Santander

London 29th & 30th September 2011

INVESTOR DAY

DELIVERING PROFITABLE GROWTH

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Reminder of the 2007 Investor Day: The crisis has vindicated our business model-outperforming our peers in good, but especially in hard, times

2007 Investor Day

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The current environment vindicates our business model

- **We have been cautious for the last year on credit and given up profit opportunities..**
- **…because what we want is to build a machine that produces sustainable growth across the cycle..**
- **…and that outperforms peers in good but especially in hard time**
- **We think the current environment vindicates our business model …**
  - Diversified among economies and businesses
  - Built around strong commercial franchises
  - …and with strong deposit franchises
  - Leveraged on a global business and cost models that permits us to outperform local peers

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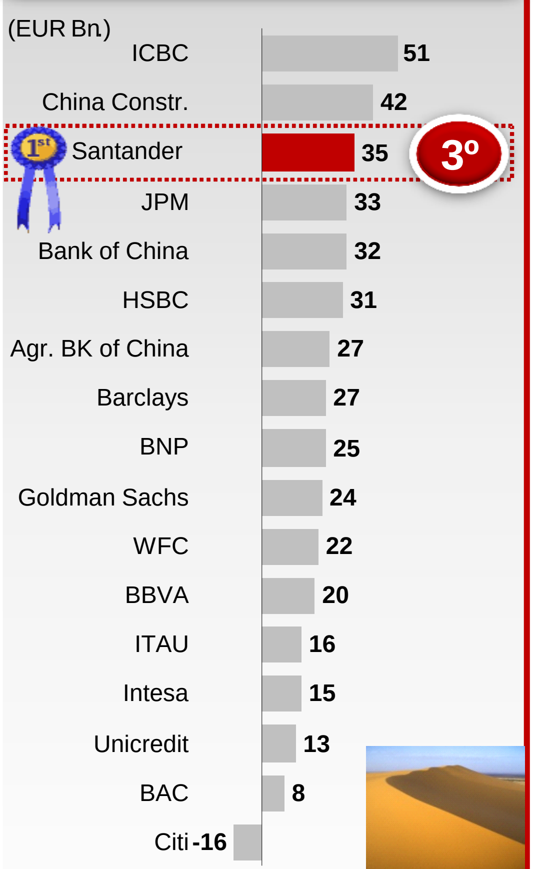
The key messages still stand…

1. Sustainable / structural growth across the cycle
2. Low and diversified risk profile
3. Outperforming peers in good, but specially in bad, times

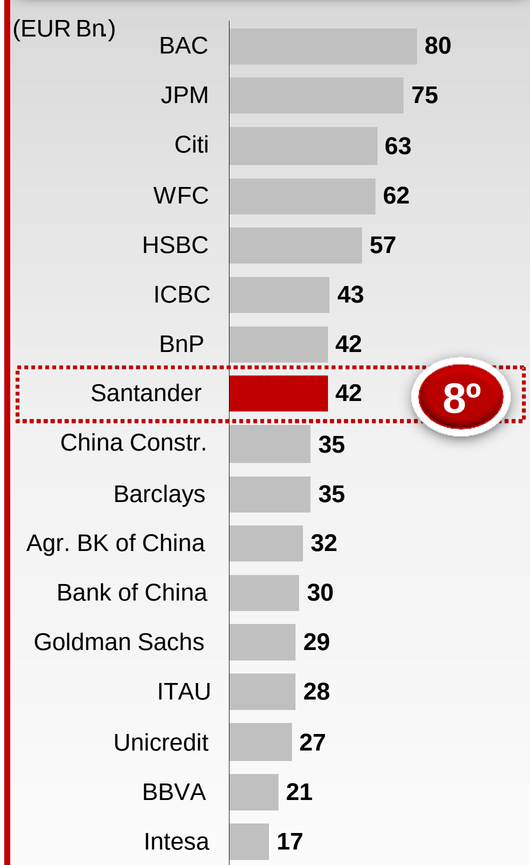
… in spite of the fact that the World has changed

Our strategy has worked: SAN has been the Western bank with the highest accumulated results during the crisis…

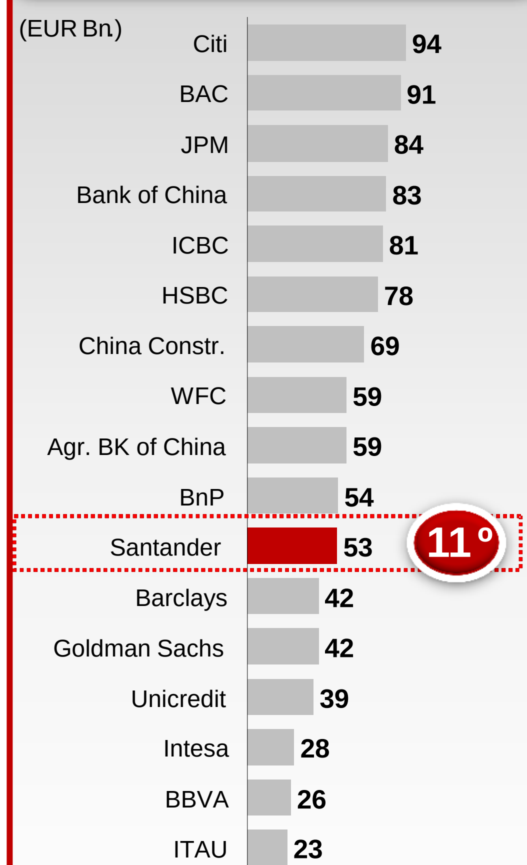
Attributable profit (2007-2010)



Revenues (2010)



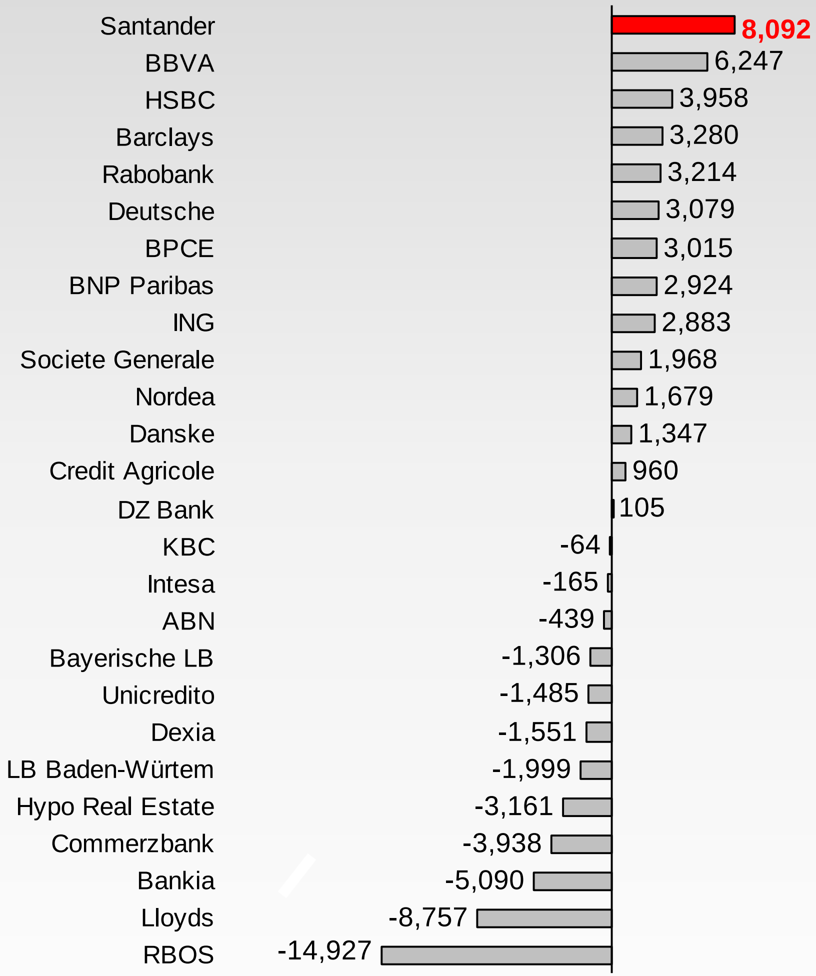
Capital CT1 (EUR Bn) (2010)



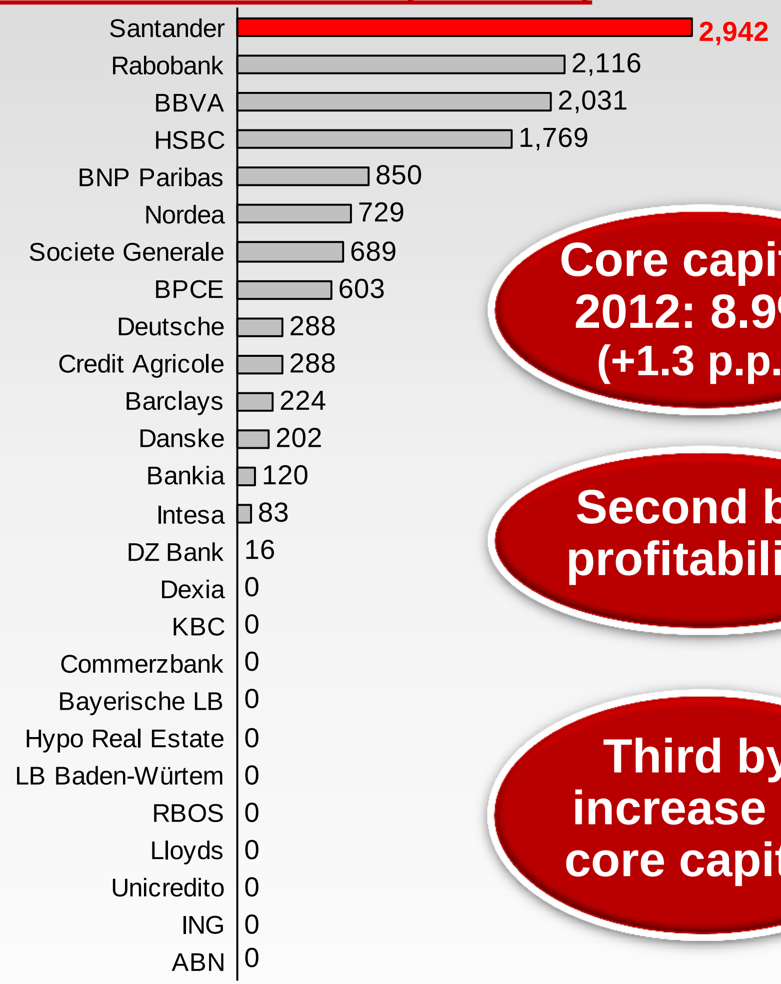
… and remaining as the European bank with the highest profit level under stress tests scenarios…

STRESS TEST EBA July 2011: adverse scenario

Net profit 2011-2012 (EUR mill.)



Dividends 2011-2012 (EUR mill.)



Core capital 2012: 8.9% (+1.3 p.p.)

Second by profitability

Third by increase in core capital

..as a result, we have been recognised as one of the most stable banks in the World (Source: Global Finance)

	Name	Country
1	KfW	Germany
2	Caisse des Dépôts et Consignations (CDC)	France
3	Bank Nederlandse Gemeenten (BNG)	Netherlands
4	Zürcher Kantonalbank	Switzerland
5	Landwirtschaftliche Rentenbank	Germany
6	Rabobank Group	Netherlands
7	Landeskreditbank Baden-Württemberg	Germany
8	Nederlandse Waterschapsbank	Netherlands
9	Banque et Caisse d'Épargne de l'État	Lusembourg
10	NRW.Bank	Germany
11	Banco Santander	Spain
12	Royal Bank of Canada	Canada
13	National Australia Bank Limited	Australia
14	Commonwealth Bank of Australia	Australia
15	Toronto-Dominion Bank (TD Bank)	Canada

Public sector banks

Co-operative banks

… in fact, the safest truly private bank in the World

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1 Reminder of the 2007 Investor Day: Outperforming across the cycle

2 A business model based on recurrent, sustainable earnings generation that allows us to create value as a Group

3 Outlook: environment and state of the Industry: It is possible to create value in both mature and emerging markets

4 Santander: Outlook - The value of diversification Expected contribution from profit normalisation

5 Conclusions

Our financial performance targets have not changed

Sustainable business model

… producing recurrent profit levels…

… with structural above average growth…

… with limited risk profile…

1. **… that allow us to grow at least 5% above our peers across the cycle**

These messages, from our 2007 Investor Day, still stand, in spite of the fact that the World has changed

Main elements of our business model…

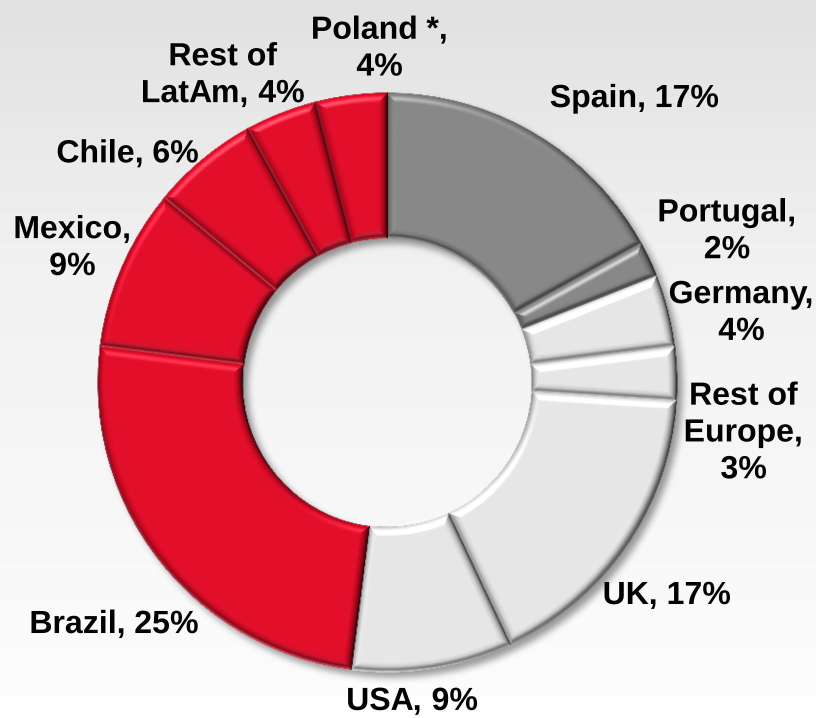
1. Diversification is key: good balance between emerging and mature economies
2. …with dominant local positions in large and attractive countries
3. Santander capacities are around retail and commercial banking
4. We are increasingly playing the international connectivity and the business derived from it
5. Our commercial banking model has two strong pillars non negotiable: low risk profile…
6. …and cost austerity
7. Subsidiary based model-financial de-centralisation with strong operational centralisation

1 **Diversification** is key:

- **Balanced between emerging and mature**
- World is too complex to be a "one trick pony"…

… history tell us that overexposure to a single market is risky

Attributable profit: H1 2011

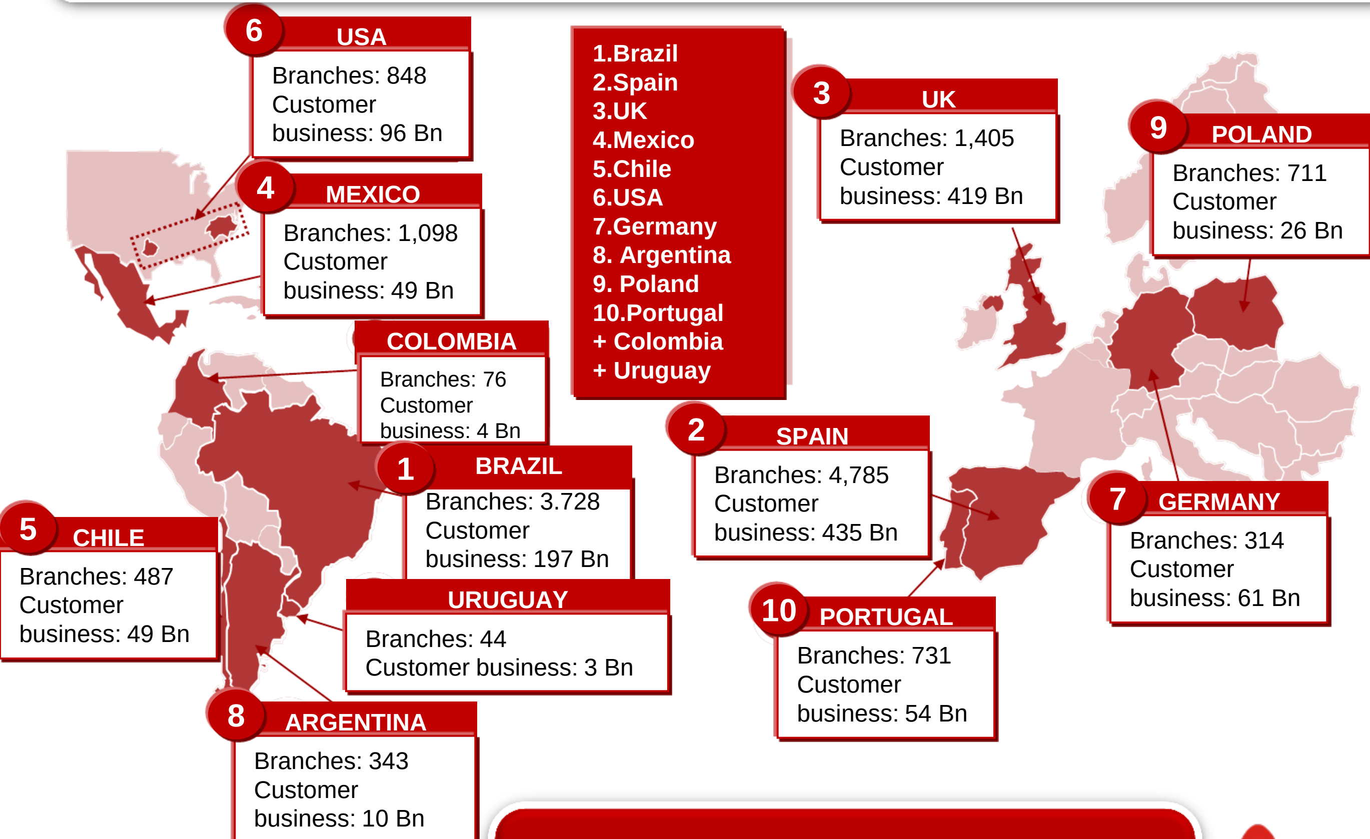


Avoid overexposure to a single market

* Proforma 1H

2 …with dominant local positions in large and attractive countries

We are focused on 10 key large markets



Avoid subscale businesses

LOCAL CRITICAL MASS is key to achieve superior profitability…

… especially in the new environment; ROE pressures, regulatory costs

INVESTORDAY

Data as of June 2011.
Customer business: Loans, deposits and mutual funds

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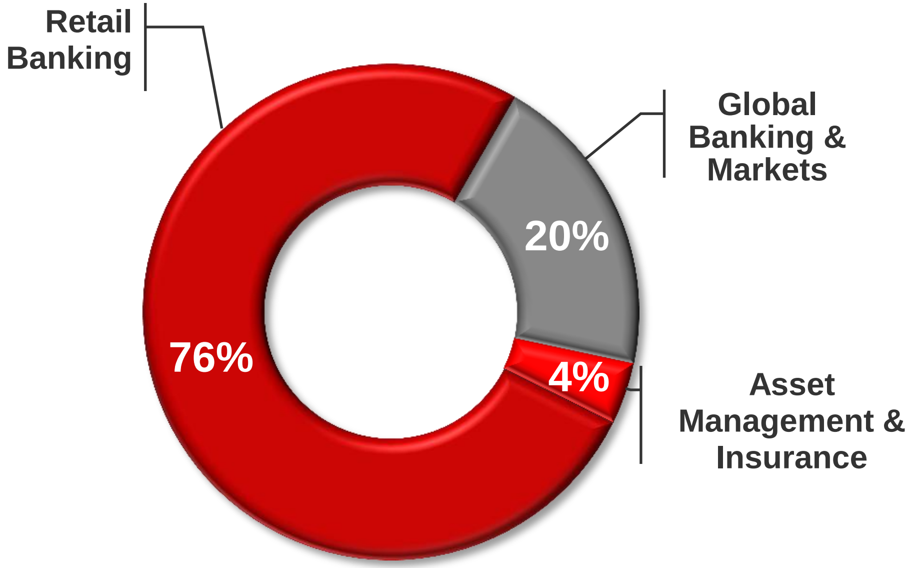
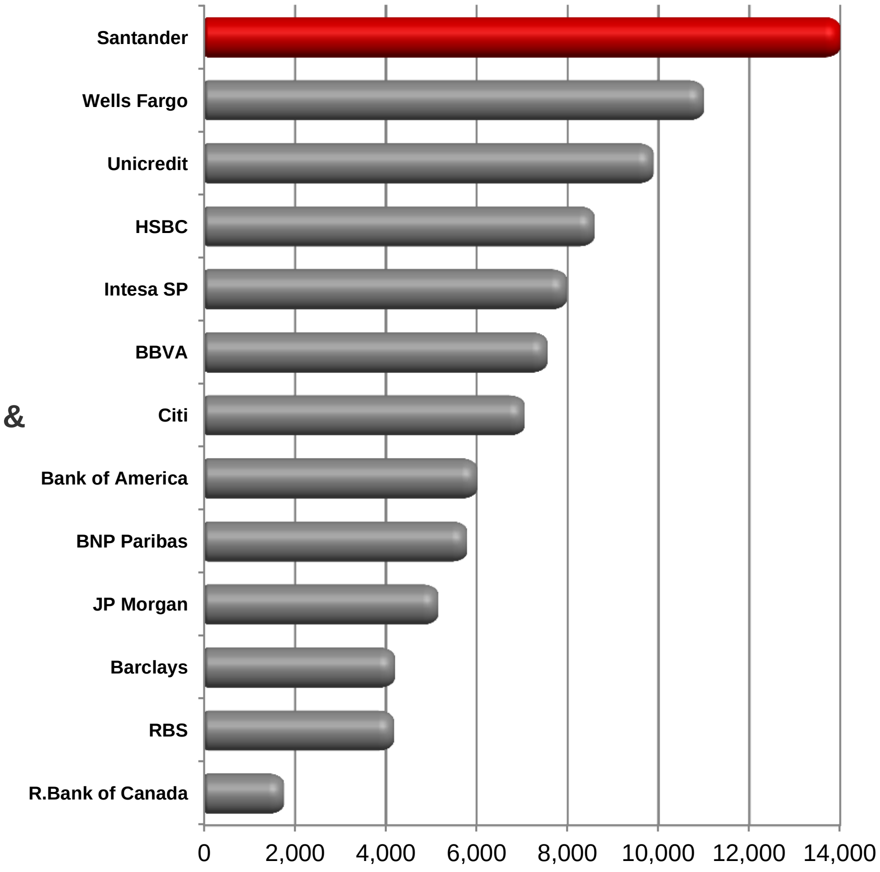
3 Santander's core business is built around **retail and commercial banking**

Attributable profit in 1H 2011

(by business areas)



We are the international banking group with the largest branch network

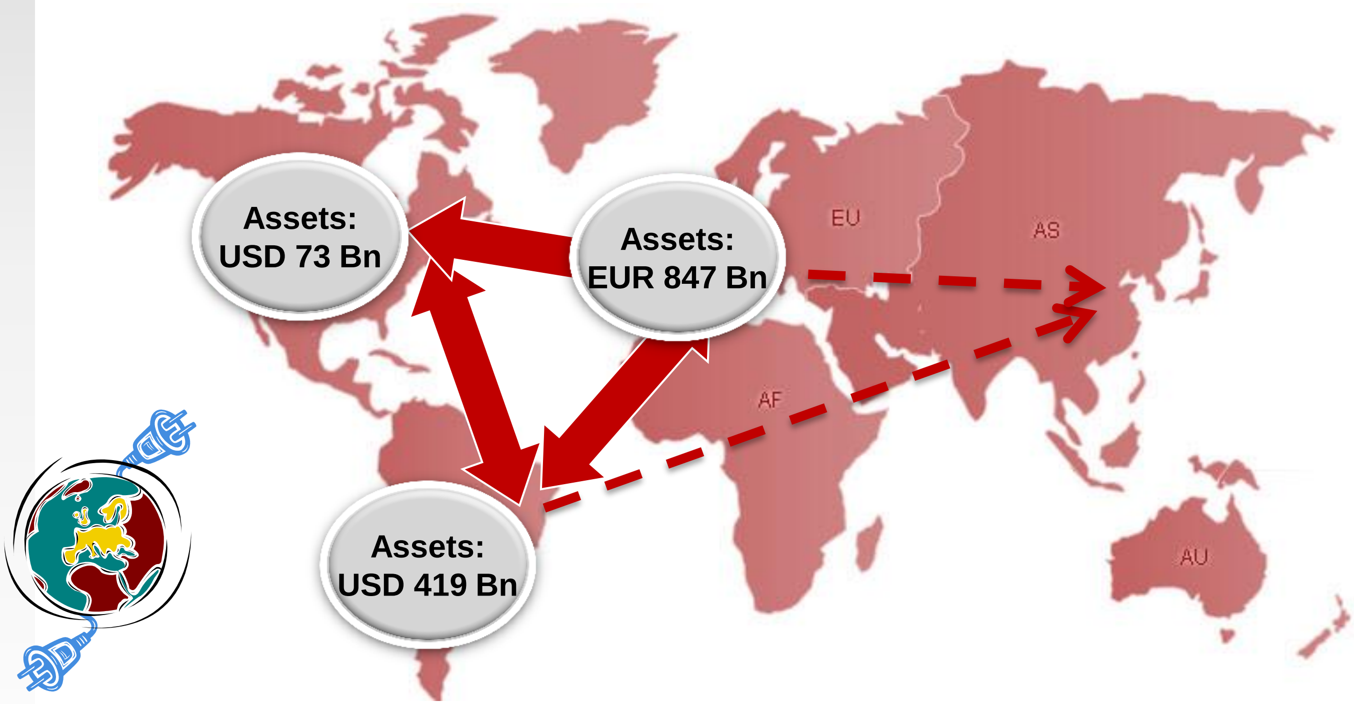


Avoid expanding into businesses we do not know well

4 We are **increasingly playing the international connectivity** and the business derived from it

We have a unique opportunity to capture the flows among the regions in which we operate

- Strong banks in Europe, LatAm, US … plus branches in Asia as pivotal points
- Focus on **capturing trade flows**

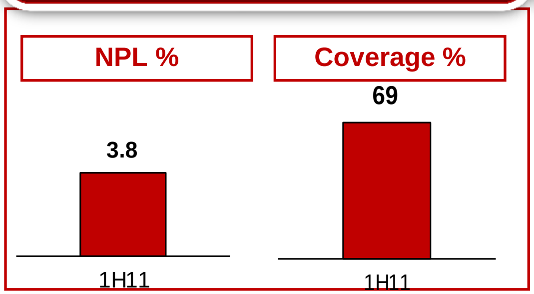


Our commercial banking model has two strong pillars that are non negotiable: low risk profile…

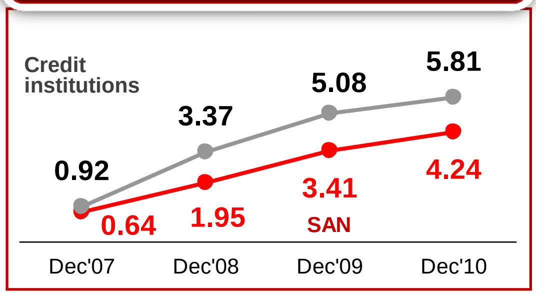
5

Low risk profile; strong risk methodology and culture

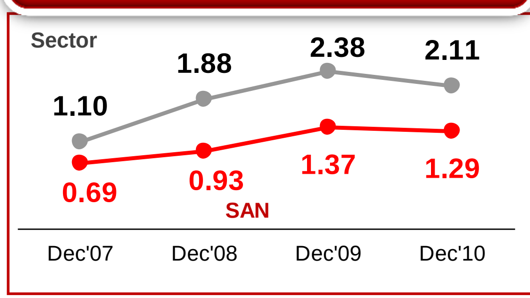
Group Ratios



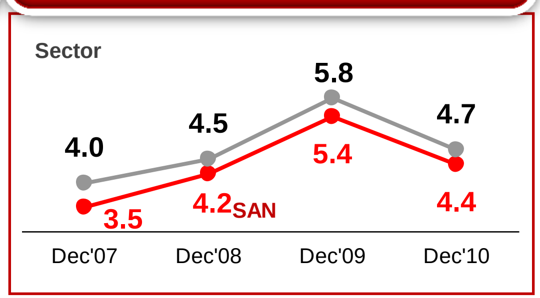
Spain



UK



Latam



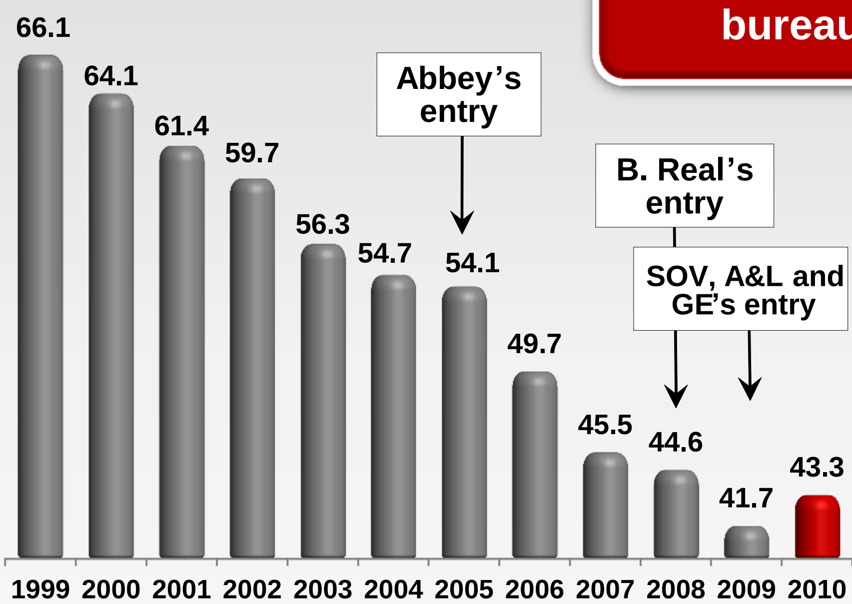
Avoid "herd behaviour"

- High geographical diversification and granularity of our risks
- High collateralisation of risks
- Low sovereign risk
- Predictable loss
- Focus on risks we understand
- Strong involvement of the Senior Management
- Independence of the risk function from business
- Continuous learning process- learning from mistakes

6 … and cost efficiency….

Group efficiency ratio*

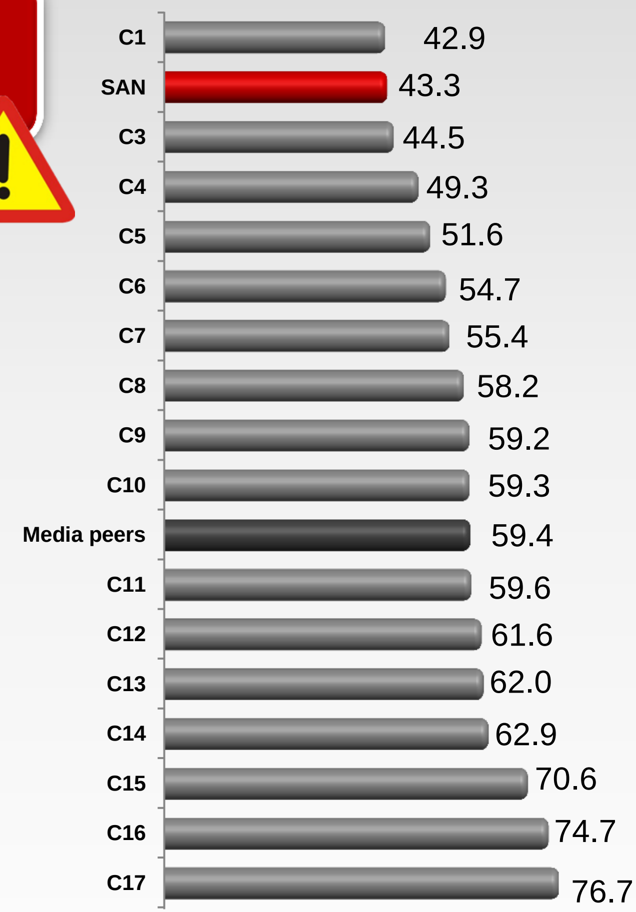
In percentage



(*) Efficiency ratio with amortisations.

Avoid complacency / bureaucracy

Efficiency ratio vs Peers** (%)

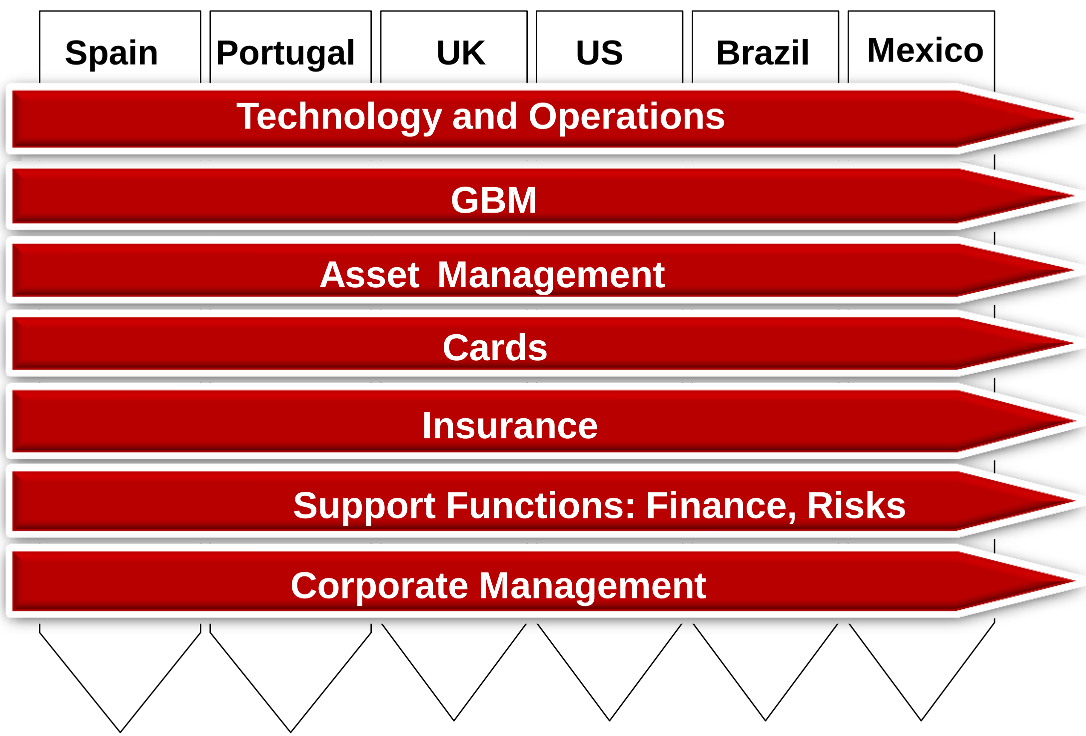


- Positive jaws are key to remain competitive
- Going forward, we expect our efficiency ratio to continue to improve

(**) "Peer Group" are 16 large banks that because of their size, characteristic and/or degree of direct competition are the reference group to surpass: BBVA, Banco Itaú, BNP Paribas, Credit Suisse, HSBC, ING Group, Intesa Sanpaolo, JP Morgan, Mitsubishi, Nordea, Royal Bank of Canada, Societe Generale, Standard Chartered, UBS, Unicredito y Wells Fargo

… efficiency achieved mainly through global integration…

INCREASED INTEGRATION…



Continue to exploit intra-group synergies:

- **Costs synergies:**
  a) IT infrastructure
  b) Application development / maintenance
  c) Operations (*back-office*)
  d) Centralised purchases

- **Revenue synergies:**
  a) Shared commercial model
  b) Product factories (e.g., cards)
  c) Distribution model of products originated in global factories (insurance, AM, treasury)

- **Governance synergies:**
  a) Shared risk management systems
  b) Shared financial management systems
  c) Shared accounting / MIS systems
  d) Shared corporate governance systems

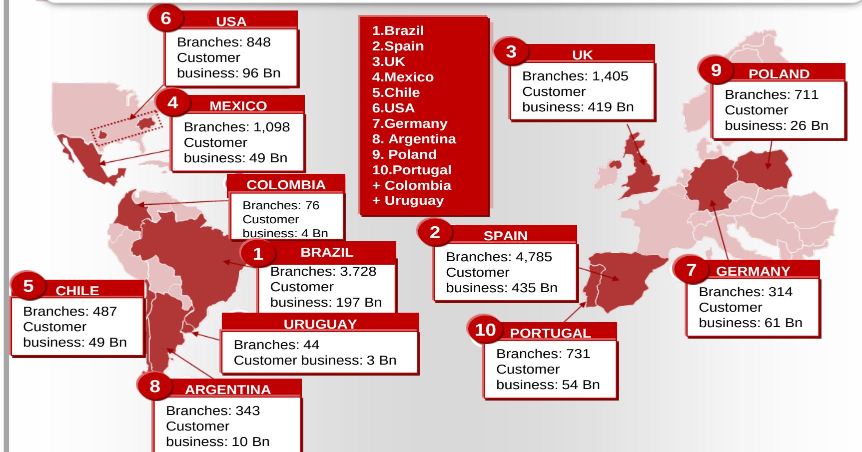
7 Financial independent subsidiaries' based model…

Each subsidiary is responsible for its own capitalisation and funding needs… no cross border funding… …combined with strong operating integration

In summary, we are worth more than the sum of the parts… a 3 PILLARS MODEL

Strong local presence / economies of scale ("vertical strategy")

We are focused on 10 key large markets



Subsidiary model with financial autonomy

Operational integration

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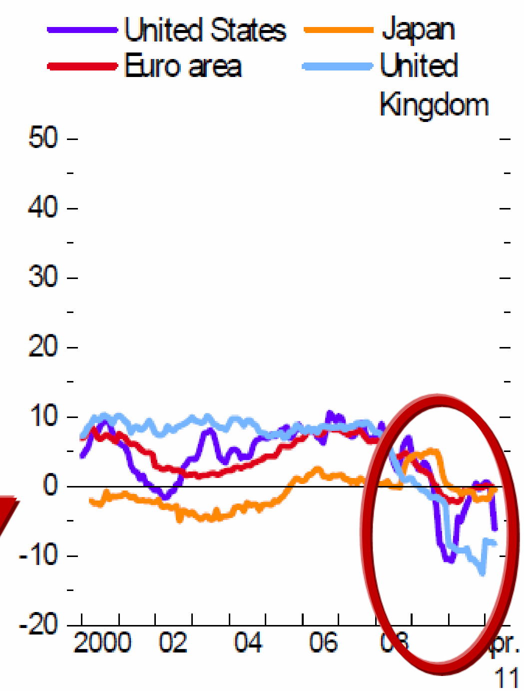
The global economy is a tale of two kinds of markets with very different trends…

Real credit growth (YoY change)

1

MATURE ECONOMIES:

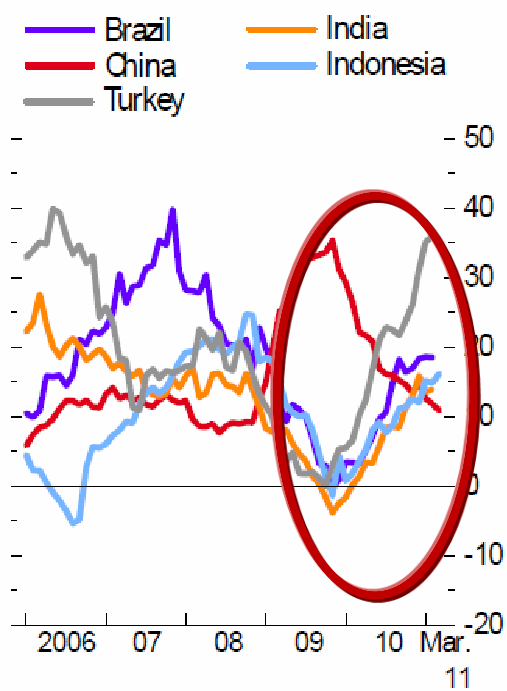
Deleveraging / increase savings



2

EMERGING ECONOMIES:

Releveraging / increase consumption



We think we can make atractive returns in both markets… but in different ways

1 Mature markets: BINARY OUTCOME

Some banks will continue to struggle…

- **“Questioned” business models…**
  - …based on “financial risk” / carry trade
  - Need to deleverage balance sheet
- **Lack of economies of scale**
- **No access to markets**

… other banks will become stronger…

- **Large banks…**
  - …with dominating market positions
  - …and a customer driven business model
  - …and a strong balance sheet with funding capacity
- **…will increase market shares w/ economies of scale**

Strong banks in mature markets will become large free capital generators…

Boom-years fast asset growth → **Crisis:** credit losses → **Regulation:** capital build-up → **NORMALISED WORD: High capital-generation** Nomalised ROE, stable RWA

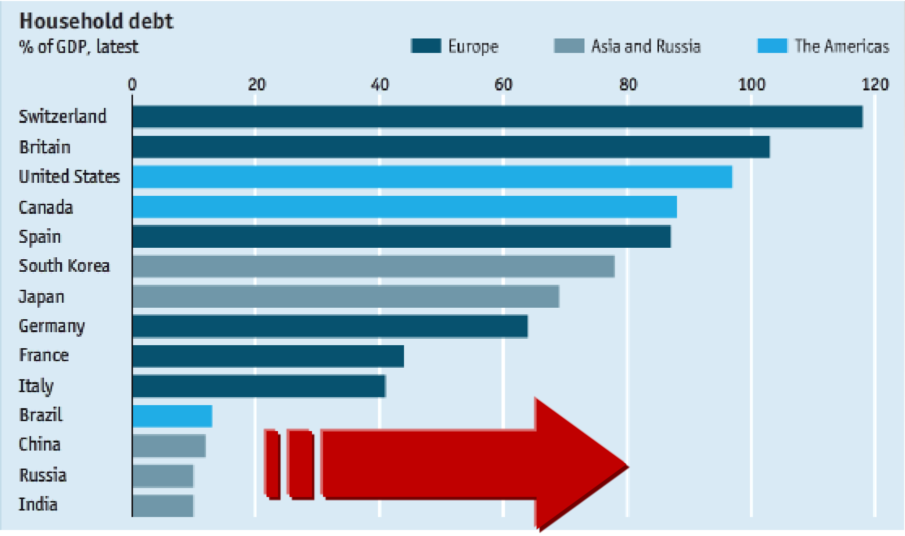
There is CLEAR MEDIUM TERM "BULL CASE" IN MATURE MARKETS…

… currently being overlooked by the market

2 Emerging markets: very few banks will be able to capture the growth potential

Potential growth / development of middle classes…

…everybody agrees



However, being in emerging markets is not enough…

… to profit from the development of middle classes, you need to be…

1. locally strong; economies of scale (top 3 or 4),
2. well managed,
3. strong balance sheet,

Keep in mind that emerging markets are not a free ride: risk management is key

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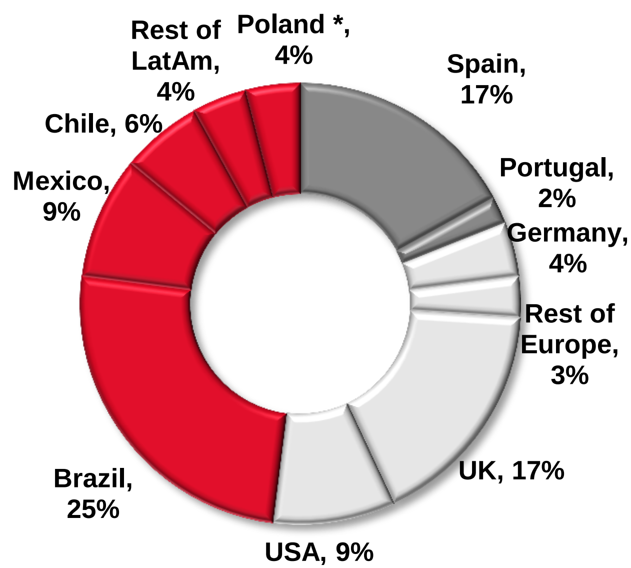
We distinguish three types of markets in our portfolio:

Emerging markets

3 **Emerging markets: LatAM / Poland (48%) - sustained growth outlook**



Mature markets

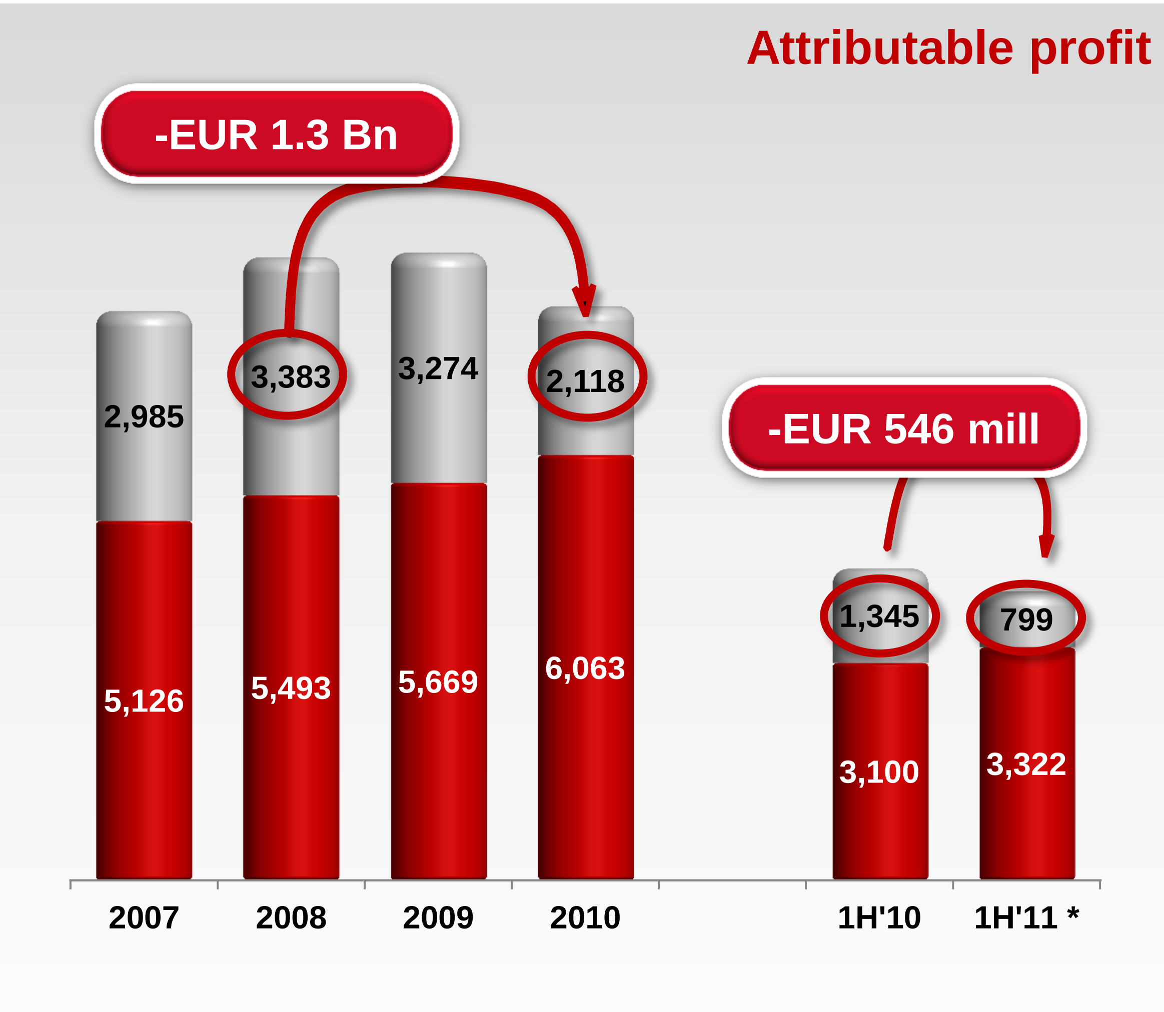
1 **Mature markets w/ cyclically high provisions:** (19% of profits)

2 **Mature markets where provisions are stable / down (33% of our portfolio)**

We can deliver attractive results in all three types of markets…

* Proforma 1H

1 Mature markets w/ cyclically high provisions: Profit fall in Iberia compensated by growth in other geographies…



Spain and Portugal retail and commercial banking

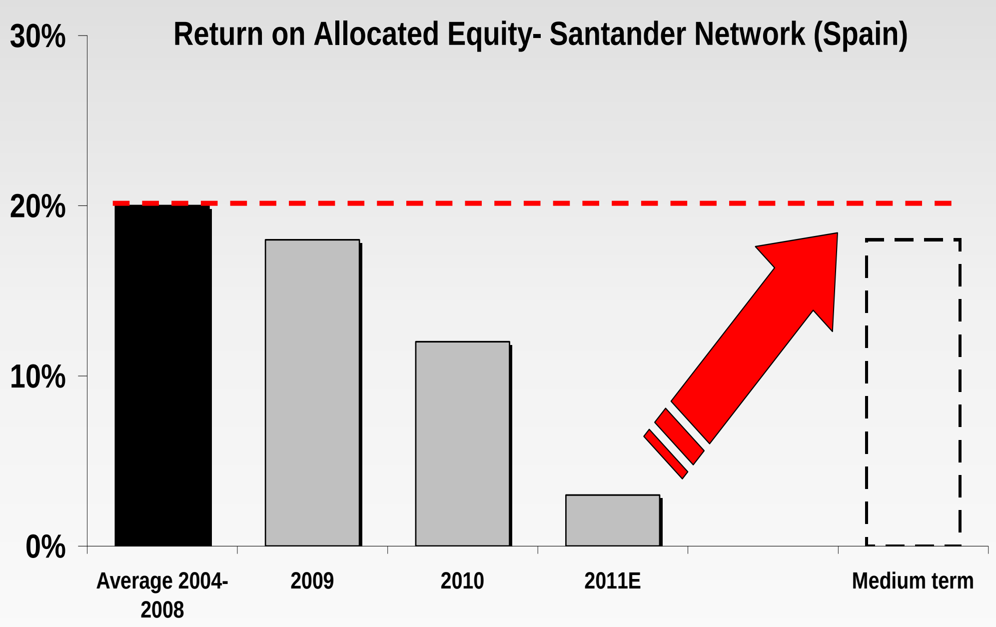
Cyclically low margins… cyclically high provisions

Other BUs compensate for the fall in Iberia

* Before PPI

1 Mature markets w/ cyclically high provisions: our goal is to recover foregone profits

Our "homework": REGAIN LOST PROFITS / BACK TO ATTRACTIVE ROE



Management priorities

- Improve provisions cycle
- Actively manage margins
- Efficiency gains / adapt cost structure
- Gain profitable market share- leverage position of strength

1 Mature markets w/ cyclically high provisions: S-T Profit recovery and strong capital generation expected in the M-T

2011-2014: progressively regain past earnings levels

- Specific provisions already falling in 2011
- Margin and cost improvement

2013-14+: strong free capital generation:

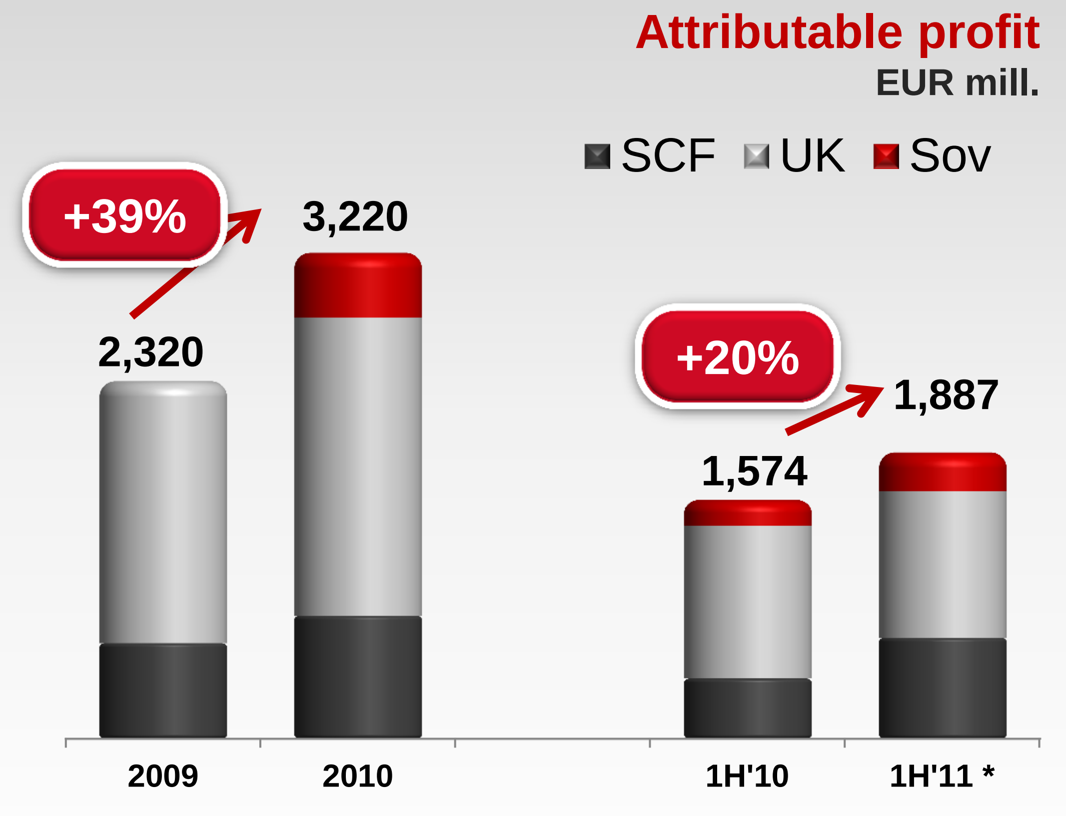
- Attractive ROE…
- with a stable loan book (low RWA growth)

Annual free capital generation > EUR 2 Bn

2011 2012 2013 2014 …

2 Mature markets where provisions are stable / down: Good performance but some pressures arising…

In these units, our net profit has benefited from a good credit cycle but…



UK: Currently challenged on: Low rates and "Hostile" regulatory framework

US: Franchise stability but profitability subdued due to low rates

SCF: Continued to benefit from low rate environment

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* Before PPI

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2

Mature markets where provisions are stable / down:
working to absorb S-T pressures while building our franchises

Management priorities

- **Building STRONG COMMERCIAL FRANCHISES**
- **Continue to implement commercial model**
- **Leverage global units**
- **Grow in "underweight" segments (e.g., UK SMEs)**

Deliver growth in a low growth environment…
… and deliver ROEs above the market standard

UK:

- Profits impacted by rates and regulation
- Building an SME franchise and integrating RBS business

US:

- Re-building SOV operationally
- Continue to grow

SCF:

- Grow on the back of competitors weakness
- Strong divisional backbone in Germany

2 Mature markets where provisions are stable / down: S-T pressures and M-T single digit growth

SHORT TERM: Profits under pressure:

- Low rates, regulatory costs
- Complete integrations, build commercial franchises
- Organisations focused on integrations (UK, Germany), IT implementation…

MEDIUM TERM: full steam ahead

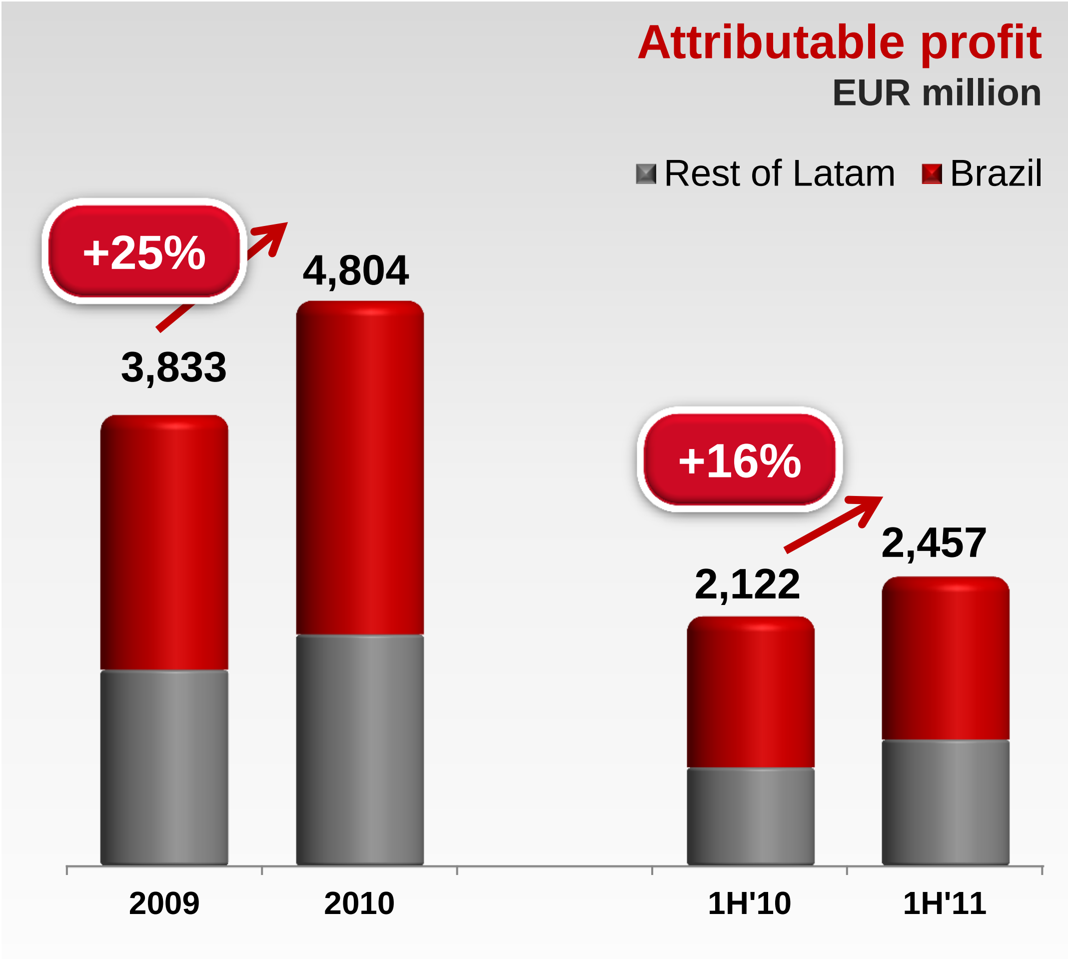
- Gain profitable market share; positive jaws

Double digit ROE with single digit net profit growth (above market average)

2011 2012 2013 2014 …

3 Emerging markets (48%): continued growth outlook

LatAm has continued to deliver strong profit growth



Plus: We are incorporating BZ WBK in Poland:

- Strong franchise in the Polish market
- Potential to deliver cost and revenue synergies
- Net profit target: EUR 480 m in 2013

3 Emerging markets (48%): continue to grow with a low risk profile

Our "homework": BUILD STRONG, EFFICIENT, COMMERCIAL FRANCHISES

- There is growth potential in emerging markets…
- … with the appropriate risk appetite !!
- However, not all banks present in emerging markets can translate that presence into strong growth

Management priorities

- Gain profitable market share
- Low risk profile, with a through-the-cycle approach
- Positive jaws (in markets with significant cost pressures)
- Leverage Group strengths- IT, global units, connectivity

3 Emerging markets (48%): S-T and M-T growth outlook

Short –Term and Medium - Term: full steam ahead with appropriate risk levels

Gain market share with an appropiate risk appetite; Double digit net profit growth

2011 2012 2013 2014 …

We believe that, over the next three years, SAN will go through a progressive PROFIT NORMALISATION

- Normalisation of interest rates
- Normalisation of deposit margins
- Normalisation of liquidity costs
- Normalisation of provisions

Medium term ROE uplift
Between 3-6 pp

2011 2012 2013 2014 …

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Conclusion

- Our business model continues to be valid and has strengthened during the crisis
- The diversification has allowed us to compensate pressures in some markets with the better/strong pace of other units
- The world is a tale of two markets: emerging and mature markets…
- …we think we can make money in both… though differently
- Mature markets will provide high levels of free capital… which will feed dividend levels and support emerging markets growth
- With our solid business model and the strong effort of all units … going back 12-14% ROE levels is in our hands

Summary Main Messages- per unit (I)

(2012-2014)

UK	• Absorption of low rates and regulatory impacts in the S-T • Regain growth by 2013 while building a SME franchise
Brazil	• Consolidating the franchise after the integration • High Double digit growth with low risk profile
Spain	• Regain past profit levels by 2014 • Margin and cost management while provisions normalise
SCF	• Consolidate historic high profit levels in 2012 • …and continue to grow the franchise in Europe
Chile	• Stable double digit growth sustained in the medium term • Continue to maintain leadership in local market

Summary Main Messages- per unit (I)

(2012-2014)

Mexico	• Gaining market share in a largely under-banked market • High double digit growth sustained in the medium term
USA	• Building a full commercial bank • USD 750 m target reached in 2011; cruise profit level by 2014
Poland	• Acquisition business plan on track • Expected EUR 480 mill profit by 2013
RISK	• Progressive normalisation of provisioning in Spain • Diversified and cautious risk appetite / low sovereign risk
Financials	• Progressive earnings normalisation • Mid term ROE between 12-14%

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