

# **GRUPO SANTANDER BRASIL**

## **Integration for leadership**

São Paulo. 31 October 2008

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Grupo Santander Brasil**

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## ■ **Strategic vision: to become the best retail bank in Brazil**

- Brazil: growing economy with great potential for further growth and bancarisation
- Grupo Santander Brazil: Santander + Real, an excellent starting point
- A well defined strategy for success:
  - Integration Plan: underway ...
  - ... compatible with Profitable Commercial Growth
- Conclusions: Business Plan 2008 – 2010

# Santander in Brazil: strategic vision

## **Brazil = a country with great potential**

- Stable macroeconomic fundamentals and growing economy
- Investment-grade
- Bancarisation

## **Santander + Real = excellent starting point**

- Critical mass
- Complementary businesses
- With room for growth

## **Defined strategy**

- Integration
- +
- Profitable commercial growth

## **Grupo Santander Brazil**

- The best retail bank

**First stage:  
Business Plan  
2008 – 2010**

## Targets 2008-2010

% growth in Brazilian Reales

- Businesses: 15-20% CAGR
- Customer revenues:  $\approx$ 15% CAGR
- Expenses: < 0% in 2009 and 2010  
Cost synergies\*: R\$ 2,400 mln.
- Provisions: growing in line with the lending portfolio and the business mix

**Attributable  
profit: >25%  
CAGR 08-10**

(\*) Cost synergies in 2011

- Strategic vision: to become the best retail bank in Brazil

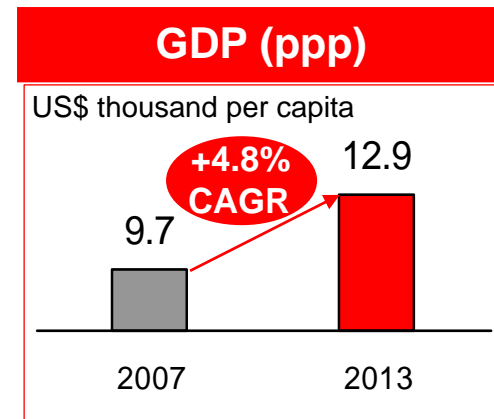
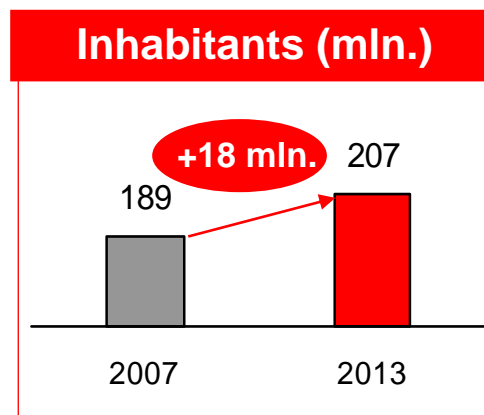
- **Brazil: growing economy with great potential for further growth and bancarisation**

- Grupo Santander Brazil: Santander + Real, an excellent starting point
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# Brazil a country with great economic potential ...

- Population: 189 mln.
- Area: 5th largest country

The world's  
9th largest  
GDP\*



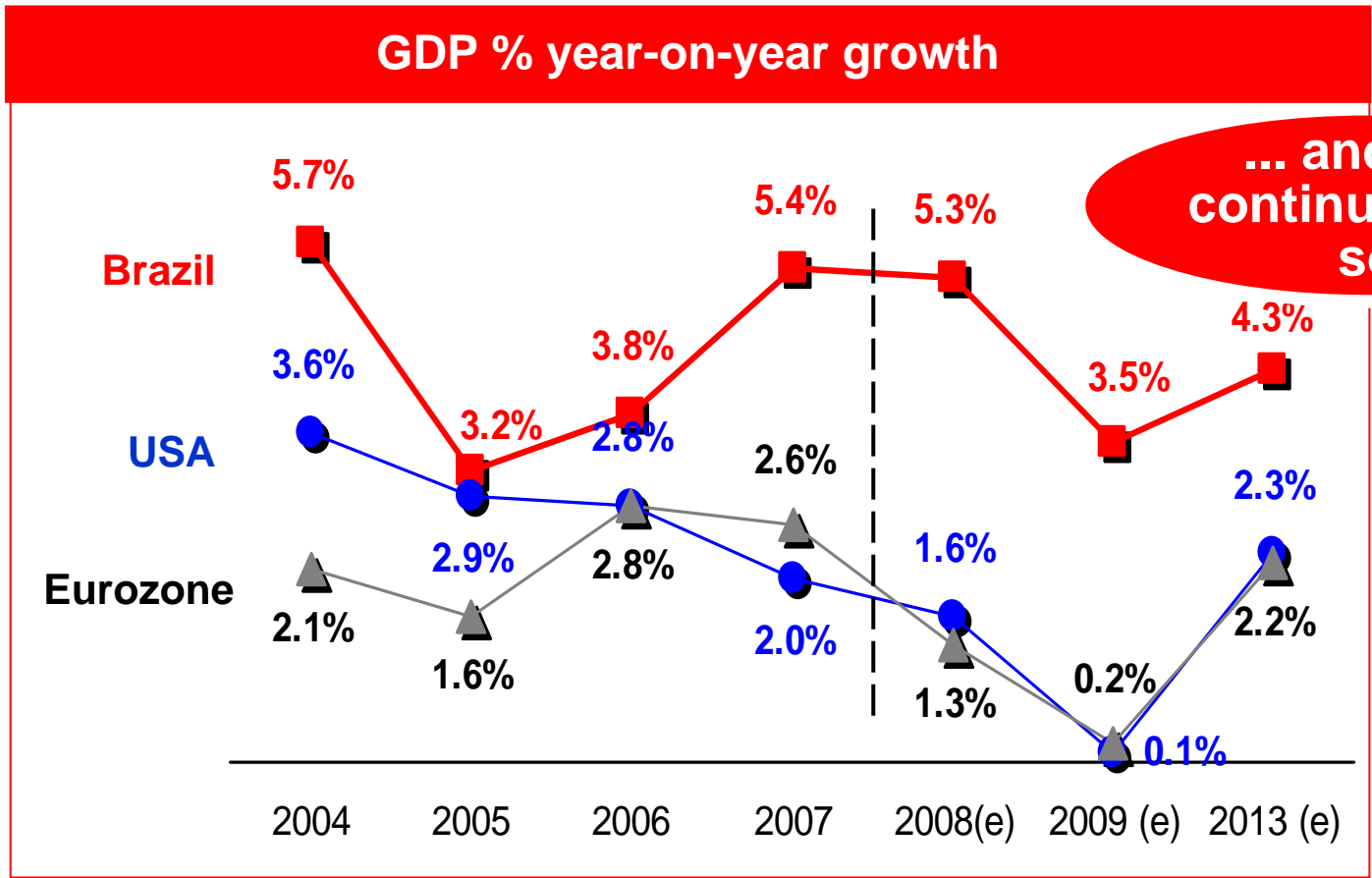
Eurozone 12

+7 mln.

CAGR +3.4%

- One of the largest food producers worldwide:
  - 1<sup>st</sup> producer of coffee and sugar cane, 2<sup>nd</sup> of soy and 3<sup>rd</sup> of corn
  - 1<sup>st</sup> exporter of beef
- 2<sup>nd</sup> largest producer of ethanol and 8<sup>th</sup> largest of steel. 1<sup>st</sup> exporter of iron ore
- 17<sup>th</sup> in oil reserves worldwide (with the new discoveries it could be 3<sup>rd</sup>)
- Almost 75% of energy production in Brazil is hydroelectric

\* 2007 in p.p.p.  
Source: IMF and World Bank.

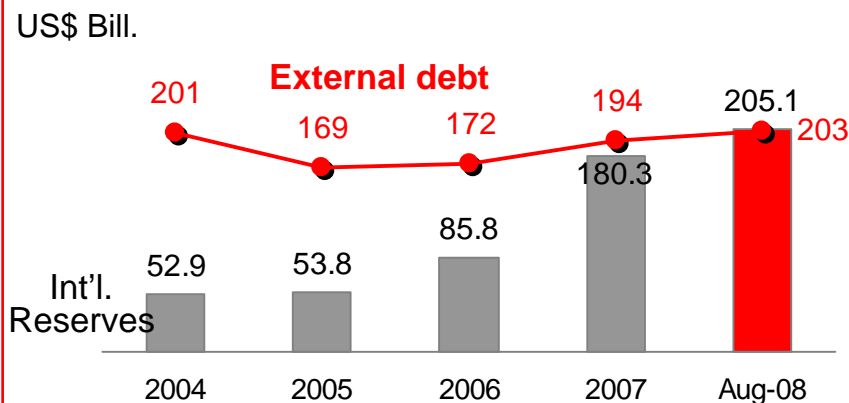


Source: IMF. World Economic Outlook Report (October 2008)

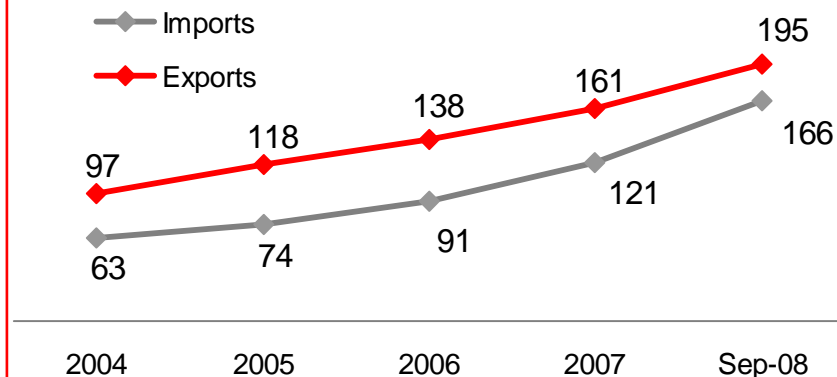


Moreover, it is a healthy growth (without macroeconomic imbalances) which contributes to improve towards... 9

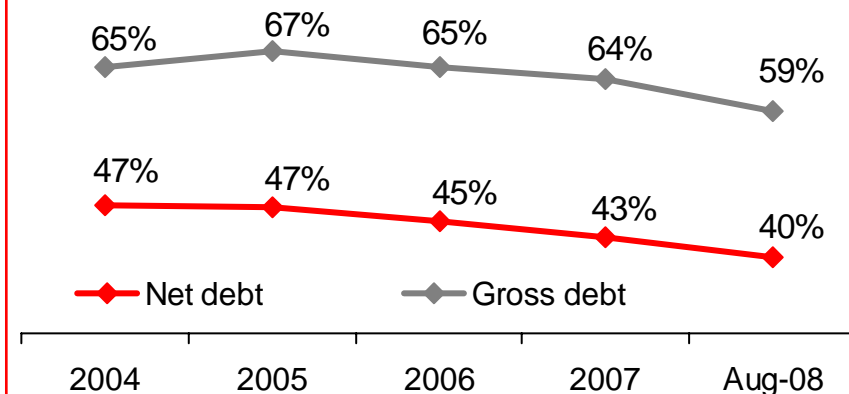
### International Reserves and External Debt



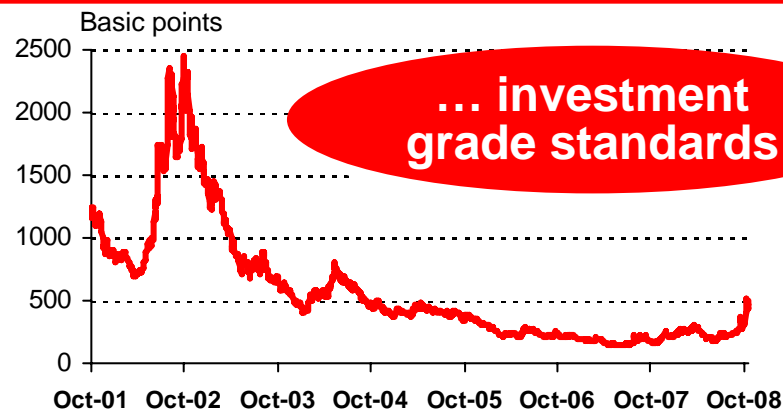
### Commercial balance – (US\$ Bill.)



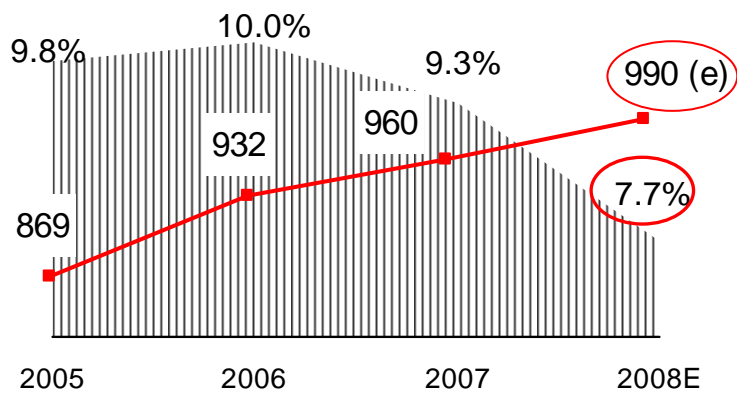
### Public debt (% of GDP)



### Country risk (EMBI+)



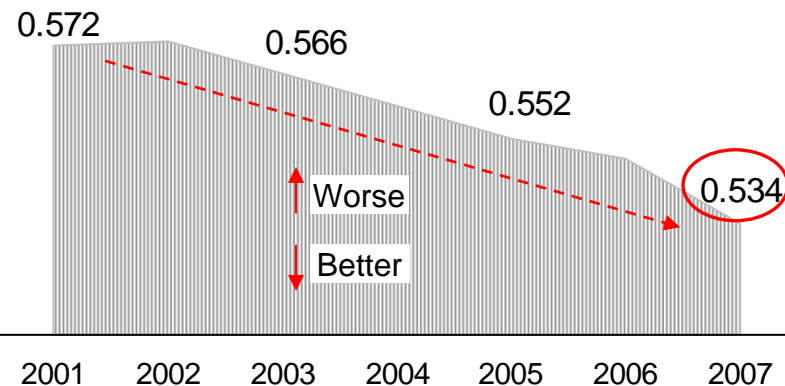
## Unemployment and salary



Source: IBGE/PNAD

—●— Average real salary in R\$

## Gini\* index (%)

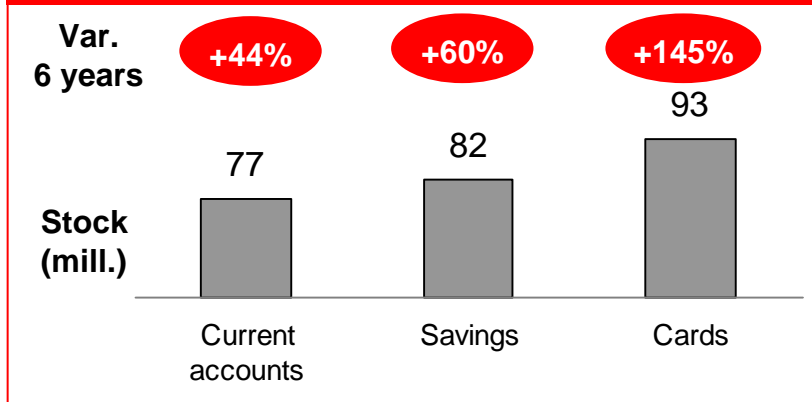


Source: IBGE/PNAD

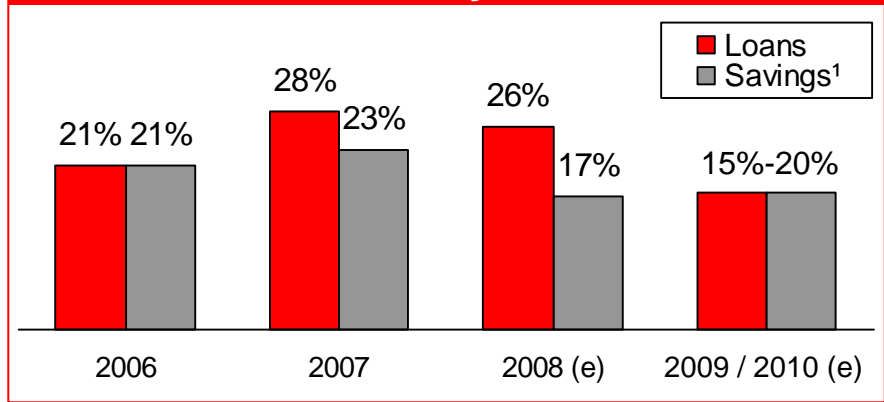
(\*) varies from 0 to 1, corresponding to equal distribution and absolute income concentration respectively.

# ... spur the bancarisation process

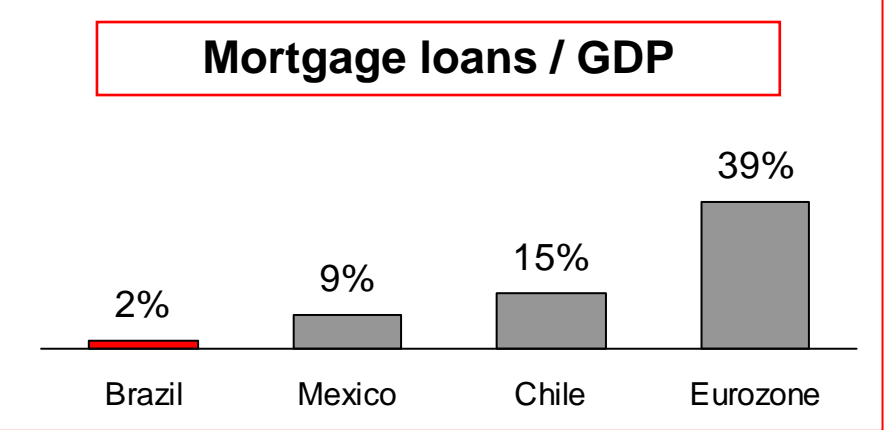
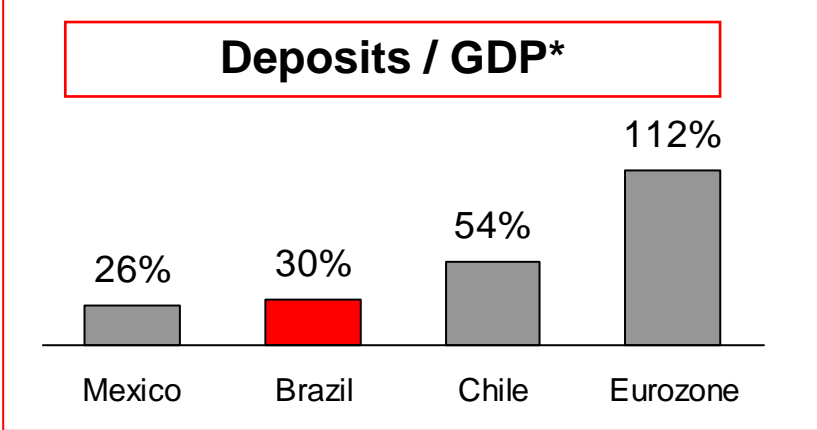
## Bancarisation on the rise ...



## ... providing sustained growth of the financial system ...



## ... and there is still considerable room for improvement



\* Source: IMF (2007 data), Brazil Central Bank (aug/08 data).  
<sup>1</sup> Deposits + Assets under management



- Strategic vision: to become the best retail bank in Brazil
- Brazil: growing economy with great potential for further growth and bancarisation

## ■ Grupo Santander Brazil: Santander + Real, an excellent starting point

- A well defined strategy for success:
  - Integration Plan: underway ...
  - ... compatible with Profitable Commercial Growth
- Conclusions: Business Plan 2008 – 2010

# Grupo Santander Brazil: with critical mass in a sizeable Financial System

## Financial System - June / 2008

<b>Assets</b> (R\$ Bn.)	2,574
<b>Loans<sup>1</sup></b> (R\$ Bn.)	1,068
<b>Savings</b> (R\$ Bn.)	2,052
<b>Branches</b>	16,372
<b>Employees</b>	545,253
<b>ATMs<sup>2</sup></b>	166,773
<b>Attrib. profit</b> (R\$ Bn.)	26
<b>BIS (%)</b>	14%

## Grupo Santander Brazil

### Market share – Jun/08 (%)

<b>11.3</b>
<b>11.8</b>
<b>10.2</b>
<b>12.4</b>
<b>10.0</b>
<b>10.5</b>
<b>6.4</b>



Source: Banco Central do Brazil. <sup>1</sup> Market share of unrestricted loans (does not includes rural loans, mortgage loans and BNDES loans). <sup>2</sup> 2007 data from Febraban. Taking into account the public banks, we rank 5<sup>th</sup> by assets. Using the same criteria for loans, we rank 4<sup>th</sup>.

## 2,042 branches with focus on South/Southeast (74% GDP)

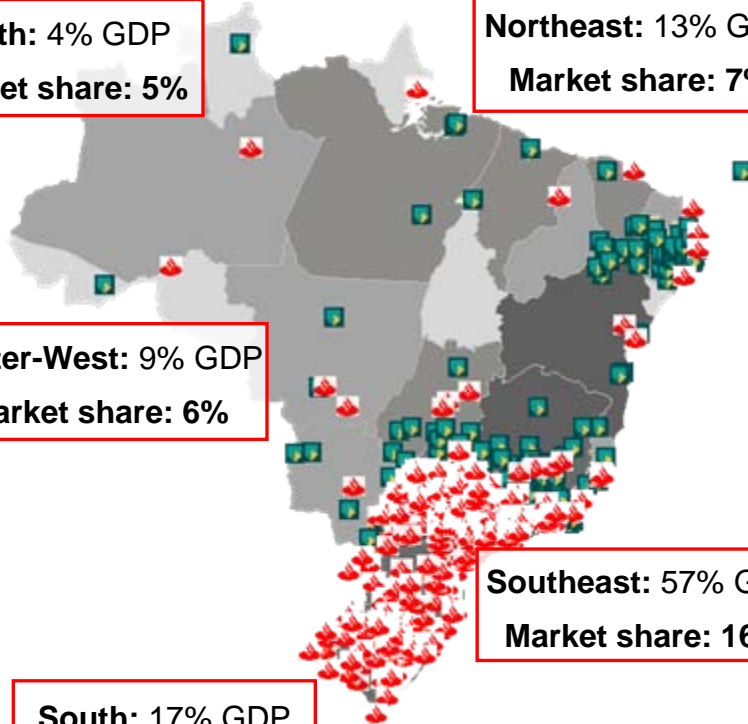
**North:** 4% GDP  
Market share: 5%

**Northeast:** 13% GDP  
Market share: 7%

**Center-West:** 9% GDP  
Market share: 6%

**Southeast:** 57% GDP  
Market share: 16%

**South:** 17% GDP  
Market share: 10%



Data on branches as of September 2008

## Additional channels

- 1,509 banking points in companies (PABs)
- 17,978 ATMs
- 2,511 electronic service points (outside branches) (PAEs)
- Internet (85 million transactions / month)
- Contact Centers (18 million calls / month)

## Specialised networks

- Consumer Finance 
- High income 

PABs: Banking service points (basically at firms)

# ... to offer banking services to a large customer base

## Account-holders (Correntistas) / Corporate clients

RETAIL	COMPANIES	GB&M	PRIVATE	ASSET MANAGEMENT
>8 million active account holder	> 3,500 active groups	> 1,200 groups	> 5 thousand customers	> 460 thousand customers
Credit portfolio of R\$ 79 billion	Credit portfolio of R\$ 47 billion		R\$ 23 billion in assets under management	R\$ 85 billion in managed funds

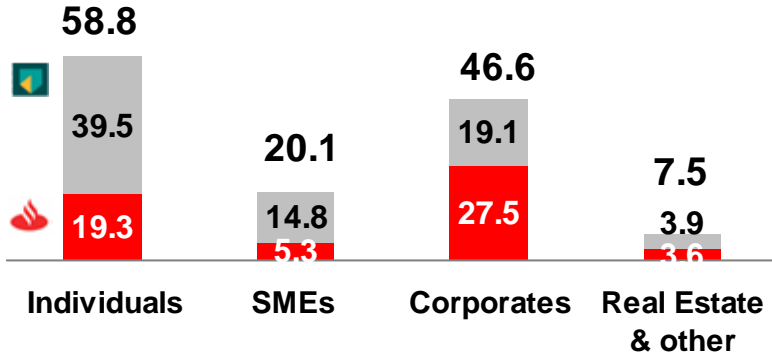
## Account-holders / Non account-holders

CARDS	FINANCING	INSURANCE	MORTGAGE
> 7 million accounts	> 2.1 million active customers	> 7.0 million policies	> 50 thousand customers
Loan portfolio of R\$ 6 billion	Loan portfolio of R\$ 27 billion	Issued premiums R\$ 750 million	Loan portfolio R\$ 6 billion

# The new Bank has a more balanced business portfolio

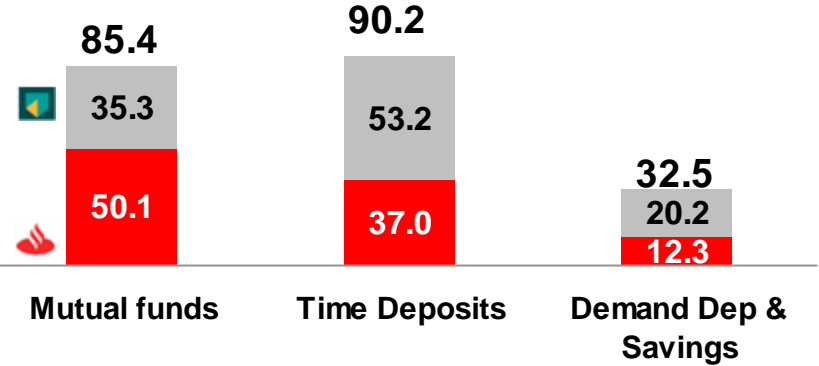
## Loans: R\$ 133 Bn.

Sep08 - R\$ Bn.

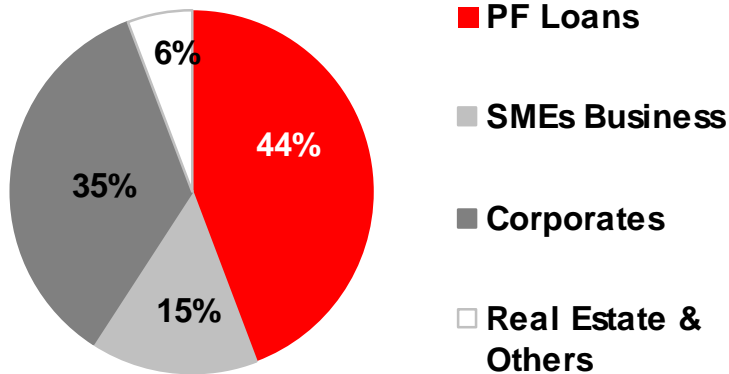


## Savings – R\$ 208 Bn.

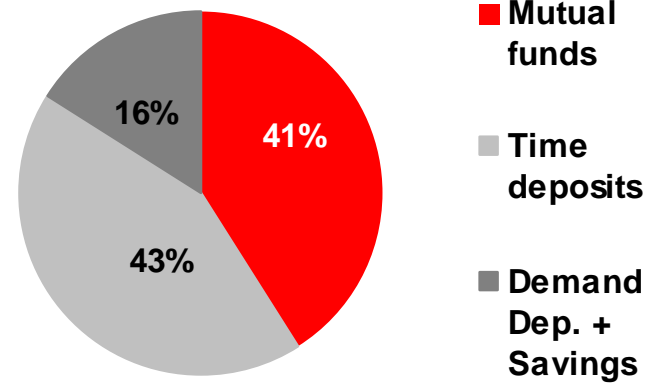
Sep08 - R\$ Bn.



## Grupo Santander - Loans



## Grupo Santander - Savings





## Independent credit risk management...

### ...with improved risk processes...

#### Admission

- Specific experience in some businesses: SAN-Cards; Real-External channel vehicles
- Advanced decision models
- High automation level: Real's corporate valuation example

#### Mgmt. & monitoring

- Advanced alert system for Santander's Corporate segment to be used also by Real
- Commercial proximity: Risk "promontorios"

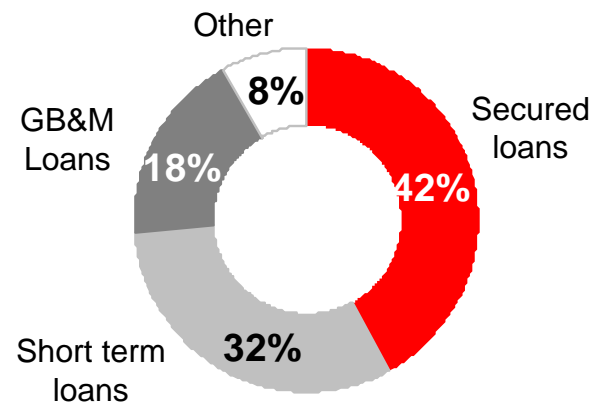
#### Collections

- Preventive action on collections
- Viewing collections as a business unit
- Take advantage of Real's IT systems

### ...and the IT systems

- Technological renewal Santander benefits Real – GARRA
- Technological improvements: Data Warehouse – MIS and companies pre-classification system

### Loan portfolio profile Medium / Low ...



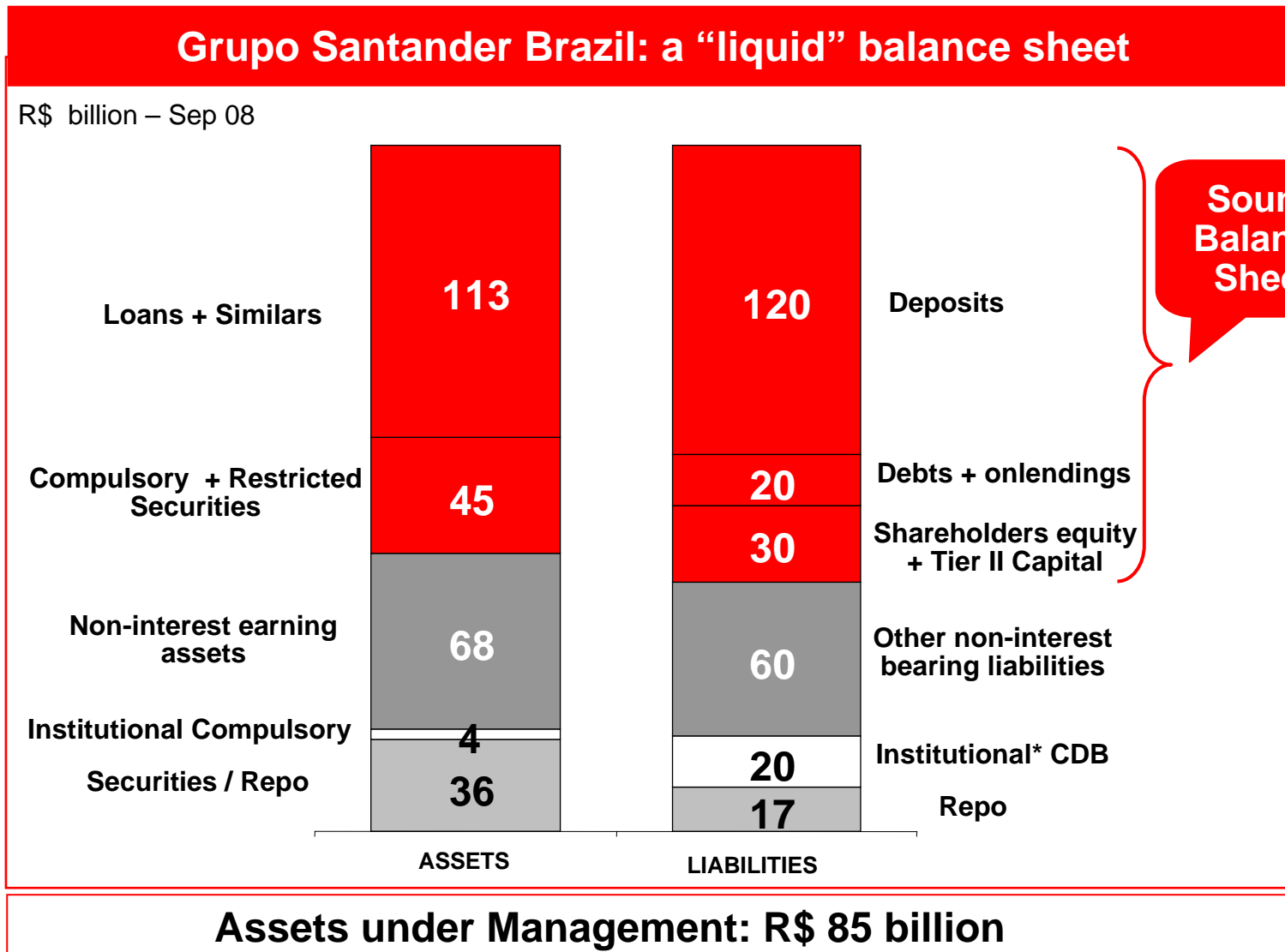
## Management of interest rate risk

- Without interest rates *Carry Trade*
- Management of net interest income with ALCO portfolios solely consisting of government bonds
- 81% of the public securities portfolio is used to cover regulatory requirements

## Management of forex risk

- Hedging of expected results
  - In 2008: Santander is hedged in Brazil against US\$; Banco Real is hedged by the parent company
  - (Moreover the parent company in Spain hedges EUR / USD)
- Without forex Carry Trade

# The new Bank has a low risk profile



\* Customer deposits with greater flexibility

## GRUPO SANTANDER Brazil

- Critical mass
- Distribution network
- Customer base
- Balanced businesses
- Low risk profile: good management of risks and liquidity



**Offer  
strong and  
profitable  
growth  
potential**

- Strategic vision: to become the best retail bank in Brazil
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- Grupo Santander Brazil: Santander + Real, an excellent starting point

## ■ A well defined strategy for success:

- **Integration Plan: underway ...**
- ... compatible with Profitable Commercial Growth
- Conclusions: Business Plan 2008 – 2010

# The integration process is already underway.

## Key aspects

1<sup>st</sup> Stage  
Costs reduction

2<sup>nd</sup> Stage  
Integration I

3<sup>rd</sup> Stage  
Integration II

I

Efficiency good practice

II

Technological integration

III

Operational Integration

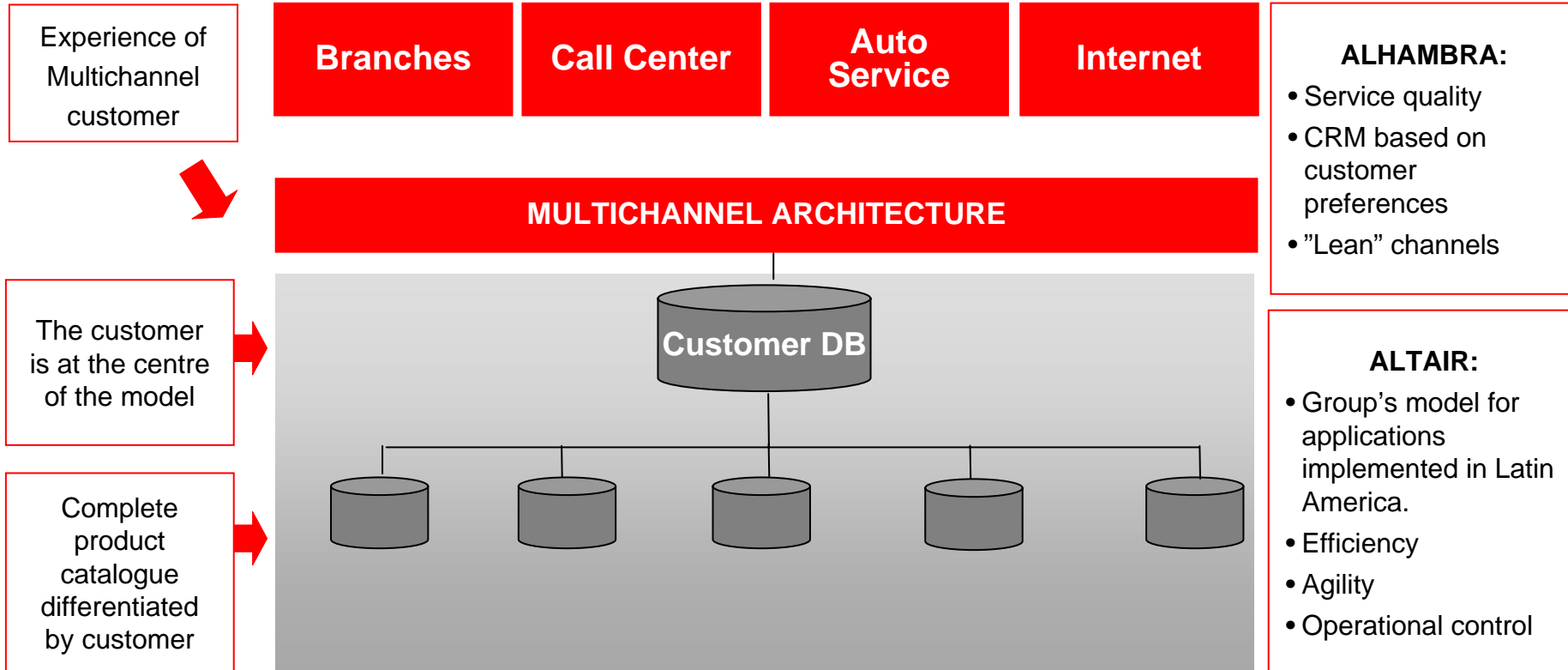
IV

Central Services Integration

V

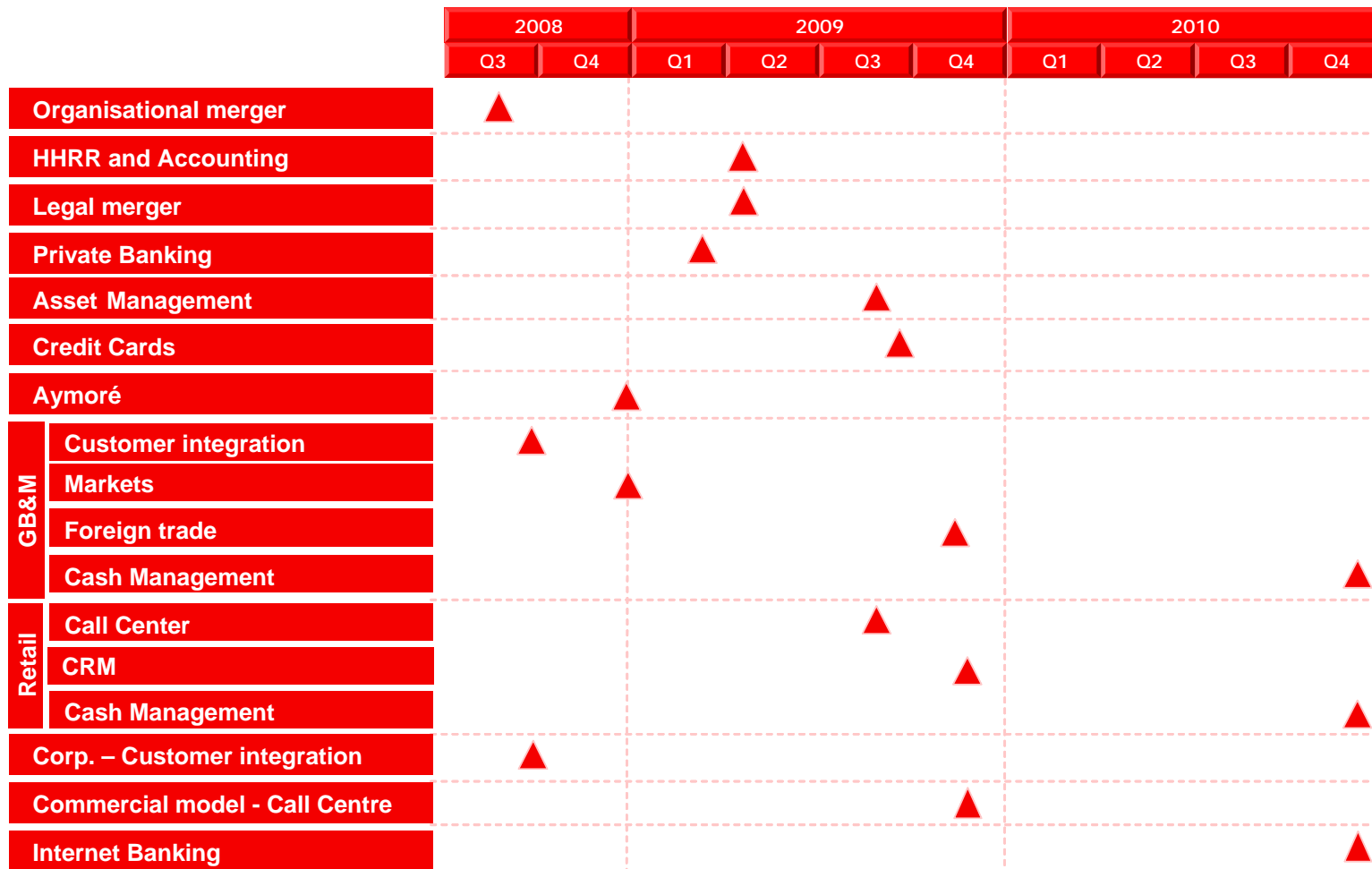
Complete Integration  
/ Unified networks

IT model focused on the customer and adjusted to the Group's model:  
converging towards a single technological and operational platform



# Main milestones of the integration

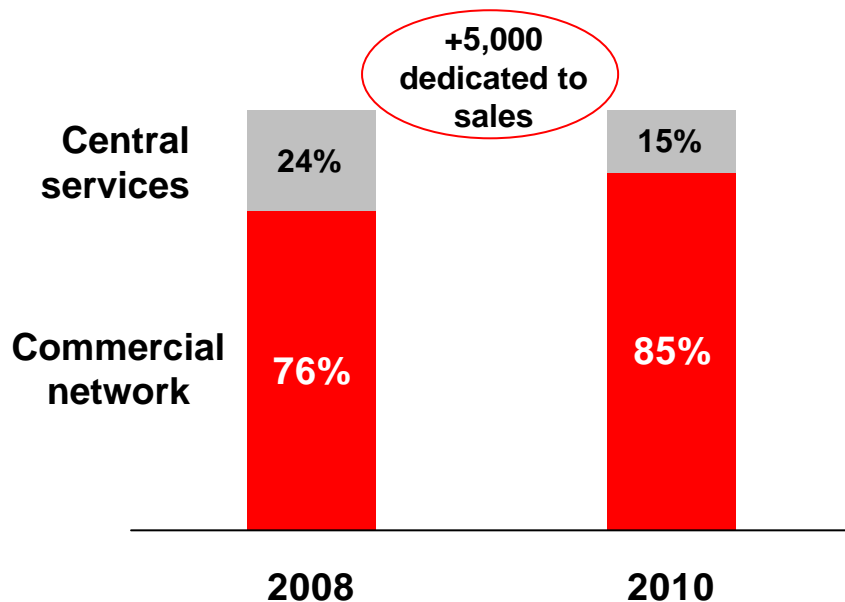
The technological and operational integration plan of the business and support areas is perfectly defined



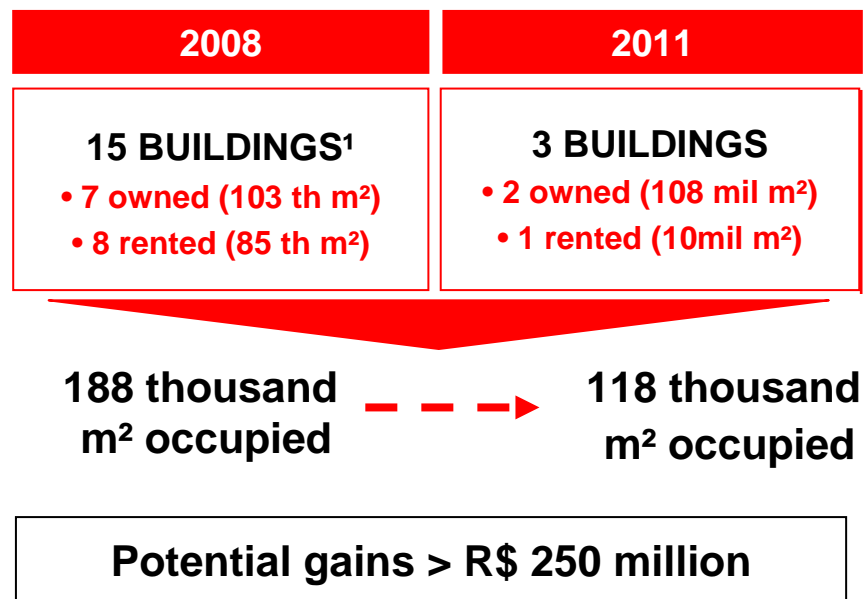


**Back-office reduction will allow us to increase sales personnel at the branches (more revenues) and reduce costs**

## Personnel distribution



## Streamlining Premises



<sup>1</sup> Not including Nasbe nor Torre JK (vacant as of today)

# At the end of the integration process: single brand and network

During the process:  
two independent  
networks ...

2008

... converging  
toward an  
optimised model ...

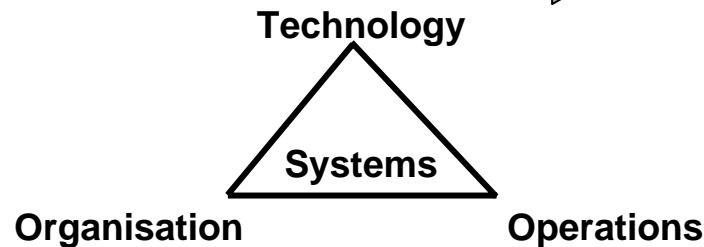
2009-2010

... ending with a  
single brand and  
network

End integration



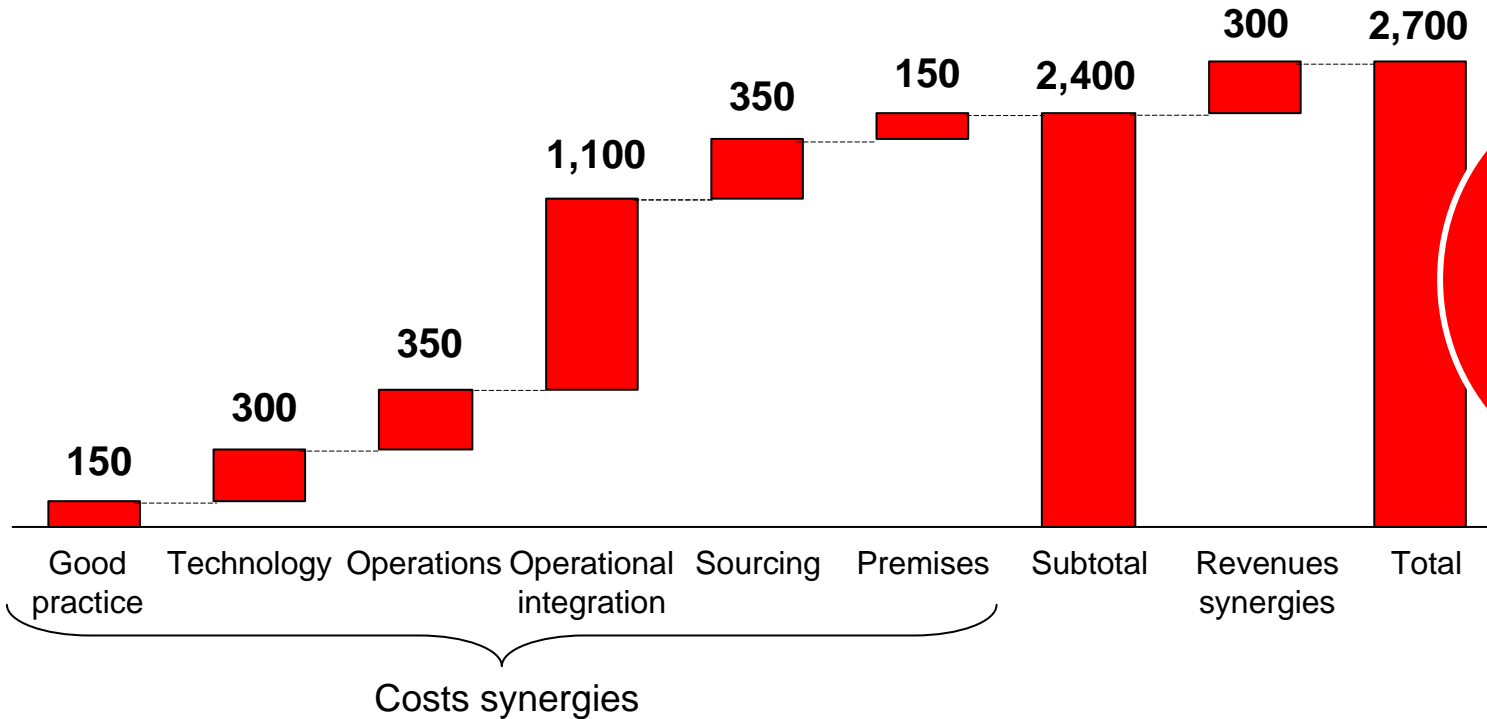
integration project



# We will obtain R\$ 2,700 million of synergies from the whole process

**R\$2,400 million in costs and R\$300 million in revenues**

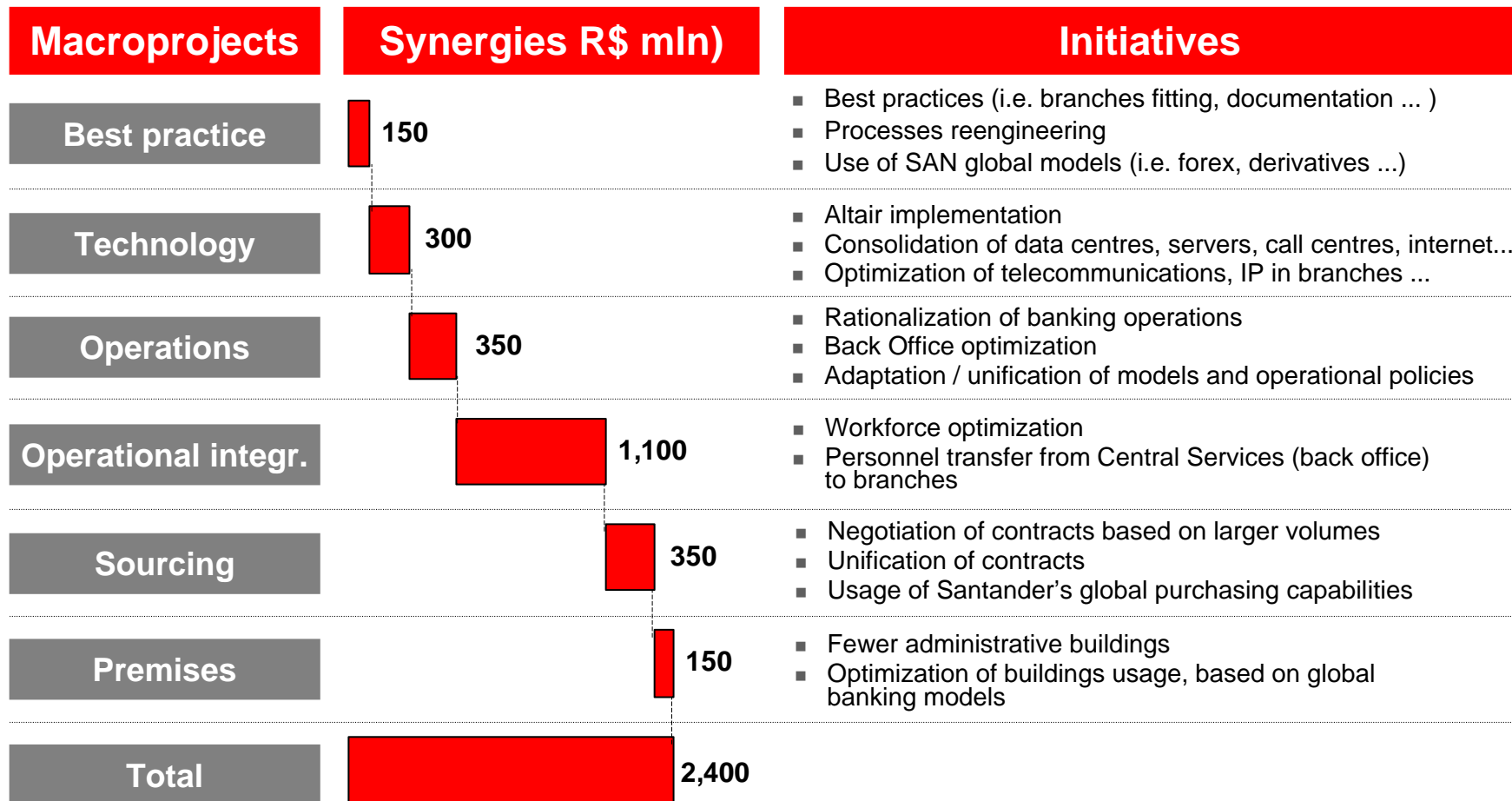
Our synergies – R\$ million



This new estimate is 25% higher than the one announced at the time of the purchase

**Moreover, the initiatives and attainment periods are defined**

## Cost synergies: R\$ 2,400 million



## Revenues synergies: R\$ 300 million

### Initiatives

#### Quick - wins



- *Pricing Policies* (overdraft account and funds)

- Sale of Personal Loans at complementary channels



- Cross sell of additional services to cards customers
- Increase insurance penetration linked to banking products

#### Share best practices



- Strong relationship with large companies



- Strong Retail banking, specially in SMEs business and high income

#### Synergies with Global Units

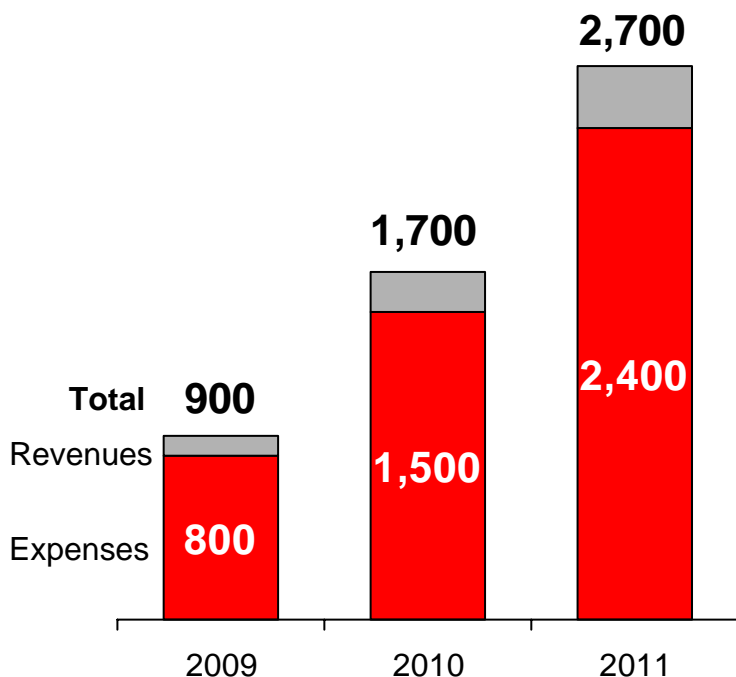
- Credit Cards
- Insurance

- Asset Management
- GB&M

During the first year we will obtain synergies of R\$ 900 million

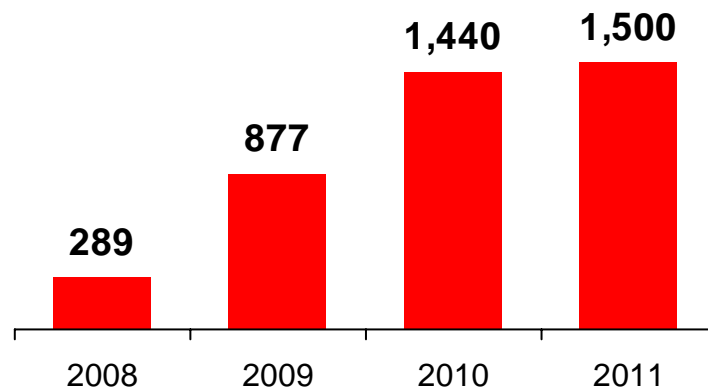
## Expected synergies

R\$ million



## Expected restructuring costs

R\$ million



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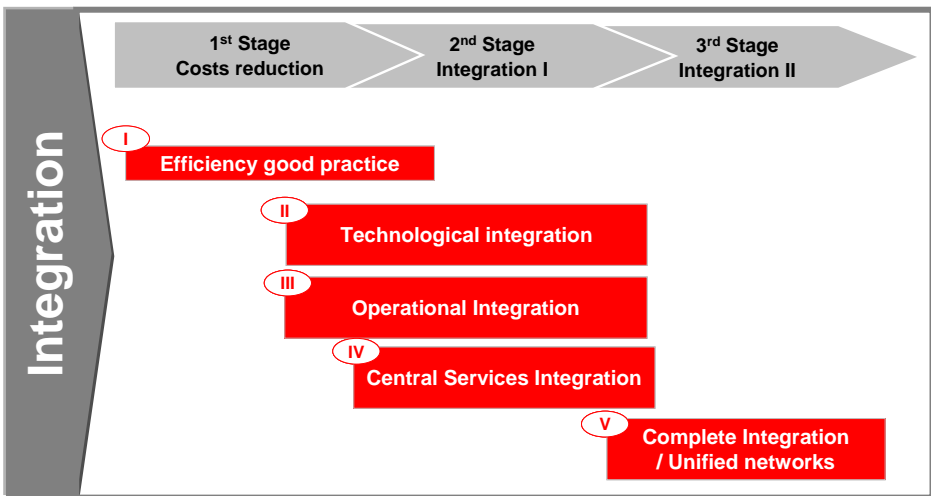
## ■ A well defined strategy for success:

- Integration Plan: underway ...

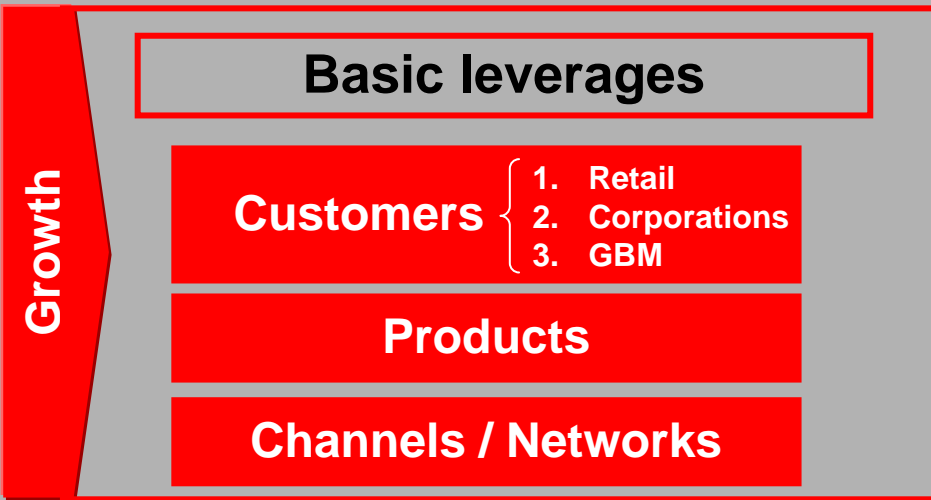
- ... **compatible with Profitable Commercial Growth**

- Conclusions: Business Plan 2008 – 2010

## Combine integration and growth



- High costs synergies
- More efficiency and productivity (tools)
- Greater sales capacity



**Differentiated strategies and targets**

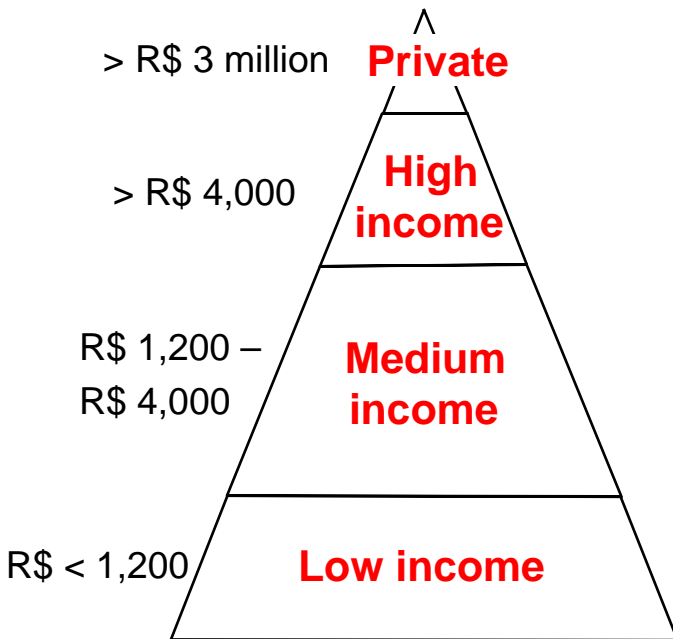


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Retail banking has a well defined segmentation, guaranteeing differentiated value proposals for the customer ...

## Individual customers

Monthly income/ net wealth for Private Banking



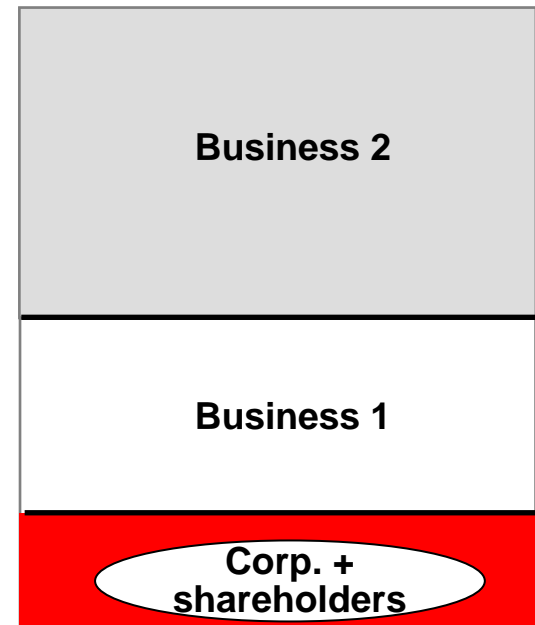
## Business and corporations

Annual turnover

R\$ 5 MM – R\$ 30 MM

R\$ 0.5 MM – R\$ 5 MM

Up to R\$ 0.5 MM



... toward single management models in 2010 for both individual customers and business and corporations

1

## Retail Banking. Value proposals adjusted to the segment

○ Millions of actives account-holder customers for individuals and thousands for business

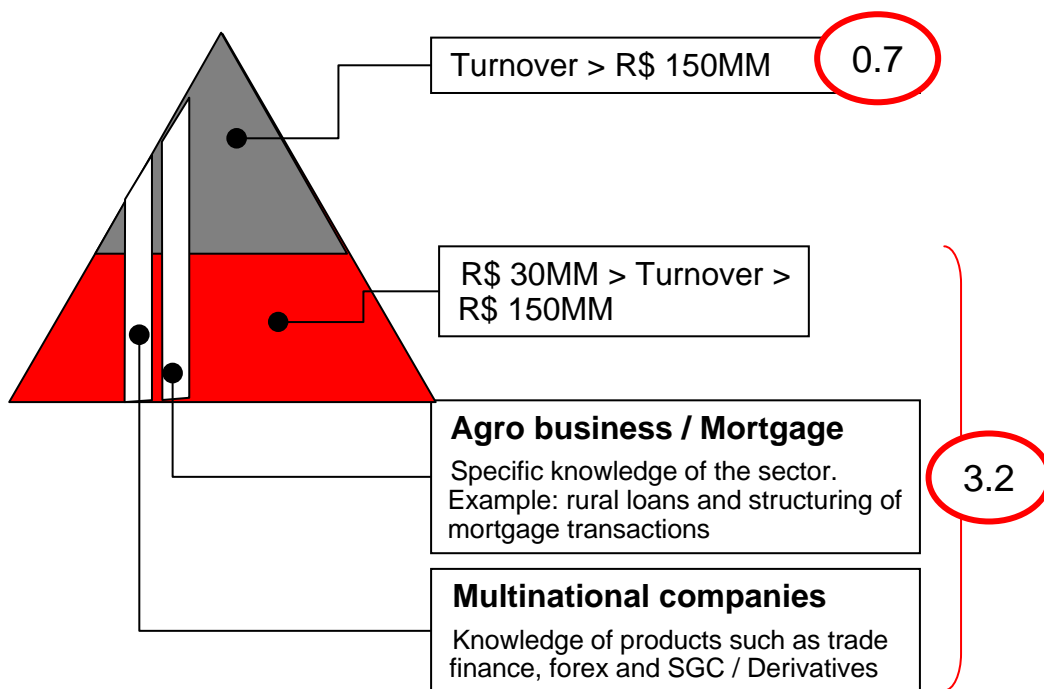
	High income 1.5	Medium income 3.1	Low income 3.2
Individuals	<ul style="list-style-type: none"> <li>■ Differentiated places (branches and Van Gogh)</li> <li>■ Pro-active offer</li> <li>■ Preferential manager</li> </ul>	<ul style="list-style-type: none"> <li>■ Efficient processes (focus on remote channels)</li> <li>■ Personal attention for specific customer groups</li> </ul>	<ul style="list-style-type: none"> <li>■ Simpler processes</li> <li>■ Remote channels</li> <li>■ Specific products</li> </ul>
	Business 2 31	Business 1 170	Businesses + owners 270
Business	<ul style="list-style-type: none"> <li>■ Personalised relationship model</li> <li>■ Manager + product specialist</li> </ul>	<ul style="list-style-type: none"> <li>■ Relationship model</li> <li>■ Offers based on CRM</li> </ul>	<ul style="list-style-type: none"> <li>■ Integrated relationship model businesses + owners</li> <li>■ Integrated offers</li> </ul>

- **More Retail customers....** → + 6% active account holder (CAGR 2008-10)
- **...and greater linkage** → 1,2x until 2010 in basic net margin per active account holder

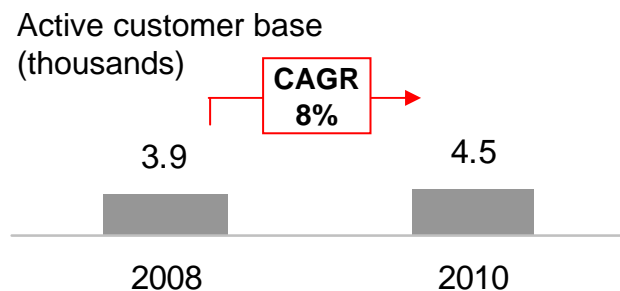
## 2 Corporations: service throughout the whole country by means of regional platforms and with support from global units (synergies)

### Well segmented customer base

○ Number of active customers (thousands)

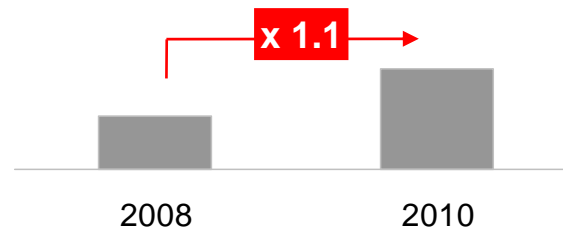


### More customers ...



### ... and greater linkage

Basic net margin per account-holder



3

## GB&M, global business specialised in the largest industries

Customers

### Value proposal/Coverage

**489**

**Global**

(Turnover >US\$500M excluding Multinat. auto business)

- Industry vision / sector
  - Services & TMT
  - Energy
  - Infrastructure & Agro business
  - Resources & FIG ...
- Team based in São Paulo

**529**

**Regional**

(companies of domestic capital with turnover of US\$ 200-500M)

- Regional coverage with limited sector specialisation
- Teams distributed in platforms according to scale conditions

**236**

**Multinational**

(Multinat. auto.; foreign capital US\$ 200-500M; SAN global customer <US\$500M)

- SAN Global Relationship Model
  - Global manager
  - Country managers
  - Product specialists team
- Size according to each customer potential

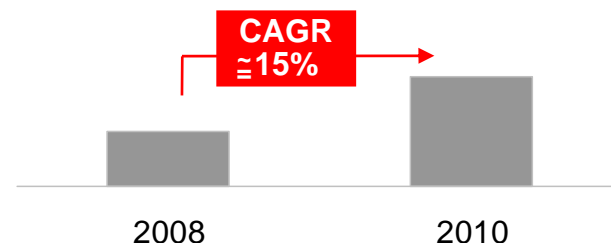
### Leverage by SAN GBM global business potential

■ Five axis of specialised products

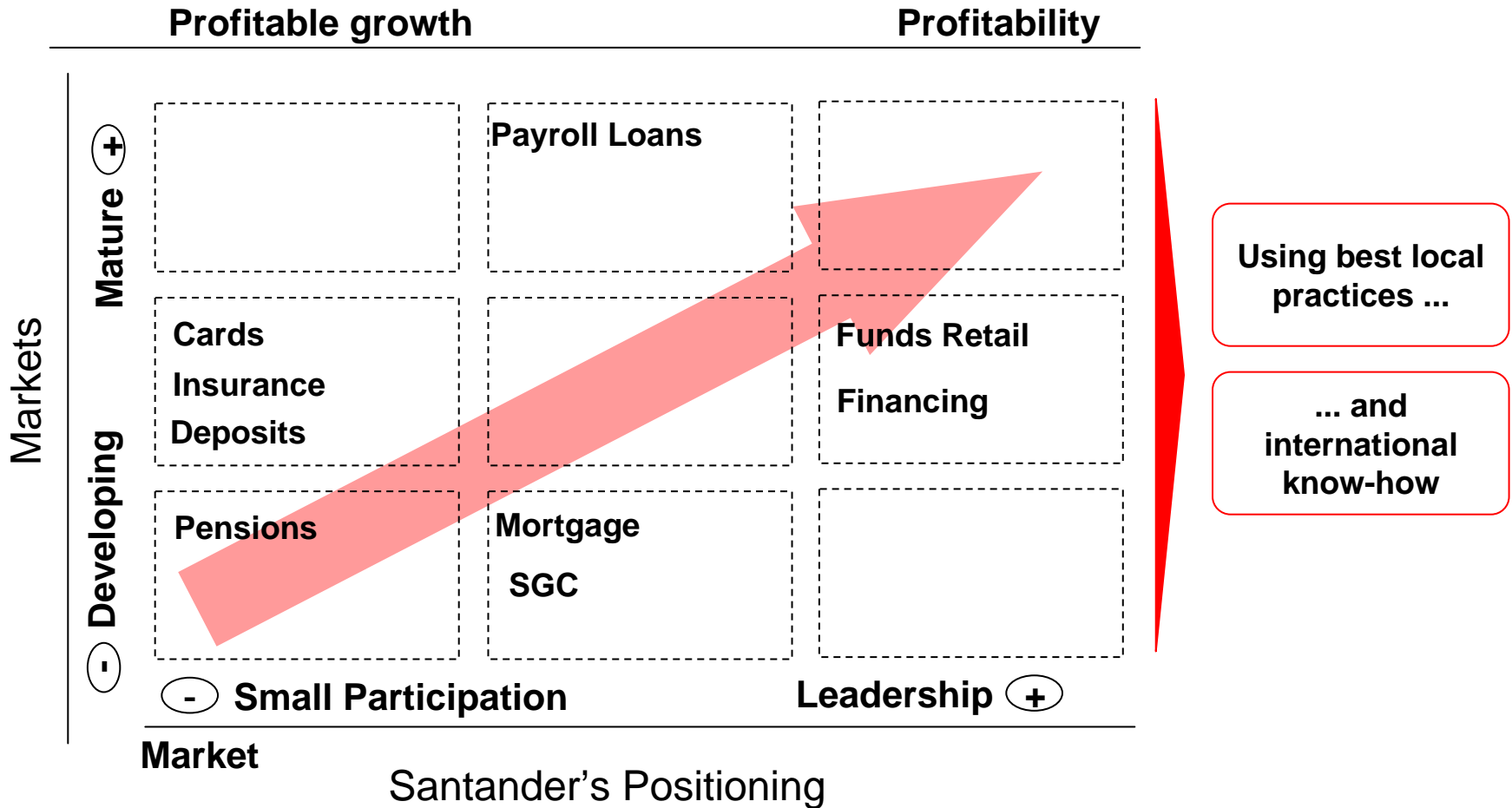
- **GTB**
- **CIB**
- **Credit Markets**
- **Rates**
- **Equity**

### Greater customer net revenues

Commercial margin net of provisions



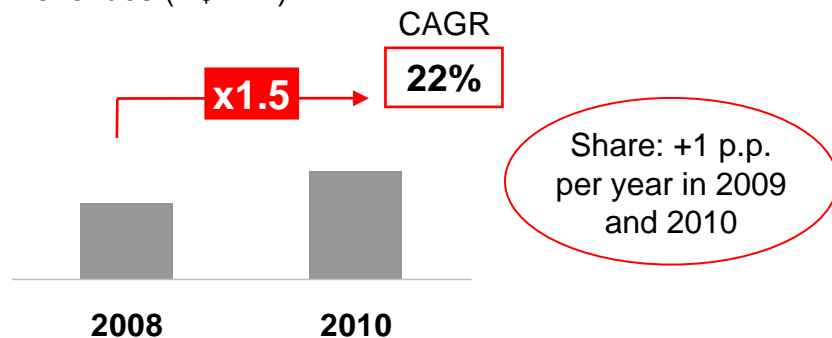
## Different strategies for different products



## High growth potential businesses

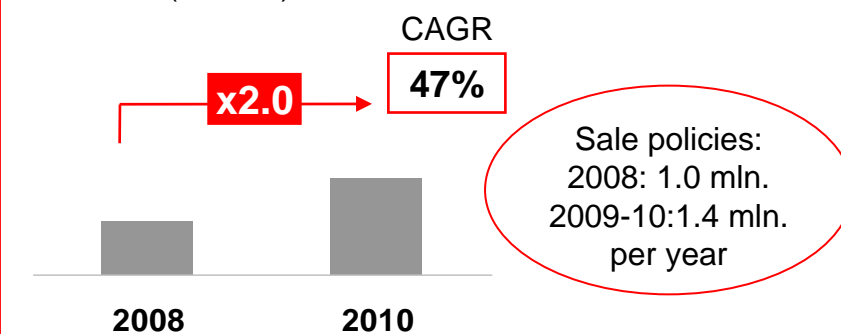
### Cards

Revenues (R\$ MM)



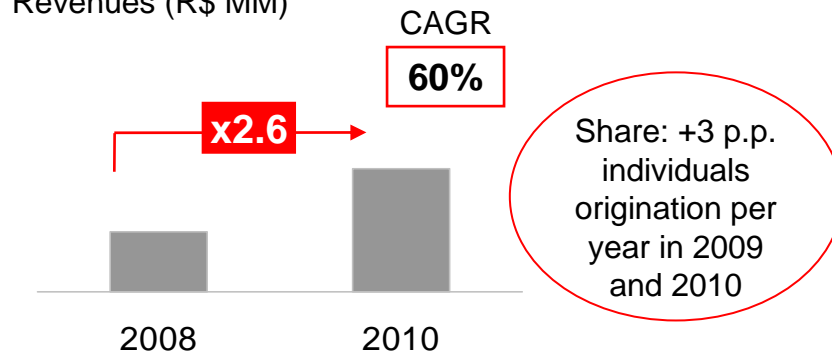
### Insurance

Revenues (R\$ MM)



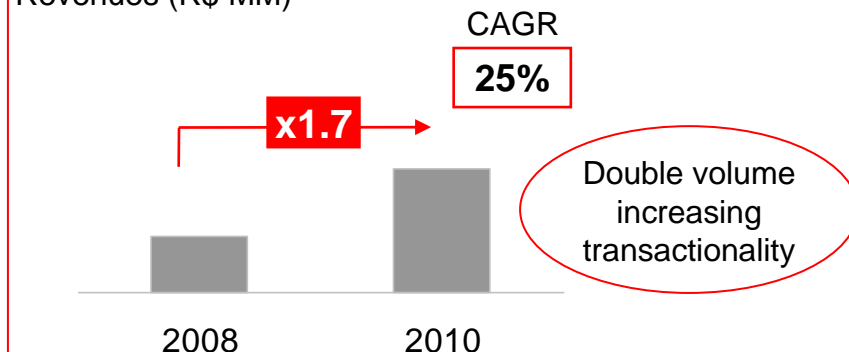
### Mortgage

Revenues (R\$ MM)



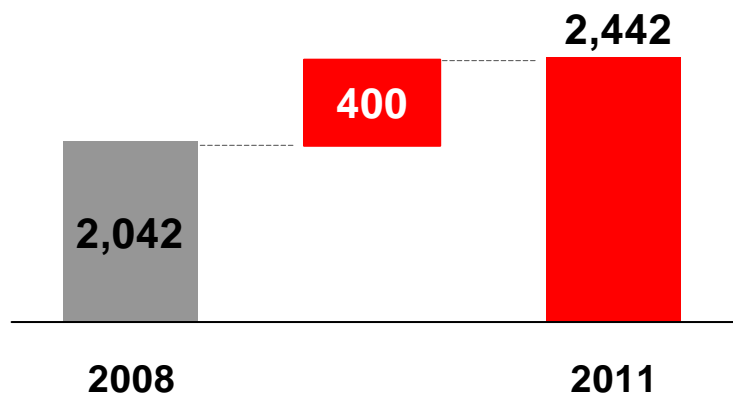
### Deposits Retail

Revenues (R\$ MM)



There is room to increase commercial capacity at the branches and improve service in the alternative channels

## Branches (w/o PABs)



## Alternative channels

### Call Center

> 7,000 assistants  
> 18 million calls / month

### Internet Banking

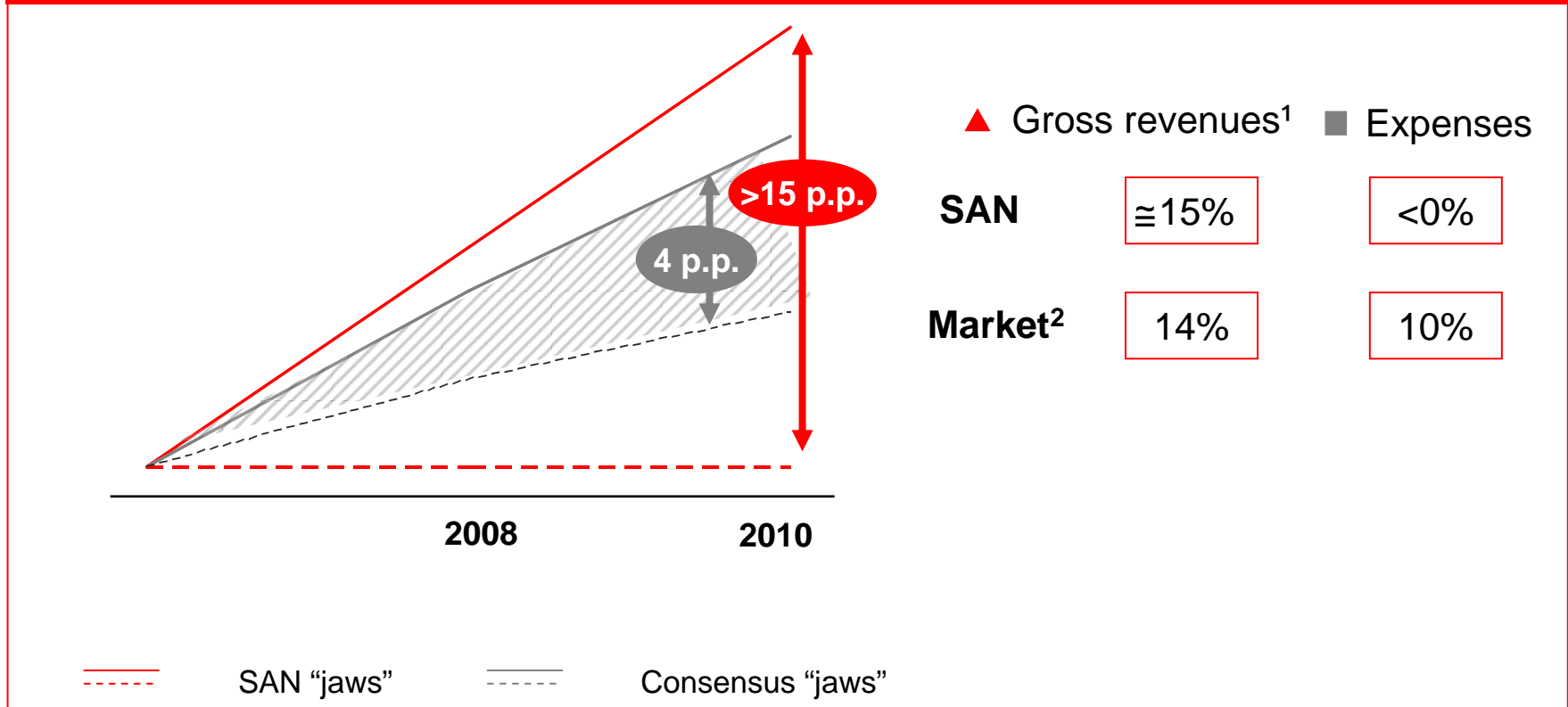
> 1.5 mm users  
> 85 million transactions / month

### ATMs

> 17,500  
> 55 million transactions / month

In short, Santander aims to grow above the market in revenues and below it in costs...

## “Jaws” performance



<sup>1</sup> Gross revenues: Margin + Commissions

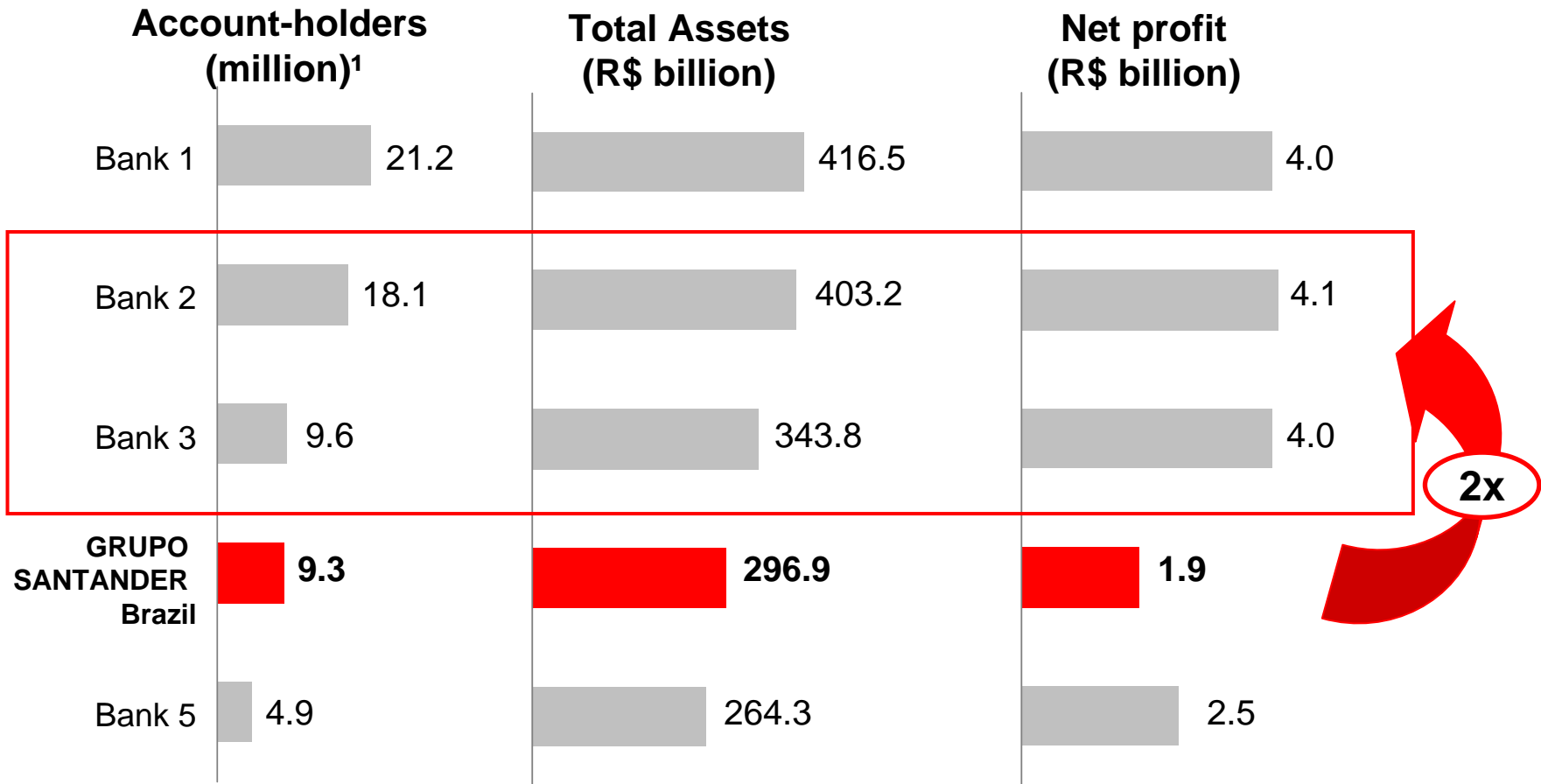
<sup>2</sup> Market consensus (Summer 2008 analysis)



# ... which will allow us to close the gap with our competitors ...

**After the integration, the new Bank will be one of the main players in the Financial System, with an initial profitability Gap**

June'08. Local criteria



<sup>1</sup> Customers under Banco Central's criteria. Total Assets and Net Profit according to published balance sheets

# ... and achieve the targets of the 2008-2010 plan

## Targets 2008-2010

% growth in Brazilian Reales

- Businesses: 15-20% CAGR
- Customer revenues:  $\cong$ 15% CAGR
- Expenses: < 0% in 2009 and 2010  
Cost synergies\*: R\$ 2,400 mln.
- Provisions: growing in line with the lending portfolio and the business mix

(\*) Cost synergies in 2011

**Attributable profit: >25% CAGR 08-10**

**We expect a R\$ 7.9bn net profit (for both banks combined) in 2010**

- Strategic vision: to become the best retail bank in Brazil
- Brazil: growing economy with great potential for further growth and bancarisation
- Grupo Santander Brazil: Santander + Real, an excellent starting point
- A well defined strategy for success:
  - Integration Plan: underway ...
  - ... compatible with Profitable Commercial Growth

## ■ Conclusions: Business Plan 2008 – 2010

# Conclusions

- **Brazil is a growing country**
  - Maintaining a growth differential compared with other economies
  - With solid macroeconomic fundamentals
  
- **The new Grupo Santander is well positioned**
  - Market share within the Group's standards
  - Present throughout the country with potential for development
  - Distribution capacity
  - Diversified portfolio with strong capital and liquidity
  
- **Execution plan defined to obtain good results**
  - Synergies and management structure are defined
  - Implementation timing defined and underway
  - Towards a single brand and network

**The organisation is prepared, defined and structured to make  
Grupo Santander Brazil ...**







R\$ MM	9M08	9M07	Y-o-Y (%)
Net interest income	14,246	11,956	19%
Net fees	4,857	4,496	8%
Insurance Activity	191	244	-53%
Gain (losses) on financial transactions	1,631	2,169	-25%
<b>Gross operating income</b>	<b>20,925</b>	<b>18,864</b>	<b>11%</b>
Other operating income	(189)	(102)	85%
Operating expenses	(8,527)	(7,793)	9%
Personnel	(4,352)	(3,901)	12%
Other administrative expenses	(4,175)	(3,892)	7%
Amortization	(622)	(533)	17%
<b>Net operating income<sup>1</sup></b>	<b>11,588</b>	<b>10,437</b>	<b>11%</b>
Provision	(4,719)	(3,463)	36%
Other income	(1,145)	(847)	35%
<b>Profit before taxes</b>	<b>5,725</b>	<b>6,127</b>	<b>-7%</b>
Tax on profit	(1,916)	(2,103)	-9%
<b>Net profit</b>	<b>3,809</b>	<b>4,024</b>	<b>-5%</b>
<b>Net profit (USD)</b>	<b>2,262</b>	<b>2,013</b>	<b>12%</b>

# Balance Sheet. Spanish GAAP



R\$ MM	30.09.08	30.09.07	Y-o-Y (%)
Cash	55,653	47,127	18%
Gross loans	133,409	108,550	23%
Provision	(6,638)	(4,435)	50%
Securities and derivatives	43,185	37,519	15%
Permanent assets	6,012	3,949	52%
Other assets	37,980	47,575	-20%
<b>Total Assets</b>	<b>269,601</b>	<b>240,285</b>	<b>12%</b>
Deposits	122,785	93,514	31%
Savings	13,472	12,986	4%
Demand	19,109	15,240	25%
Time	90,204	65,288	38%
Financial Intermediate	58,554	47,858	22%
Insurance liabilities	2,712	2,642	3%
Other payables	61,181	72,704	-16%
Stockholders' equity	24,369	23,567	3%
<b>Total Liabilities and stockholder's</b>	<b>269,601</b>	<b>240,285</b>	<b>12%</b>



