



Catalan Observatory. London School of Economics

***Some thoughts on the current economic situation.
The role of “la Caixa” in the Spanish Banking system***

Juan María Nin Génova, President and CEO

London, October 5th 2010

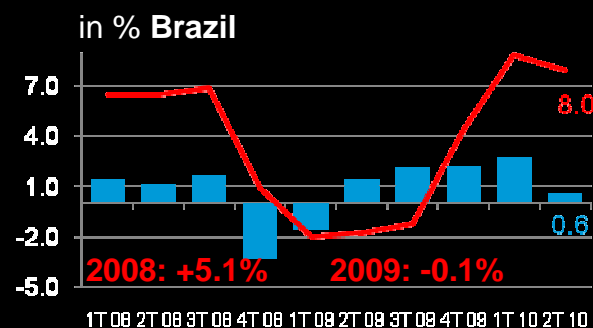
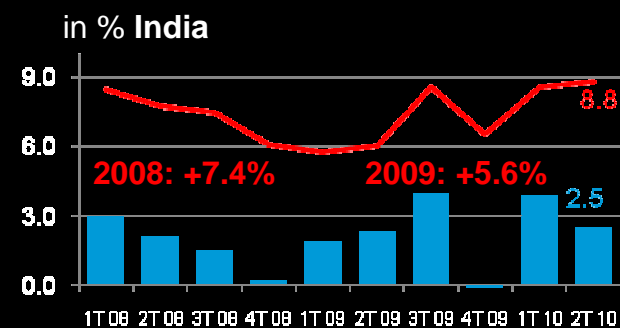
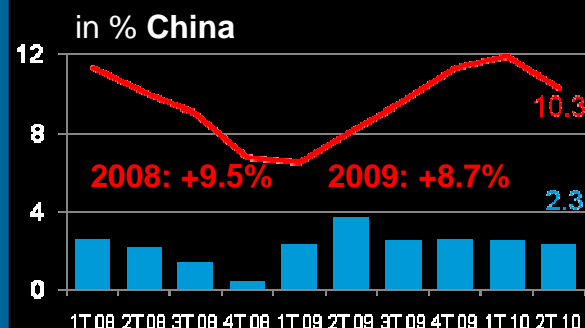
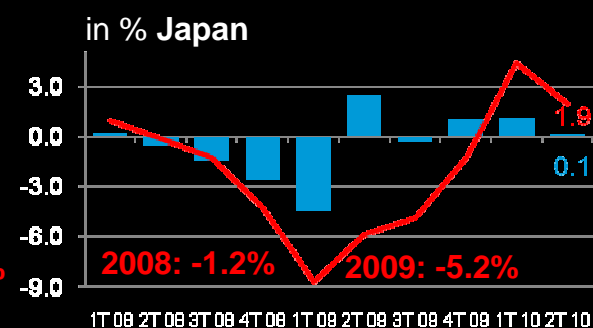
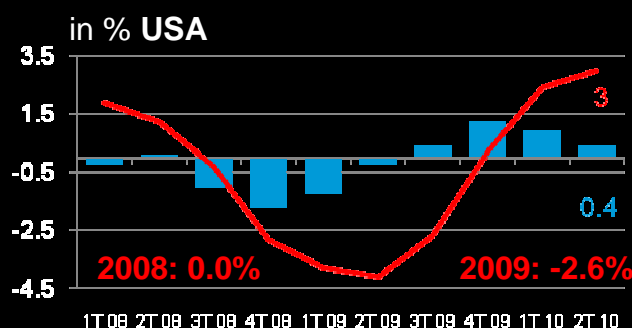
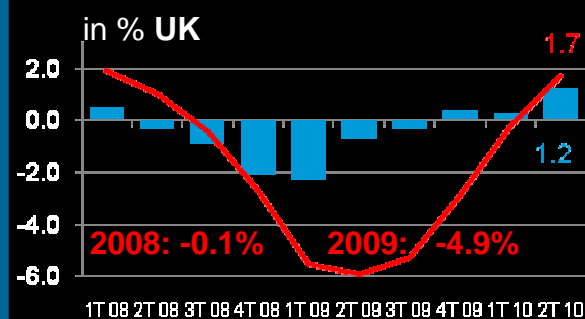
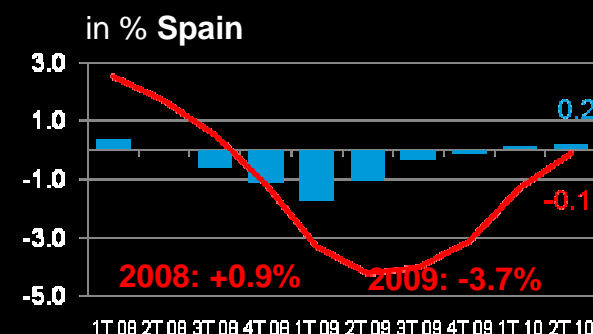
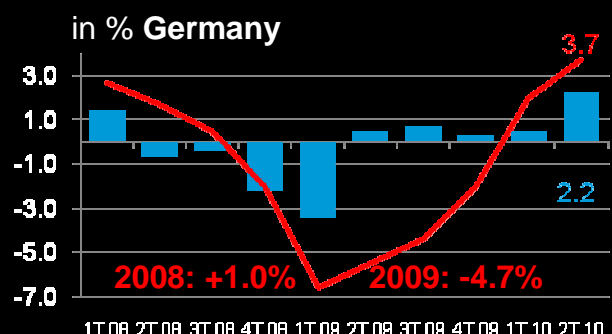
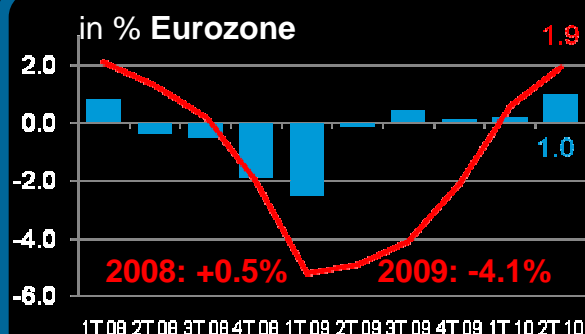
- 1. Some thoughts on the macroeconomic situation***
- 2. The role of "la Caixa" in the Spanish Banking system***



Where are we? Recovery seems to be underway... but doubts remain



— GDP YoY change
— GDP Quarterly change

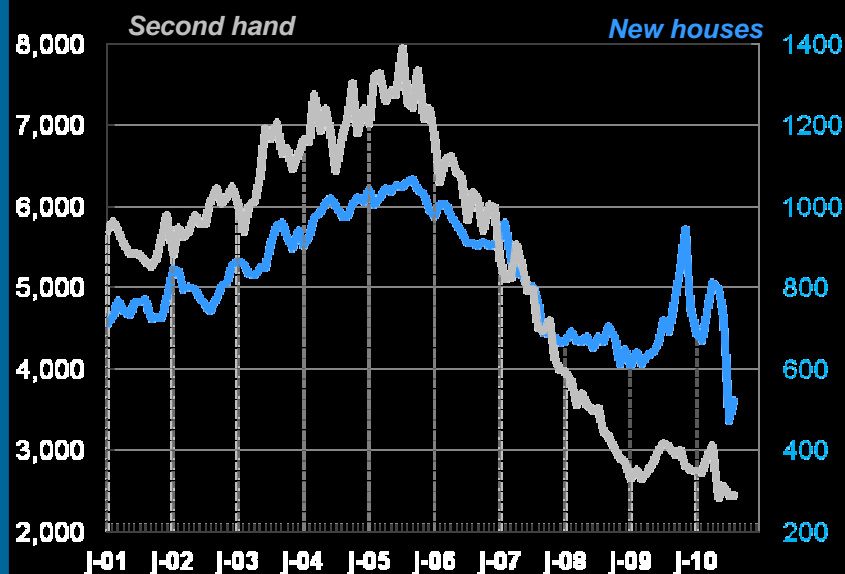


Different speeds of recovery?

Questions on economic global recovery arise in USA

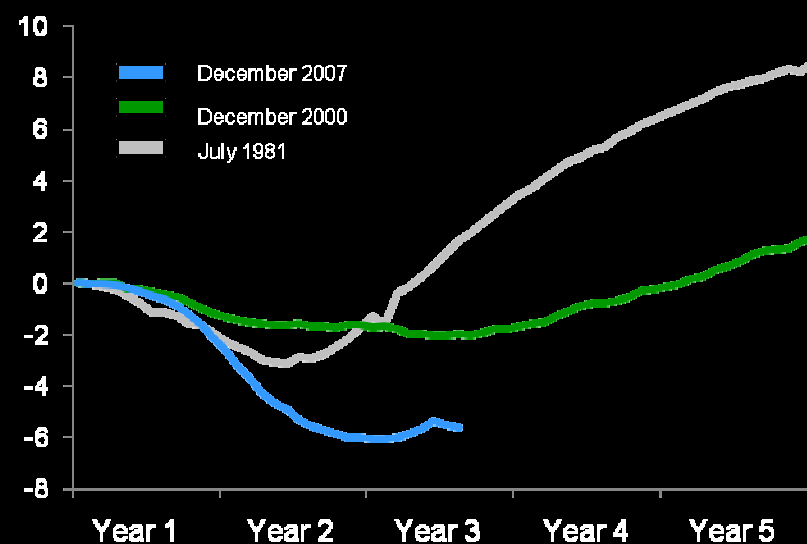
USA: Housing sales

(cumulative 12 months, thousands)



USA: Loss of jobs

As % of all employed workers at the start of the decline



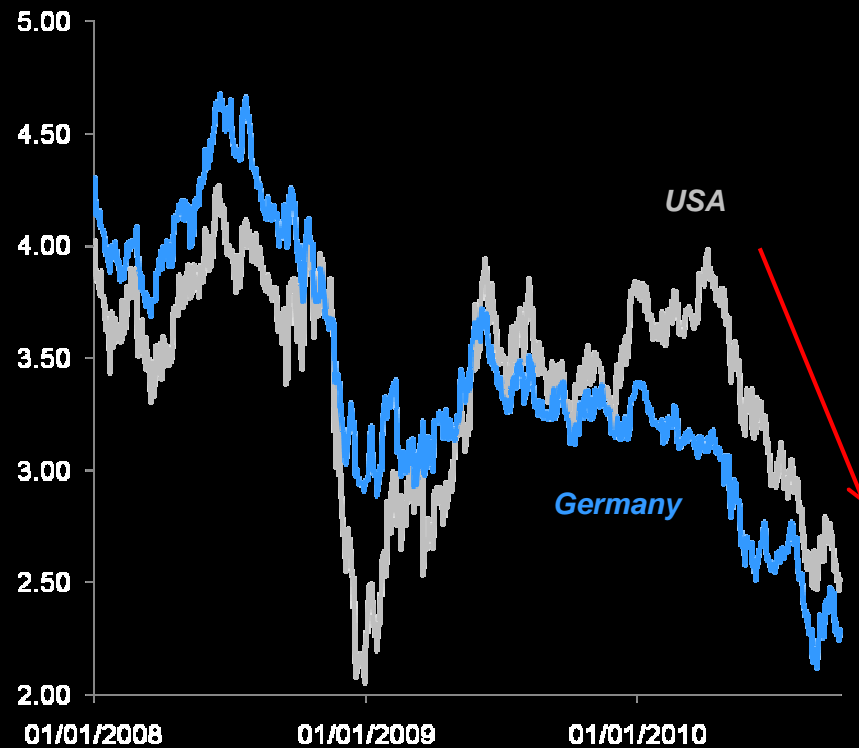
Recovery appears to be weaker than expected as a consequence of the withdrawal of the fiscal stimulus and the labour market, that is only recovering slowly

The fear: a double dip recession?

Lack of confidence affects financial markets...

10-year USA and Germany bond

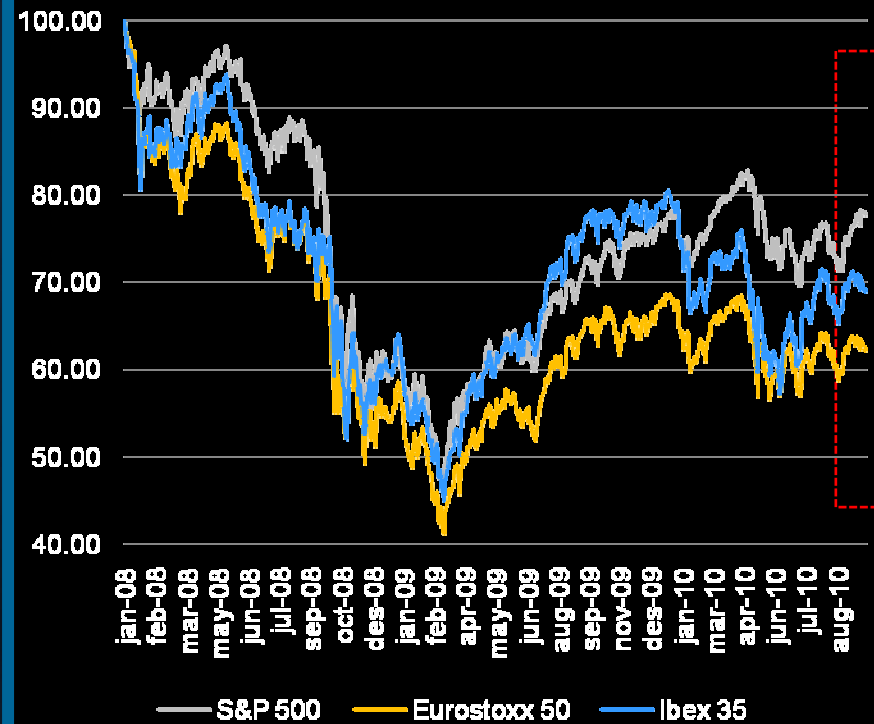
Yield (%)



The market discounts that Central Banks will maintain rates low for a long time

International Stock markets

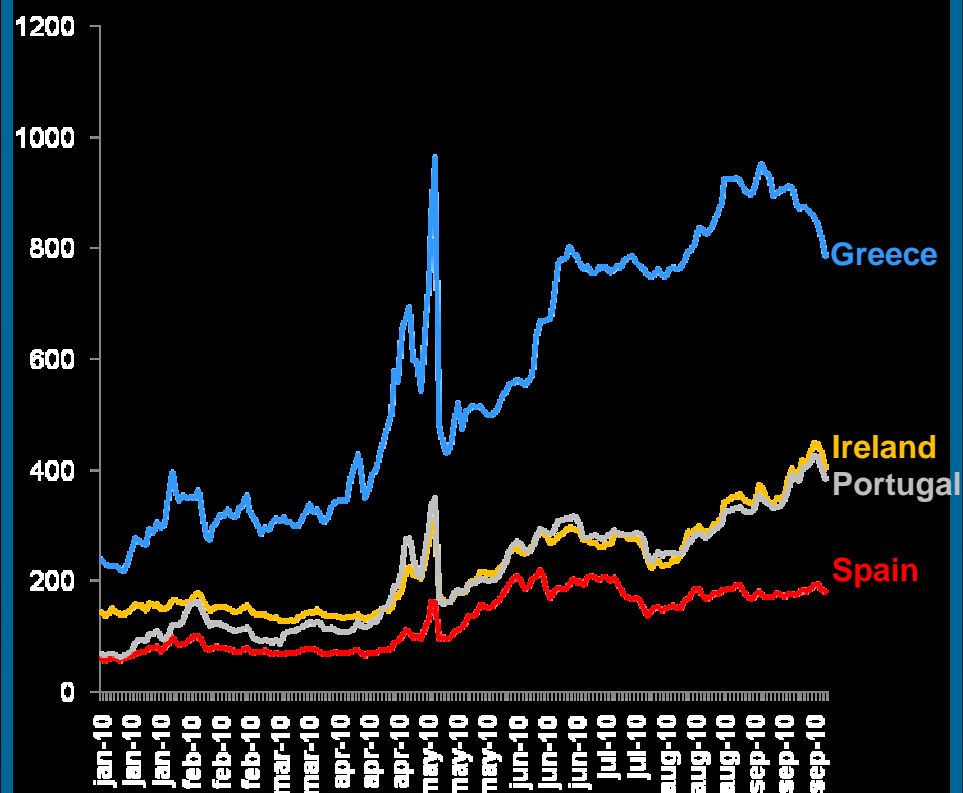
(January 2008 = 100)



Stock markets have returned to 2009 summer levels

... offsetting improvements in Europe after the publication of the Stress Tests results

Spreads against 10-year German bond
(basis points)



Sovereign debt ratings (September 30, 2010)

	S&P	Fitch	Moody's
Germany	AAA/Stable	AAA/Stable	Aaa/Stable
France	AAA/Stable	AAA/Stable	Aaa/Stable
Spain	AA/Neg	AA+/Stable	Aa1/Stable
Ireland	AA-/Neg	AA-/Stable	Aa2/Stable
Italy	A+/Stable	AA-/Stable	Aa2/Stable
Portugal	A-/Neg	AA-/Neg	A1/Stable
Greece	BB+/Neg	BBB-/Neg	Ba1/Stable

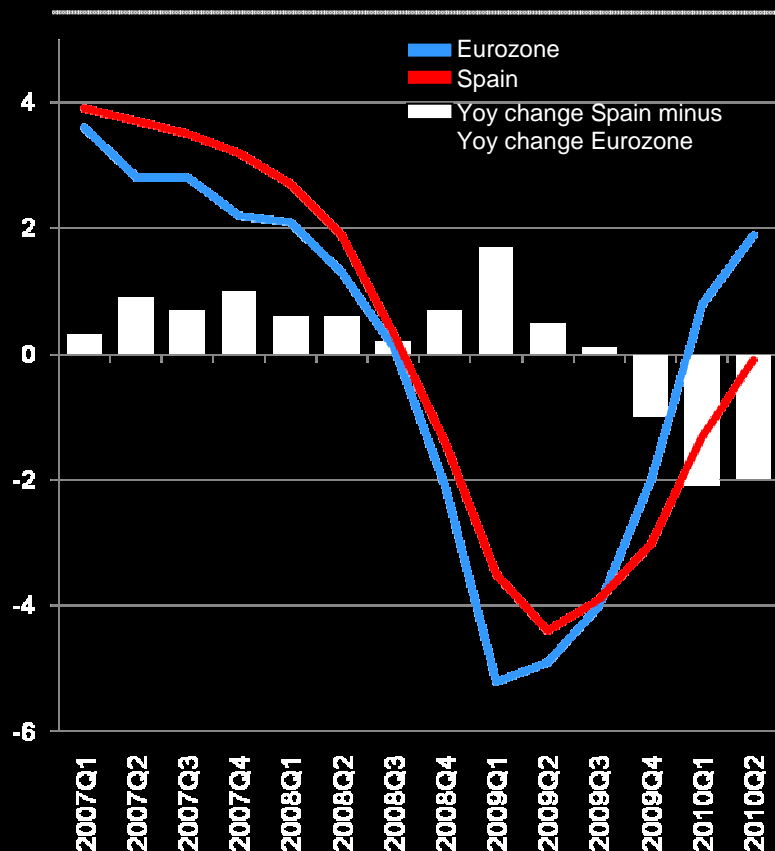
Sovereign risk premium on Spanish debt declined significantly after the publication of the stress tests results. Thereafter, yields have remained largely insulated from turbulences in other Euro sovereigns

What is the situation in Spain?

"Timing" is important



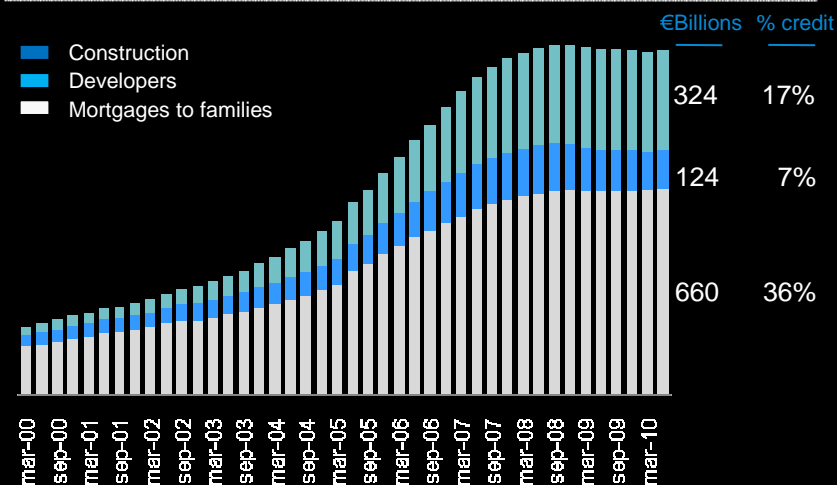
GDP (yoy change)



- Europe: problems arise with the subprime crisis

- Spain: problems arise later and connected with real state market

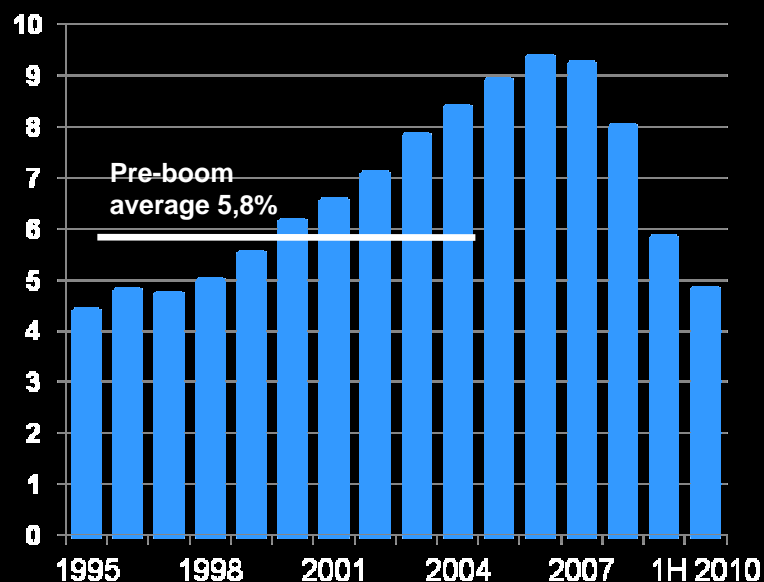
Spain: credit related to real state market



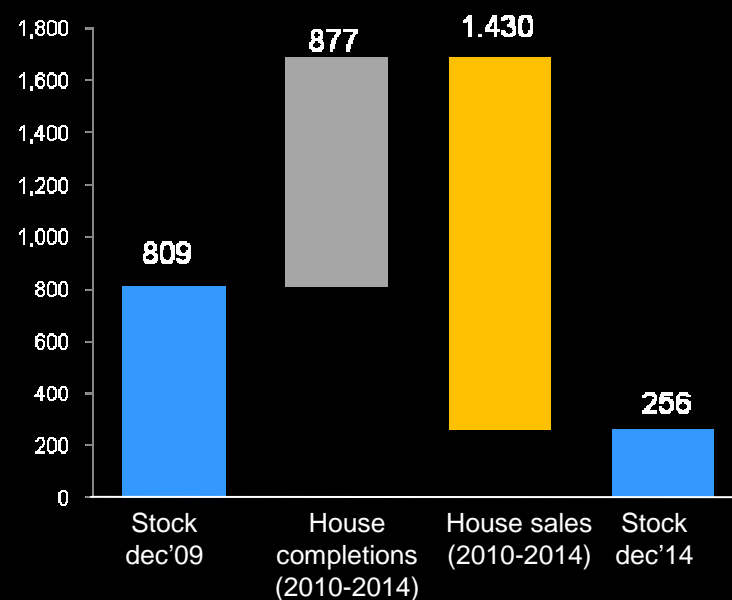
Real State Market: a sharp adjustment in housing starts has already taken place



Residential Investment (% GDP)



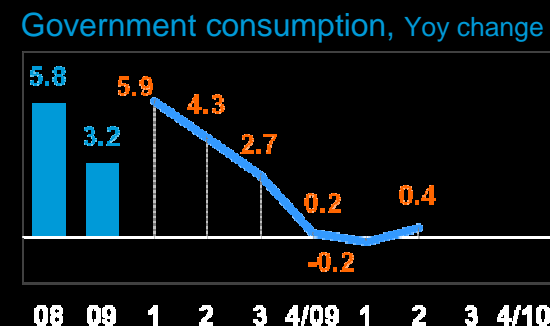
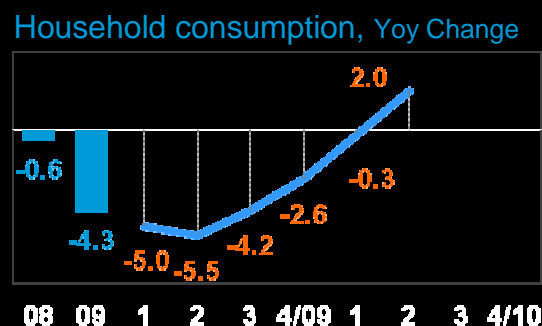
Spain: new housing for sale (thousands of units)



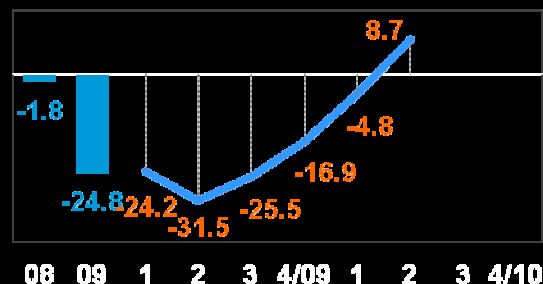
Based on a moderate pace of housing sales, the drop in new construction will help eliminations excess supply by 2014

Spain: economic activity continues to pick up in the second quarter

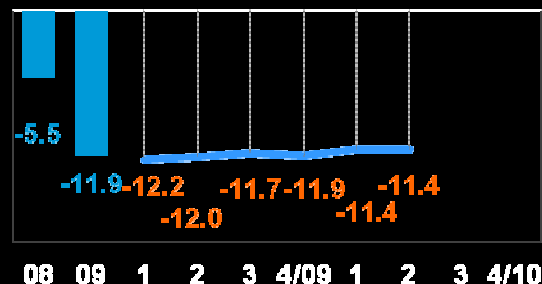
Spain



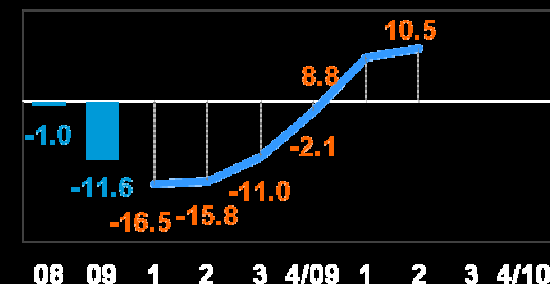
Investment in equipment, Yoy change



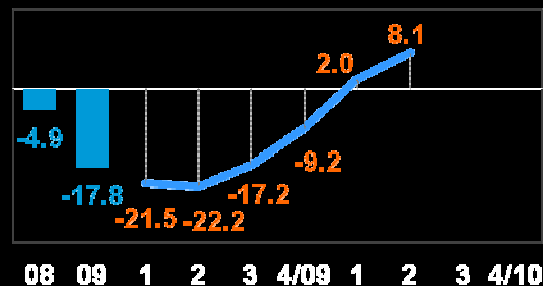
Investment in structures, Yoy change



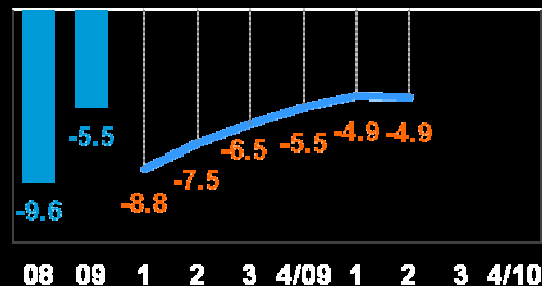
Exports of goods and services, Yoy change



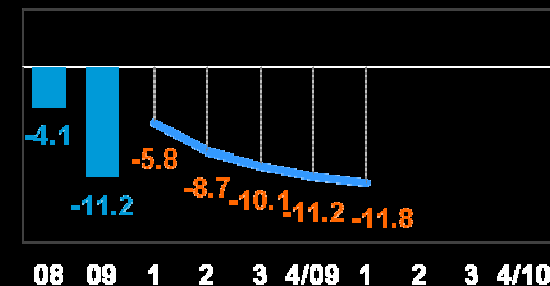
Imports of goods and services, Yoy change



Current account deficit (% GDP)



Government deficit (% GDP)

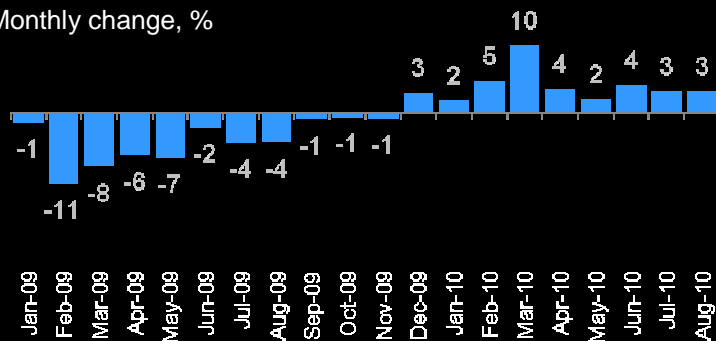


Families are doing their homework...



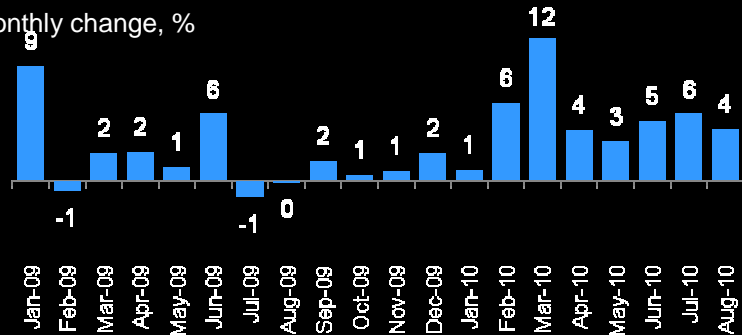
la Caixa": Credit Card turnover

Monthly change, %



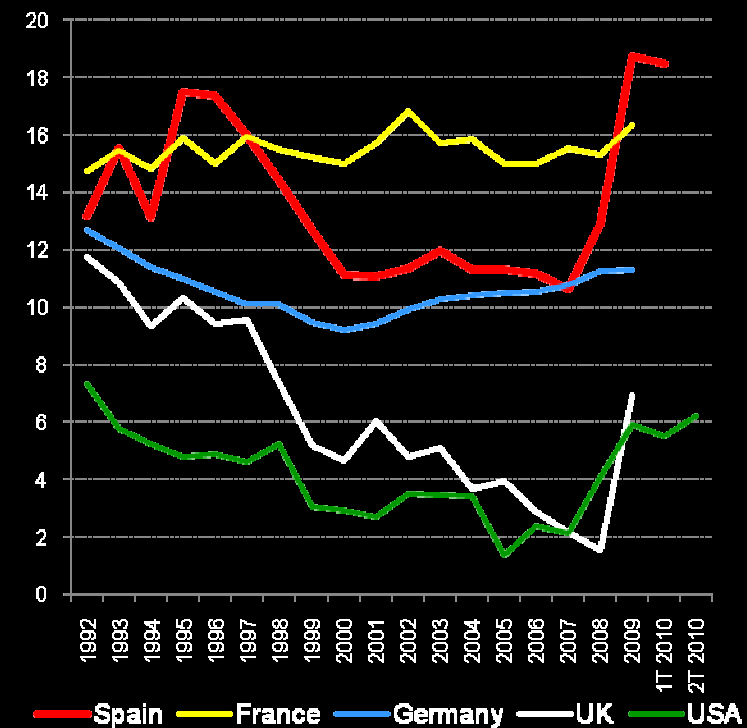
la Caixa": Retail turnover

Monthly change, %



Improvement in credit and debit card purchases and retail turnover

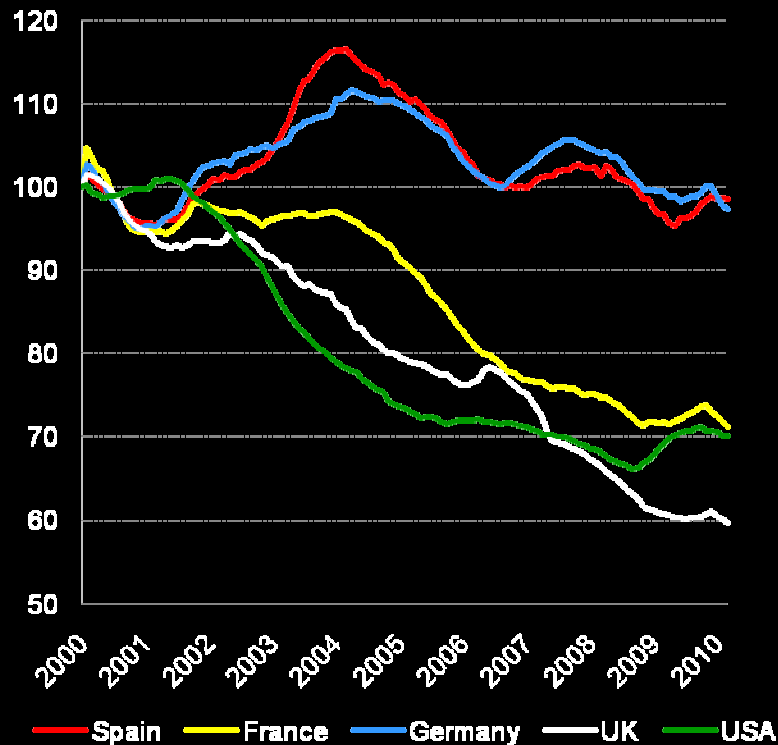
Household Savings rates (% Gross disposable income)



Household savings rates hit record for the last few decades
(From 2007, the average mortgage payment has reduced by ~€2,400/year)

... and Spanish companies, too

Share in world exports
(Year 2000=100)



Despite losses in price competitiveness, merchandise exports have shown remarkable resilience

Spanish companies have internationalized significantly over last decade

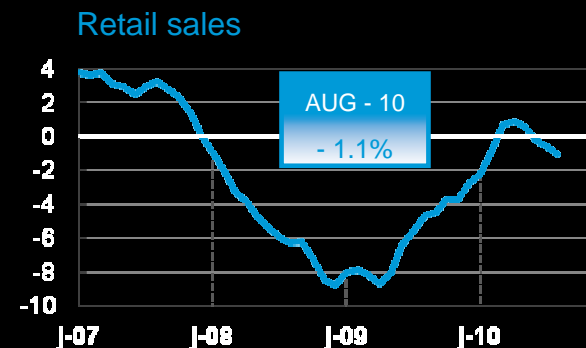
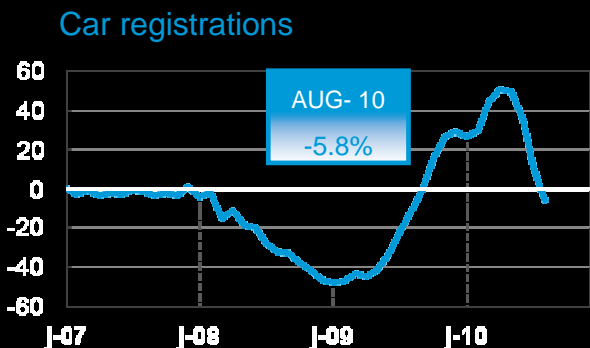
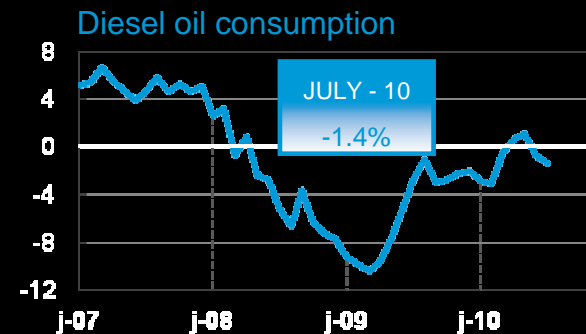
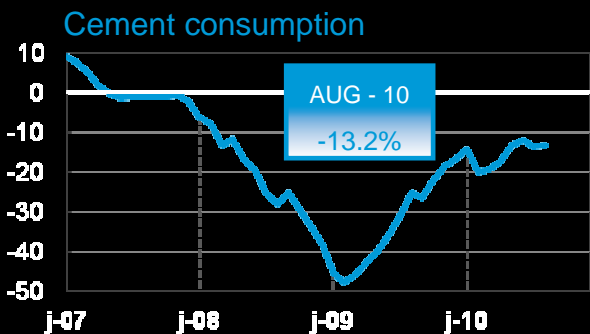
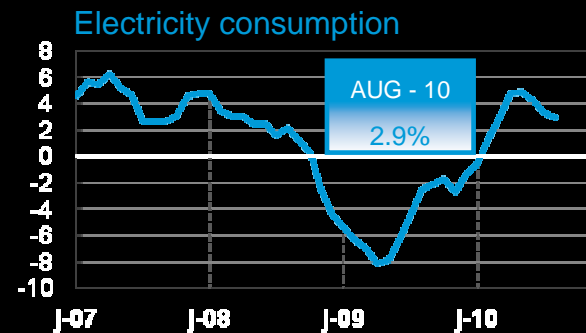
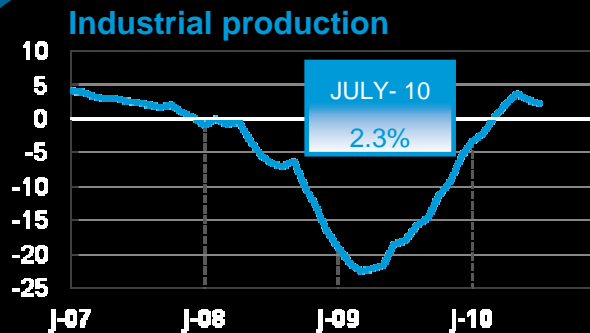


52% of IBEX-35 companies' income comes from outside Spain

But leading indicators show some weakening in the second semester



% yoy change (moving average 3 months)

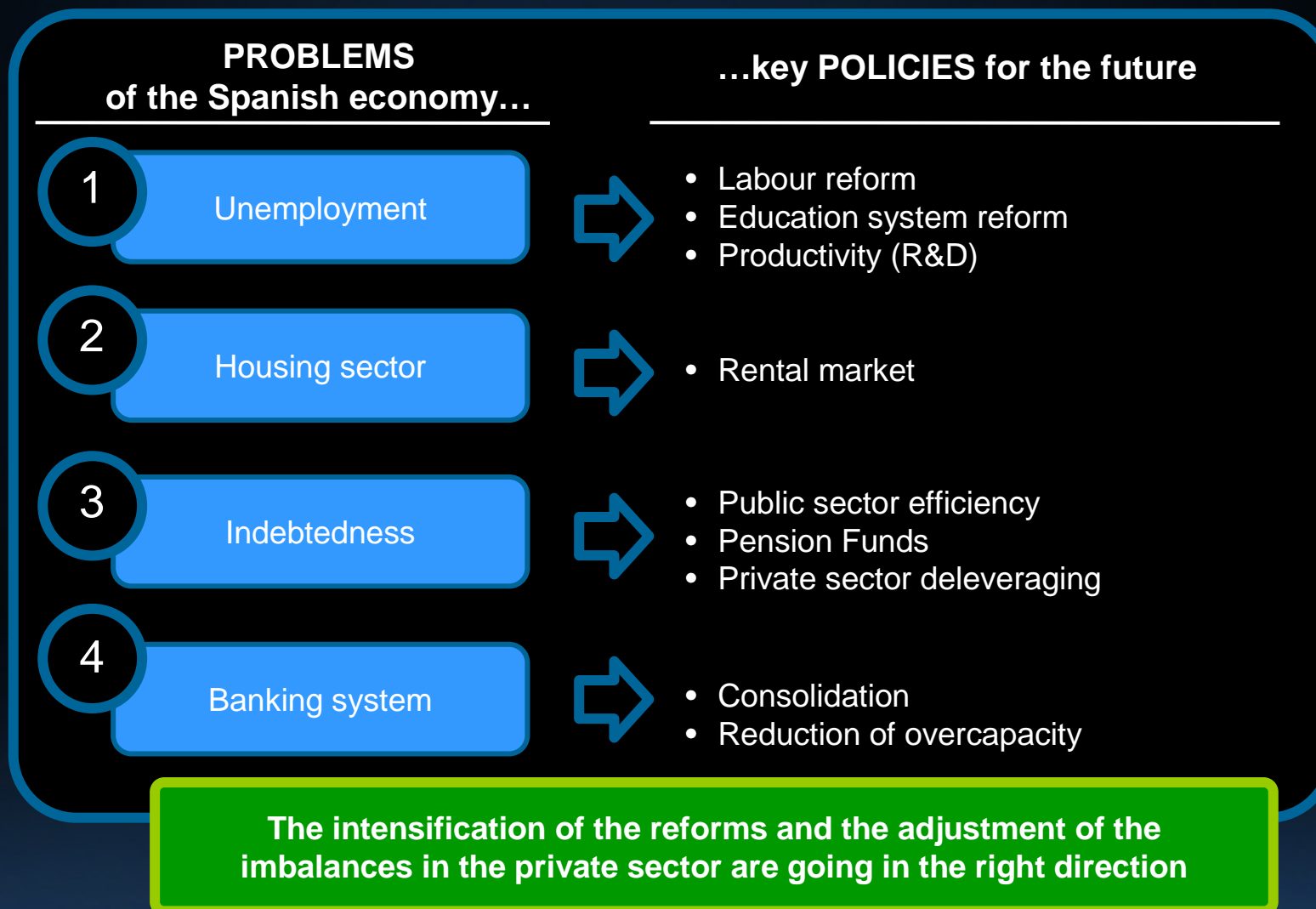


VAT effect?

Public investment
adjustment effect?

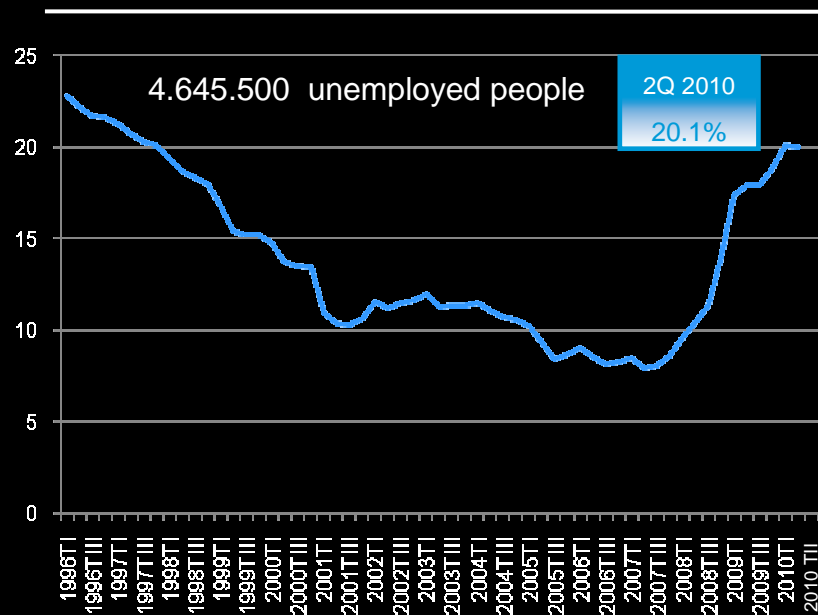
Public consumption
adjustment effect?

So, economic perspectives are better than a few months ago but uncertainty persists



Headwinds to growth: unemployment and housing sector

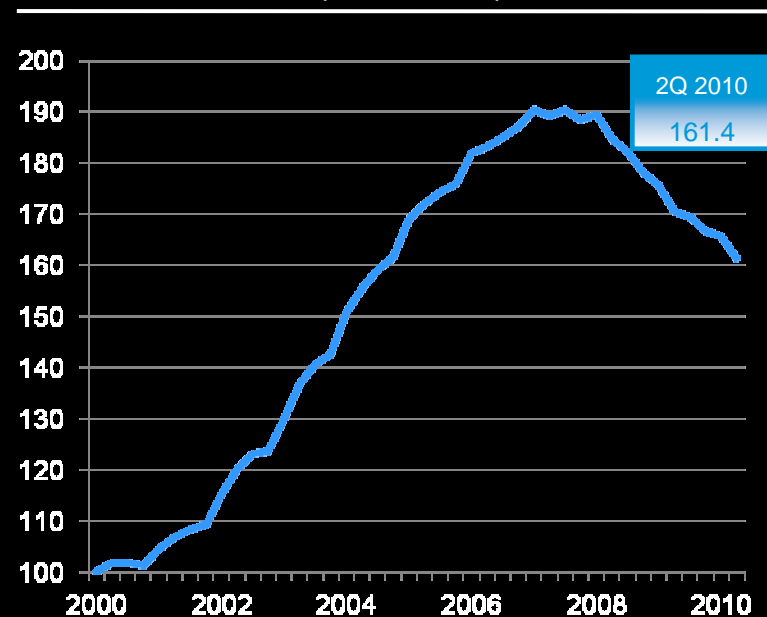
Unemployment rate
(% of active population)



A dual labour market: most job losses have affected those on temporary contracts

High unemployment will be a drag on the recovery

Housing prices
(2000=100)



Adjustment in sectors with overcapacity.

In the second quarter of 2010, residential investment fell to 4.7% of GDP

*The economy needs to deleverage:
Indebtedness has grown a lot, but it is still lower than in other countries*



	Total Debt			External Debt		
2009, % GDP	Total Debt ¹	Private debt ¹	Public debt	External debt ²	Private external debt ²	Public external debt
Belgium	325%	217%	108%	258%	199%	59%
Ireland	318%	254%	64%	931%	887%	44%
Portugal	311%	237%	73%	233%	173%	60%
Spain	289%	227%	62%	168%	140%	28%
UK	286%	219%	67%	405%	387%	18%
Netherlands	274%	209%	65%	297%	254%	43%
USA	255%	172%	83%	97%	71%	26%
Greece	249%	122%	126%	170%	80%	91%
France	245%	162%	83%	191%	142%	48%
Italy	240%	127%	114%	118%	66%	52%
Finland	222%	174%	49%	167%	126%	40%
Austria	219%	141%	77%	208%	152%	55%
Germany	205%	129%	76%	148%	111%	37%

Spain has an important level of total debt (private and public) but its external debt is lower than in other countries. Public indebtedness is still lower than in other European countries

(1) Excluding financial sector

(2) Including financial sector

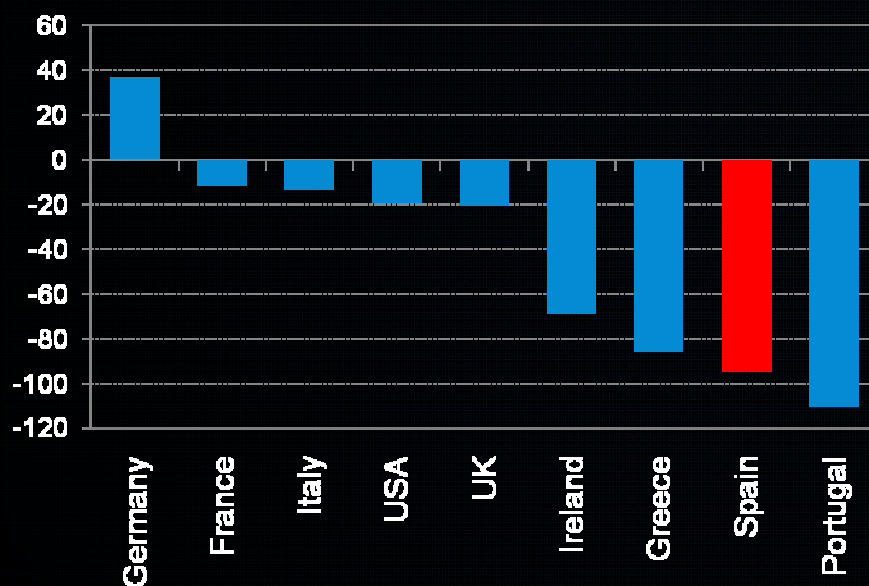
NOTE: In countries where offshore banking is important, external debt could be larger than total debt (i.e UK)

Source: Research Department, "la Caixa"

*Net international investment position is negative
but its cost over the last decade has been modest*

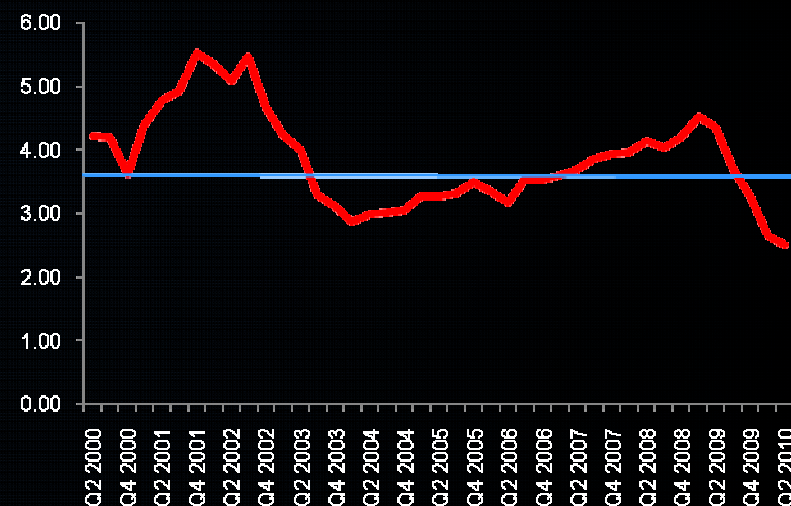


Net international investment position (assets-liabilities)
(% GDP)



- Spain has a large negative investment position

Cost of Spanish international investment position
(% NIP)



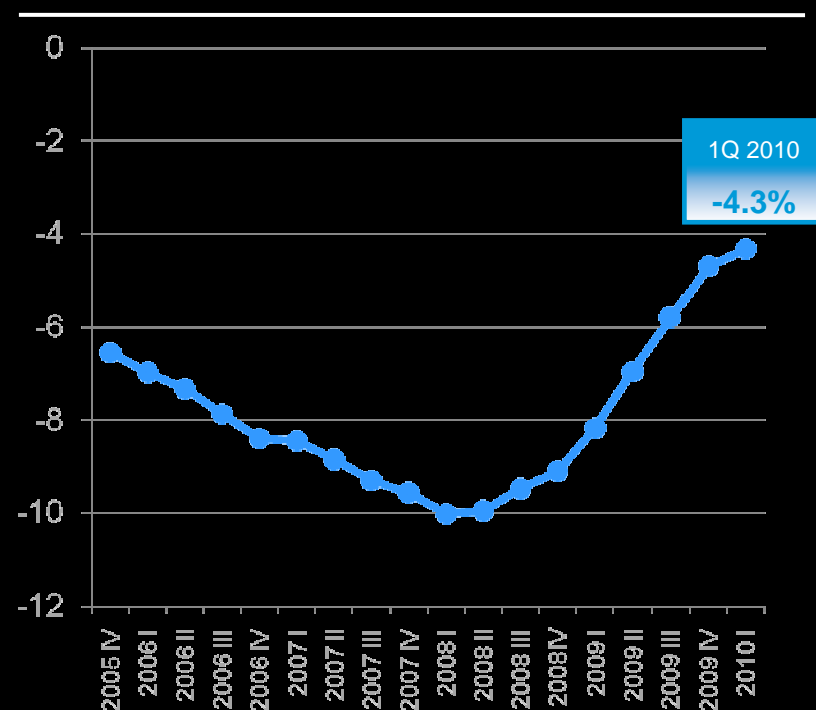
- The cost, however, over the last decade has been modest (averaging less than 4%)
- Over the last 4 quarters, the average cost stood at about 2.5%

**Sustainability requires a low current account deficit,
a return to growth while maintaining investor confidence**

Moreover, the efforts made are reducing external financing

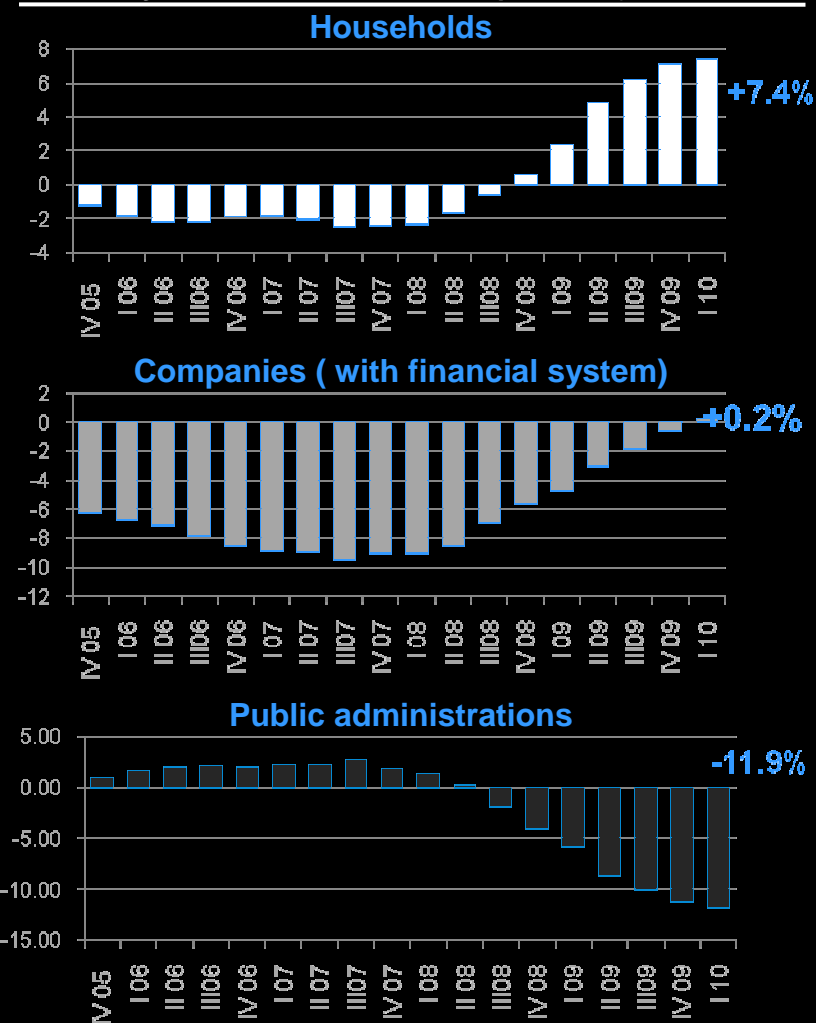


Net lending or net borrowing with rest of the world
(% GDP)¹



This adjustment is not observed in other countries with similar imbalances at the beginning of the crisis

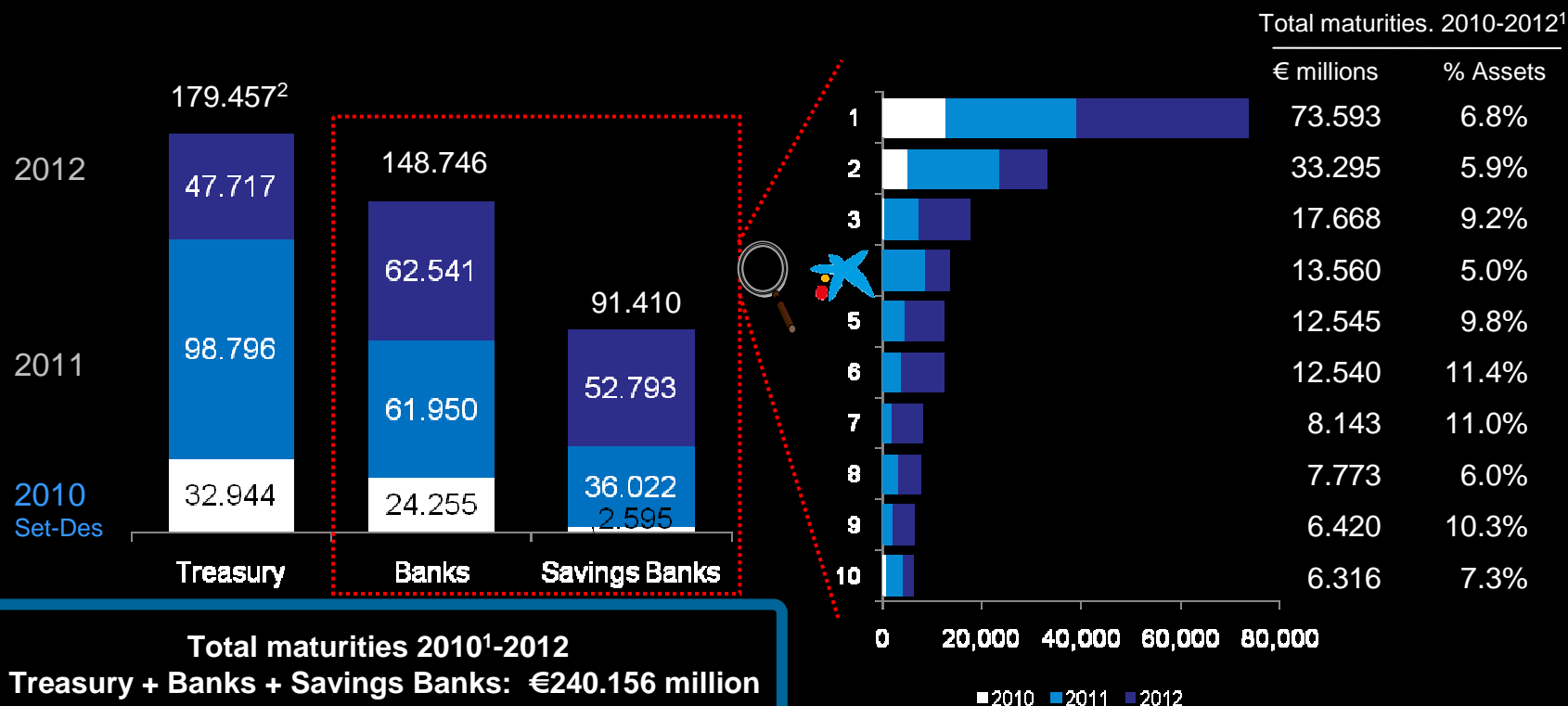
Net lending or net borrowing
by institutional sector (% GDP)¹



(1) Cumulative figure for 4 quarters
Source: INE

However, market perception of our risk adds pressure to debt renovations and their cost

Maturities of debt issues 2010-2012 in the Spanish economy ¹, million €



May-June: Difficult access to market funding

September: Access to international financing has improved after the publication of Stress Tests

(1) Maturities from 4Q 2010 to 2012

(2) It does not include additional needs of financing because of deficit

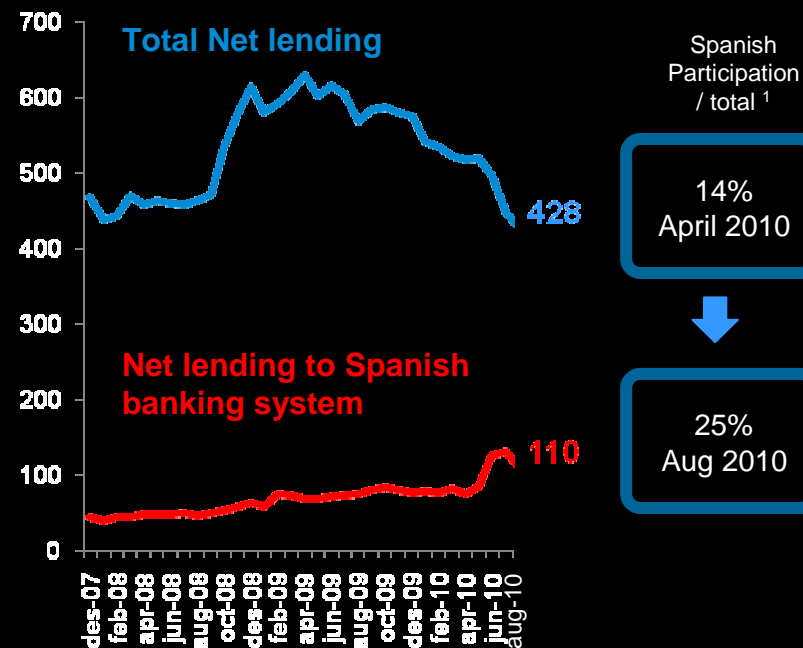
Source: Bloomberg, Treasury, Balance of Payments (Bank of Spain)

The tightening of international funding increased reliance on ECB lending during the first half of 2010... and caused an intensification of the “war for liabilities”



Eurosystem net lending

Monthly averages in billions of euros



Spain: Sources of external financing

Billions of euros, net

	2009 Jan-June	2010 Jan-June
Direct investment	0.6	7.9
Portfolio investment	-0.9	-13.2
Other investment (incl. Interbank lending)	26.5	-34.1
ECB/Bank of Spain	5.9	71.2
Total	32.1	31.8

The current problem is liquidity,
not solvency

(1) ECB Net lending to Spanish entities over ECB Total net lending
Source: Bank of Spain

In that context, the Spanish banking system is moving ahead: consolidation and resilience

Consolidation: restructuring of savings banks is underway

13 processes in progress (5 IPS¹ and 8 mergers)
Only 5 savings banks are not involved in consolidation processes

	Savings banks		Banks	
	from	to	from	to
Top 2	35%	46%	79%	79%
3-10	33%	42%	17%	18%
Other	32%	12%	4%	3%
.....				
Entities	45	18	31	30

45
Savings Banks



18
Savings Banks

Mergers and IPS in progress should contribute to building a stronger financial system and reducing overcapacity

Transparency and resilience: Stress Tests showed the resilience of the Spanish Banking System



Europe: 91
institutions analysed
(65% of the system)

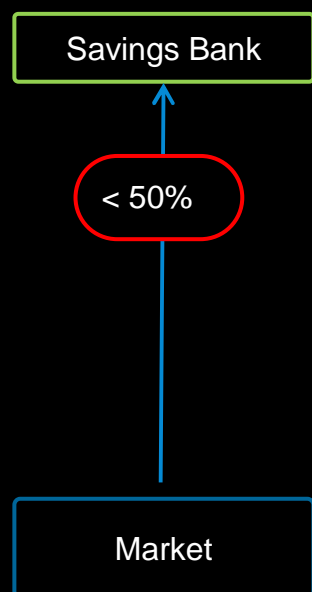
Spain: 27
institutions analysed
(95% of the system)

- 7 European entities would have a Tier 1 capital ratio below 6% in the most severe scenario. Capital injection required 3.5 billion euros
 - 4 Spanish savings banks. Capital injection required in the worst scenario 1.8 billion euros (0.3% of GDP).
 - The FROB has already injected 10.6 billion euros (1% GDP)

The reform of the savings bank law creates new options to access capital markets

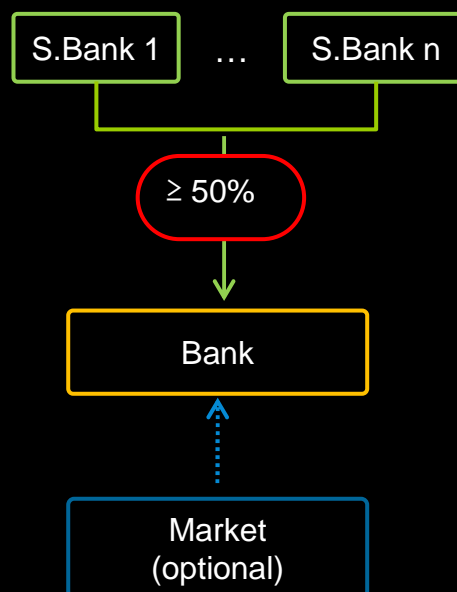


Equity certificates: Cuotas participativas



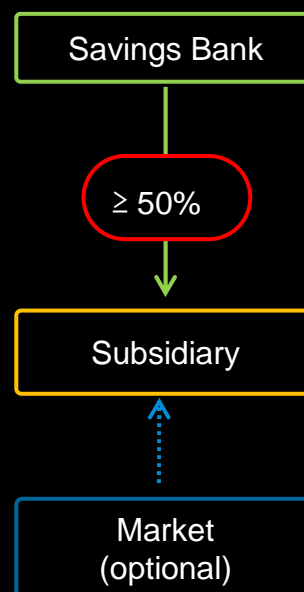
Issue of "cuotas participativas", similar to shares

Cold merger: Institutional Protection Scheme (IPS)



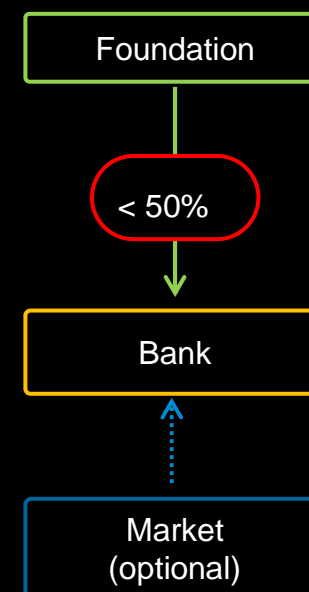
Transfer of financial business (total or partial) of different savings bank to a bank

Savings bank controls a bank



Transfer of financial business to a subsidiary, maintaining the condition of s. bank

Savings bank becomes a foundation



Conversion into a Foundation and transfer of financial business to a bank

The new law creates different mechanisms to facilitate the access of savings banks to capital markets

Although, the impact of the proposals of the Basle Committee on Banking Supervision adds more pressure to our financial system



Proposals of the Basle Committee (Basle III)

Capital

- **Higher quality of capital:**
Limits and stricter deductions → Transition period 2014-2018
- **Higher minimum requirements:**
4.5% C.Capital, 6% Tier 1 Capital, 8% Total capital → Transition period 2013-2015
- **Capital conservation Buffer:**
2.5% additional → Transition period 2016-2018
- **Countercyclical buffer:**
0-2.5% additional → National discretion

Liquidity

- **Two new ratios**
 - LCR-Short term: Liquid assets/Net cash outflows over a 30-day time period → 2015
 - NSFR-Long term: Available amount of stable funding/Required amount of stable funding → 2018

Leverage

- **New ratio**
Tier 1 Capital/ Total assets > 3% → Calibration 2013-2018

New proposals affect business models of financial entities and could damage economic recovery



	Basle III proposals	Impact
	<u>Limits and deductions</u>	
Capital	<ul style="list-style-type: none"> Exclusion of minority interests of non-banking subsidiaries from core capital 	<ul style="list-style-type: none"> • Industrial shareholdings
	<ul style="list-style-type: none"> Minority stakes in banking entities: deduction from core capital* 	<ul style="list-style-type: none"> • International expansion with local players
	<ul style="list-style-type: none"> Insurance affiliates: deduction from core capital* 	<ul style="list-style-type: none"> • Bancassurance model
Liquidity	<ul style="list-style-type: none"> Retail deposits stability: underestimation of proven stability of household and SME deposits 	<ul style="list-style-type: none"> • Retail banking business model
	<ul style="list-style-type: none"> ECB facility or government-guaranteed debt: Not recognized as source of funding 	

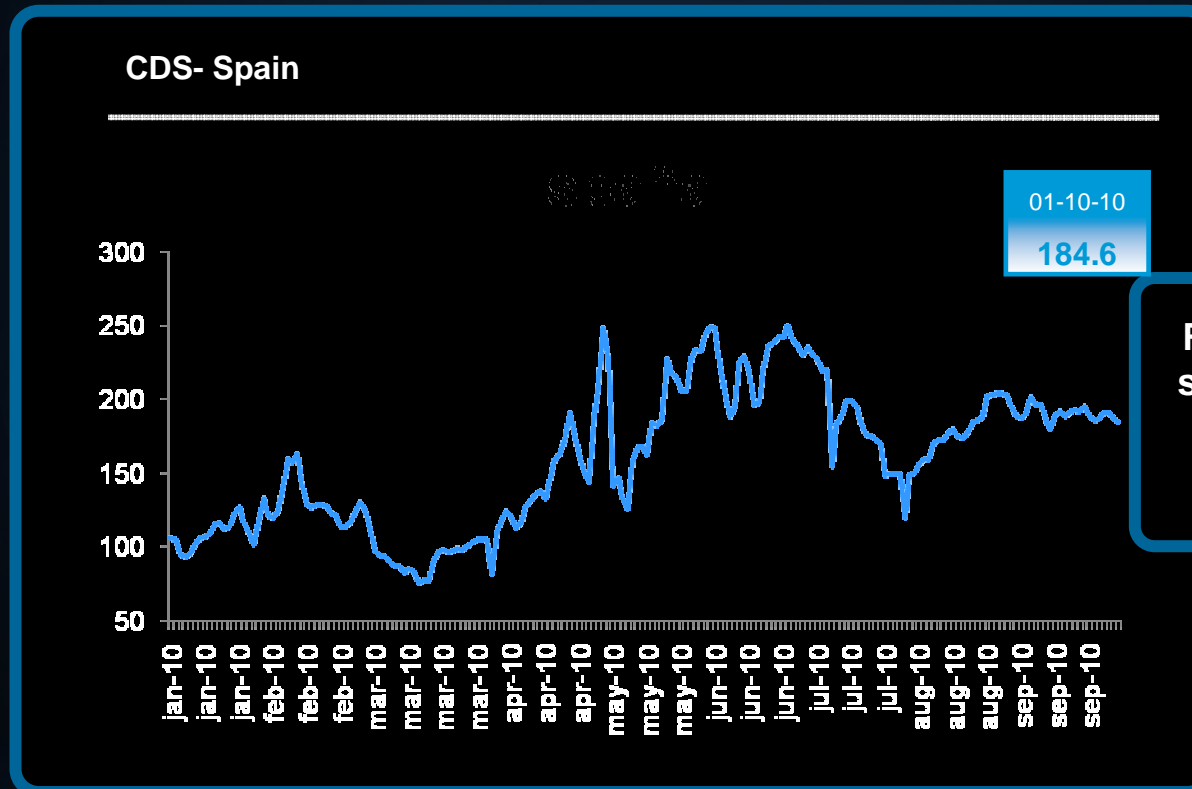
Compliance with the new proposals might imply a restriction on the supply of credit with the subsequent impact on economic recovery

According to internal calculations, **with the initial proposals** Spanish institutions would need to restrict credit by around 14% added to other actions to capture capital ¹. This reduction might have an impact on GDP levels of 5% in the long term. New capital requirements could be 48 €bn and 300 €bn of liquidity.

*Recognition of the part that jointly does not exceed 10% of core capital

(1) THE IMPACT FOR SPAIN OF THE NEW BANKING REGULATIONS PROPOSED BY THE BASEL COMMITTEE, "la Caixa" WP 01/2010

To sum up, the Spanish economy has some imbalances but they are improving. The question is, does the market have a balanced view of the risks?



Risk premium does not seem to properly reflect the fundamentals of our economy

The Key: our EQUITY STORY

1. *Some thoughts on the macroeconomic situation*
2. *The role of "la Caixa" in the Spanish Banking system*



In that context, “la Caixa” is a reference in the Spanish Banking System



“la Caixa” Group, a leading financial Group



A financial institution of reference

- 3rd Spanish financial group. Leader in retail banking
- Model of universal banking with multi-channel management
- Excellence in service to customers
- Sound risk profile
- Consolidation of financial strengths: solvency and liquidity



The largest investment portfolio in Spain

- Under Criteria CaixaCorp's management
- High quality investments in the services and financial sectors
- Vehicle of international expansion
- Stability in our turnover



Social commitment

- € 500 million in 2010 to Welfare Projects
- The same budget for the last 3 years
- Our most contemporary value

The Strategic Plan 2007-2010 is put into practice with anticipated and adapted management



Strategic Plan 2007-2010

Banking in Spain

Leading the national market

Private banking

Personnel banking

Corporate and business banking

SME banking



International banking

- New business opportunities
- Support customers
- Risk diversification

Criteria Caixa Corp

- Vehicle of internationalization
- Active management
- Market contrast

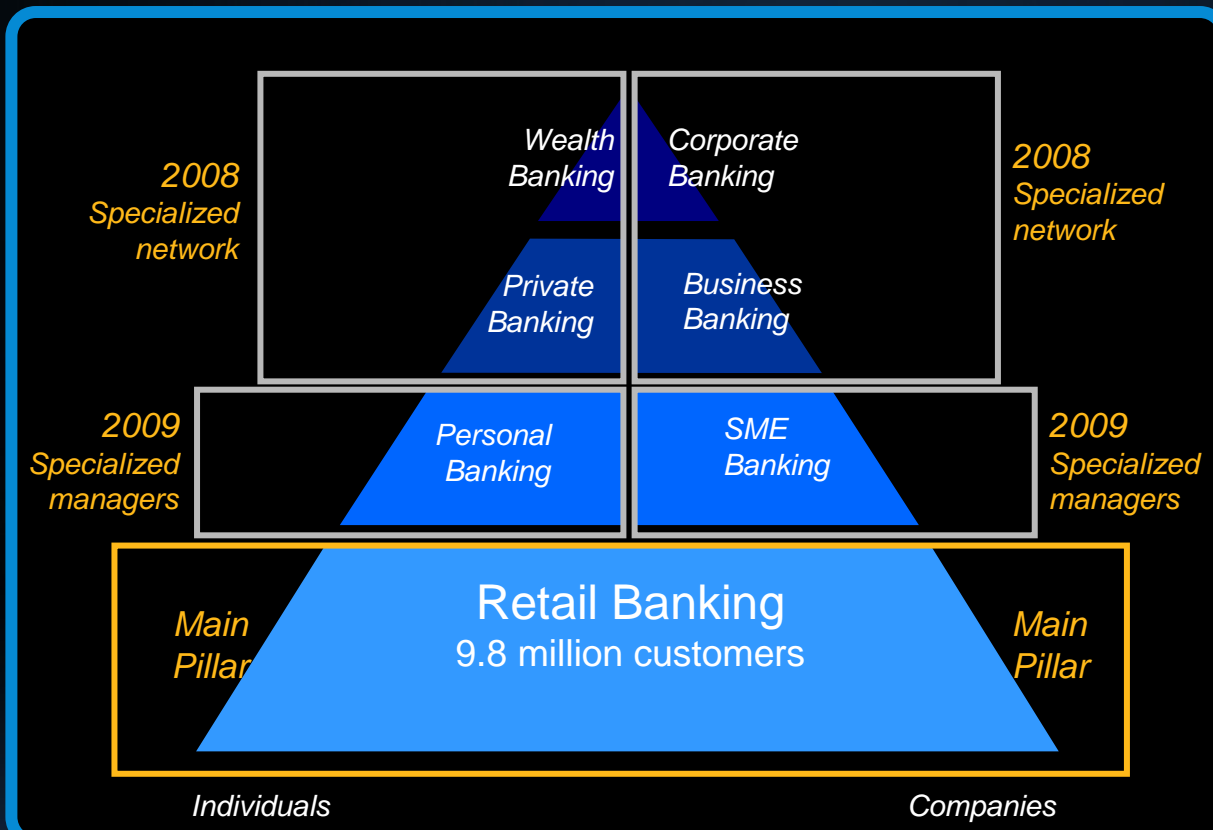
Retail banking as a main pillar

A strategy to offer the best and the broadest service

Banking in Spain:
a business model based on retail banking...



Strategic Plan 2007-2010: Consolidate retail banking together with the development of complementary business segments



"la Caixa" is the financial brand with the highest reputation



"la Caixa" is the institution with the lowest complaints rate per business volume



"la Caixa" is leader in the ranking of company to work for in Spain



In spite of market circumstances we have achieved the goals of our strategic plan

***Focus on turnover:
Leaders in retail banking...***



Market shares and position in the ranking

1^o

	Market share
Credit cards turnover	17.4%
Retailer bankcard turnover	21.0%
Payroll direct debiting	15.5%
Pension direct debiting	13.1%
Demand deposits	11.4%
Life insurance	14.0%
Mortgages	10.2%
National elec. clearing system	12.8%
Branches	11.9%
ATMs	13.0%
Internet Banking	30.6%
Mobile Banking	49.0%

2^o

	Market share
Pension Funds	16.1%
Loans	9.8%
Commercial loans	8.8%
Long-term deposits	9.7%

3^o

	Market share
Factoring and Confirming	12.4%
Investment Funds	10.7%

21.6%
penetration

15.8% as first
institution

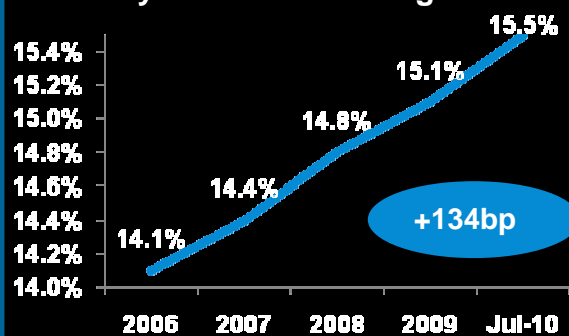
*Note: figures at June 2010, according to the latest available information
Source: FRS/Inmark clientes particulares; Banco de España, Inverco, SNCE*

With a generalized gain in market shares

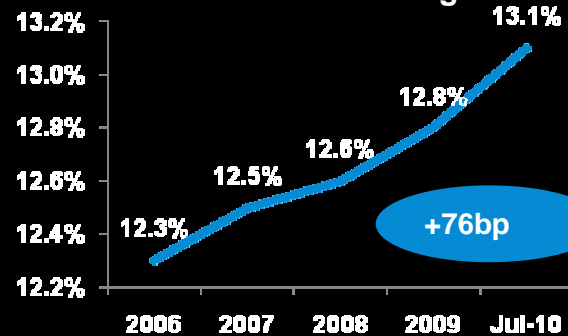


Market shares, in %

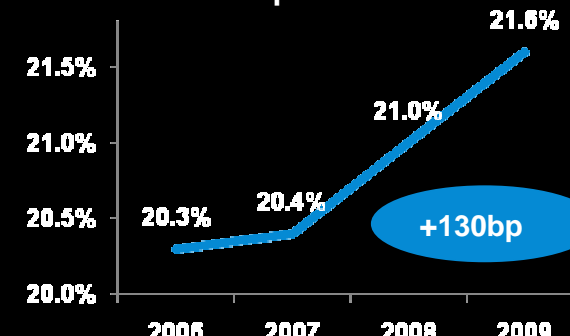
Payroll direct debiting



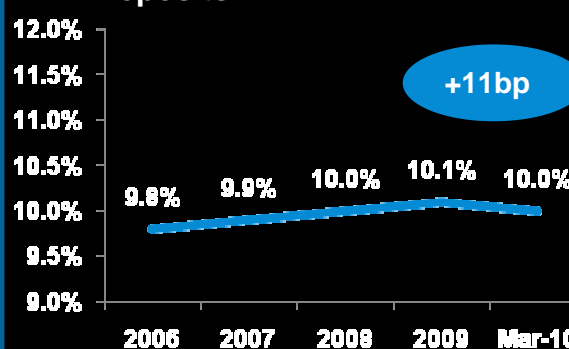
Pension direct debiting



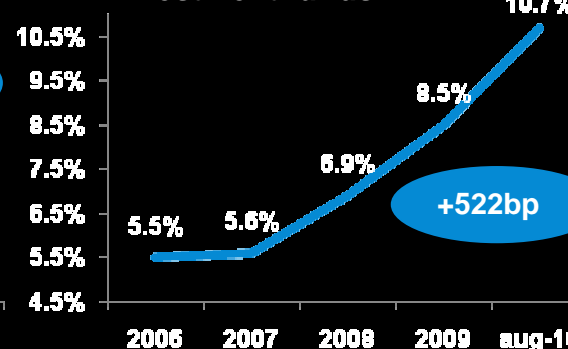
Customer penetration



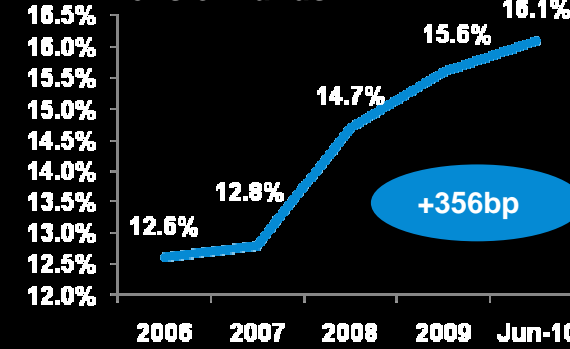
Deposits



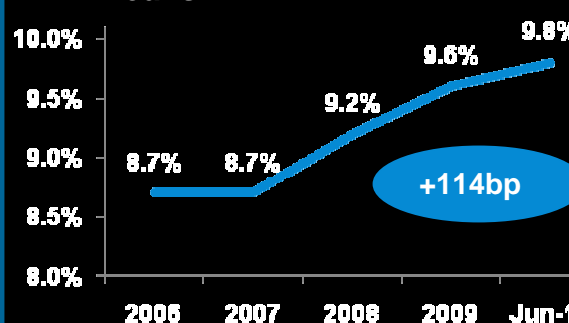
Investment funds



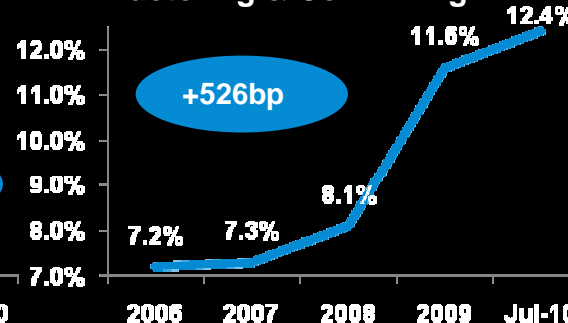
Pension funds



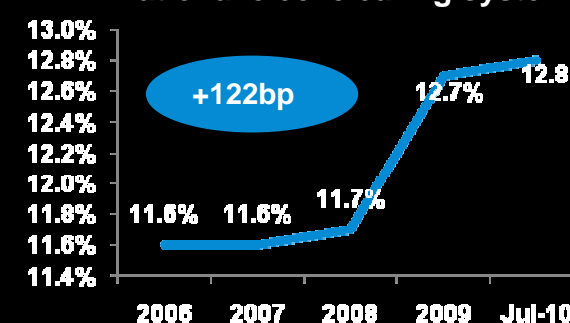
Loans



Factoring & Confirming



National elec. clearing system

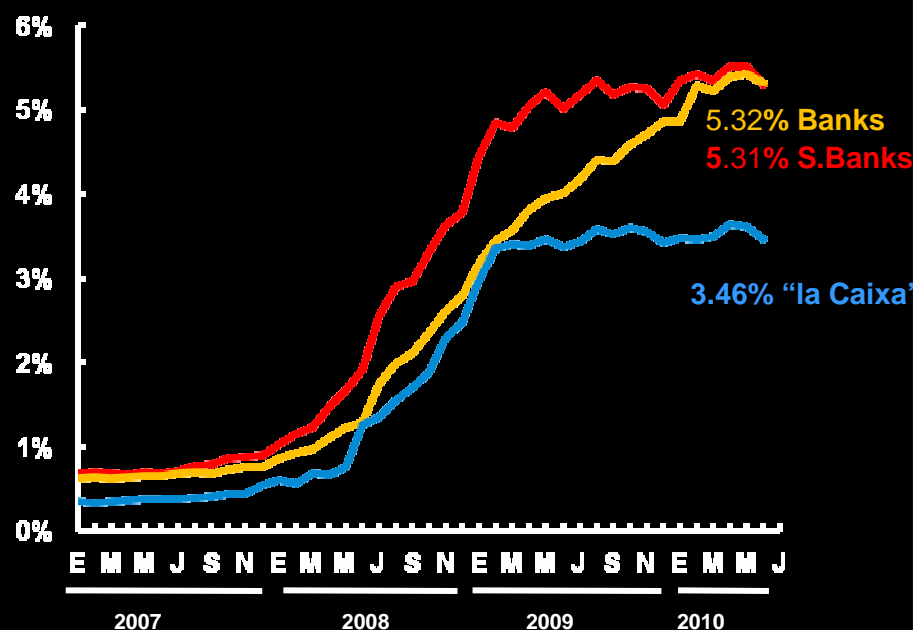


Prudent and sound risk management:
Strict focus on doubtful credits



NPL ratio below sector average

NPL ratio
In percentage



NPL Ratio
% and million euros. June 2010

	Grupo "la Caixa"
NPL Ratio	3.46%
Coverage Ratio	64%
Cov. Ratio with mortgage guarantee	129%
Provisions:	4,198
Generic provisions	1,835

Generic provisions:
100% of factor α

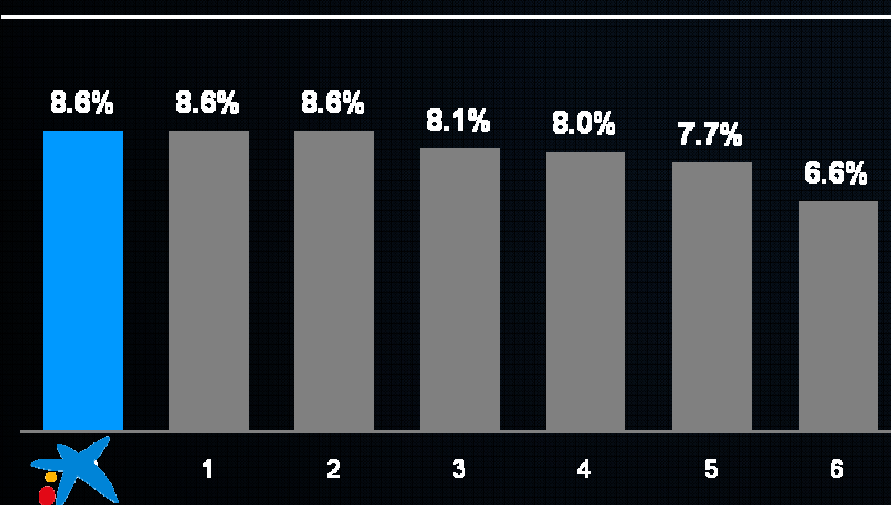
- NPL managers in the branch network
- Executive Vice-President in Recoveries
- Specialized company in management of recoveries
- Specialized company in real estate business

With consolidation of our financial strengths:



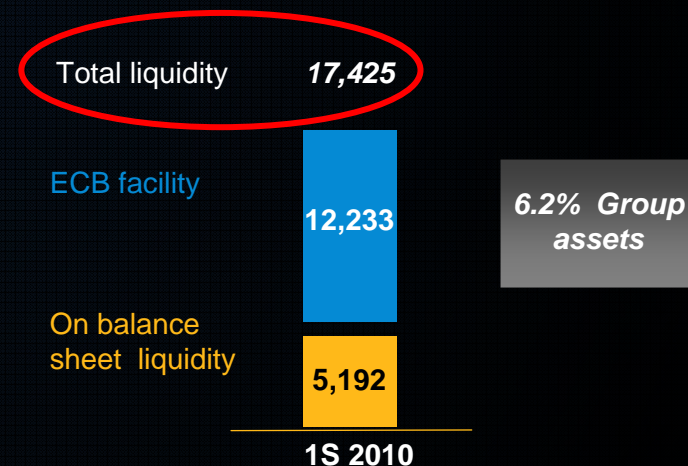
Solvency and liquidity

Solvency of main competitors
Core Capital (June 2010)



- Core Capital 8.6%: self-financing through profit growth
- Tier 1 Capital: 9.8%, Ratio BIS: 11.6%
- 5,830 MM€ of capital surplus

Excellent levels of liquidity
Million Euros; June 2010



- With a good financing structure (70% customer liabilities)
- Wholesale issues: No pressure

All of this with an active management of our portfolio of participated companies through Criteria CaixaCorp



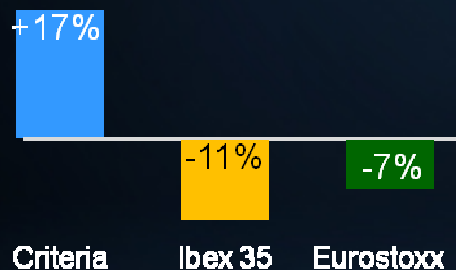
79,5%



Float on the Stock Exchange
October 2007

- Capital increase: 3.848 MM€
- Impact on core capital: +2.3 pp

Increase in Criteria share price
from January 2010



Criteria's participated companies
June 2010

Services

Industrial

Gas Natural	35.7%
Abertis	24.6%
Agbar	24.0%
Repsol YPF	11.8%
Telefónica	5.0%
BME	5.0%
Port Aventura	50.0%
Mediterranea	100%
Beach & Resort	

Insurance and financial business

Internacional

Banco BPI	30.1%
GF Inbursa	20.0%
Boursorama	20.8%
BEA	14.9%
Erste	10.1%

Insurance and financial

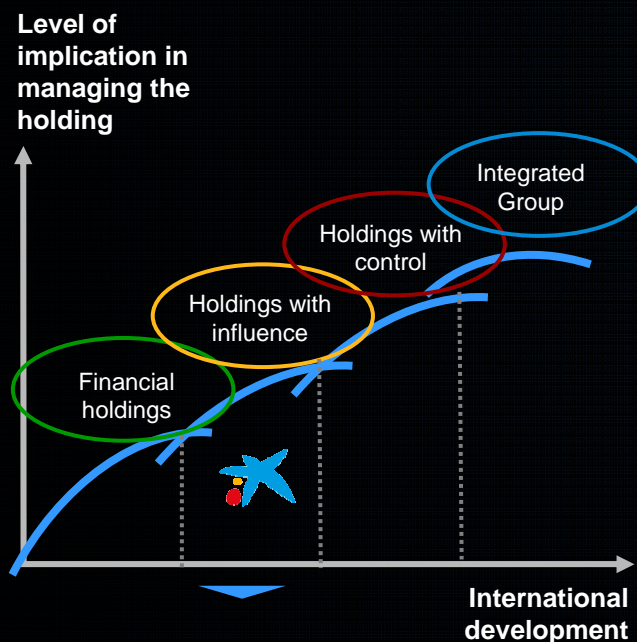
SegurCaixa	100%
+ Adeslas	99.8%
GDS-Correduria	67%
CaixaRenting	100%
Finconsum	100%
InverCaixa	100%
GestiCaixa	100%

Financial and insurance business currently
represents 39% of GAV, from 17% in October
2007

International banking: “la Caixa” open to the world

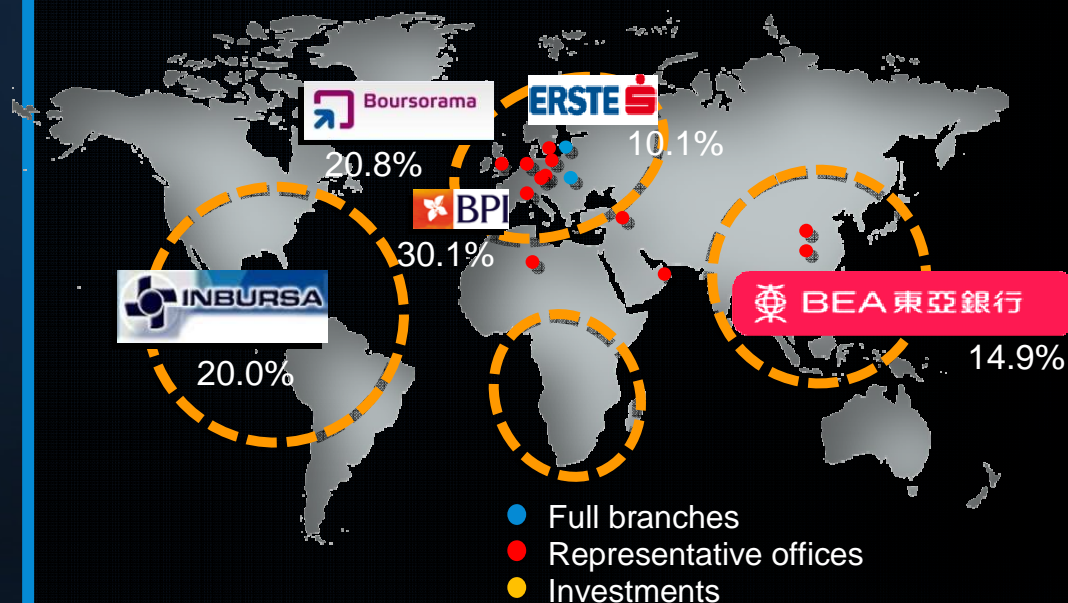


Theoretical learning curve



Active learning from partners
and local management
Contribution with know-how

“la Caixa” open to the world International presence of “la Caixa”



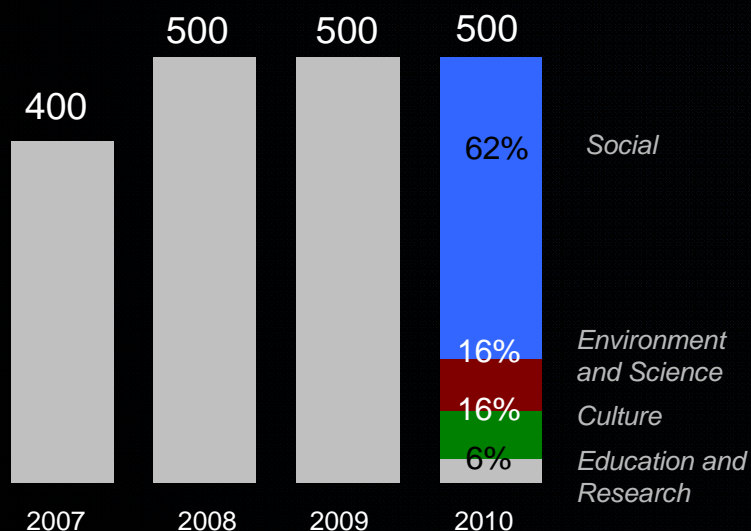
Organic growth: representative offices and full branches
Non-organic growth International banking
investments through Criteria and signature of agreements

*And all of this maintaining our Welfare Programme budget:
our most contemporary value*



The soul
of "la Caixa"

Budget (MM €)



- 2nd European Foundation
- 5th World Foundation

MicroBank

77.764 financed projects
476 MM€ granted
22.000 new jobs created



Accessible Housing

1.610 adjudicated
1.176 in construction
1.274 projected

Objective 4,000 houses



Grants

Postgraduate studies:
100 Spain
122 Abroad

Biomedicine
40 abroad into Spain



Development of social and sustainable projects



Thank you
www.lacaixa.es