Santander

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INVESTOR DAY

DELIVERING PROFITABLE GROWTH

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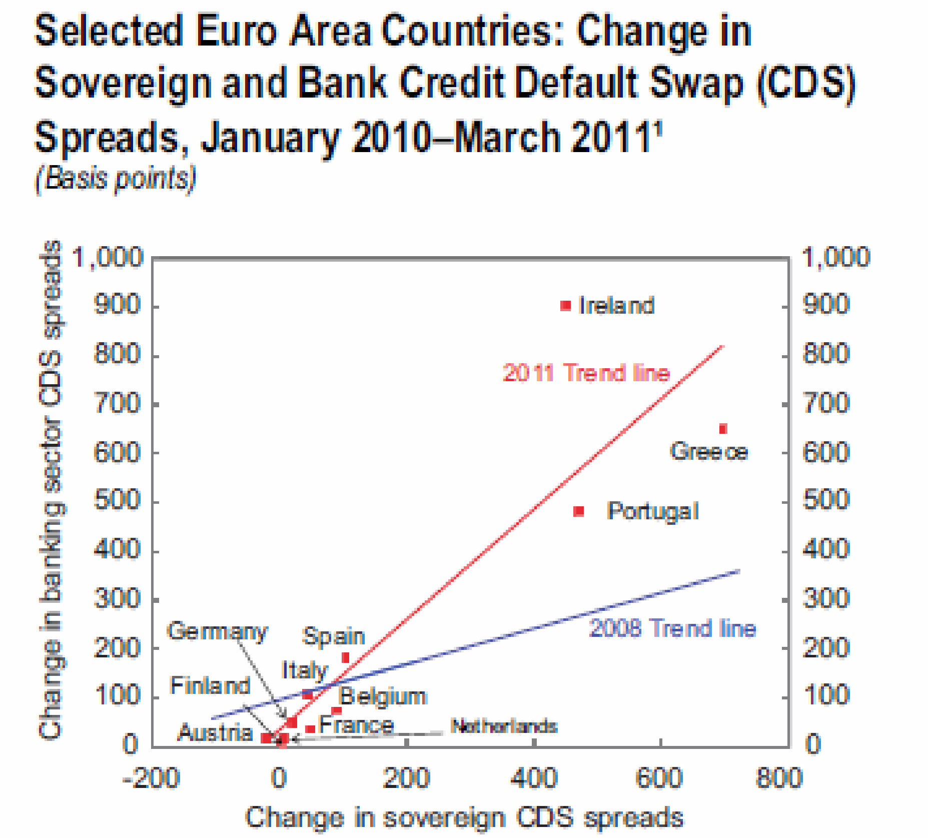
The current banking environment: ROEs to remain **under pressure**…

REGULATION

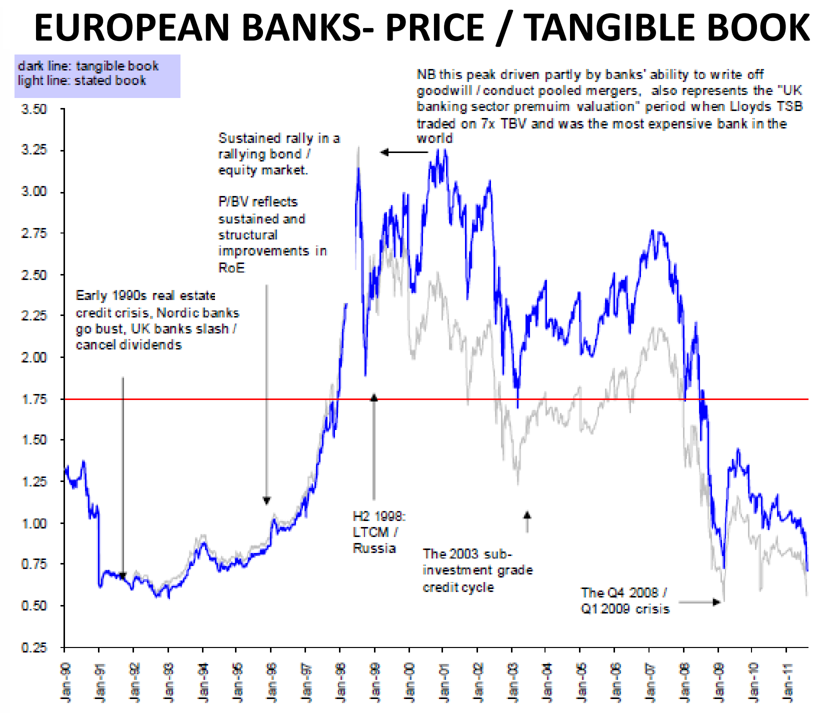
FUNDING COSTS

Impact on the real economy



Banking in **emerging markets** is a different story

… but **not all banks will be impacted in the same way**



Source: Deutsche Bank estimates

Regulatory / market changes **mostly affect banks with…**

1) …risky business models,

2) …structural liquidity carry trades,

3) …low RWA conversion

4) …capital markets driven business models.

Traditional **commercial banking models** and diversified banks with **emerging market presence**…

… will be less affected, and can defend their profitability

Our goal:
to deliver profitable growth, applying…

1. Balance Sheet discipline

- Credit & Market Risk
- Liquidity
- Interest rate
- Capital

2. P&L discipline:

- Pricing policies
- Cost structures

...consistent with our return targets

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Balance Sheet management:

Covered in the "Risk Management" presentation

0 CREDIT / MARKET

1 LIQUIDITY

2 INTEREST RATE / FX RISK

3 CAPITAL

1 LIQUIDITY

Our structural view on liquidity management:

1.1

Subsidiary model (each subsidiary is independent in terms of capital and liquidity)…

…with diversified funding sources geographically, currency, instruments, etc…

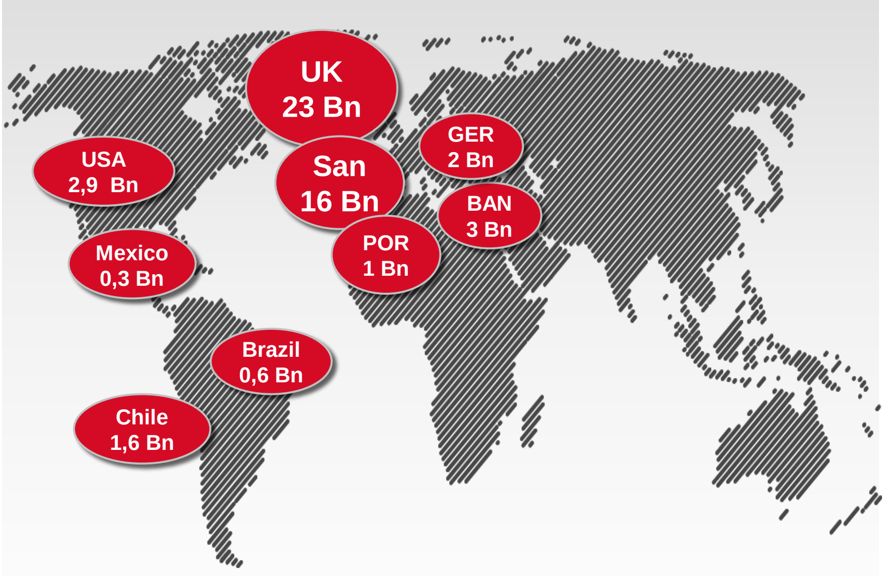
1.2

No liquidity carry trades, long term assets funded by long term liabilities

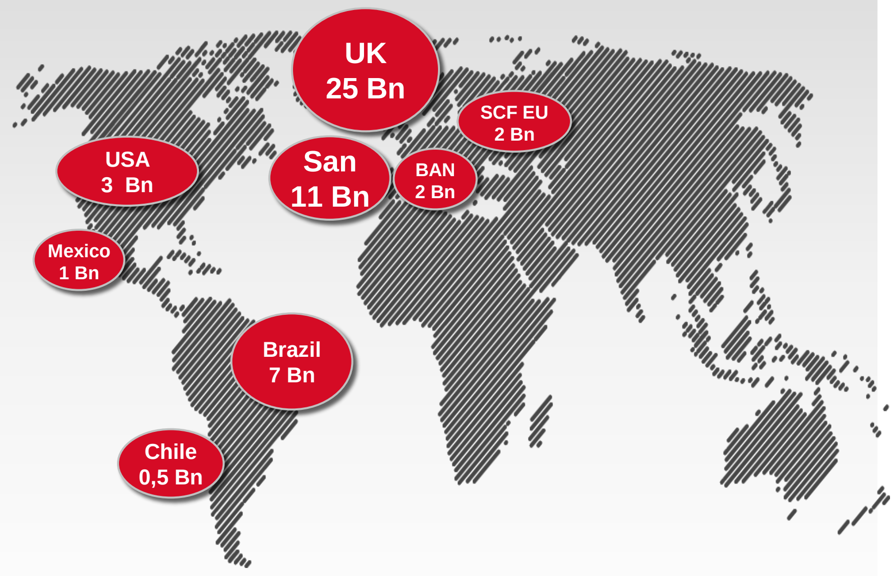
1.1 Subsidiary model with diversified funding sources

Group wide access to wholesale markets on a stand-alone basis; own ratings and programs in each subsidiary

M/LT Issuance- 2010



M/LT Issuance- 2011 YTD

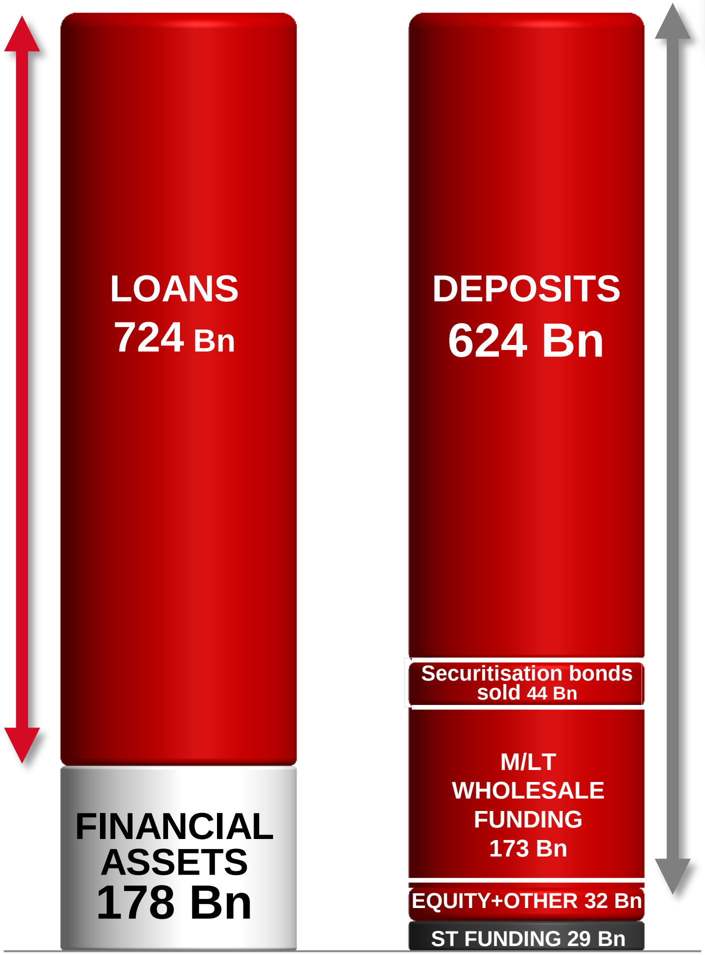


Market diversification: ½ GBP area; ¼ EUR area; ¼ USD area

1.2 No liquidity carry trade

Santander Group

(JUN 2011)



Key aspects

- **Good structural liquidity position:** stable funding larger than permanent assets, giving a structural liquidity surplus **of EUR 137 Bn**:

Loans	*724 Bn*
Depos+MLT Funds+Equity	*861 Bn*

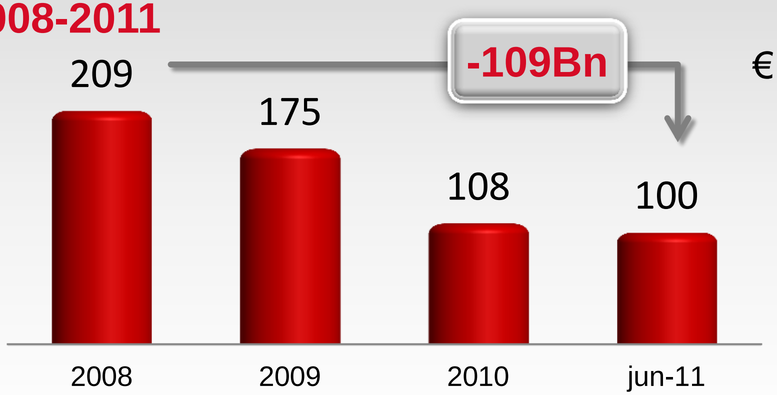
137 Bn *= Fin assets - ST Funds*

- **Low reliance on short term funding**
- **Financial assets: trading and AFS; highly liquid**

The commercial Gap significantly reduced: deleveraging in mature economies

Group Commercial GAP (loans – deposits) 2008-2011

€ Bn.

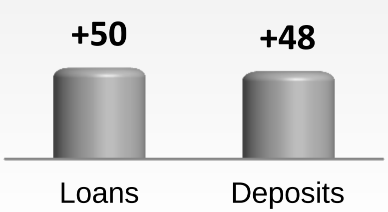


€ Bn. Dec'08 - Jun'11

Mature Market

Deleverage

Emerging Markets



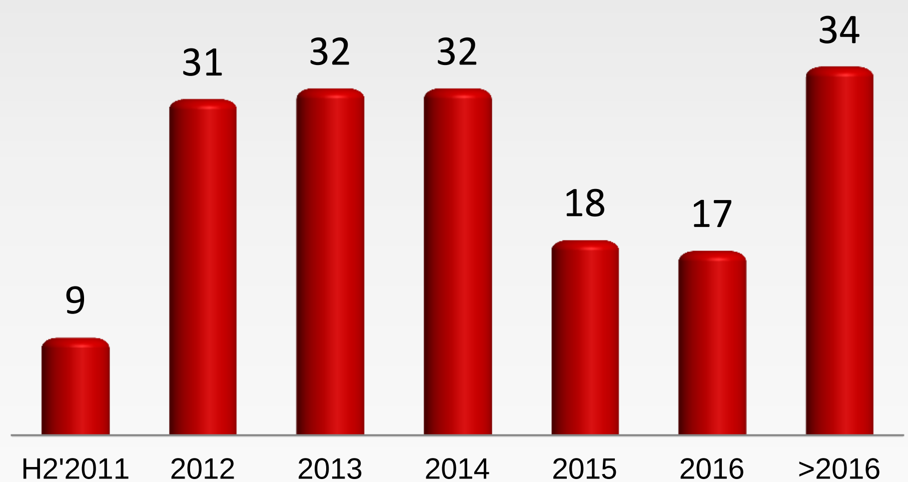
Self financing growth

M/LT funding: Maturities well spread over time

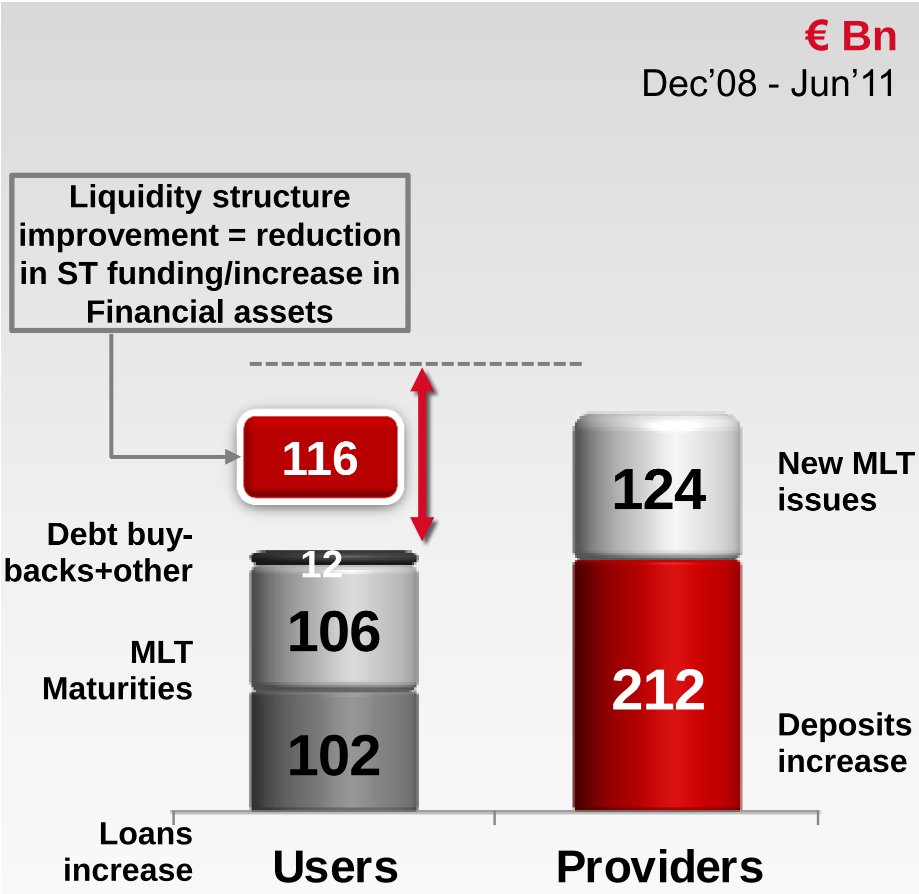
M/LT Group maturity profile

€ Bn.

Avg. maturity = 4 years



These dynamics have led to an improvement of the liquidity structure



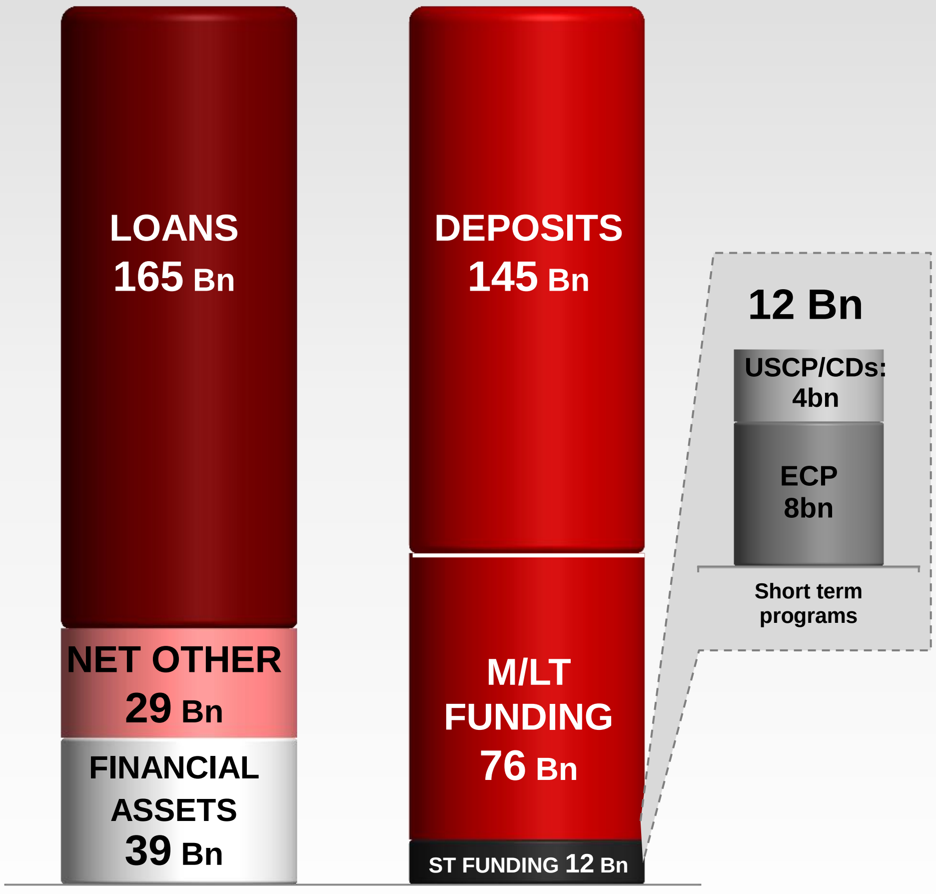
This liquidity generation allowed us to finance value-adding corporate strategies such as debt buy backs and business purchases

Plus…
We have over EUR 100 Bn of assets eligible for discount in central banks

Parent company balance sheet: balance sheet funded with deposits and MLT funding (structural negative carry trade)…

Parent company-Balance Sheet

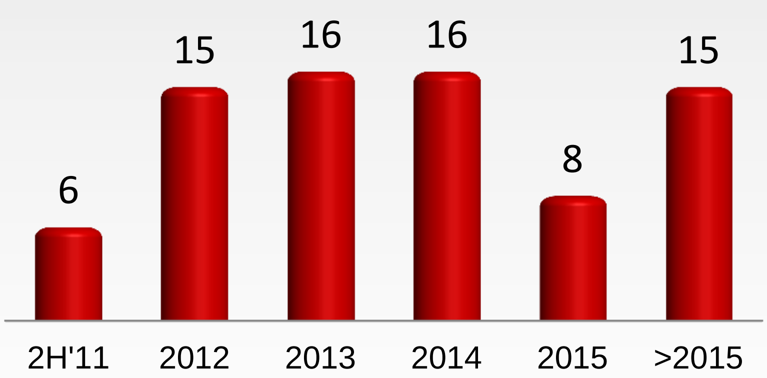
Jun'11



Parent Company MLT funding: maturity profile

€ Bn

Avg. residual maturity = 4.4 years

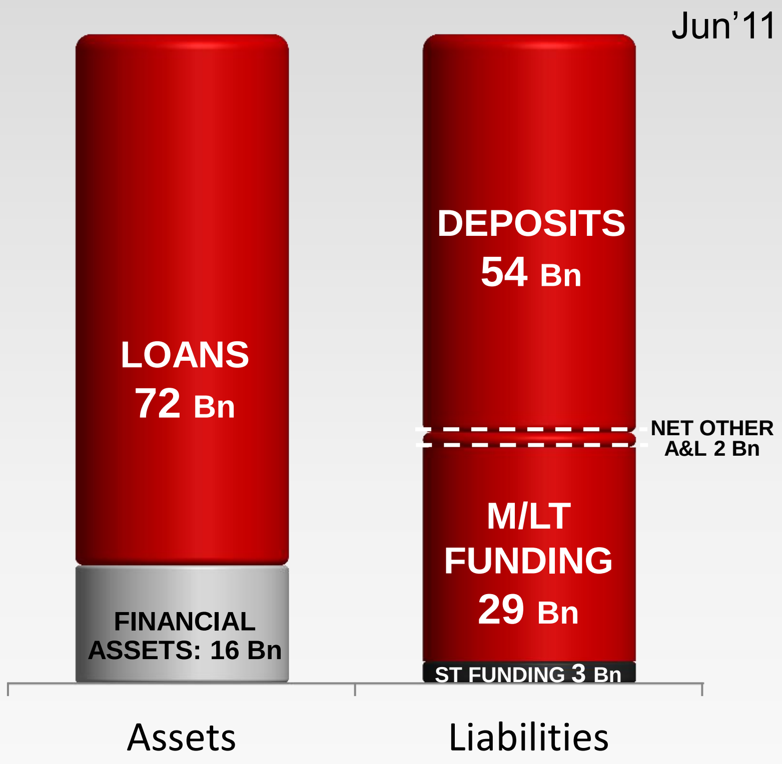


Low reliance on short term funding

Expected balance sheet deleveraging covers 2/3 of maturities

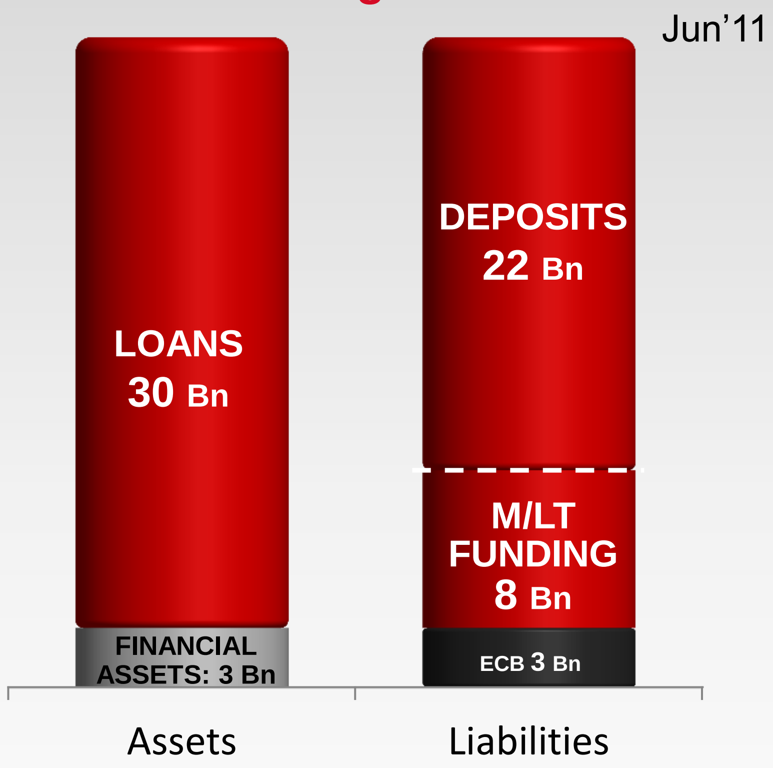
Banesto & Portugal

Banesto-Balance Sheet



- Low reliance in short term markets
- Wholesale funding maturities: €1.5 bn (4Q'11) €5.1 bn ('12), €5.0 bn ('13), €4.2 bn ('14)
- Reduction in commercial gap is expected to cover 2/3 of maturities

Portugal-Balance Sheet

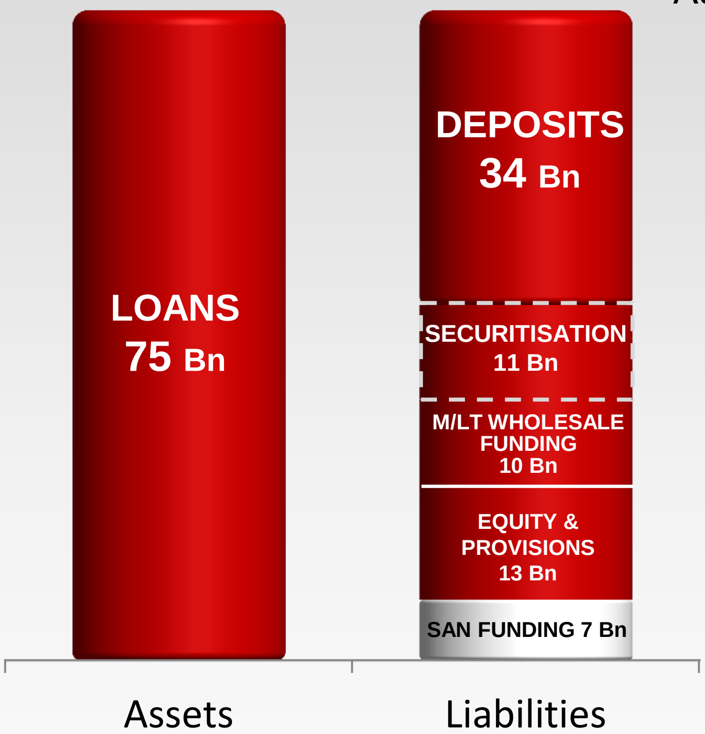


- No concentration in wholesale debt maturities in next years: €1.5bn ('12), €1.2bn ('13), €1.3bn ('14)
- €2,5bn from ECB
- Reduction in commercial gap is expected to cover 100% of maturities

Santander Consumer

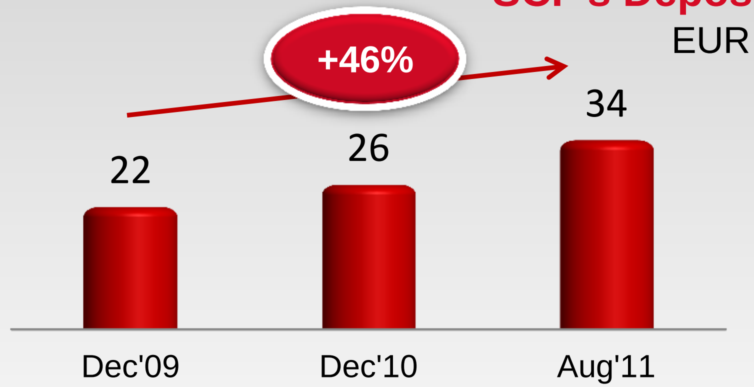
SCF-Balance Sheet

Aug’11



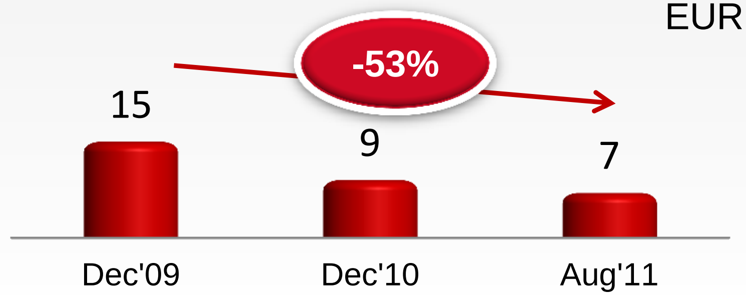
SCF's Deposits

EUR bn



SCF's intragroup funding

EUR bn



- Increase in customer deposits (Germany and Poland, reinforced by SEB)
- Active access to wholesale markets through securitisations and structured MLT funding
- Progressive decrease in intragroup funding according to SAN model: expected to be self-funded by Dec’12

2 INTEREST RATE / FX RISK

Our structural view on interest rate / FX risk management:

FX risk:

Hedging used to stabilise the Group's core capital ratio and P&L (hedge excess capital, hedge next year profits)

Interest rate risk:

In markets with floating rate lending portfolios, ALM mitigates customer-related **interest rate risk** (e.g., hedging low-cost deposits)

ALM portfolios used to reduce structural interest rate risk

	Currency	IR sensitivity (+100 bp parallel shift) EUR
Euro area	EUR	+140
Santander UK	GBP	+180
Sovereign	USD	+54
Brazil	BRL	-118
Chile	CLP	-13
Mexico	MXP	+41

Euro area, Santander UK, Sovereign:

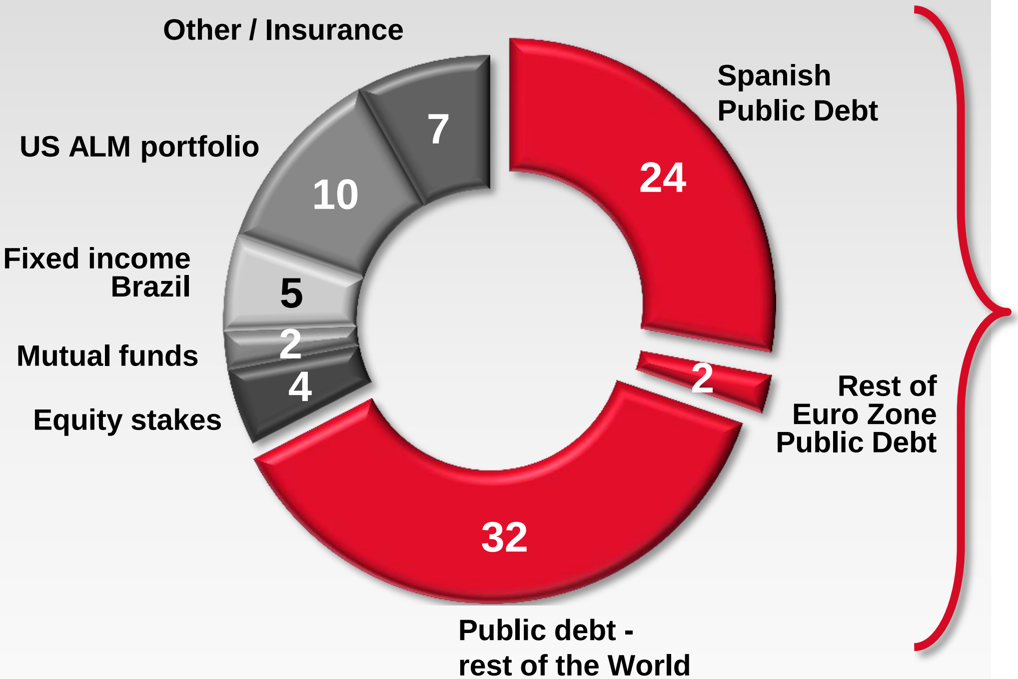
- Low risk
- Positive impact over the medium term, as rates normalise

Brazil, Chile, Mexico:

- Low risk
- Brazil positioned to benefit from lower rates

AFS portfolios- low risk portfolio; used to manage structural interest rate risk…

Total AFS portfolio (31/08): EUR 87 Bn



Mark-to-market on available for sale securities: EUR -1.2 Bn (Aug'11)

(No held-to-maturity securities)

EUR Bn

Exposure Sovereign debt		**58.9**
EURO ZONE		**26.6**
• **OF WHICH-SPAIN**		**24.2**
	ALM portfolio	18.4
	Insurance companies	2.7
	T-bills	3.1
• **OF WHICH-REST**		**2.4**
	Portugal	1.4
	Italy	0.3
	Greece	0.2
	Rest	0.5
REST OF THE WORLD		**32.3**
	Poland	2.9
	Brazil	19.3
	Mexico	2.9
	Chile	3.7
	USA	2.0
	Uruguay	0.3
	Colombia	0.4
	Rest	0.8

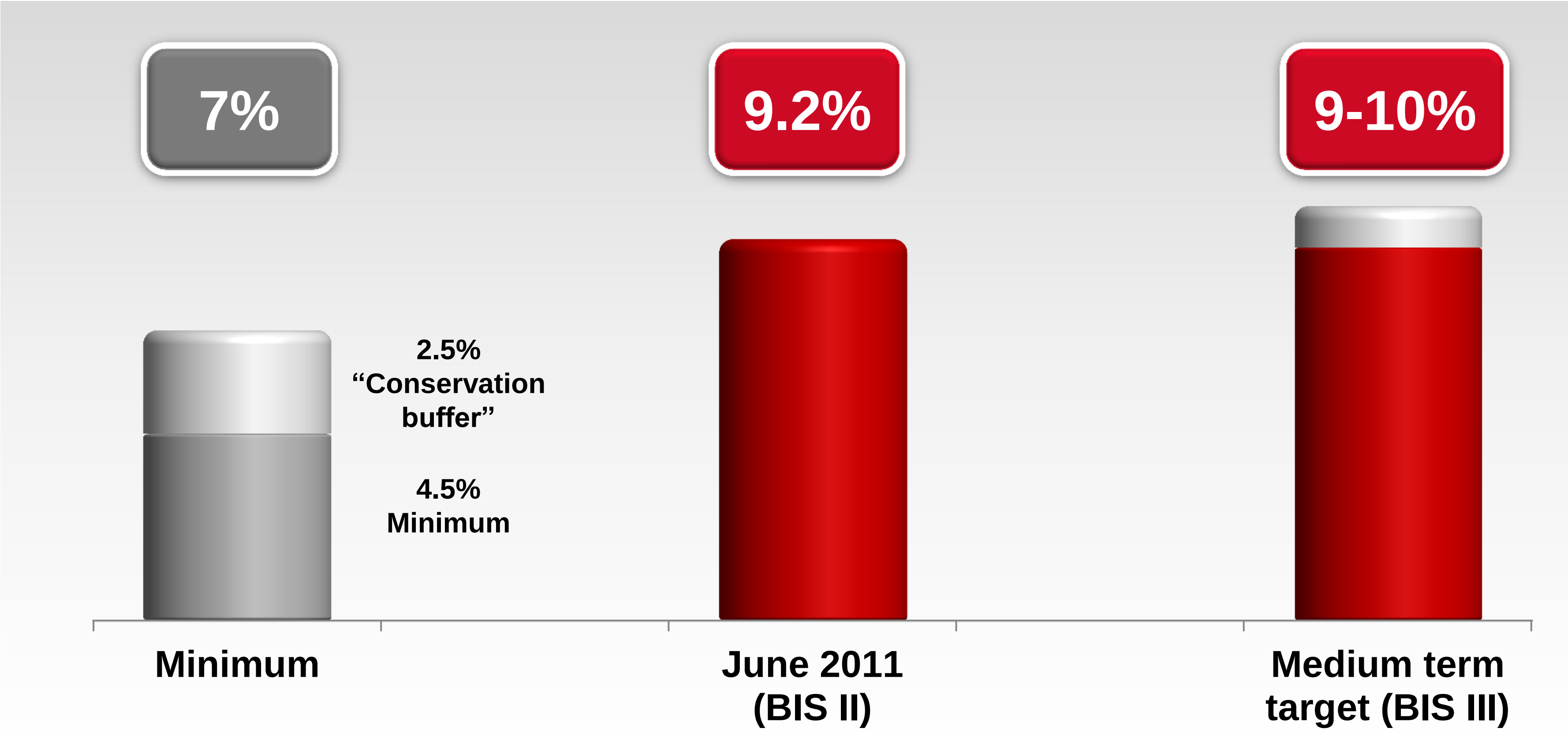
3 CAPITAL MANAGEMENT

The industry is adapting to the new environment (adjusting their business models to capital limits)

Businesses like ours are less impacted:

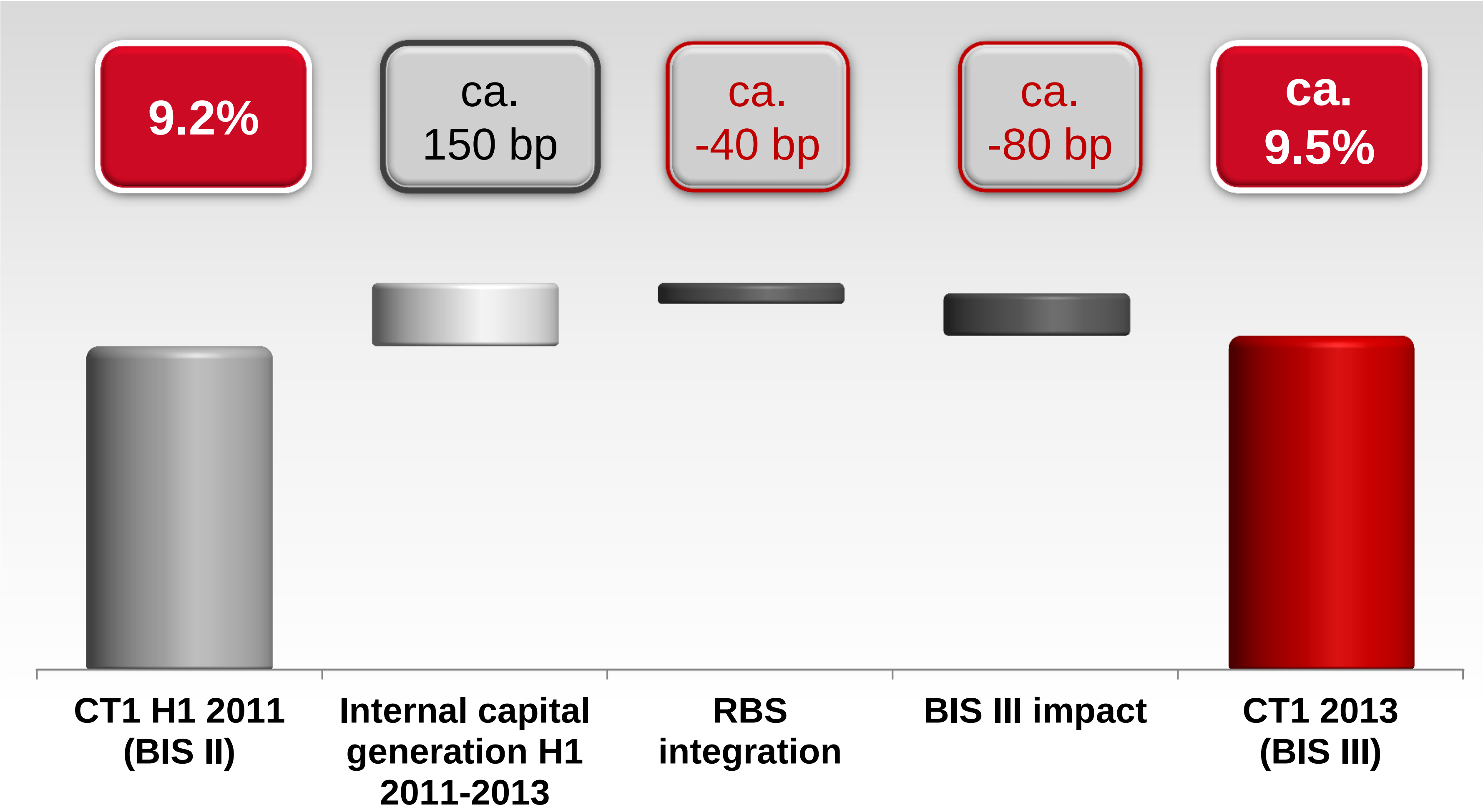
- Balance sheet focused on customer-related business (vs pure financial business)
- High RWA conversion (one of the highest in the sector)– conservative risk/capital models
- Ring-fenced subsidiaries
- Low risk
- Focused on retail and commercial banking

Our capital target: 9-10% CT1



We think that a 9-10% core Tier 1 is more than **adequate for our balance sheet**: low risk profile; high diversification

Our capital target: 9-10% CT1



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Our P&L discipline is ROE-driven …

In **mature markets**, we are **adapting** our:

Pricing policies and …

Cost structures …

… to **the new environment**:

- Regulation (capital / liquidity rules)
- Market conditions (cost of liquidity)
- Cost of credit
- Growth perspectives

In **emerging markets**, we focus on:

Risk discipline

Cost discipline

…to deliver profitable growth

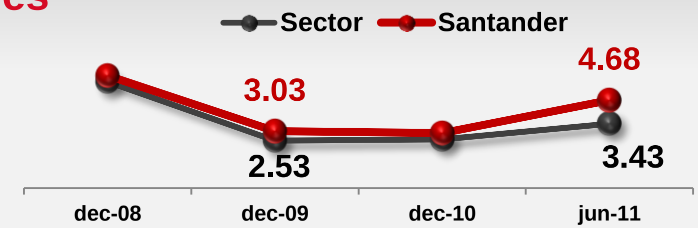
We are not just focused on size / market share…
… but on achieving an **attractive ROE**

Pricing policies

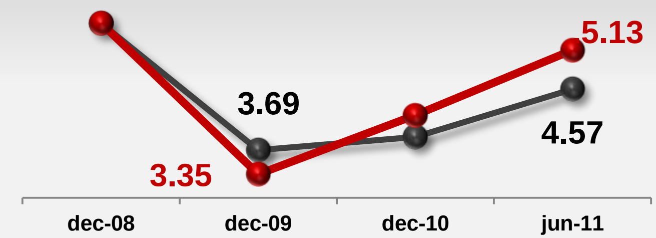
The Santander (Spain) example:

Interest rates - new production

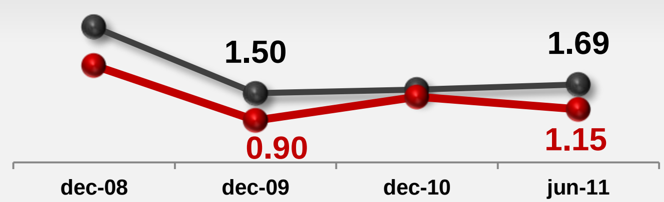
Mortgages



Business banking loans



Cost of deposits

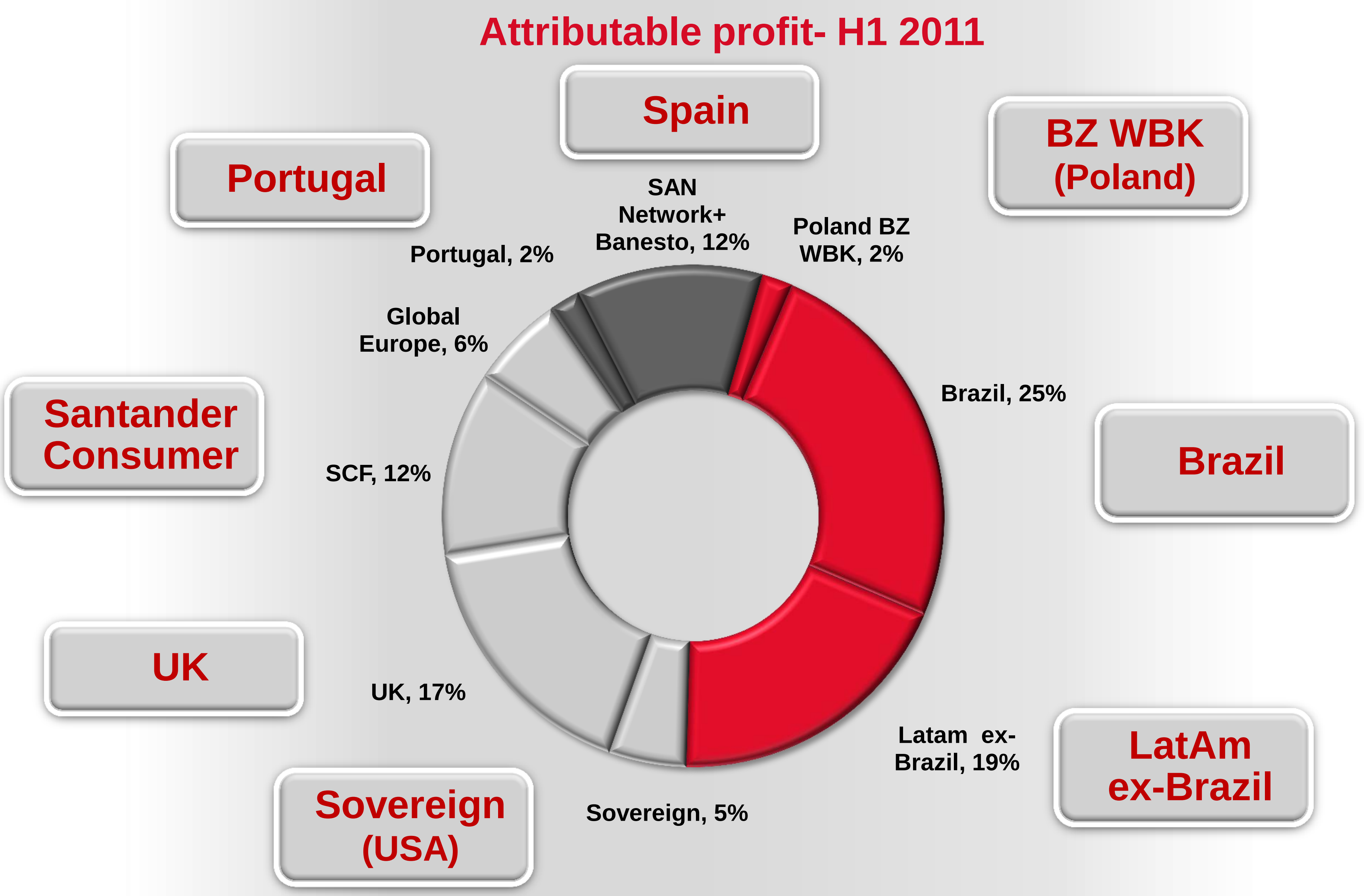


Cost structures

Ongoing process

- In **Mature Markets**, we are reviewing our cost structures in all businesses against ROE benchmarks
  - Business that do not create value in the new environment can be restructured
- In **Emerging Markets**, we are focused on delivering positive "jaws" in an high nominal growth environment

Main trends by unit: very different trends in a dual World



Spain:
Inflection point

Starting point (2011):
Underlying net profit already improving

Medium term (2012-2014):
Net profit to improve in 2012, aiming to recover foregone profits by 2014

Expected free capital generation of our period 2012-2015: ca. EUR 6-8 Bn

Portugal:
period of adjustment

Starting point (2011-2012):
Focus on balance sheet strength

Medium term (2013-2014):
gradual profit normalization

In a 3-5 year period, the economy will return to a normal growth rate. Net profit to recover in 2013-2014

UK:
Growth to resume after absorbing regulatory costs

Starting point (2011):
Absorbing regulatory costs

Medium term (2012-2013):
Growth to resume

We expect Santander UK's net profit to resume its growth path in 2013. ROTE >16% 2014

Santander Consumer:
Focus on returns: ROA / ROE

Starting point (2011):
Strong performance: Provision normalization + favourable interest rate environment

Medium term (2012-2013):
Focus on profitability

Mid-single digit net profit growth over the next 2-3 years

Sovereign:
Gaining profitable market share

Starting point (2011):
On track to reach announced profit target (USD 750m)

Medium term (2012-2013):
Gaining profitable market share in segments in which we are underweight

Mid- to high- single digit profit growth

BZ WBK (Poland):
Structural growth

Starting point (2011):
Growing in an attractive market

Medium term (2012-2013):
Growth acceleration, leveraging Group strengths

EUR 480 m target by 2013

Brazil:
an important engine of growth

Starting point (2011):
Focused on completing the integration

Medium term (2012-2013):
Commercial growth to remain strong

We expect net profit growth of approx.15% in 2012 and 2013

LatAm ex-Brazil:
taking advantage of its potential growth

Starting point (2011):
Strong profit growth

Medium term (2012-2013):
Good momentum to continue

We expect a mid-double digit net profit growth over the next 2-3 years

Our profitability is currently depressed:

- Low interest rates
- High provisions
- High cost of funding
- Regulation

Despite that, we are being able to sustain attractive ROE levels: ca. 10% in 2011 and 2012

Over the M-T, we expect our profitability to normalise:

- Higher interest rates (ca. 200-300 bp above current levels)
- Normalised economic growth (ca. 2% in mature markets; 3-4% in emerging markets), leading to lower provisions (mainly in Spain)

Key financial targets

- **ROTE 16-18%*;**
- **ROE 12-14%*;**

Still below "fully normalised" levels

The profit normalisation expected to start in H2'2012-2013

* With 9-10% CT1

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Key messages

We are running a low risk, solid balance sheet

- Credit / market risk
- Interest rate risk
- FX risk
- High capital ratios for our risk profile

Our P&L is cyclically depressed in the current environment… though still we have a ROE above 10%

- Extremely low interest rates
- Cyclically high provisions (e.g., Spain)
- Liquidity costs (wholesale + commercial)… including "liquidity buffers"

Over the medium term (starting in H2 2012-2013), we would expect our profitability to progressively normalize.
ROE target: EUR 12-14% ...
…with additional upside once full normalisation is completed