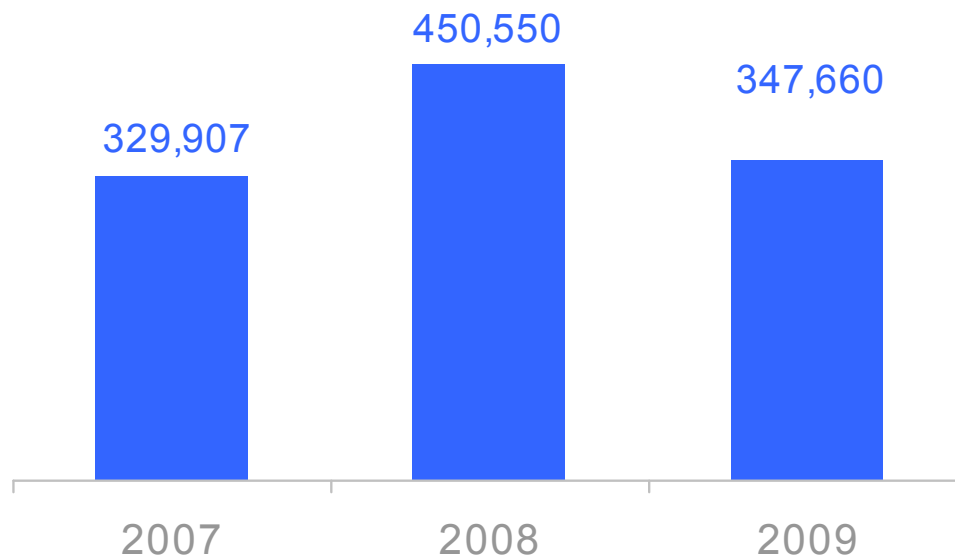
Market share new lending
(% market share last 12 months)



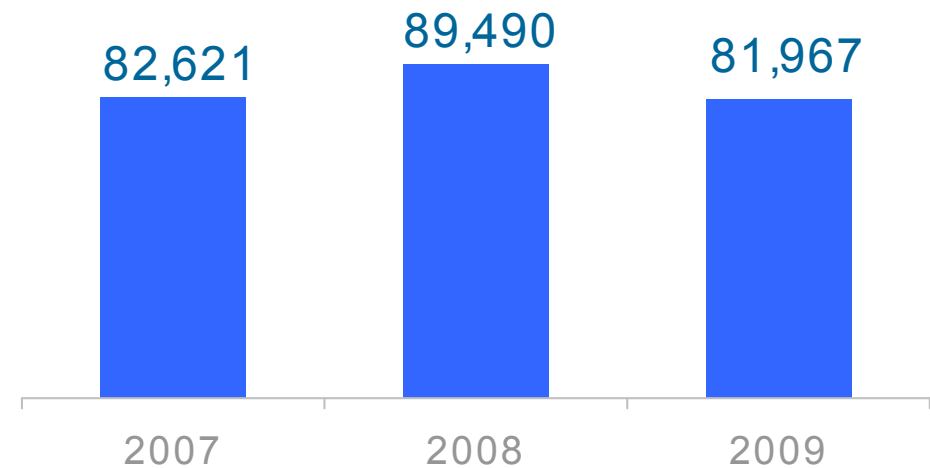
3. Outperforming local peers

High customer acquisition across all segments

New Individual Customers

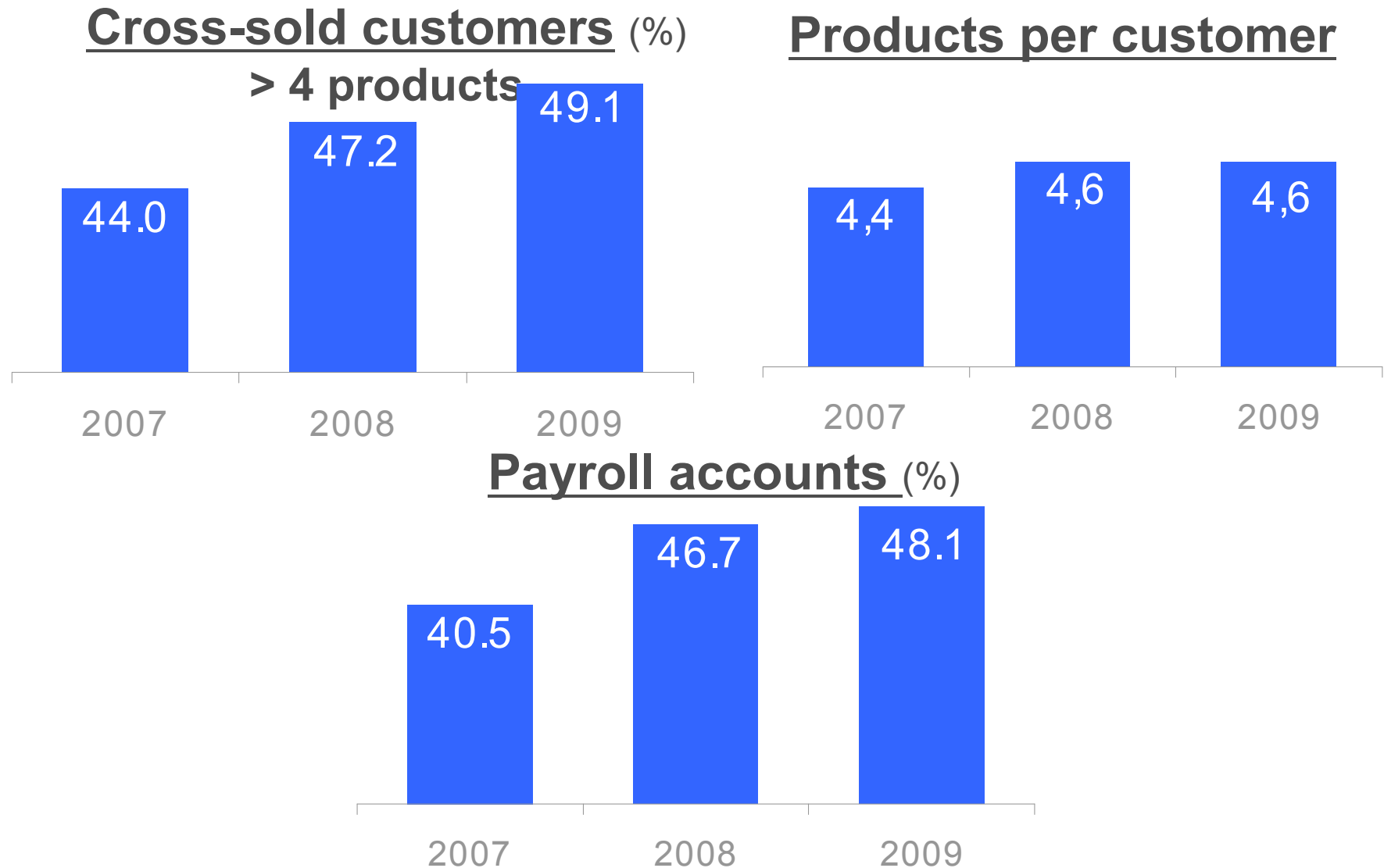


New SME customers



3. Outperforming local peers

Increasing **cross-selling**

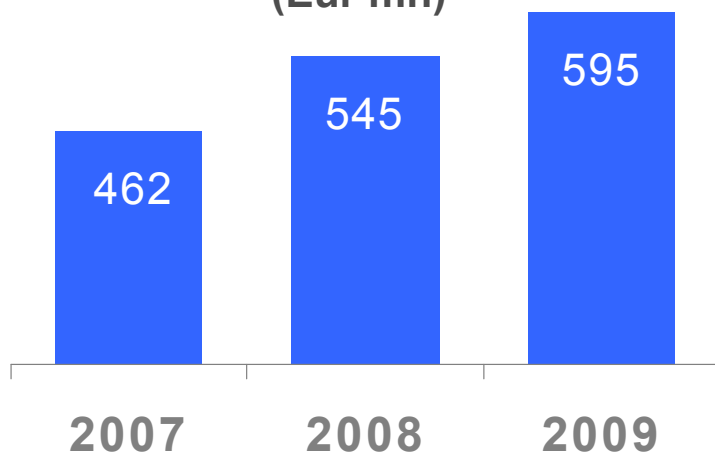


3. Outperforming local peers

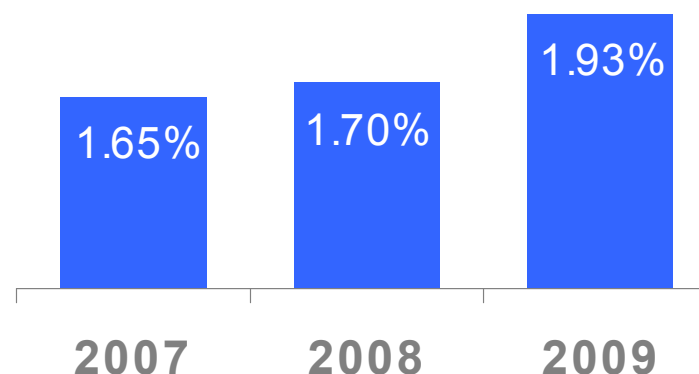
Improving results in **companies** with good risk profile

Medium sized enterprises and Large Corporates

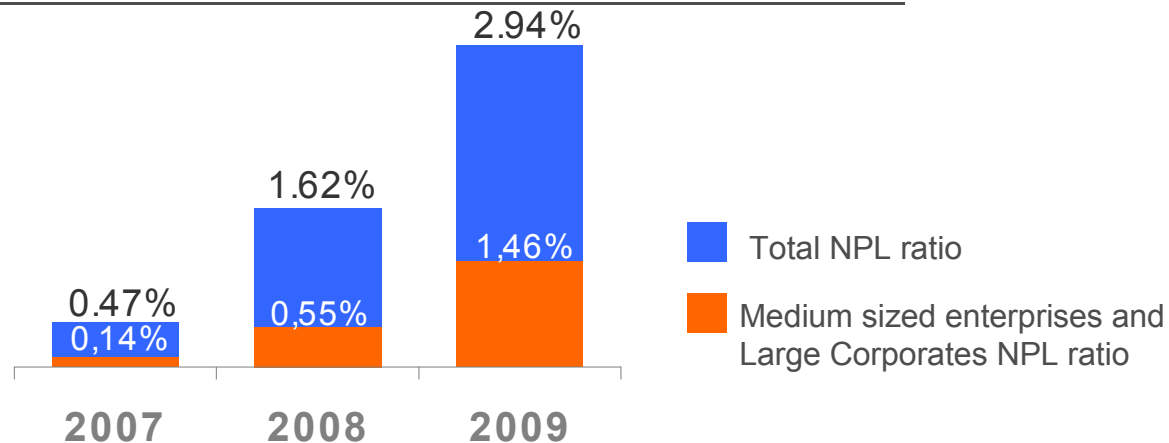
Gross Operating Income
(Eur mn)



GOI / EAD



Med. & Lar. Co. NPL ratio vs. Total NPL ratio

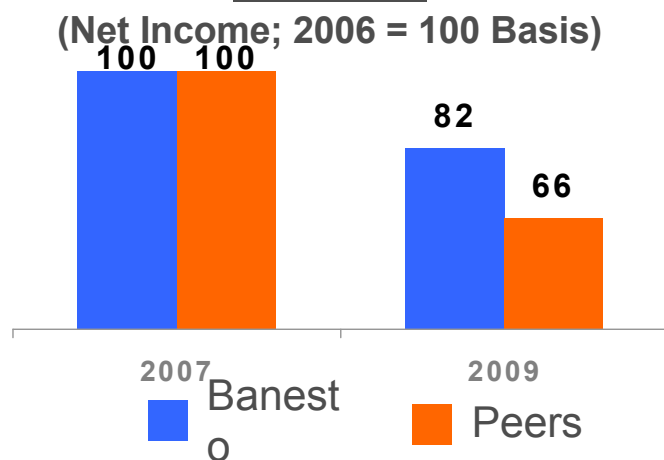


Concluding remarks

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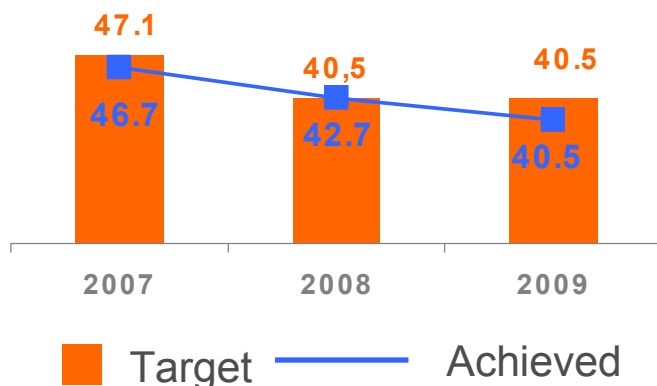
Through the crisis we have always delivered on our targets

In comparative Results

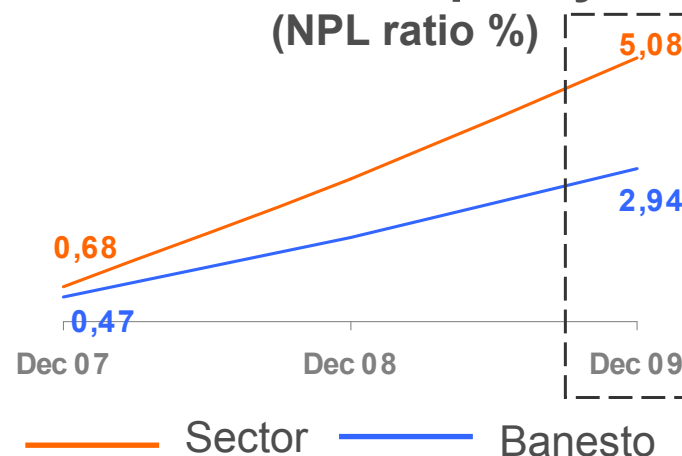


...and after record profit in 07 (EUR 764 mn) still grew in 08 (+ EUR15 mn), being one of the few European Banks which did not raise capital

In cost-to-income (%)



In credit quality

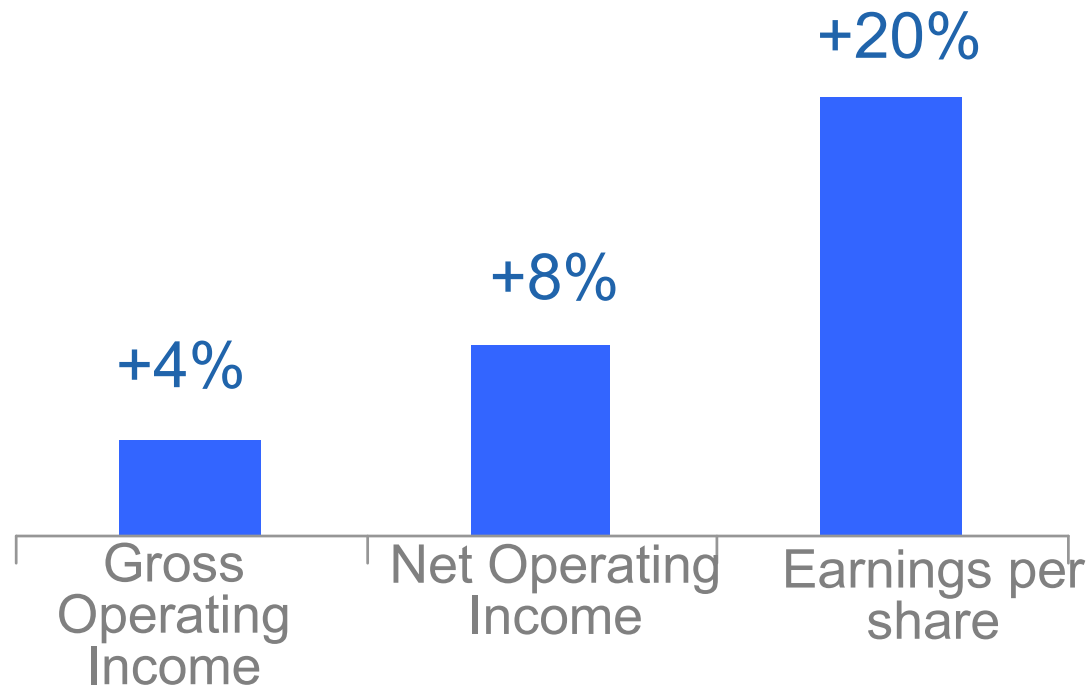


Concluding remarks

Market consensus acknowledges Banesto higher growth potential

Gap between Banesto and Peers 2009-2011

Source: Brokers research reports



**Our commitment: to continue
to outperform the market and peers**

**Targets
2010**

- Cost/Income < 38.9%
- NPL ratio: To maintain competitive advantage (gap with industry)
- Net income (% chg): Above industry and peer group

Banesto

A best-in-class managing the cycle

Morgan Stanley

London, March 2010