FitchRatings

Western European Bank Seminar
Madrid, Frankfurt, Paris, London; 16-19 November 2010

Greek banks
"In the Same Boat To Uncertain Shores"

Cristina Torrella
Senior Director

Agenda

I. Knock-on Effects of Sovereign Developments on Greek Banks

II. Main Challenges Ahead (In the Short and Medium Term)

III. Rating Drivers

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Knock-on Effects of Sovereign Developments on Greek Banks (I)

- Increased correlation between sovereign and Greek bank risk
- The long-term IDRs of Greece's five largest banks are at their support floor and equalised with Greece's sovereign rating
- Greece's sovereign rating as well as bank ratings benefit from international support

Recent Greece's Rating History – Long-Term IDR

Date	Rating action	Rating/outlook
09 Apr 2010	Downgrade	'BBB-'
08 Dec 2009	Downgrade	'BBB+'
22 Oct 2009	Downgrade	'A-'
12 May 2009	Revision outlook	'A'
20 Oct 2008	Revision outlook	'A'

Source: Fitch

Knock-on Effects of Sovereign Developments on Greek Banks (I) (cont.)

Major Green Banks – Recent Rating History

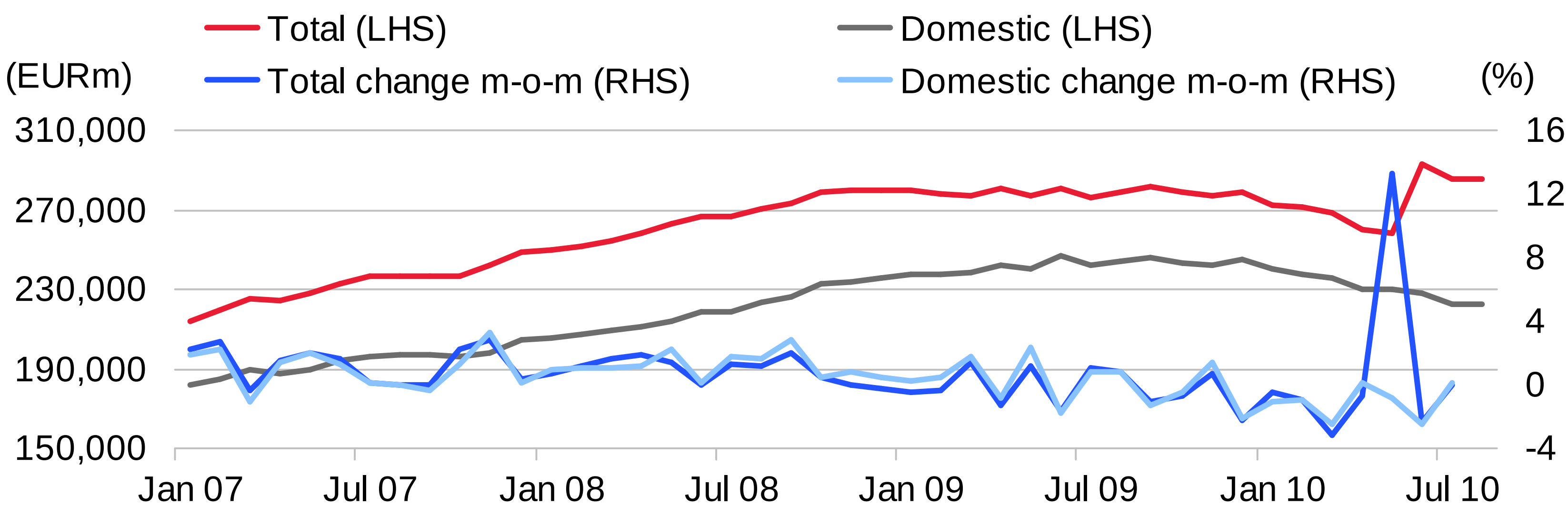
NBG	**Jul 04**	**Mar 09**	**Oct 09**	**Dec 09**	**Feb 10**	**Apr 10**	**Jul 10**	
Long-term IDR	A-	A-	A-	BBB+	BBB	BBB-	BBB-	
Outlook	Stable	Negative	Stable	Stable	Negative	RWN	Negative	
Individual Rating	B/C	B/C	B/C	B/C	C	C/D RWN	D	
Eurobank	**Nov 06**	**Mar 09**	**Dec 09**	**Feb 10**	**Apr 10**	**Jul 10**		
Long-term IDR	A	A-	BBB+	BBB	BBB-	BBB-		
Outlook	Stable	Negative	Negative	Negative	RWN	Negative		
Individual Rating	B	B/C	B/C	C	C/D RWN	D		
Alpha	**Jul 04**	**Mar 09**	**Dec 09**	**Feb 10**	**Apr 10**	**Jul 10**		
Long-term IDR	A-	A-	BBB+	BBB	BBB-	BBB-		
Outlook	Stable	Negative	Negative	Negative	RWN	Negative		
Individual Rating	B/C	B/C	B/C	C	C/D RWN	D		
Piraeus Bank	**Aug 06**	**Jul 08**	**Mar 09**	**Dec 09**	**Feb 10**	**Apr 10**	**Jul 10**	**Oct 10**
Long-term IDR	BBB+	A-	A-	BBB+	BBB	BBB-	BBB-	BBB-
Outlook	Positive	Stable	Negative	Negative	Negative	RWN	Negative	Negative
Individual Rating	B/C	B/C	B/C	B/C	C	C/D RWN	D RWN	D
ATEbank	**Dec 06**	**May 09**	**Oct 09**	**Dec 09**	**Apr 10**	**Jul 10**	**Oct 10**	
Long-term IDR	BBB+	BBB+	BBB	BBB-	BB+	BBB-	BBB-	
Outlook	Stable	Negative	Negative	Negative	RWN	Negative	Negative	
Individual Rating	C/D	C/D	C/D	C/D	C/D RWN	D/E RWE	D/E RWN	

Knock-on Effects of Sovereign Developments on Greek Banks (II)

> Structural balance sheet changes due to funding constraints

  – Inability to access debt capital markets and gradual decline in customer deposits has led ECB funding reliance (helped by revised eligibility criteria)

Greek Banking Sector Deposits – Development 01/2007-08/2010

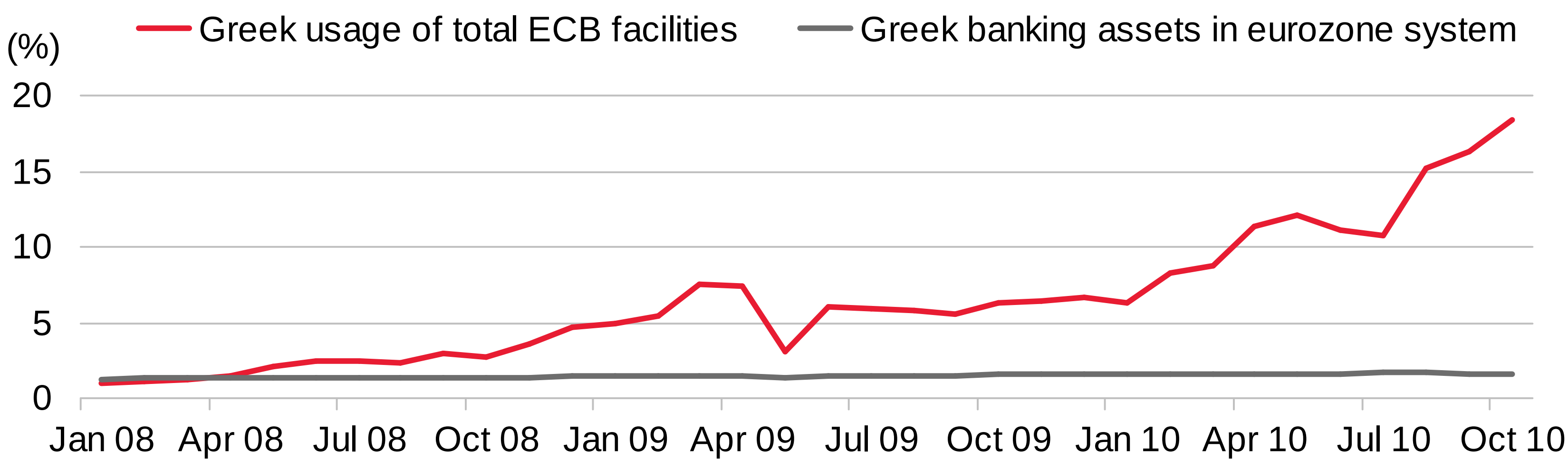


Source: Bank of Greece

Knock-on Effects of Sovereign Developments on Greek Banks (II) (cont.)

> Structural balance sheet changes due to funding constraints
  – High reliance on ECB funding (averaged 22% of assets at end-H110 for the four largest banks)

Greek Usage of Facilities
Compared to Greek banking assets



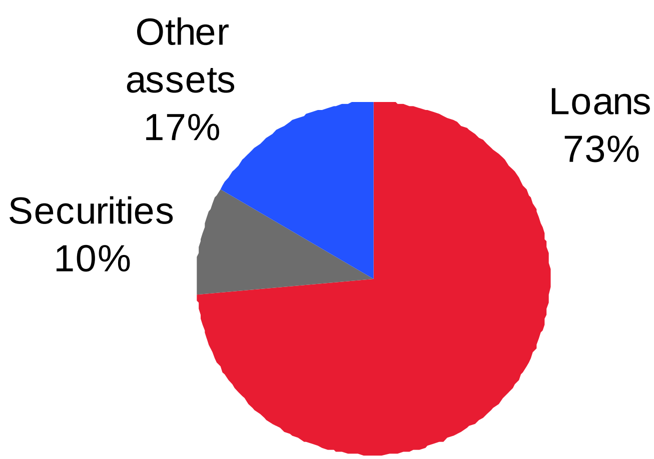
Source: ECB, Bank of Greece

Knock-on Effects of Sovereign Developments on Greek Banks (II) (cont.)

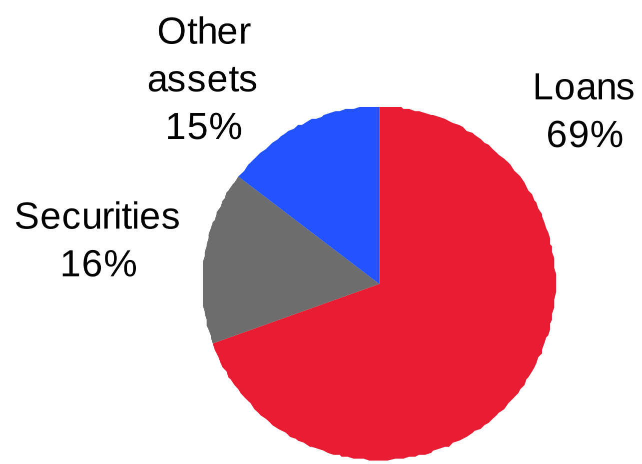
> Structural balance sheet changes due to funding constraints
  - Gradual loan deleveraging and funding mix dominated by deposits and ECB funding
  - Aggregate annualised loan growth for H110 was 2.3%

Composition of Assets – Averaged Four Largest Banks

End-2008



End-H110



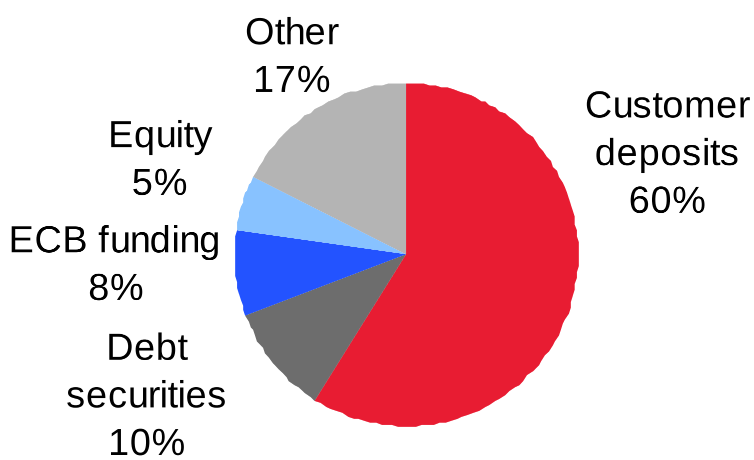
Source: NBG, Eurobank, Alpha, Piraeus bank financial accounts

Knock-on Effects of Sovereign Developments on Greek Banks (II) (cont.)

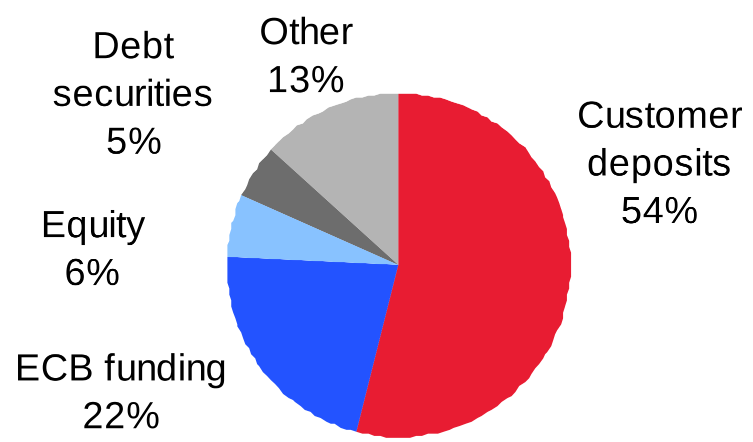
- Structural balance sheet changes due to funding constraints
  - Gradual loan deleverage and funding mix dominated by deposits and ECB funding

Composition of Liabilities & Equity – Averaged Four Largest Banks

End-2008



End-H110

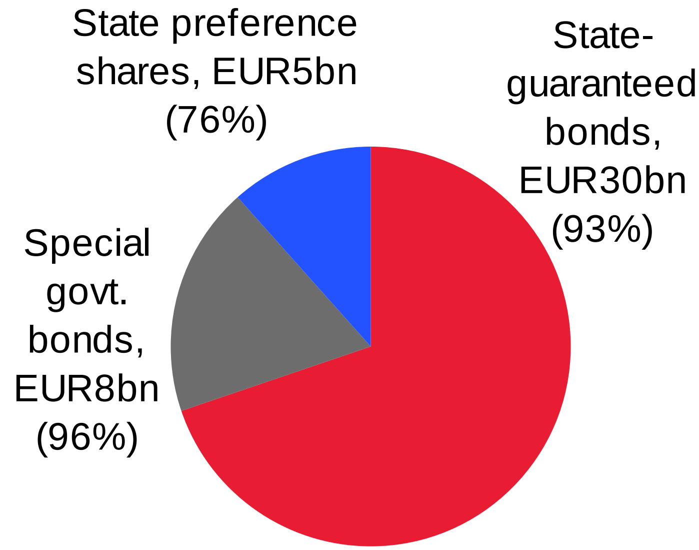


Source: NBG, Eurobank, Alpha, Piraeus bank financial accounts

Knock-on Effects of Sovereign Developments on Greek Banks (II) (cont.)

- Structural balance sheet changes due to funding constraints
  - High use of the Greek state support package amounting EUR43bn at end-H110

Distribution of State Support package – EUR43bn at End-H110
(Usage in brackets)



Source: Bank of Greece

Knock-on Effects of Sovereign Developments on Greek banks (II) (cont.)

> Structural balance sheet changes due to funding constraints
  - High proportion of GGB on balance sheet support liquidity (also NIM)
  - Reclassification of GBB into HTM and L&R softened the impact of marked-to-market valuation adjustments affecting trading income and equity

Exposure to Greek Government Debt (As of End-H110)

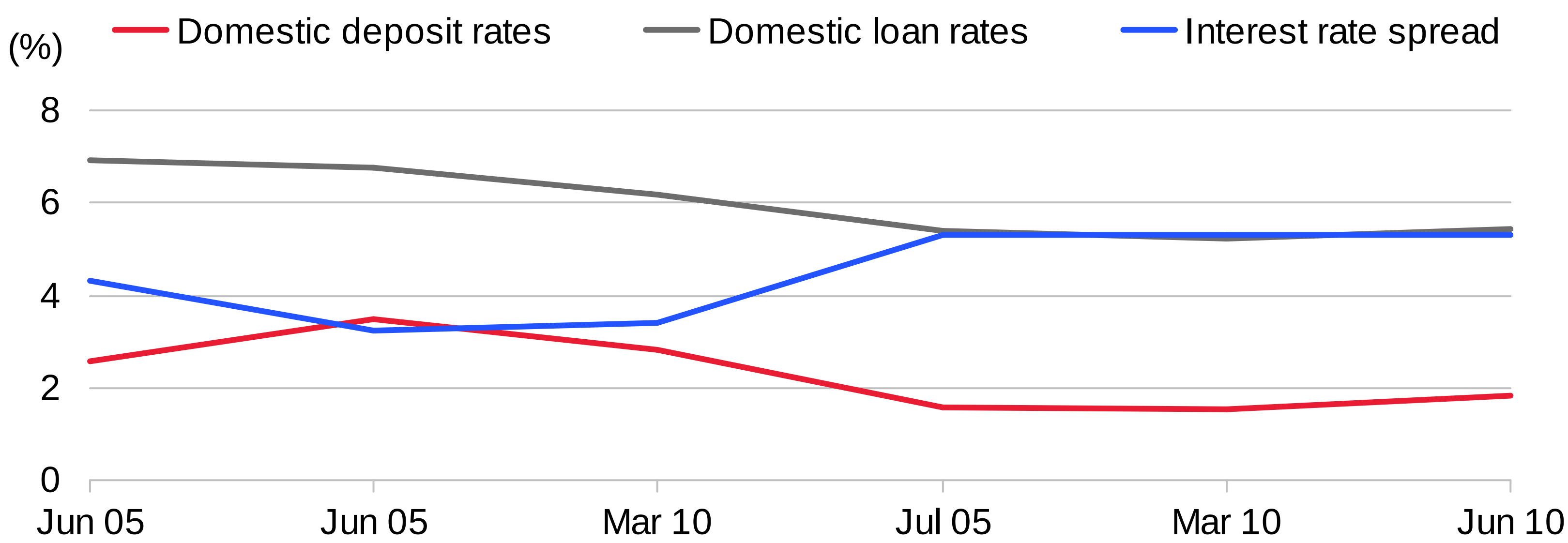
(EURbn)	Total	O/w in HTM and L&R	O/w in AFS	O/w in trading	As % of equity
NBG	20.1	17.6	1.4	1.1	231
Eurobank[a]	7.7	n.a.	n.a.	n.a.	181
Alpha	4.6	4.0	0.6	0.0	110
Piraeus	8.6	7.2	1.2	0.2	287

[a] As of end-Q110
Source: Banks' presentations of results

Knock-on Effects of Sovereign Developments on Greek Banks (IV)

Increased domestic competition for deposits leading to higher funding costs, however largely offset by active loan re-pricing

Evolution of spreads

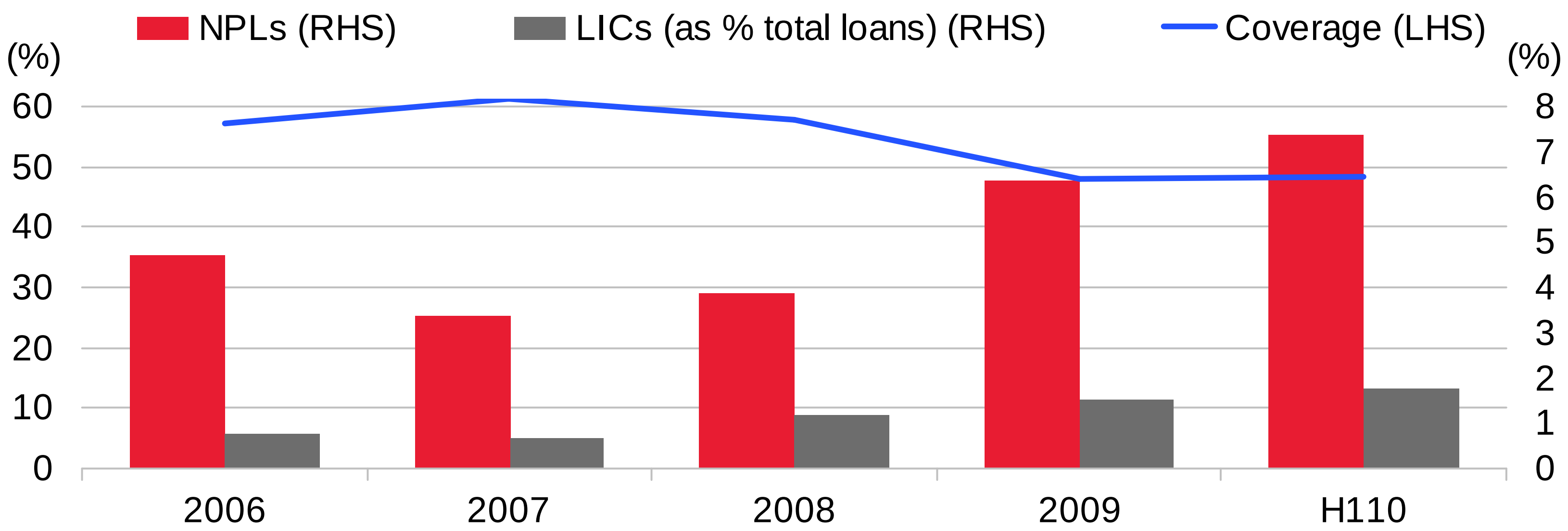


Source: Bank of Greece

Knock-on Effects of Sovereign Developments on Greek Banks (V)

Escalation of impaired loans due to economic recession in Greece

Key Asset Quality Indicators (Average Four Greek Largest Banks)



Source: NBG, Eurobank, Alpha and Piraeus financial accounts

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Knock-on Effects of Sovereign Developments on Greek Banks (VI)

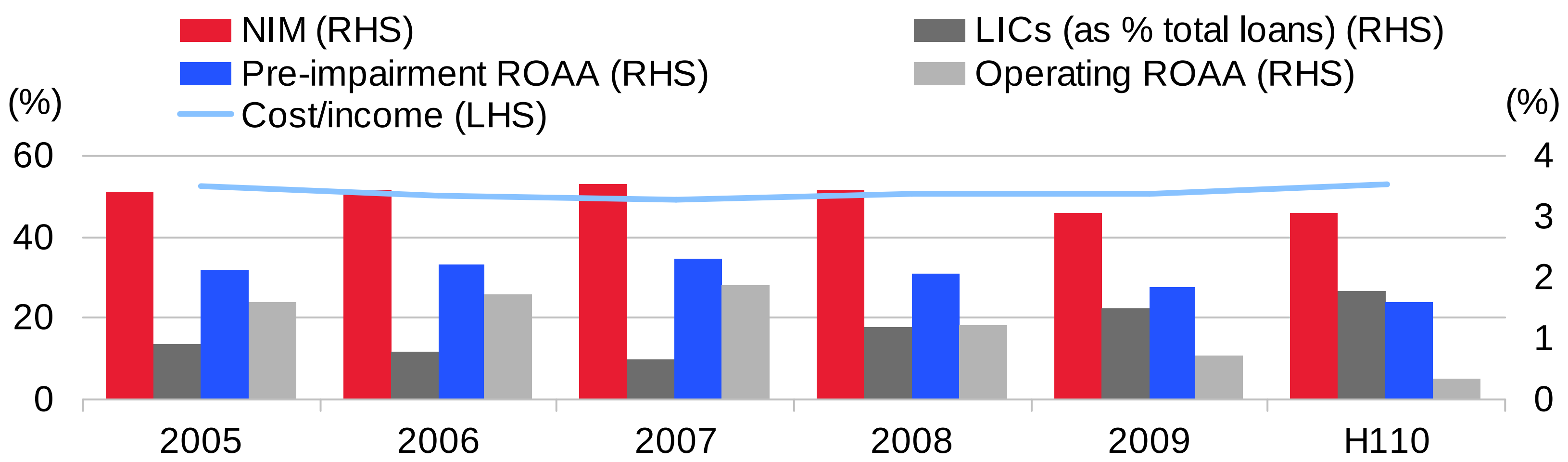
But

Major Greek banks have shown resilience against the hostile environment

Major Greek Banks Have Shown Resilience to the Hostile Environment (I)

- Resilient retail banking revenue generation on the back of a still wide NIM and good cost control provide a buffer for sustained high LIC
- Wide NIM helped by extensive loan re-pricing and high-margin SEE lending, which compensated higher funding costs

Key Performance Indicators (Average Four Greek Largest Banks)



Source: NBG, Eurobank, Alpha and Piraeus financial accounts

Major Greek Banks Have Shown resilience to the Hostile Environment (II)

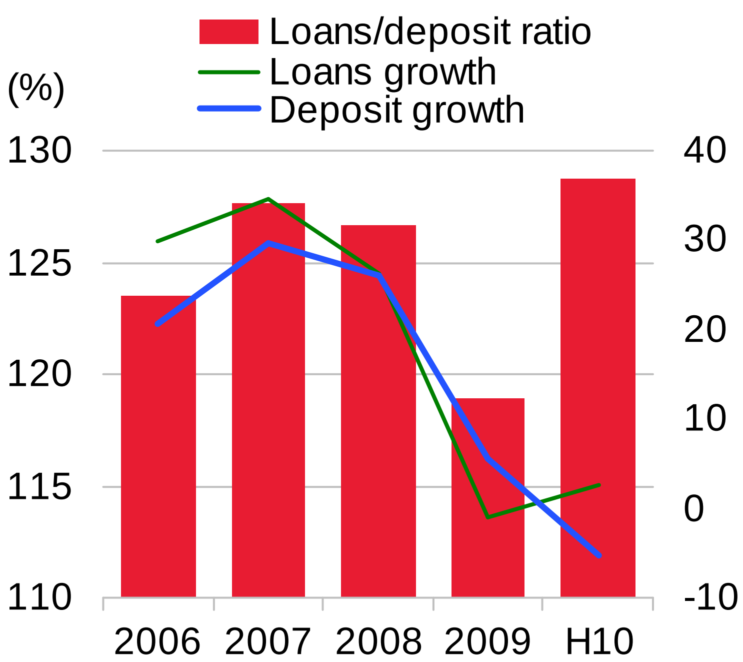
> Stand-alone funding/liquidity position of banks is precarious but ECB provides "safety net"

> Attempts to improve liquidity by rapid deceleration of loan growth and creating ECB-eligible assets (mainly through retained covered bonds and state-guaranteed issues)

> Limited wholesale funding maturities as well as new funding needs from banking activities indicate that liquidity – while tight – should remain manageable

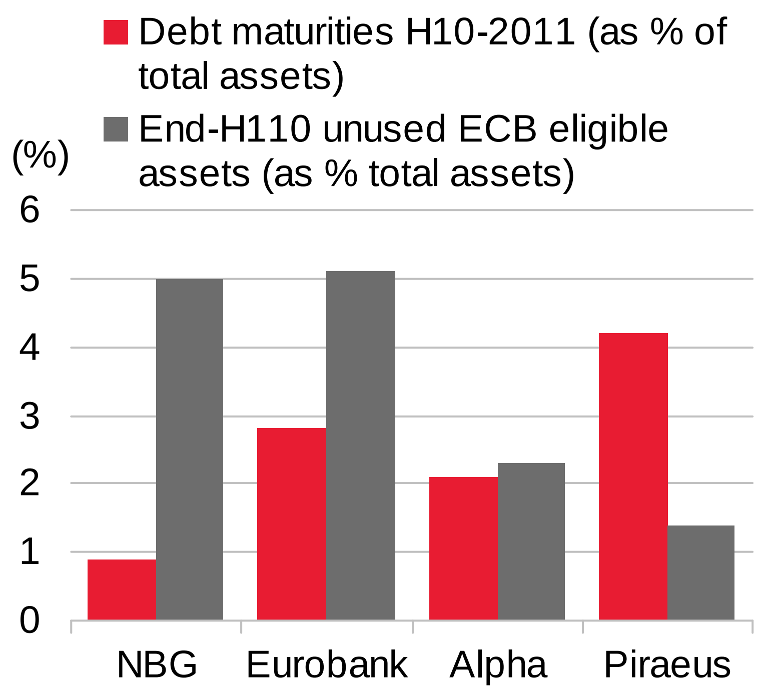
Major Greek Banks Have Shown resilience to the Hostile Environment (II) (cont.)

Major Banks Balance Sheet Evolution (Average)



Source: Banks' financial accounts

Debt maturing profile



Source: Banks' presentations of results

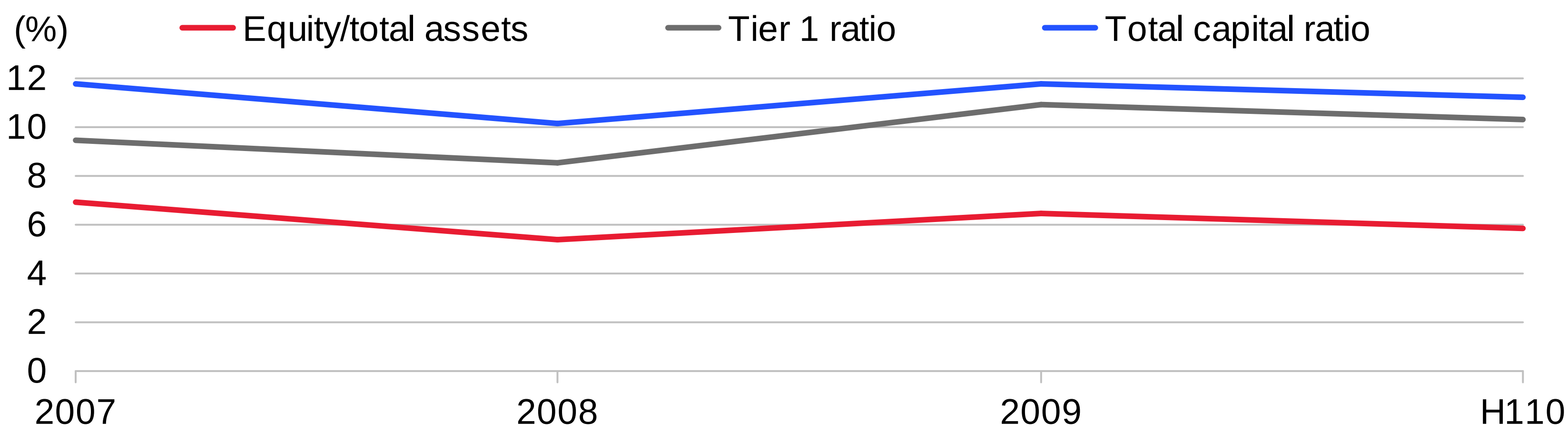
Major Greek Banks Have Shown Resilience to the Hostile Environment (III)

> Capital levels well above minima but necessary in view of anticipated further asset quality deterioration

> State preference shares accounting between 5% to 16% of tier 1 capital

> IMF EUR10bn capital facility provides back-stop for potential capital needs of weaker banks (stronger banks seeking capital from the market)

Averaged Capital Ratios for Four Greek Largest Banks



Source: Banks' presentation of results

Major Greek Banks Have Shown Resilience to the Hostile Environment (III)

Except for ATEbank, large systemically important banks passed CEBS stress-test

CEBS Stress-Test Results

(%)	2009 tier 1	“Adverse” tier 1	“Sovereign shock” tier 1
NBG	11.3	9.6	7.4
Eurobank	11.2	10.2	8.2
Alpha	11.6	10.9	8.2
Piraeus	9.1	8.3	6.0
ATEbank	8.4	8.9	4.4

Source: Banks’ presentations and press releases

Agenda

I. Knock-on Effects of Sovereign Developments on Greek banks

II. Main Challenges Ahead (In the Short and Medium Term)

III. Rating Drivers

Short-Term Challenges

> ECB funding reliance will remain in the short-term, making Greek banks' liquidity and funding profile susceptible to further deposit reductions and any changes in the eligibility criteria – The recent additional EUR25bn state guarantee programme help ease short-term concerns

> Uncertainties regarding renewed access to wholesale markets could intensify deposit competition, further increasing retail funding costs

> Impaired loans have not yet reached its peak and again uncertainties surrounding the impact of fiscal measures on the real economy make predictions difficult

> Impact of sovereign debt restructuring event-driven risk

Medium-to-Long Term Challenges

> The re-balance of banks' funding and liquidity profiles away from ECB funding

> Defend profitability in view of weak business prospects, margin pressure and sustained high LICs

> Capital pressures could encourage banks to seek various ways to support sound capital adequacy (i.e. NBG and Piraeus recent capital increases)

> SEE – still an opportunity?

> Likely disposal of government stakes in banks could accelerate banking sector consolidation

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Rating Drivers

- Long-term IDRs
  - Sovereign developments
  - Event risk sovereign debt restructuring
  - Noticeable weakening of international support currently available to Greek banks
- Individual Ratings
  - Increased funding and liquidity pressures
  - Weaker than expected performance and asset quality
  - Capital deterioration

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Western European Sovereign & Bank Seminar
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Portuguese Banks
"Clouds are Darkening"

Cristina Torrella
Senior Director

Agenda

Repercussions of Sovereign Developments on Portuguese Banks

Main Challenges Ahead

Rating Drivers

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Repercussions of Sovereign Developments on Portuguese Banks

Main Challenges Ahead

Rating Drivers

Repercussions of Sovereign Developments on Portuguese Banks (I)

> The largest Portuguese Banks' long-term IDR are based on their individual strength as expressed by Fitch's individual rating (with the exception of CGD which is driven by state support)

> Larger banks' long and short-term IDRs and Individual ratings downgraded reflecting increased liquidity and funding risks given high reliance on short- and medium-term wholesale funding sources, with increased recourse to ECB funding, in the context of continued difficulties to access the capital markets

> Also, ratings express deterioration in domestic performance and asset quality

> However, individual ratings supported by banks' well-established domestic franchise, which support a stable deposit base, pro-active cost control, and satisfactory capital adequacy, particularly considering that state capital support has not been required. Also, increased pressure on domestic profitability is partly being offset by better-performing foreign operations

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

Portuguese Bank Ratings

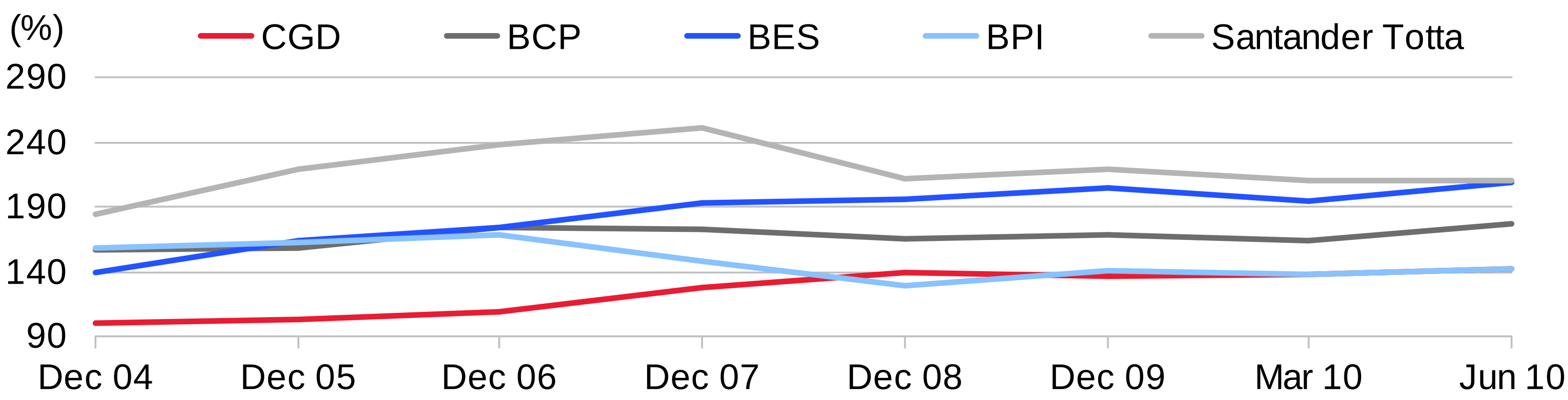
	Long- & short-term IDR[a]	Individual rating	Support rating	Support rating floor	Outlook (long-term IDR)
Caixa Geral de Depositos	A+/F1	C	1	A+	Negative
Banco Comercial Portugues	BBB+/F2	C	2	BBB	Negative
Banco Espirito Santo	BBB+/F2	C	2	BBB-	Negative
Espiritu Santo Financial Group	BBB-/F3	NR	5	NF	Negative
Banco BPI	A-/F2	B/C	2	BBB-	Negative
Banco Santander Totta	AA/F1+	B	1	-	Stable
Caixa Economica Montepio Geral	BBB+/F2	C	3	BB	Watch Negative
Banco Itau Europa	BBB+/F2	B/C	3	-	Stable
Banco Popular Portugal	A/F1	D	1	-	Stable
Banif – Banco Internacional do Funchal	BBB-/F3	C	3	BB	Negative
Finibanco	BBB-/F3	C/D	5	NF	Watch Positive

[a] IDR: Issuer default rating
Source: Fitch

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

> Starting from
  – Traditionally wholesale funding reliant, as expressed in banks' high loans/deposits ratio

Loans/Deposits Ratio Evolution
(The ratio does not consider retail bonds or securitisations)



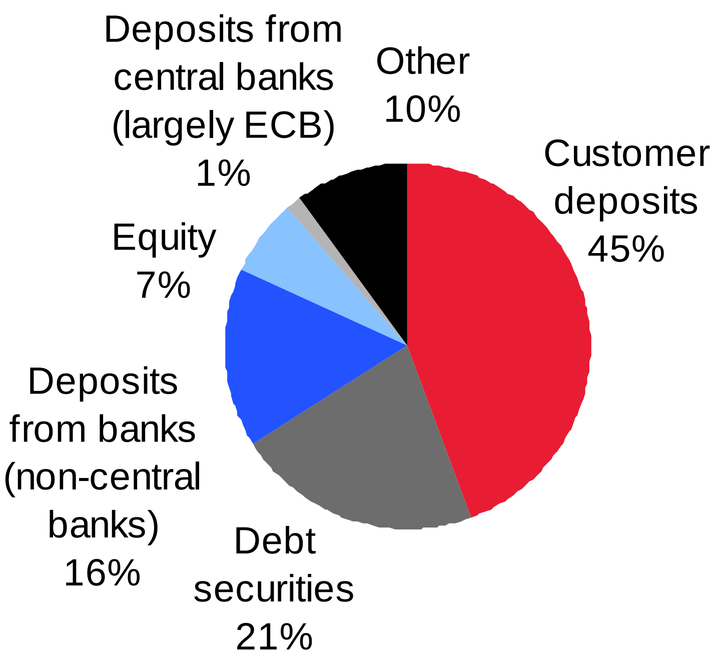
Source: Banks' accounts

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

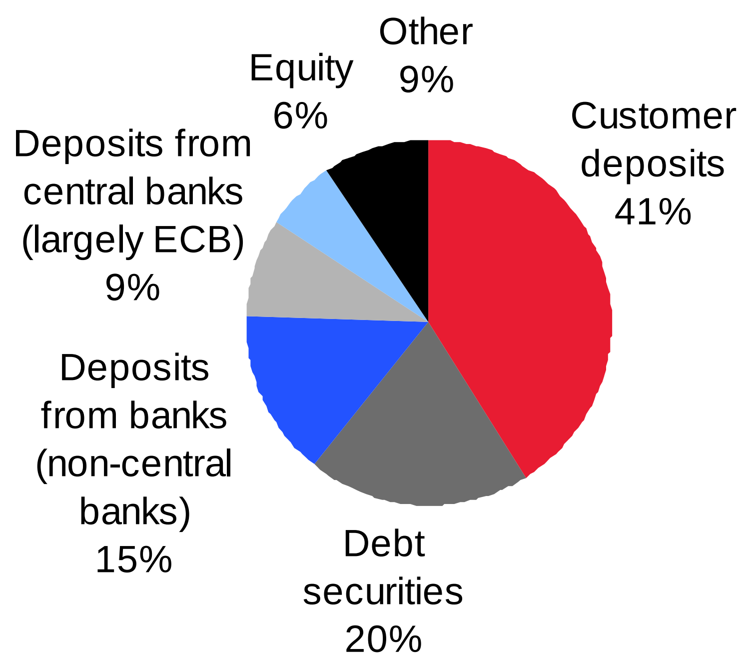
- Structural balance sheet changes due to funding constraints
  - Since April 2010 increased reliance on ECB funding due to closure of wholesale markets and the need to meet maturing short and long-term debt

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

End-2007 100% = EUR453bn



End-H110 100% = EUR536bn

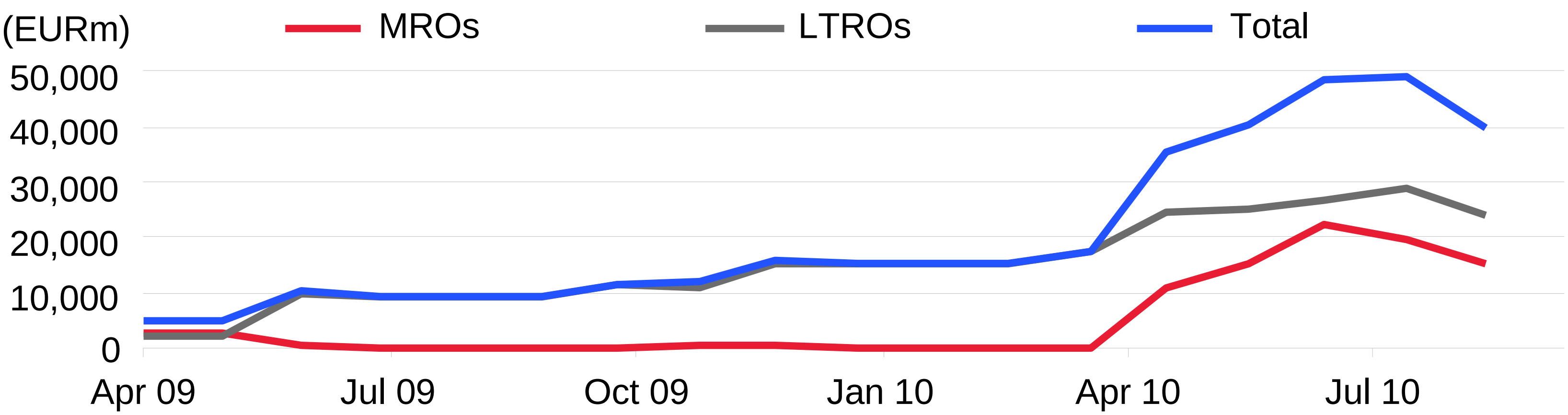


Source: Bank of Portugal

Repercussions of Sovereign Developments on Portuguese Banks (I) cont.

- Structural balance sheet changes due to funding constraints
  - Usage of ECB funding reaching the peak in August 2010, but since then it has declined amid tentative signs of re-opened short-term money markets
  - However, access to ECB likely to prevail amid continued sovereign and banks funding concerns

Portuguese Usage of ECB Facilities
2009-2010

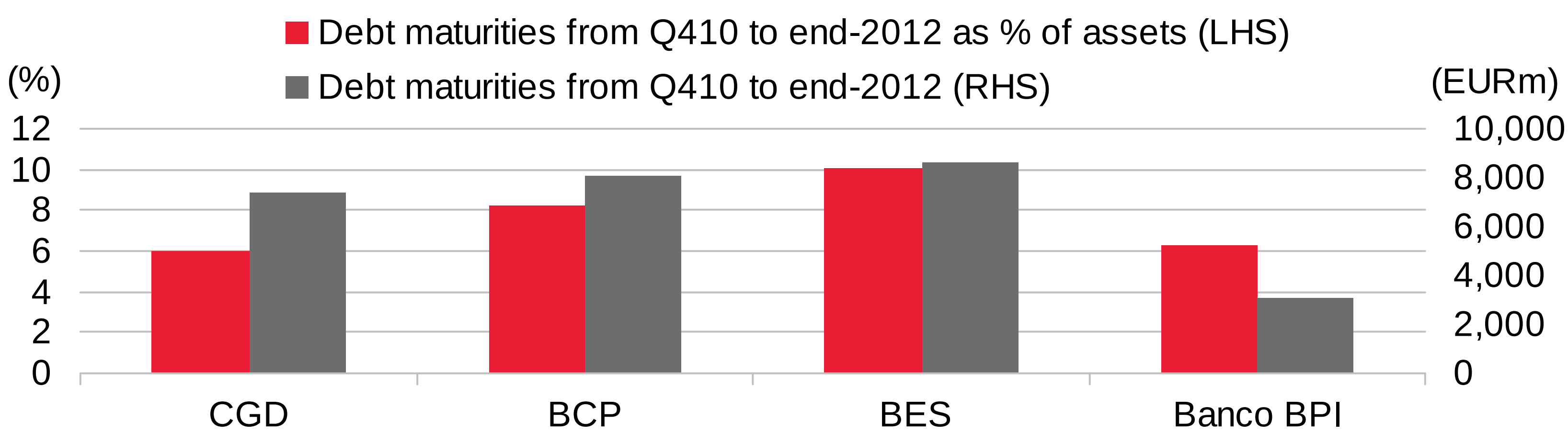


Source: ECB, Bank of Portugal

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

- Structural balance sheet changes due to funding constraints
  - Reliance in short and long-term wholesale funding has increased refinancing risks in the context of closed wholesale markets

M/L-Term Funding Maturities of Five Largest Portuguese



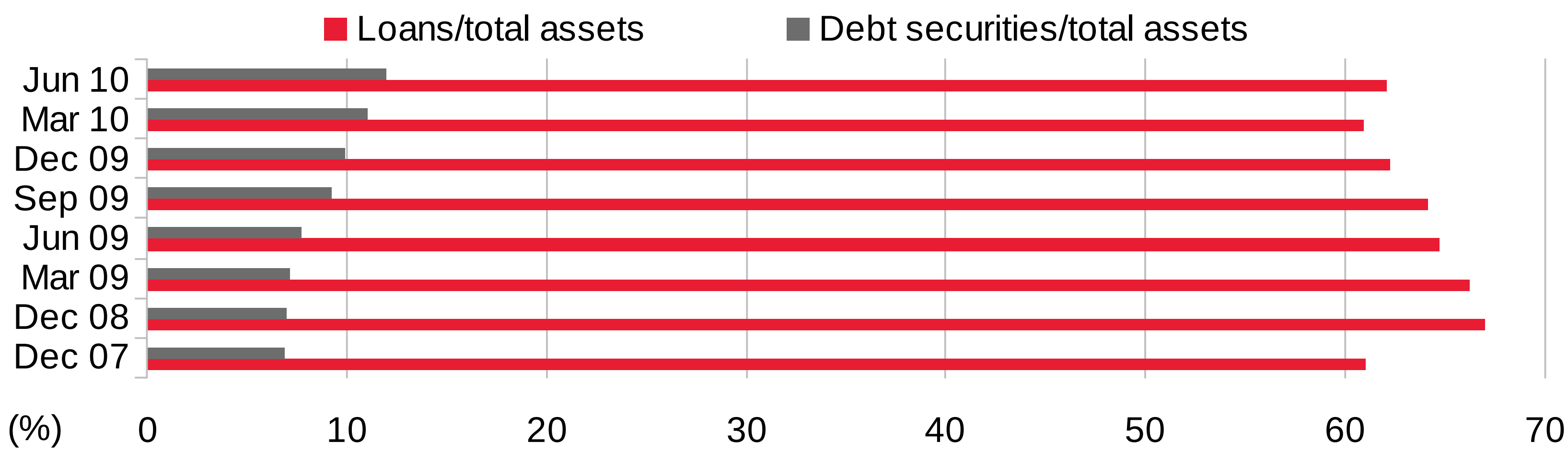
Source: Banks' presentation of results

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

> Loan growth deceleration (averaged loan growth of only 3.2% in H110 for the largest five Portuguese banks)

> Increased debt securities (used as ECB eligible assets)

Asset Composition – Evolution

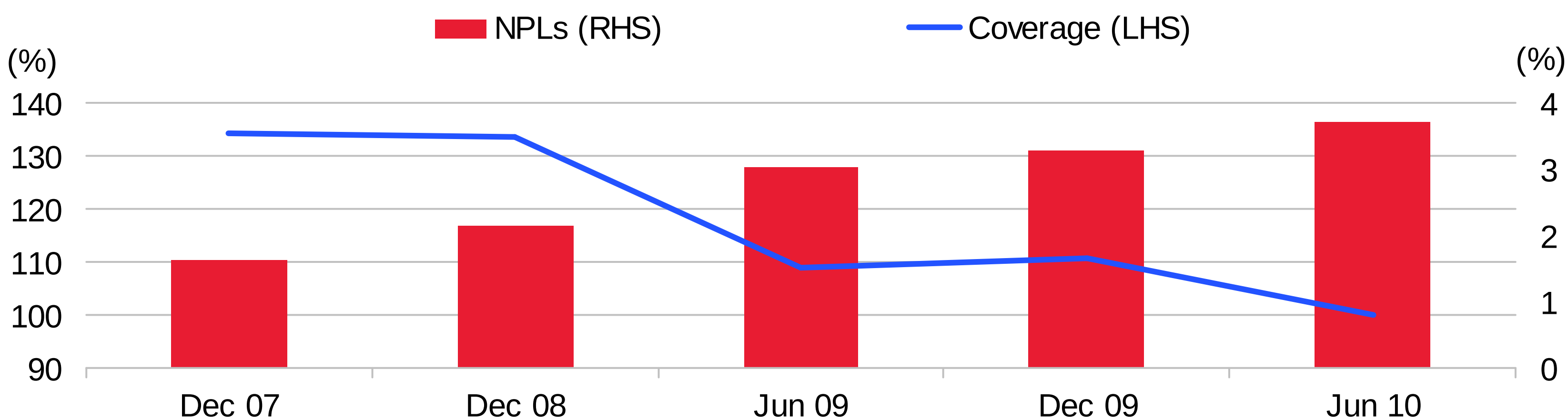


Source: Bank of Portugal

Repercussions of Sovereign Developments on Portuguese Banks (I) (cont.)

> Increase of impaired loans (as per Bank of Portugal's definition) due to weak economic environment in Portugal; but generally good coverage ratios

Asset Quality Indicators – Portuguese Banking System



Source: Bank of Portugal

Repercussions of Sovereign Developments on Portuguese banks (I) (cont.)

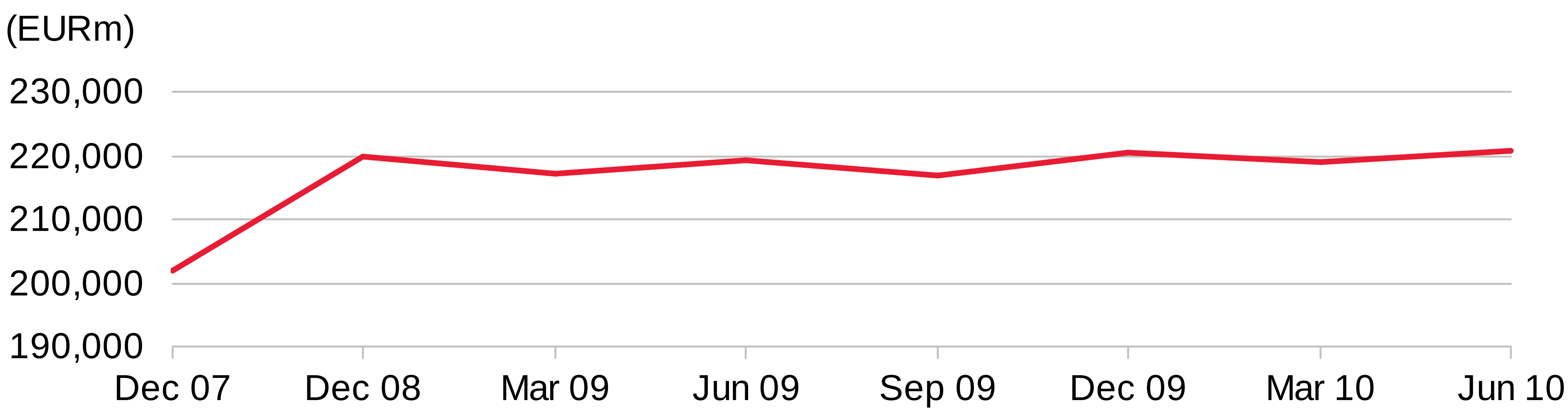
BUT ….

> Portuguese banks defending well against an anticipated tougher operating environment

Portuguese Banks Defending Well Against an Anticipated Tougher Operating Environment

- Stable deposits
- Limited use of liquidity state aid (of a total of EUR20bn, only 25% has been used by the banking system in 2008-2009 and no use of the EUR9.4bn extended facility in 2010)
- Attempts to improve liquidity by deceleration of loan growth and creating ECB-eligible assets (mainly through retained securitisations, covered bonds and government securities)

Portuguese Banking System's Deposit Evolution



Source: Bank of Portugal

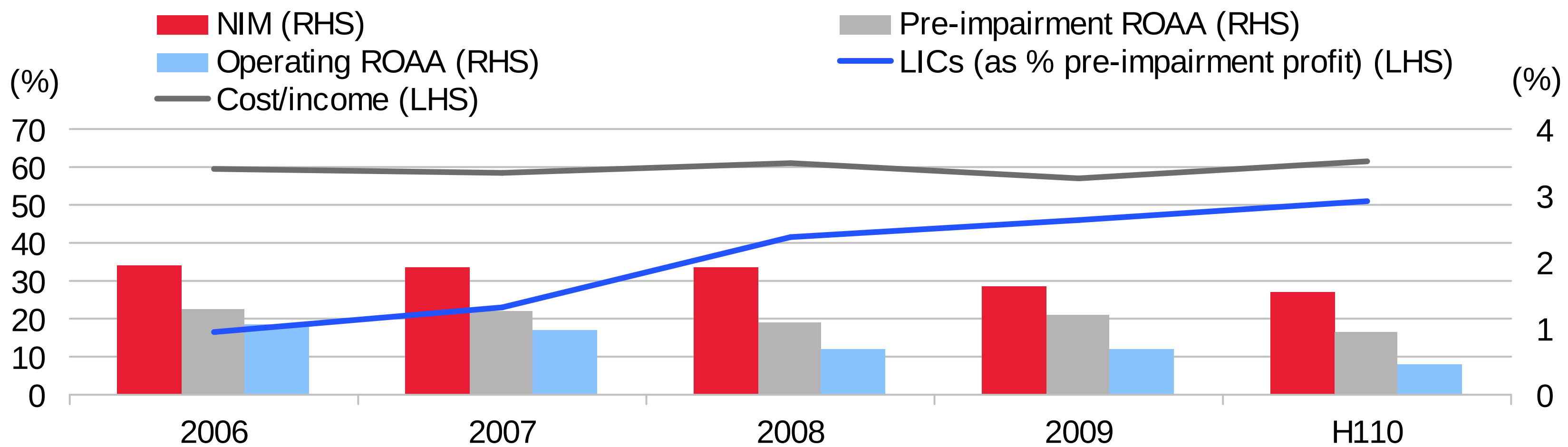
Portuguese Banks Defending Well Against an Anticipated Tougher Operating Environment (cont.)

> Resilient retail banking revenue generation – helped by loan repricing and limited price deposit competition – and tighter cost control provide a buffer for higher LIC

> Foreign operations becoming of increasing importance to support profits

Key Performance Indicators

(Average five largest Portuguese banks)

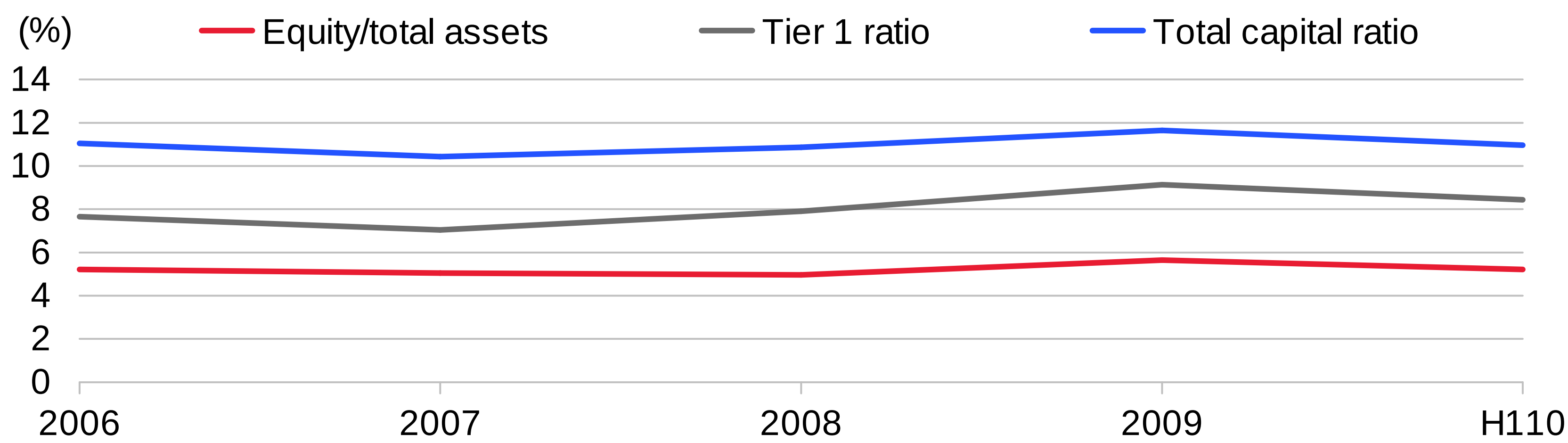


Source: CGD, BCP, BES, Banco BPI Totta Santander financial accounts

Portuguese Banks Defending Well Against an Anticipated Tougher Operating Environment (cont.)

- Capital levels well above minima and is one of their key strength as none of them have required capital support from the government

Averaged Capital Ratios for the Five Largest Portuguese Banks



Source: Banks' financial accounts and presentation of results

Portuguese Banks Defending Well Against an Anticipated Tougher Operating Environment (cont.)

Large systemically important banks passed CEBS stress-test

CEBS Stress Test Results

(%)	2009 tier 1	Base scenario	Adverse scenario	Sovereign shock
CGD	8.4	9.1	8.4	8.2
BCP	9.3	9.4	8.4	8.4
ESFG	7.7	9.2	7.4	6.9
BANCO BPI	8.5	11.6	10.3	10.2

Source: Bank of Portugal

Agenda

Repercussions of Sovereign Developments on Portuguese Banks

Main Challenges Ahead

Rating Drivers

Main Challenges Ahead

- > Uncertainties regarding access to wholesale markets could intensify deposit competition, further increasing retail funding costs, and accelerate balance sheet deleveraging
- > Also, ECB funding reliance likely to remain in the short-term to meet debt maturities – the availability of unused state guarantee programme until end-2010 and banks' attempts to improve ECB eligible assets provide buffers
- > Reduction of overall high wholesale funding reliance will take some time
- > Impaired loans likely to increase given weaker than initially anticipated economic prospects

Main Challenges Ahead (cont.)

> Defend profitability from domestic operations in view of weak business prospects, margin pressure and rising high LICs; partly offset by contribution from foreign operations

> However, in some cases certain concentration of profits coming from foreign higher-risk emerging countries (ie Angola, Mozambique)

> Capital pressures from Basel III

> Limited scope for consolidation

Agenda

Repercussions of Sovereign Developments on Portuguese banks

Main Challenges Ahead

Rating Drivers

Rating Drivers

- Impact of weak economic prospects and sovereign developments
- Increased funding and liquidity pressures
- Weaker performance and asset quality
- Internal capital generation

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Irish Banks: More Than Ever an Issue for the Sovereign …

Matthew Taylor
Senior Director, Financial Institutions

Agenda

What Has Been the Nature of Sovereign Interventions?

What is the Financial Condition of the Irish Banks?

What are the Prospects for Irish Banks?

Aide Mémoire: Key Data for Ireland

Key Data	(EUR)
Population (no.)	4.5m
GDP	164bn
Total bank liabilities	1,342bn
Equity injections in banks committed to date	46bn
Cost of NAMA: 73bn eligible at 58% aggregate discount (to date 13bn paid with 27bn book value)	31bn
Cost of state interventions per head	17,111
Gross general govt debt percentage of GDP	99% up from 78%

Source: Fitch

What Has Been the Nature of Sovereign Interventions?

> Guaranteed liabilities: ELG scheme
> NAMA
> Equity injections
> Corporate governance

ELG Scheme

> The ELG Scheme, run by NTMA, began 9 December 2009 and continues until end-2010

> The ELG Scheme selectively guarantees senior unsecured obligations in excess of the EUR100,000 limit of the deposit guarantee scheme

> Participating institutions pay fees to Irish sovereign – based on European Central Bank recommendations; estimated at 50bps

> Ireland expects to receive EUR700m in fees in 2010, EUR600m in 2011 and EUR300m in 2012

> Covered obligations may be incurred from when the relevant participating institution joined the ELG Scheme to 31 December 2010. Such liabilities may have a term of up to five years and so guaranteed obligations could mature until 31 December 2015

ELG Scheme (cont.)

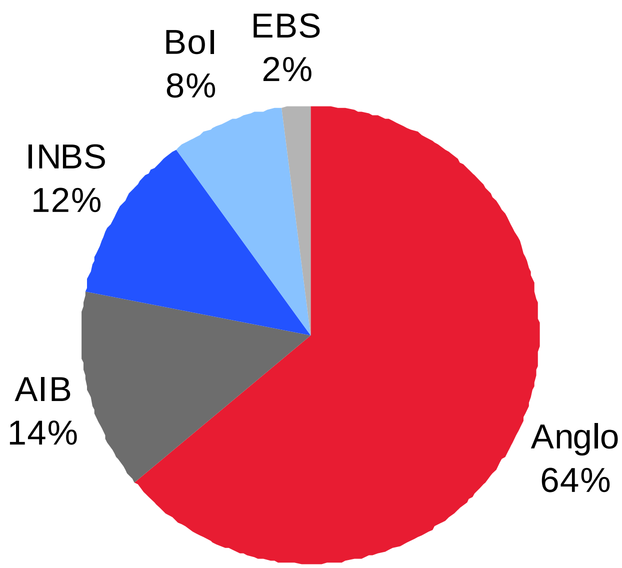
> The ELG Scheme is subject to six monthly review and approval by the EU commission in accordance with EU state aid rules

> Participating institutions
  - Anglo Irish Bank Corporation Limited
  - Bank of Ireland
  - Allied Irish Banks plc
  - EBS Building Society
  - Irish Nationwide Building Society
  - Irish life and Permanent plc

National Asset Management Agency (NAMA)

- NAMA plans to buy EUR73bn of commercial real estate loans from the five participating institutions at a heavily discounted price
- To date 27bn of loans have been transferred; all will transferred by end-February 2011
- Banks are thus relieved of illiquid assets and receive government guaranteed bonds eligible for repo with the ECB, boosting liquidity and reducing funding pressures
- Cost to the banks is high: Capital is severely depleted, but balance sheets are clean of onerous commercial real estate loans
- NAMA expects to sell assets over its projected ten year life
- Values of assets hard to gauge and process has been slow

Equity Injections



Total: EUR45.8bn

Government Ownership	(%)
Anglo	100
AIB	18 rising to 90+
BoI	34
EBS	51
INBS	51
IL&P	0

Source: Fitch

FitchRatings

Corporate Governance Changes

Bank	Chairman	CEO	Govt appointed board members
AIB	✓	✓	2
Anglo	✓	✓	2
BoI	✓	✓	2
INBS	✓	✓	2
EBS	✓	X	2
IL&P	X	✓	2

New regulations	Directors loans	Directorships
	Reduces total loaned to specific individual and to the total loaned to related parties. Central Bank approval required when loans to related parties exceed EUR1m	The maximum number of directorships that can be held at same time is limited to 4 or 5

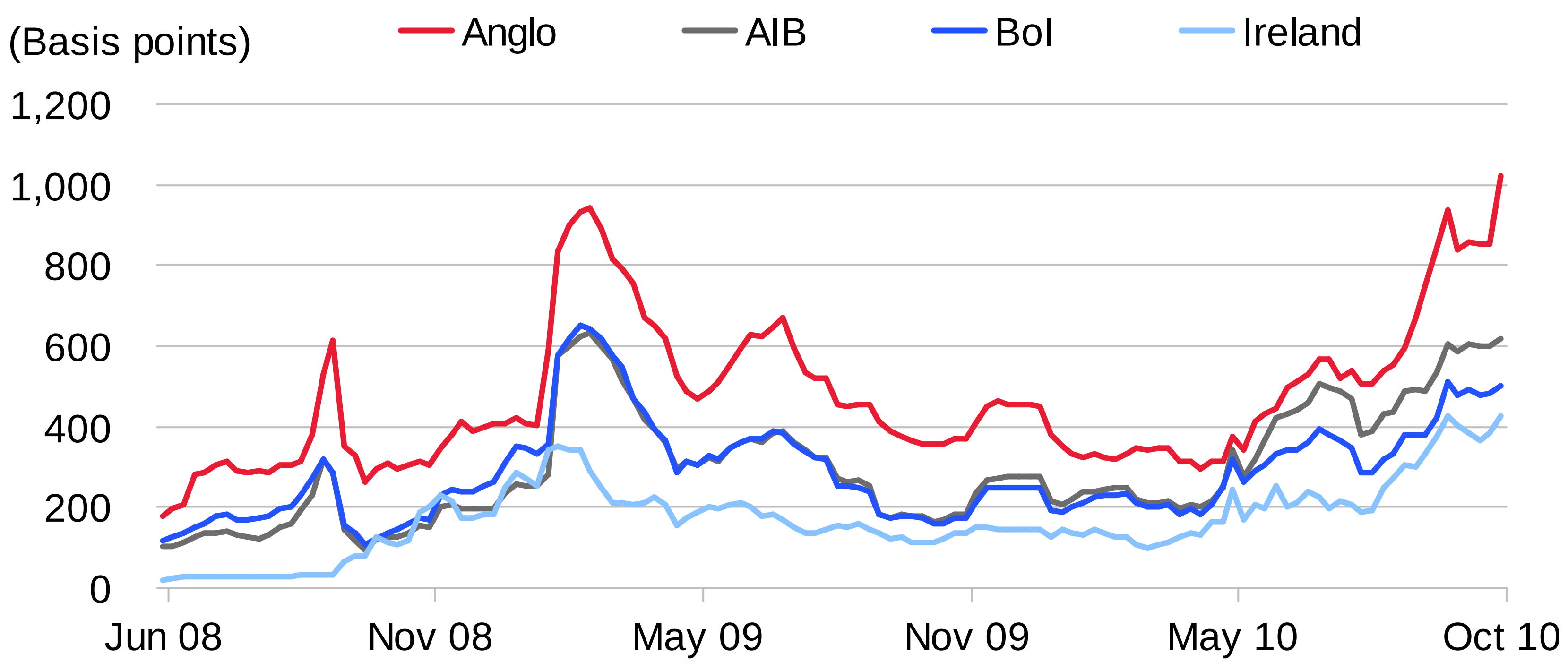
Source: Fitch

What is the Financial Condition of the Irish Banks?

- History of market sentiment as shown by CDS spreads
- Capital position of banks before and after NAMA
- Liquidity measures
- Asset quality measures

CDS Spreads for AIB, Anglo, BoI

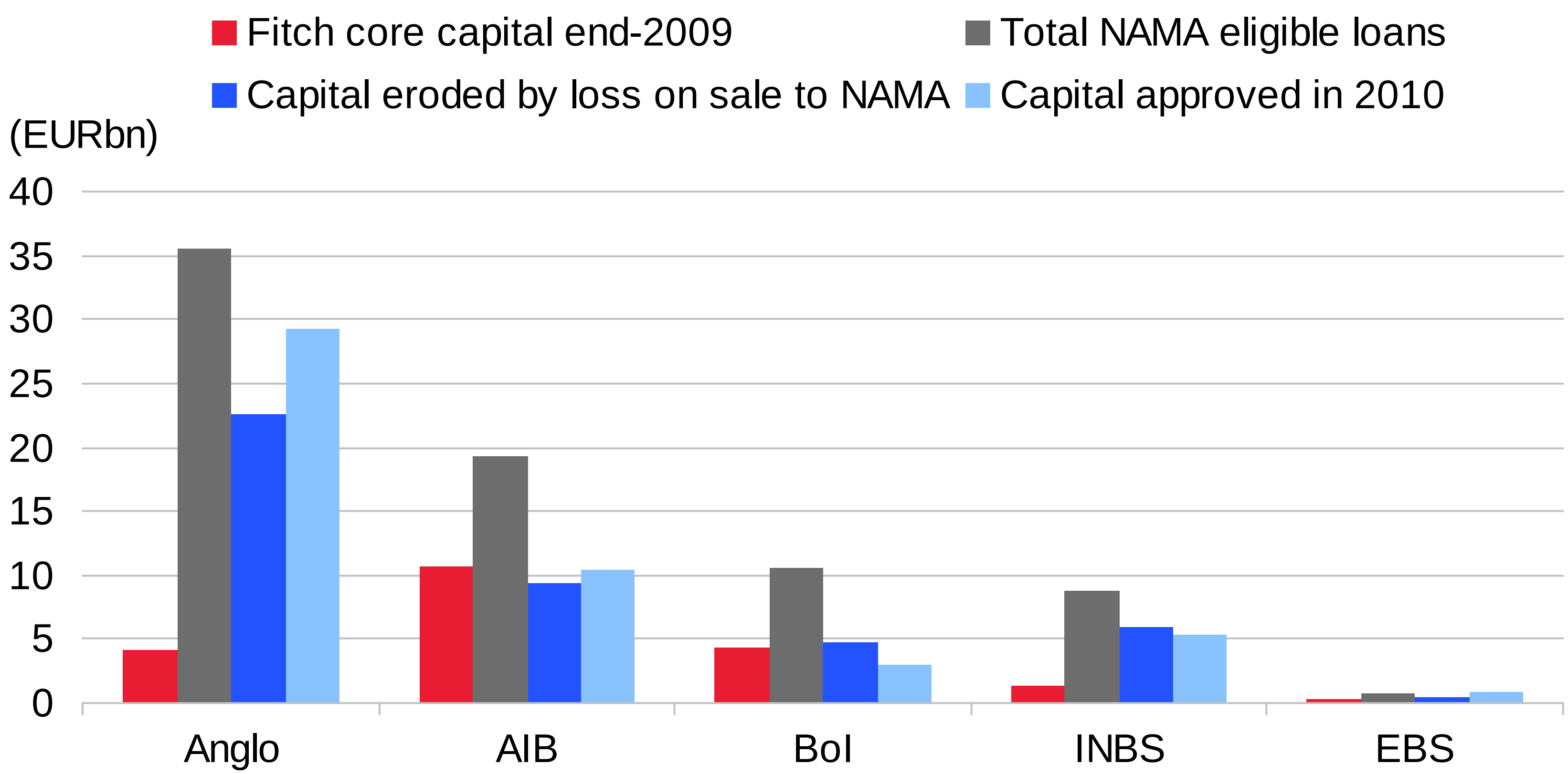
Irish Banks 5 year CDS Spreads, June 2008 to October 2010



Source: Fitch Solutions

FitchRatings

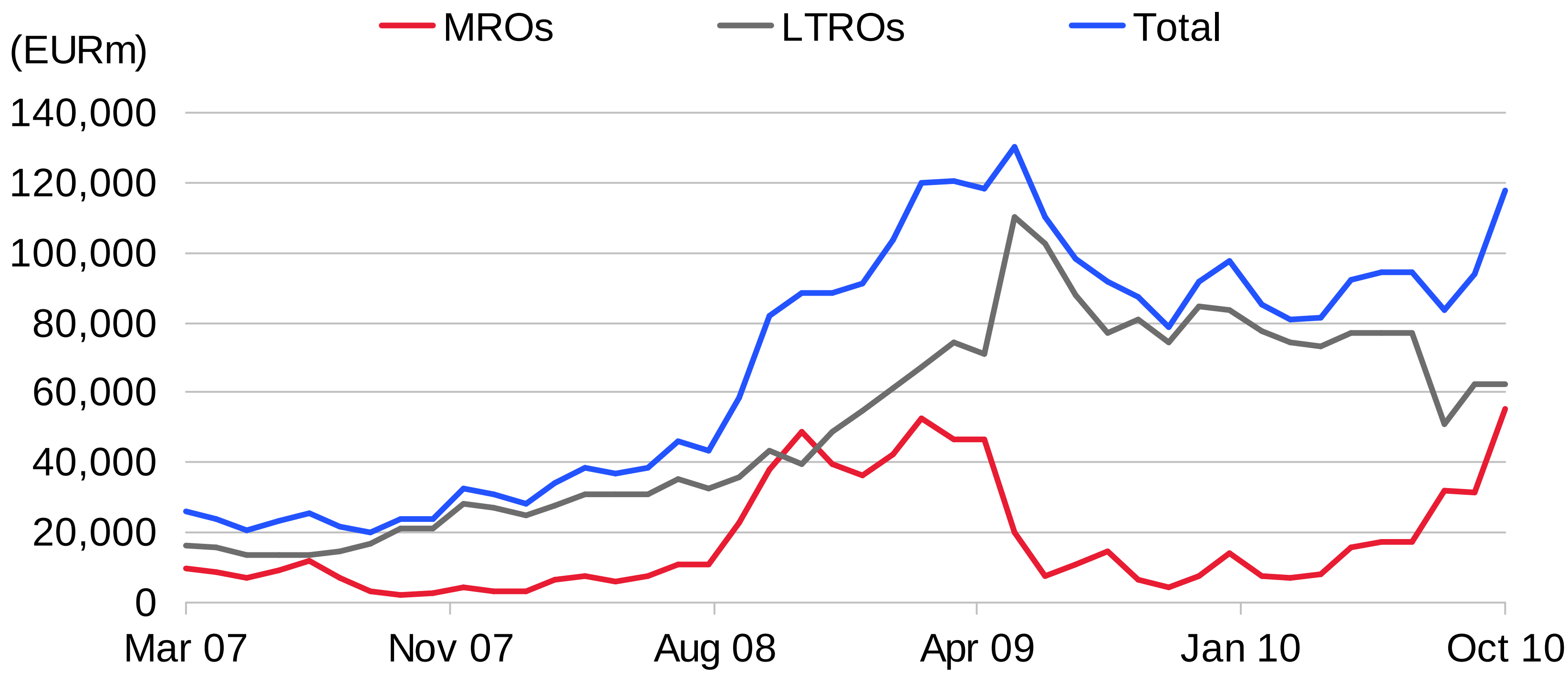
Capital End-2009 and Effect of NAMA During 2010



Source: Banks, Fitch

Irish Banks' Usage of ECB Facilities

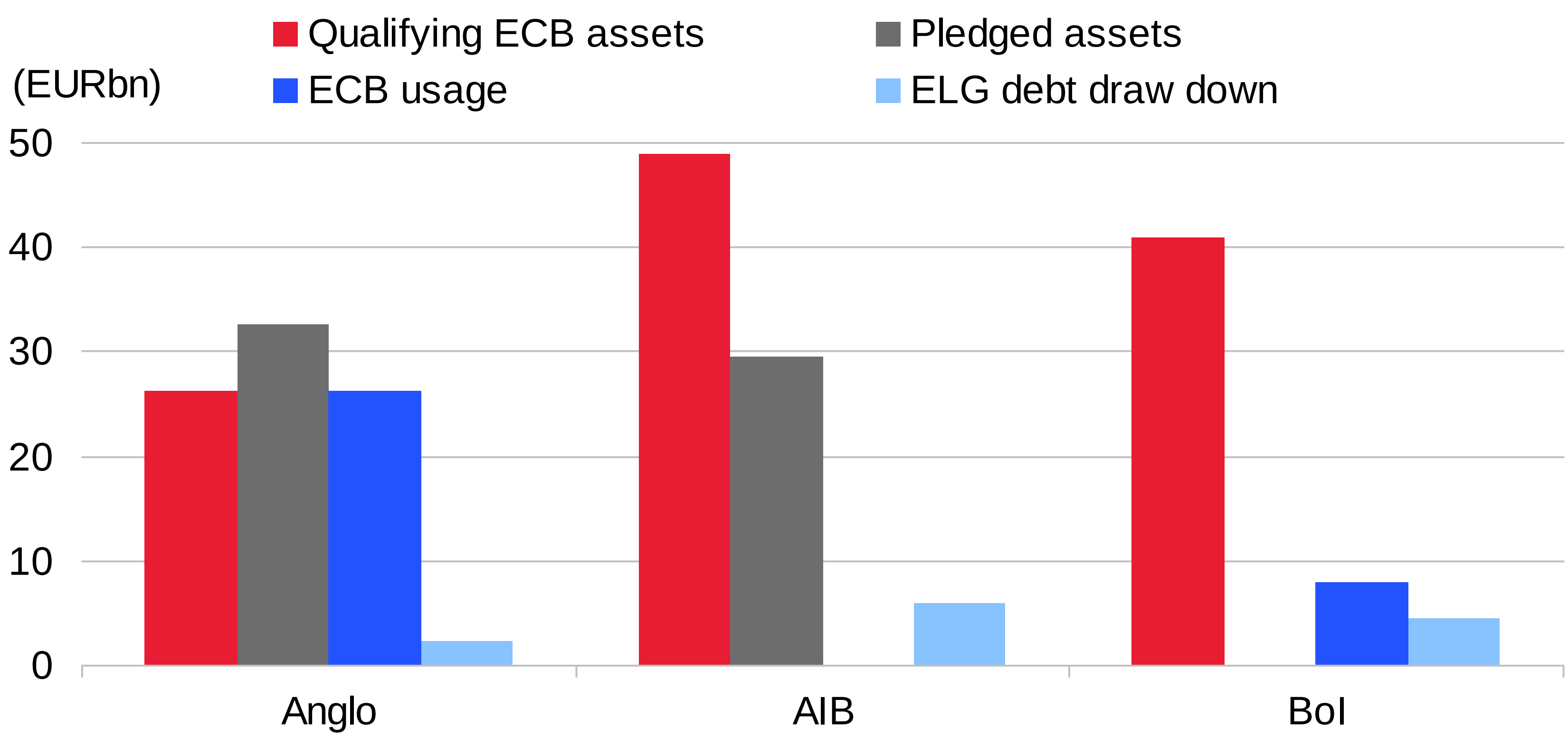
2007-2010



Source: ECB, Central Bank and Financial Services Authority of Ireland

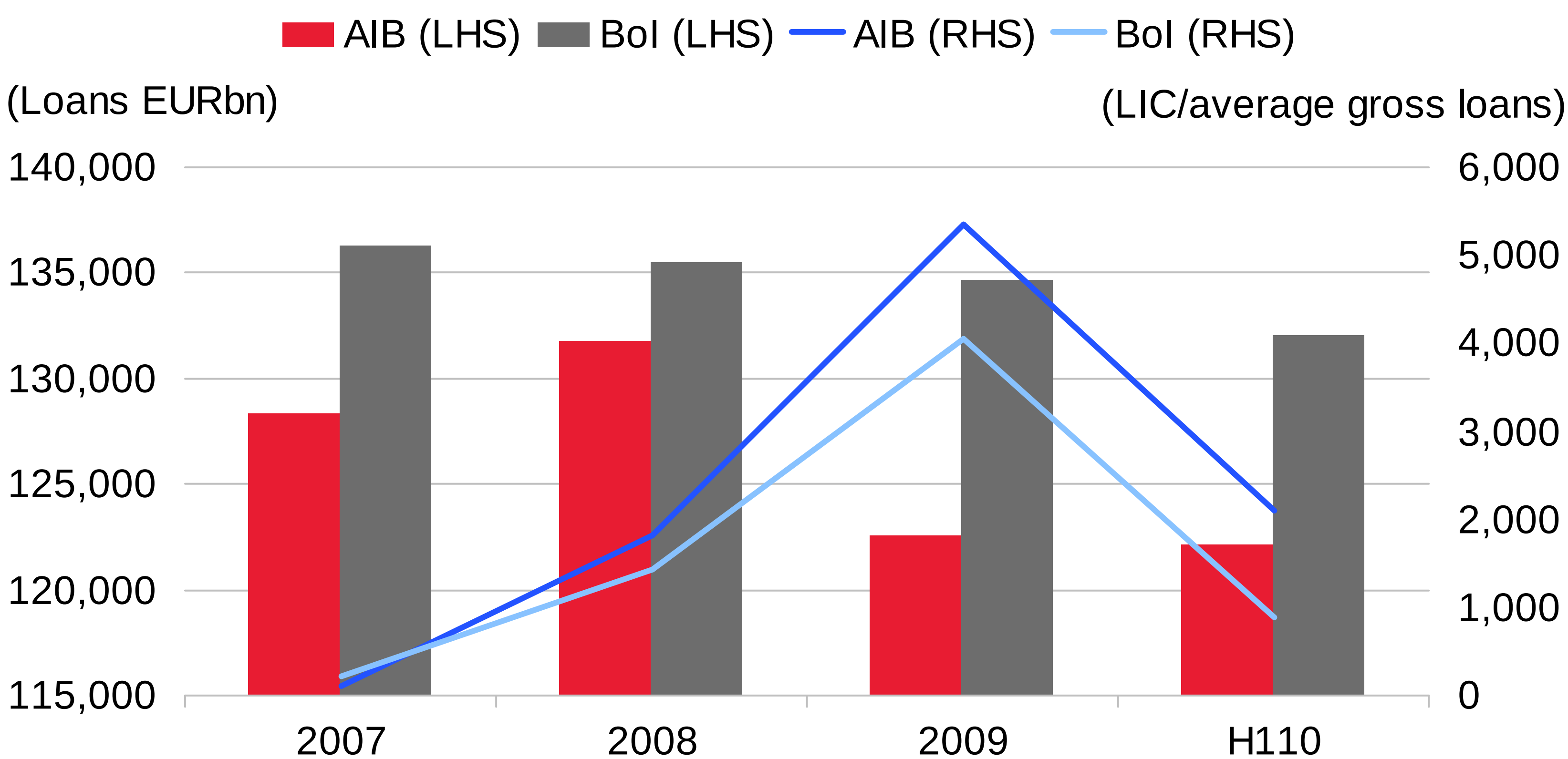
Liquidity Measures: Qualifying ECB and Pledged Assets, ECB Usage and ELG Draw Downs

at End-June 2010



Source: Banks interim accounts, June 2010

Asset Quality Safer at BoI than AIB



Source: Banks' accounts, reclassified by Fitch

What are the Prospects for Irish Banks?

- Economic growth supports banks and sovereign
- Reconfiguration of banking system
- Capital injections substantial but ratios sensitive to challenging environment
- Guarantee scheme likely to continue
- Asset quality trends stabilising
- Profitability can only improve
- Discussion of senior/subordinated debt

Irish Banks Dependent on Economic Growth Supporting Market Confidence

> Sovereign growth dependent on international growth
> Sovereign finances to balance fiscal tightening and economic growth outlook
> Banks would benefit from improved market confidence resulting from successful implementation of sovereign policies

Banking Landscape Evolving

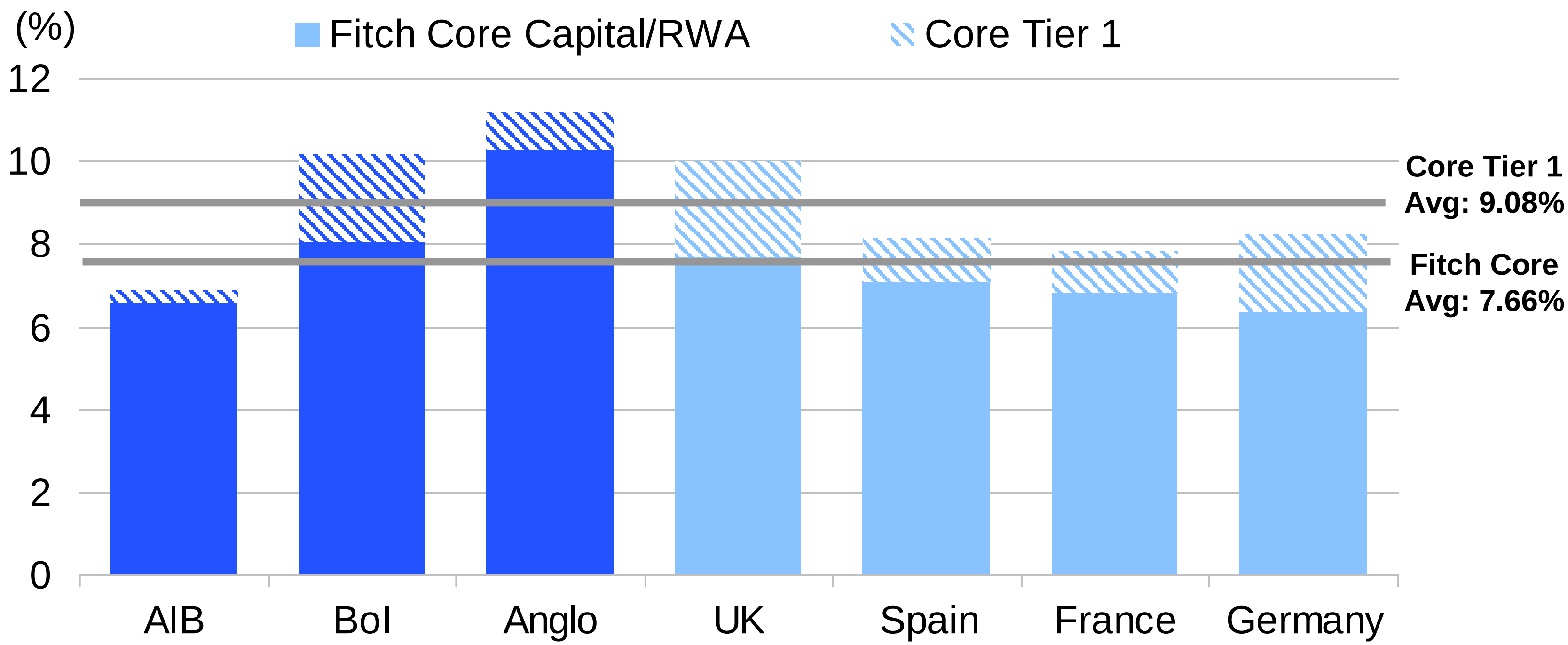
Restructuring of a battered banking system

Irish Bank Guarantees to be Extended

- EC has allowed Ireland to extend ELG scheme
- Fitch considers that if the Irish banks need the guarantee scheme, the EC will approve an extension
- However, Fitch expects the EC will increase the cost of the scheme to discourage usage by the Irish banks
- Fitch expects funding challenges to ease when capital position strengthens

Regulatory Tier 1 and Fitch Core Capital: Irish Banks Acceptable But Not Robust?

Fitch Core Capital/RWAs and Core Tier 1 Ratios at end-June 2010

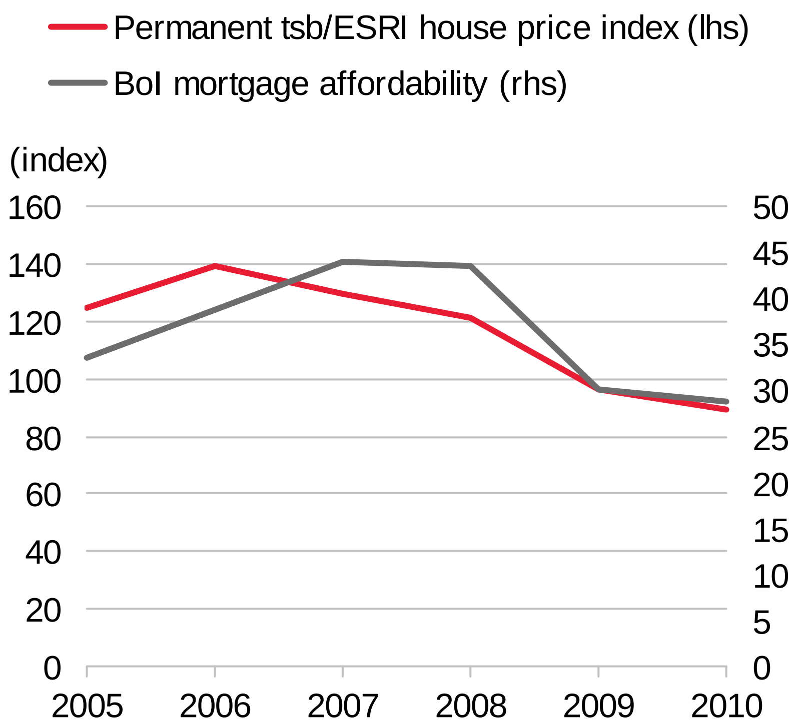


*Ireland: Anglo, AIB, BoI. UK: HSBC Holdings, RBS Group, Barclays plc, Lloyds BG. France: BNP Paribas, Groupe BCPE, Société Générale, CMCEE. Germany: Deutsche Bank, Bayern LB, Commerzbank, LBBW, DZ Bank. Spain: BBVA, La Caixa, Banco Santander, Caja Madrid.

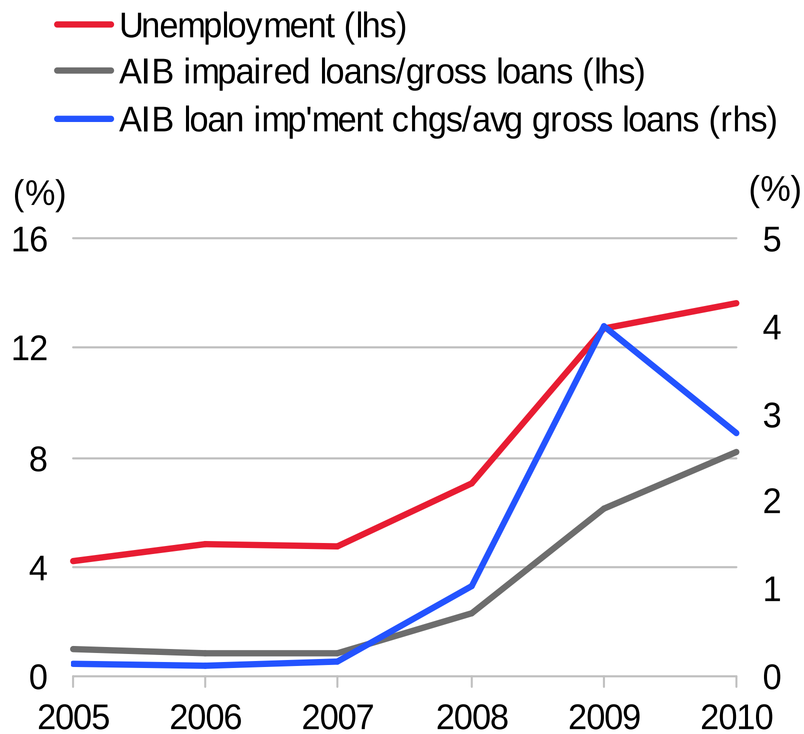
Source: Fitch

AIB and BoI Expect Loan Impairment Charges to Decline in 2011 and 2012

Affordability Supports House Prices

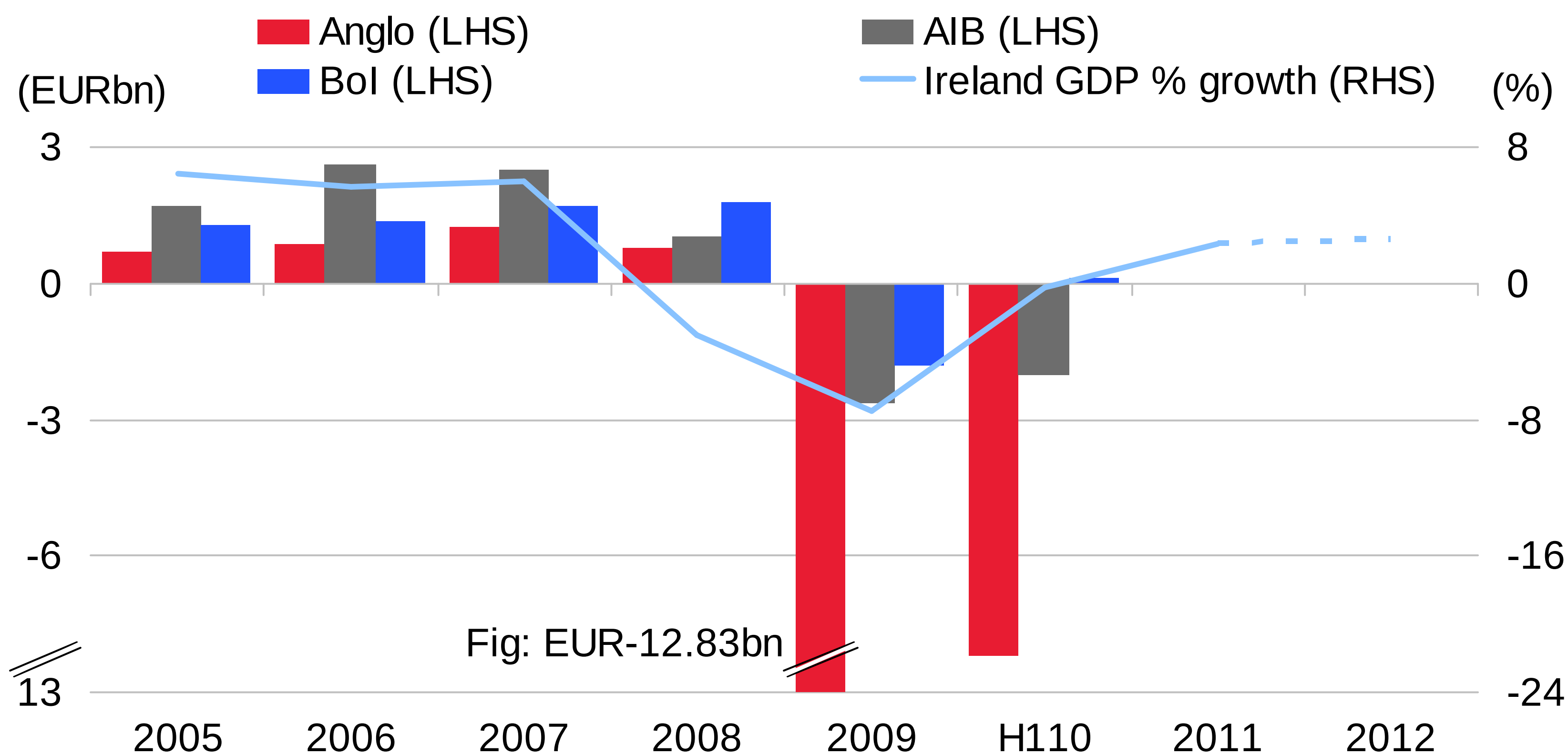


Impairment Charges Declining



Source: AIB, BoI, CSO, permanent tsb/ESRI

Profitability Lags GDP



Source: Banks' financial statements, Fitch

Senior Debt/Sub Debt Prospects: Finance Minister Says No Losses to be Imposed on Senior Debt, But …

- Minister's statement on banking 30 Sep 2010
  - "…The position is that senior debt obligations rank equally with deposits and other creditors under Irish law. I have no plans to change this position. There is no question of seeking to impose losses on holders of such senior debt in Anglo or indeed in any other credit institution in the State through any legislative measures"
- Senior debt looks safe from imposed losses
- Fitch considers authorities may be reluctant to extend more equity for Anglo or INBS
- Possibility of senior debt buy back at discount cannot be excluded but, if so, Fitch would expect it to be voluntary

Subordinated Debt is at Greater Risk of Intervention

- Anglo is tendering to exchange some of its outstanding LT2 debt for new Irish government guaranteed bonds maturing in 2011. Holders of EUR1.57bn LT2 bonds would receive 20% of nominal. Investors in EUR377m of perpetual junior debt would receive 5% of nominal
- If accepted, the bank could redeem bonds that have not accepted the exchange offer at EUR0.01 per EUR1,000 of nominal
- Reflecting greater strains in AIB, Fitch considers AIB LT2 debt to be at greater risk than in BoI. If the bank needs to raise additional capital, it might consider imposing losses on its LT2 debt

Fitch's Ratings of Irish Banks & Building Societies

	IDR	Short-term rating	G'teed LT debt	Individual rating	Support rating	Support rating floor
Allied Irish Banks plc	A- neg outlook	F1	A+	D/E	1	A-
Anglo Irish Bank Corporation Ltd	BBB- RWN	F3 RWN	A+	E	2 RWN	BBB- RWN
Bank of Ireland	A- neg outlook	F1	A+	C/D	1	A-
EBS Building Society	BBB- RWE	F3 RWE	A+	D/E	2 RWE	BBB- RWE
Irish Nationwide Building Society	BBB- RWN	F3 RWN	A+	E	2 RWN	BBB- RWN
Irish Life & Permanent				D	2	
Ireland	A+ neg outlook	F1				

Source: Fitch

FitchRatings

Fitch Ratings
www.fitchratings.com

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Fitch Ratings Western Europe Bank Tour
Madrid, 16 November 2010

Spanish Banks: Diverging Paths

Carmen Muñoz
Senior Director

Agenda

- Economic Backdrop
- Asset Quality
- Liquidity and Funding
- Performance
- Capital
- Developments

Agenda

Economic Backdrop

Asset Quality

Liquidity and Funding

Performance

Capital

Developments

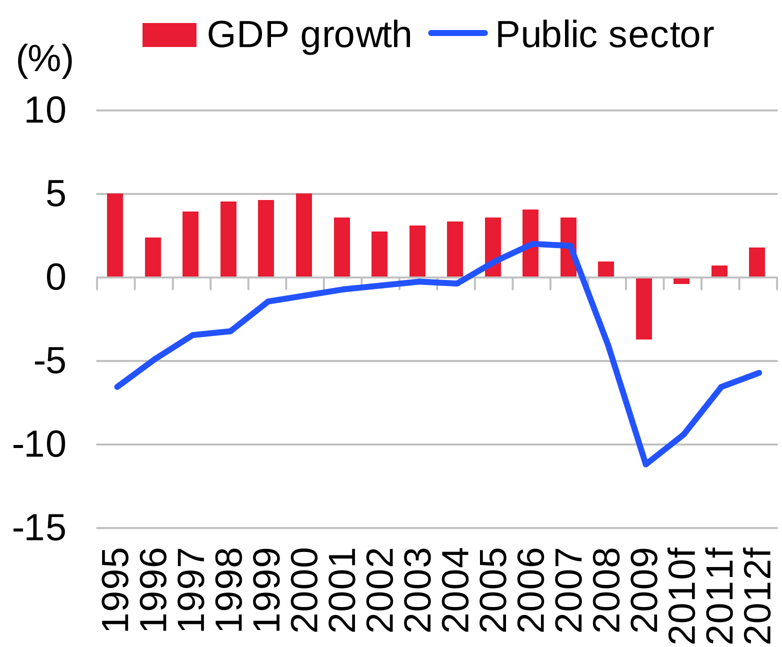
The Spanish Economy has Experienced a Severe Contraction

The Boom 1995-2007

- Long expansion period
- Led by residential investment and domestic consumption
- Supported by lower rates and credit expansion
- And strong population growth
- Resulted in a run-up in asset prices, particularly real estate

Economic Adjustment in Spain

General government balance (as % of GDP) and Real GDP growth (%)



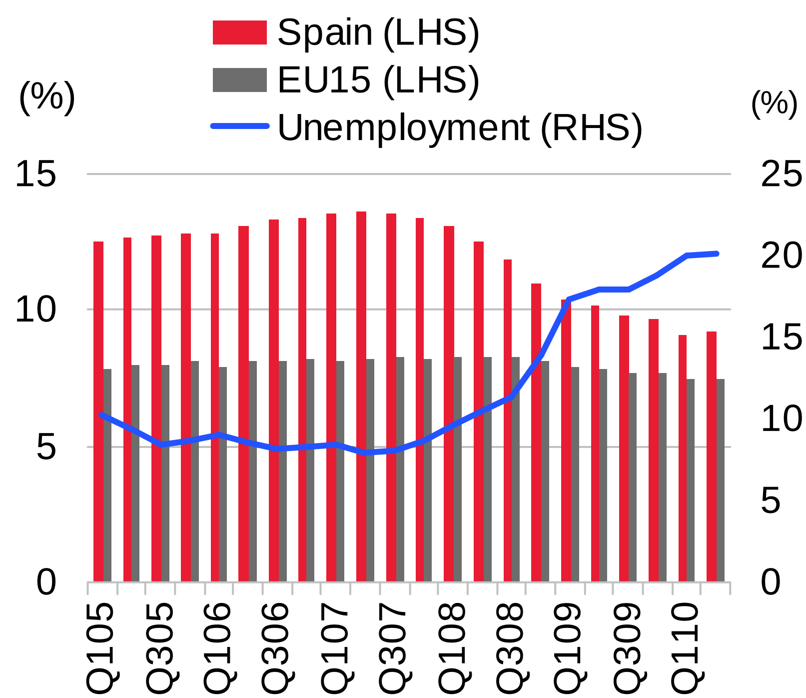
Source: INE, Datastream & Fitch forecast

The Spanish Economy has Experienced a Severe Contraction (cont.)

The Downturn 2008-TBD

- Severe economic contraction
- Initiated by financial market dislocation
- Spilled into real economy
  - Housing market correction
  - Sharp increase in unemployment
  - Weak consumer confidence and consumption
  - Public deficit and debt growth
  - Subdued growth expected

Construction Employment in Spain and EU vs Unemployment in Spain



Source: INE, Datastream, Eurostat

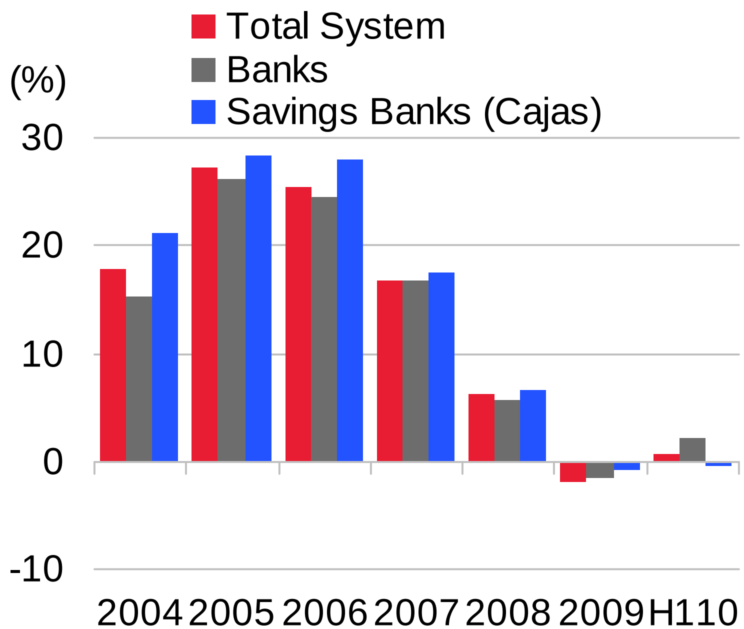
Agenda

- Economic Backdrop
- Asset Quality
- Liquidity and Funding
- Performance
- Capital
- Developments

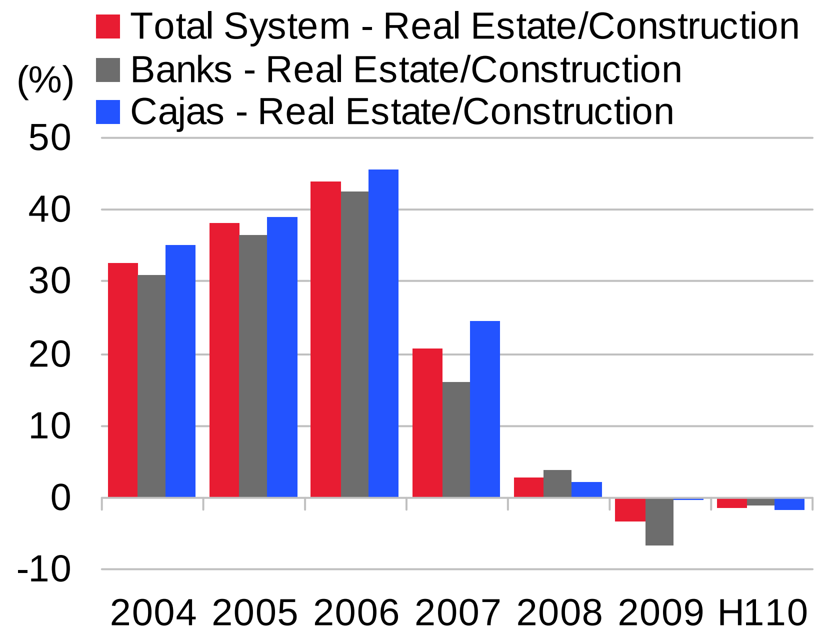
Strong Loan Growth 2004-2007

Particularly strong construction/real estate loan growth; banks backed off more rapidly

Total Annual Loan Growth



Real Estate/Construction Annual Growth

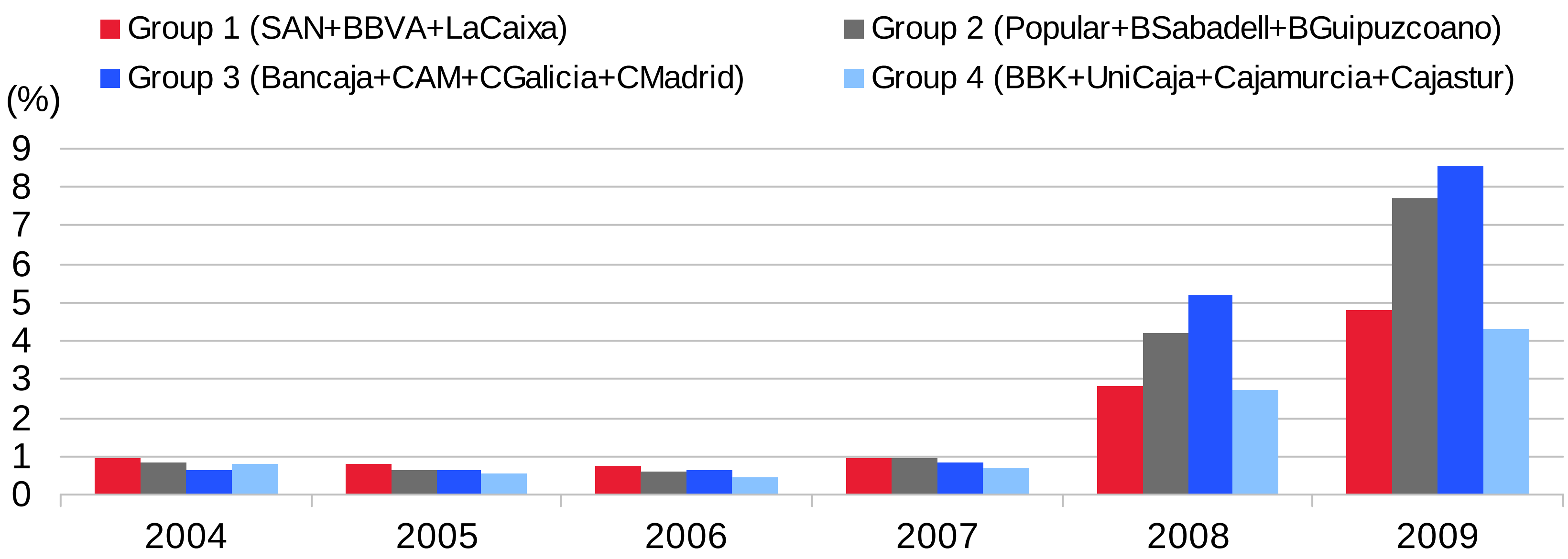


Source: Bank of Spain

NPL with Foreclosed Assets

Higher NPL figures on cajas/banks which grew construction and real estate books aggressively in 2004 – 2007 and with single name concentration

NPL ratios (%; including foreclosed assets)



Source: Banks financial data adapted by Fitch

Agenda

Economic Backdrop

Asset Quality

Liquidity and Funding

Performance

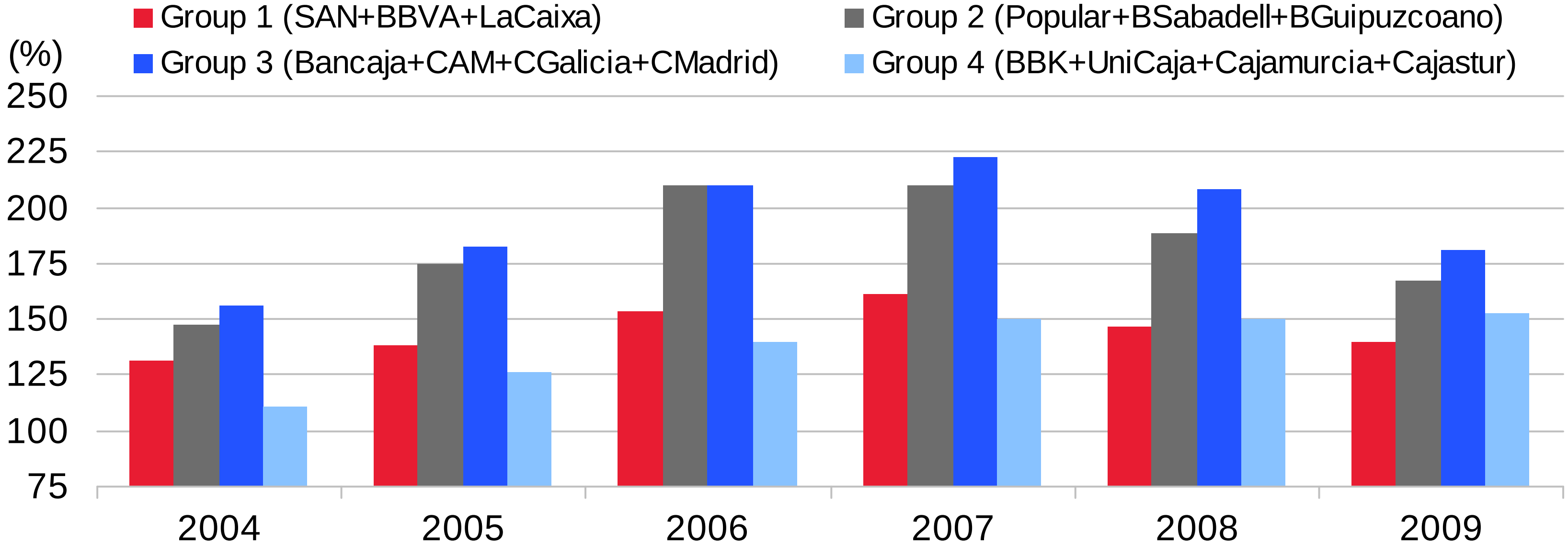
Capital

Developments

Loans/Customer Deposits Ratio

- Some cajas have not accessed wholesale funding significantly
- Further deleveraging in 2010, particularly large players

Loans/Customer Deposits Ratio (%)

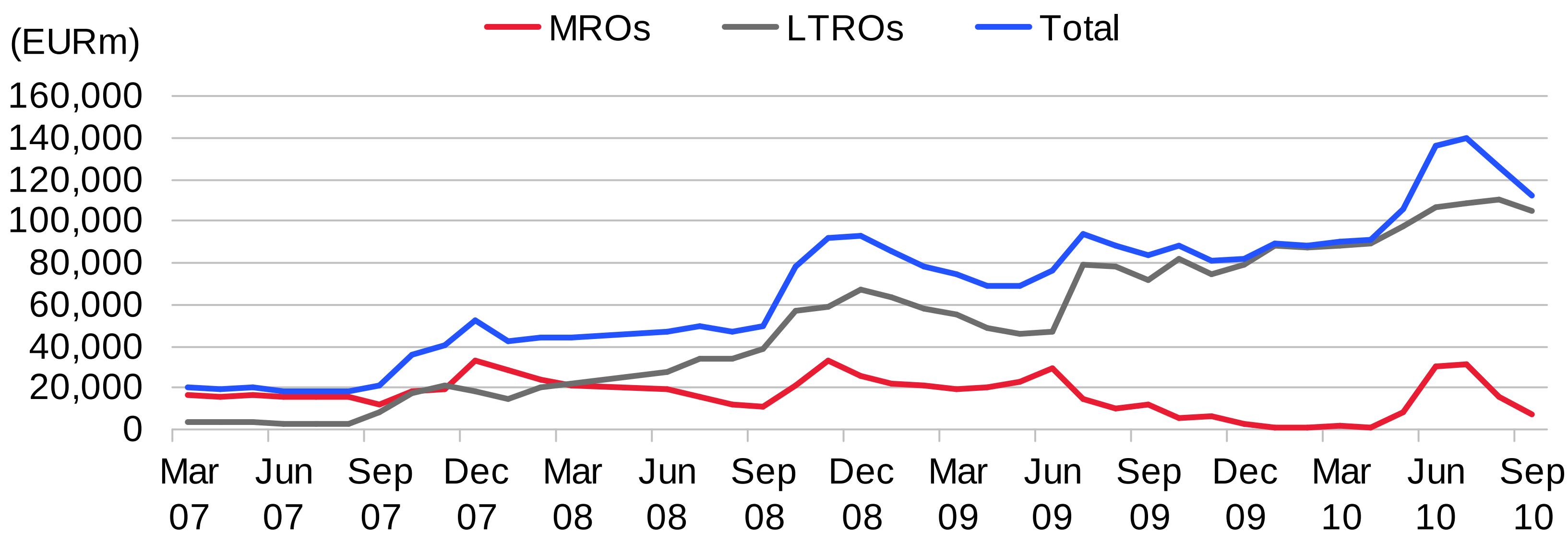


Source: Banks financial data adapted by Fitch

ECB Access

- ECB usage peaked in July 2010 at EUR140m coinciding with sovereign crisis
- Access to markets by large players and central clearing counterparty bringing ECB funding down

Spanish Usage of the ECB Credit Facilities

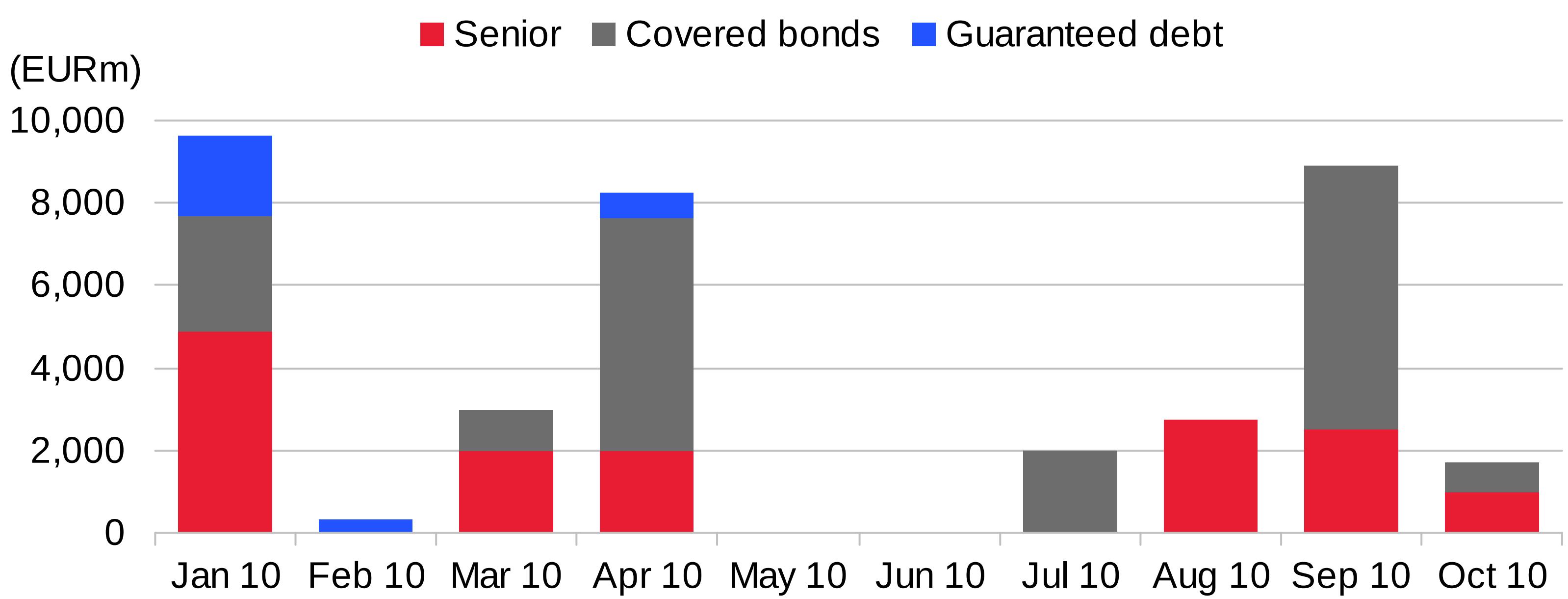


Source: ECB, Bank of Spain

Wholesale Funding Issuances in 2010

> The large players have had renewed access to wholesale markets following glut in May and June 2010

> Smaller players issuing covered bonds in October



Source: AFI from Bloomberg, AIAF and CNMV

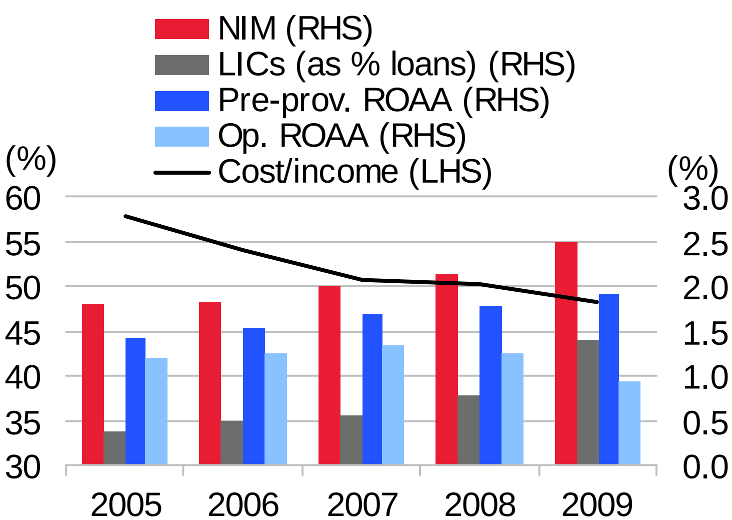
Agenda

- Economic Backdrop
- Asset Quality
- Liquidity and Funding
- **Performance**
- Capital
- Developments

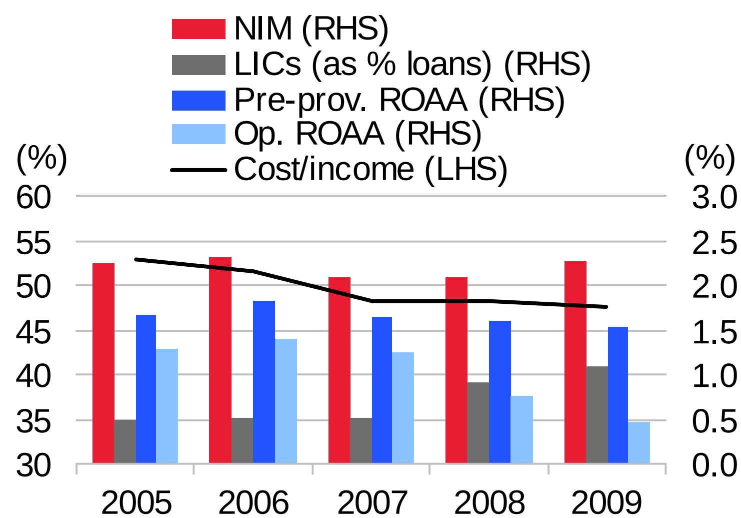
Key Performance Indicators (1/2)

- Operating ROAA has held-up well at the large players as margins remain wide and able to absorb higher LIC
- Medium-sized players being affected by concentration of activities in Spain

Group 1 (avg.): SAN, BBVA & La Caixa



Group 2 (avg.): BPopular, BSabadell & BGuipuzcoano

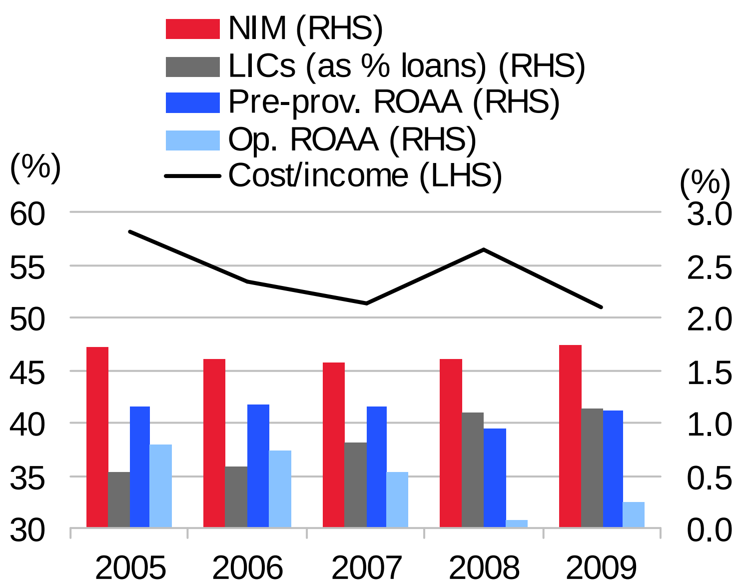


Source: Banks' financial data adapted by Fitch

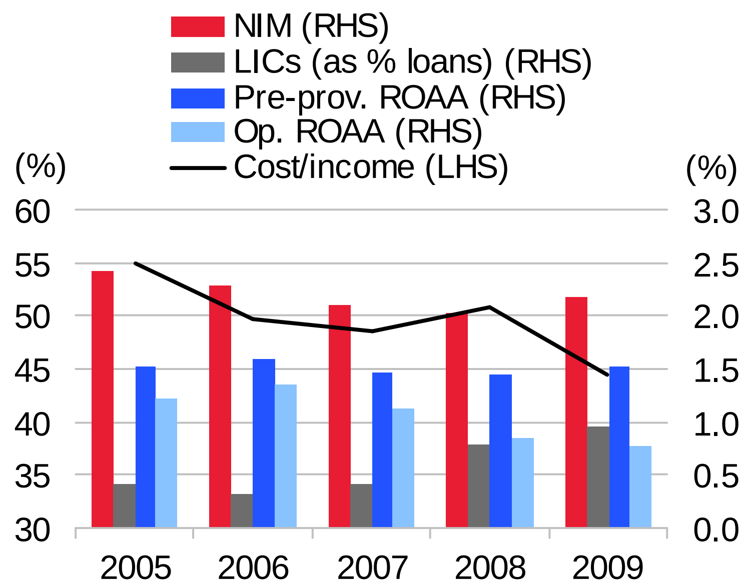
Key Performance Indicators (2/2)

There is divergence in the performance of savings banks

Group 3 (avg.): Bancaja, CAM, CGalicia & CMadrid



Group 4 (avg.): BBK, Unicaja, Cajamurcia & Cajastur



Source: Banks' financial data adapted by Fitch

Agenda

Economic Backdrop

Asset Quality

Liquidity and Funding

Performance

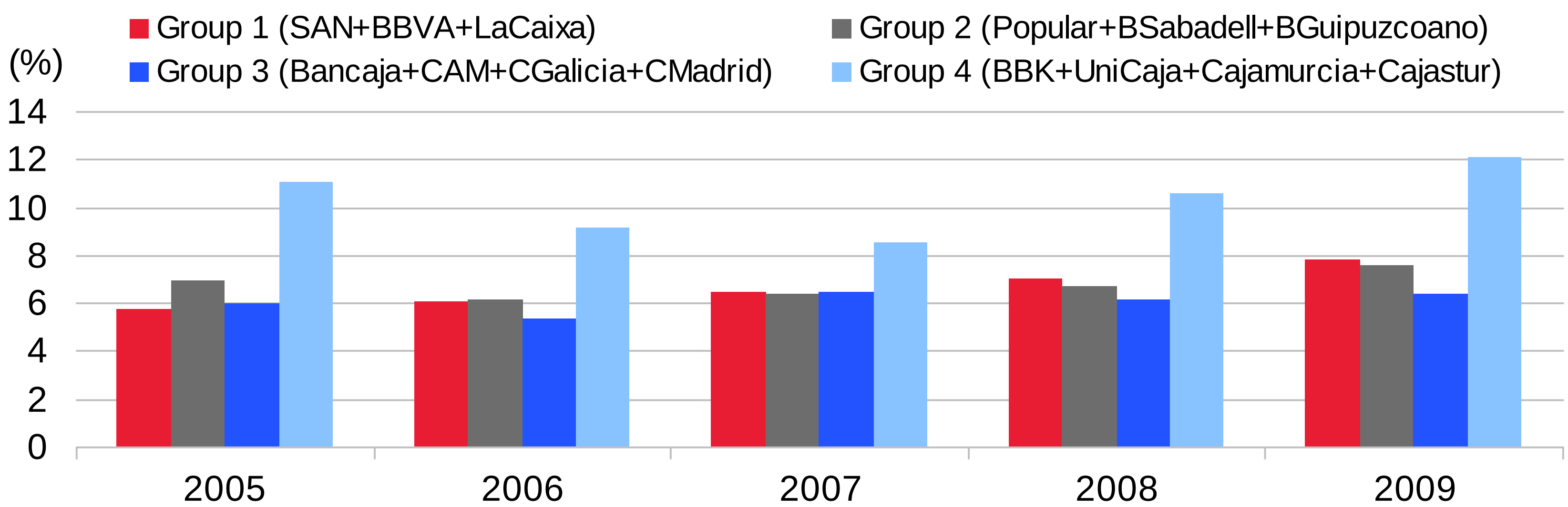
Capital

Developments

Regulatory core capital

- Some cajas have always had very strong core capital ratios
- Large and medium-sized Spanish banks boosting core capital through mandatory convertible securities

Regulatory Core Capital Ratio (average, %)



Source: Banks' financial data adapted by Fitch

Fitch Ratings

Agenda

- Economic Backdrop
- Asset Quality
- Liquidity and Funding
- Performance
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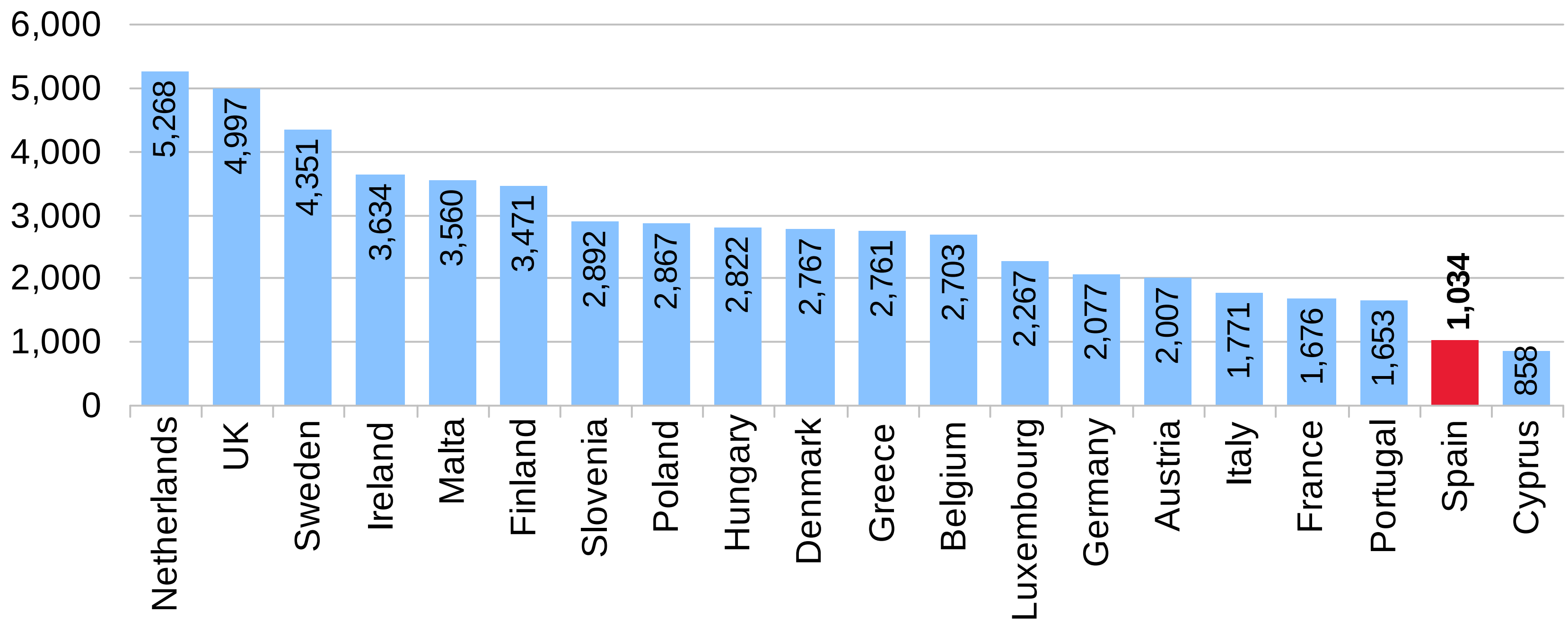
- Developments

FitchRatings

Overcapacity in System

Spain has always been one of the more overbanked countries measured by branches by number of inhabitants

Number of Inhabitants per Branch (Dec 2009)

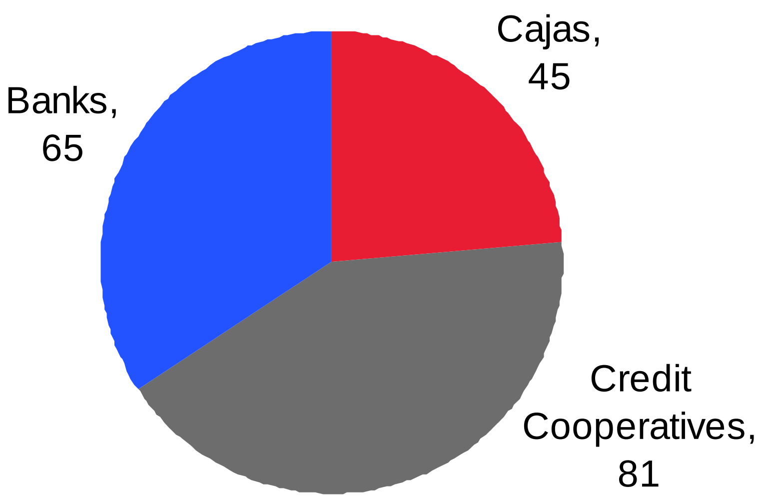


Source: AFI from ECB and IMF

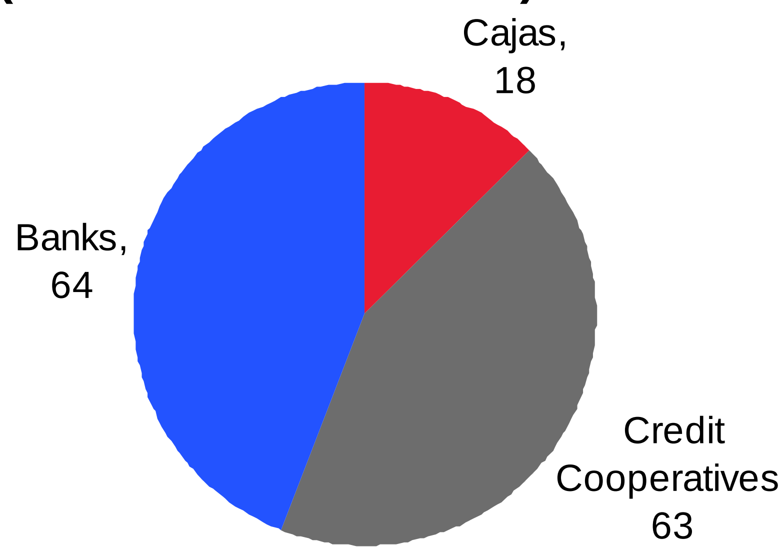
Restructuring Process in Spain

Restructuring mainly taking place in the caja sector, although medium-sized banks also feeling need to gain dimension

Pre-restructuring System (number of institutions)



Post-restructuring System (number of institutions)



Source: Bank of Spain

Restructuring the Savings Bank Sector

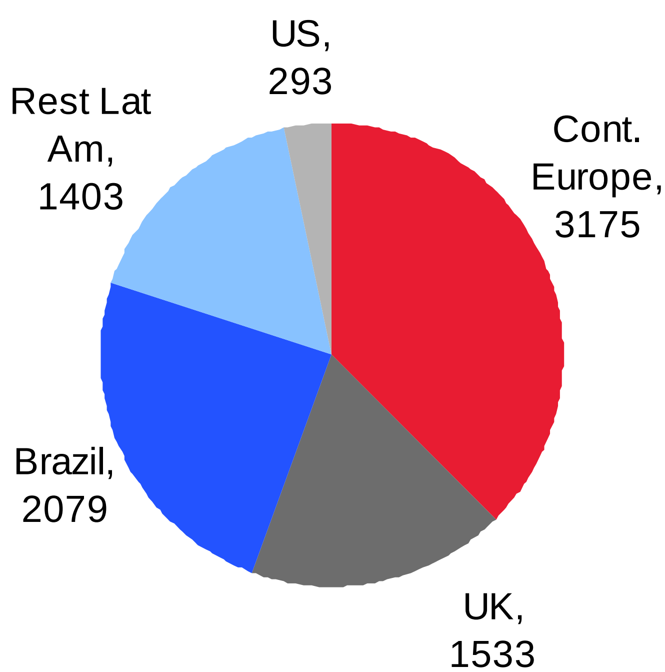
- Fund for Orderly Bank Restructuring
- New Cajas Law
  - Status quo – issuance of “cuotas participativas”
  - Institutional Protection Schemes or “SIPs”
  - Transfer of banking activities to a bank at least 50% owned by caja
  - Transformation into a foundation and transfer of activities into a bank
- Mergers and SIPs
- Reforms mainly aimed a cajas being able to raise share capital
- Further integration processes?

Large Banks More Immune from Problems in Spain

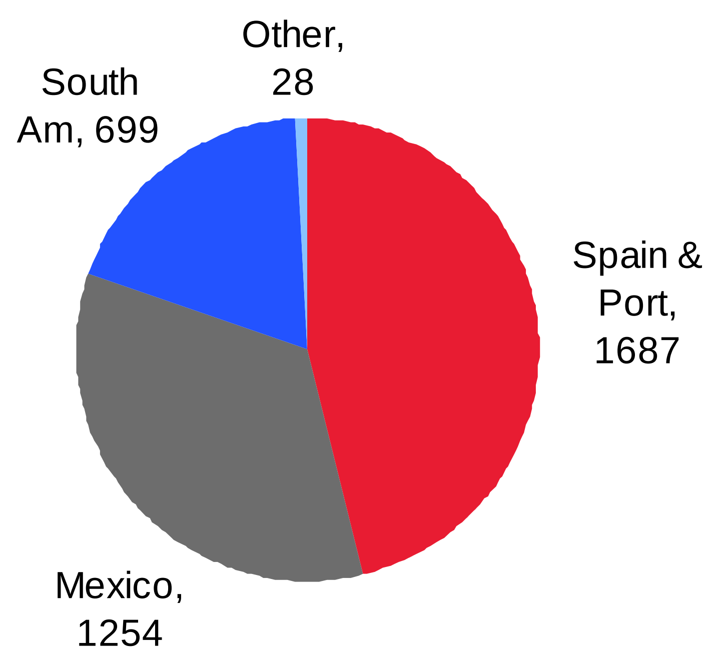
- The large systemically important banks have diversified businesses by geography, albeit retail focused
- Recent earnings supported by expansion into other countries/regions feeding into capital
- Strong capacity for renewed access to markets but drive to increased level of customer deposits
- However, strong correlation of their CDS with the Spanish sovereign
- Subsidiaries are locally funded, either through deposits or through local capital markets

Contribution 9M10 Earnings Santander and BBVA

Santander



BBVA

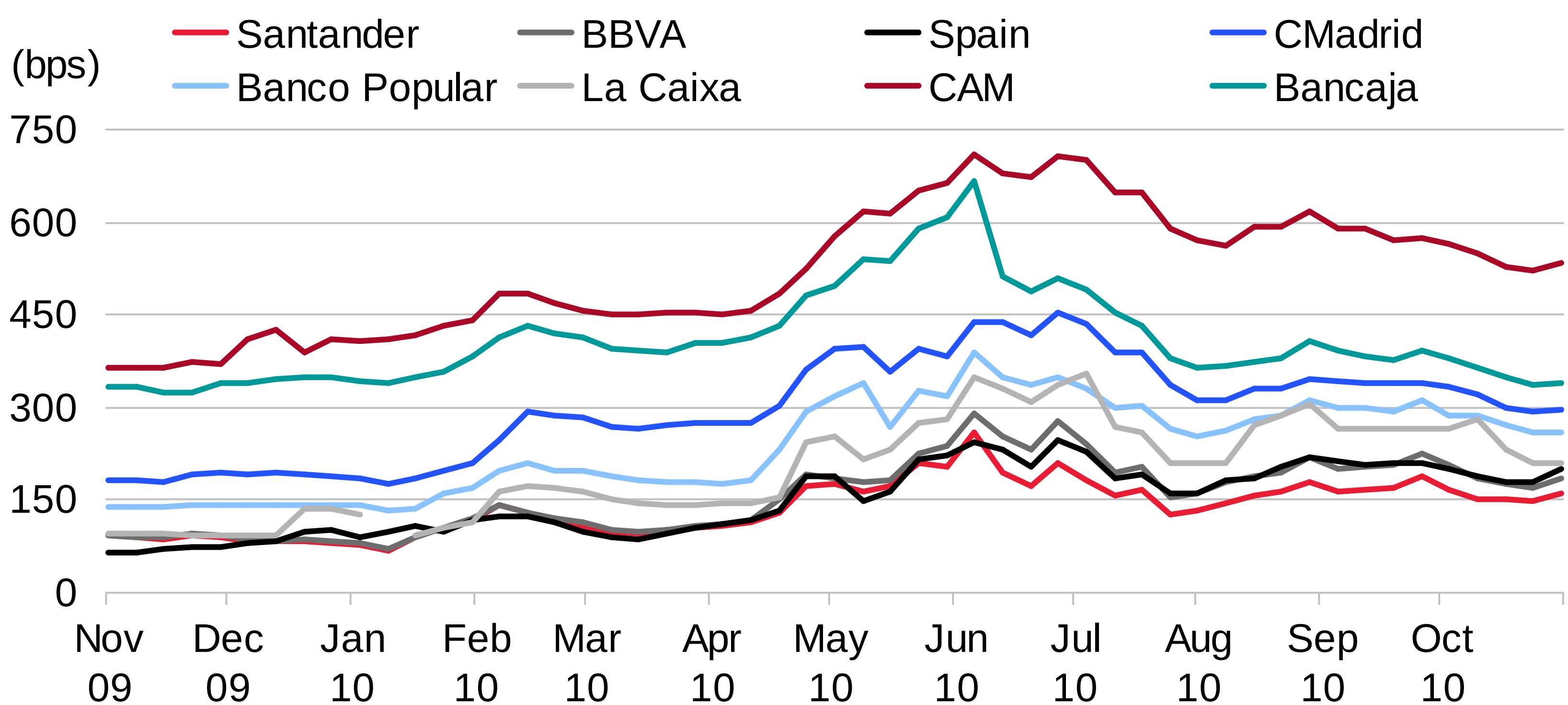


Source: Bank of Spain

FitchRatings

CDS Spreads Compared

CDS-5Year Spreads for some of the largest Spanish banks

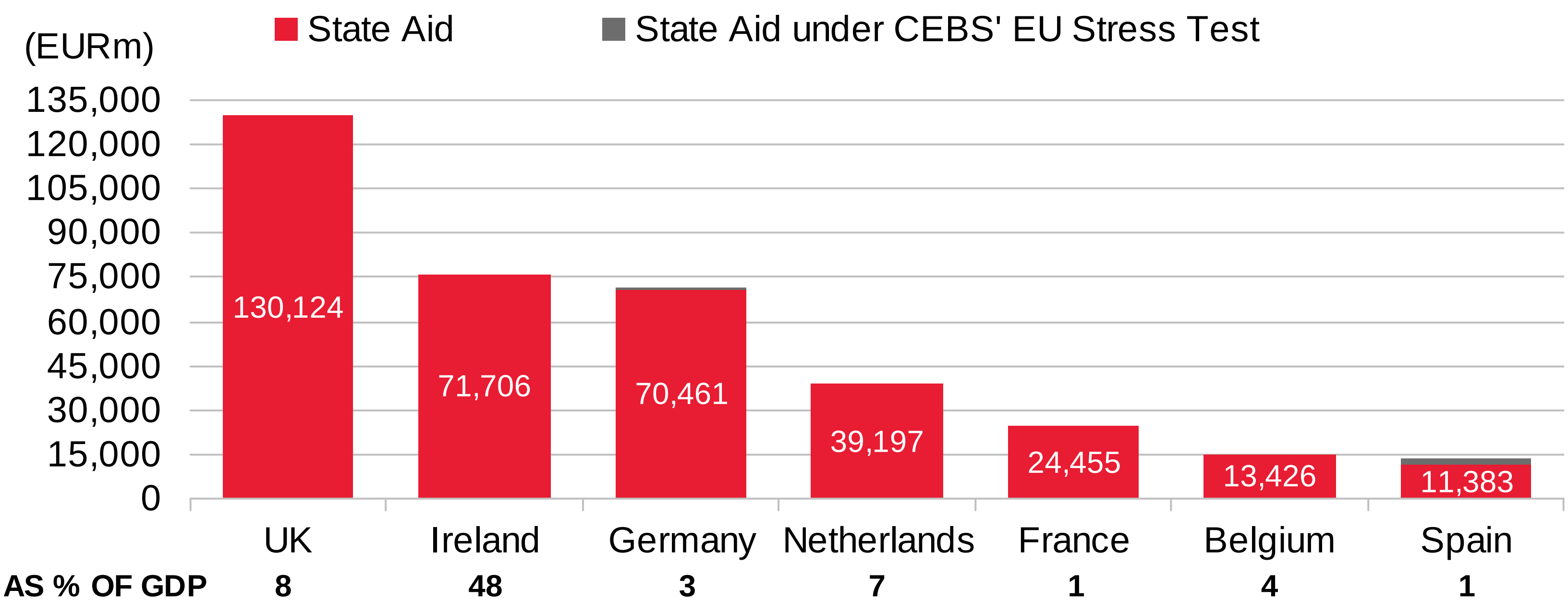


Source: Fitch Solutions

Comparative Aid – Financial System

When compared to other countries capital support in Spain only accounted for 1% of GDP

Total State Capital Support per EU country (EURm)



Source: Fitch, AFI from Bank of Spain & CEBS

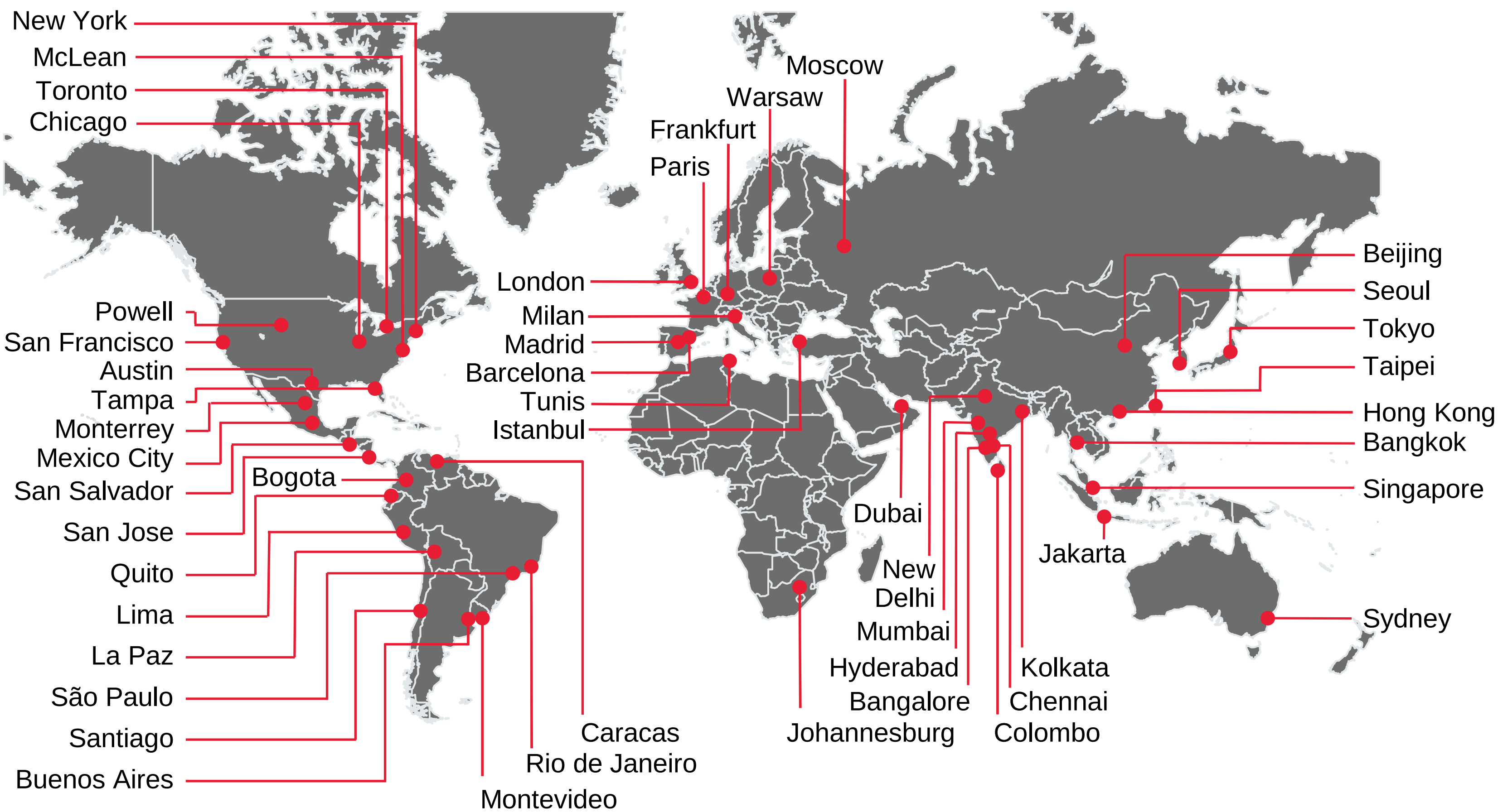
Fitch's Stress Test on the Domestic Loan Book

- Three scenarios carried out
  - Base case with MVD of 30% calls for EUR23bn FROB drawdown
  - Irish case with MVD of 50% calls for EUR49bn FROB drawdown
  - Japanese case with MVC of 65% calls for EUR88bn FROB drawdown
- Main conclusions are that the banking sector withstands the different stress scenarios better than the cajas as they have higher equity and lower exposure to construction/real estate
- FROB is more than sufficient to cover stress scenarios for system
- Important to bear in mind that there are differences between institutions

Conclusions

- Asset quality will remain an important challenge. Advantage for those that had not expanded loan books significantly in 2004 – 2007 as this has had an impact on provisioning and liquidity
- Funding will remain a key challenge both in terms of deposit gathering and access to financial markets with higher costs and margin pressure
- The two systemically important banks benefit from their diversification, making up for weak Spanish economy. Ongoing acquisitions
- Muted growth for Spanish economy, low interest rates and provisioning will continue to affect performance in domestic players but some are better placed than others and this has been reflected in rating migration
- SIPs and mergers among cajas to benefit from the front-loading of expected losses and restructuring processes. Could be an interim solution for further consolidation
- Past strategies are largely determining the future for each institution

Global Presence (September 2010)



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FitchRatings

Western European Sovereign & Bank Seminar
Madrid, 16 November 2010

Germany, France, Italy and UK: Will it be Fundamentals or Regulation that Drives Long-term Bank Credit Risk?

Matthew Taylor
Senior Director, Financial Institutions

Agenda

Earnings – Any Recovery Mixed in Size and Pace

Asset Quality – Charges Down and Impaired Loans Stabilising

Funding – Stable or Improving Position, but Costs Up

Capitalisation – Mixed Picture in the Face of Regulatory Change

Regulation – Major Changes Ahead, both Positive and Negative

Agenda

Earnings – Any Recovery Mixed in Size and Pace

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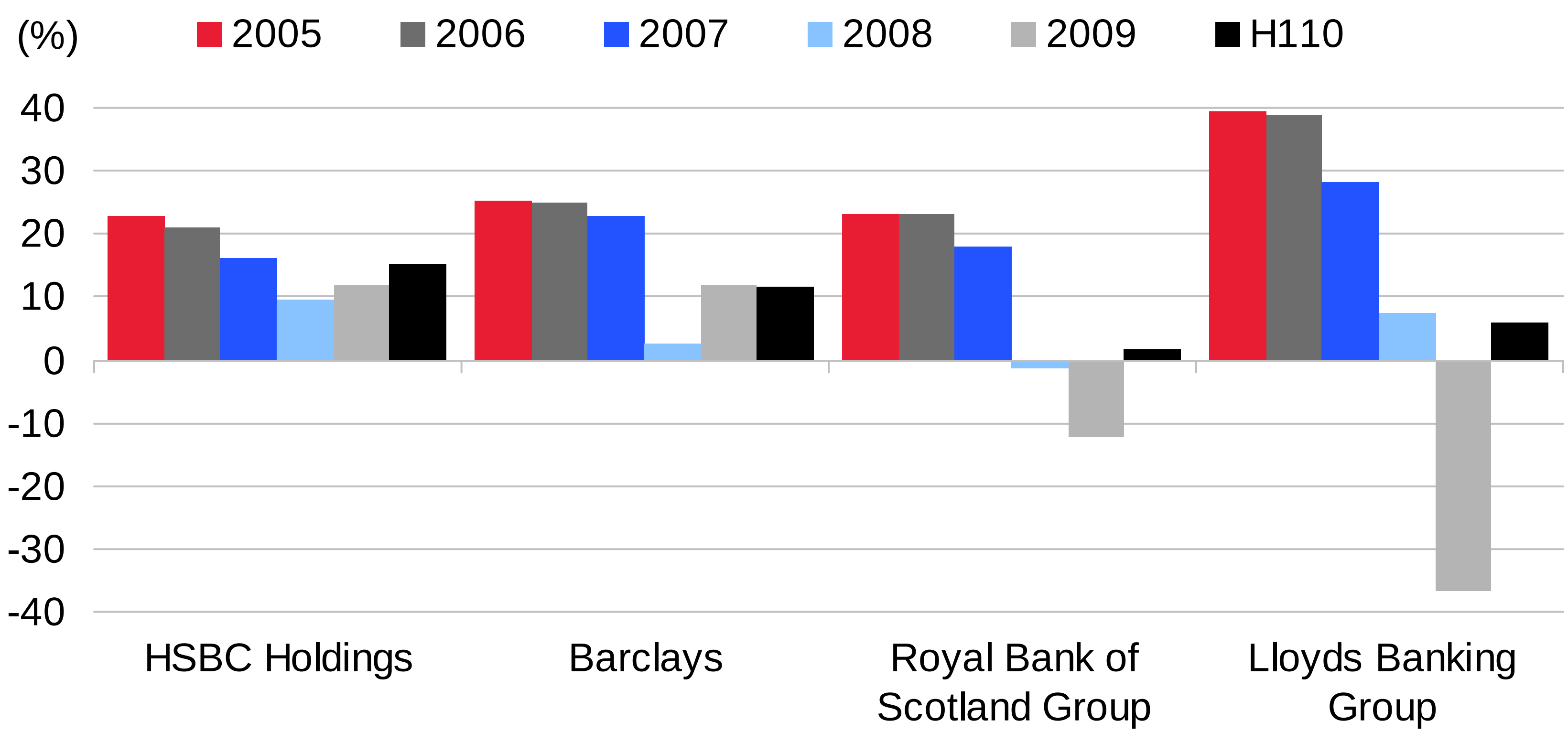
Major UK Banks – Divergent Performance

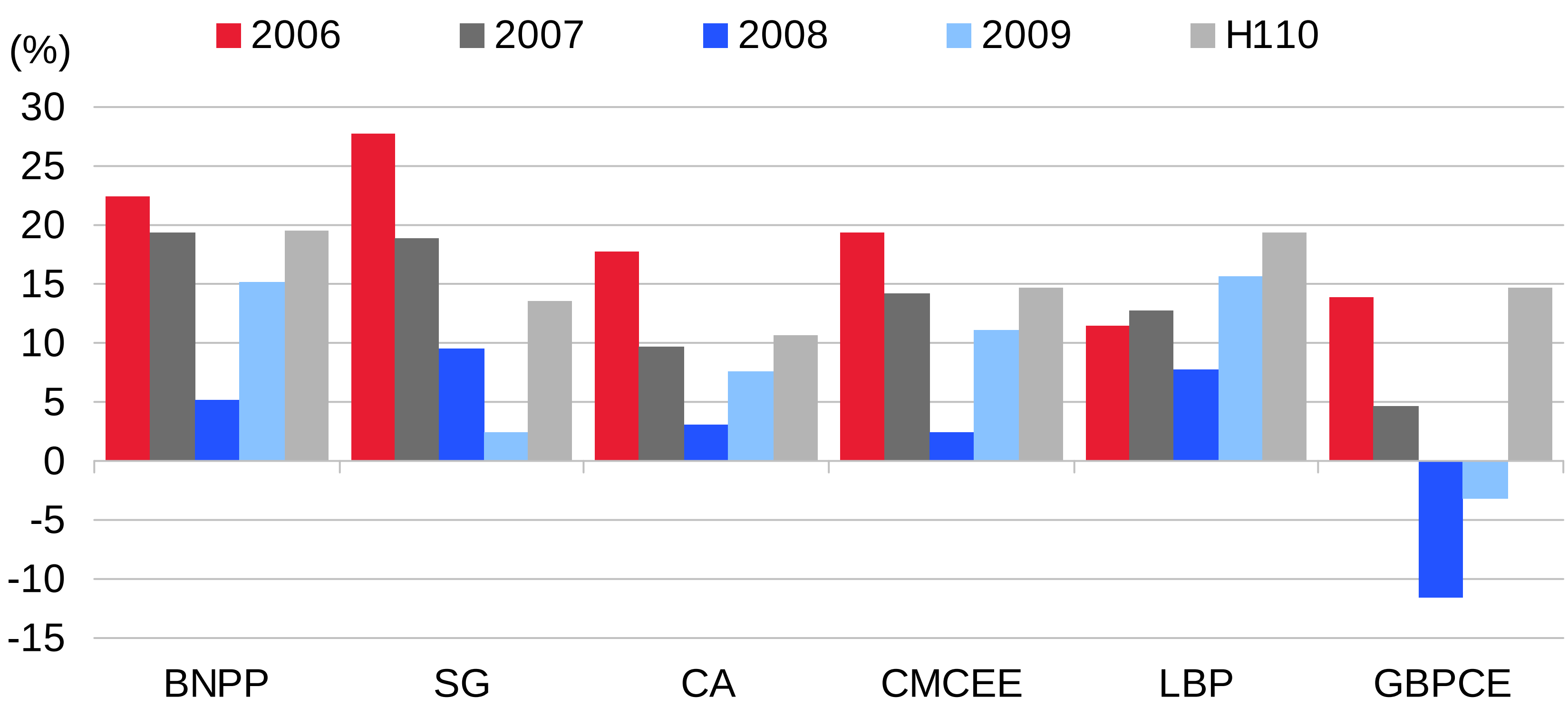
Operating Return on Average Equity – 2005–H110



Source: Fitch

Major French Banks - Operating ROE of Between 10% and 15% For All The Banks in H110

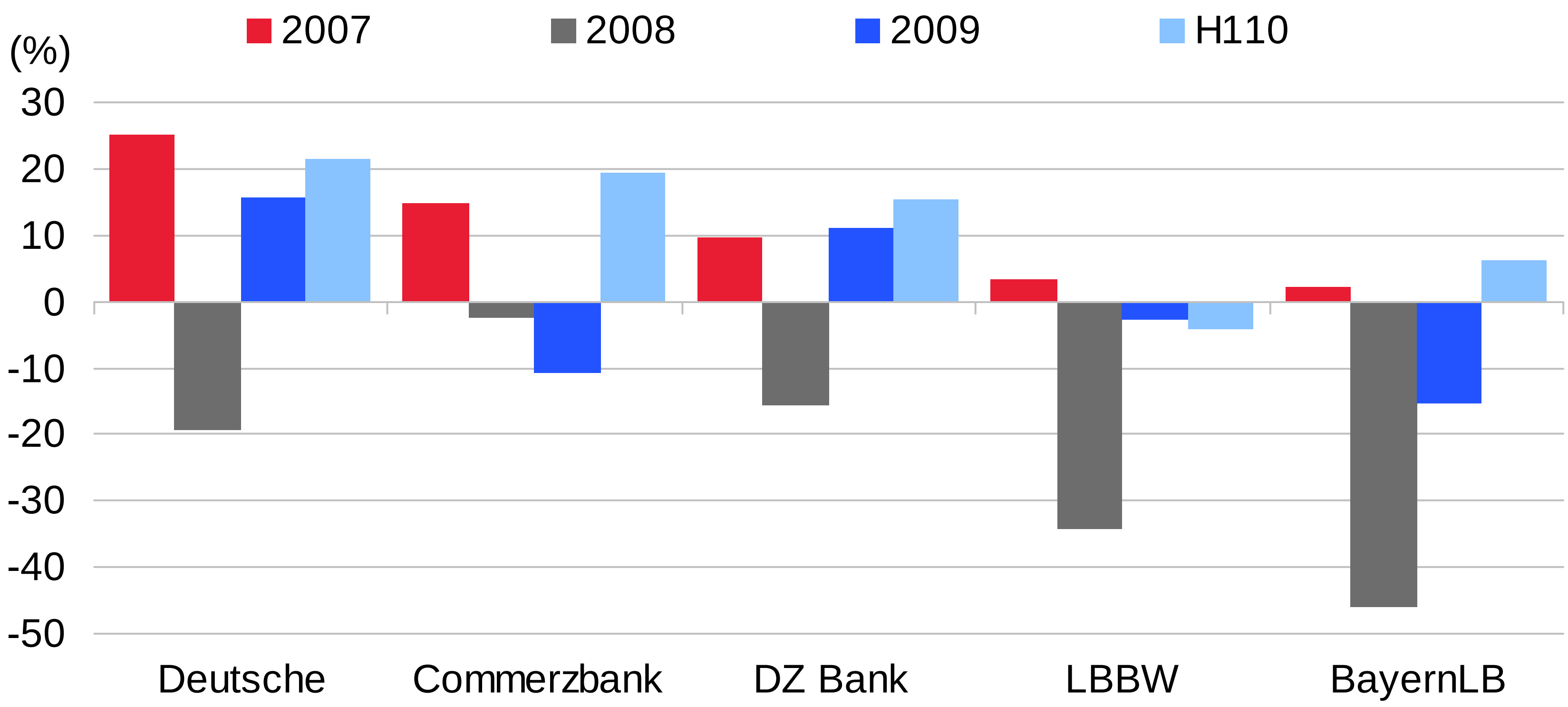
Operating Return on Average Equity – 2005-H110



Source: Fitch

Major German Banks – Pessimistic About Earnings

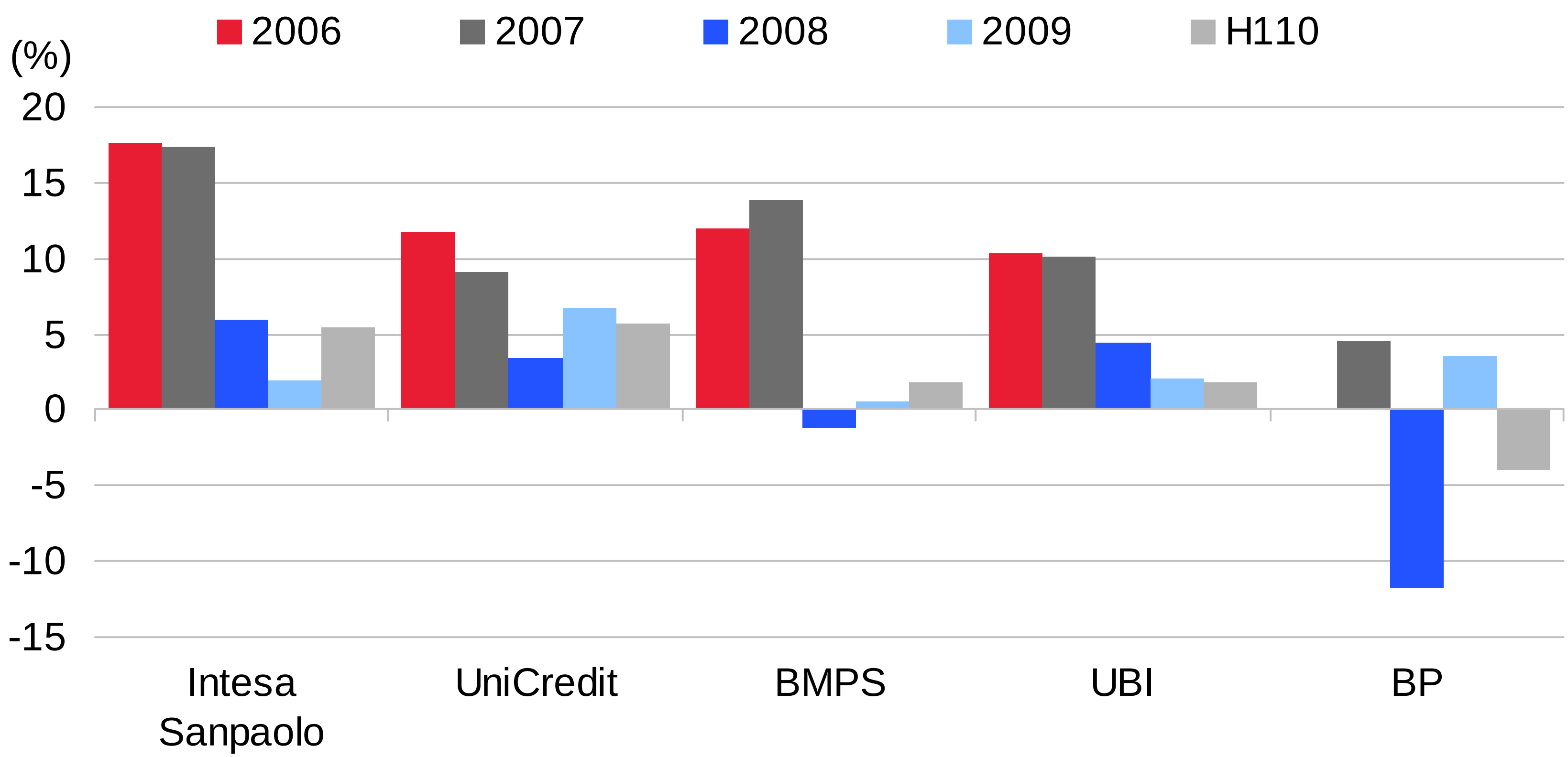
Operating Return on Average Equity – 2007-H110



Source: Fitch

Major Italian Banks – Performance Hit Hard

Operating Return on Average Equity – 2006-H110



Source: Fitch

Agenda

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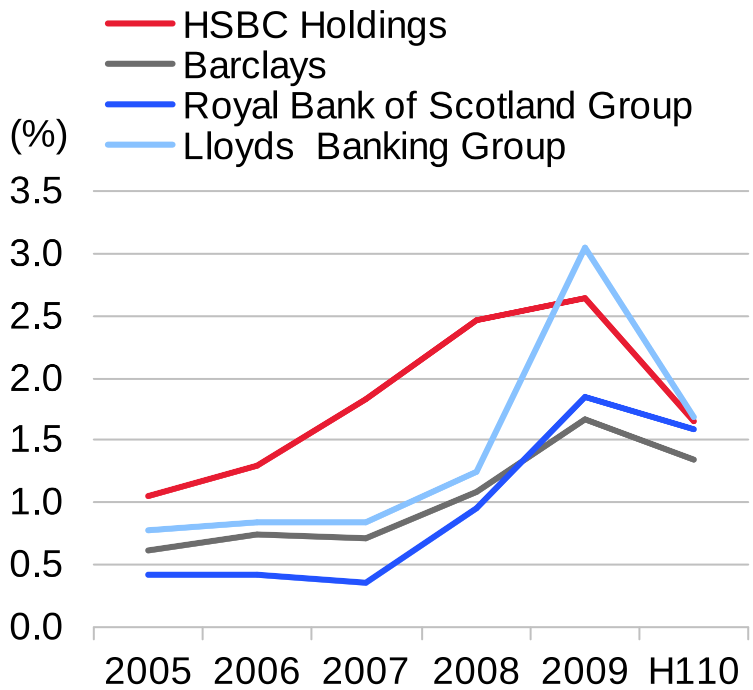
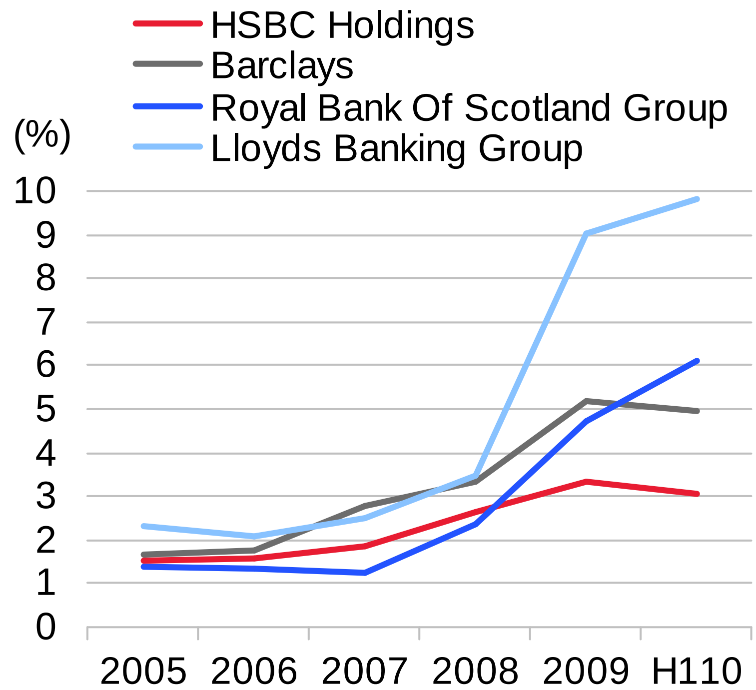
Major UK Banks – Impaired Loans Approaching Peak

Loan Impairment Charge/ Average Gross Loans



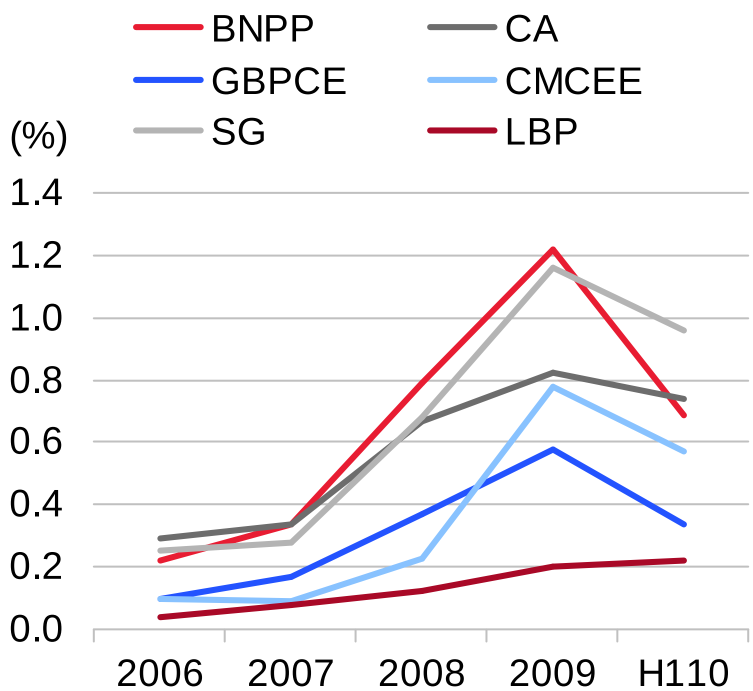
Impaired Loans/Gross Loans



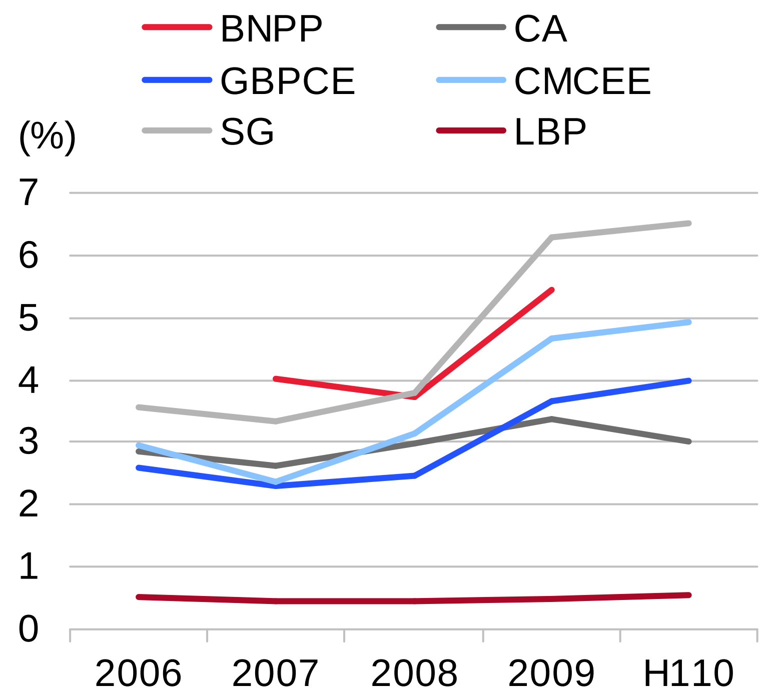
Source: Fitch

Major French Banks – Impairment Charges Falling & Growth in Impaired Loans Appears to be Slowing

Loan Impairment Charge/ Average Gross Loans



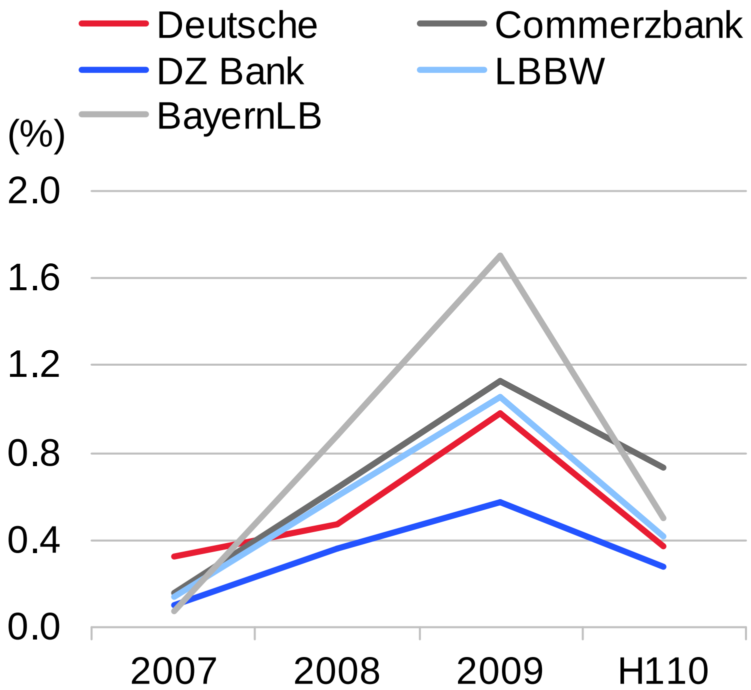
Impaired Loans/Gross Loans



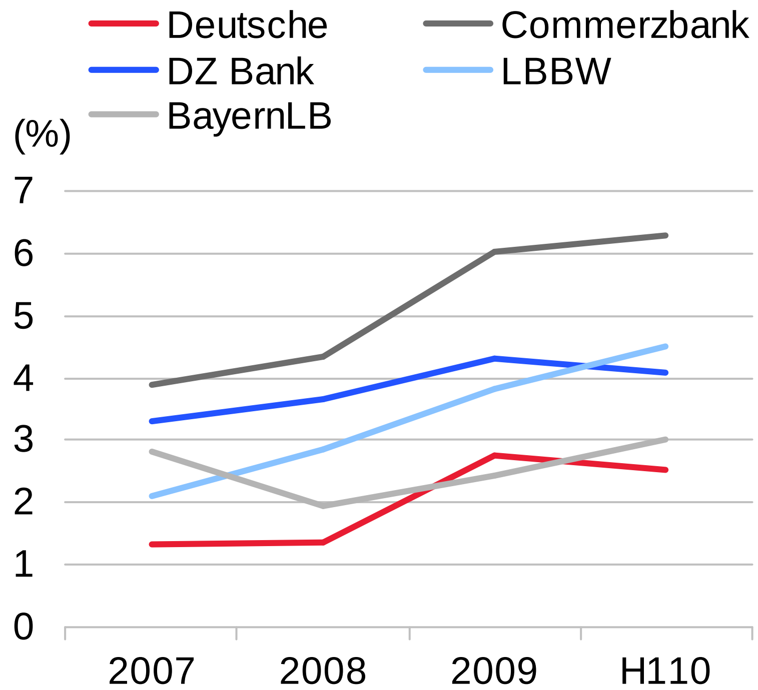
Source: Fitch

Major German Banks – Rescued by Domestic Economy

Loan Impairment Charge/ Average Gross Loans



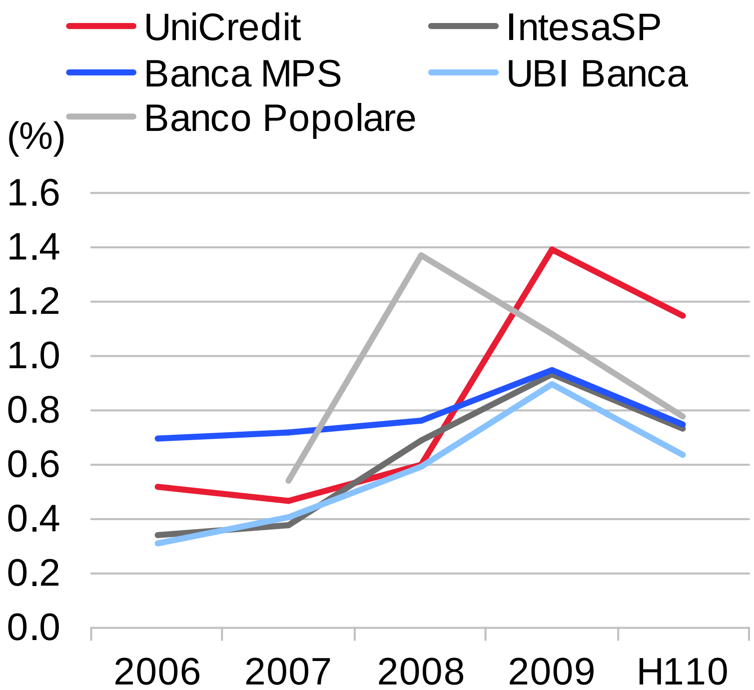
Impaired Loans/Gross Loans



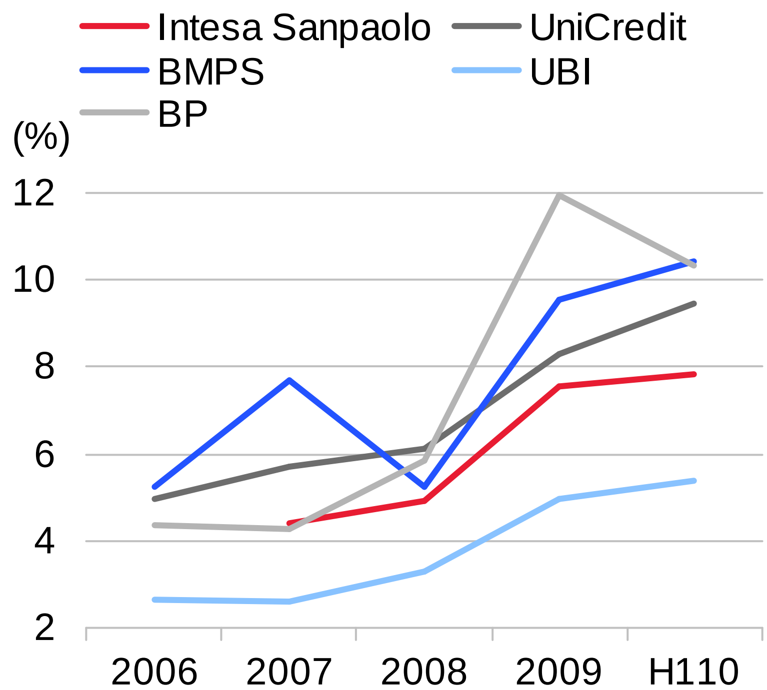
Source: Fitch

Major Italian Banks – Credit Risk Weighs on Profit

Loan Impairment Charge/ Average Gross Loans



Impaired Loans/Gross Loans



Source: Fitch

Agenda

Earnings – Any Recovery Mixed in Size and Pace

Asset Quality – Charges Down and Impaired Loans Stabilising

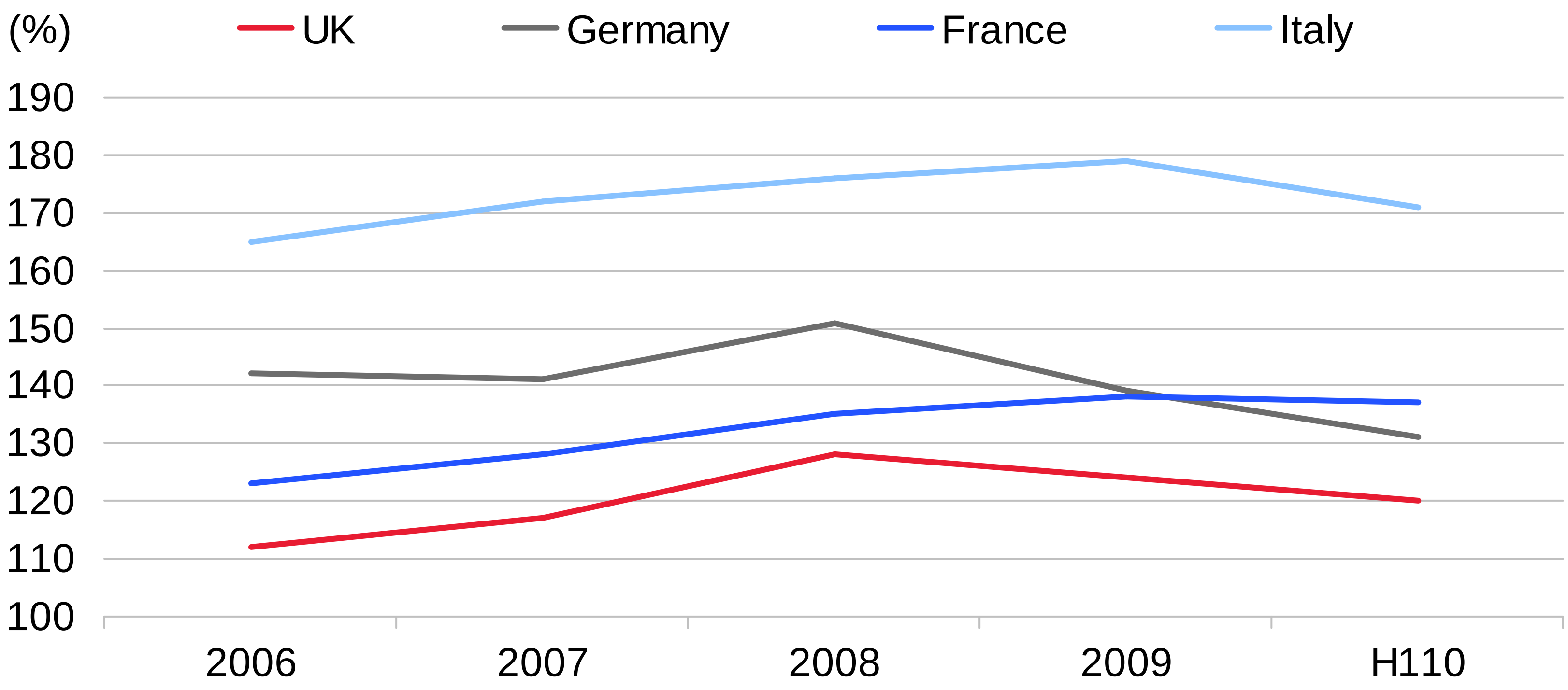
Funding – Stable or Improving Position, but Costs Up

Capitalisation – Mixed Picture in the Face of Regulatory Change

Regulation – Major Changes Ahead, both Positive and Negative

European Banks: Funding & Liquidity

Gross Loans to Deposits Ratio – European Banks

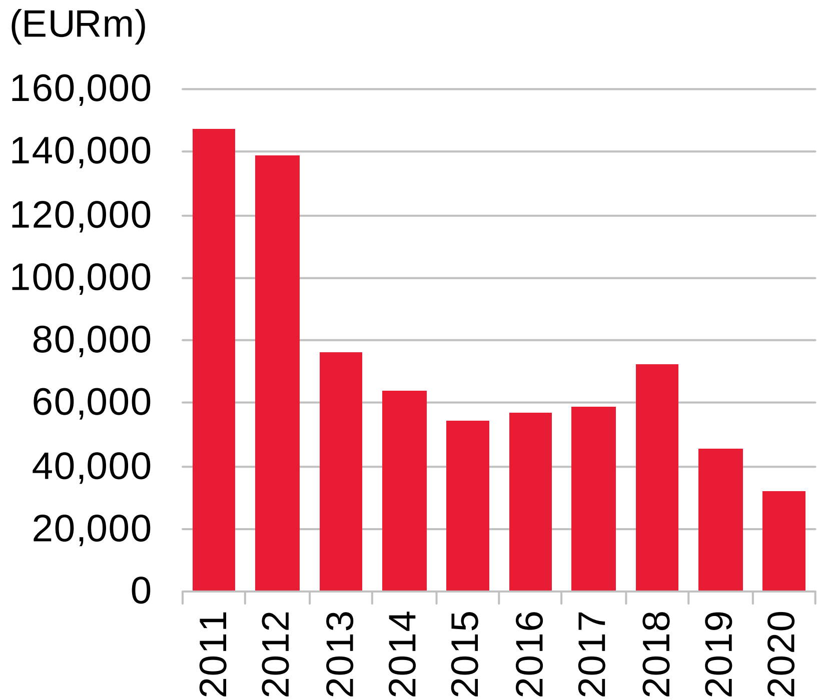


Source: Fitch

Major UK Bank: Refinancing Pressure

- Extraordinary measures – SLS and CGS – helped stabilise the banking sector during crisis
- But leaves a GBP300bn funding gap between 2011 and 2014 as facilities are withdrawn
- Competition for deposits is fierce as many banks reduce reliance on wholesale funding
- But deleveraging can help reduce refinancing risks

UK Bank Debt Maturity Breakdown

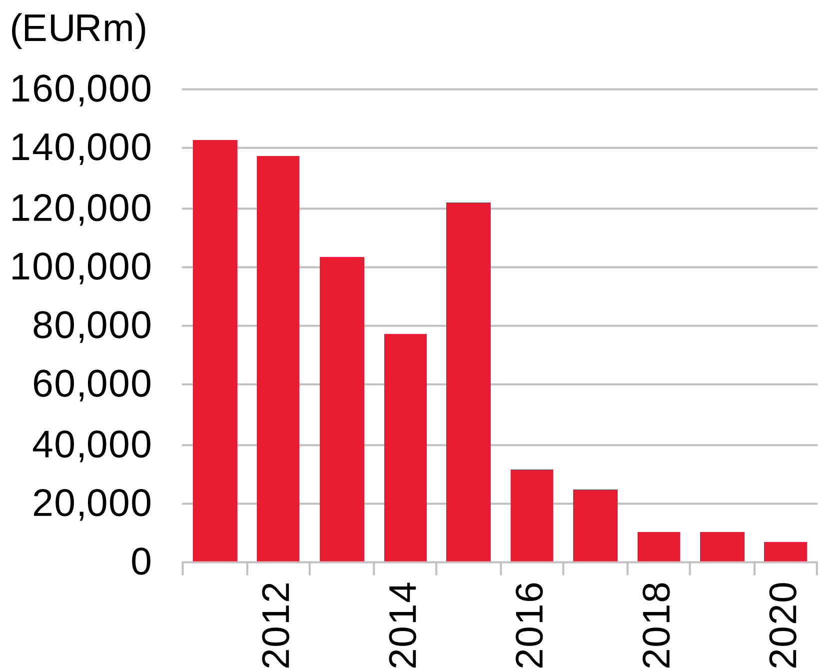


Source: Dealogic, Fitch

Major German Bank: Refinancing Pressure

- Refinancing needs partially balanced by deleveraging
- Landesbanken – without savings banks nothing goes
- Constraining factor for independent wholesale funded banks
- Challenges:
  - 2015 - What assets to buy?
  - State support
  - Pfandbrief for ever?

German Bank Debt Maturity Breakdown



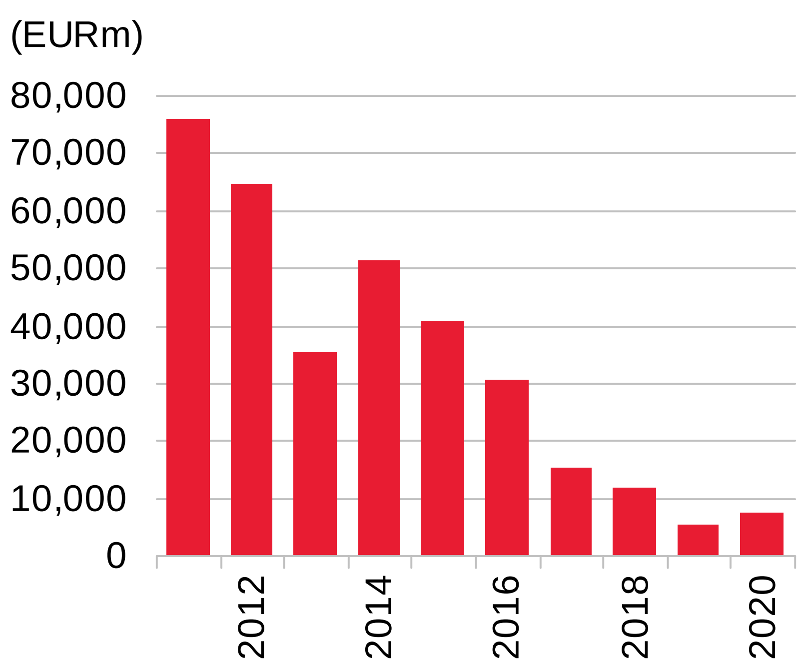
Source: Dealogic, Fitch

FitchRatings

Major Italian Banks: Limited Refinancing Pressure

- Banks have benefited from strong customer funding franchises throughout the crisis
- Covered bond issuance as a new instrument to issue longer-term debt
- No government guaranteed debt issued
- Liquidity management has improved

Italian Bank Debt Maturity Breakdown

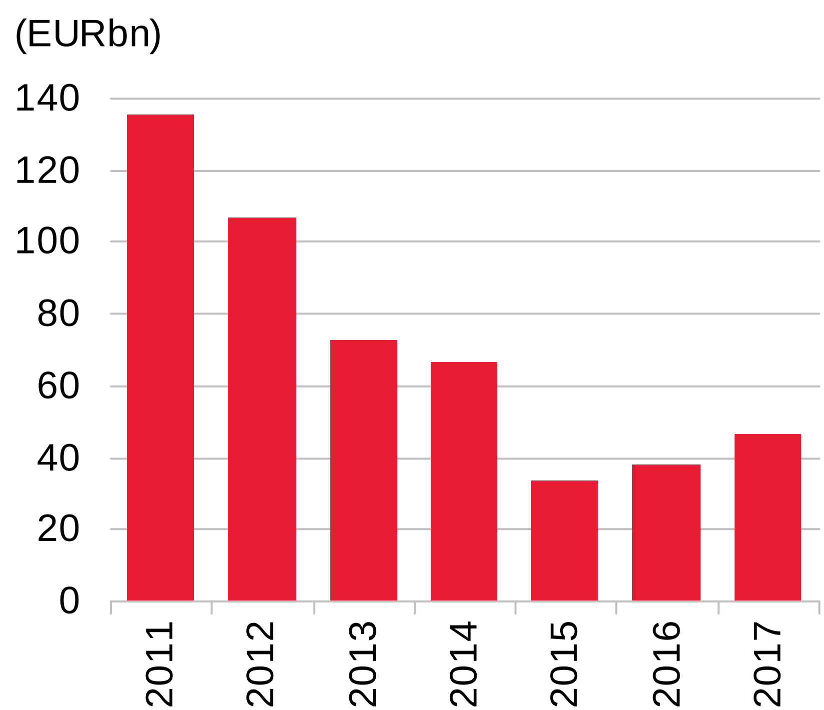


Source: Dealogic, Fitch

Major French Bank: Refinancing Pressure

- Customer Deposits account for 60% of non-equity funding, balance evenly split between interbank and debt
- No difficulty in issuing debt in the markets, even in periods of stress
- Debt amortization does not show any unmanageable concentration but EUR250bn amortising in 2011/2012

Debt Amortization



Source: Fitch

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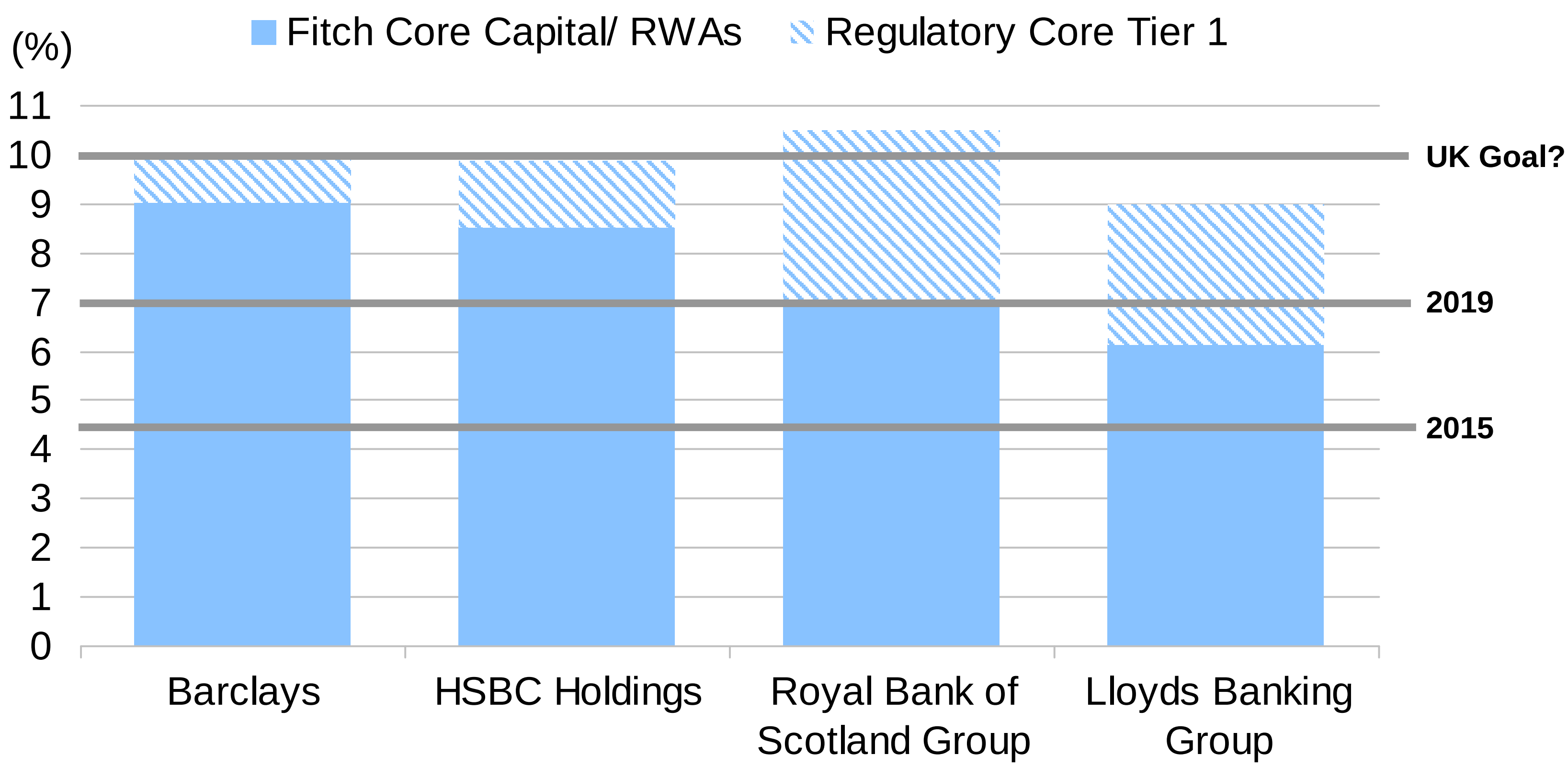
Major UK Banks

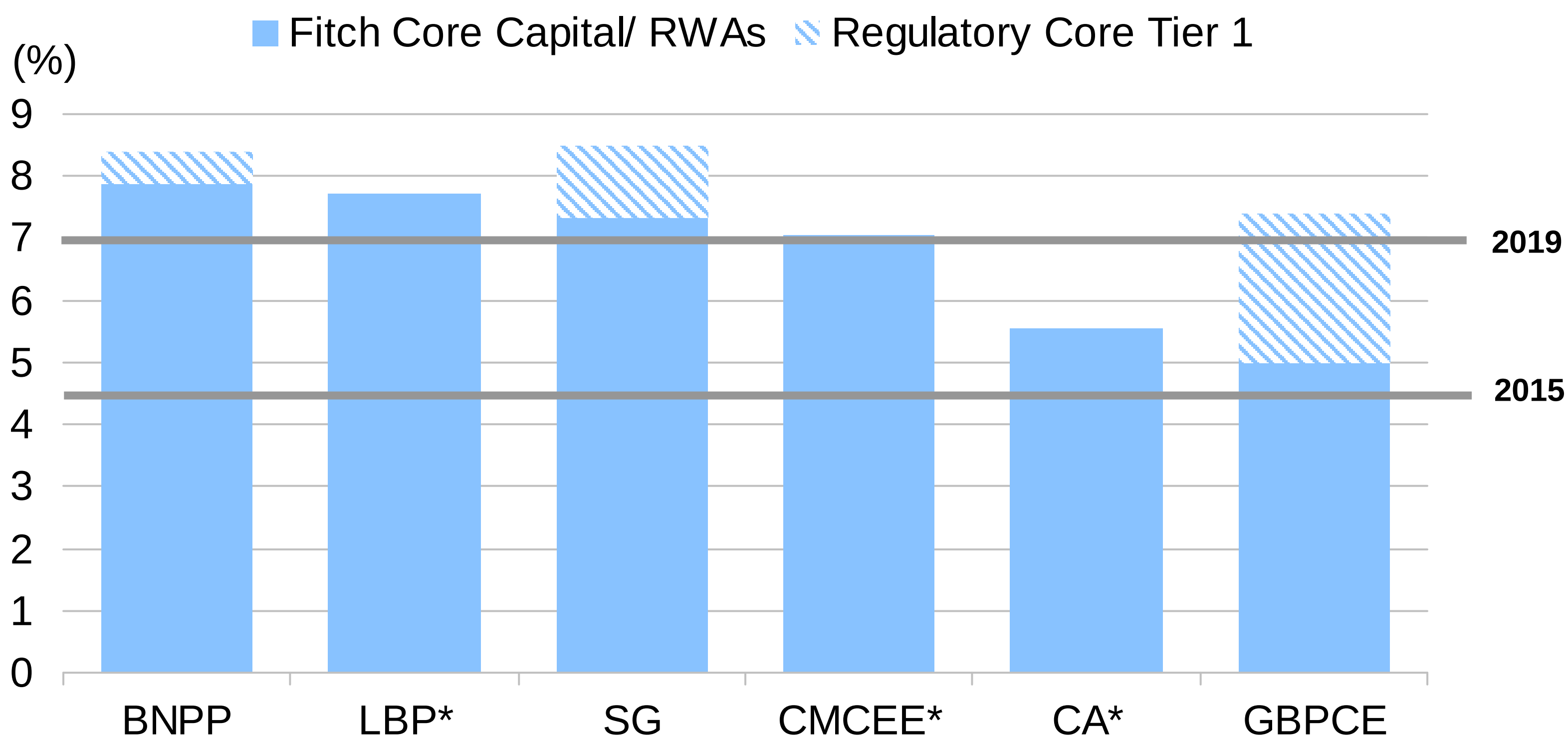
Fitch Core Capital/RWAs and Core Tier 1 Ratios at end-June 2010



Source: Fitch

Major French Banks

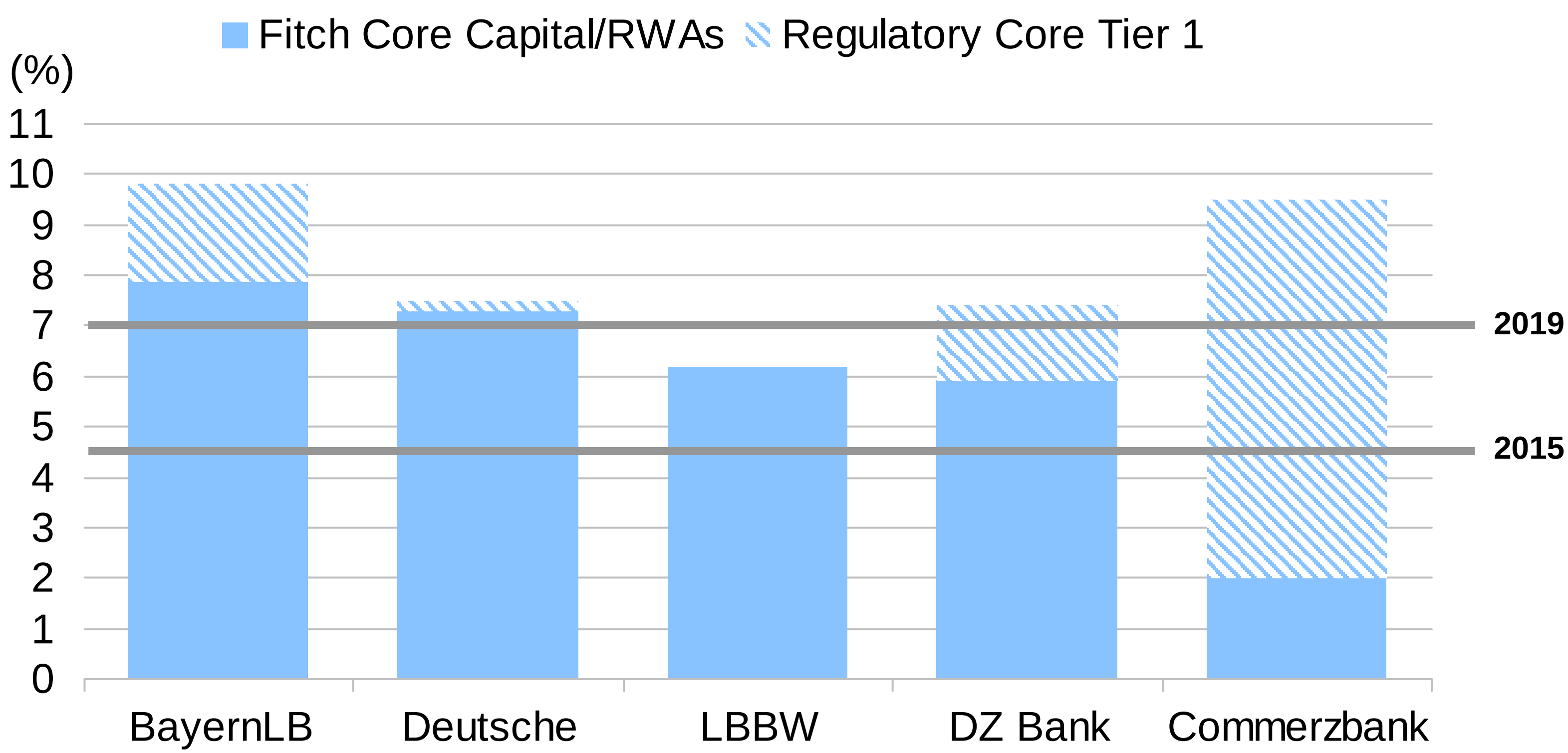
Fitch Core Capital/RWAs and Core Tier 1 Ratios at end-June 2010



* At End-2009
Source: Fitch

Major German Banks

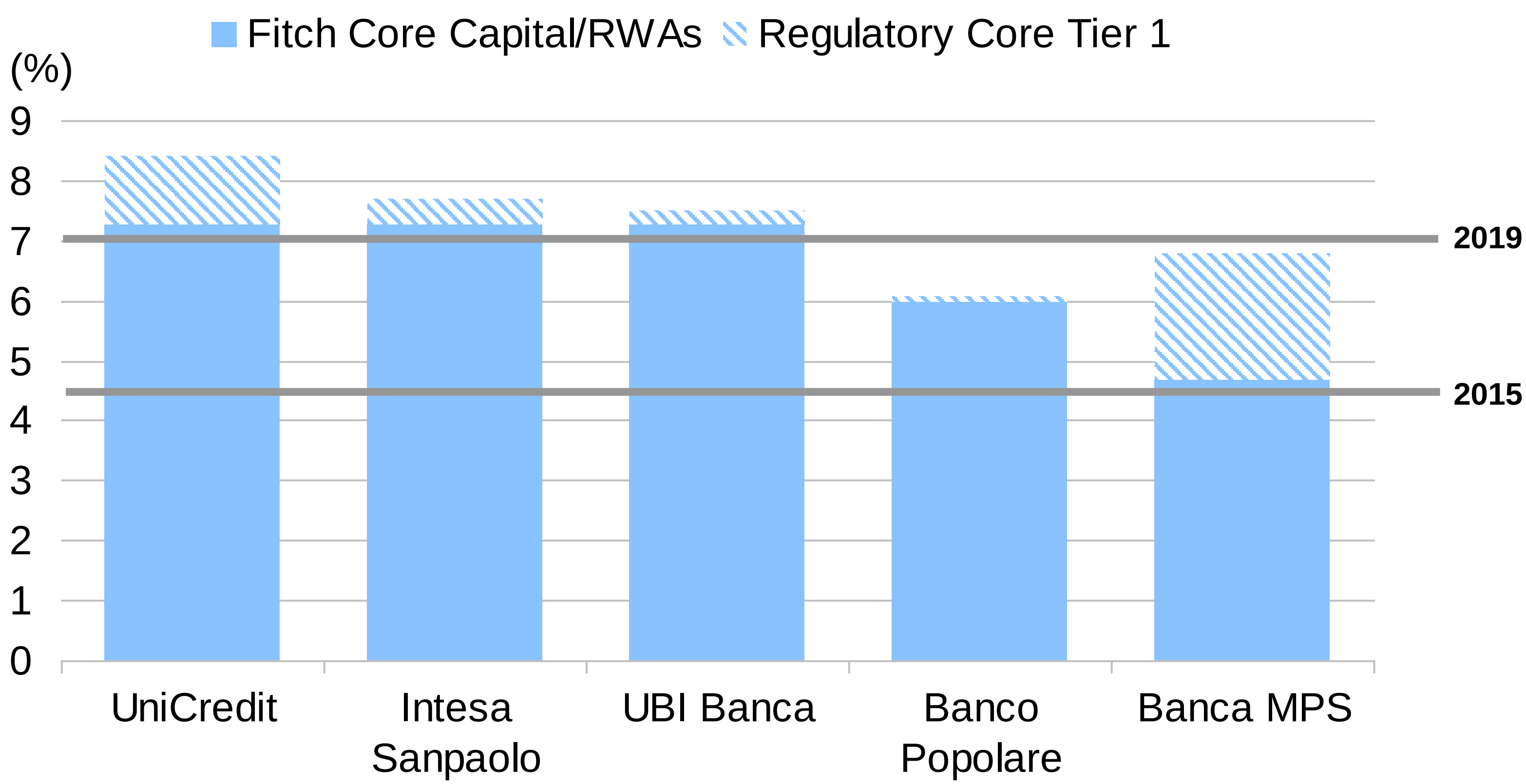
Fitch Core Capital/RWAs at end-June 2010



Source: Fitch

Major Italian Banks

Fitch Core Capital/RWAs at end-June 2010



Source: Fitch

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Evolving Regulation and Legislation – Potentially Very Material Rating Drivers

Ratings Positive

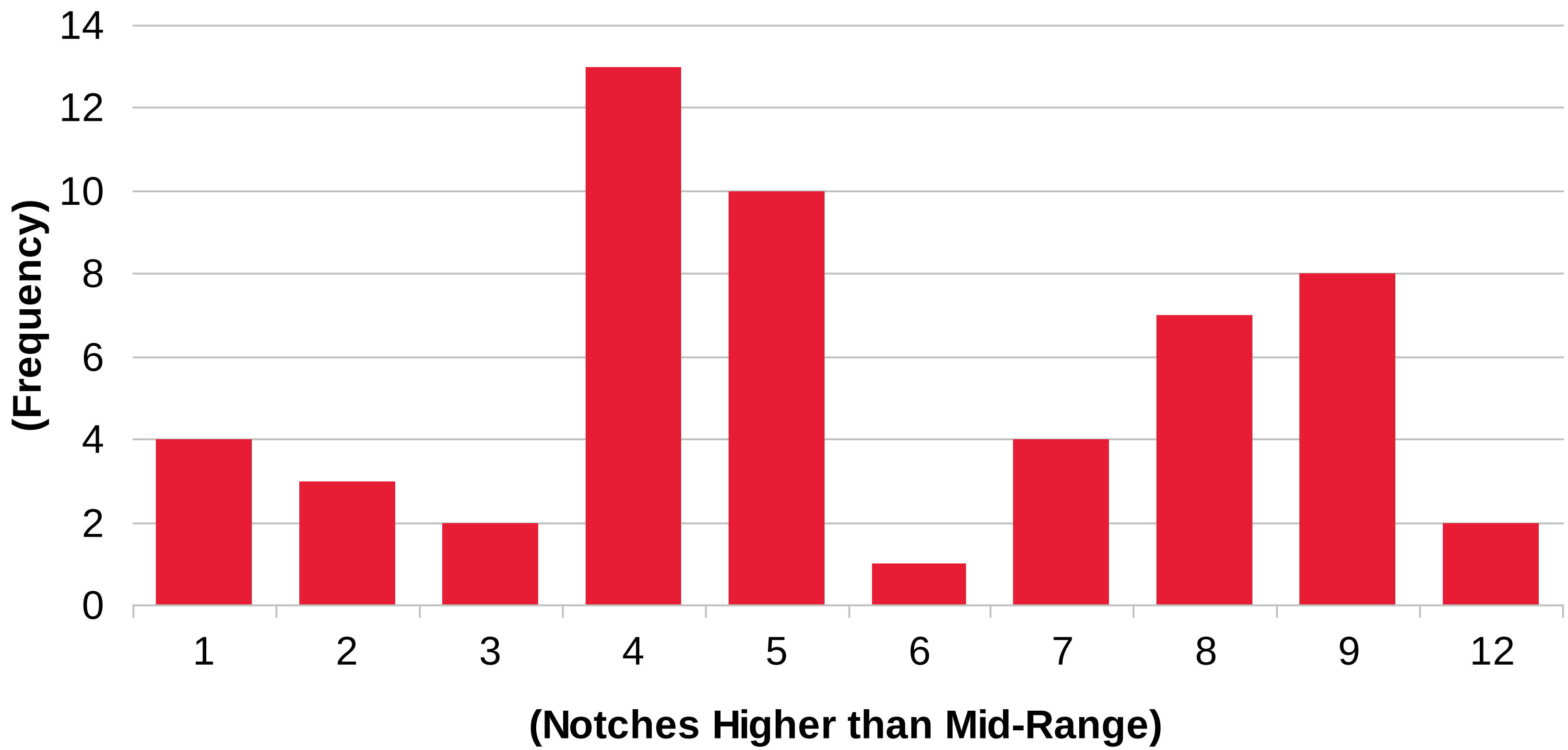
- ‘Basel III’ capital rules
  - Tighter definition of capital is closer to Fitch core capital
  - Greater focus on common equity tier 1 capital (plus capital conservation and countercyclical buffers and systemically important bank surcharge)
  - Long phase in, but could see banks or regulators ‘pre-empt’
  - Market, counterparty risk adjustments
- Basel III liquidity rules
  - Tough, but supportive of risk profile
- Central derivative clearing

Ratings Negative

- Uninsured creditor ‘bail in’ or ‘burden sharing’ risk
  - Some countries have progressed further than others with revisions to bank resolution regimes (eg UK, Germany)…
  - … but path of intent becoming increasingly clear at a wider EU (+ Swiss & Norway?) level:
  - **Likely weakening of implicit government support for banks and their senior debt**
  - Far less clear-cut though outside EU (Middle East, CIS, Africa)
- Basel III Capital conservation buffer
  - Increases hybrid non-performance risk?

FIs in the EU, Switzerland & Norway

IDR uplift for banks at Support Rating Floors



Source: Fitch

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