

Financial perspective

Latin America Investor Day 2006

Boadilla, November 21st, 2006

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Note: Statements as to historical performance, historical share price or financial accretion are not intended to mean that future performance, historical share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior year.

The role of the Corporate Center:

1- ...to develop a business portfolio that can deliver high quality, recurrent, across-the-cycle growth ...

2- ... making sure we have a portfolio focused on markets with high growth potential:

- LatAm: high GDP growth x bancarisation potential: Why is this time different?

3- ... making sure each unit outperforms in their own local market

- LatAm: market share gains across the board

4- ... providing strategic flexibility to adapt to their own life cycle

- LatAm: entering the “falling risk; rising profitability” sweet spot

5- ... and making sure the Group is worth more than the Sum of its Parts by developing intra-group synergies

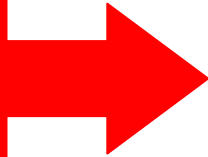
- Regional and local projects

Conclusions

The role of the Corporate Center

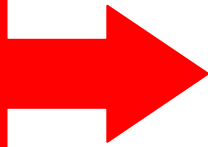
To develop a business portfolio that can deliver high quality, recurrent, across-the-cycle growth...

P&L quality



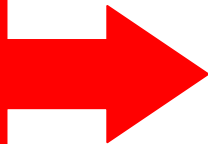
- “Horizontal” quality: all units contributing to the growth
- “Vertical” quality: growth is driven by the most recurrent (customer net interest income, fees / commissions) as opposed to “one-off” items

Balance sheet quality



- Risk / leverage standards are not being compromised in order to deliver bottom line growth

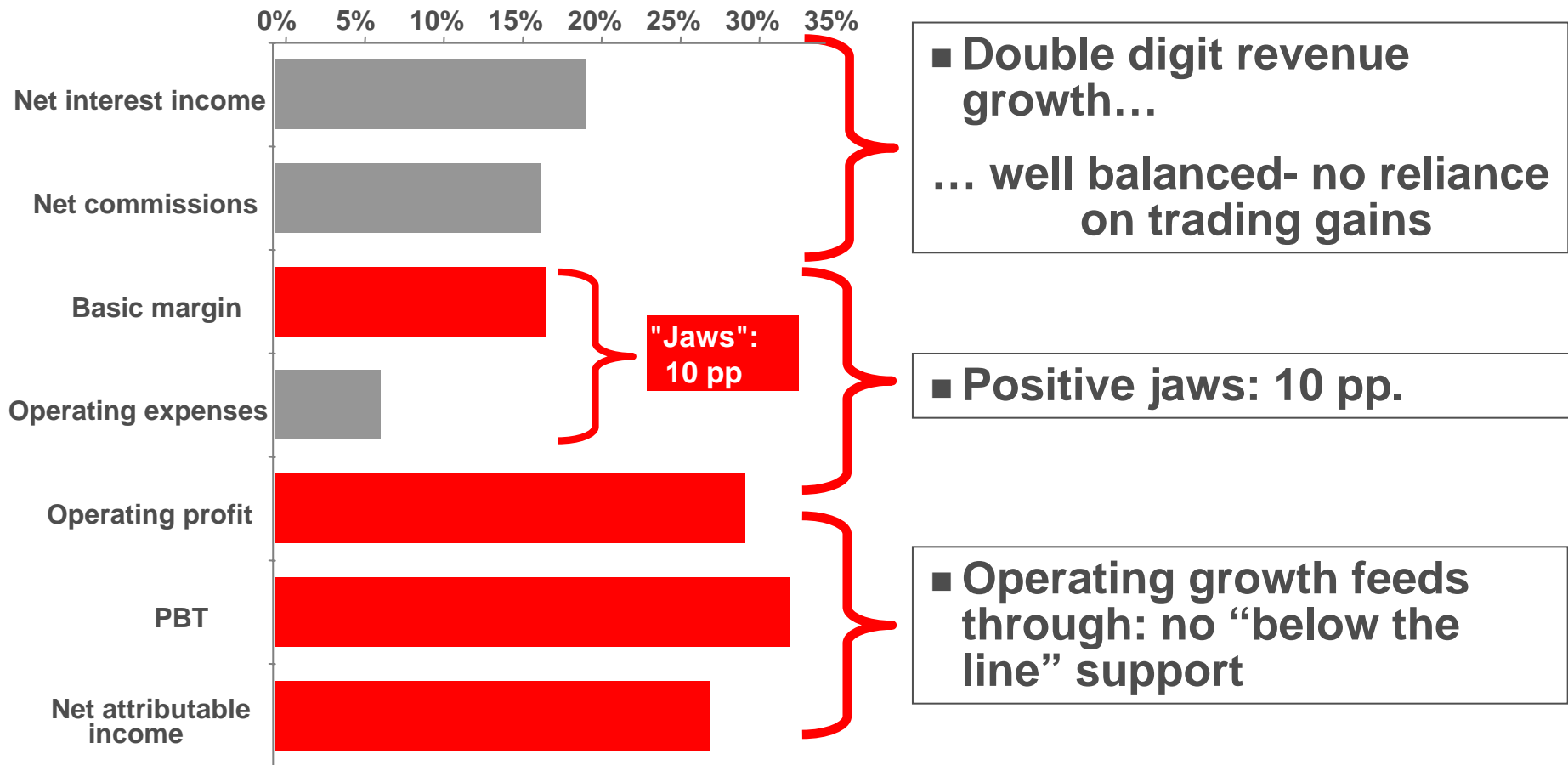
Service / franchise quality



- Bottom line growth is not being delivered at the expense of service quality; i.e., long term franchise quality is not being compromised in order to boost short term profits

1. P&L Quality: Good “vertical quality”: all P&L lines contributing to bottom line growth...

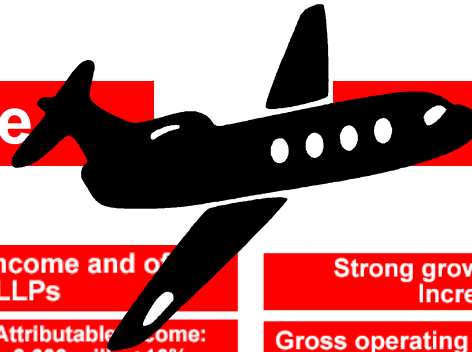
Group P&L- 9m 06 vs 9m 05



Good “horizontal quality”... All units are contributing to the growth

Continental Europe

LatAm



Strong and diversified growth of net operating income and of attributable income, absorbing generic LLPs

Strong growth of revenues with costs under control in all countries. Increase of LLPs due to expansion and change in mix

Gross operating income:
7,932 mill.; +15%

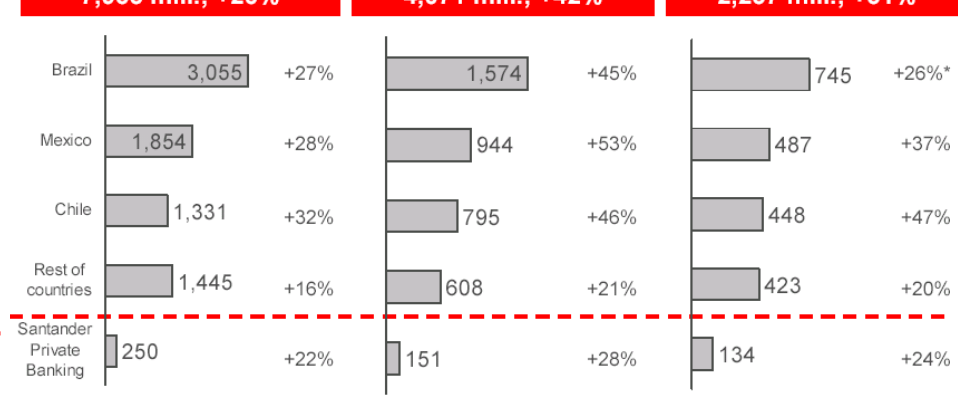
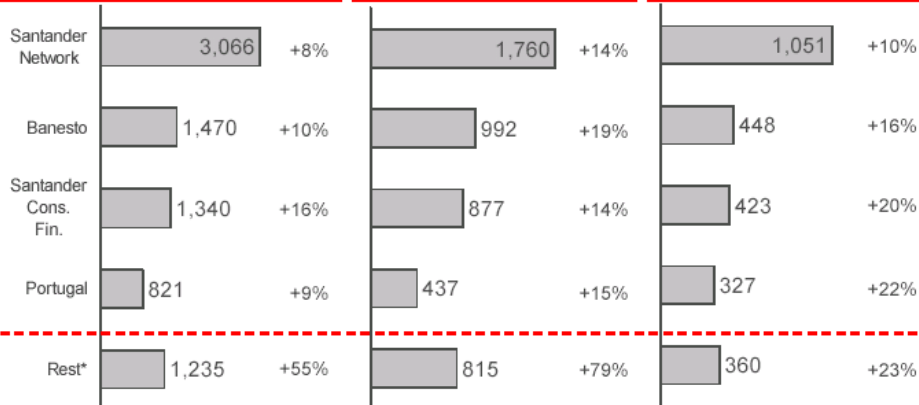
Net operating income:
4,881 mill.; +22%

Attributable income:
2,609 mill.; +16%

Gross operating income:
7,935 mill.; +26%

Net operating income:
4,071 mill.; +42%

Attributable income:
2,237 mill.; +31%

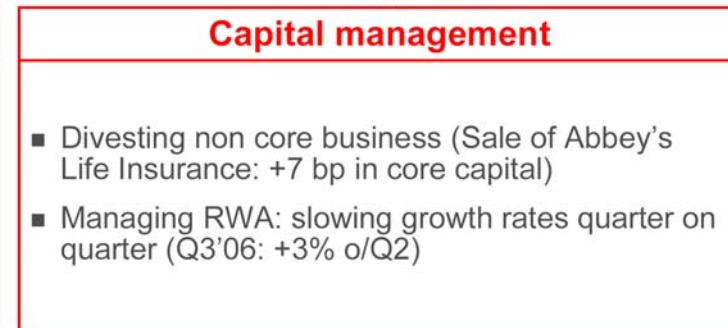
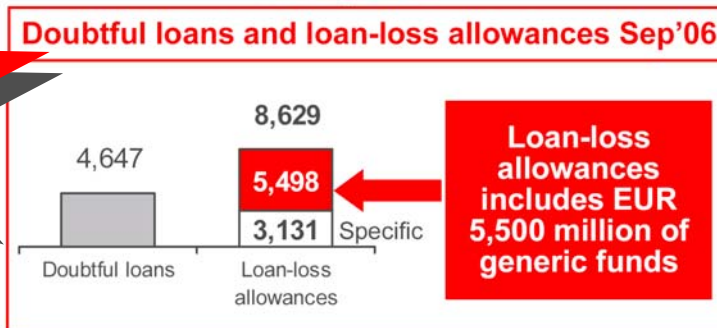
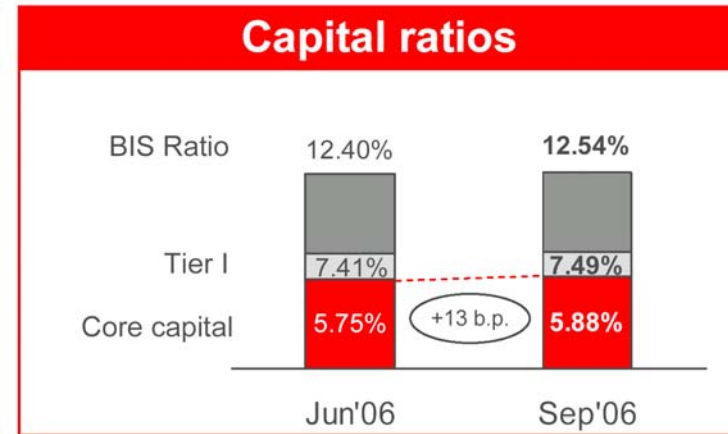
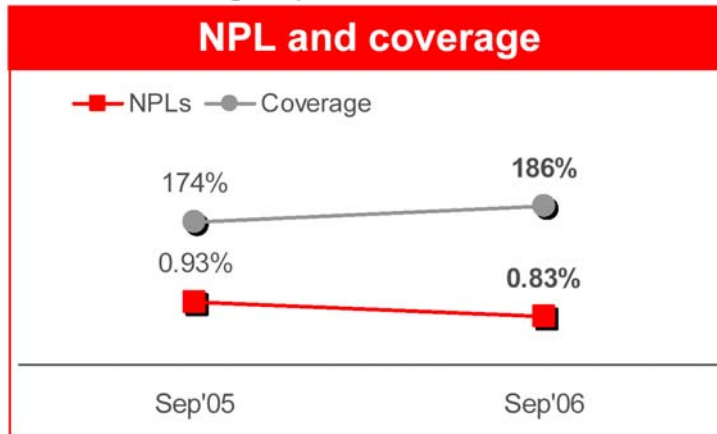


The Group is flying on all engines

2. Balance sheet quality: We do not want to compromise future growth by relaxing credit standards...

Strong NPL coverage...

... in a highly collateralised portfolio

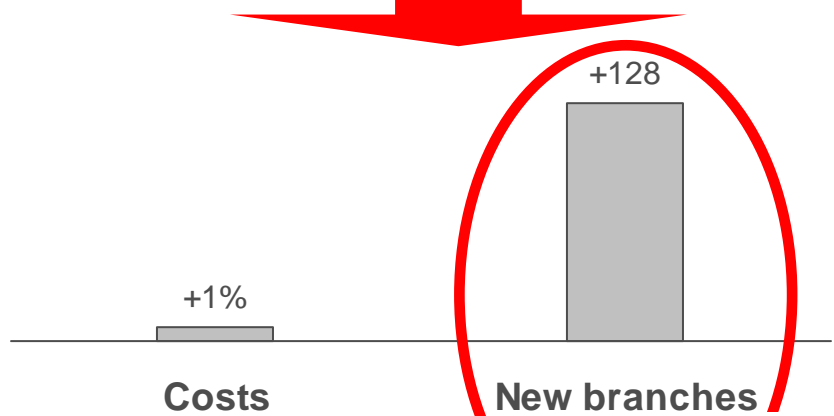


**€5.5bn
buffer**

We will not compromise balance sheet quality for some short term profit growth

3. Service Quality: Some banks feel the temptation to trade customer satisfaction (i.e., long term franchise value) for short-term profits

Our IT system is allowing us to increase customer-facing staff while keeping a lid on costs...

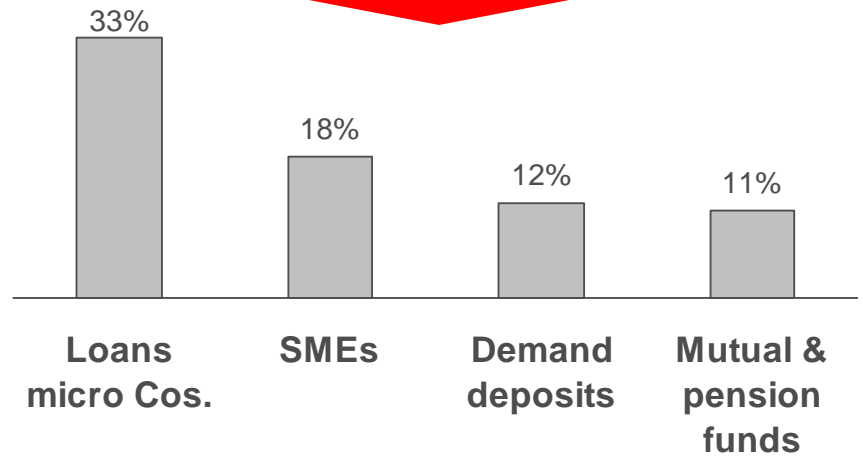


We do not believe in “squeezing the lemon”...



... we are investing heavily in the business

... which is allowing us to deliver strong growth in customer volumes



0€ Deja de pagar las Comisiones de Servicio*
Si tienes con nosotros tu nómina o pensión o hipoteca o plan de pensiones.

Queremos **ser tu banco**

The role of the Corporate Center:

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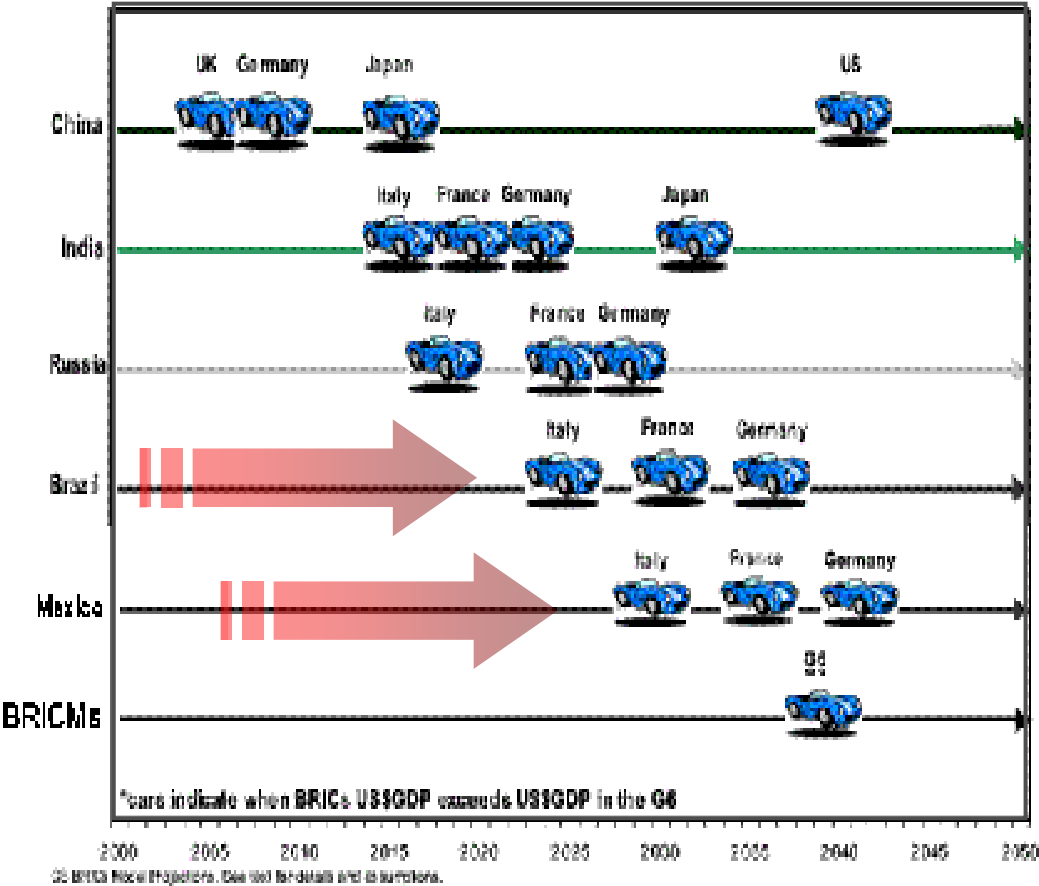
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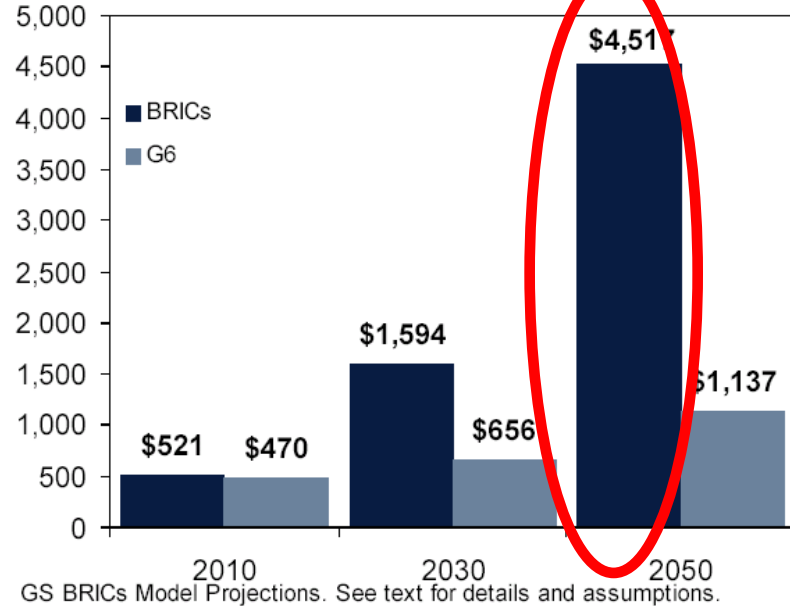
We want to have a good balance between developed and developing markets in our business portfolio (BRIC+M)...

Overtaking the G6: When BRICs' US\$GDP Would Exceed G6



Annual increase in US\$GDP (2003 US\$bn)

Incremental Demand From the BRICs Could Eventually Be Quadruple G6 Demand



Out of these markets only Brasil and Mexico are really open

The LatAm “growth multiplier”:

1- Structural economic change

- Supportive demographic trends
The potential has always been there- why is this time different?
- Supportive external environment: e.g., commodity prices
- Better external balances
- Better policies:
 - Fiscal policies
 - Monetary policies (orthodox interest rate policies, flexible exchange rates)

X

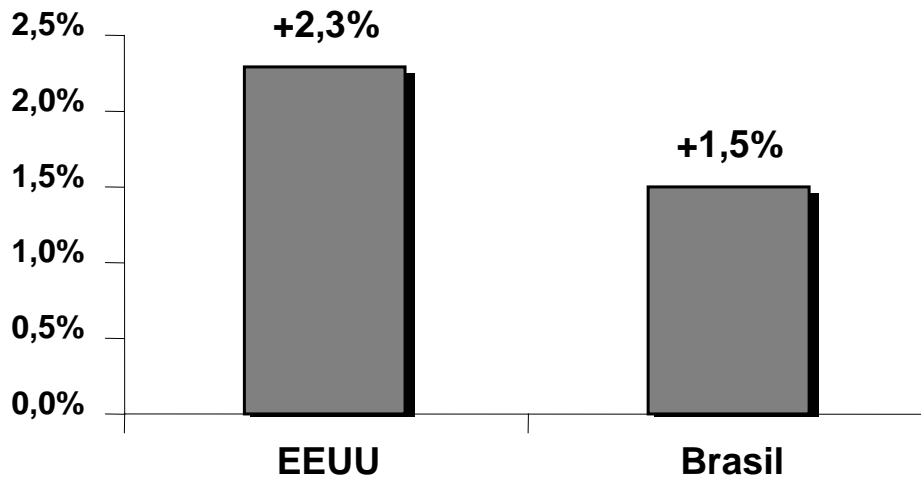
2- Underdeveloped banking systems

- Large parts of the population do not have banking relationships
- Bancarisation levels (loans / GDP, deposits / GDP) below not only developed market levels, but also those of other emerging markets (Asia, Eastern Europe, South Africa)
- Growth driven by: development of a middle class; development of a yield curve; better regulation

Yes, surprisingly LatAm did not behave like an emerging market in the 90s ...

... emerging markets lost the 90s...

GDP per capita growth (1995 - 2004)



This trend has changed in the past 3 years.....:

- **Good GDP growth**
- **Currency appreciation**
- **Narrowing of country risk spreads**
- **Strong credit growth to the private sector**

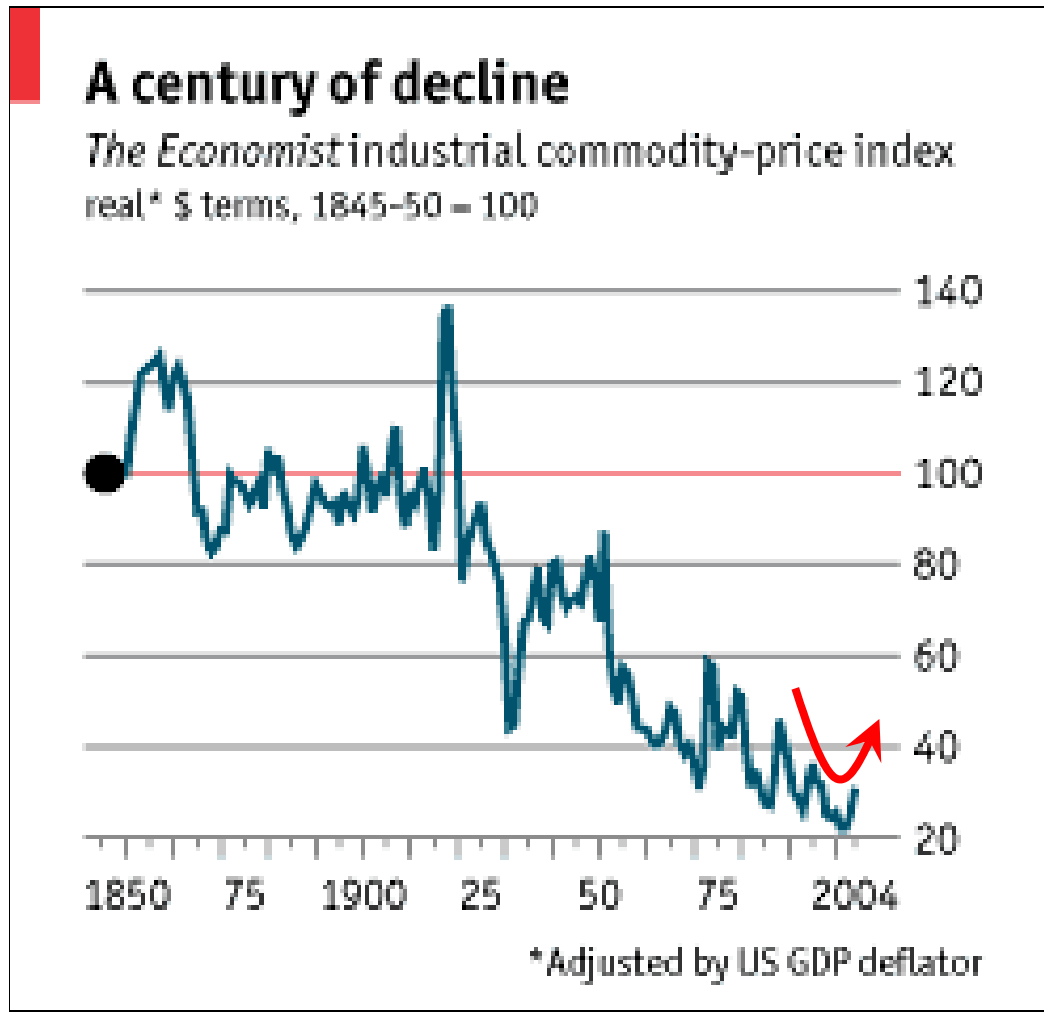
Yes...it failed on the back of a policy - confidence vicious circle:

- Strong Reliance on foreign saving
 - Current account deficit
 - Fiscal deficit
- Debt issuing
 - Forex denominated
 - Short term maturities
 - Floating rates
- Fixed exchange rates
 - Rule out competitive adjustments



...made the region vulnerable to confidence ups & downs

...amid deteriorating prices of some of its key exports in the global value chain

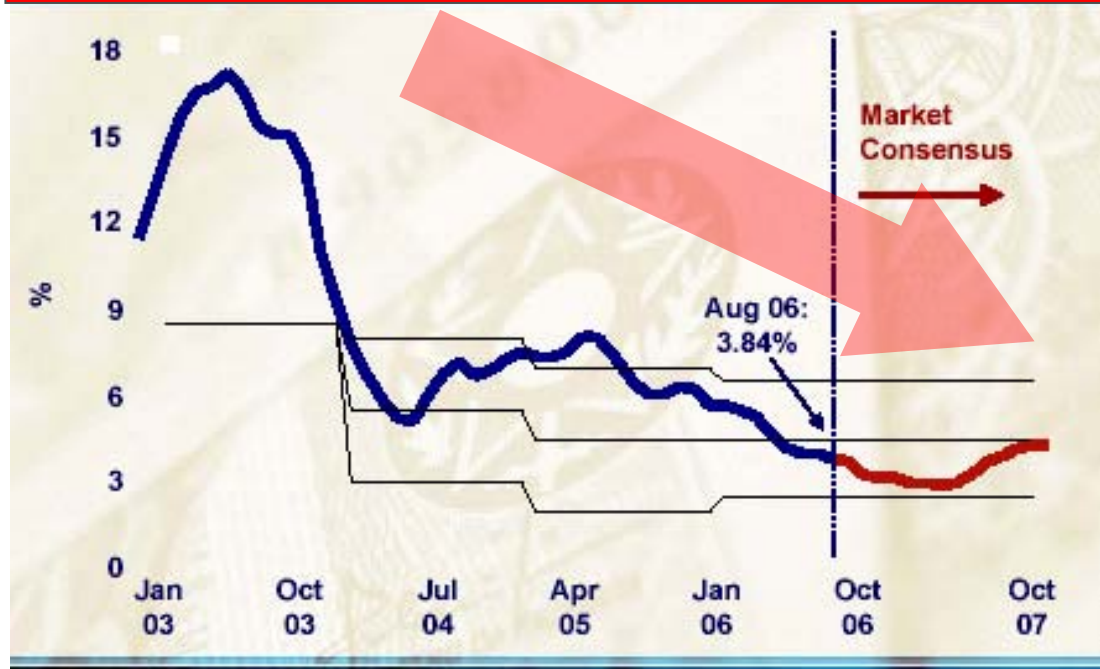


Why is this time different?

Better monetary policies...

- Independent central bank
- Flexible exchange rates

Brazil- inflation rate

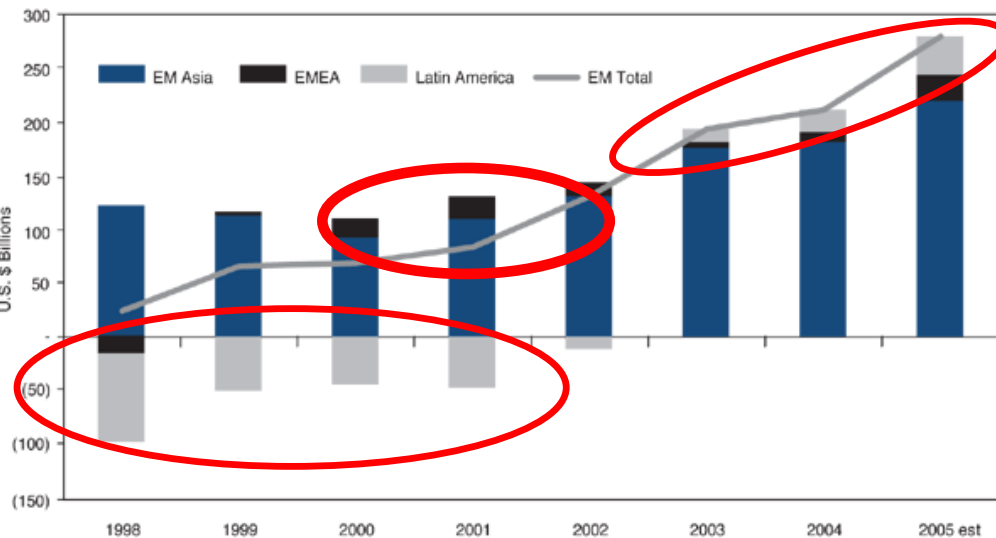


... allow flexible exchange rates

Why is this time different?

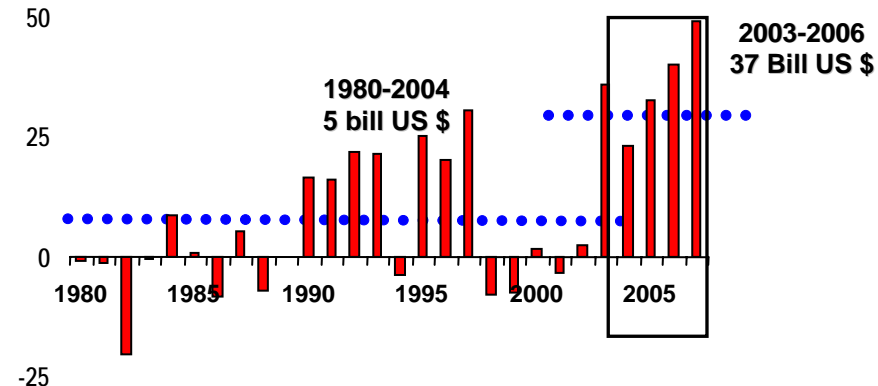
Improved external balances (domestic saving)...

Emerging Markets Current Account Balance



Source: JPMorgan, as of March 15, 2006

Change in international reserves...

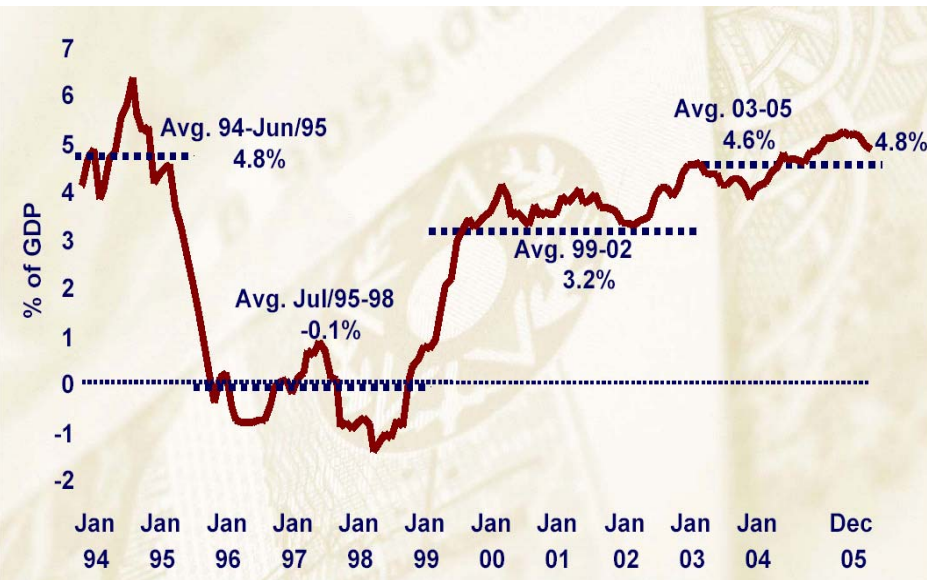


... reduce its external vulnerability

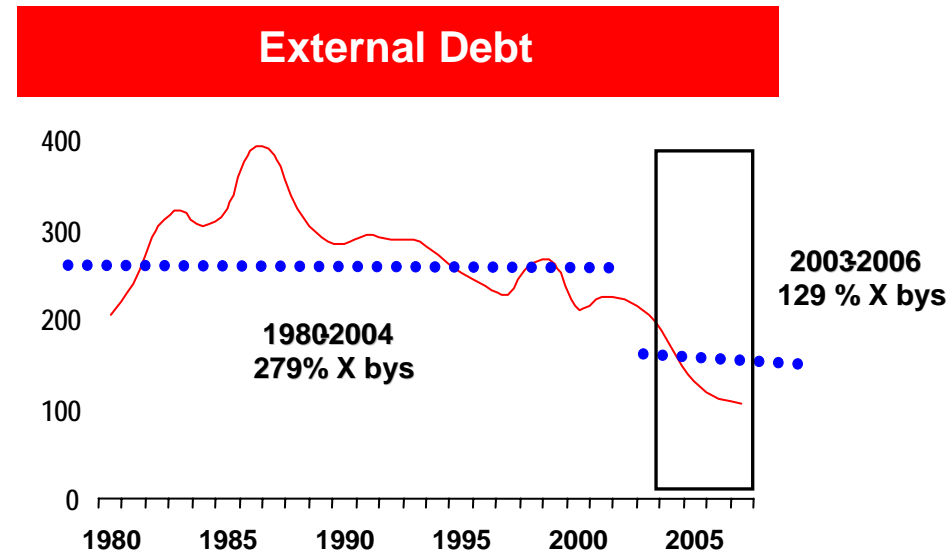
Why is this time different?

Better fiscal policies...

Brazil- primary fiscal balance



External Debt



... reduce its external vulnerability

Why is this time different? A virtuous circle out of policy improvement and commodity prices leads to the development of local capital markets

Increased confidence

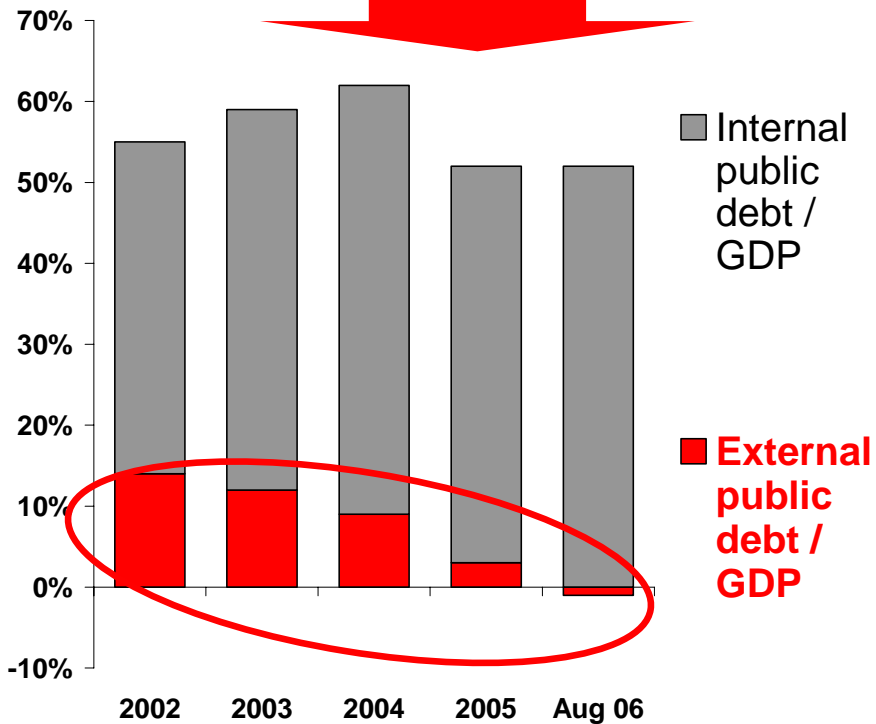
- Reliance on domestic saving
 - ..out of necessity the region enjoys...
 - Current account surplus
 - Primary Fiscal surplus
- Floating exchange rates
 - competitive adjustments if required
- Independent monetary policy
 - Successful fight against inflation

- Debt issuance
 - Local denominated
 - Long term maturities
 - Fixed rates
 - Long yield curve

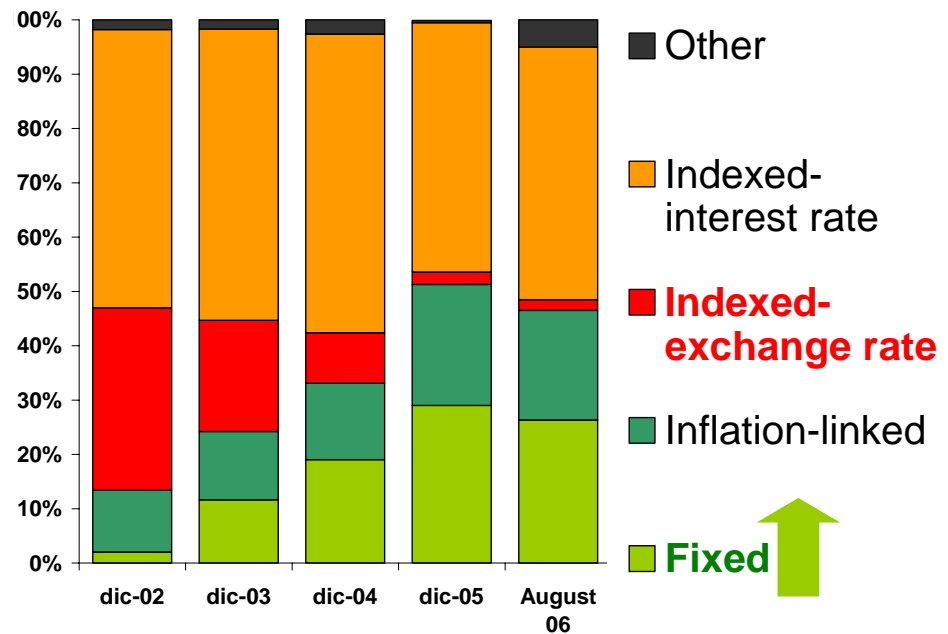
...with no way back...

Improvement in the profile of the public debt- e.g., Brazil

Higher proportion of internal debt...



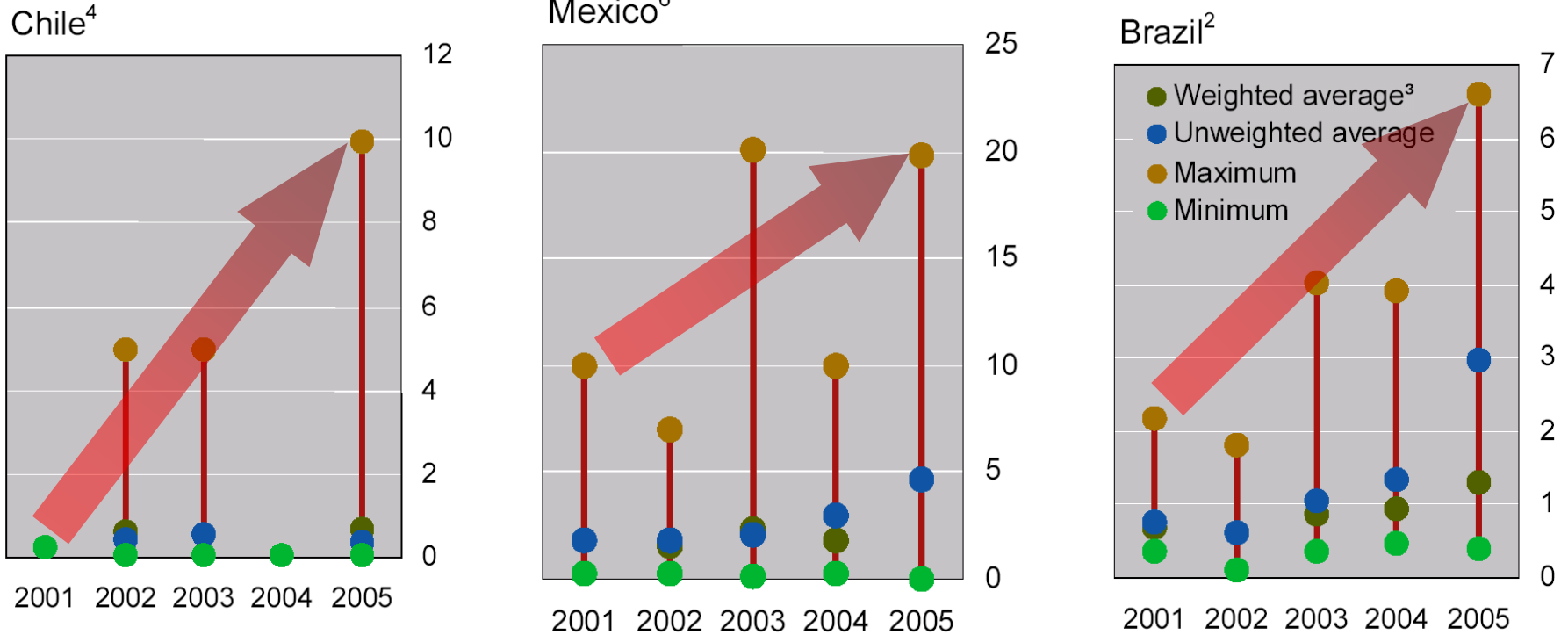
... plus higher weight of fixed-rate internal debt



The improvement in the composition of the public debt, combined with flexible exchange rates, radically reduces the likelihood of a crisis

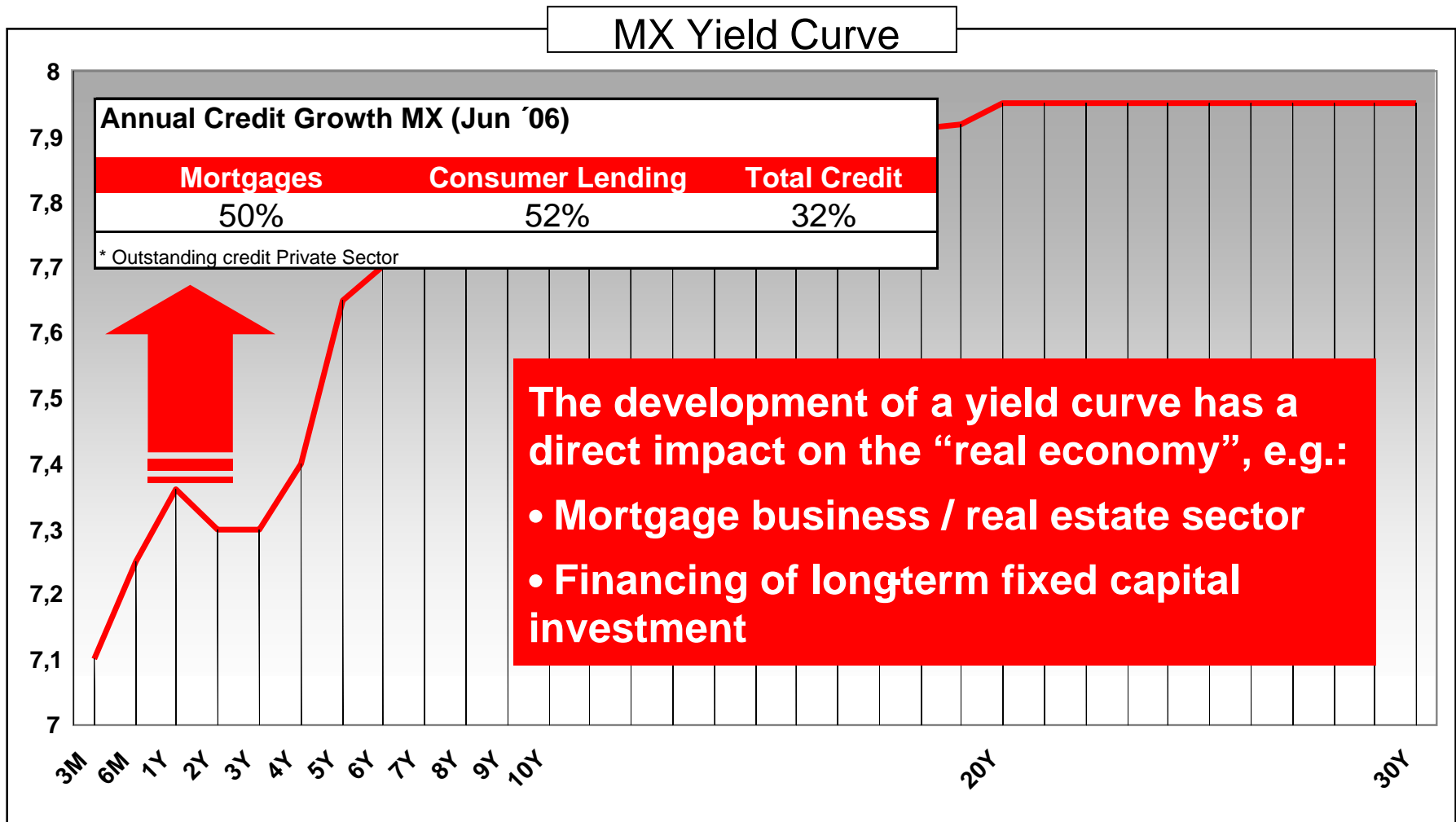
...with no way back

Maturities of new bond issues: Fixed rate local currency



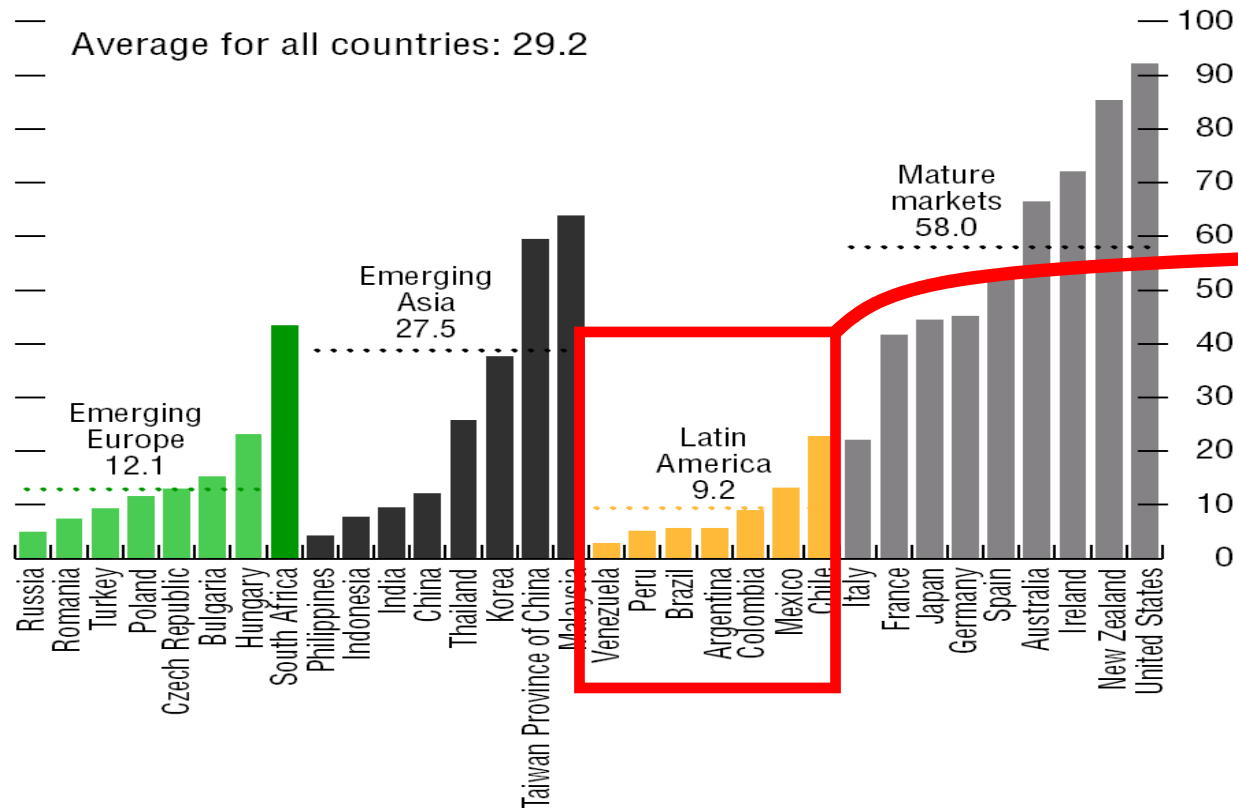
From a “wheel cycle” to a normal cycle...

... and all this changes the nature of the business



...and LatAm banking markets has the biggest potential out of developing banking systems...

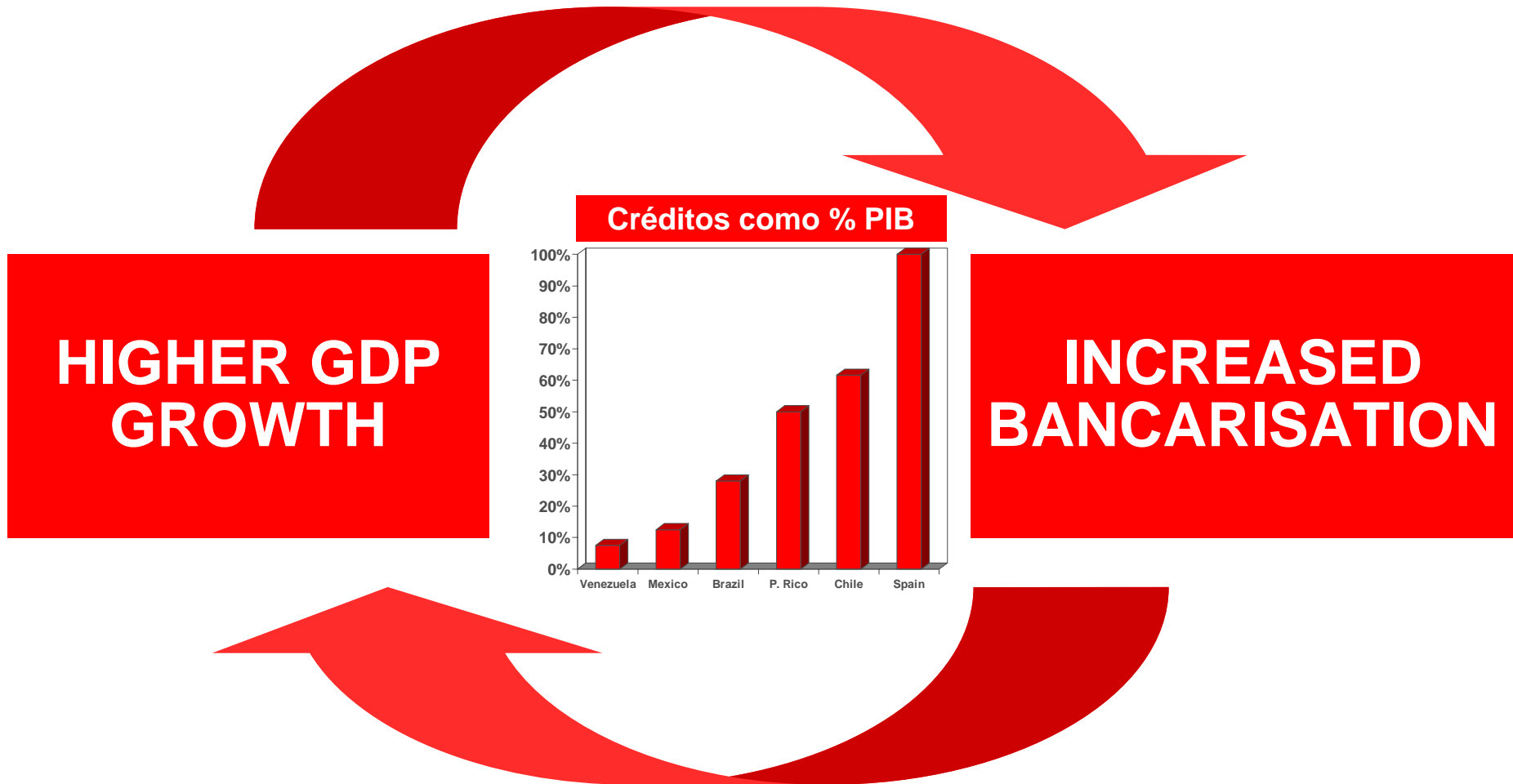
Figure 2.1. Household Credit, End-2005
(In percent of GDP)



... in addition, corporate credit penetration is below that of other emerging markets (e.g., Asia)

Sources: IMF, *World Economic Outlook*; CEIC; and IMF staff estimates based on data from country authorities.

In summary, The “growth multiplier” in LatAm seems to us more attractive than in most emerging markets...



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Conclusions

We have been consistently gaining market share in LatAm...

	Customer funds		Loans		Total customer volume	
		Var. s/		Var. s/		Var. s/
	<u>30.09.06</u>	<u>Sep-03</u>	<u>30.09.06</u>	<u>Sep-03</u>	<u>30.09.06</u>	<u>Sep-03</u>
BR	4,6	0,4	5,8	0,9	4,9	0,5
MX	16,9	2,9	14,8	1,1	16,2	2,2
CH	22,6	1,9	22,6	-0,7	22,6	0,6
PR	13,7	0,4	10,1	-0,1	11,7	0,0
VE	10,1	-2,2	12,7	-0,9	10,9	-1,7
CO	2,8	0,0	3,1	0,4	2,9	0,2
AR	9,9	0,9	9,7	2,3	9,9	1,3
G7*	8,6	0,6	10,7	0,3	9,3	0,6

Source: Central Banks, own estimates

... with strong gains in the most attractive segments

	Consumer + cards		Mortgage loans		Sight deposits + mutual funds	
	<u>30.09.06</u>	<u>Sep-03</u>	<u>30.09.06</u>	<u>Sep-03</u>	<u>30.09.06</u>	<u>Sep-03</u>
BR	5,2	0,1	12,8	8,9	4,1	-0,1
MX	15,3	5,8	7,1	-0,7	14,9	2,9
CH	26,4	0,5	25,6	2,8	22,3	0,5
PR*	7,9	-0,3	13,4	4,2	15,8	0,2
VE	14,3	-3,6	14,0	1,9	14,1	-1,2
CO	2,5	0,4	1,2	1,2	1,9	-0,4
AR	11,5	5,5	12,9	5,1	10,5	-0,4
G7*	8,9	1,2	14,5	2,9	7,4	0,4

Source: Central Banks, own estimates

(*) Excluded Island Finance in Puerto Rico

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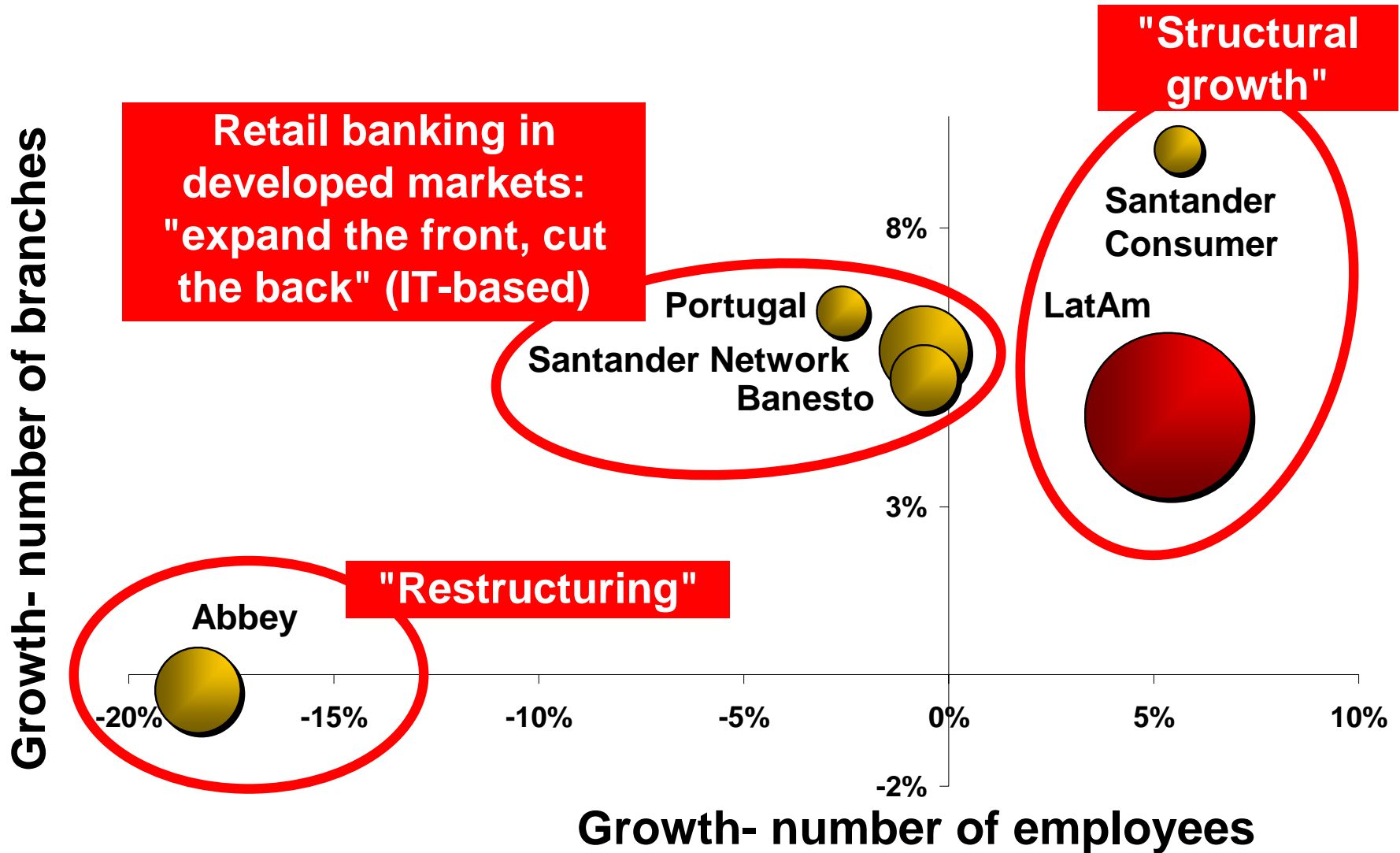
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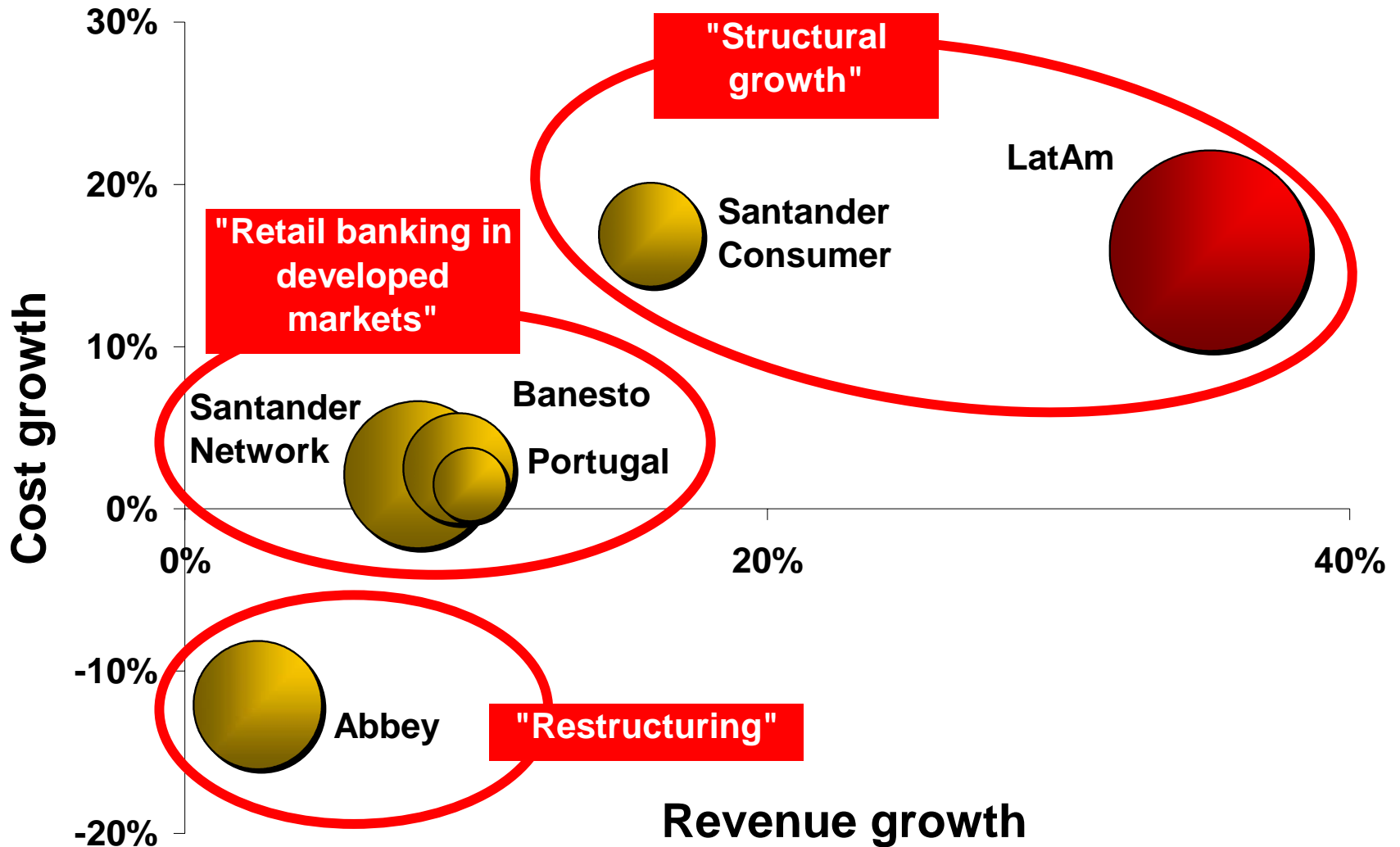
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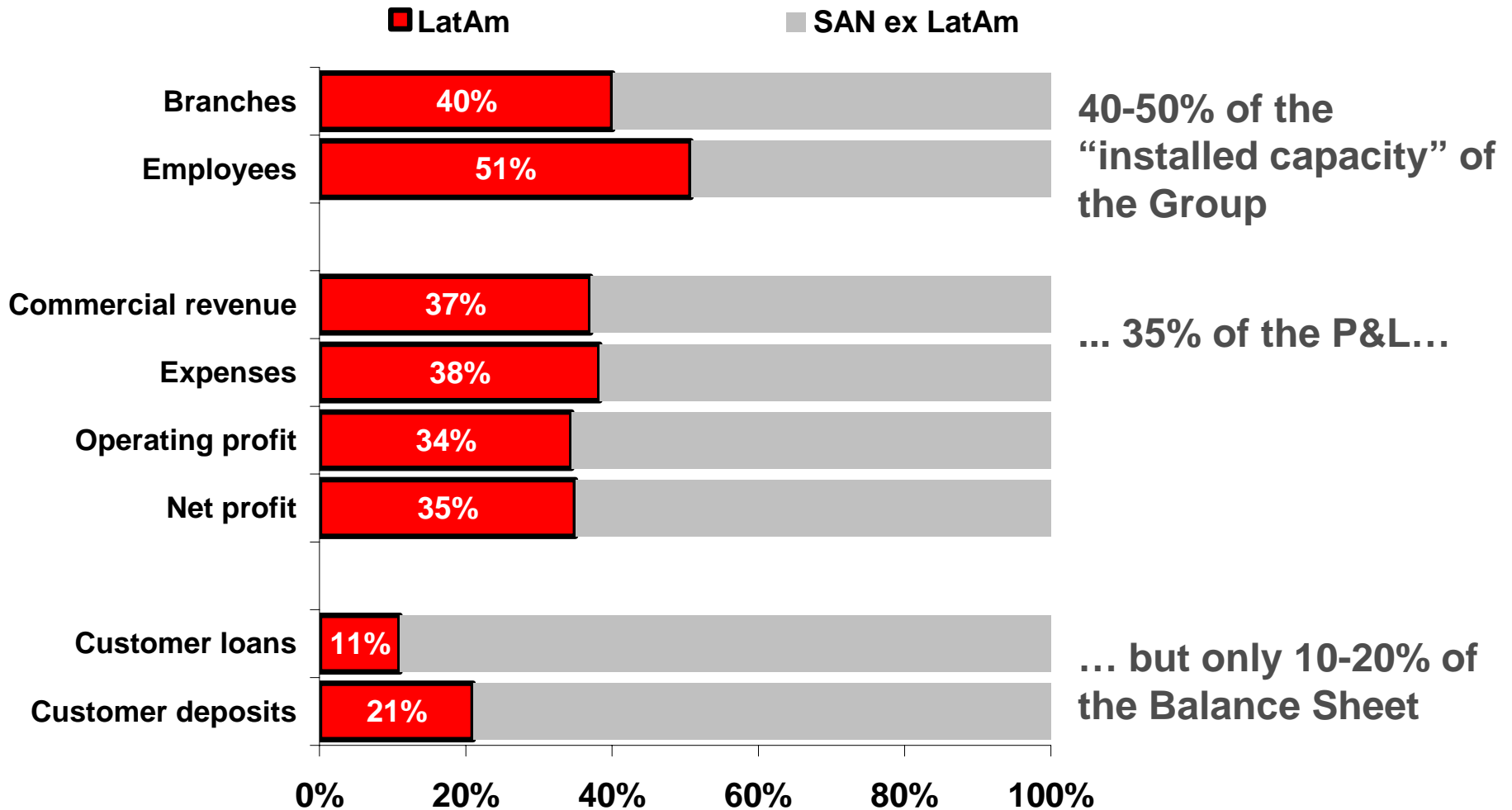
A portfolio with three different strategies...



... which translates into three different growth profiles

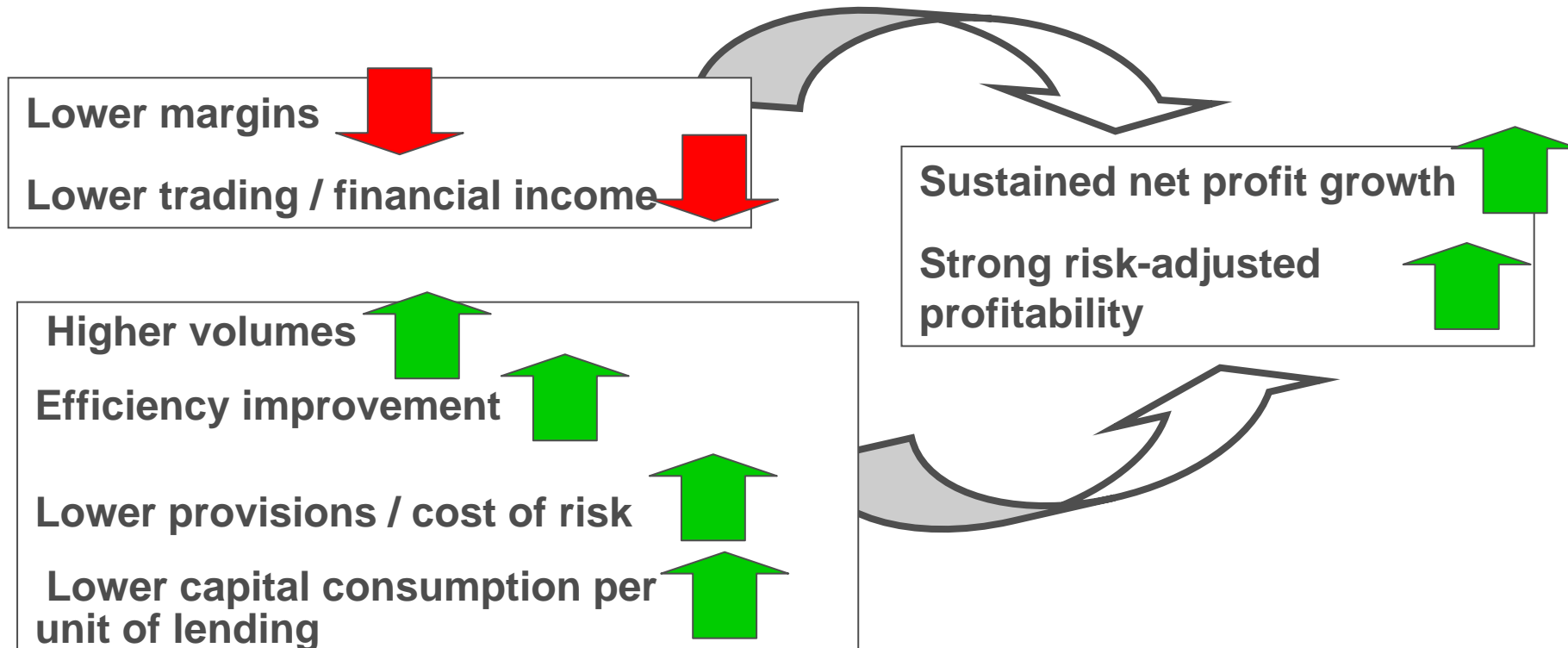


America represents...



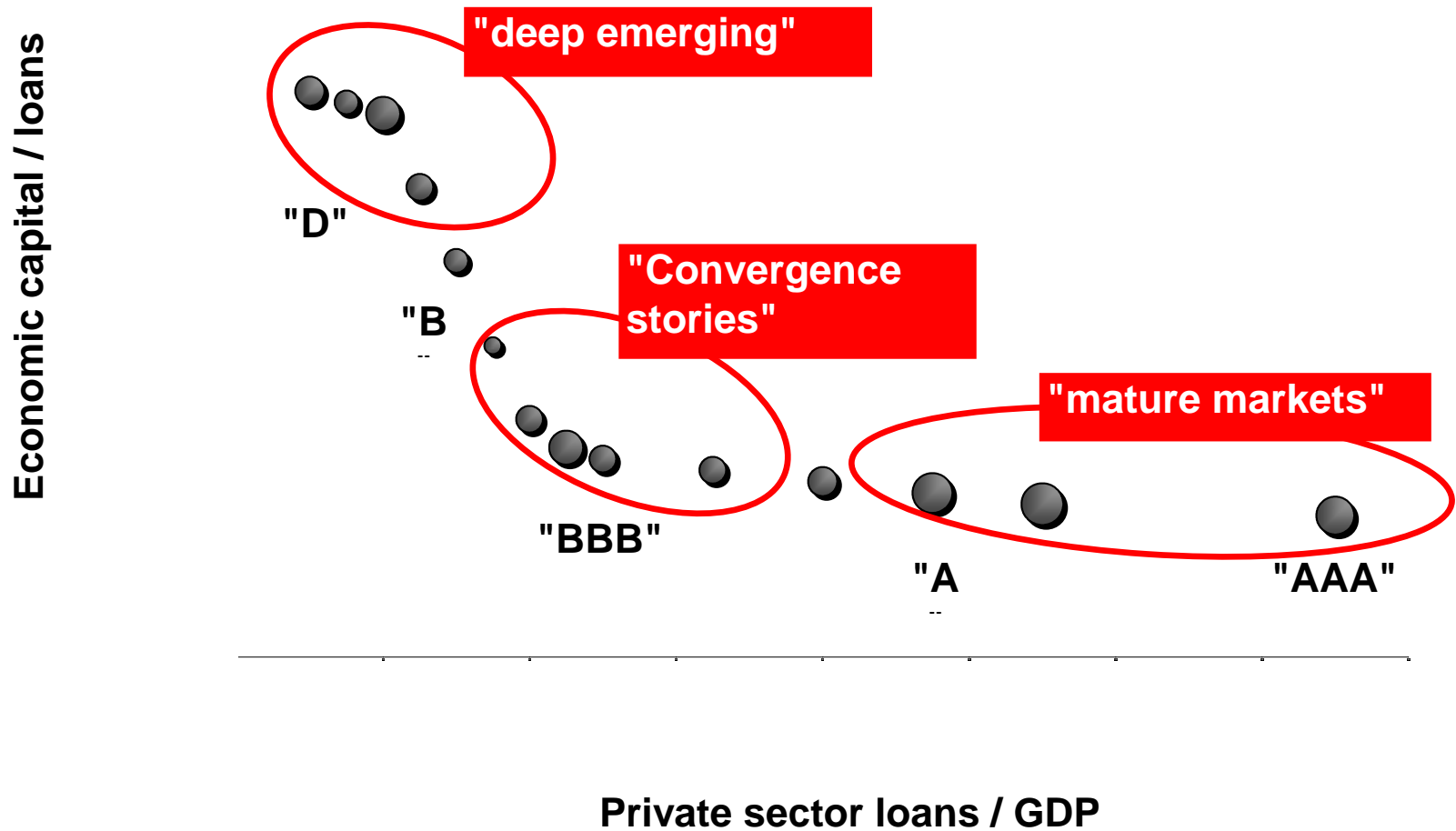
...and its weight in the group will continue to increase

This does not mean that the group risk is likely to increase as the nature of the business is changing...

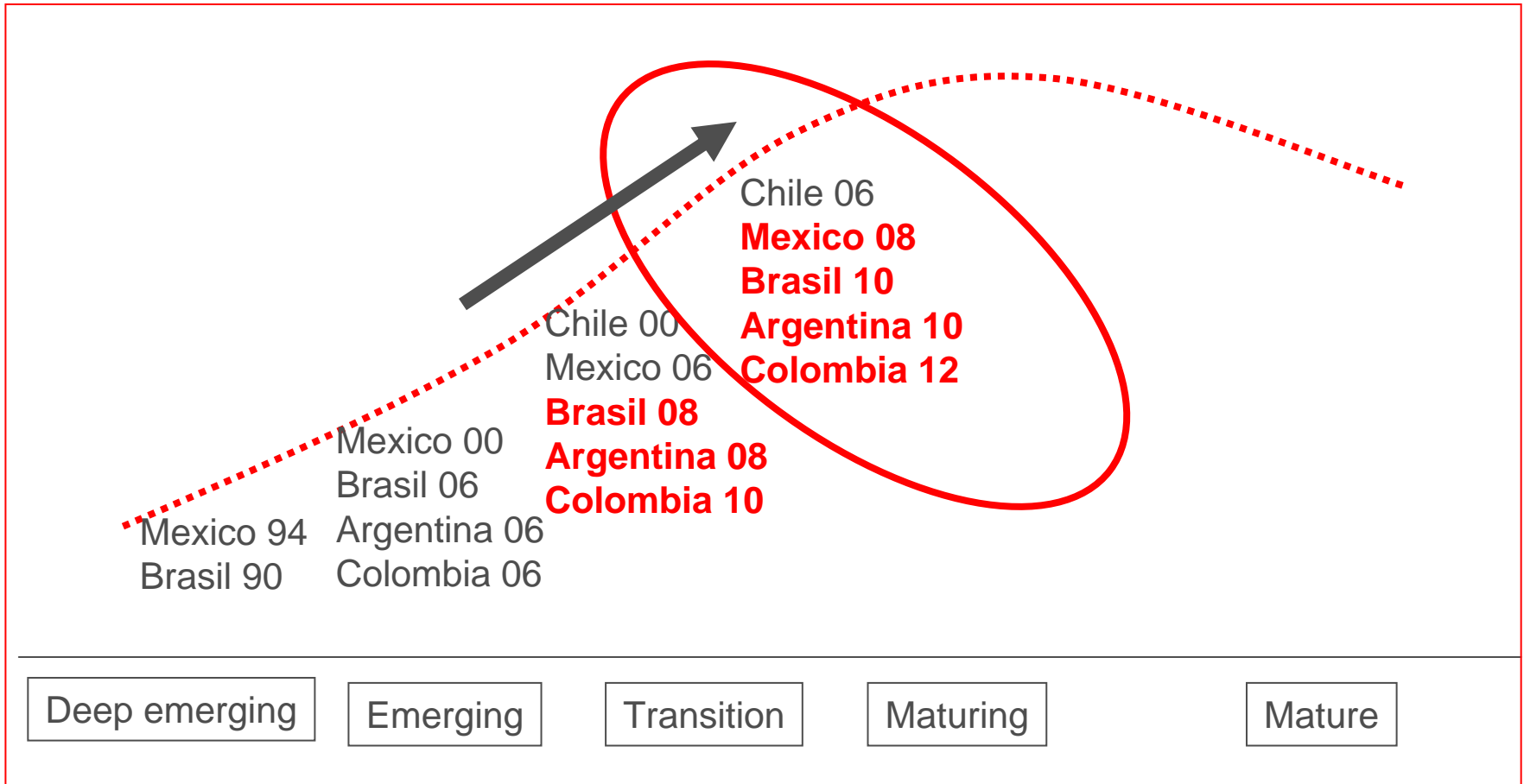


... as the main countries gain investment grade status, LatAm is entering a “falling risk; rising value creation” sweet spot

As emerging economies develop, this leads to a decline in the economic capital intensity of the business



SAN business portfolio has a “sweet spot” concentration in the next 5 -10 years:(decreasing risk + increasing profitability and growth)



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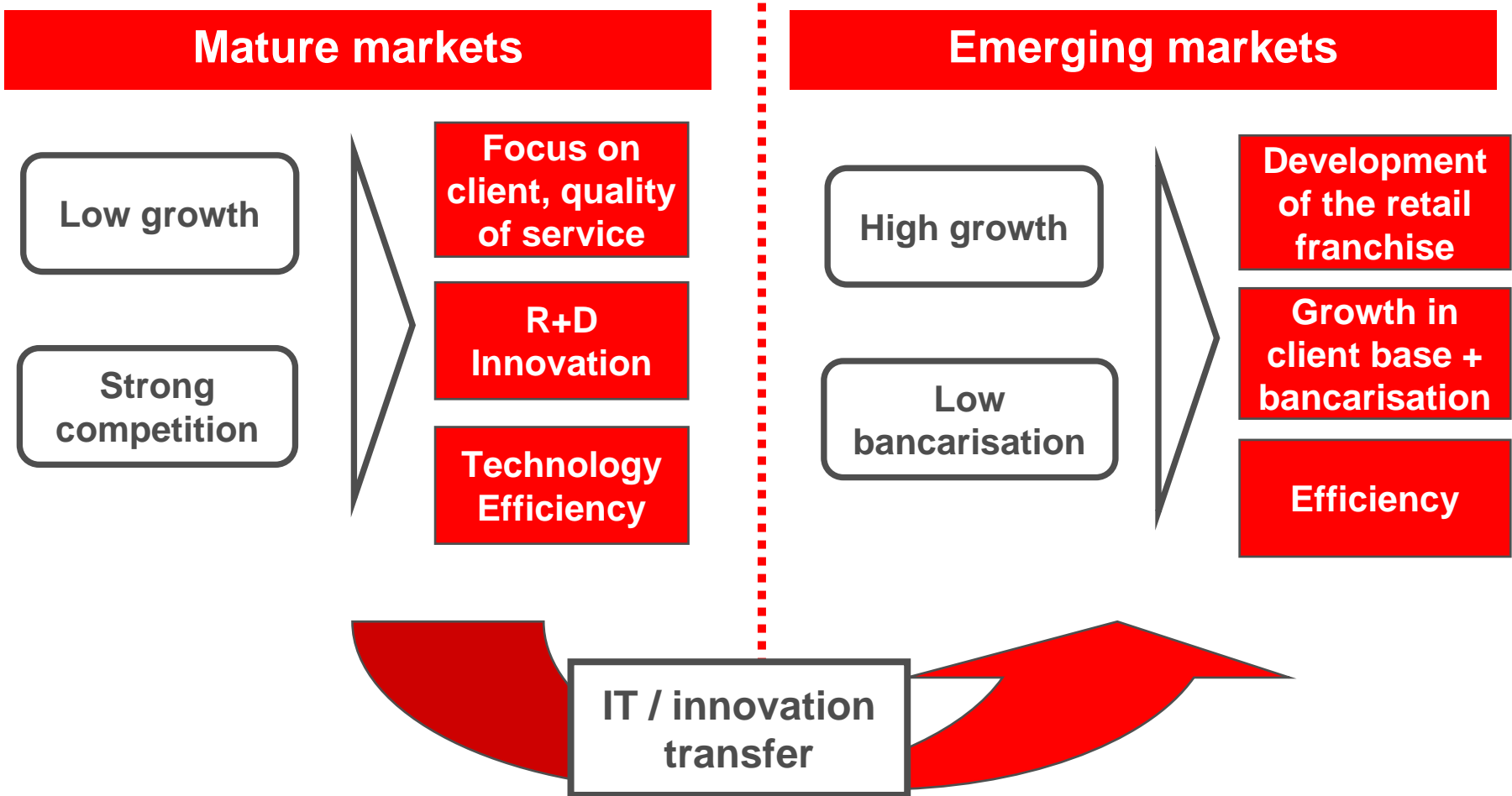
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Conclusions

Making sure the Group is worth more than the Sum of the Parts

- 1. Exporting know how to the region**
- 2. Leveraging our strength vs local competitors on the back of our global units**
- 3. The value creation of diversification**

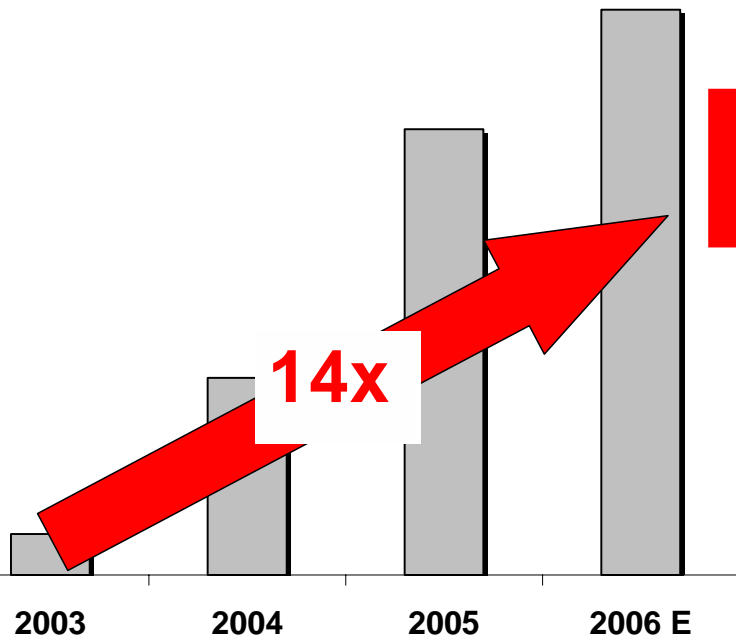
1.- We have a good balance between emerging and mature markets...and we make sure we export Know-how to LatAm



1.- Example business model innovation: Santander Global Connect

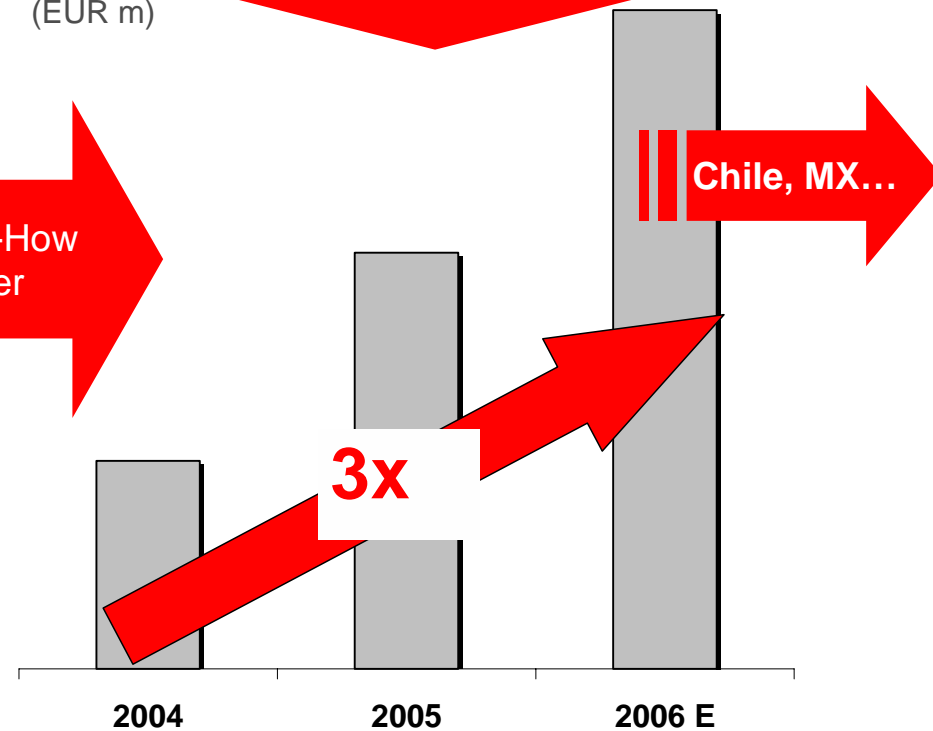
Business development: Spain

Revenues
(EUR m)



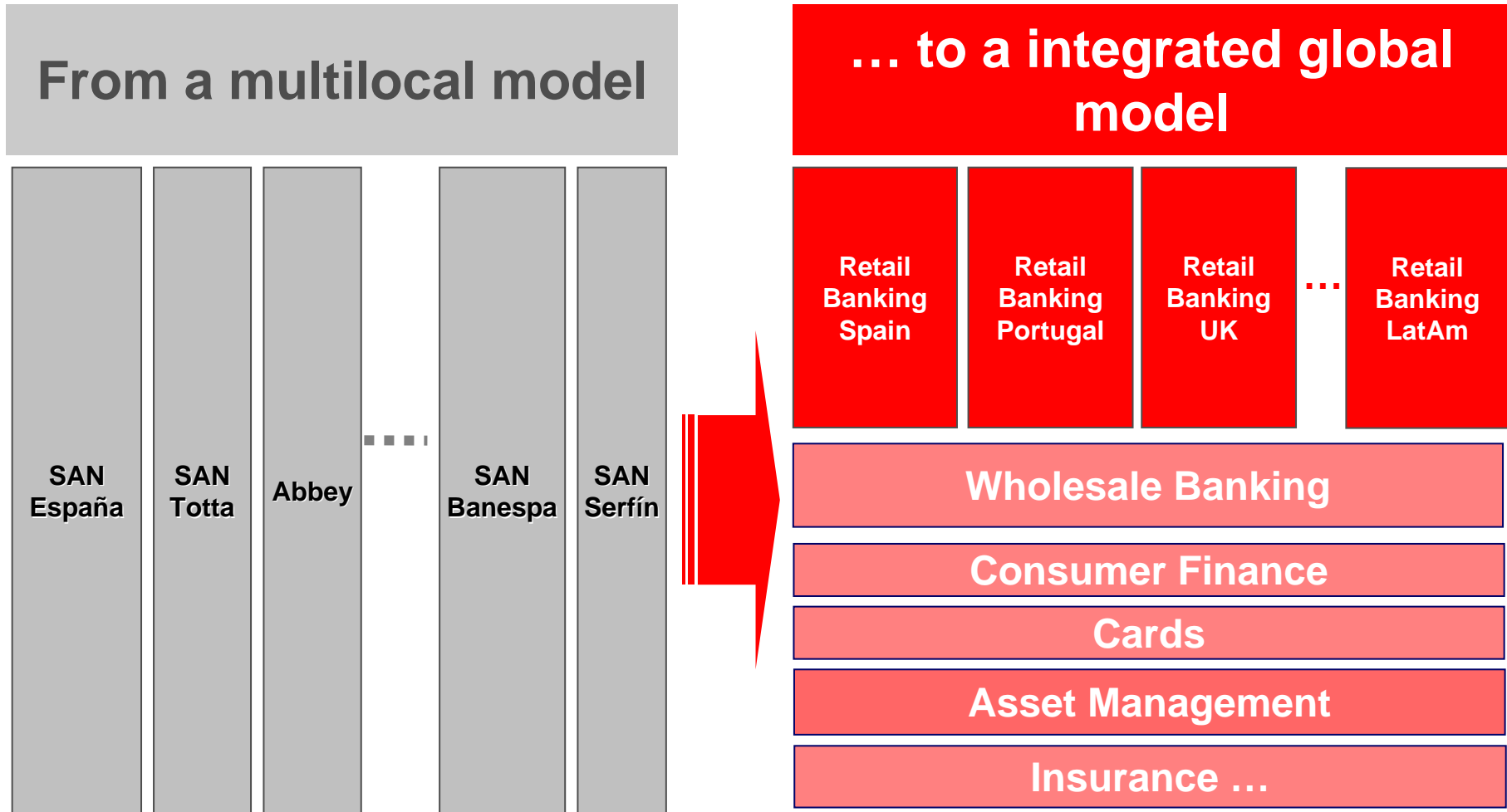
... implementation in other areas- e.g., Portugal

Revenues
(EUR m)



IT, Know-How
transfer

2. We leverage our global capacities vs local competitors...



2- We leverage our global capacities vs local competitors

- **...in efficiency via IT / operations efficiency**
- **...in global segments (wholesale banking)**
- **...in product specialisation**
 - **Credit cards**
 - **Asset management**
 - **Consumer finance**

Efficiency: We want to be the most efficient bank in the global league...

1. We need to be the most efficient bank in each market...

- We are leaders in Chile and a lot of improvement in Brazil...

2. We add efficiency through our global units

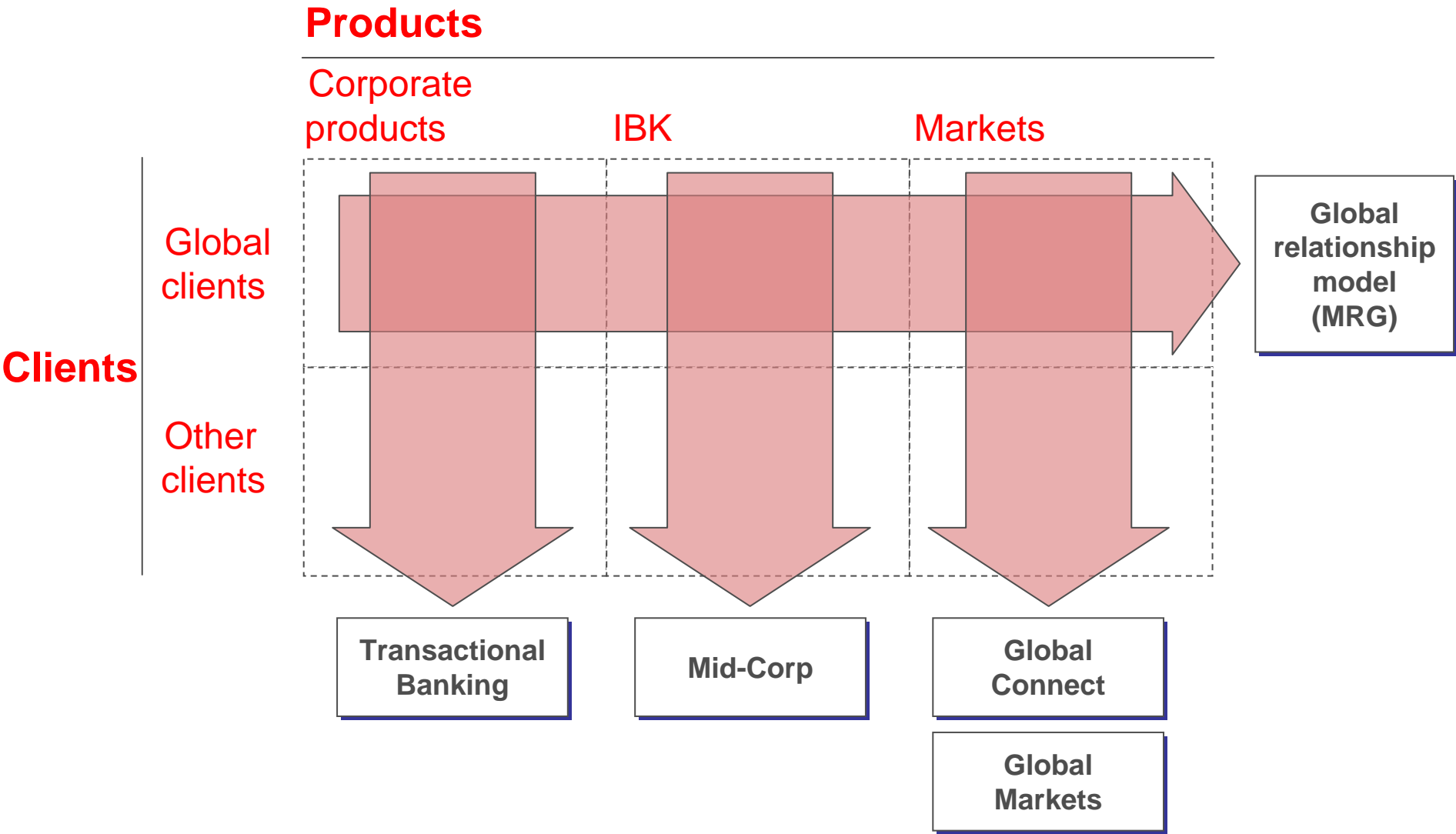
- **Asset Management** : factory integration leads to parent AM company efficiency
- **Insurance** : factory integration
- **Credit Cards**: Implement a global platform saves in IT development costs and bring know-how where needed
- **BMG** : Implement global platform – global business management

Efficiency: We want to be the most efficient bank in the global league...

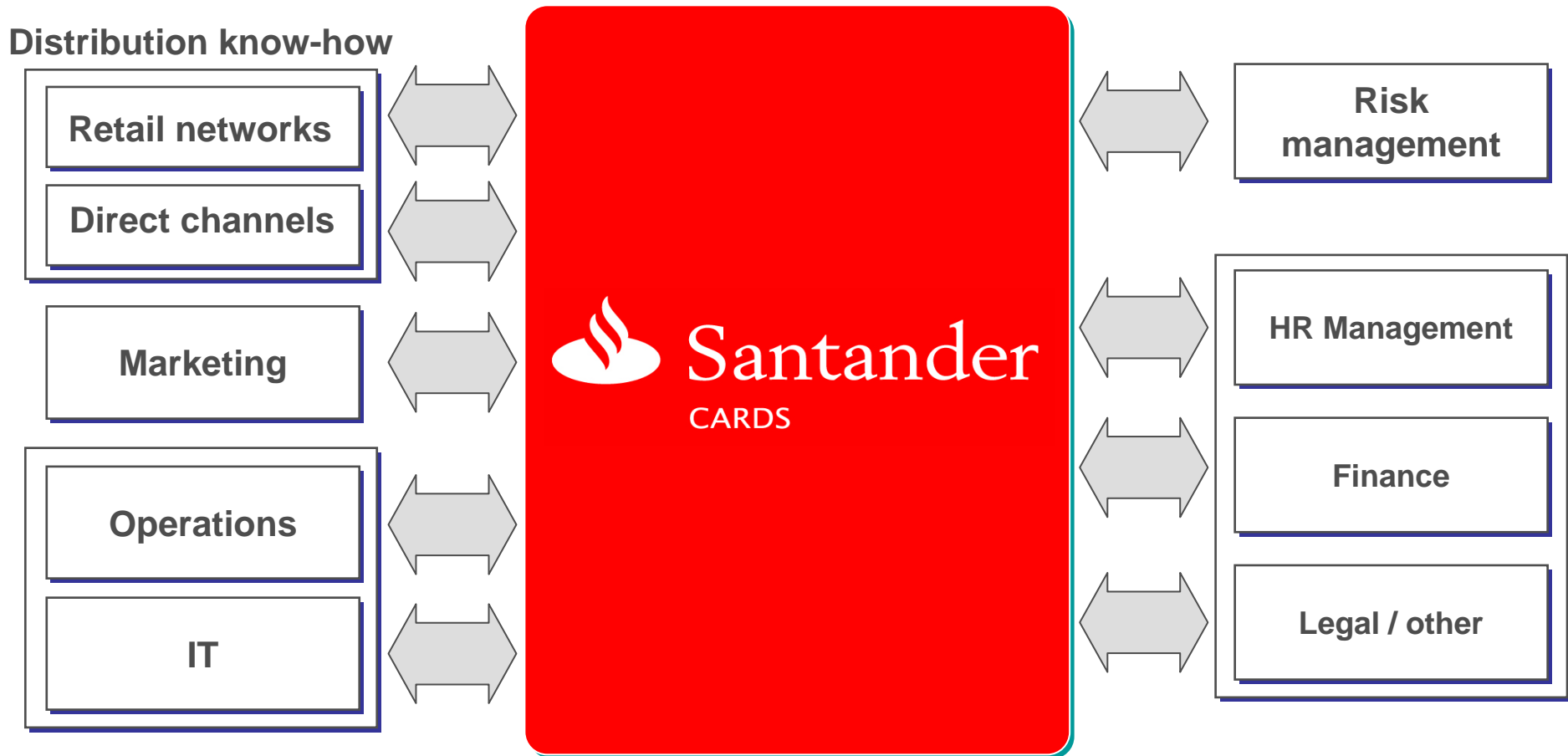
3. Other practices

- **Move best practices from other markets**
- **Global factories concept**
- **Capitalise on the offshoring possibilities of LatAm**
- **Develop:**
 - ✓ **Global commercial intelligence systems**
 - ✓ **Global MIS systems**
 - ✓ **Global risk systems**
 - ✓ **Global CRM systems...**

Wholesale banking: a global / local approach beats local competitors



Cards: our global approach – areas where a global unit adds value to our local credit card businesses

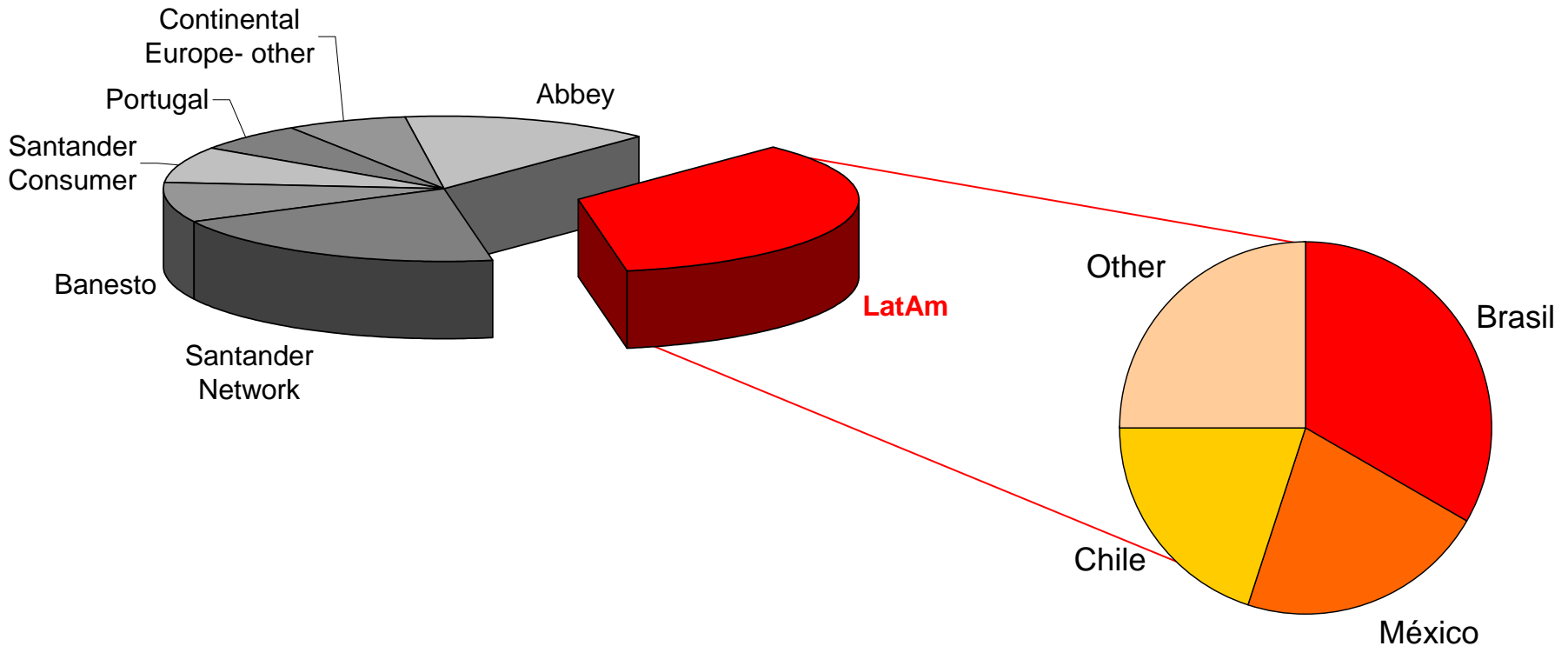


3- The value creation of diversification

... at Group level...

... as well as within
LatAm

Net Attributable income- 9m 06



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LatAm is a key growth driver for our Group:

1. We are strong believers on the economic potential of the region + the potential to increase its bancarisation

- **WHY IS THIS TIME DIFFERENT?**- The conditions are in place for a long cycle of strong growth and increased bancarisation –
- Structural changes have changed the “nature of doing banking in LatAm”: long yield curves, reliance on domestic saving and local cap. markets, etc

2. We believe we will continue outperforming our competitors in the region

- Our banks in the region are well placed to continue gaining market share

3. There is still substantial potential to continue extracting “intra-group” synergies and beat local competitors

- Global business models; transfer of best practices

... making sure the Group is worth more than the Sum of its Parts

2007 Santander Investor Day: September 13th-14th 2007

SAVE THE DATE
September 13th-14th 2007
Santander Investor day

