



The Spanish Cash Cycle

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THE MERGER PROCESS: 7 SAVING BANKS = BANKIA

- 3rd largest Banking Group in Spain.
- 1st Banking Group for domestic business.
- 26,500 Employees.
- 4,000 branches.
- 11.3 million clients.
- € 328 billion total assets.
- 7,400 ATMs (762 off-site).
- Commercial Offices in 10 countries.



SPANISH FINANCIAL STRUCTURE: COMPARISON TO EUROPEAN STRUCTURE

Country	Nº branches	Nº ATMs	Points of cash distribution /1000 inhabitants
Germany	41,601	79,520	1.47
France	39,121	53,330	1.44
Italy	47,264	54,730	1.70
United Kingdom	24,554	63,920	1.44
Spain	42,961 (*)	61,710	2.36
Total E.U. Countries	285,671	426,220	1.43

(*) December 31st. 2010 (CECA)

THE PRESENT: A PART OF THE SPANISH FINANCIAL STRATEGY



An extensive branch network



Minimum staff per branch



High number of ATMs



Top level of ATMs maintenance



Recycling cash in branch



Cash management outsourcing

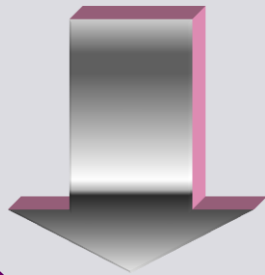


**Recyclers and Dispensers are
at the center of the strategy**

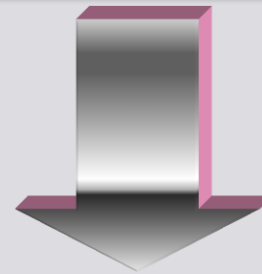


THE PRESENT: SPANISH CASH STRATEGY

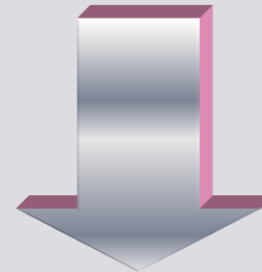
Banknotes distributed to Spanish's clients in 2008: €17 billion



80% recycled in branches



63.5 % in cashbox
36.1 % in ATMs



36.1 % = € 6,1 billion

THE PRESENT: € CASH EVOLUTION IN THE EUROSISTEM (*)

- **December 31st 2002**: 8.2 billion banknotes, worth € 358.5 billion.
- **December 31st 2006**: 11.3 billion banknotes, worth € 628.2 billion.
- **December 31st 2010**: 14.1 billion banknotes, worth € 839.7 billion.
- The cash in the Eurozone: neither decreases nor remains stable, it increases every year. 85% of the 460 billion in annual payments are made in cash.
- The importance of cash management automation in financial institutions is growing.



TODAY: CASH MANAGEMENT IN SPAIN (1)

ATMs in&out branches and outsourcing have significantly increased their influence in general cash management:

- The CITs have centralized management in all off-sites ATMs: (cash, accounting procedures, basic and first level maintenance), and in a reduced number of branch ATMs (an important number of cashbox employees switches to carry out commercial activities instead and cash withdrawal is limited -at cashboxes- to more than €300 requirements). However, though outsourcing at branch counters has been a successful procedure in Argentina, this has not been the same for Spain.



TODAY: CASH MANAGEMENT IN SPAIN (2)

Teller automation is today a strong reality in Spain

- Most banks and savings banks have chosen and installed recyclers with two objectives: to facilitate cash management at branches and also to comply with European Central Bank's Framework.
- Some financial Spanish credit institutions started procedures two years ago by separating commercial attention and cash management at branches. Money is deposited and withdrawn through ATMs which are managed by CITs.
- Classifying machines help employees select the quality and authenticity of banknotes according to the Framework requirements.



TODAY: BALANCE OF USING RECYCLERS

POSITIVE ASPECTS OF RECYCLERS

- It facilitates compliance with the Framework deadlines.
- It provides the data required by the central banks on banknotes processed by branches.
- It detects counterfeited notes entry.
- It increases the security of the branch.
- It improves how employees treat money.
- Improvement of the accounting procedures and matching account.

NEGATIVE ASPECTS OF RECYCLERS

- Troublesome installation in some cases.
- Jams and limited dispensations set by Spanish official security regulations: €1,800 per transaction (new regulations: 3,000 €/per transaction) and no more than two in a row.
- Cash transactions are way slower.
- Maintenance costs.

STATISTICAL DATA OF BANKNOTES RECYCLED AT CAJA MADRID BRANCHES (*)

€ Denomination	5	10	20	50	100	200	500	Total
Fit Notes	86.2%	94.3%	96.0%	97.5%	96.3%	95.3%	94.7%	96.2%
Unfit Notes	13.8%	5.7%	4.0%	2.5%	3.7%	4.7%	5.3%	3.8%
Notes recycled to customers	86.2%	94.3%	93.3%	97.0%	79.3%	44.5%	33.2%	94.1%

- Percentage of fit/unfit notes fully treated.
- Recycled-to-customers notes fully treated.

(*) Data from recycling devices in branches. Analysed period Jan-Dec/2010.

THE FUTURE



Is the future of cash as idyllic as the politicians would like us to believe?

Or is it as complicated as markets and investors see it?



**IS THE FUTURE OF
SPANISH BRANCHES
IDYLIC?**



OR IS THE FUTURE OF SPANISH BRANCHES COMPLICATED?



THE MEDIUM-TERM FUTURE OF CASH IN SPAIN (1)

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- **Branches: Planned adjustments are very important, accounting for cuts of between 10% and 25% (between 4,000 and 10,000). Bankia will close 600.**
 - Significant quantities of ATMs, recyclers and other technical means will be removed from these branches and must be reinstalled.
 - **Numerous mergers between saving banks are ongoing (12 mergers: this will reduce numbers from 45 to 17 Entities, many of these will operate as banks. And between 12%-15% of employees will be pre-retired.**
 - Impact on Spanish financial strategies is still invaluable, but a strengthened generation will emerge.
 - Will any of the major European banks buy any of the former saving banks, once converted into banks?
 - **Purchases will decrease significantly due to:**
 - The economic crisis.
 - The need to mix systems and equipment between merged entities.
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BUT ONCE THE CRISIS AND THE MERGERS ARE OVER.....

THE MEDIUM-TERM FUTURE OF CASH IN SPAIN (2)

- **It will increase: Recycler's main role**
 - As nucleus agent of branch cash.
 - As cash management homogeneizer in a net.
- **It will increase: outsourcing initiatives**
 - To obtain cost reductions in human resources and technicians.
 - To increase commercial productivity.
 - To favour trends to separate cash self-services and commercial activities.
- **It will increase: cash automation**
 - Installation of ATMs and ATMs multiservices at a good pace.



**Thank you
for your attention**



Thank you