

## **Managing for value in an uncertain economic and regulatory environment**

London, 23<sup>rd</sup> March 2010

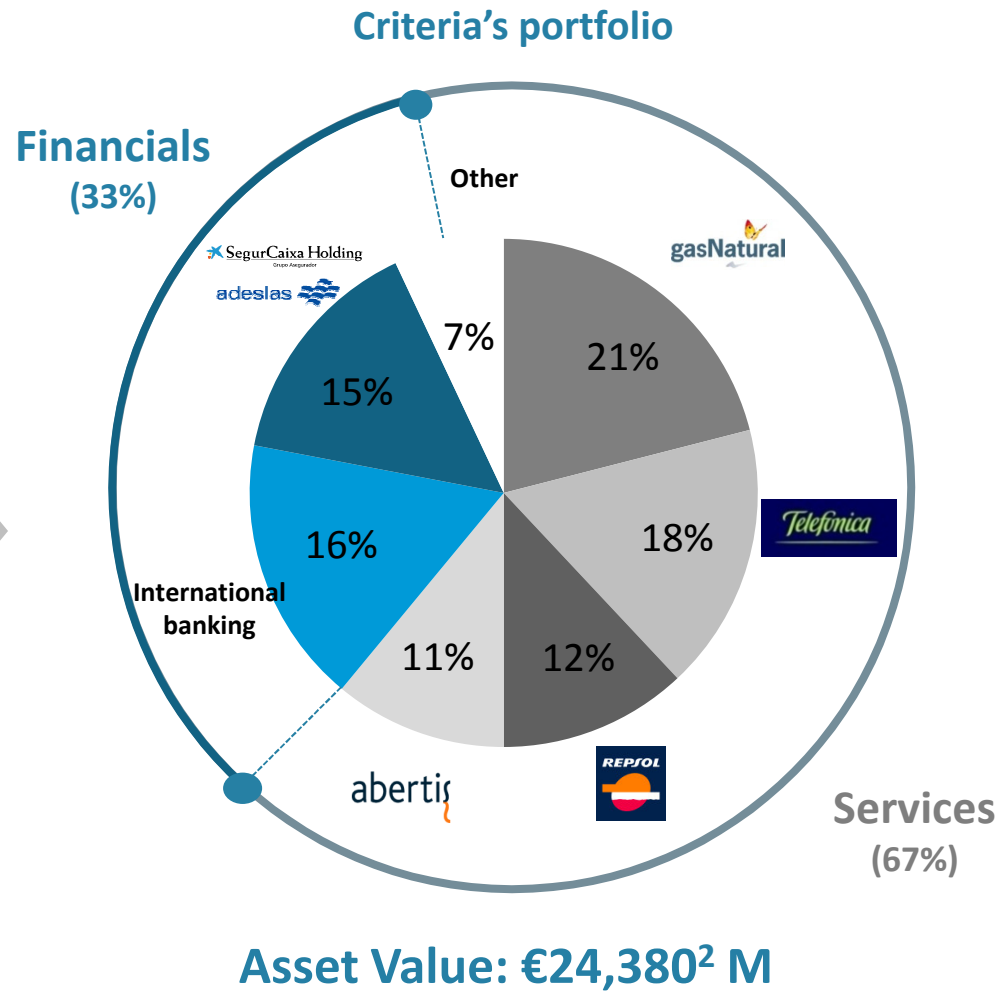
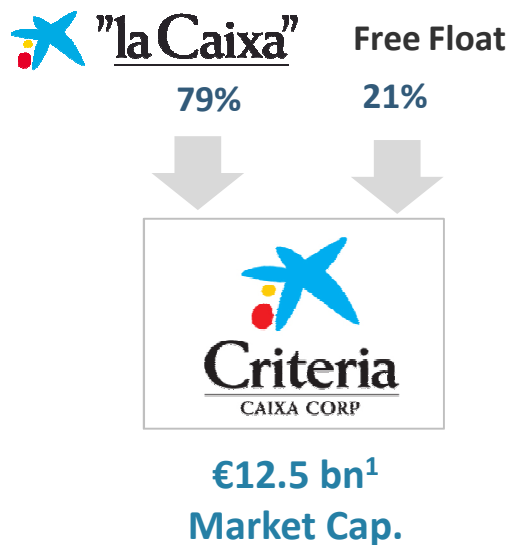
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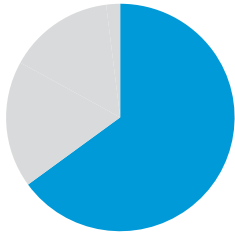
## Criteria's portfolio



(1) As of 18/03/10

(2) Proforma as of 31/12/09 including the investment in BEA (€331 M) and Adeslas (€1,178 M) and the partial divestment in Agbar (assuming 100% acceptance in the delisting tender offer)

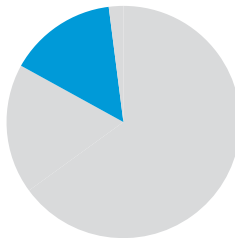
## How do we create value?



### Industrial portfolio



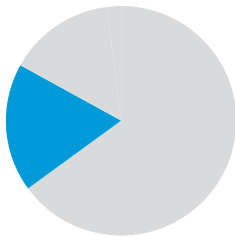
- Selective disposals and investments
- Shaping strategy



### Insurance



- Exclusive access to “la Caixa”’s network
  - Largest in Spain (5,326 branches)
- Acquisition of Adeslas: creating a Spanish insurance leader



### Banking

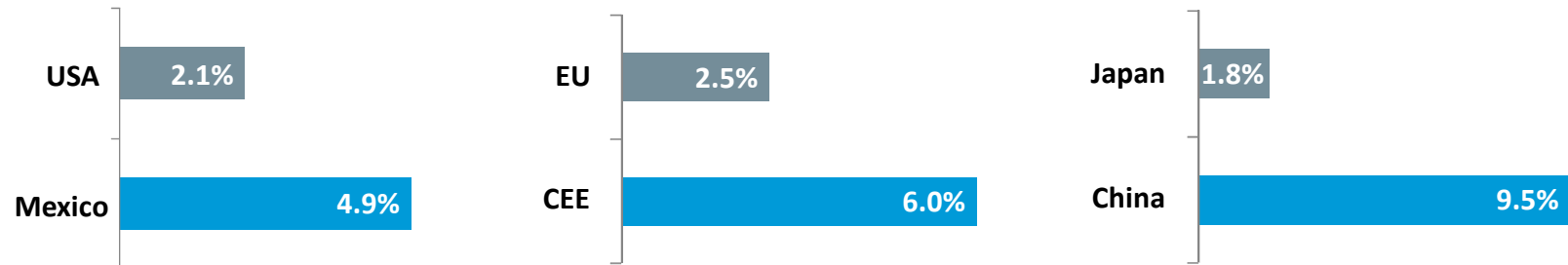


- Selecting the right markets and targets
- Partnership model

## Criteria has invested in regions with high growth potential

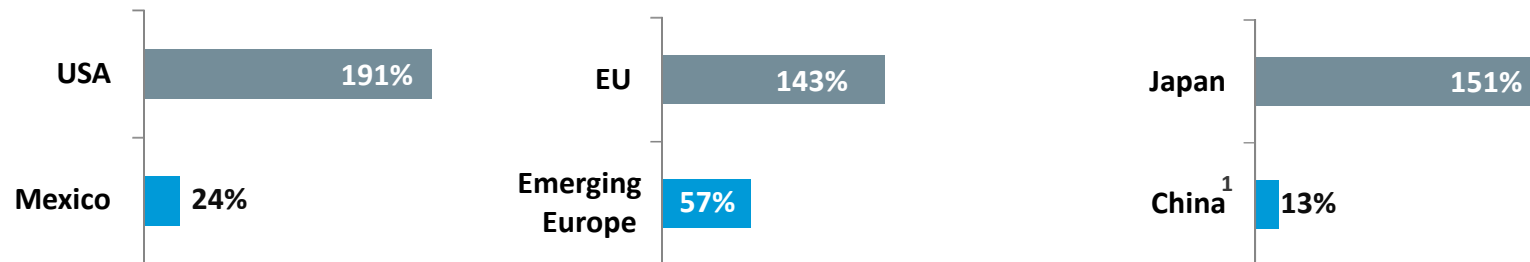


### Medium-term GDP growth



### Substantial room for further financial services development

#### Bank credit to private sector (%GDP)



(1): Credit to households

Source: Fitch and IMF (GDP Growth forecast for 2014, World Economic Outlook Oct 2009)

## Investing in winners

### Americas



Stake: 20.0%  
Value<sup>1</sup>: €1,785 M

### Europe



Stake: 10.1%  
Value<sup>1</sup>: €1,149 M

### Asia



Stake: 14.9%  
Value<sup>1</sup>: €841 M

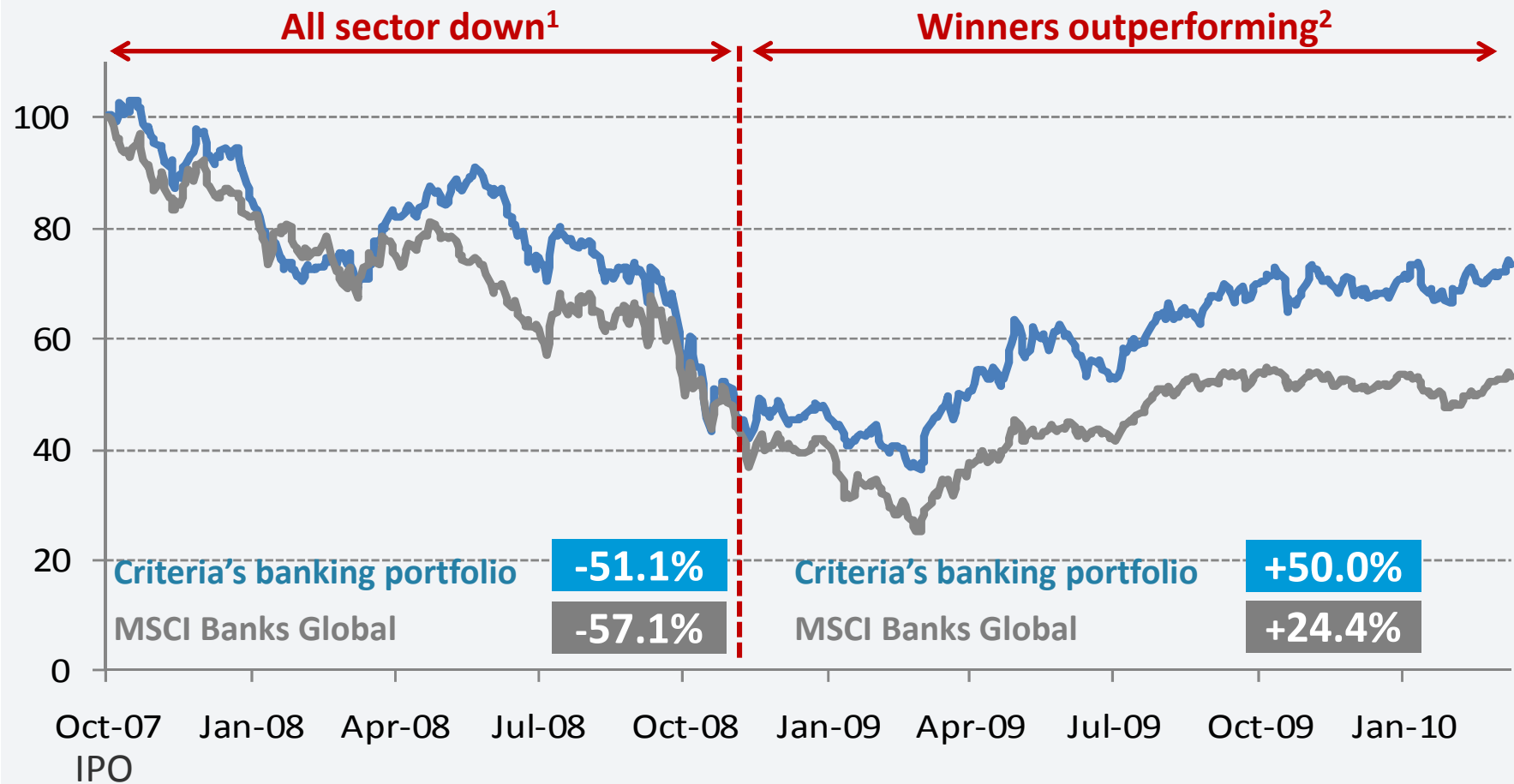
## Key banking investments since IPO



- Well-positioned franchises
- Present in attractive markets
- Strong management teams
- Retail focus
- High solvency levels
- Sound credit quality
- Low reliance on wholesale funding

## Investing in winners

### Proven Investment expertise in banking sector



- (1) From Oct 10<sup>th</sup> 2007 to Nov 30<sup>th</sup> 2008  
 (2) From Nov 30<sup>th</sup> 2008 to March 18<sup>th</sup> 2010

## **“la Caixa” gives Criteria access to unique investment opportunities**



### **1 Excellent source of funding and financial flexibility**

- AA range from all 3 rating agencies
- Over €20 billion liquidity / Loan-to-deposit 127%
- Core Capital 8.7%

### **2 Retail banking expertise with a proven model**

- Large and increasing market share (18% cards, 15% payrolls, 10% loans, 10% deposits...)
- Excellent risk management: NPL 3.4% vs. 5.1% sector
- Best in class CRM - Multichannel approach
  - Online banking: 30% market share
  - Mobile banking: 52% market share

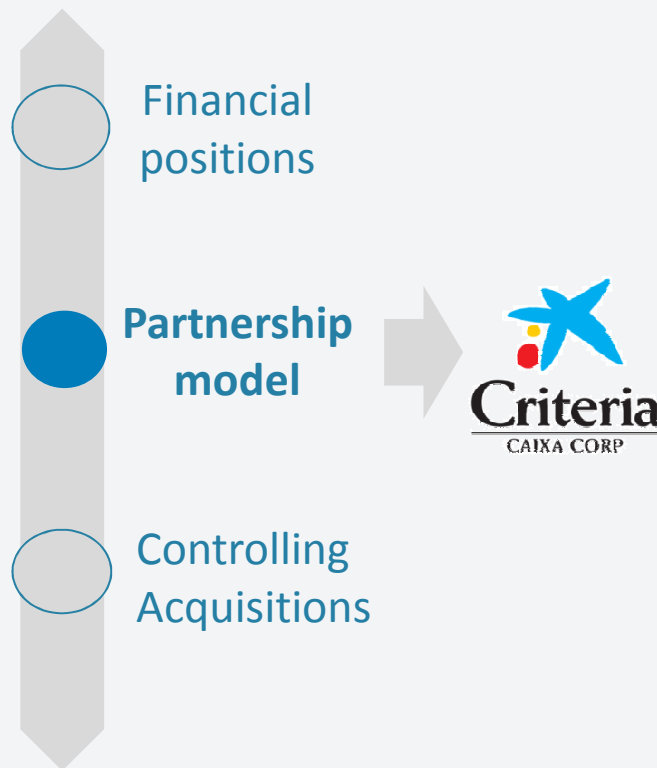
### **3 Track record in building long-term partnerships**

- Building trust: reliance on local partners and managements teams
- Ability to export and share best practices in retail banking

**Capital + Banking know-how + Partnership Philosophy = A unique partner**



## Criteria's Partnership model



### Investment profile:

- Well-managed banks with strong competitive positions
- Strong local partners with common views
- Long term horizon with influential positions
- Invest at fair value - no control premium paid

### Value creation:

- Investment expertise – banking is our core business
- Transfer of “la Caixa”'s expertise
- Development of other joint businesses: trade finance, payments, cross-referrals...
- Potential joint investments

### ... compared to controlling acquisitions...

- (+)
  - Lower risk
  - No value destruction / no premium paid
- (-)
  - Synergies achieved over longer time-frame

## Basel-3: Increasing capital requirements

### How will Basel-3 impact our partnership model?

- No question capital requirements for the sector will increase
  - Positive as it reduces systemic risk long-term
  - Short term negative for institutions in need of capital

**Stronger  
institutions will  
benefit**



- Risk that new measures may not properly discriminate when and where more capital is really needed
  - Current proposal has several features that should be modified



- Process will take time:
  - Rules will change from current version
  - Impact on new lending/GDP growth not yet quantified
  - Expect time-frame for adoption will be long

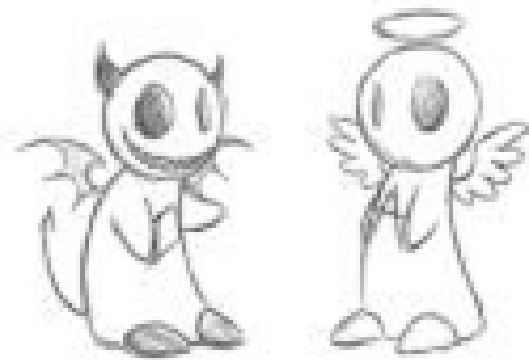
## Basel-3: Increasing capital requirements

In the last 2 years  
Criteria has helped  
reinforce banks  
solvency globally



- Inbursa: €801 M (Oct'08)
- Erste Bank: €652 M (Nov'09)
- Bank of East Asia: €331 M (Jan'10)

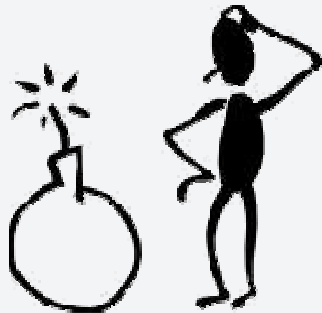
- Acted as **anchor investor** in capital raising exercises
- **Long-term** investments **providing stability**
- Commercial and **strategic agreements**
- **Presence at Board** level and appropriate Committees
- **Transferring expertise** where appropriate
- **Developing** joint-businesses



Are we **good** or bad for the system?

## Full deduction from core capital of minority stakes is a blunt tool

### Wrong incentives created

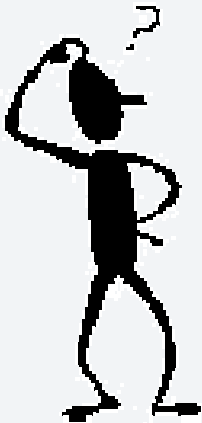


- 1 Preferable to invest in lowly capitalized banks
- 2 Incentive to reduce capital at affiliate banks
  - Should we ask our investees to reduce their capital levels?
- 3 No incentive to reinforce capital at affiliates
  - Should we not have supported our partners in their capital-raising exercises?

## Full deduction from core capital of minority stakes is indeed a blunt tool

Not only wrong incentives created, but.....

...inconsistent with  
Basel-2 progress  
on measuring  
economic risks



- 1 No differentiation between partners' risk profile
  - AA bank capital consumption the same as a BB one
- 2 No benefit granted from geographical diversification
- 3 No differentiation between speculative short-term investments and long-term ones
  - What is the benefit from achieving significant influence?

## Treatment of minority investments should be modified

### Need for special regulation...

- Recognize need for system which avoids double leverage of banks
  - Investments in banks cannot be treated as those in other industries

## ...BUT....

### ...one that discriminates risk profiles

- Best achieved by looking through the investments profile
- For non-speculative banking investments (i.e. equity accounted):
  - Capital consumption to be measured as % of capital requirements of underlying bank

## Conclusions

1

### **Creating value through active management**

- Rotating industrial portfolio
- Creating Spanish insurance leader
- Building long-term banking alliances

2

### **Basel-3 changing capital rules**

- Much needed
- Will take years to come into full force
- Stronger institutions will benefit

#### **But...**

- Current proposals need to be revised

3

### **Criteria/"la Caixa" in strong position**

- Partnership model has clear benefits for Criteria and for the system!
- "la Caixa" has plenty of tools to manage the transition

**Basel-3 may impact timing but not the substance of our strategy**

## Institutional Investors & Analysts Contact

We are at your entire disposal for any questions or suggestions you may wish to make. To contact us, please call us at the following telephone number or write us at the email address below:

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