Banesto

EARNINGS PRESENTATION

3rd QUARTER 2012

31 October 2012

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1 **3Q12 earnings**

2 Risk, capital and liquidity management

3 Business performance

Delivery of FY12 guidance

	2012 guidance	9M12
Capital reinforcement	Core capital > 9.0%	10.1% ✓
Preservation of above-average asset quality	Defend lower NPL ratio	-5.0pp(1) ✓
Liquidity	Reduce LTD ratio by 7pp	-7.0pp(2) ✓
Profitability	Keep profitability above that of peers	1.47% vs. 1.16%(3) ✓
#1 domestic bank on cost-income	Top-ranked player on cost-income among domestic banks	46.0% vs. 49.5%(4) ✓

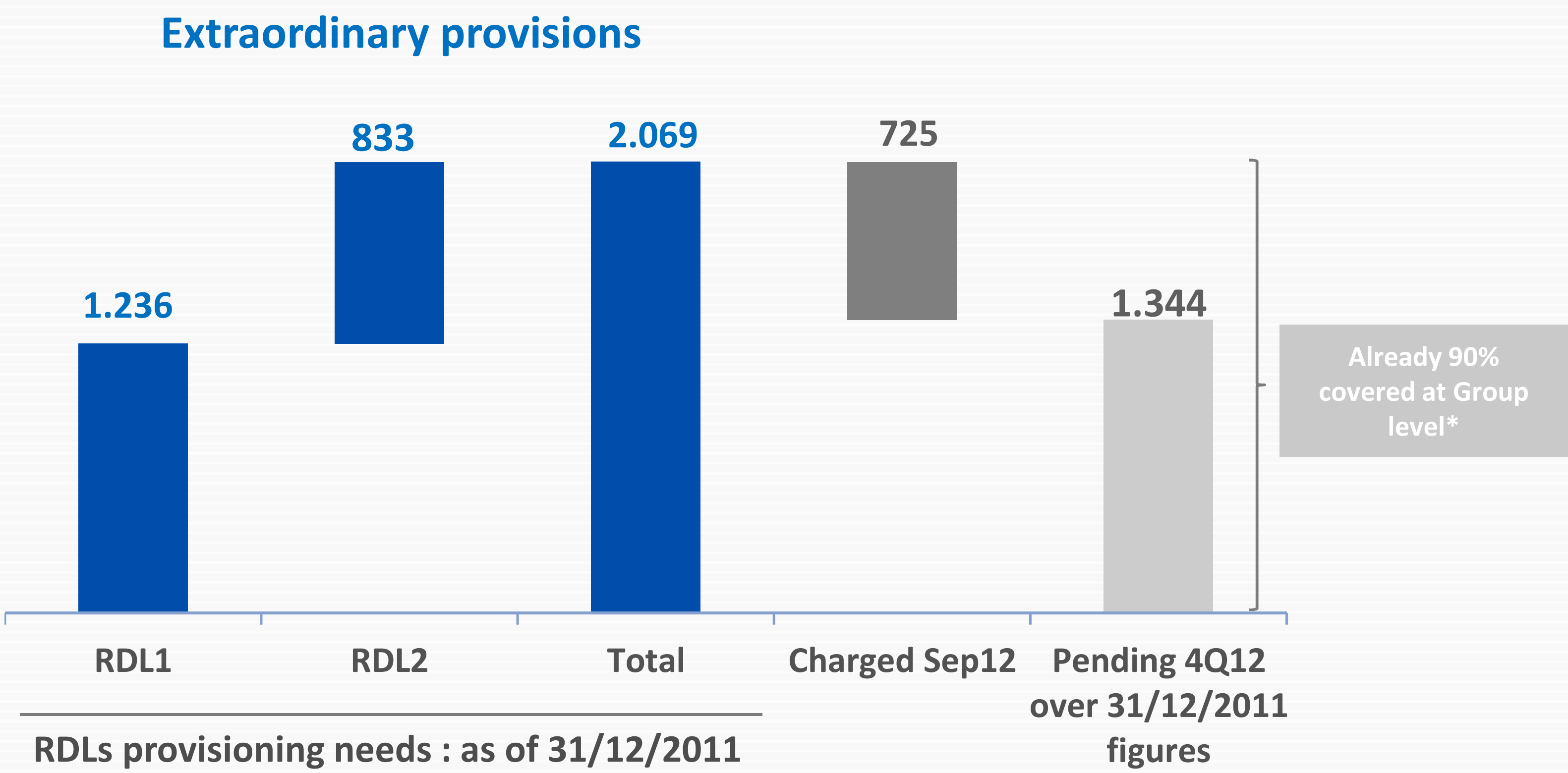
(1) Figures as of September 2012 for Banesto and as of August2012 for the broader financial system.
(2) Reduction in the loan-to-deposit ratio between December 2011 and September 2012.
(3) Net operating income (excluding gains on financial instruments) over investment over last 12 months.
(4) Total costs including depreciation and amortisation as a percentage of total income. LTM figures to September 2012 for Banesto and peers.

Banesto's earnings performance reflects the challenging business climate and conservative balance sheet management

€ mn	9M12	9M11	Chg. %	LFL change % *
Net interest income	**1,033.7**	**1,131.1**	**(8.6)**	
Net fee and commission income	449.0	462.1	(2.8)	
Net gains on financial instruments	109.3	88.7	23.2	
Other income/expense	(15.2)	40.8	N/M	
Gross profit	**1,576.8**	**1,722.7**	**(8.5)**	**(4.4)**
Net transformation costs	727.4	729.9	(0.3)	
Net operating income	**849.4**	**992.8**	**(14.4)**	**(7.6)**
Loan-loss provisions	657.5	451.9	45.5	
Other income/expense	(35.5)	(19.8)	N/M	
Ordinary profit before tax	**156.4**	**521.1**	**(70.0)**	
Non-recurring gains and write-downs	682.5	(131.7)	N/M	
Real estate charges	804.7	-	N/M	
Tax expense and minority interests	(15.9)	91.0	N/M	
Net profit	**50.1**	**298.4**	**(83.2)**	

(*) Adjusted for the sale of the insurance and fund management companies and the increased contribution to the Deposit Guarantee Fund.

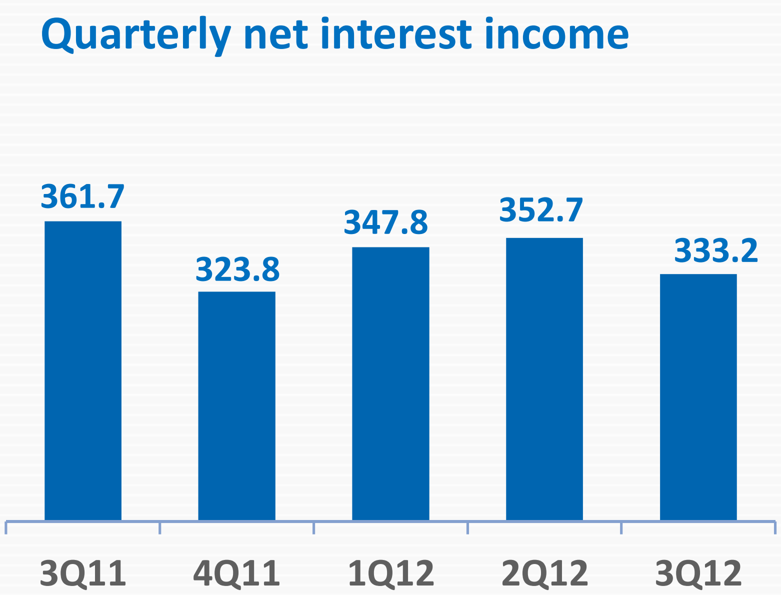
Extraordinary provisions for RDL requirements

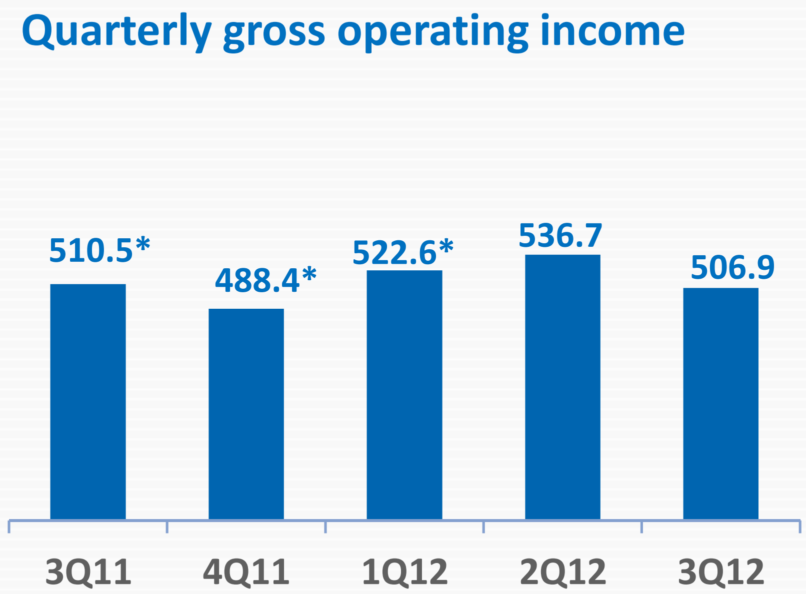


€ mn

* Santander Earnings Presentation, 25 October 2012.

Margins under pressure against a backdrop of widespread deleveraging and ultra-low rates





€ mn

(*) Like-for-like figures, i.e., adjusted for the sale of the insurance and fund management companies and the increased contribution to the Deposit Guarantee Fund.

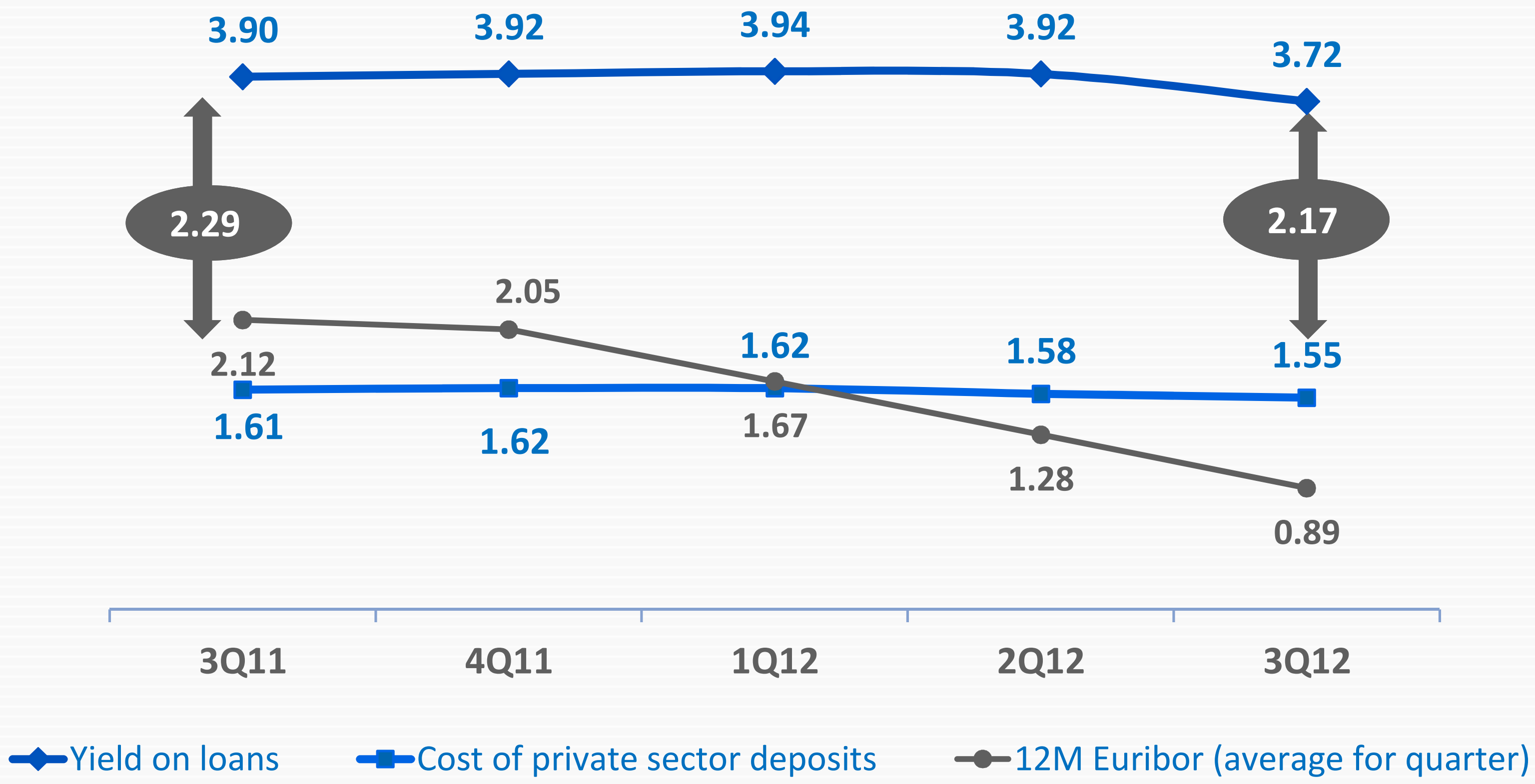
Impact on NII of proactive deleveraging of loan book and moderate ALCO portfolio

NII sensitivity analysis

9M12	Actual performance	What if…?	Estimated impact on NII
Net interest income (% YoY): -8.6%	Customer loans, private sector (% YoY): -7.9%	Customer loans, private sector (% YoY): 0.0%	+10pp
	Public debt: 5.6% of total assets	Public debt: 10% of total assets	+9pp

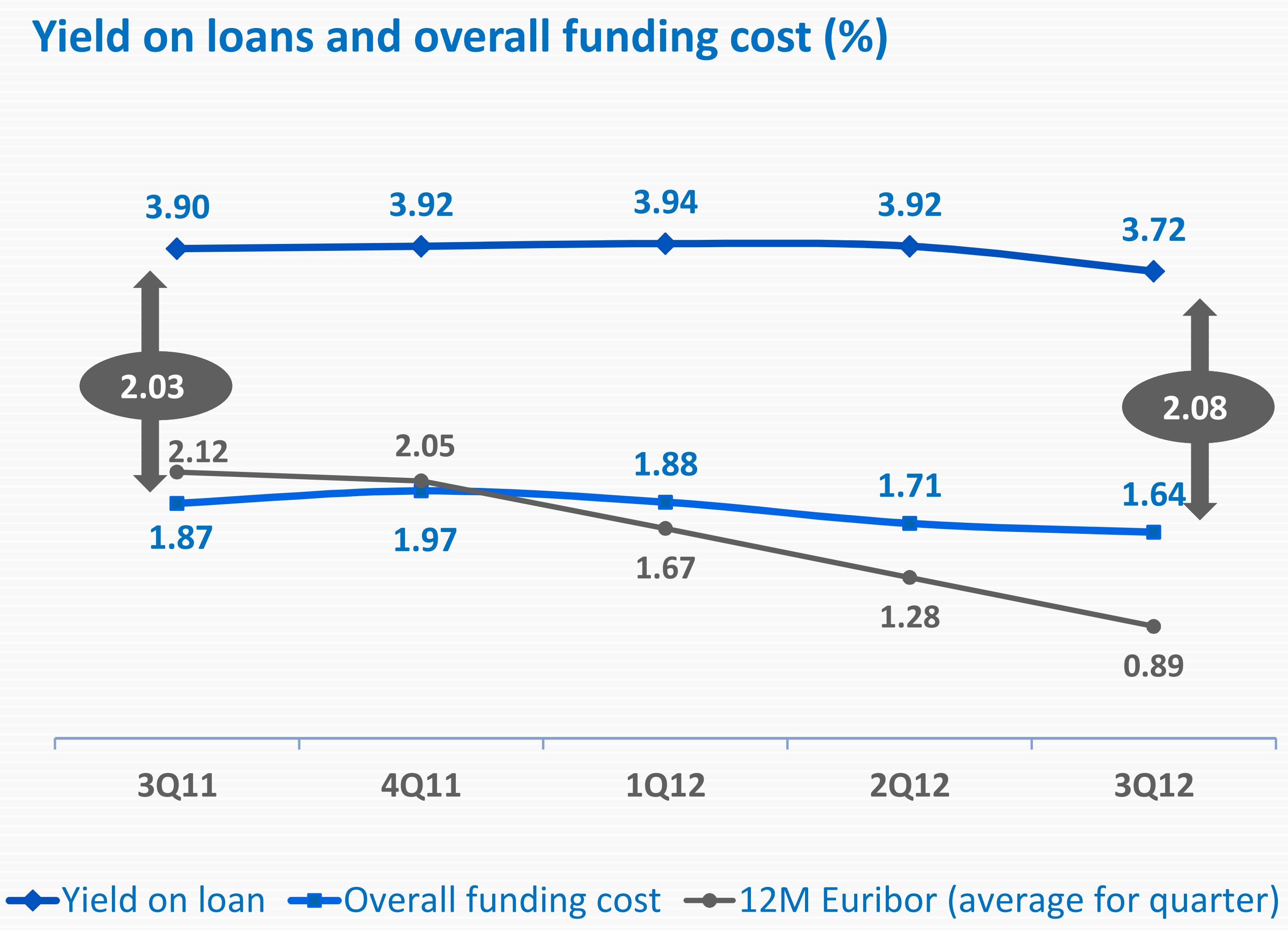
Slight contraction in spreads with interest rates at all-time lows…

Yield on lending and cost of deposits* (%)



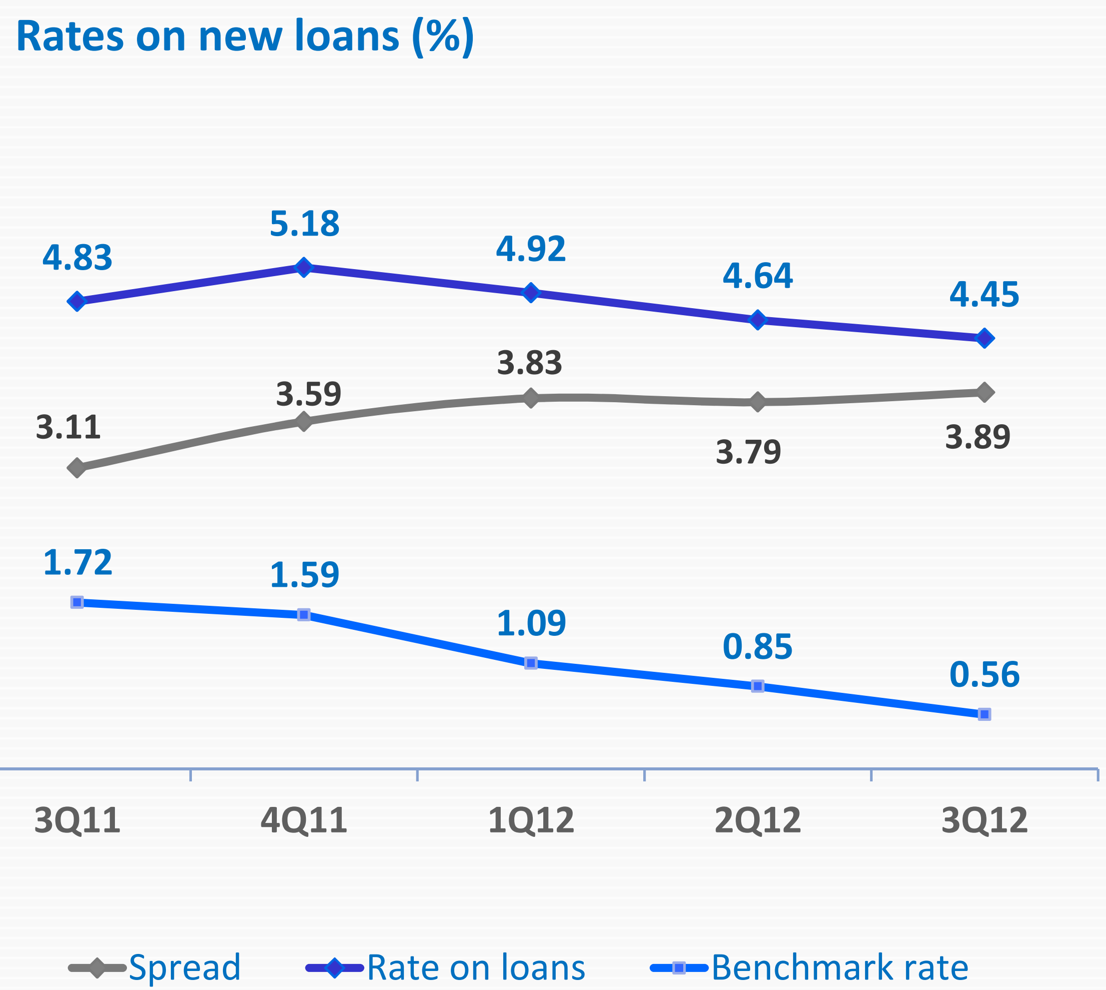
(*) Includes retail commercial paper

Overall spread proving more resistant

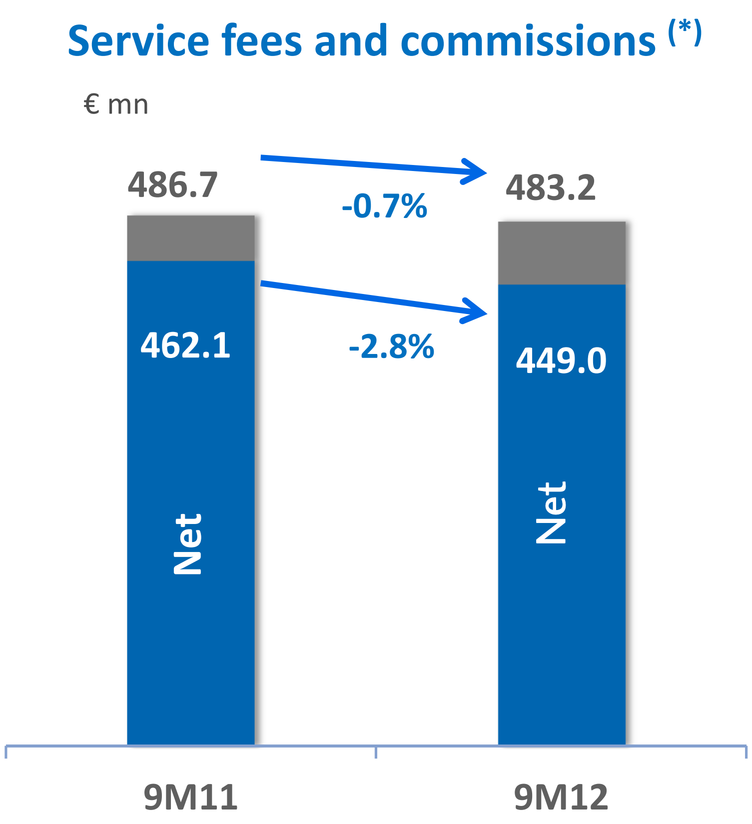


(*) Weighted average rate of private sector customer deposit and wholesale funding costs.

Wider spread on new loans partially mitigating the downtrend in rates



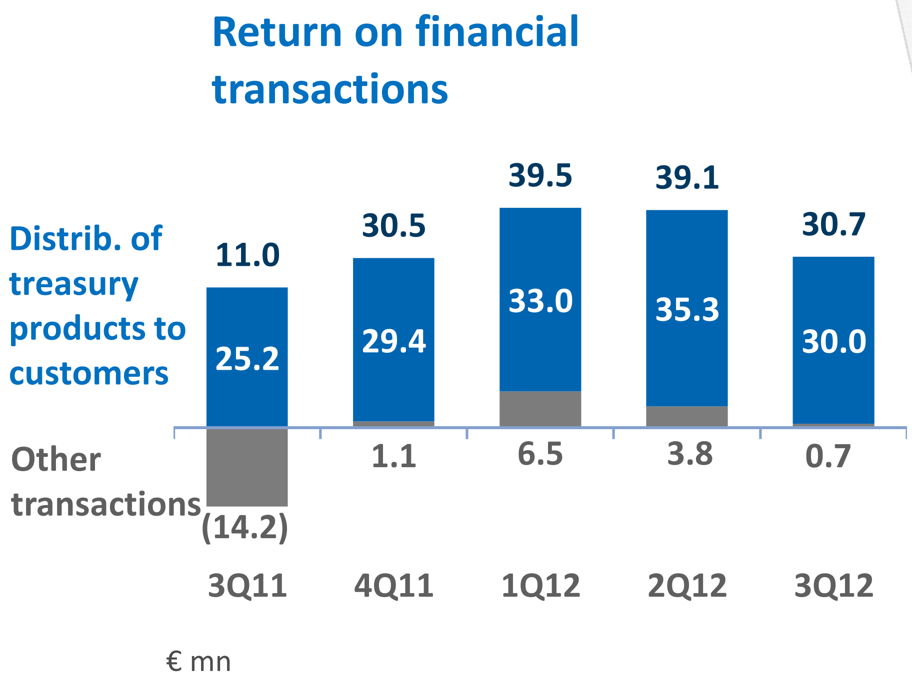
Net fee and commission income performing well despite falling volumes thanks to growth in value-added niches

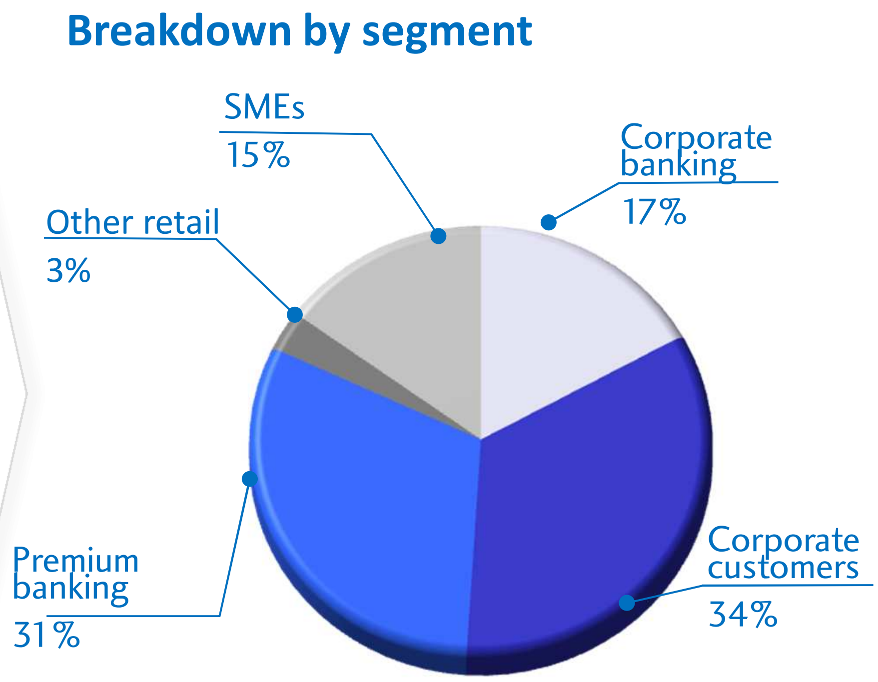


€ mn	9M12	Chg. %
Fee and commission income (services)	**483.2**	**(0.7)**
Collection and payment services	211.0	(1.5)
Loans	83.3	5.9
Securities services	18.8	3.1
Insurance	42.1	(25.6)
Other	127.9	7.5
Memorandum item:		
- Foreign trade	**51.2**	**26.0**
- Factoring	**17.1**	**29.3**

(*) Excluding mutual funds

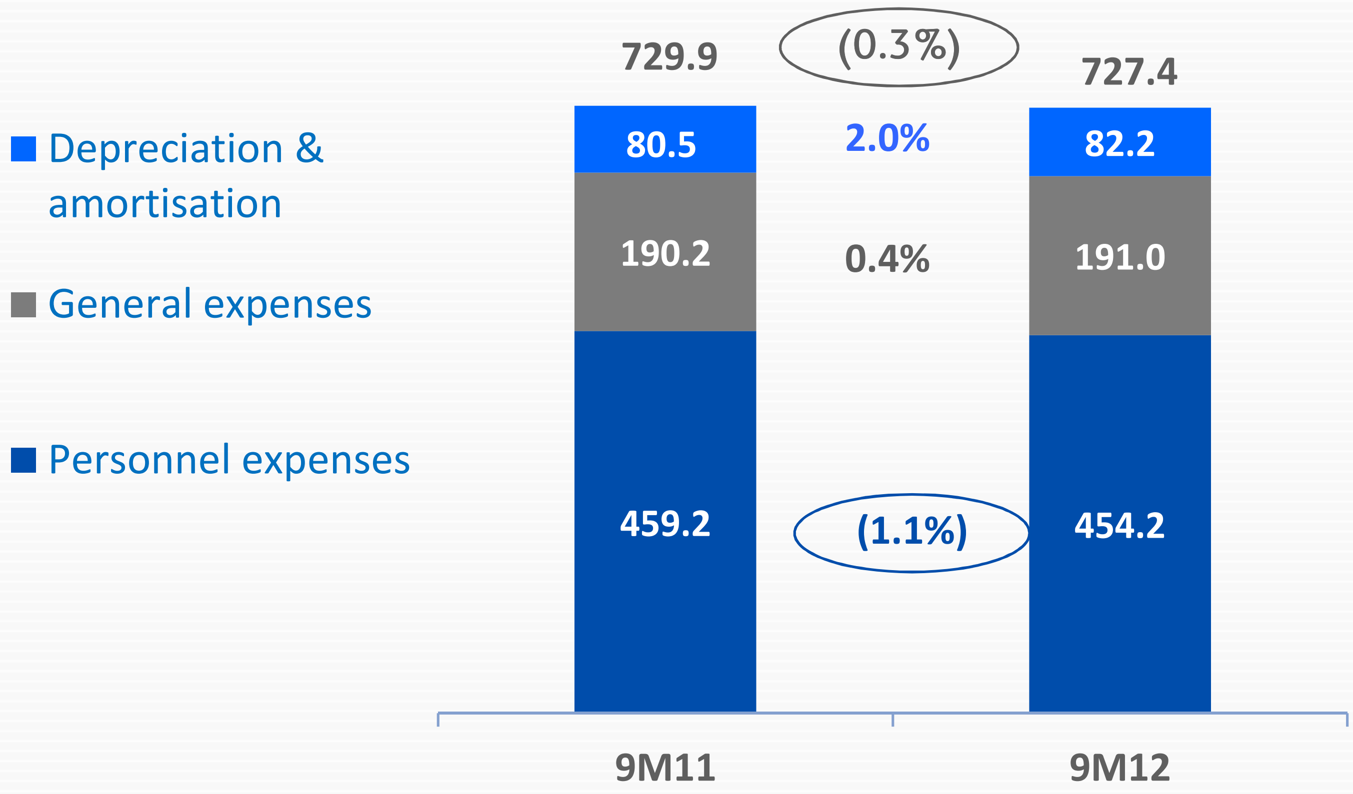
Client business is the base of ROF





Costs remain flat

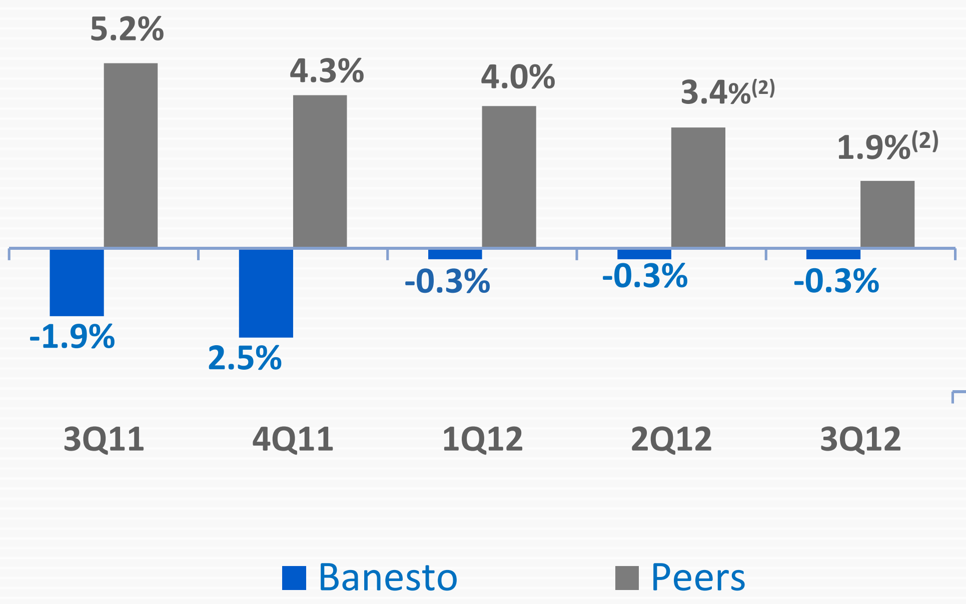
Trend in operating expenses



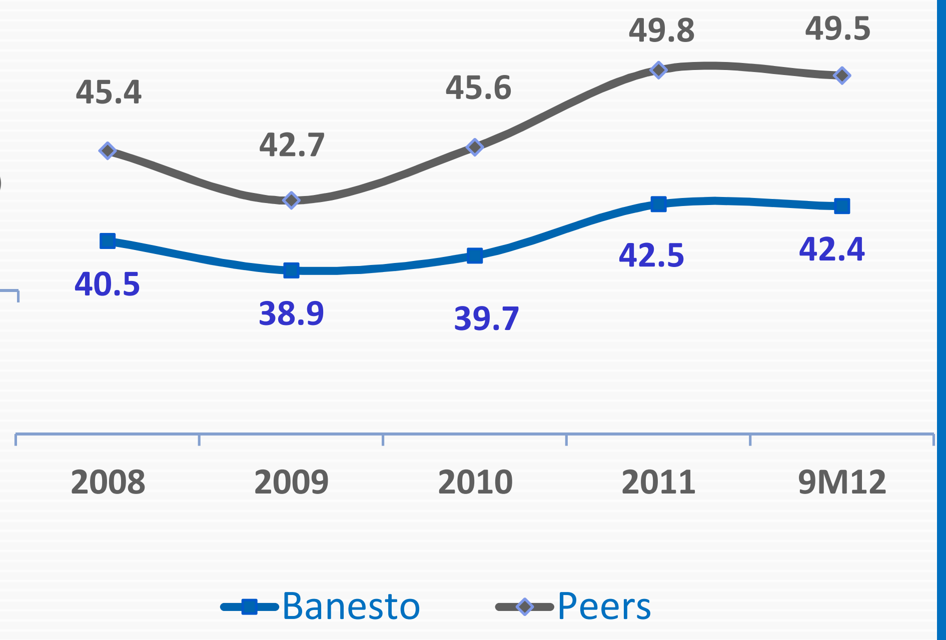
€ mn

Banesto continues to outperform its peers on cost-income despite the impact of its conservative approach to capital and liquidity management

Change in opex vs. peers



Cost-income vs. peers (%)[1]



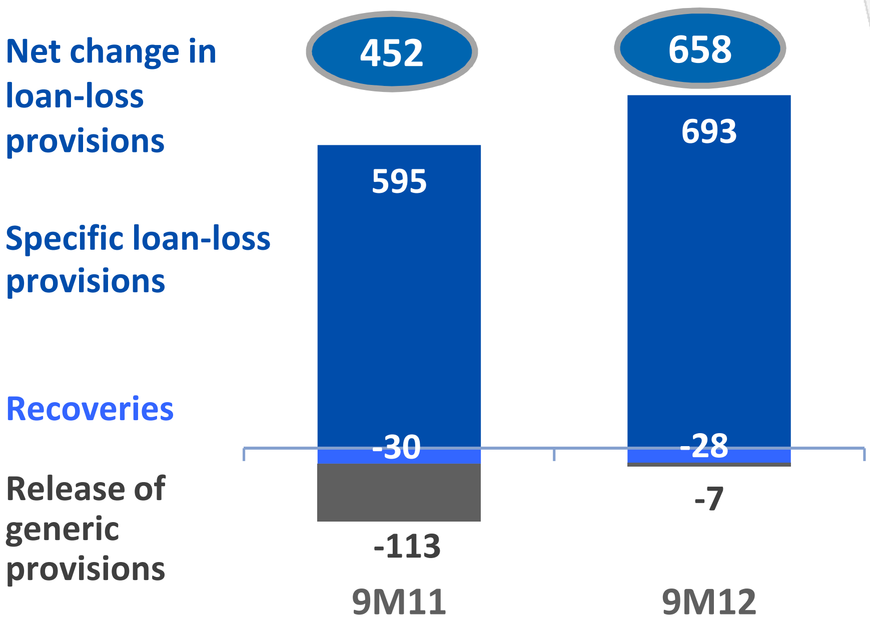
(1) Cost-income ratios (total costs including D&A charges / gross operating income) calculated on a trailing 12-month basis. Includes non-recurring ROF in 2011 and 2012.

(2) The cost metrics for Popular and Sabadell exclude the impact of the acquisitions of Banco Pastor and CAM, respectively.

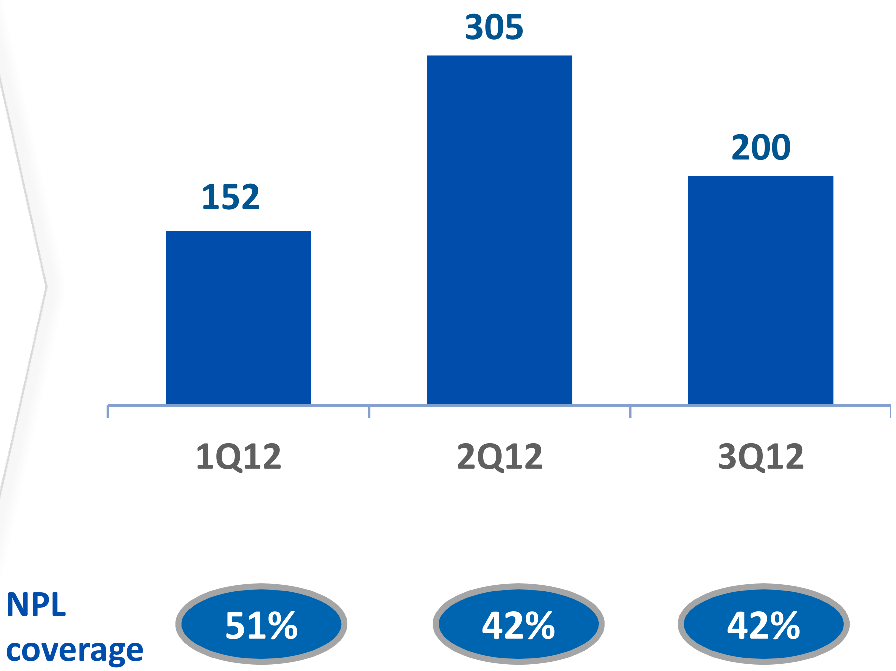
Pace of net loan loss provisions in line with 1H12 average; NPL coverage ratio stable

€, mn

Movement in loan-loss provisions



Movement in net loan-loss provisions, quarterly



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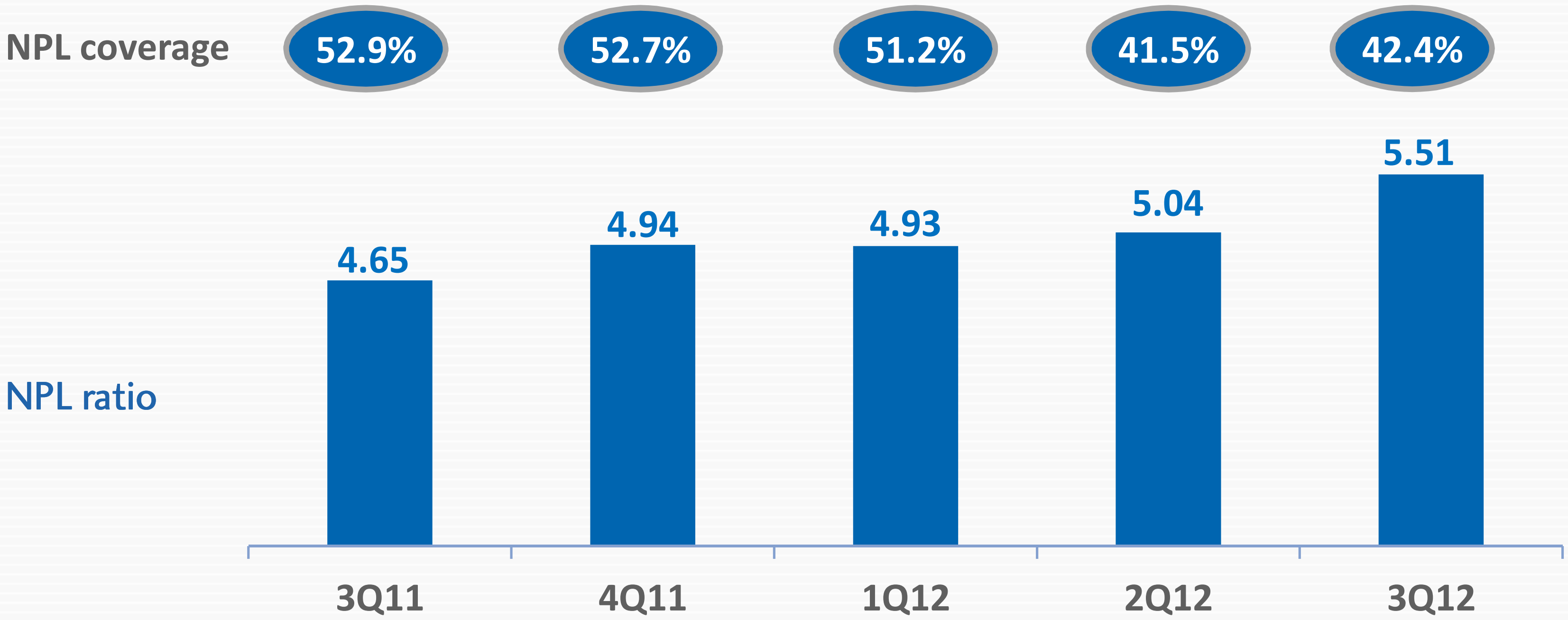
Increase in NPL ratio below sector average

NPL and NPL coverage ratios (%)

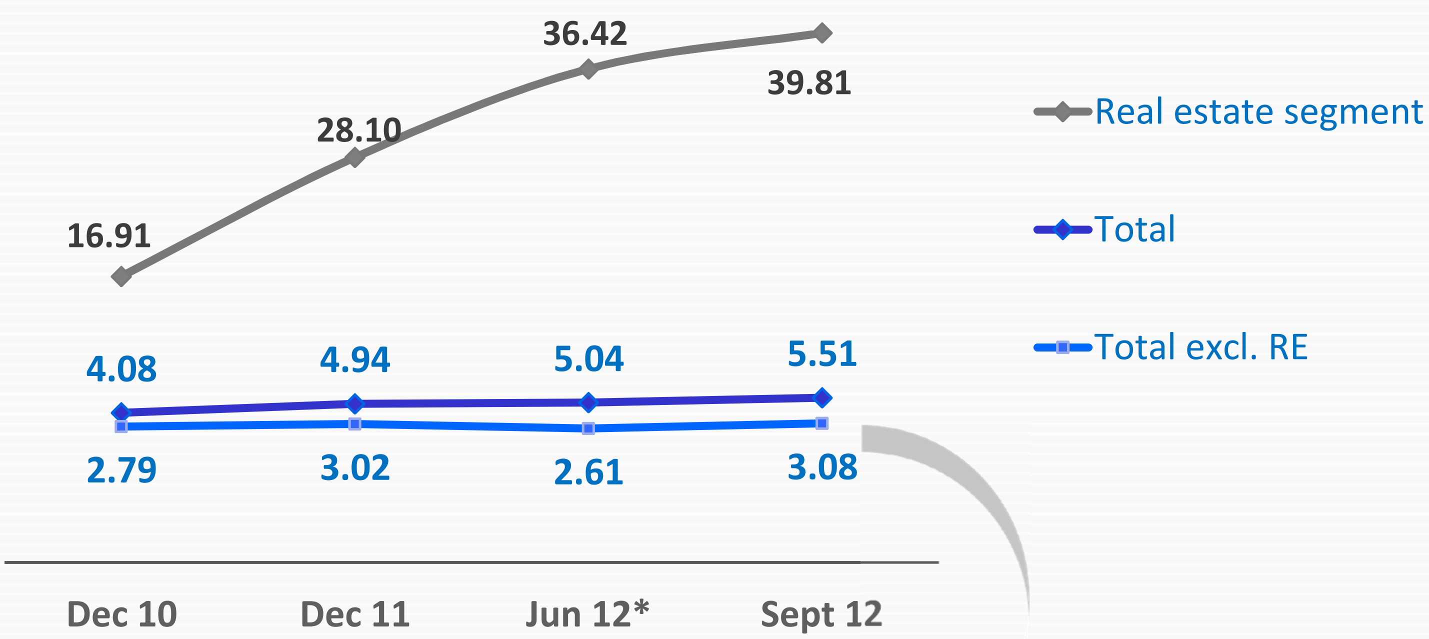


Deterioration in NPL ratio below sector average: 251bp less*
NPL ratio below sector average: 5.0pp lower*

* Sector data as of August 2012.

The increase in non-performing loans is concentrated in the real estate segment and is moderate in all other segments

NPL ratio by segment

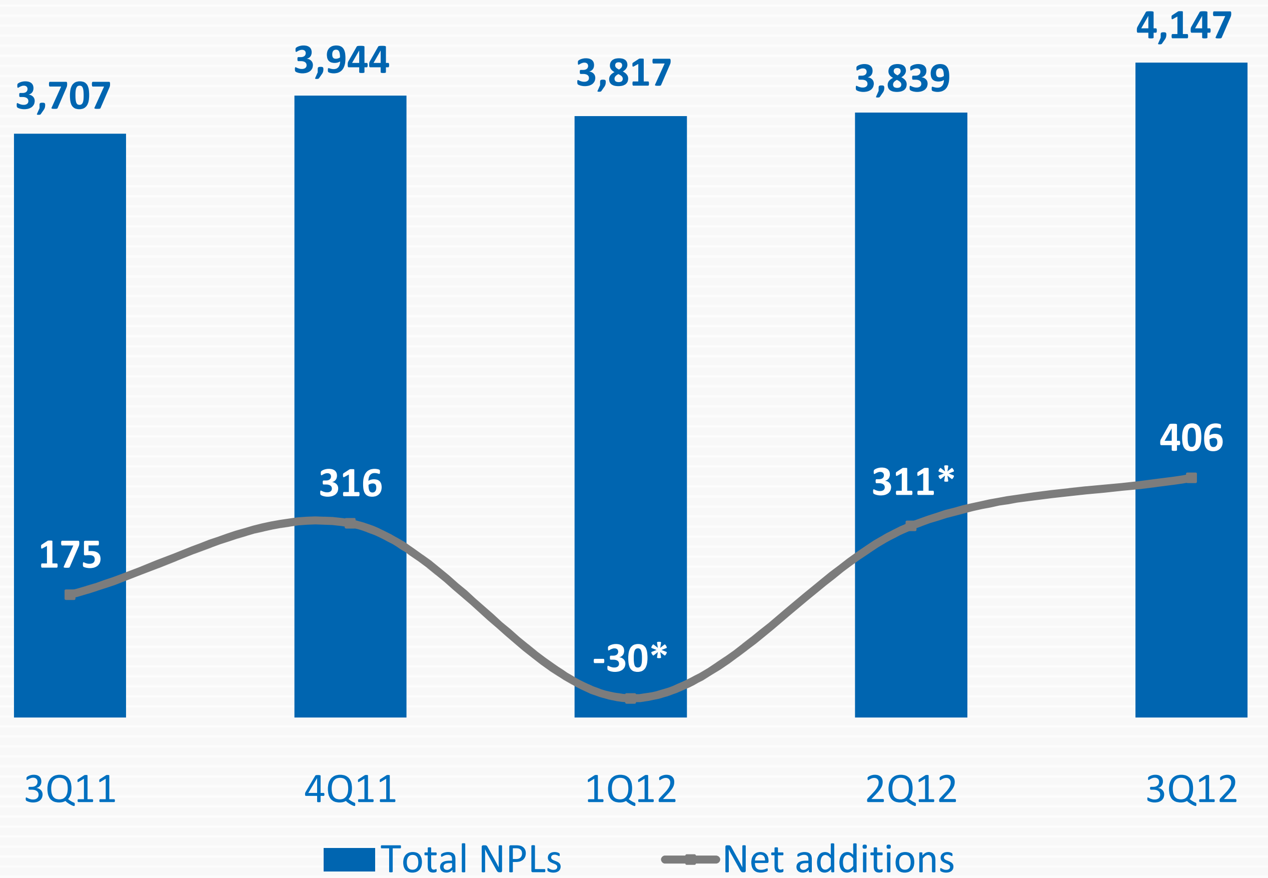


	Dec 10	Dec 11	Jun 12*	Sept 12
Retail mortgages	1.71	1.98	1.48	1.65
Other	3.26	3.50	3.15	3.77

* Figures affected by loan portfolio sales.

The moderate growth in non-performing loans is attributable to the decline in gross additions in 3Q

Non-performing loans

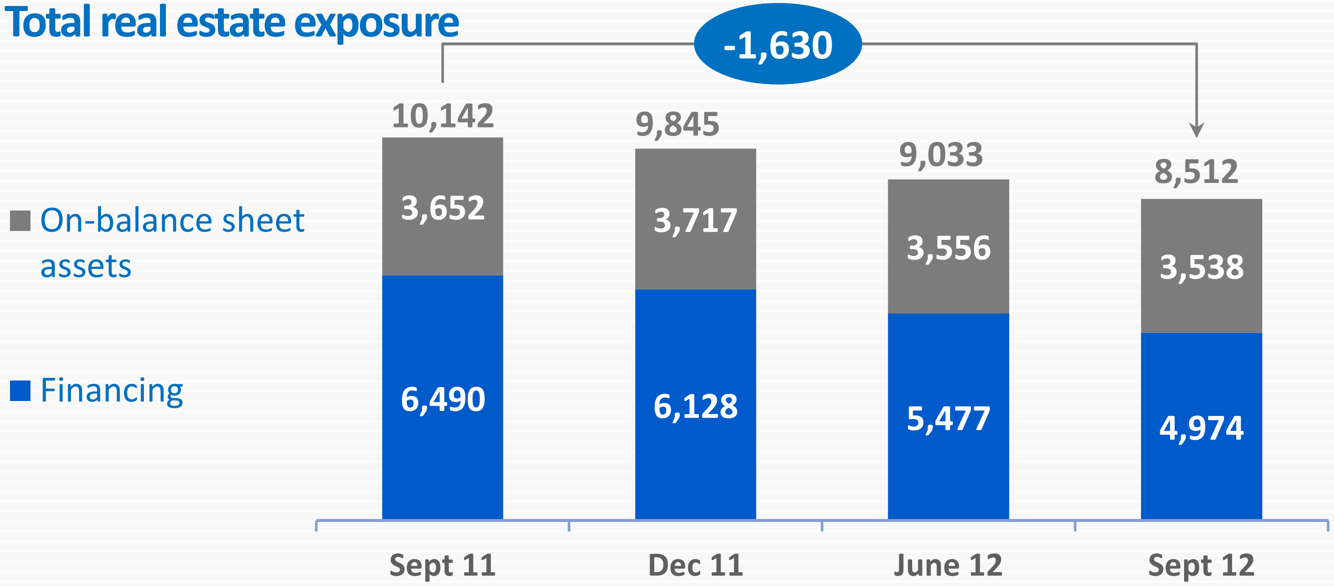


€ mn

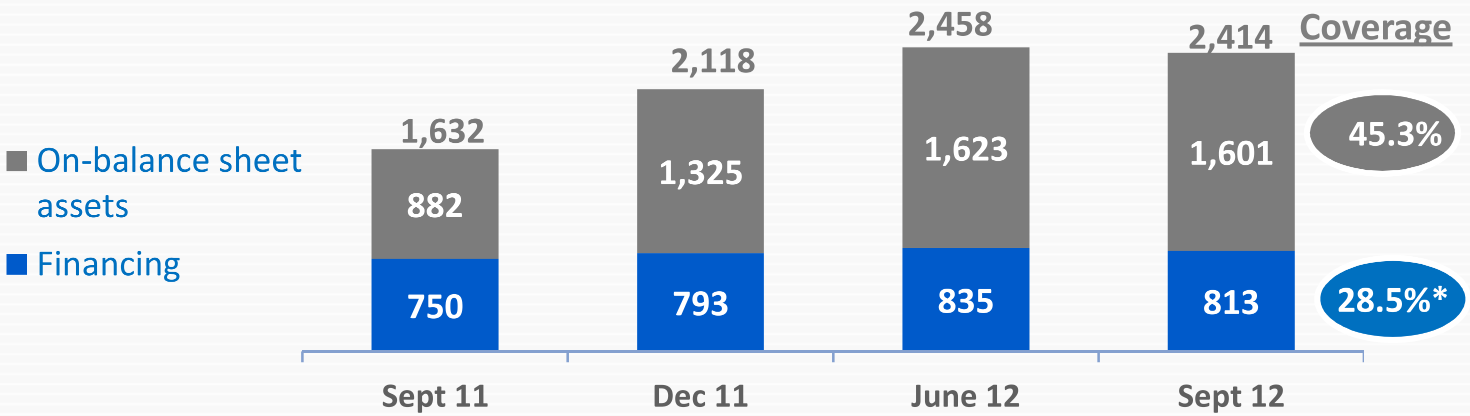
* Including sale of loan portfolios

Exposure to real estate risk continues to decline

Total real estate exposure



Total real estate provisions



€ mn

* Provisions as a percentage of non-performing and substandard real estate loans

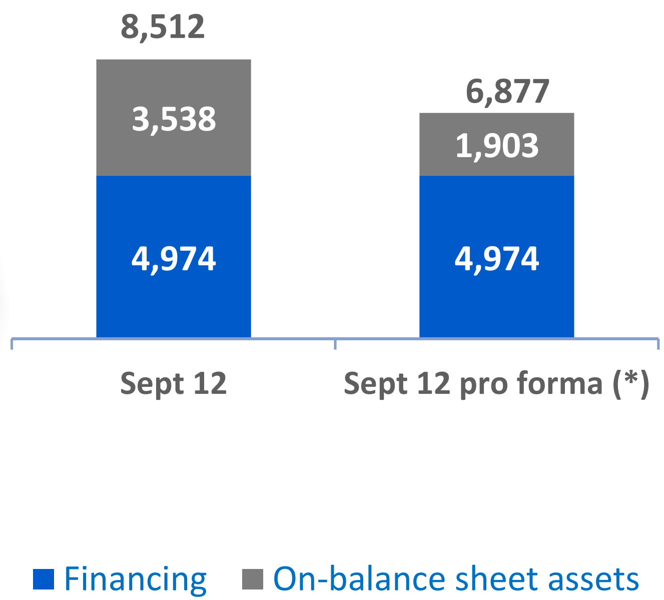
Merger of real estate subsidiaries

- **Merger of the real estate subsidiaries of Santander (Altamira) and Banesto (Mesena), with effect for accounting purposes from 4Q12.**

- **The purpose of this merger is to make the management of the Group's real estate assets more efficient.**

- **Impact on Banesto**:
  - Banesto will contribute real estate assets (provisioned under the latest Spanish provisioning requirements) to the merged company with a gross carrying amount of €1.6bn.
  - It will receive 19% of the equity of the merged entity, which will no longer be fully consolidated.
  - Non-material impact on earnings.

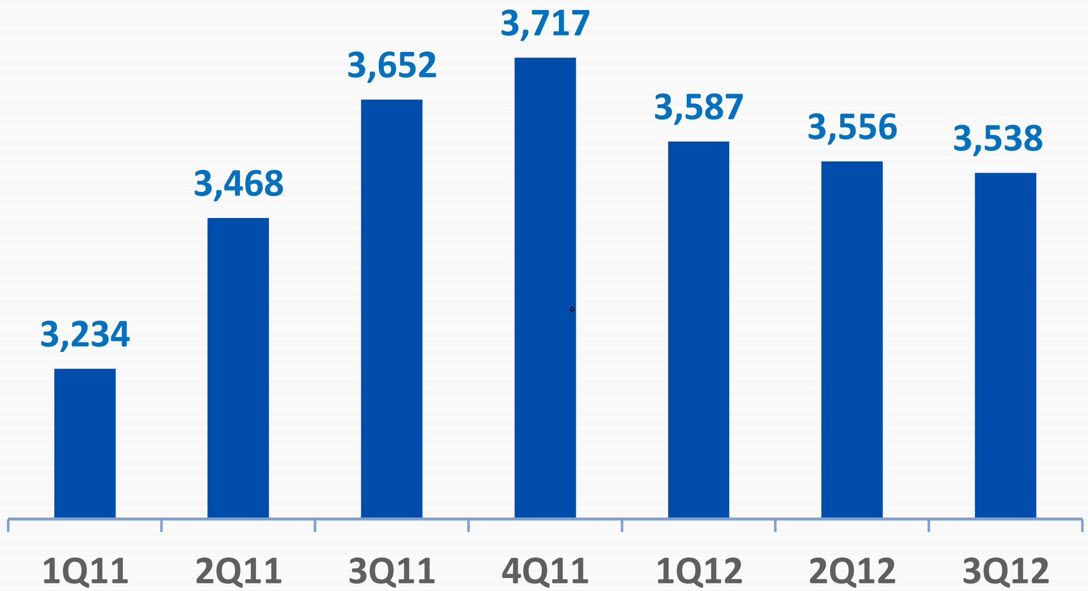
Real estate exposure



(*) Factoring in the Altamira/Mesena merger

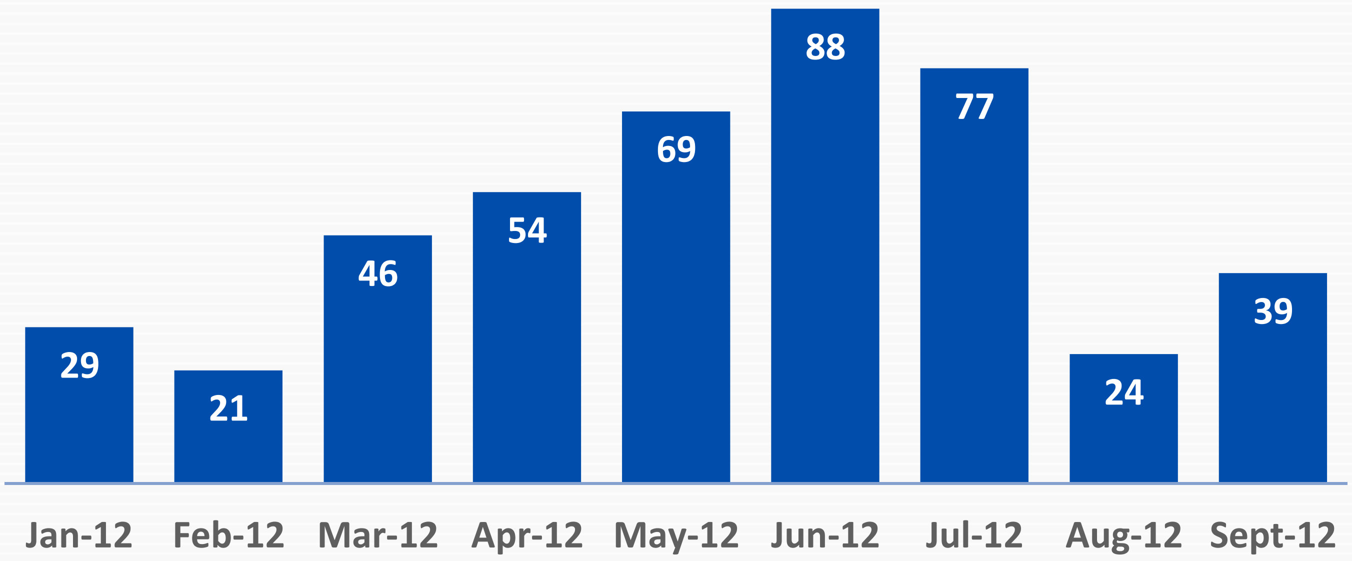
Decline in stock of on-balance sheet properties for the third quarter running

€ mn	Total on-balance sheet RE assets
At 31/12/11	**3,717**
Incoming	609
Outgoing	(788)
At 30/09/12	**3,538**



Continued healthy pace of sales due to assignment of developer loans (affected by seasonality)

Sales due to assignments of developer loans



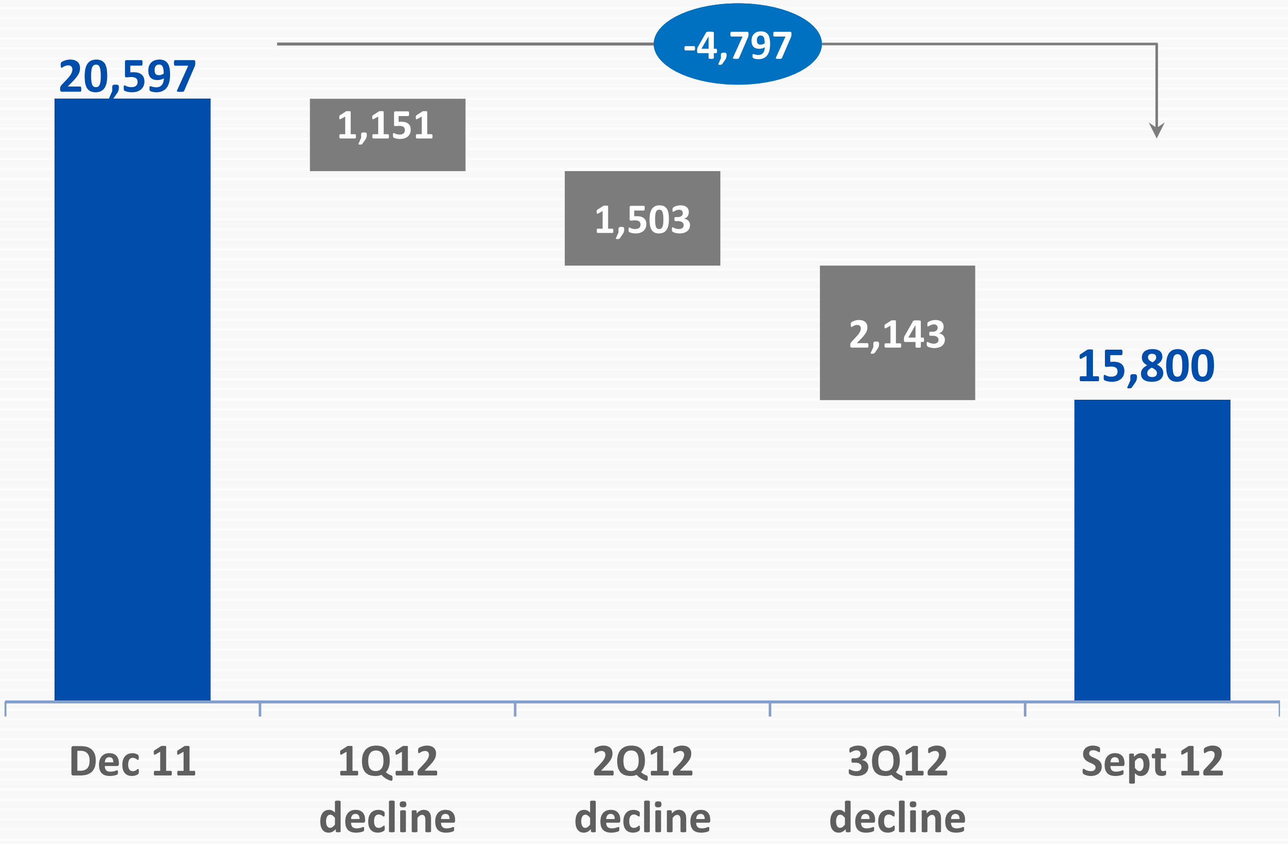
€ mn

Solid liquidity position

- €4.8bn improvement in liquidity gap in 9M12
- 7pp reduction in LTD ratio in 9M12 to 126%
- Reliance on wholesale funding markets cut by €5.73bn year-on-year
- M/L-term issuance of €1.45bn in 9M12

Healthy pace of reduction in commercial gap YTD

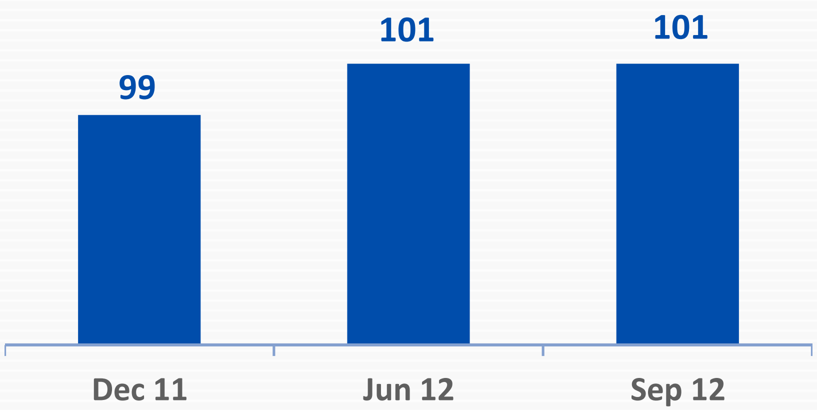
Trend in commercial gap



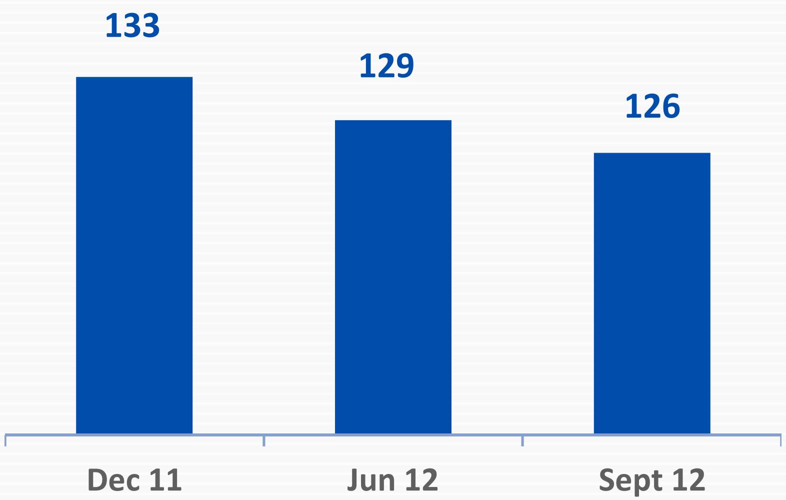
€ mn

Sharp improvement in LTD ratio

Deposits + Covered Bonds / Loans, %



Loan-to-deposit ratio, %



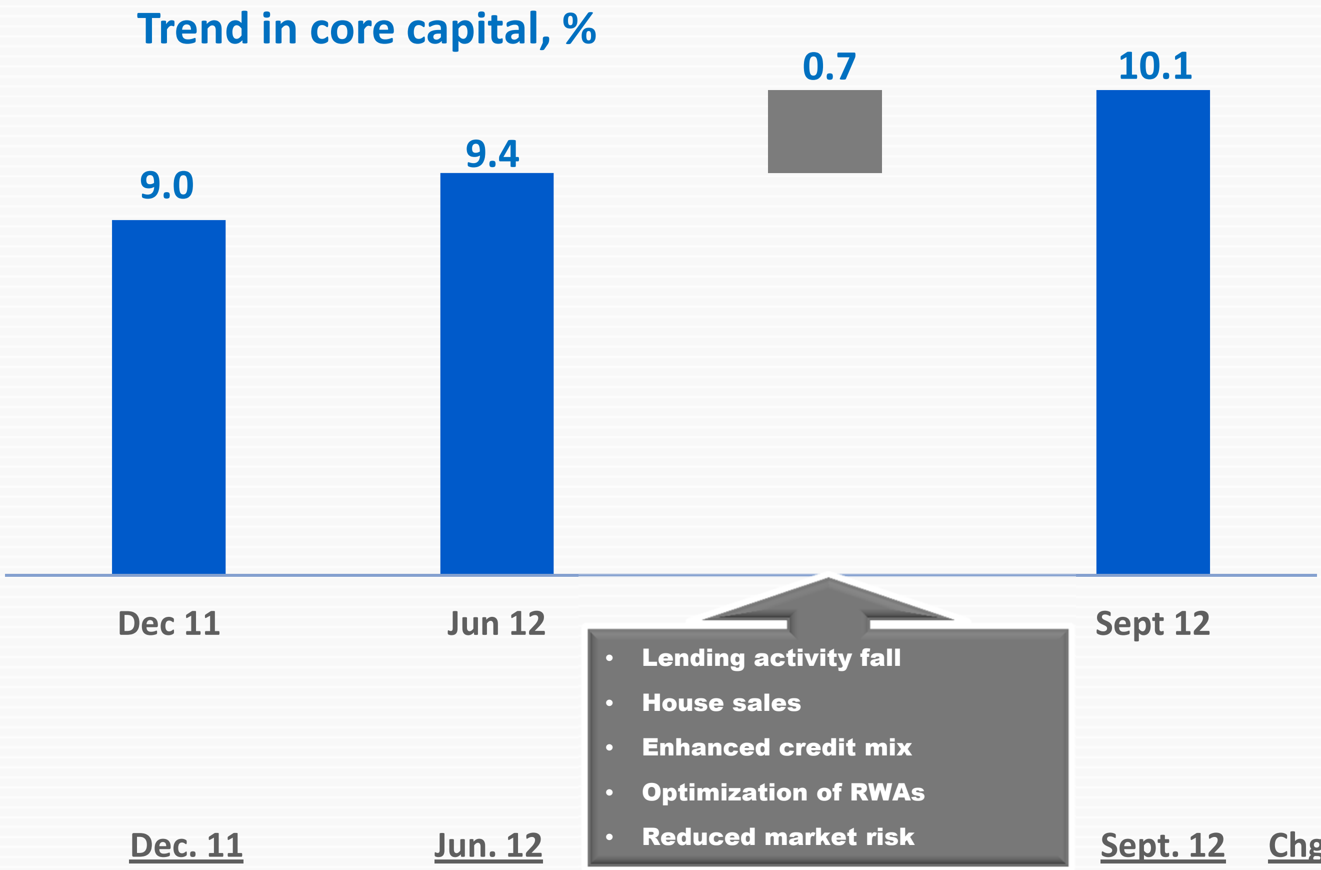
Reduced reliance on wholesale funding markets

	Dec. 11	Sept. 12
M/L-term debt	**23,827**	**18,322**
Covered bonds (*)	16,462	14,091
Senior debt (*)	5,878	4,054
Other (Pref. + Sub.)	1,487	177
Short-term debt	**580**	**359**
TOTAL	**24,407**	**18,681**

-5,726

(*) Net of buy backs.

Ample capital increase in the quarter



	Dec. 11	Jun. 12	Sept. 12	Chg Sept 12/Dec 11
Core capital	5,429	5,339	5,370	(1.1%)
RWAs	60,206	56,767	53,372	(11.4%)

€ mn

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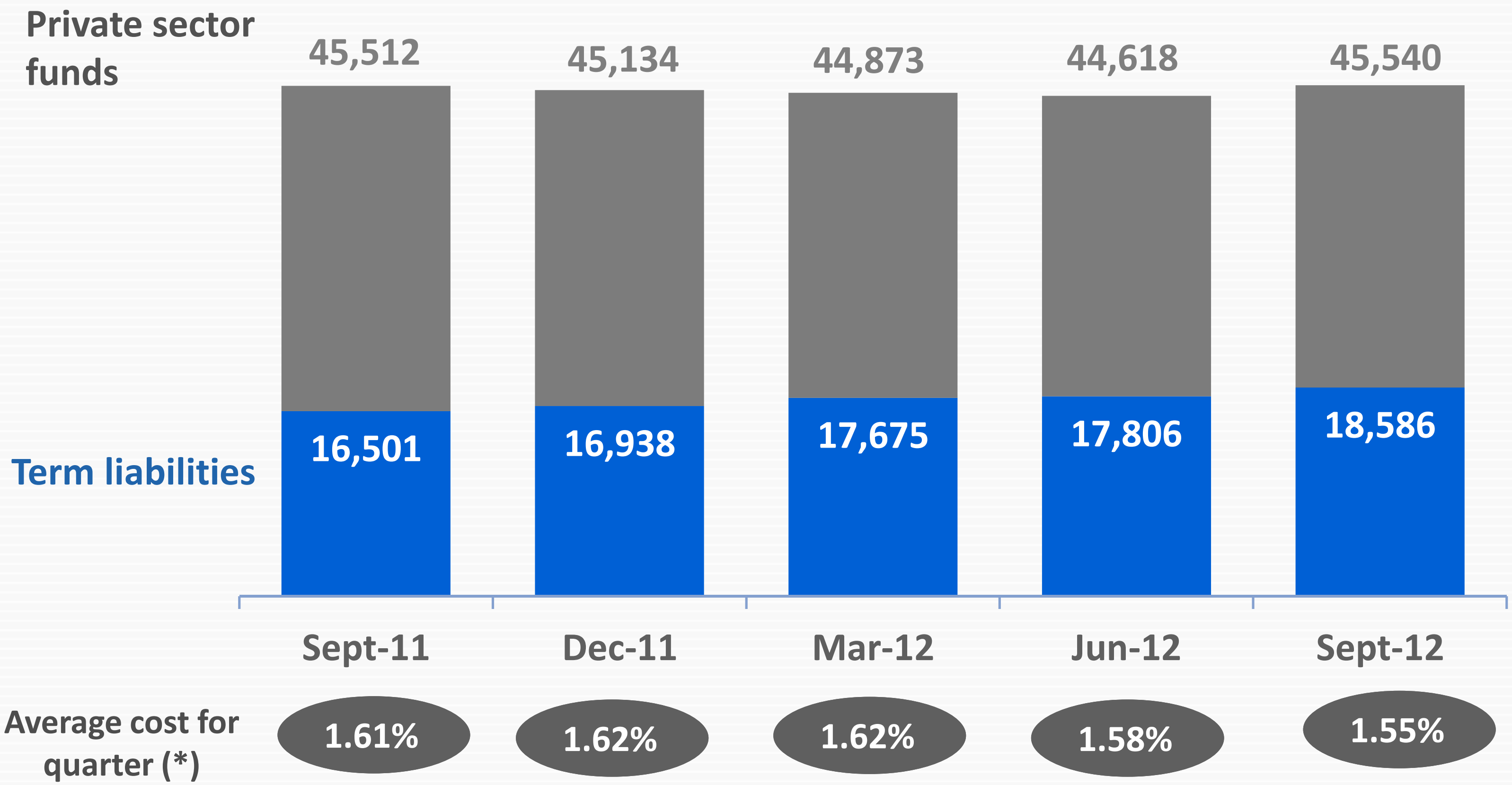
Healthy deposit trend with costs under control

Trend in customer funds



(*) Includes retail commercial paper
€mn. Data as of the quarter close.

Lending activity trending lower amidst widespread deleveraging and accelerated reduction of exposure to real estate risk

September 2012	Lending	YoY chg (%)
Public sector*	**3,734**	**37.0**
Private sector	**60,276**	**(7.9)**
Retail mortgages	22,786	(2.7)
Other retail loans	2,330	(23.4)
Real estate companies	4,974	(23,4)
Non-real estate companies	30,186	(7.1)
Total lending (ex reverse repos)	**64,010**	**(6.1)**
Memorandum item:		
Total lending, ex RE exposure	**59,036**	**(4.3)**

(*) Includes Banesto's share of funding the government-sponsored supplier financing plan

Conclusions

- Banesto remains strategically committed to conservative capital and liquidity management, risk control and preservation of the franchise's profitability medium term
- Banesto continues to strengthen its capital position, with a core capital ratio of 10.1% at the 3Q12 close
- Strong internal liquidity generation: €4.8bn YTD. LTD ratio declines by 7pp
- The NPL ratio continues to move moderately higher. However, Banesto continues to significantly outperform its peers on this measure, and by an increasingly wider margin
- At business level, positive performance of deposits in price/volume terms and growth in strategic lending segments
- The stock of on-balance sheet properties has declined for the third quarter running thanks to an accelerating pace of sales

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