Banesto to merge with Santander

December 2012

Santander

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Note: Statements as to historical performance or financial accretion are not intended to mean that future performance, share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior year. Nothing in this presentation should be construed as a profit forecast.

Summary of the transaction

Rationale of the transaction:
Why are we doing this now?

The Spanish financial system: outlook

Final remarks

Summary of the transaction

- Santander offers to acquire Banesto's minority shareholders at an exchange ratio of 0.633x Santander shares for each share of Banesto (EUR 3.73 per share*), paid with treasury stock (approx. 45 million Santander shares)
- This exchange offer values Banesto at approx. EUR 2.6bn (25% premium over closing date Dec 14, 2012 and a premium of 42% over the average price of the last 6 months)
- Merger expected to be completed by May 2013
- Banesto S.A. will be absorbed and merged into Santander
- Annual synergies expected to reach pre tax EUR 520m; (EUR 420m cost synergies; EUR 100m revenue improvement), within 3 years.
- Personnel reduction will be performed in a progressive way via natural turnover, relocation to other units and incentivised redundancies

* Based on Santander's closing stock price of EUR 5.90 per share and Banesto's closing stock price of EUR 2.99 (Dec.14, 2012)

An attractive deal for Banesto shareholders….

- Banesto shareholders receive +25 % premium over Dec 14th closing price and a +42 % premium over the 6 month average

- Banesto shareholders participate in a international diversified bank with 55% of its profit coming from emerging markets; with a strong balance sheet and significantly higher growth prospects.

- Banesto shareholders receive Santander shares which are one of the most liquid stocks in Europe, with an attractive shareholder remuneration strategy (past 12 months: 60c)

- On top of that, as Santander’s shareholders, Banesto shareholders will benefit from the delivery of the integration synergies

….and service improvements for Santander and Banesto´s customers

- Santander’s and Banesto’s customers will have access to a **broader distribution network** (4,000 branches)
- Banesto’s customers will have access to a **broader range of products**, as well as to Santander’s international network that can support the international operations of its SME and corporate customers.

EXPECTED TIMETABLE

Dec 17, 2012	Santander's Board approves the transaction
Jan 9, 2013	Santander's Board approves merger project
Jan 10, 2013	Merger project communicated to the market / CNMV
Mar 22, 2013	Santander's General Shareholders' Meeting.
April 26, 2013	Regulatory and administrative approvals (approx.)
May, 2013	Legal merger completed and Santander's shares will be delivered to Banesto's shareholders

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Rationale of the merger

A — The profitability of the banking sector in Spain is under pressure

B — Why now?

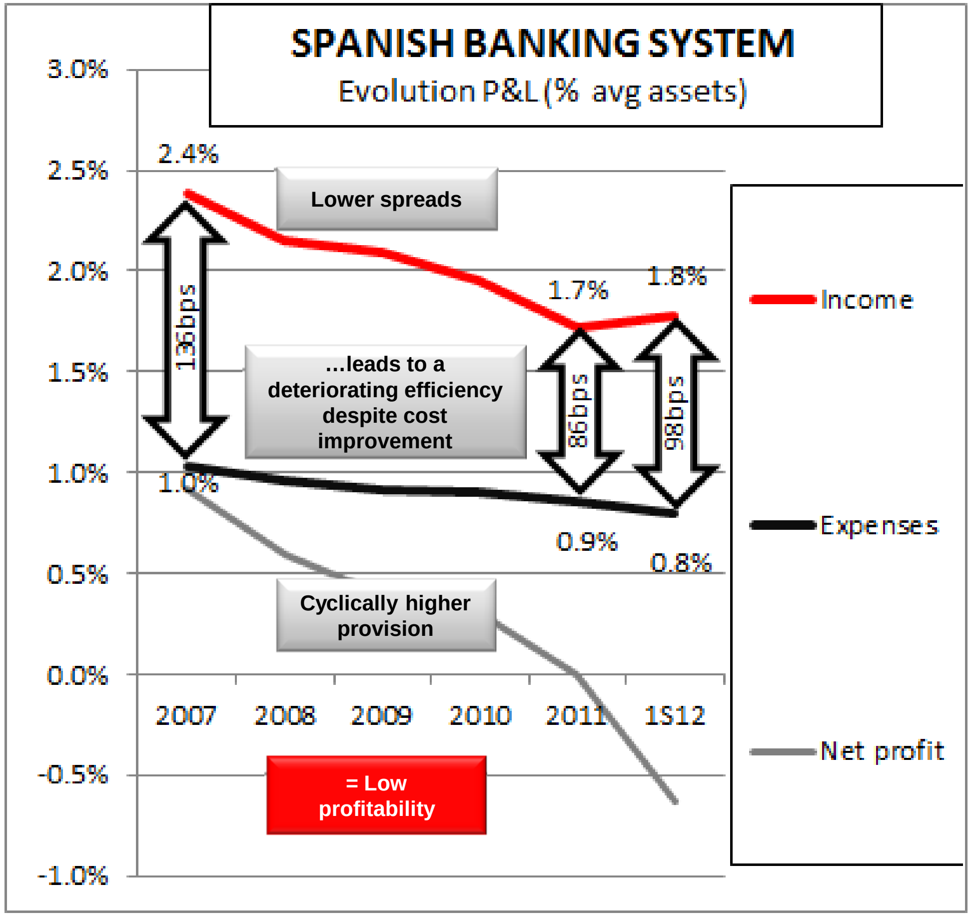
C — Cost synergies

D — Revenue improvement: new structure in Spain

E — Financial impacts

A The profitability of the banking sector in Spain is under pressure…

The Spanish financial system has lost profitability over the past 5 years



What does the sector need to do?

1. Recover lost SPREADS and FEE income…

2. …NORMALISATION OF PROVISIONS

3. … and IMPROVE EFFICIENCY

Santander is working to recover profit levels in Spain lost in the last few years…

1. Recover lost SPREADS and FEE income	Credit front book at good margins… new deposit origination margins still need to improve; improved fee generation through enhanced quality of service ✓
2. NORMALISATION OF PROVISIONS	We are accelerating the provisioning of the Spanish balance sheet (400 bp, inc. Royal Decrees) We expect provision normalisation to start by the H2 2013 ✓
3. … and IMPROVE EFFICIENCY	We have been delivering flat costs, but <u>this is not enough</u>… now we need to focus on structural efficiency improvement

B Why now?

1. A "single brand" strategy is most suitable for a low growth market

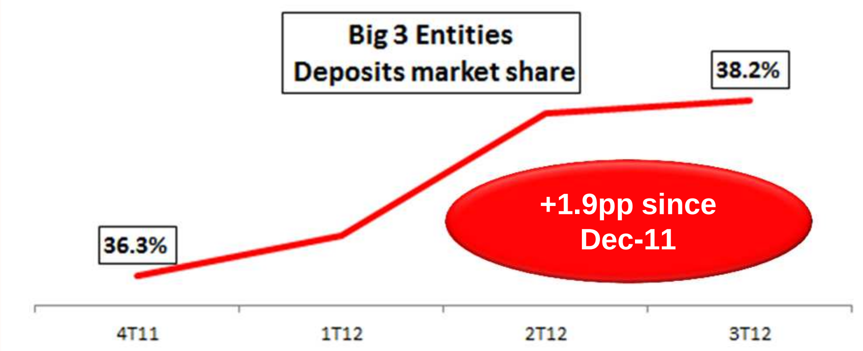
- Focus on combining EFFICIENCY GAINS with selective market share gains = best achieved with a SINGLE BRAND

2. Higher economies of scale are necessary in a more concentrated market

Average market share of the "top 5" branch networks:

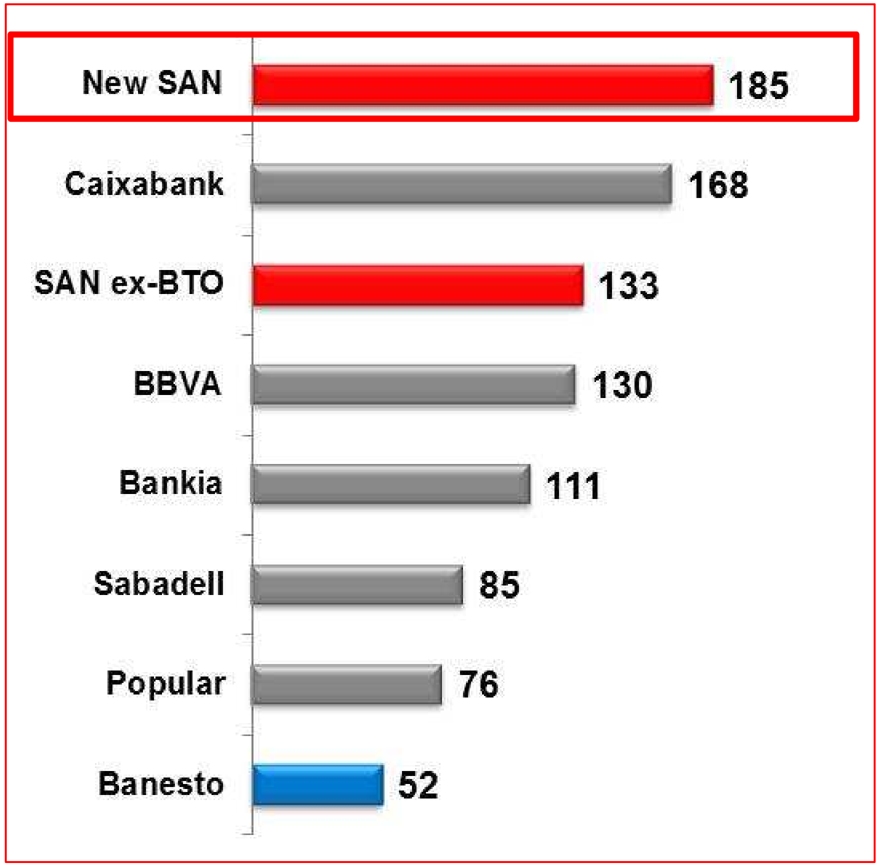
- 2007: ca. 8%
- 2015 (exp.): ca. 12-13%

3. Flight to quality to the top brands is accelerating

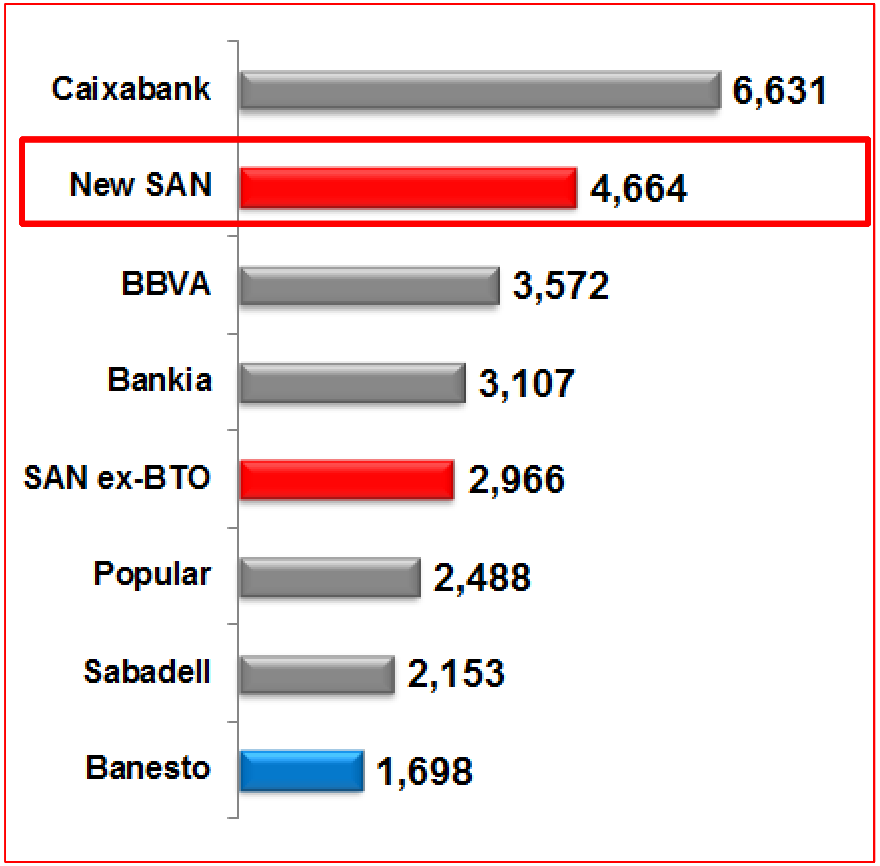


A single brand = stronger position

Ranking: deposits (EUR bn)

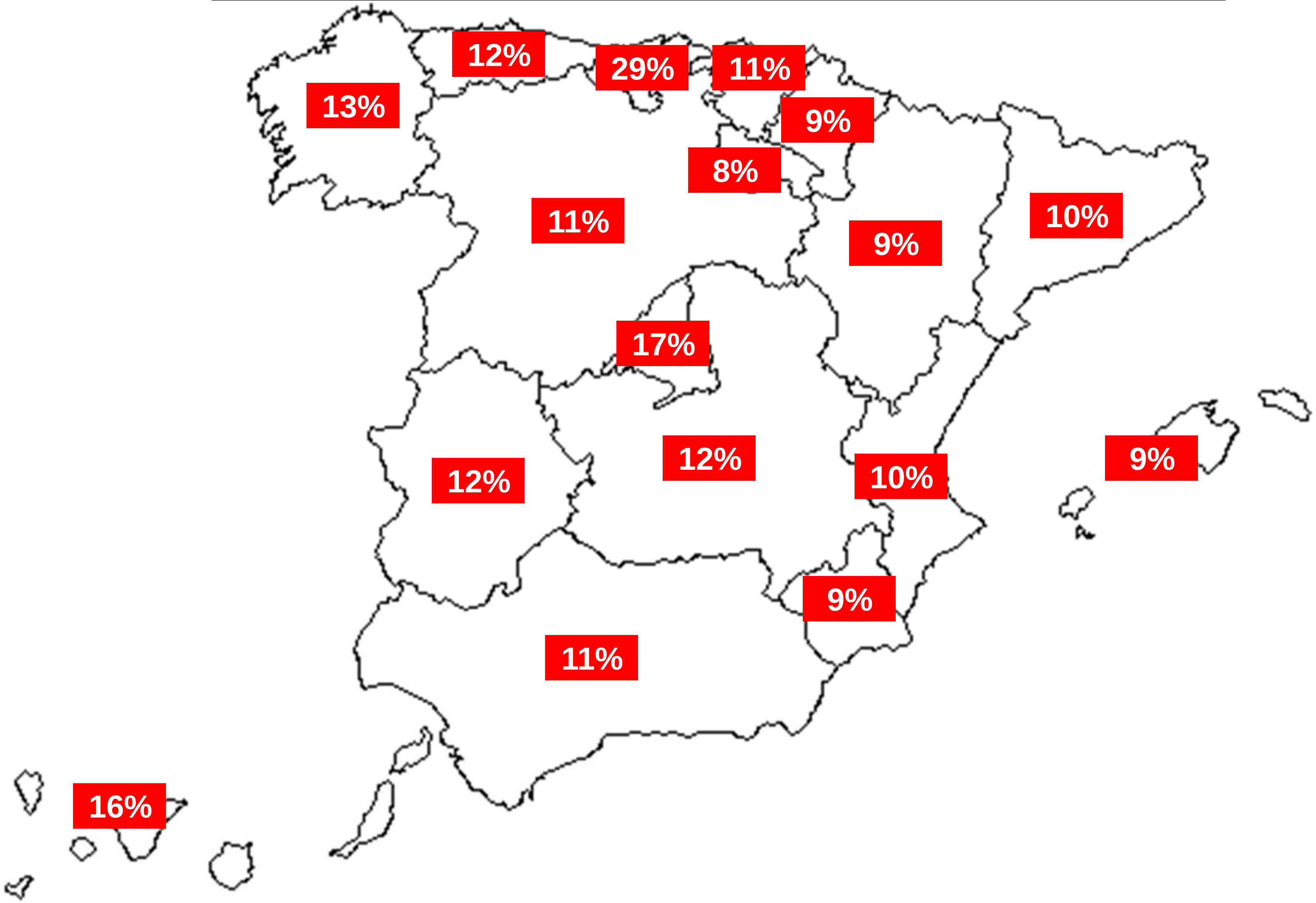


Ranking: number of branches



A balanced nationwide network…

Combined branch market share by region



… with one of the strongest brands in the international financial system

Best Global Brands 2012

Zara and Santander, the only two Spanish brands in the global "Top 100"

Interbrand 2012

Top Banking Brands 2012

1	HSBC
2	WELLS FARGO
3	Bank of America
4	Santander
5	CHASE
6	citi
7	AMERICAN EXPRESS
8	BNP PARIBAS
9	Bradesco
10	中国建设银行 China Construction Bank

The 4th international financial brand…

… and the 1st in the Eurozone

Brand Finance Global 500 February 2012

C Cost synergies: Brand consolidation and structural efficiency improvement

Integration of central structures

- There is already some degree of integration between Santander and Banesto (e.g., IT platform, factories)
- However, significant efficiencies can still be achieved through the integration of both structures
  - One corporate center / one management structure
  - Integration of intermediate structures
  - Full integration of back offices / IT/ops

Estimated timeline for operating integration: 1 YEAR

Branch optimisation:

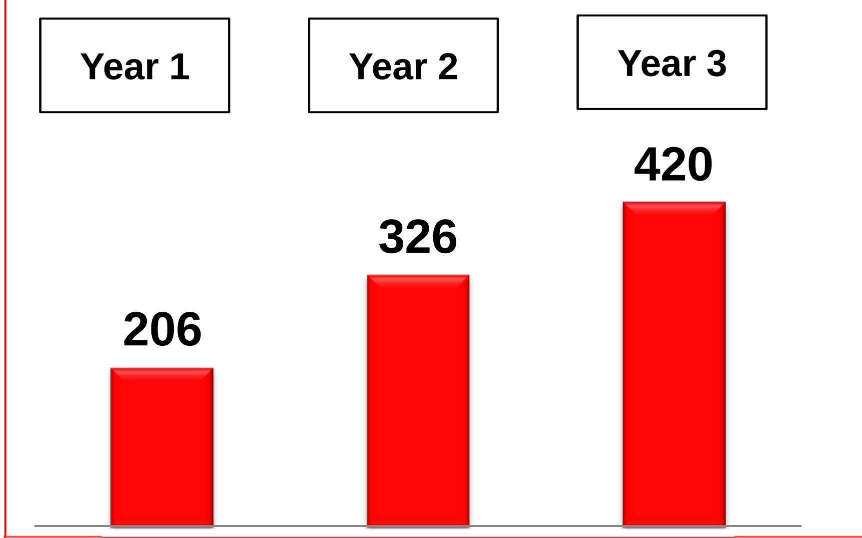
- We expect to close approx. 700 branches, without impact on our business generation, over the next 3 years
- Optimal size of the new network: ca. 4,000 branches (vs 4,664 currently)
- Resource re-allocation: strengthen our corporate, SME and affluent segments / networks

Cost synergies: EUR 420m (pretax) within three years

Pre-tax	Total savings	% of Total 2012 costs (SPAIN)
IT	30	
Premises / real estate	69	
Ops	32	
Advertising / brand	8	
Other expenses	27	
Depreciation	16	
Total G&A	183	11%
Personnel expenses	237	10%
Total costs	420	10%

Restructuring cost after taxes:
EUR 400m
(Platform migration, IT, rebranding, headcount reduction, etc.)

Synergies (before taxes)



Total combined headcount to be reduced progressively over 3 years:

- Natural turnover
- Relocation to other units within the Group that require headcount growth
- Incentivised redundancies
- In addition, Banesto´s employees will have access to an international career

D **Revenue enhancement**: Re-allocate resources to the most attractive / higher ROE segments: Corporates / SMEs / affluent, through specialised networks

Currently:
4,664 branches

Santander

2,914 branches
(of which 149 Business Branches)

Banesto

1,698 branches
(of which 79 Business Branches)

BANIF BANCA PRIVADA

52
Premium Branches

- ✓ A single brand
- ✓ New business structure
- ✓ Leverage on Banesto's traditional strengths in SME and business banking
- ✓ Reinforce specialised networks:
  - SME/Corporate
  - Affluent Private banking
- ✓ Enhanced service quality

Target revenue improvement in 3 years:
EUR 100 m

Target:
Approx 4,000 branches

Santander

Universal Branches	Optimised Network
Business banking centres	Reinforced Network
Premium Branches	Reinforced Network

E

Financial impacts
Total synergies (revenue + cost) expected to reach EUR 520m (pre-tax)

SAN Group (*)	Year 1	Year 2	Year 3
Revenue improvement	+15	+66	+100
Cost synergies	+206	+326	+420
Pre-tax impact	+221	+392	+520
Net profit impact	**+161**	**+286**	**+380**
Minorities impact	+39	+50	+54
Net attributable profit impact	**+201**	**+336**	**+434**
Change % (net profit)	**+2.6%**	**+3.8%**	**+3.4%**
EPS acretion	+2.2%	+3.4%	+3.0%

Impact on capital: approx. neutral

(*) Based on consensus estimates

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Features of the Spanish financial system in 2015+

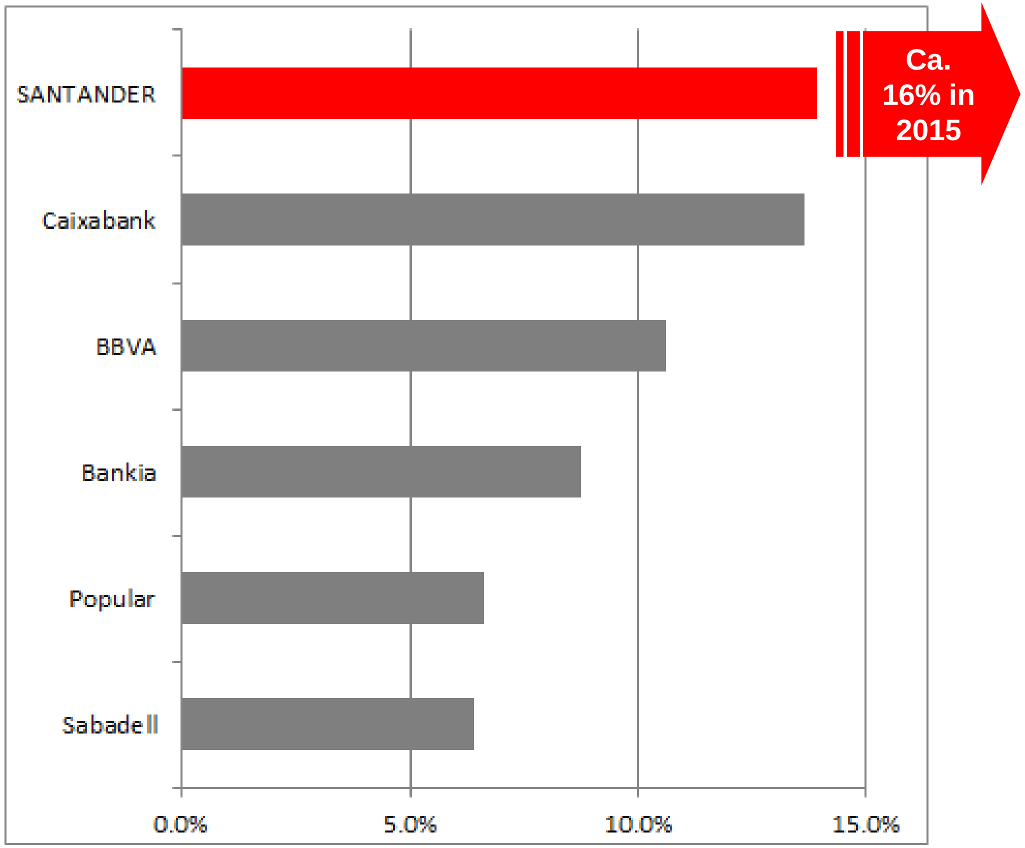
I — A more concentrated market

II — … on track to deliver a ROTE normalisation

III — … but with clear winners and losers

I A more concentrated market…

Deposit market share (3Q12)



Top 5 banks will control ca. 65% of the market (in line with other European economies)

… = improved pricing rationality and economies of scale

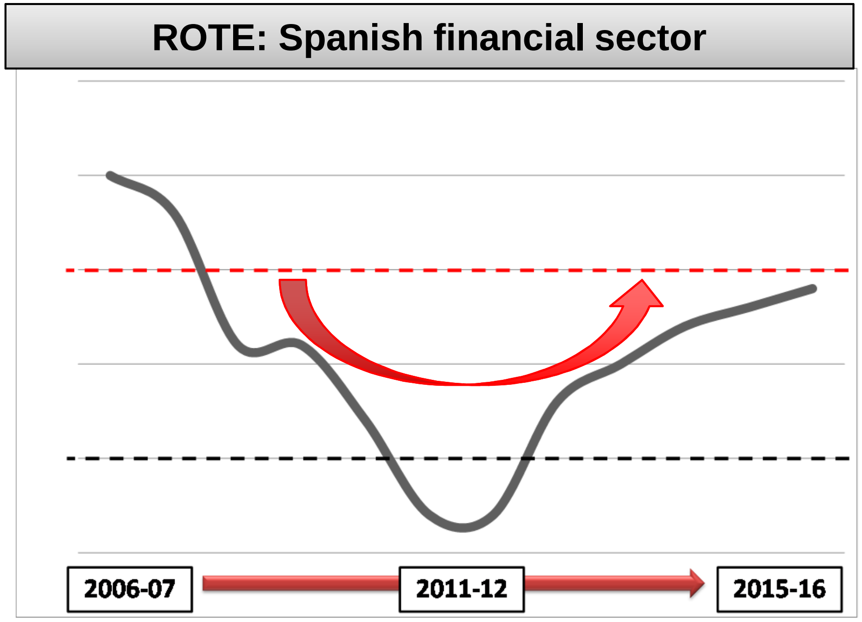
II … on track to a ROTE normalisation in the sector

1. IMPROVE SPREADS

2. NORMALISATION OF PROVISIONS

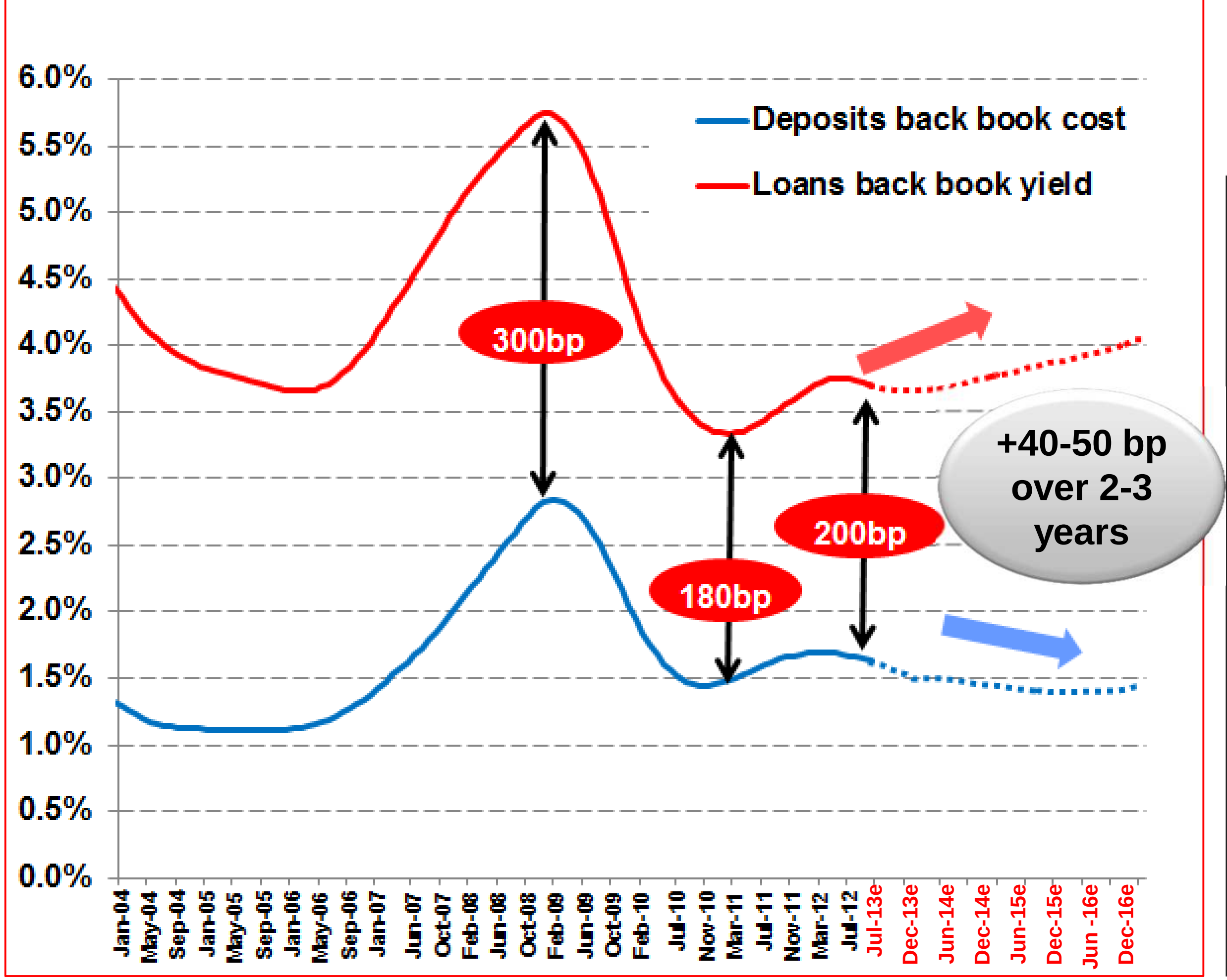
3. IMPROVE EFFICIENCY

The sector will move towards a more normalised ROTE over the next 3-4 years



1. IMPROVE SPREADS: Customer spread improvement is already under way

Back book interest rates- Spain

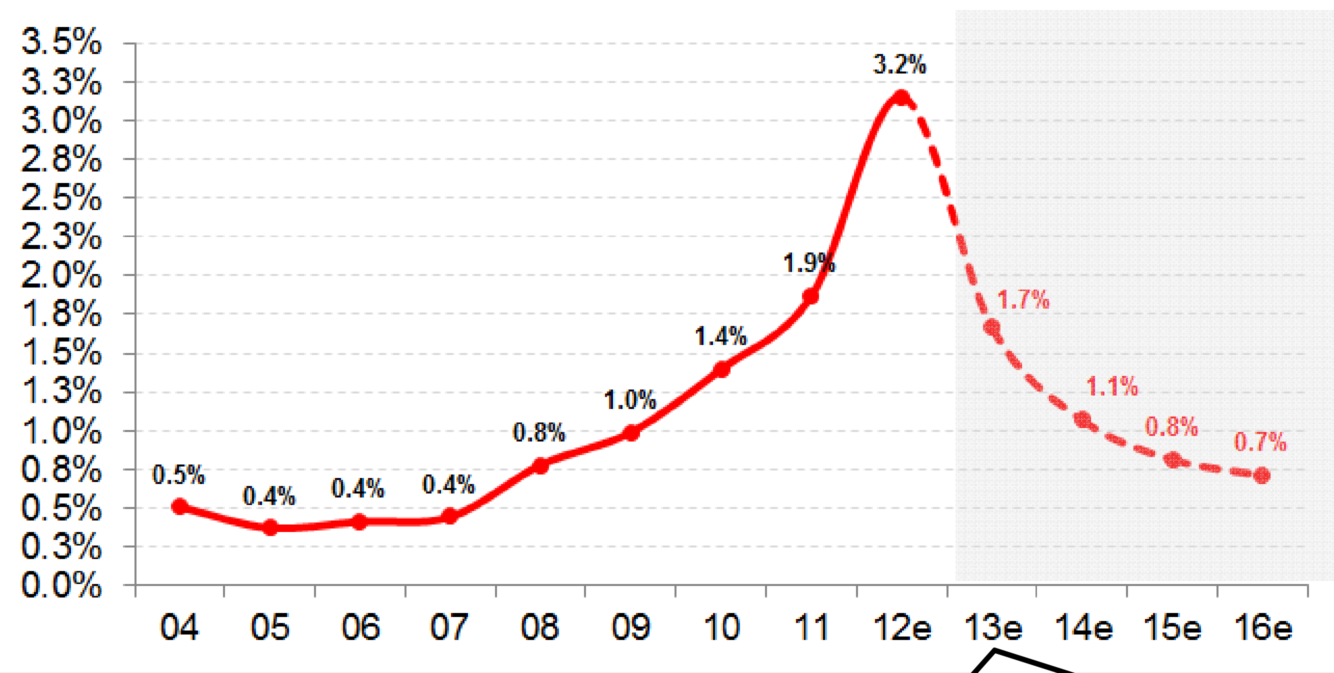


SPREADS EXPECTED TO CONTINUE TO IMPROVE OVER THE NEXT 18 MONTHS:

- **Lending spreads: favorable back book / front book dynamics to continue**
- **Deposit spreads to improve following deleveraging / creation of SAREB**
- **40-50 bp margin improvement expected in 2-3 years**
- **..plus (not included in numbers) additional M-T upside from progressive normalization of ECB rates**

2. PROVISIONS: Peak in 2012 / 2013; normalisation expected over the next 3 years

Evolution cost of risk (Provisions / loans)% (*)



The financial system expects to fully comply with the provisioning requirements for Spanish real estate by 2013

Normalisation of provisions will start in 2013 … moving towards a normalised level through the cycle level of 60bp

(*) Provisions in 2012 are higher due to the effect of the RDs on real estate provisions

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3. IMPROVE EFFICIENCY: Reduction in the number of branches in the system via plain closures or mergers / integrations

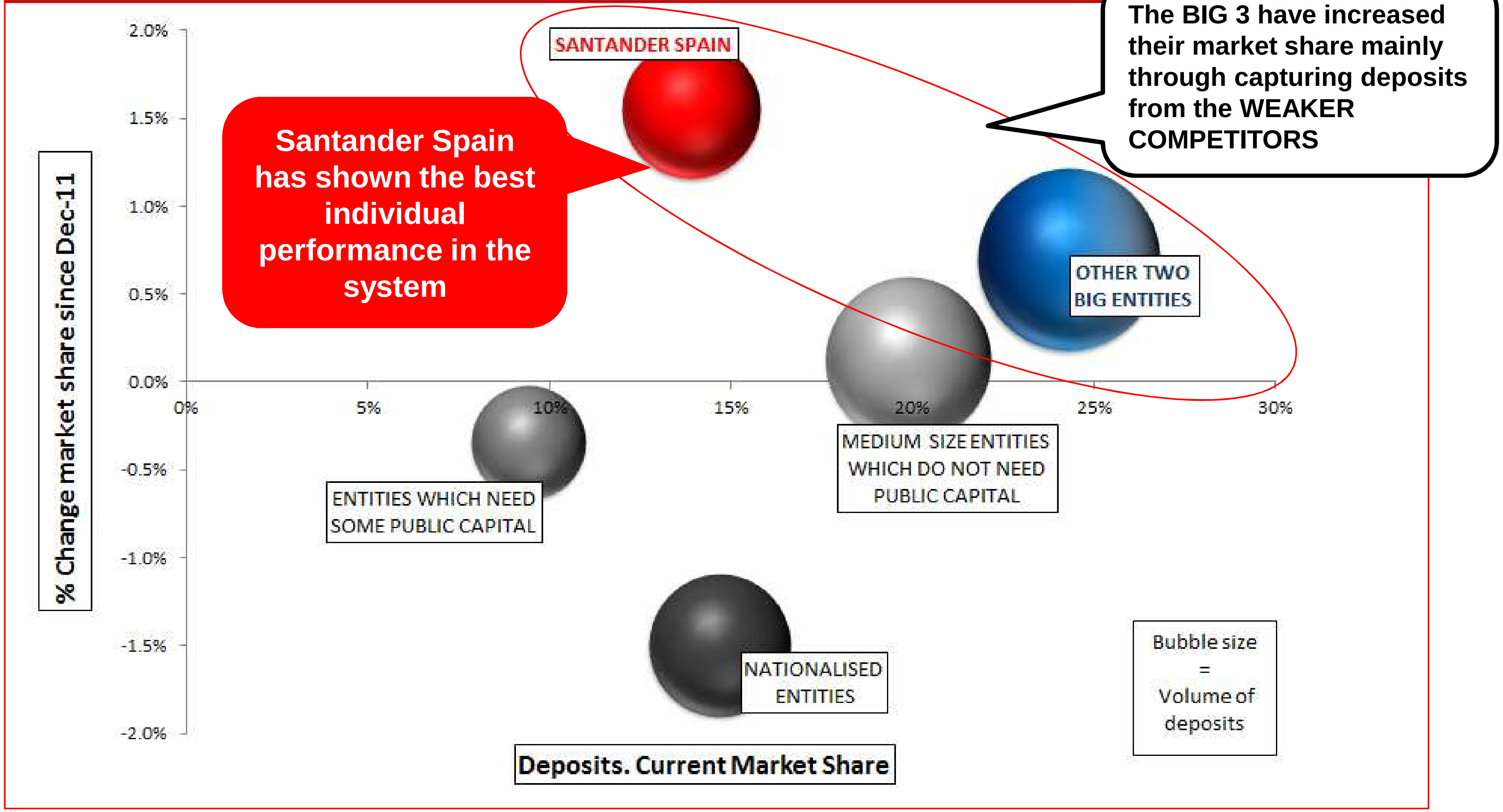
Evolution of branches (banks+saving banks)

	Pre-crisis	Current period	Trend for the next 3-4 years
	2004-2008	2009-2012	2013e-2016e
# branches opened/closed	+5,462	-7,065	-9,000
Total branches	**46,065**	**39,000**	**30,000**
SAN market share	**11%**	**12%**	**13%**

Financial system expected to close 9,000 branches over the next 3 years

… but with clear winners and losers…

Deposit evolution by groups



Santander is a CLEAR WINNER in the new environment, leading to the NORMALISATION OF THE CONTRIBUTION OF OUR SPANISH BUSINESS

Improve margins and gain profitable market share with enhanced service quality	Improve efficiency	Normalise provisions
2012: • Loans: EUR 210bn (MS 11%) • Deposits: EUR 185bn (MS 14%) • NIM: 3% (NII / loans)	Announced cost synergies (merger of the networks; new structure): + EUR 0.42bn	Cost of risk 2012: 150bp ex RDs (ca. EUR 3bn) (400bp with RDs)
3 YEAR VIEW: Loans: EUR 220bn (MS 13%) Deposits: EUR 210bn (MS 16%) NIM: 3.3% (NII / loans)		Cost of risk 2015: 70bp (EUR 1.4bn)
Improved revenue generation: EUR +0.6bn	Lower costs: EUR 0.42bn	Lower provisions Ca. EUR 1.5bn

Santander will be a CLEAR WINNER in the new environment, leading to the NORMALISATION OF THE CONTRIBUTION OF OUR SPANISH BUSINESS

The new structure is designed to take full advantage of the growth opportunities, mainly through organic growth

Our target is to deliver a 12-15% ROTE in our Spanish business within three years

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- **An attractive transaction for Santander shareholders:**
  - Low execution risk
  - Significant integration synergies (+EUR 520m)
  - EPS accretive: +3% in Year 3
  - The single brand and the new structure will allow Santander to best capture the market share gain opportunities in the Spanish market, which will contribute to the normalisation of its profitability in Spain
- **An attractive transaction for Banesto shareholders:**
  - Attractive premium (+25% over Dec 14th closing price; +42% over the 6 month average)
  - Become shareholders of Santander: a diversified international group, with presence in high growth markets and a liquid stock, with an attractive remuneration strategy
- **An attractive transaction for all stakeholders of both banks: a stronger network able to provide a wider range of products and better quality of service**

Santander

Dow Jones Sustainability Indexes
Member 2007/08

FTSE4Good