



London 29th & 30th September 2011

INVESTOR DAY

DELIVERING PROFITABLE GROWTH



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Risk Division

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1 Group Risk Profile

2 Credit risk

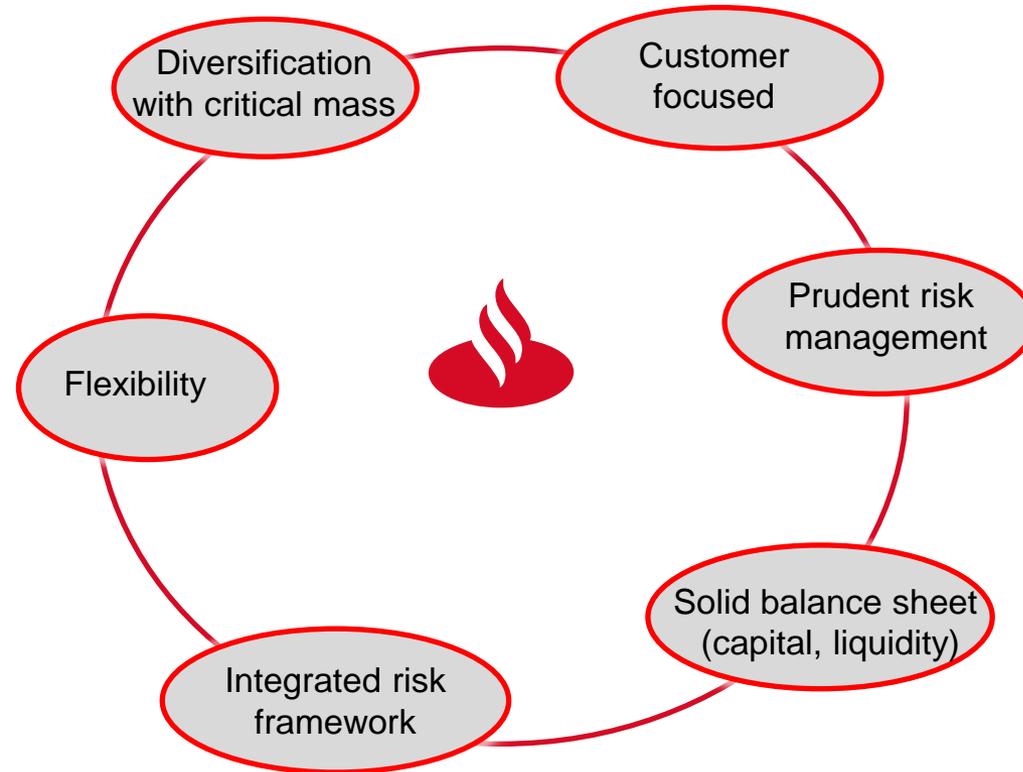
3 Market risk

4 Projections 2011 / 2013

- 1** Group Risk Profile
- 2 Credit risk
- 3 Market risk
- 4 Projections 2011 / 2013

Santander Risk Function

Key components of Santander's business model



SANTANDER RISK MODEL management principles

- ✓ Risk function **independent** of the business activity
- ✓ **Strong involvement** of Senior Management
- ✓ **Solid decision making process**
- ✓ Risk control and management **integrated** via **corporate structure with global scope**

Risk Appetite

Risk Appetite aligned with strategic solvency objectives

Credit Risk

- Discipline: kept within our core markets and customer base
- Appetite is quantified in Credit Budget:
 - Retail Banking: **strict policies** and **advanced credit models**
 - SMEs: **diversified** risk (customer and segment)
 - GBM: strict **concentration limits** (25% of Legal Lending Limit)
- Continuous Stress Test analysis for adequate level of provisions to cover expected losses

Market Risk

- Client driven activities in markets and no held-to-maturity portfolios
- No complex products.

Average VaR
2007-11 < USD 40 MM

Other Risk

- Operational risk
- Compliance and reputational risk

Continuos monitoring and
low tolerance

Risk profile: medium-low and predictable

Risk structure

A transparent and simple balance sheet ...

Balance sheet

EUR Million	<u>June 11</u>
■ Cash and deposits on central banks	90,003
■ Trading portfolio	95,806 (*)
■ Other financial assets at fair value	30,986
■ Available for sale financial assets	90,476
■ Loans	764,588
■ Intangible assets, property equipment and goodwill	44,092
■ Others	47,462
TOTAL ASSETS	1,163,413 (*)

Risk structure

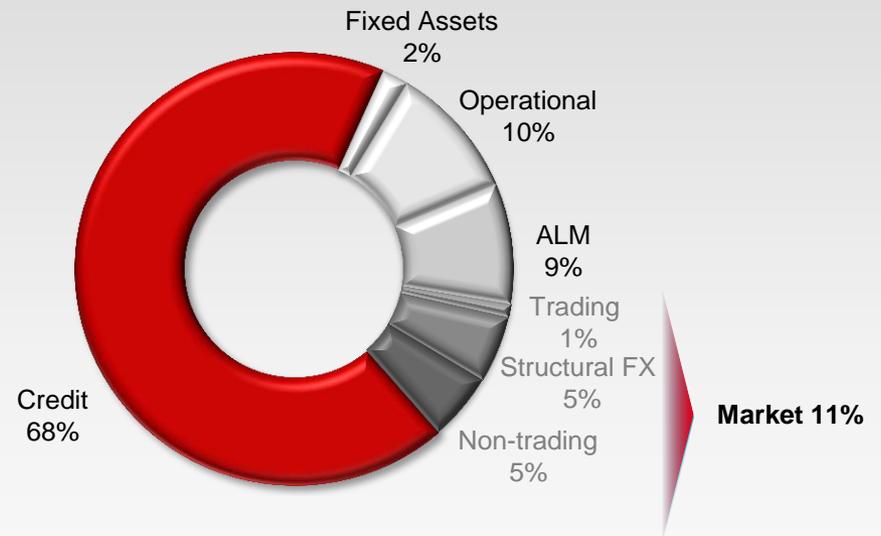
... reflects our business model and risk appetite

... Credit risk: our core business

... Market risk: low complexity activity and customer driven

Economic capital allocation by Risk Type

Jun11



1

Group Risk Profile

2

Credit risk

– By sectors and products

3

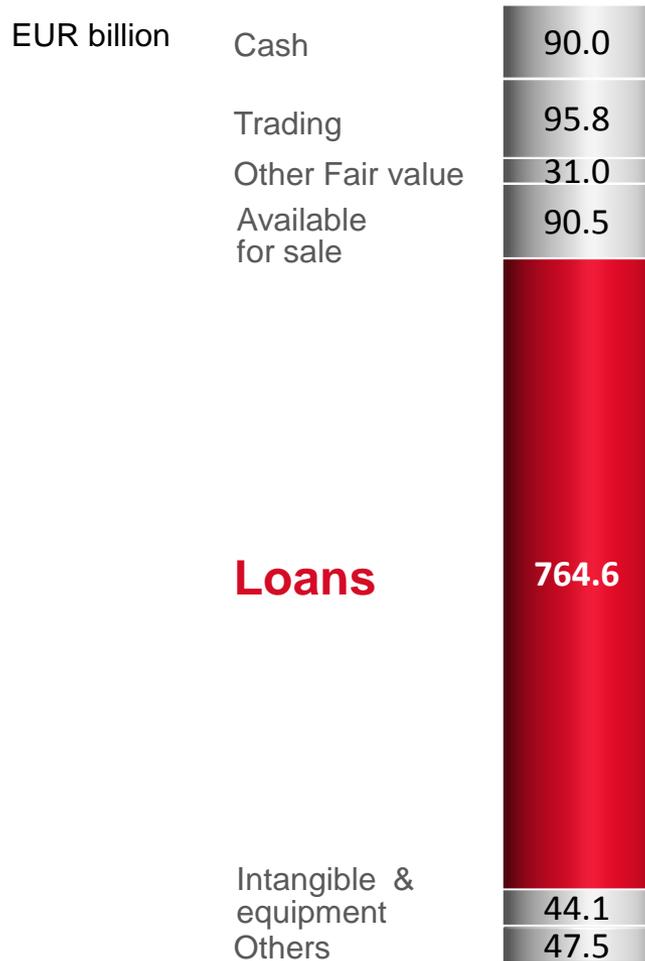
Market risk

4

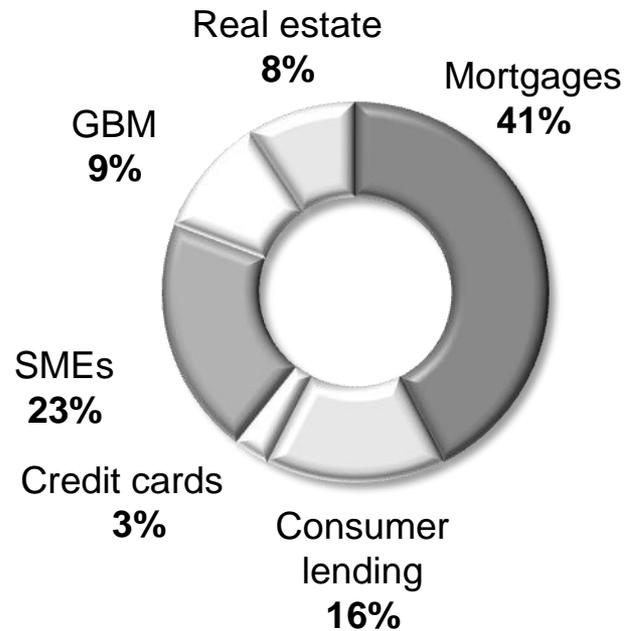
Projections 2011 / 2013

Credit Risk

Diversified credit structure reflects Santander's retail focus



By segments and products



Mortgages

Low risk profile in all geographies

EUR Mn	Assets	% NPL	PD/EL	LTV	Comments
UK	182,855	1.44%	2.51% / 0.04%	52.1%	Mainly a retail prime lender; does not originate second mortgages
Spain	59,292	2.4%	2.75% / 0.57%	51.4%	Mainly first residence; low expected loss
Portugal	16,517	2.7%	1.96% / 0.18%	55.5%	Actions taken in underwriting: override rate reduction, production with a LTV < 80%...
USA	12,534	3.5%	1.83% / 0.25%	64.8%	Focused on residential mortgages (64% of the portfolio) and home equity
Others	SCF Germany represents 2.2% of total mortgages / Chile 2% / Mexico 1.1%				
Total	303,825	2.2%	2.45% / 0.15%		

Consumer Lending

Profitable segment adjusted by risk with high recovery capabilities

EUR Mn	Assets	% NPL	PD/EL	Credit cost	Spread	Comments
SC Germany	22,365	5.0%	2.4% / 0.96%	1.6%	6.0%	Specialized consumer lending Focused on auto financing
SC USA	11,084	3.9%	21.1% / 8.3%	5.0%	19.9%	
SC Others (*)	22,325	5.5%	4.9% / 1.9%	1.9%	5.5%	
Brazil	27,970	9.4%	14.3% / 6.8%	8.2%	19.1%	Balanced mix (nearly 50% auto financing and 18% payroll loans) with wide spreads
Spain	24,372	6.5%	5.1% / 2.4%	2.9%	4.4%	Strict admission process criteria
Others	UK represents 5% of total consumer lending / Chile 2% / Mexico 1%					
Total	119,755	6.1%	7.8% / 4.0%			

SMEs (excl. Real Estate)

Well diversified portfolio mainly to finance SMEs' working capital

EUR Mn	Assets	% NPL	PD/EL	Customers *	Comments
Spain	84,207	4.1%	2.5 % / 1.1 %	251,803	High diversification across all industry sectors
Brazil	23,715	7.1%	10.3 % / 5.1 %	528,168	Performance is in line with the industry standard given the weight of the small companies (48%)
UK	12,472	3.1%	2.4 % / 0.9 %	65,415	Conservative risk profile focused on high quality customers with run-off portfolios being actively managed
USA	7,203	4.2%	3.3 % / 1.5 %	42,154	Improving performance of core segments due to strict credit policies in line with the Group's standards
Others	Chile represents 5% of total SMEs' assets / Mexico 3%				
Total	168,864	4.1%	3.8 % /1.7 %		

Well diversified portfolio built on deep customer relationships

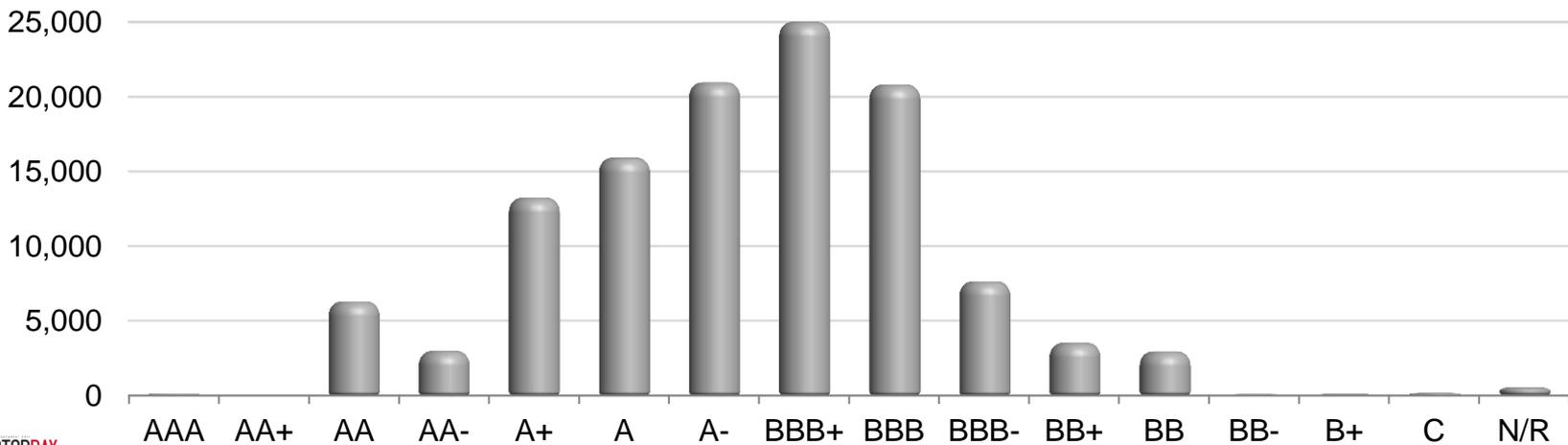
EUR Mn

REC*	% NPL	PD/EL	Corporates	Comments
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Total Group

122,247	0.52%	0.65 % / 0.29 %	759	Exposure accounts for 34% of total Group's portfolio. Strict lending limits are applied to avoid concentration
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93.9% of exposure* is investment grade (32.0% with rating >A-)



* REC: credit risk exposure (maximum EAD, including associated derivatives exposures (EUR 11,800 mn as of 30.06.11)

Real Estate

Low Group exposure and ring-fenced risks in countries under pressure (i.e. Spain)

EUR Mn	Assets	% NPL	PD/EL	% Cover.	Comments
UK	18,427	5.4%	1.2 % / 0.12 %	35.5%	Low risk profile with € 7.7 Bn of Social Housing assets with zero NPLs
Sovereign	11,069	5.4%	11.8 % / 4.0 %	83.0%	Good credit quality portfolio with 43% of multifamily (3.2% of NPLs) and 12% in run-off mode , actively pursued
Spain	25,347	21%	16.5 % / 5.5 %	30.8%	Low Real Estate exposure over total loans, Spain (11%) and total Group (3%)
Others	Portugal represents 4% of total assets / Latam Ex-Brazil 2% / Brazil 2%				
Total	59,613	12%	11.0 % / 3.1 %		

1

Group Risk Profile

2

Credit risk

– By geographies

3

Market risk

4

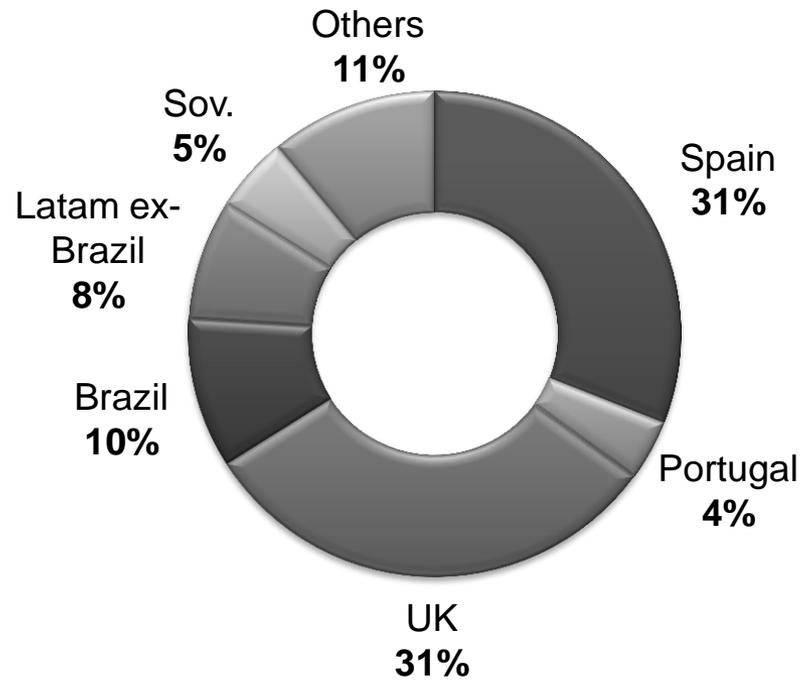
Projections 2011 / 2013

Credit Risk

Geographic distribution reflects our core markets activity



By geographic area

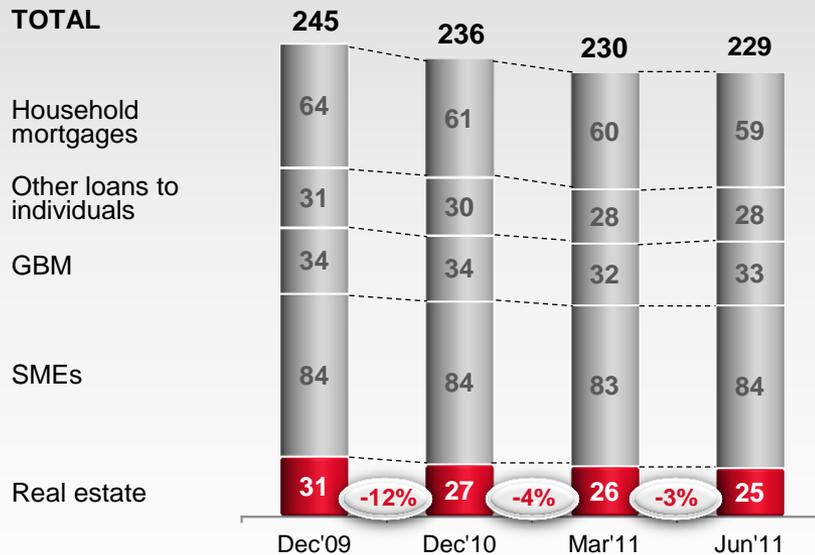


Spain: Credit Risk

Deleveraging process with NPL ratios stabilising, except in the real estate segment

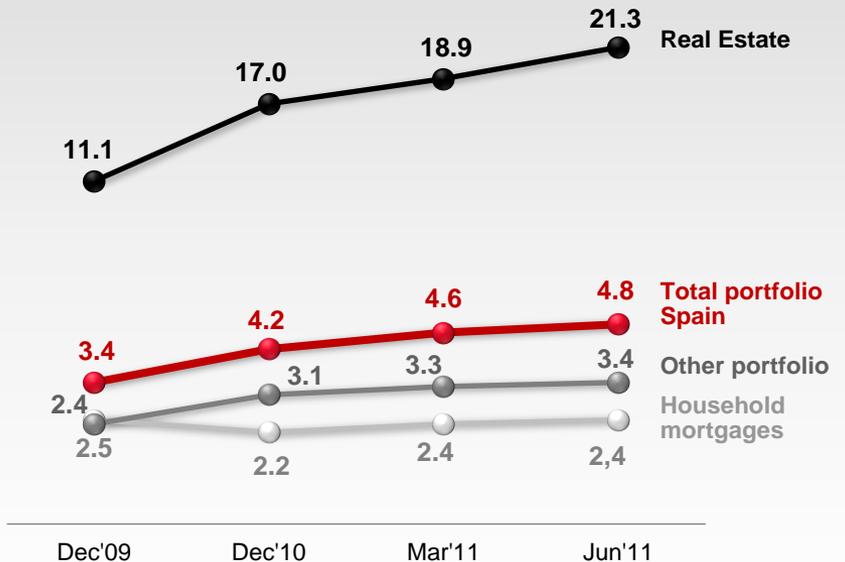
Loans

EUR billion



NPL ratio

%



(1) NPL ratio calculated over consolidated balances, excluding intragroup

Spain: Mortgages

Low risk portfolio with very limited expectations of additional worsening

Spain's mortgages. Differential characteristics

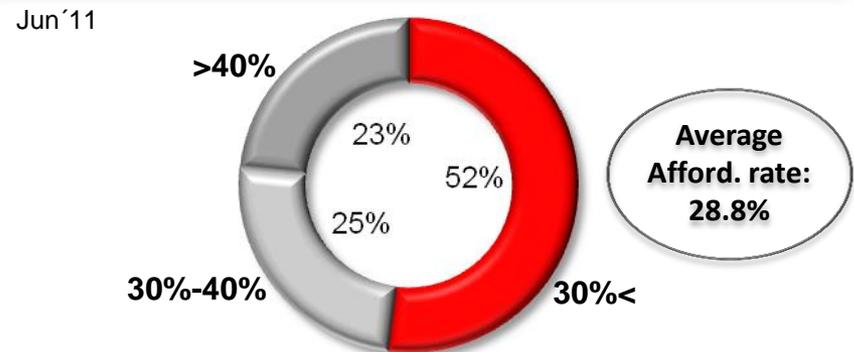
- All mortgages **pay principal since the first day**.
 - Furthermore, **early amortisation** is a usual practice: the average life of the loan on contract is 23/24 years, while the actual term decreases to 13/14 years on average.
- **A very high percentage of mortgage loans are to finance first residence.** Given that the borrower has home ownership, the expected loss is very low.
- All **borrower assets** are subject to recourse, not just the property.
- **Most mortgages are at variable rate** with fixed spread over Euribor.

EUR Mn	Assets	% NPL	PD/EL
	59,292	2.4%	2.75% / 0.57%

Concentration in low LTV tranches show high credit quality



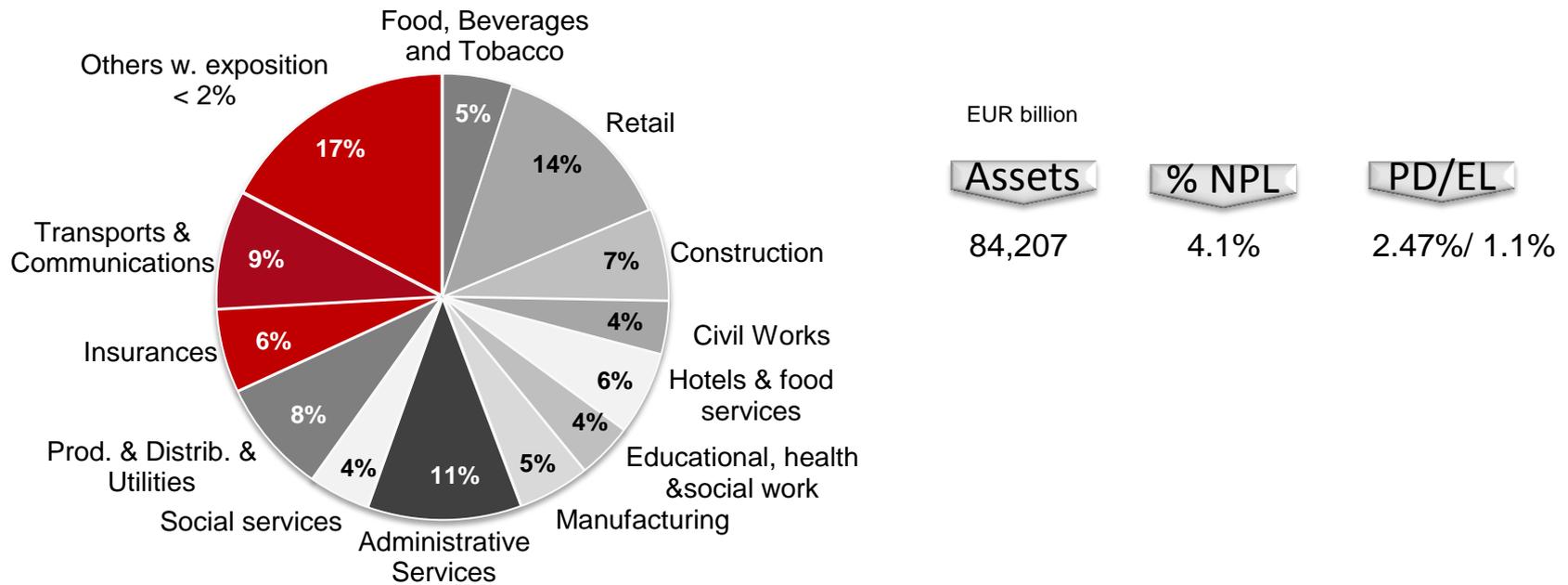
Strict admission policies



Spain: SMEs

Firms impacted by the macro environment but already adjusted after three years of recession

- **Good credit quality with adequate rating distribution:** appropriate to the current economic environment



- **Large number of customers with no significant concentration:** 251,803 customers with an average exposure of € 0.33 MM
- **Diversified exposure across all industry segments:** Assets distributed in more than 21 sectors. Maximum in retail (14%)

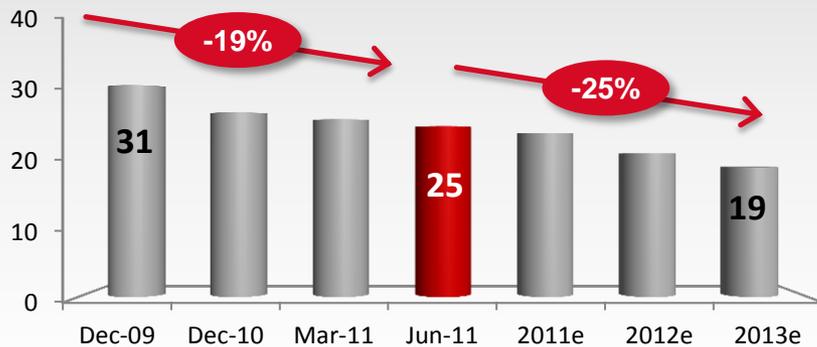
Spain: Real Estate

Very limited risk as a percentage of total group loans and subject to an intensive reduction process

Real Estate Loans

Loans

EUR billion



Weight evolution

	<u>Dec'09</u>	<u>Jun'11</u>
Spain	13%	11%
Total Group	4.4%	3.4%

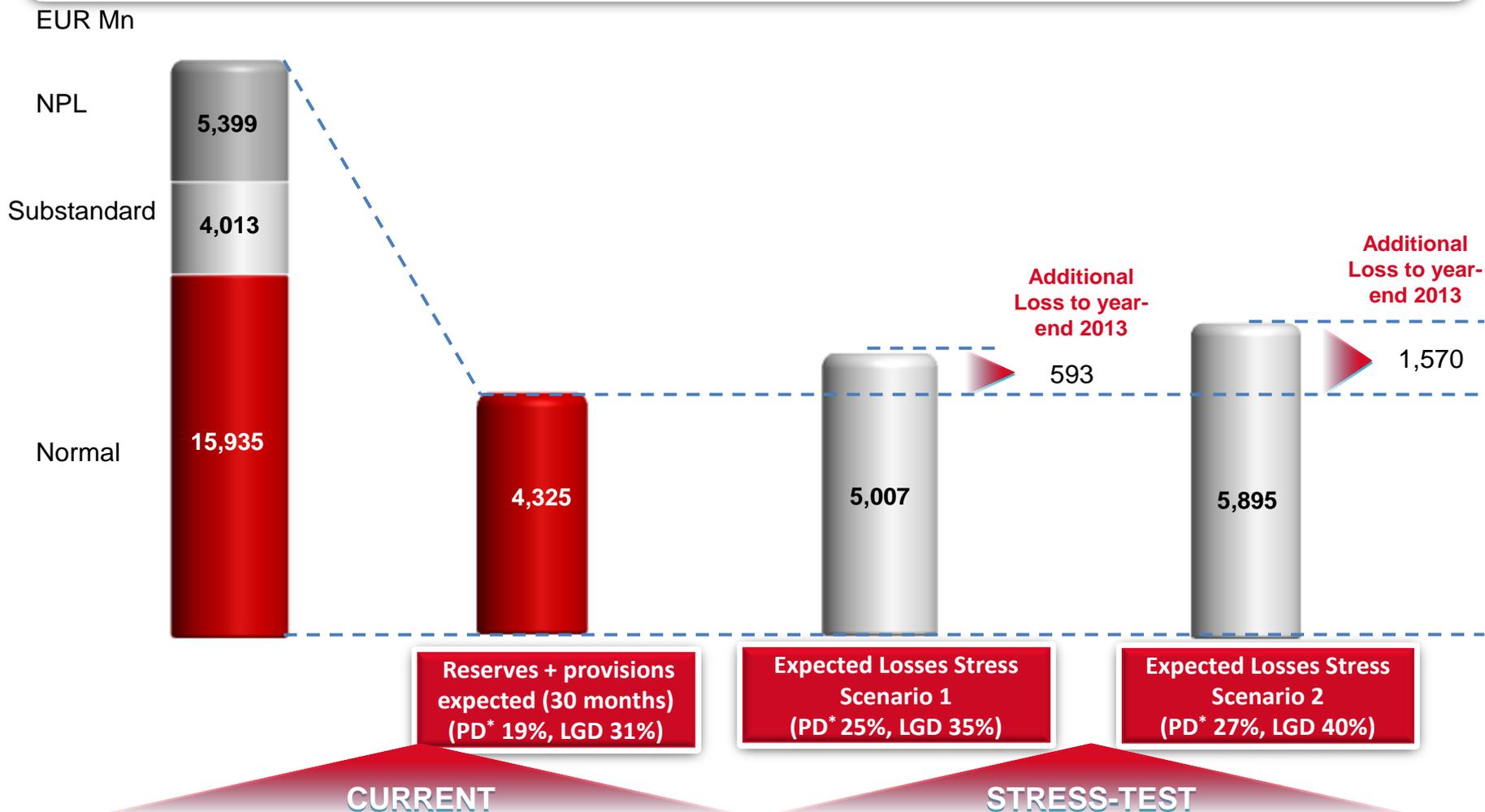
Coverage. June 2011

EUR million

	<u>Risk</u>	<u>Coverage</u>	
	<u>Amount</u>	<u>Amount</u>	<u>%</u>
▪ NPLs	5,399	1,659	31
▪ Substandard	4,013	467	12
▪ Generic		333	
Total	9,412	2,459	26

100% of substandard and 50% of NPLs are performing

SPAIN: REAL ESTATE (to year-end 2013)



Additional losses well under last annualised quarter's net operating income after provisions in Spain (EUR 2,536 Mn)

Scenario 1 2012GDP: -1% 2013GDP:0,8% / 2011additional housing price: -10% 2012 additional housing price: -2%;

Scenario 2 2012GDP: -1% 2013GDP:0,8% / 2011additional housing price: -15% 2012 additional housing price: -5%;

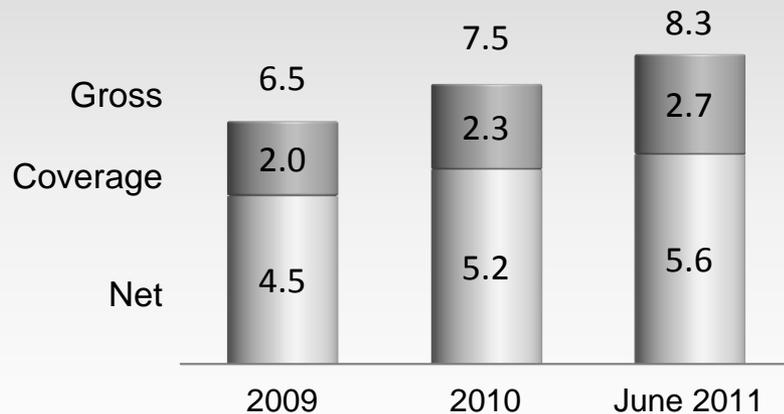
(*) First year PDs

Spain: Real Estate Assets* (Foreclosed)

Active management in the early stages of the downturn.
Prudent and anticipated coverage policy

Balances

EUR billion



Breakdown. June 2011

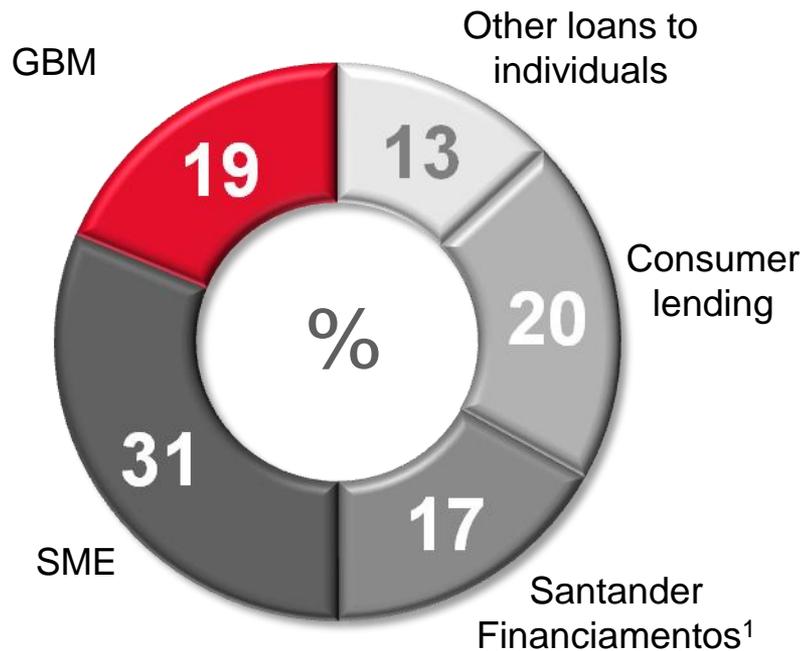
EUR million

	Gross Amount	Coverage	Provisions	Net Amount
▪ Finished buildings	3,314	25%	820	2,493
▪ Buildings under constr.	700	25%	172	528
▪ Developed land	2,979	38%	1,118	1,861
▪ Building land	992	42%	412	580
▪ Other land	350	42%	147	203
Total	8,335	32%	2,669	5,665

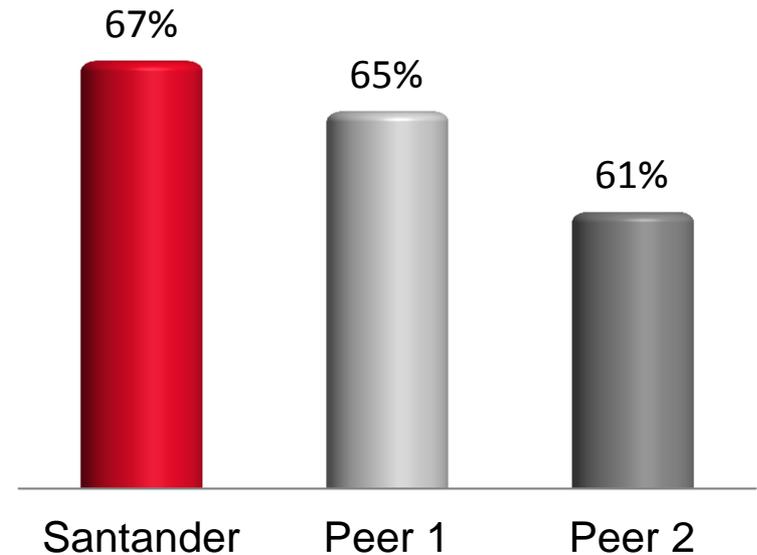
Assuming an additional decrease between 10-15%** of current prices, additional losses estimated:
566 – 850 EUR million

Reserves cover average losses in actual recent sales

Brazil: Balanced mix, with retail focus ...



% Retail³



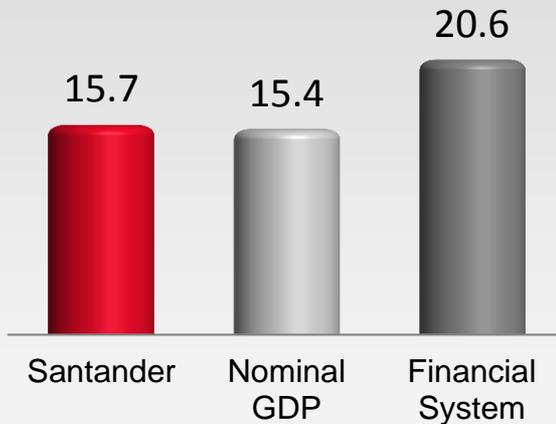
**Total = BRL 175,439 mn
(EUR 77,624 mn)²**

(1) Specialized unit for consumer lending (auto loans) (2) Exchange rate as of 30.06.11 (3) Individuals and companies with sales less than BRL 250 million (Santander and Peer 2) or than 150 million (Peer 1) over total portfolio (including sureties and guarantees)

Brazil: ... and prudent and steady growth

Prudent growth...

% Credit Assets Growth
Dec 2010 / Dec 2009



Source: IMF, Banco Central do Brasil

- Growth in line with Brazilian economy, maintaining prudent approach on credit

... with slight upturn of delinquency rates...

Delinquency (Over 90, Santander)



- Inflation control policies impacted greater on individuals, and consequently on banks with retail profiles

... but within comfortable parameters

Spread – cost of credit (Santander)

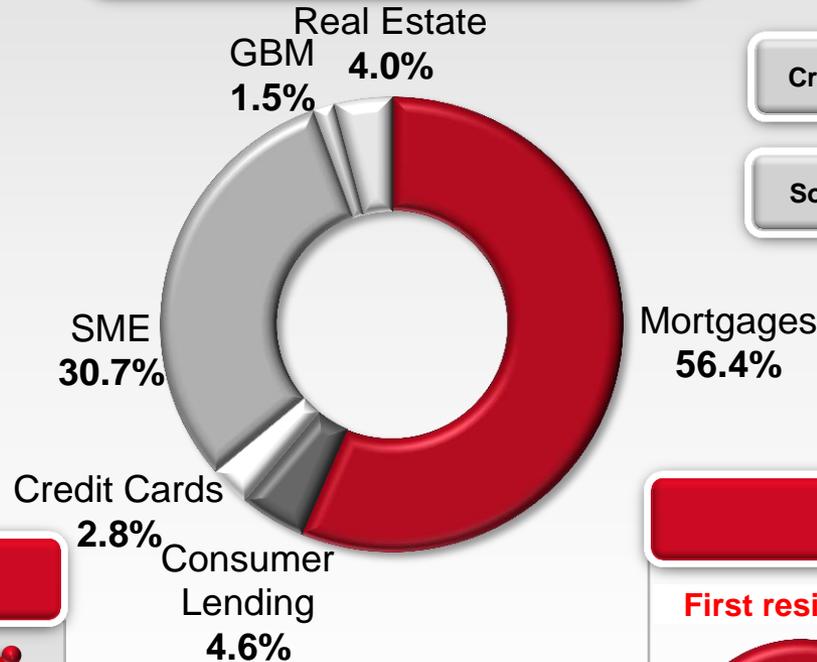


- In any case delinquency rates continue at moderate levels and are backed by ample spreads

Portugal: Sovereign Crisis

- Complex macro environment in 2011 and 2012
- Moderate impact due to the quality of the portfolio (mostly mortgages to medium-high income individuals)
- Low weight within the Group.

4% of the Group total loans



Credit portfolio: 29,266 EUR mn

Sovereign debt: 1,600 EUR mn

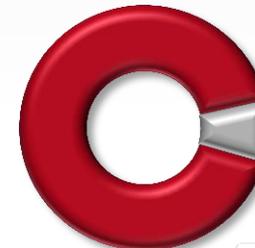
NPL Ratio



Coverage ratio Jun'11 = 61.52%

Mortgages

First residence: 92%



Second residence and others: 8%

NPL ratio: 2.65%

Average LTV: 55.5%

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Group Risk Profile

2

Credit risk

– Credit quality ratios

3

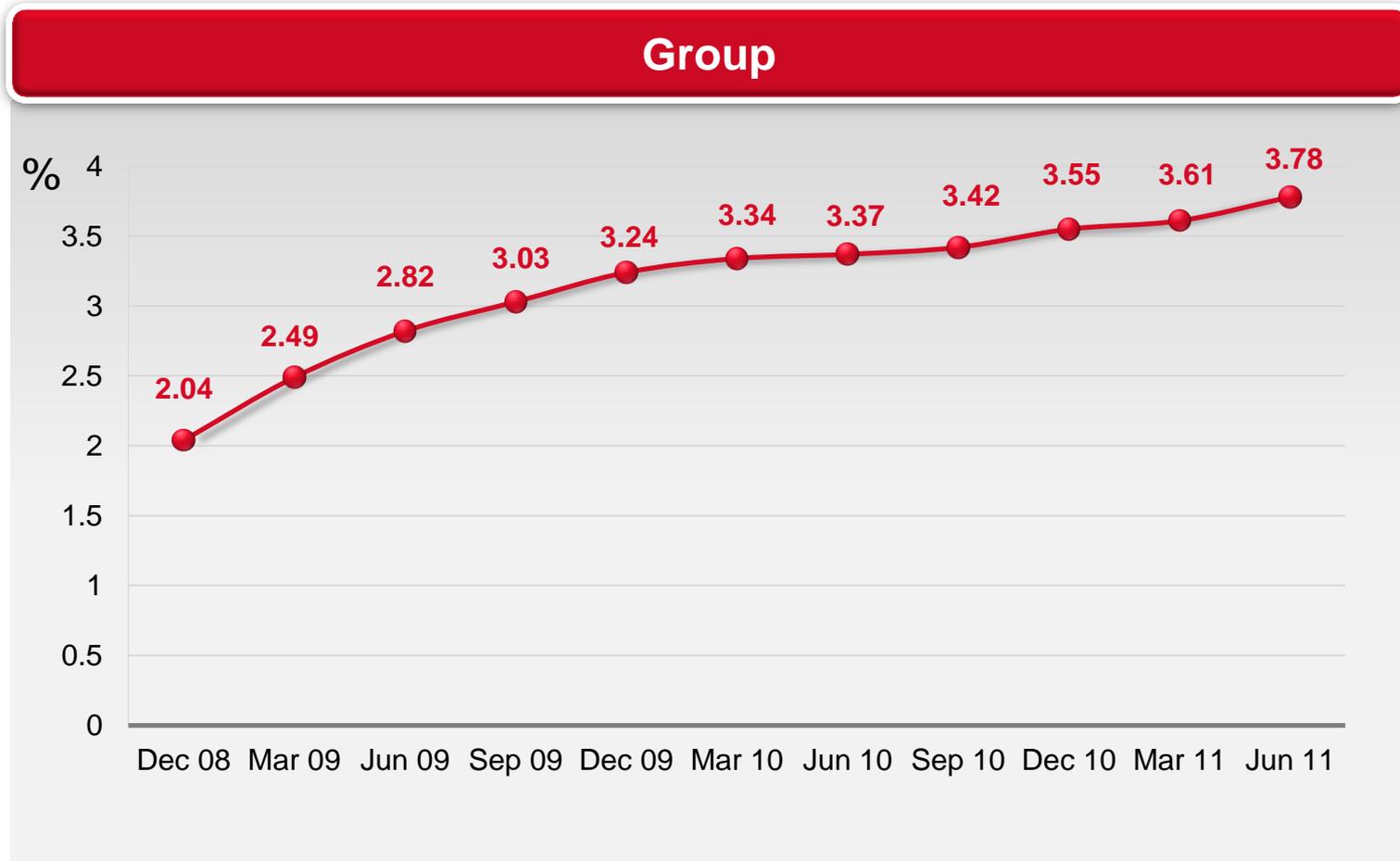
Market risk

4

Projections 2011 / 2013

NPL ratios

- Group ratio shows diversification effect that softens the crisis impact

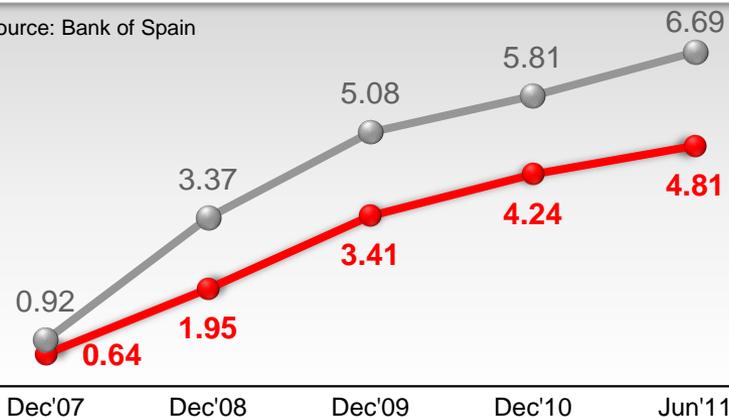


NPL ratios

- Banco Santander compares well to peers in our core markets

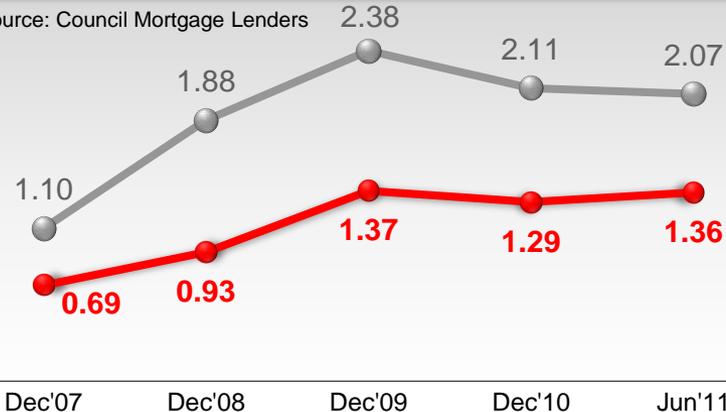
Spain

Source: Bank of Spain



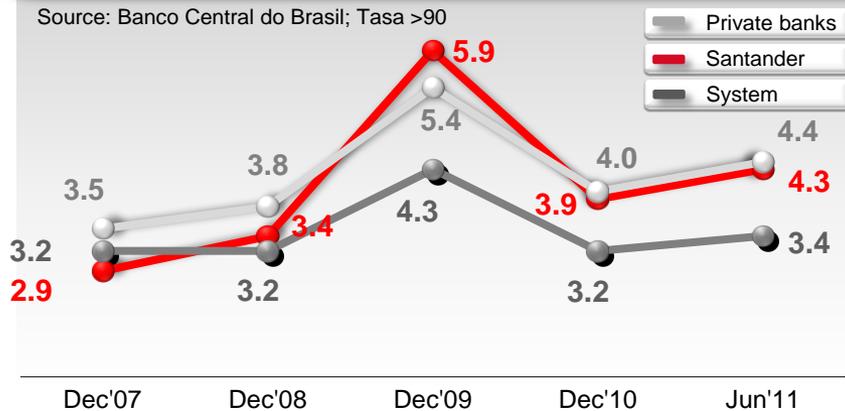
UK

Source: Council Mortgage Lenders



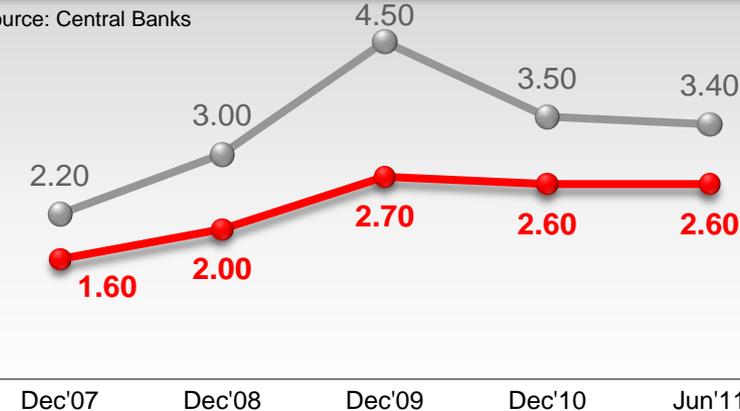
Brazil

Source: Banco Central do Brasil; Tasa >90



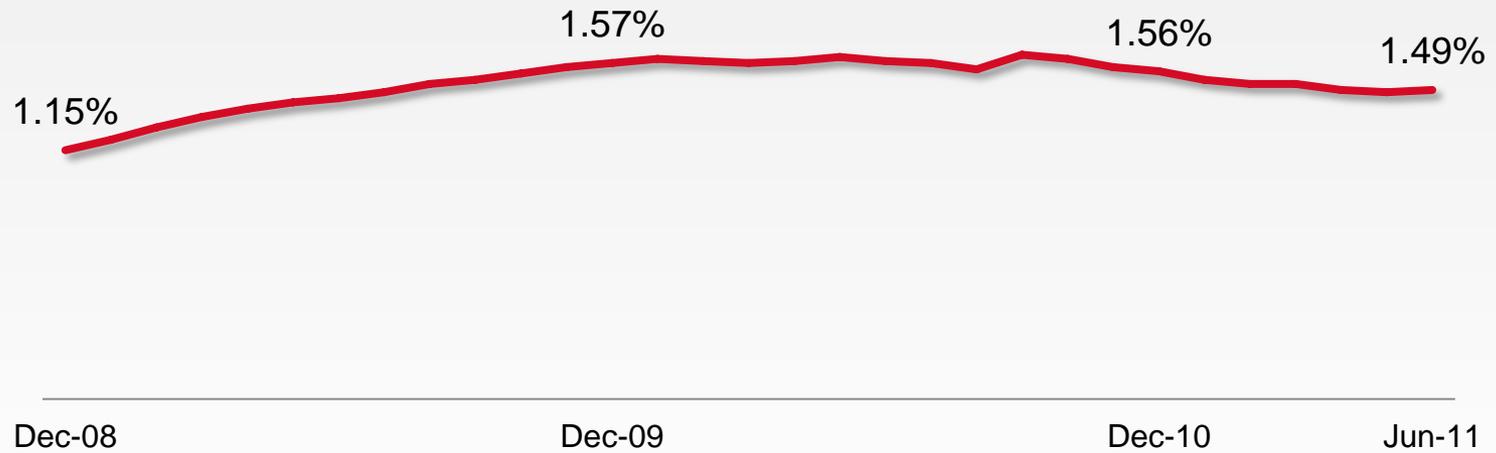
Latam ex-Brazil

Source: Central Banks



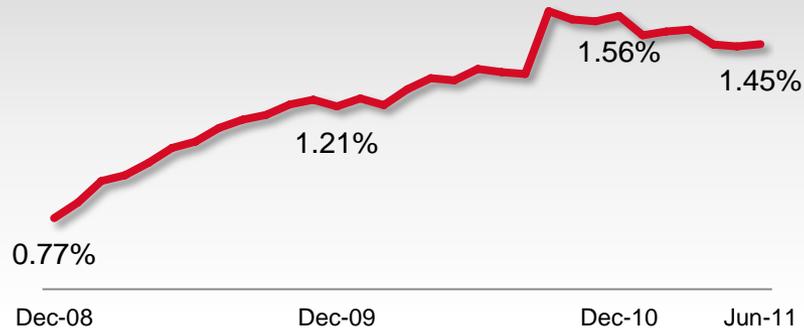
Cost of Credit (Specific provisions)

Cost of credit remains stable

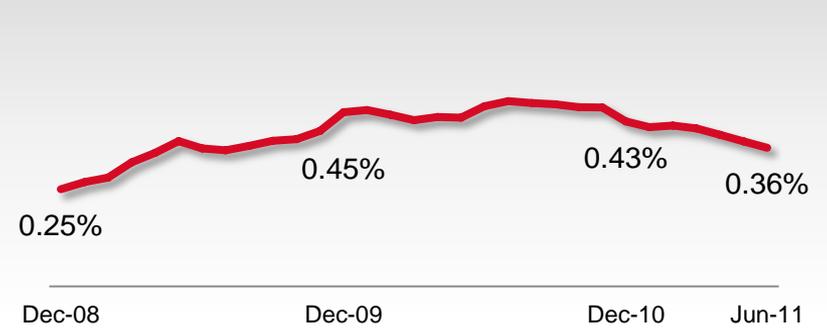


Cost of Credit (Specific provisions)

Spain



UK



Brazil



Latam ex-Brazil



Notes: Latam ex-Brazil: includes Argentina, Chile, Colombia, Mexico, Puerto Rico and Uruguay

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Group Risk Profile

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Credit risk

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Market risk

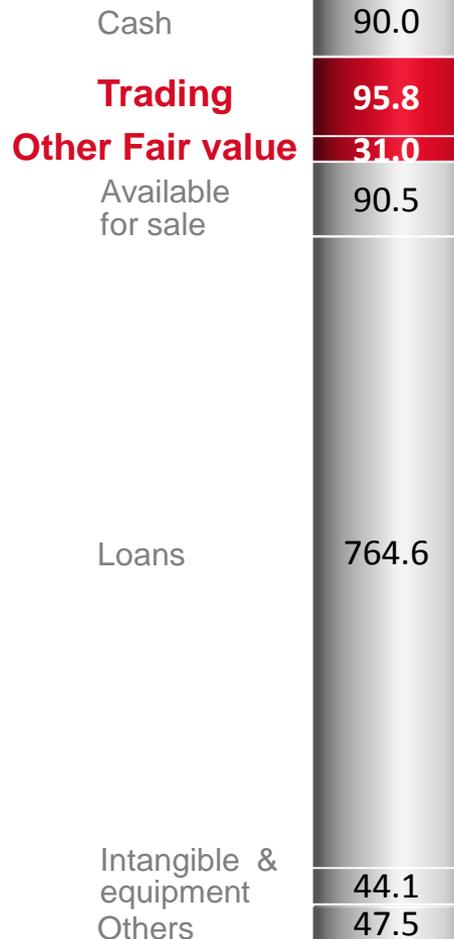
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Projections 2011 / 2013

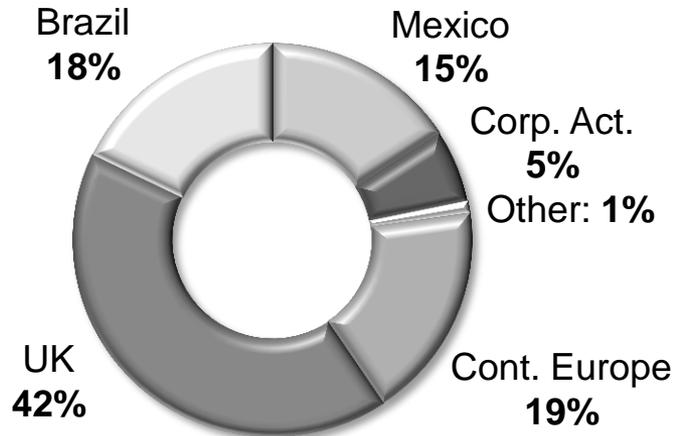
Market Risk

Low complexity activity

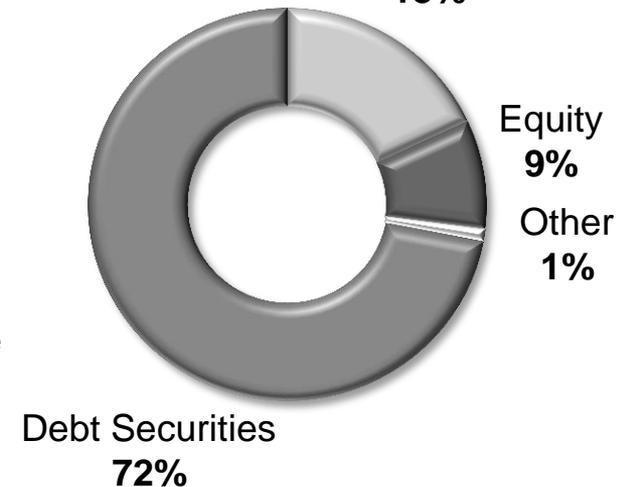
EUR billion



Trading activity



Interbank Deposits



Other fair value

- 37%: deposits at credit institutions due to Repo activity in GBM
- 26%: assets from unit-linked insurance plans; risk held by policyholders

Market Risk Appetite

Trading Risk

Qualitative drivers

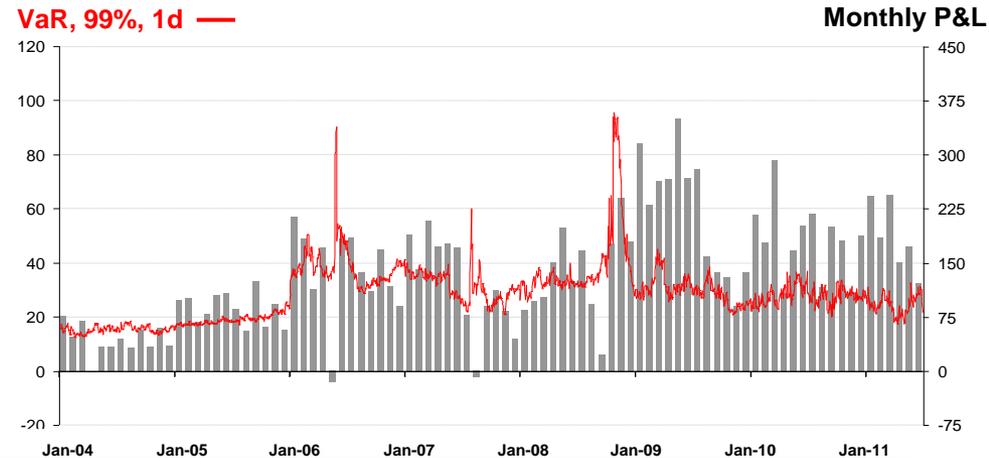
- Low complexity
- Focused on Corporate Clients
- Flow Products
- Low market Risk profile
- Avoiding complex structured products

Average Daily VaR (€ mill.)

2007	2008	2009	2010	2011
29	40	30	29	25

Quantitative drivers

- Trading limits as a percentage of the budget



Trading supports a client driven business: recurrent revenues
The average VaR in June was € 28 million

Structural Risk

Qualitative drivers

- Positions mainly consist of sovereign local bonds in AFS portfolios
- No held-to-maturity portfolios

Quantitative drivers

- NIM sensitivity as a ratio of interest margin of the Group, Market Value of Equity sensitivity vs. Equity

NIM sensitivity lower than 2% of the Group's NIM and MVE sensitivity lower than 1.5% of total equity

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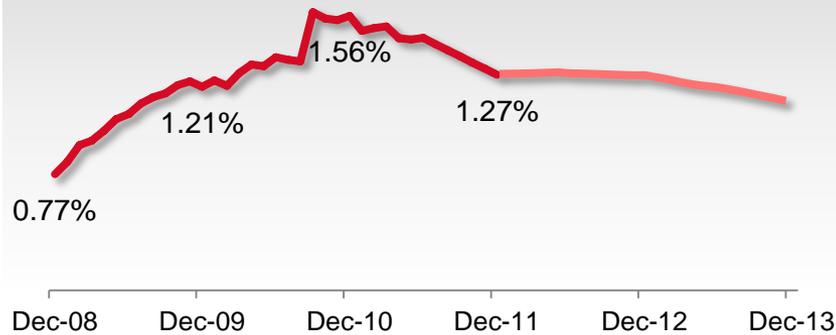
Cost of Credit Forecasts (Specific provisions)

Foreseeing stable Cost of Credit in the coming years



Cost of Credit Forecasts (Specific provisions)

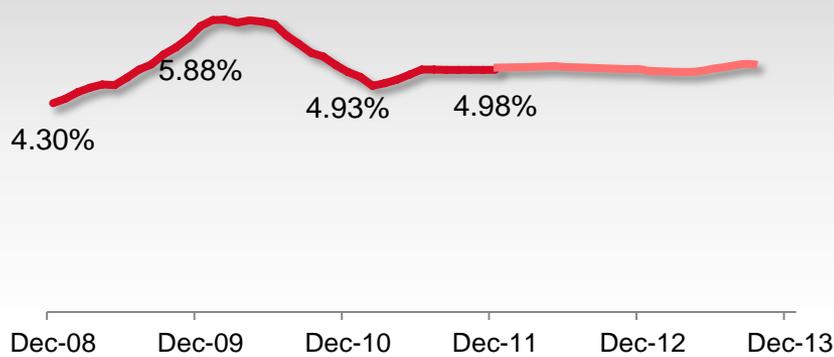
Spain



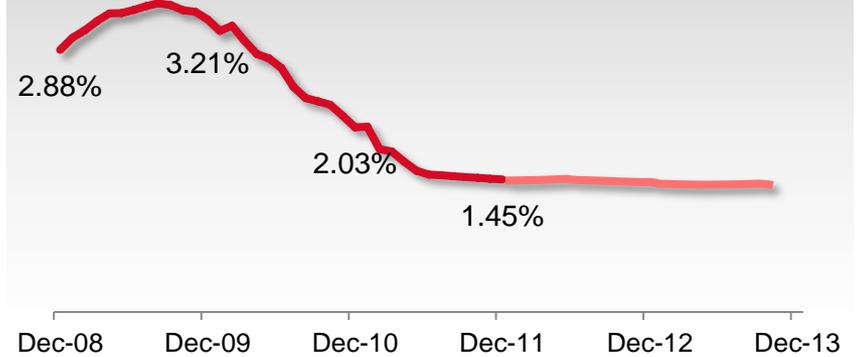
UK



Brazil



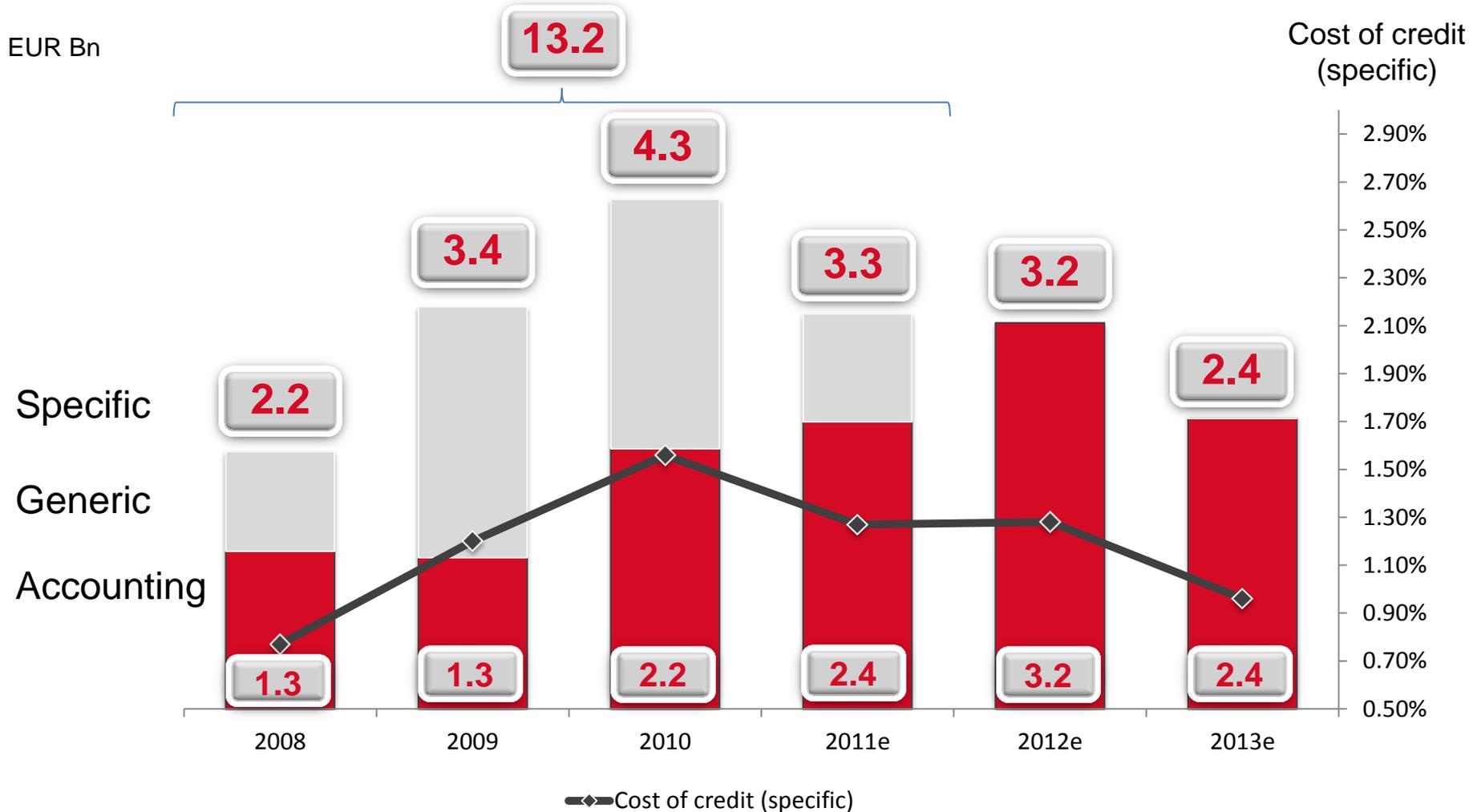
Latam ex-Brazil



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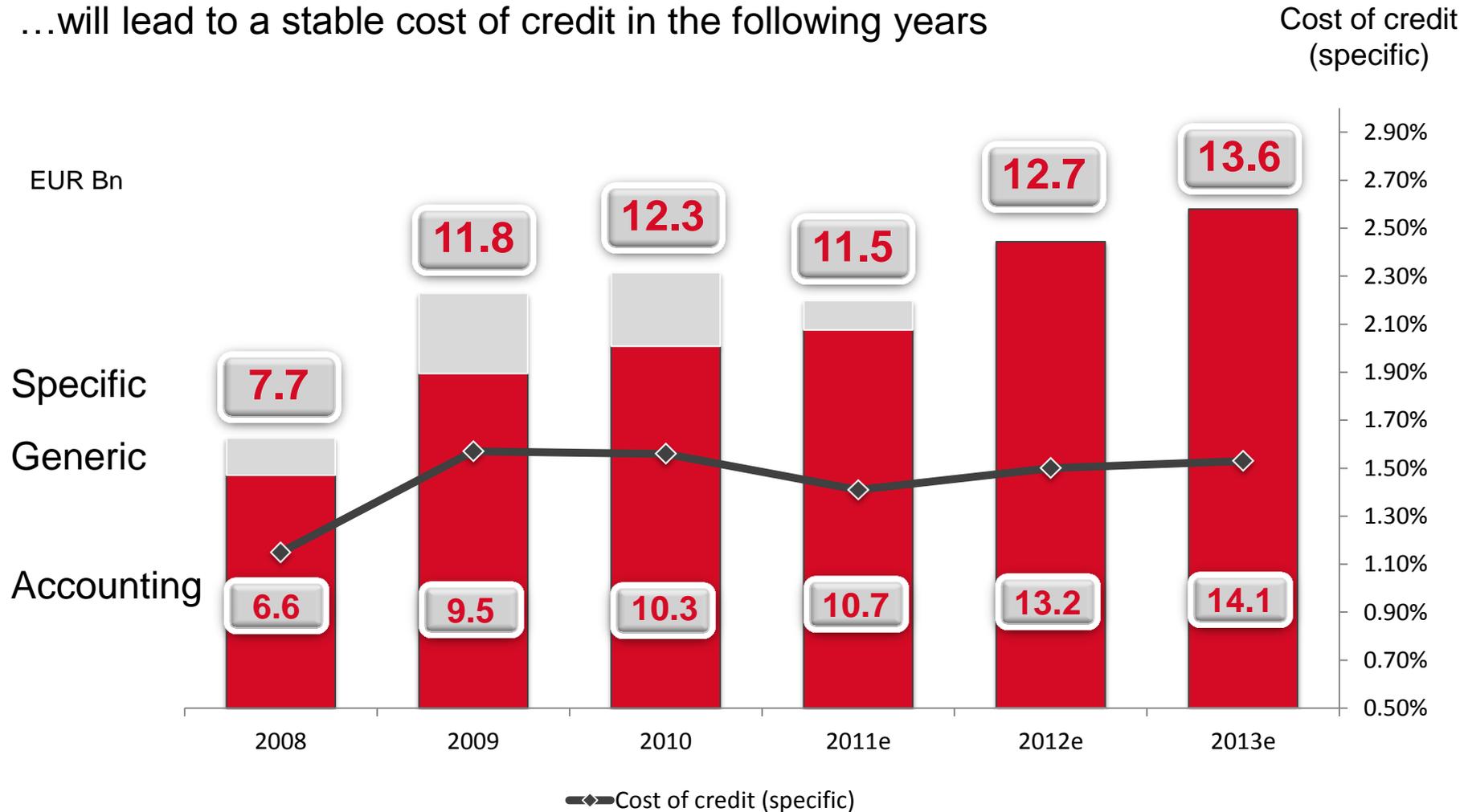
Stable forward looking cost of credit– Spain

Specific provisions vs accounting provisions



Stable forward looking cost of credit– Total Group

- Increase of asset volumes
- Risk Premium decrease in most portfolios
- Readjustment of generic provision
- ...will lead to a stable cost of credit in the following years



Conclusions

- A focused retail banking strategy outperforming our peers throughout the crisis
- Independent Risk Management and Control
- Well diversified portfolio
- Limited exposure to Spanish Real Estate (3% of total loans portfolio)
- Limited exposure to sovereign debt
- Expected normalization of cost of credit and provisions in Spain after 2012
- Stable cost of credit, well under control in all markets

