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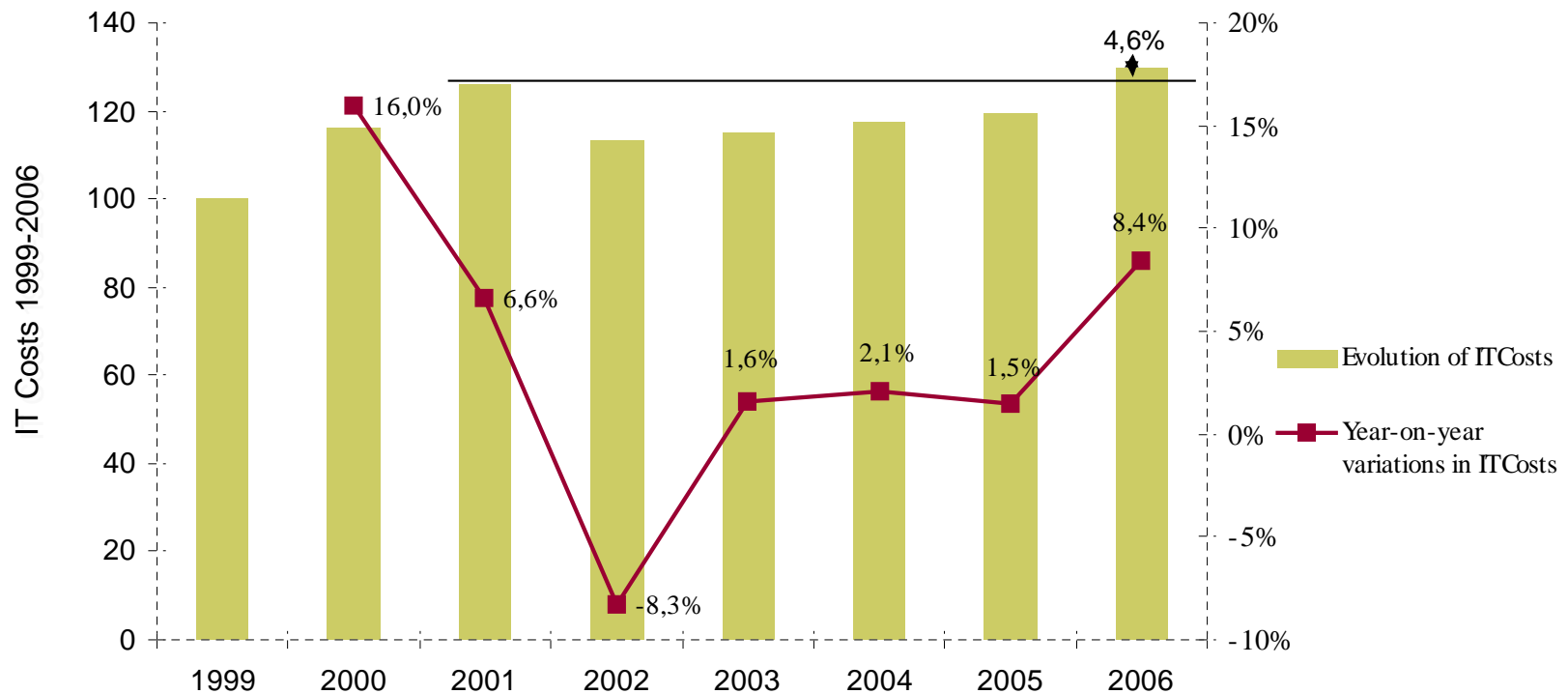
# Information Technology Costs and Investments in Spanish Financial Institutions.



- IT Costs and Investments.
- Technology and Investment Cycle.
- Discretionary Investments and Return on IT.
- Cost structure and dynamics
- The near future

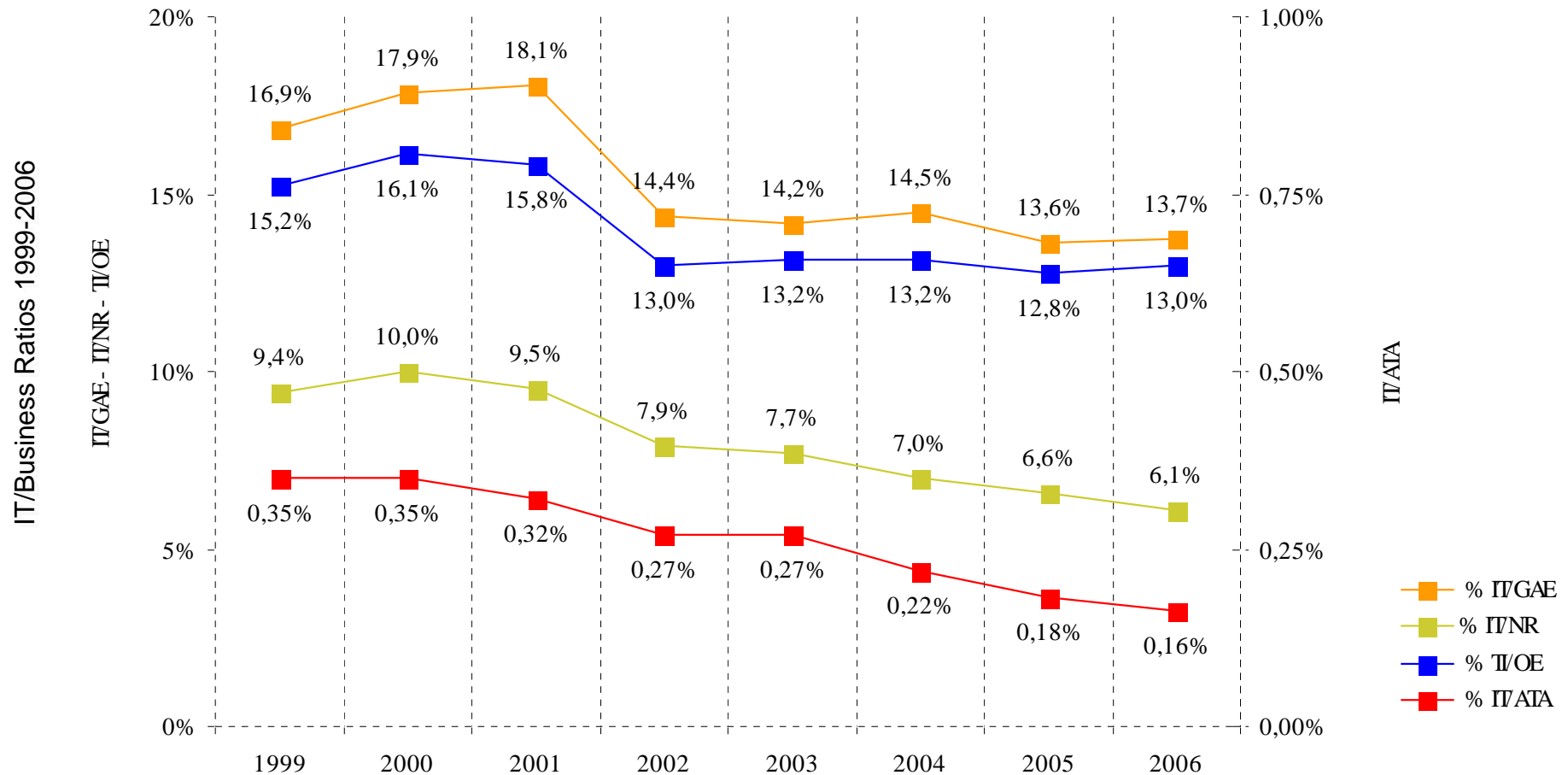


- After 2001, IT Costs have remained flat. In 2006 they go up by 8,4%.
- Meanwhile GDP has grown 39% in nominal terms .
- Banks allocate 3000m. Euros to IT.
- Most banks implement incremental improvements on present systems.



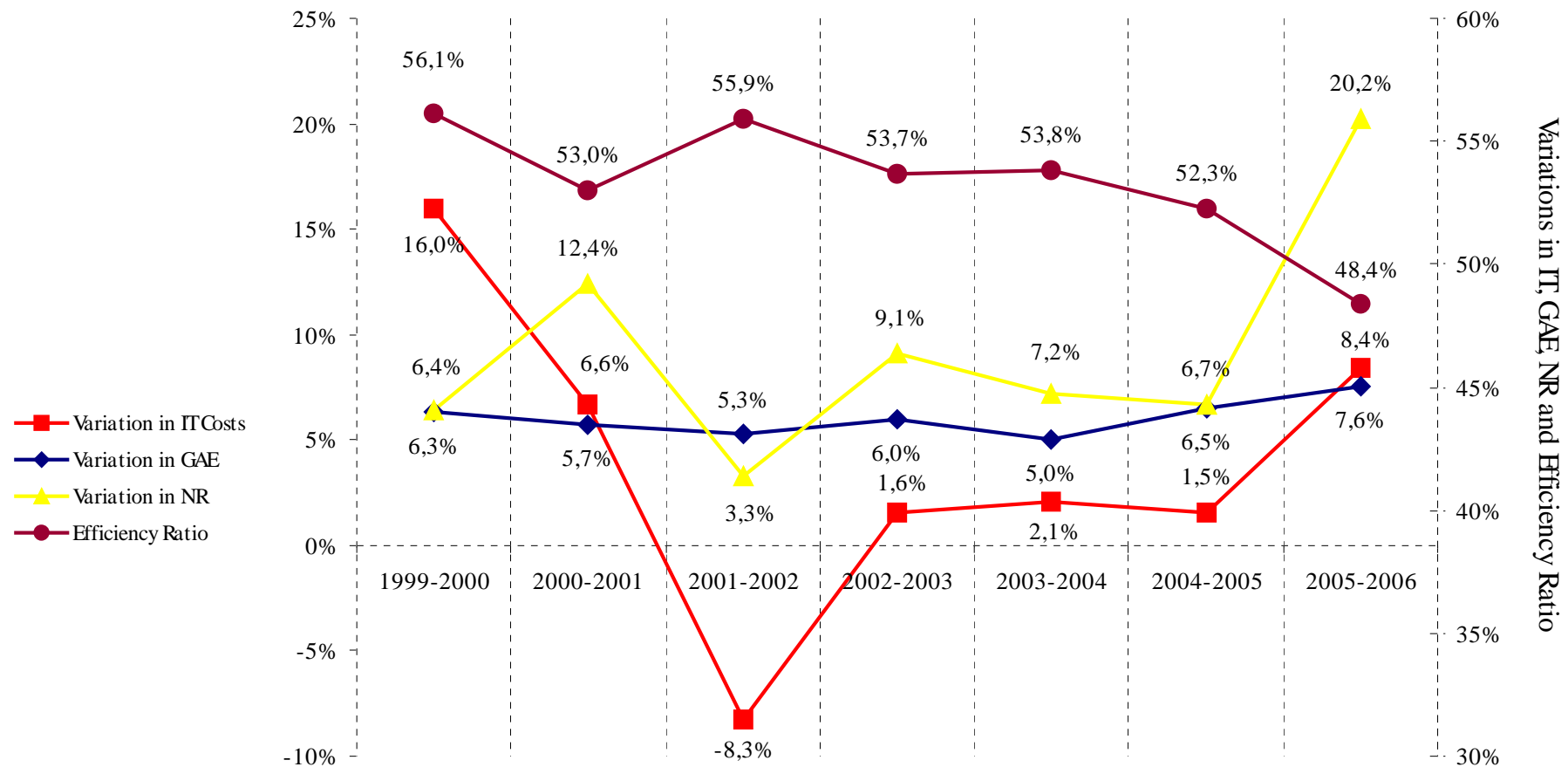


- In 2006, banks allocated to IT 6.1% of Net Revenues or 13% of Operating Expenses.
- In relative terms to business volume, IT Costs have been cut by 39% since 2000. They are at its lowest level in years.





- Since 2001, OE have grown 34% meanwhile IT expenditure 4,6% only.
- Cost/Income ratio has improved steadily to 48,4% in 2006.
- There are opportunities for improvement not being addressed.





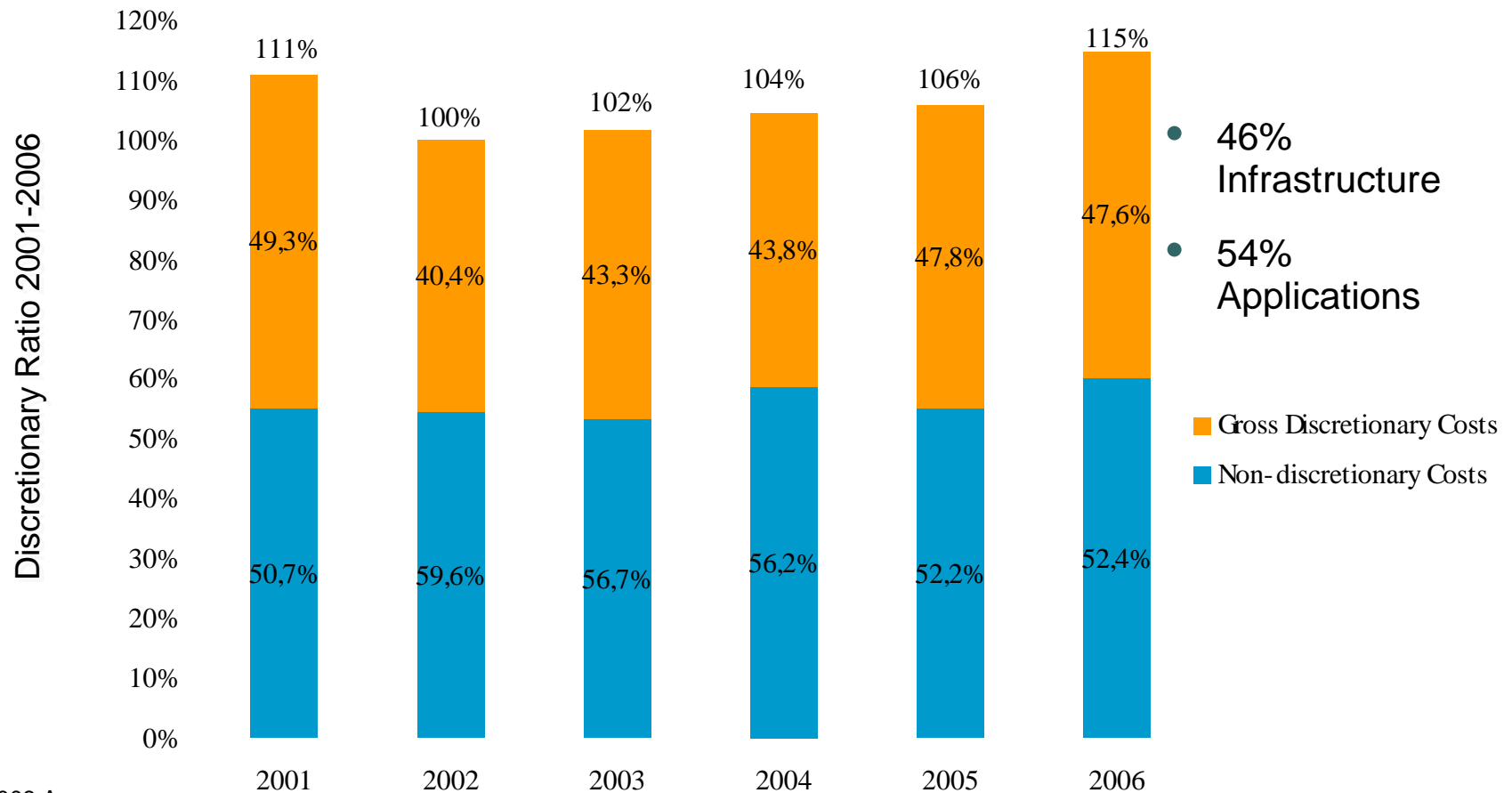
- Many banks focus today on tactical improvements and enhancements to current systems and infrastructure.
- Current systems and infrastructure:
  - Real-time front-office oriented operation.
  - Single image, centralized architecture with few silos.
  - Integrated systems optimized for operational efficiency.
  - Enable the bank to run a high density network of branch offices very effectively.
  - High level of automation, including self serving channels.
  - A strong foundation for the performance improvement achieved by retail banks in the decade.
- There are comparatively few large transformational projects currently going on, but.....



- Investments before 2001 produced the present IT Platform.
- Maintained, upgraded, improved, tuned, etc. for high efficiency during 200X.
- Very responsive to present business model and very successful.
- Present IT cost is the lowest in years.
- But already moving out of the “sweet point”?
- New business needs, new technologies, new market services and solutions will gradually start a new cycle.



- Discretionary funds build new capabilities and determine future IT positioning.
- Gross Discretionary Cost is gradually improving.



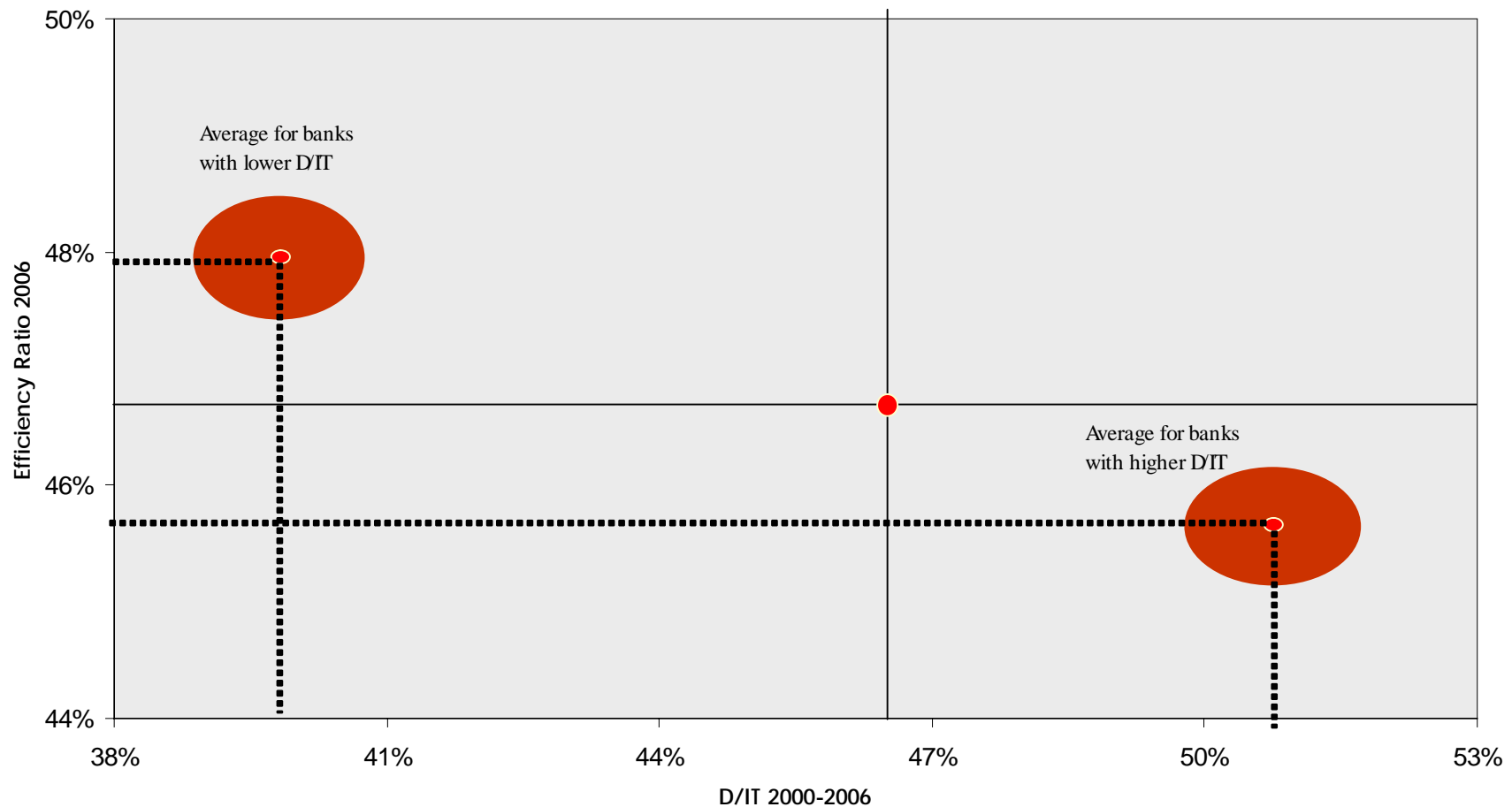


### Use of Discretionary Funds:

- Efficiency improvement and cost optimization are still key objectives.
- In most of the banks the number of projects or initiatives started is growing. They usually are tactical initiatives with limited scope.
- Discretionary allocations grow at similar rates in both Applications and Infrastructure.
- Allocations to applications are still highly distributed across the different functional areas. Among them we can highlight:
  - Branch office systems and Multi-channel enabling.
  - Risks Management, Basel II and new accounting regulations.
  - Data Warehouse / CRM / MIS.
  - Service and Client Satisfaction improvement initiatives.
  - Document and Content Management.

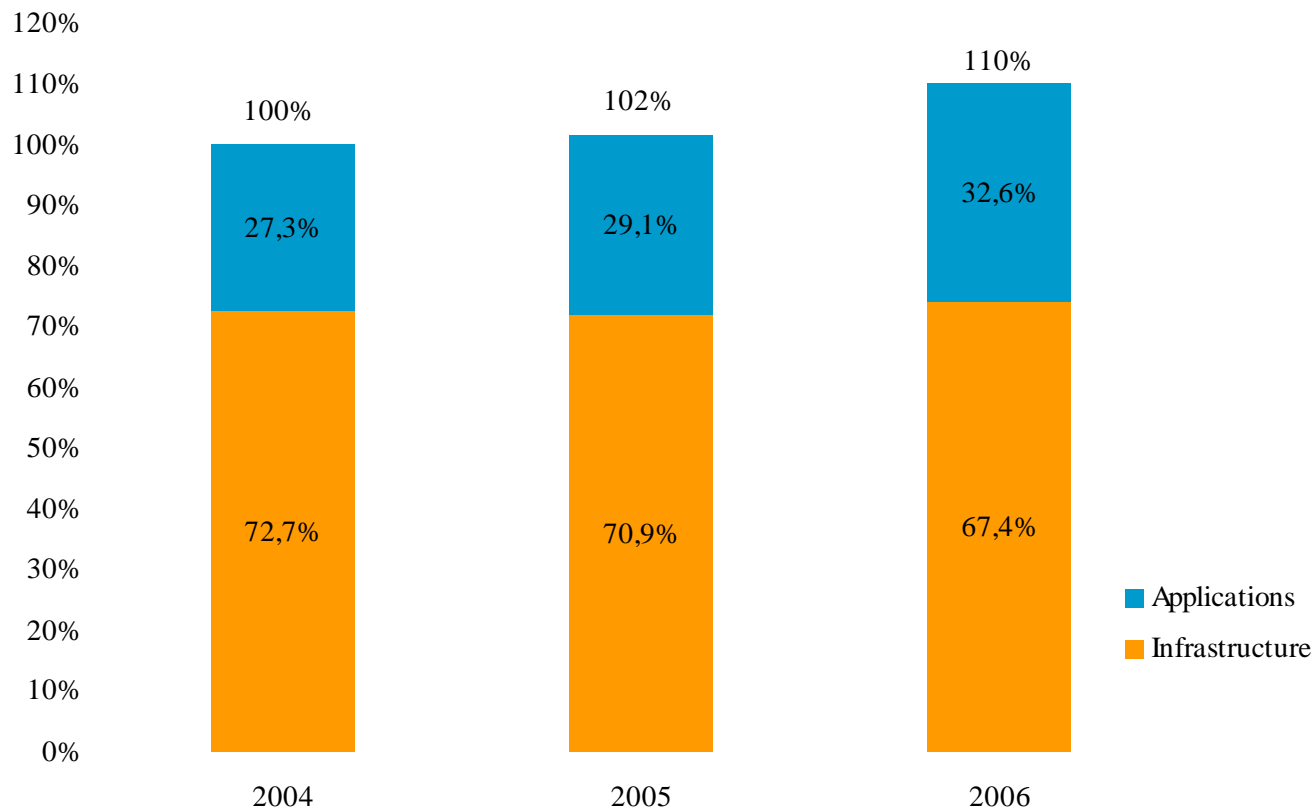


- In general, banks with higher Discretionary Rate also have a better Cost-Income Ratio.



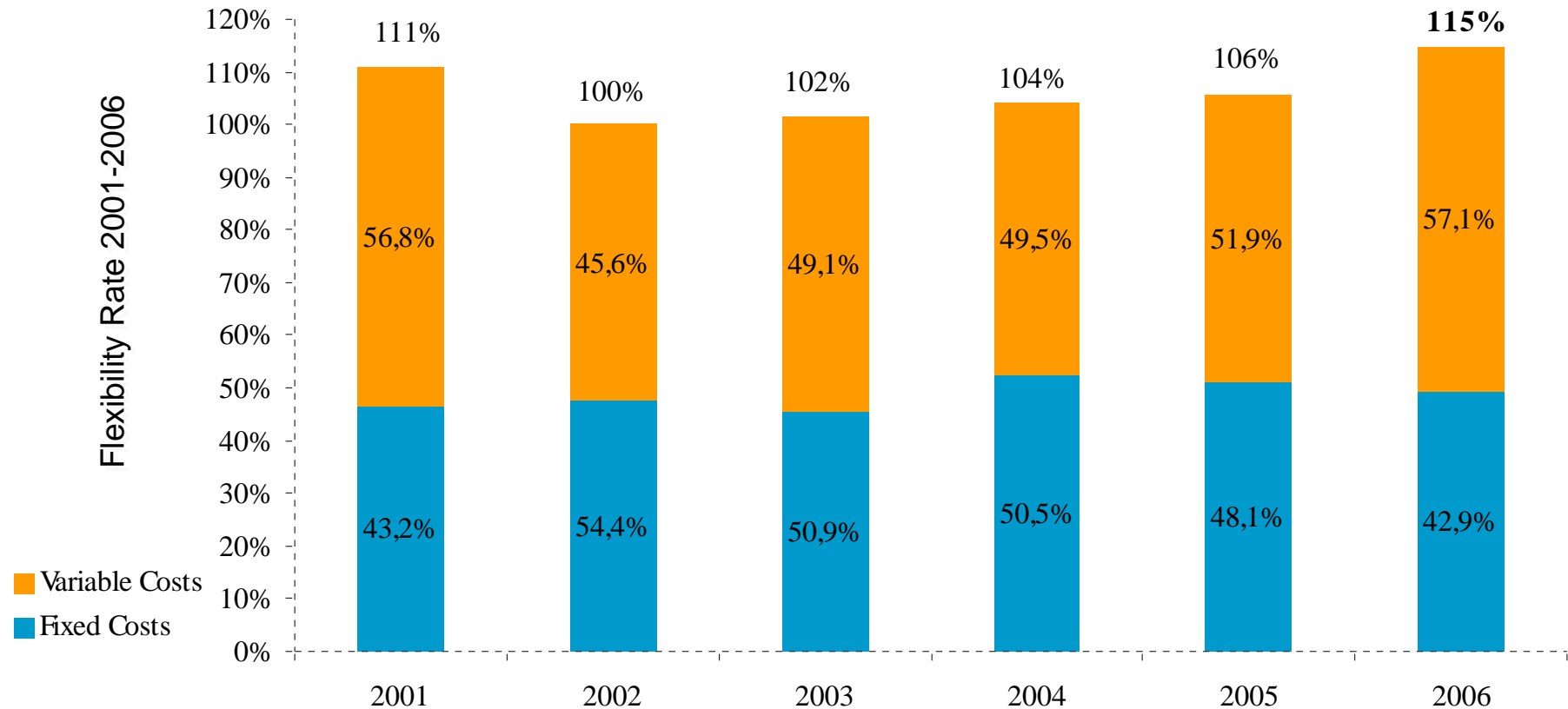


- The Application's share of total IT Cost is gradually growing.
- Despite improvements in recent years, initiatives that lead to a more balanced allocation of resources are still needed.



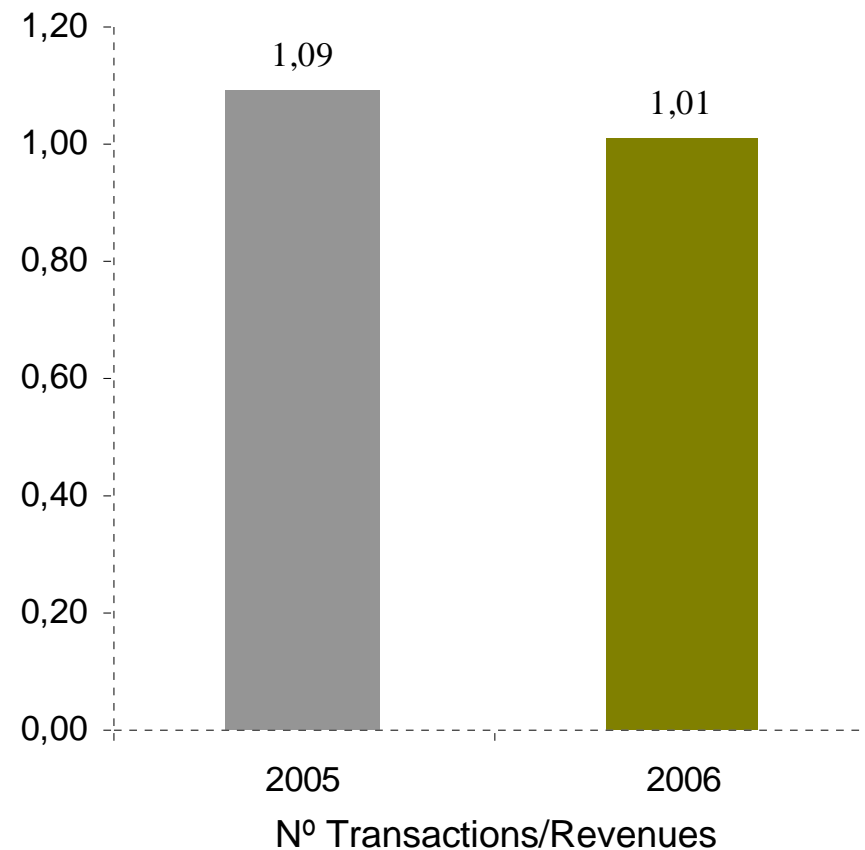
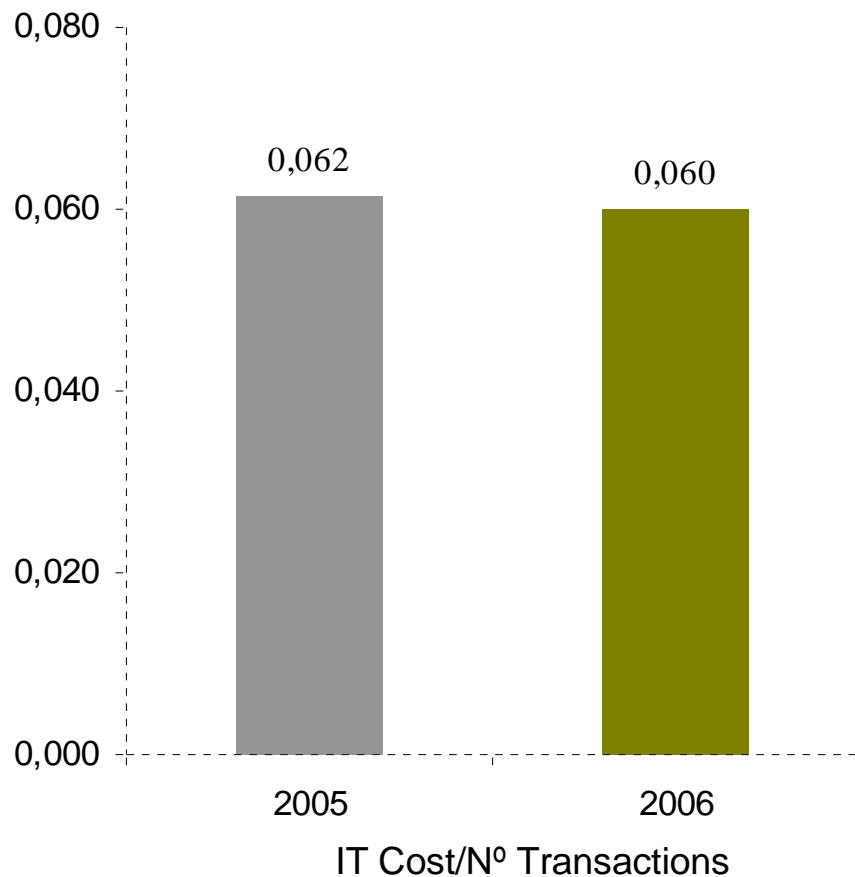


- The variable costs´ share of total IT Cost is gradually growing.
- Considering Infrastructure Outsourcing as a fixed cost, growth in 2006 is smaller.



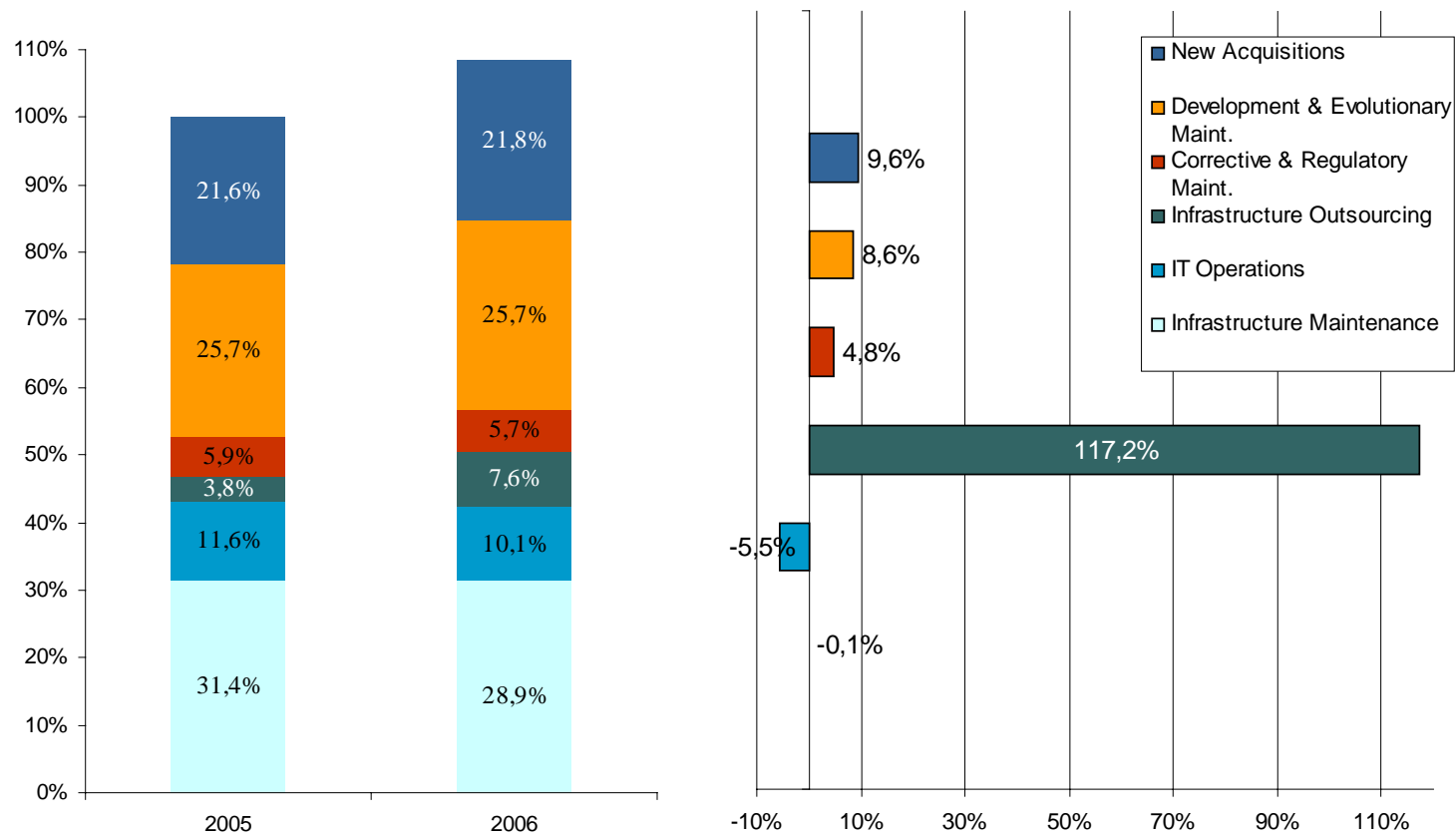


- The average IT cost per transaction is €0,06.
- The number of transactions is growing faster than revenues.
- Each Euro of revenues requires roughly one transaction.



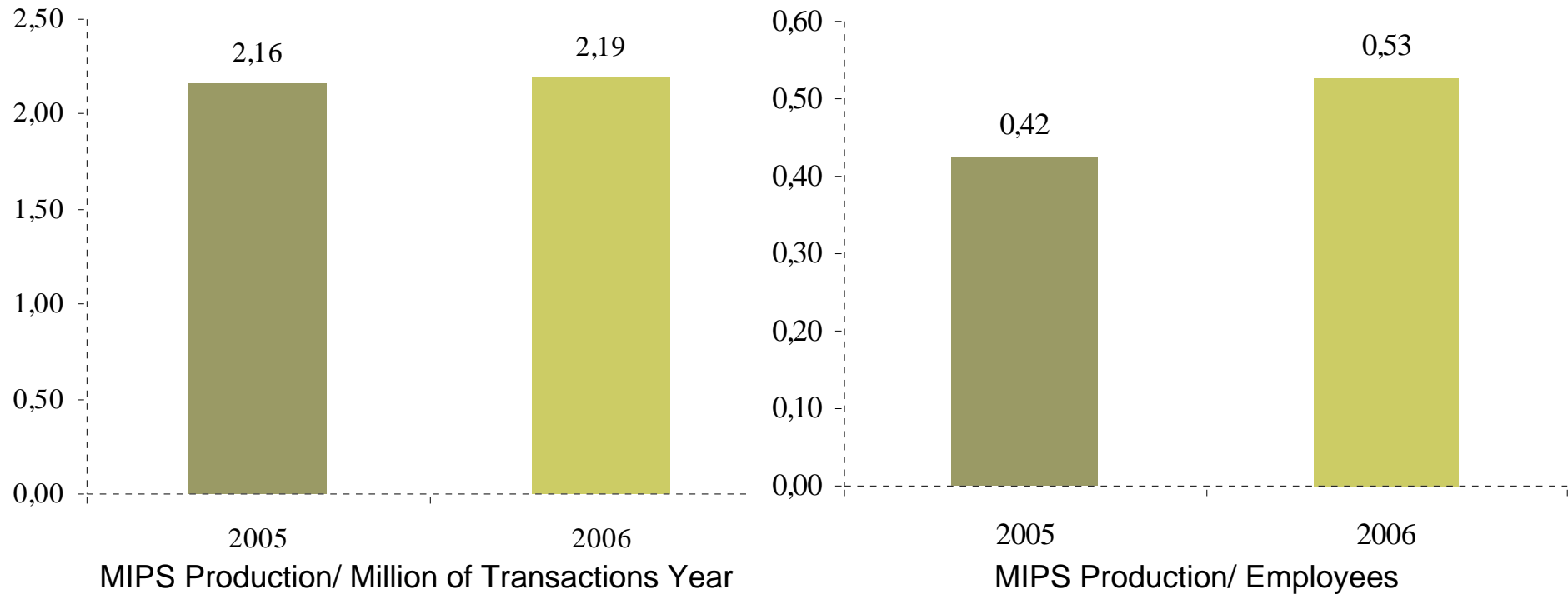


Applications and Infrastructure grow at similar rates.





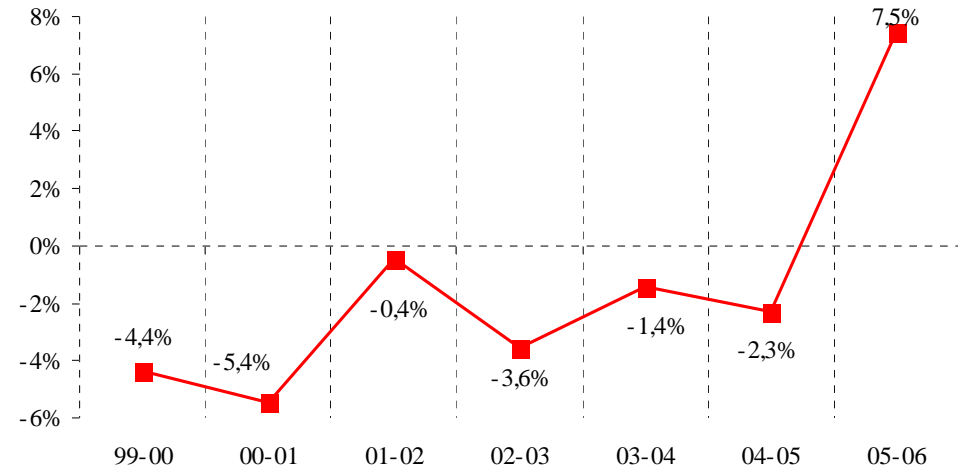
- Regarding Infrastructure, installed capacity is growing faster than both revenues and number of transactions.



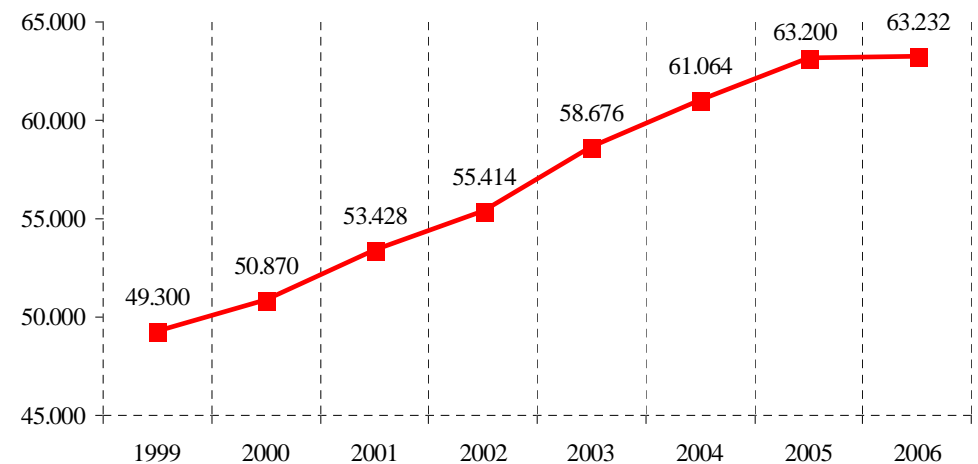


- People employed by banks in the IT Dept (internal) account for 3,4% of the total number of employees.
- After years of steady reductions, in 2006 headcount grows 7,5%.

Number of employees in the IT Dept.



Average cost per person in IT (€)





## Main challenges:

- Focus attention again on Technology as a lever to improve business competitiveness, innovation and growth.
- Higher level of integration between IT and Business Areas.
- Obtain sufficient founding for IT and achieve a more balanced cost structure.
- Ensure a productive and effective use of discretionary funds.
- More dynamic management of IT.



- Giving the present economic conditions we can expect some level of containment in IT expenditure.
- After that, the trends indicated before will continue and
- Market shifts will bring new requirements and will force to change priorities, i.e.:
  - Mortgages slow down,
  - More focus on other segments, from business to immigrants,
  - More sophisticated sales and marketing practices,
  - More Specialized business,
  - Etc.
- New business needs, new technologies, new market services and solutions will gradually start a new cycle.