Santander

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Note: The businesses included in each of our geographical segments and the accounting principles under which their results are presented here may differ from the businesses included in our public subsidiaries in such geographies and the accounting principles applied locally. Accordingly, the results of operations and trends shown for our geographical segments may differ materially from those disclosed locally by such subsidiaries.

1. Entering a new macroeconomic cycle with tougher regulation

2. Committed to P&L execution discipline and efficient capital allocation

3. Financial management in line with a prudent banking model

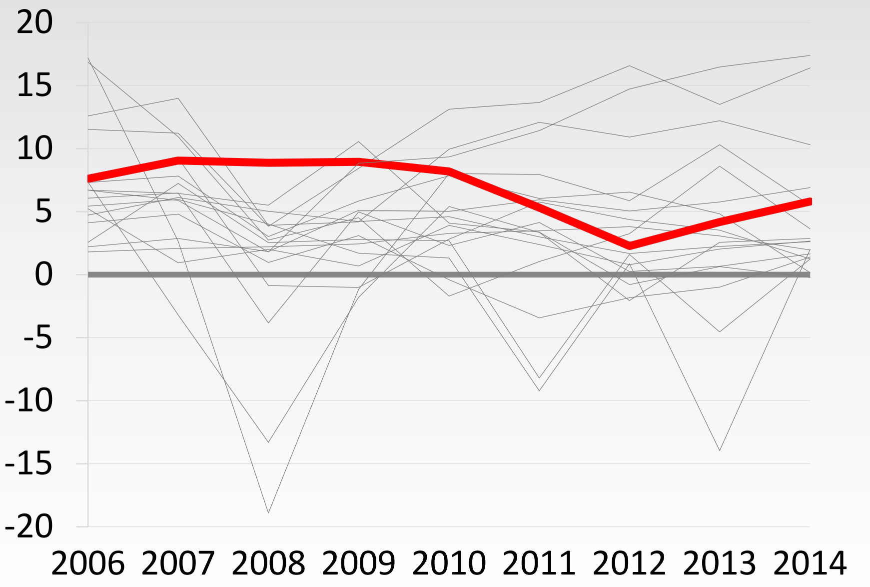
4. Group and country financial guidance

1

Entering a new macroeconomic cycle with tougher regulation

Santander has proven its resilience throughout the crisis

Santander profit has been more stable than that of its peers, without a single quarter of negative P&L

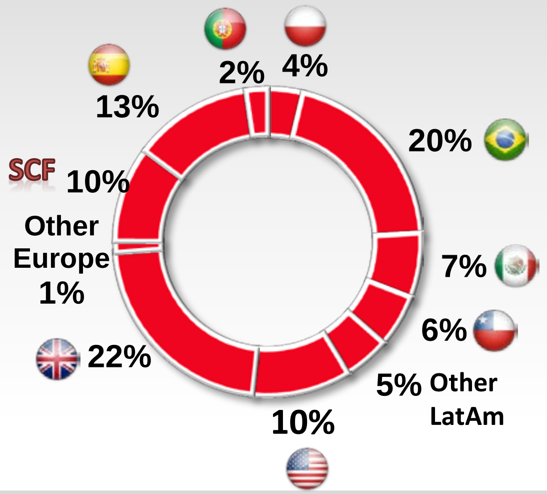


(1) "Peer Group": BBVA, BNP Paribas, Citigroup, Deutsche, HSBC, Intesa Sanpaolo, Itaú, JPMorgan Chase, Lloyds, Société Générale, UBS, UniCredit, Bank of America, Wells Fargo, Barclays, Standard Chartered and ING Group

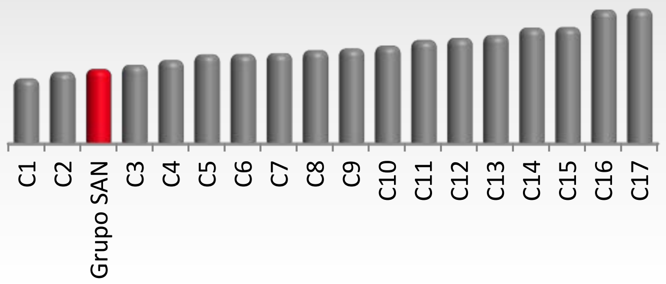
Better past performance has been the result of…

Focus on Retail and Commercial Banking

Geographic diversification



Costs discipline



Subsidiaries model

Strong balance-sheet

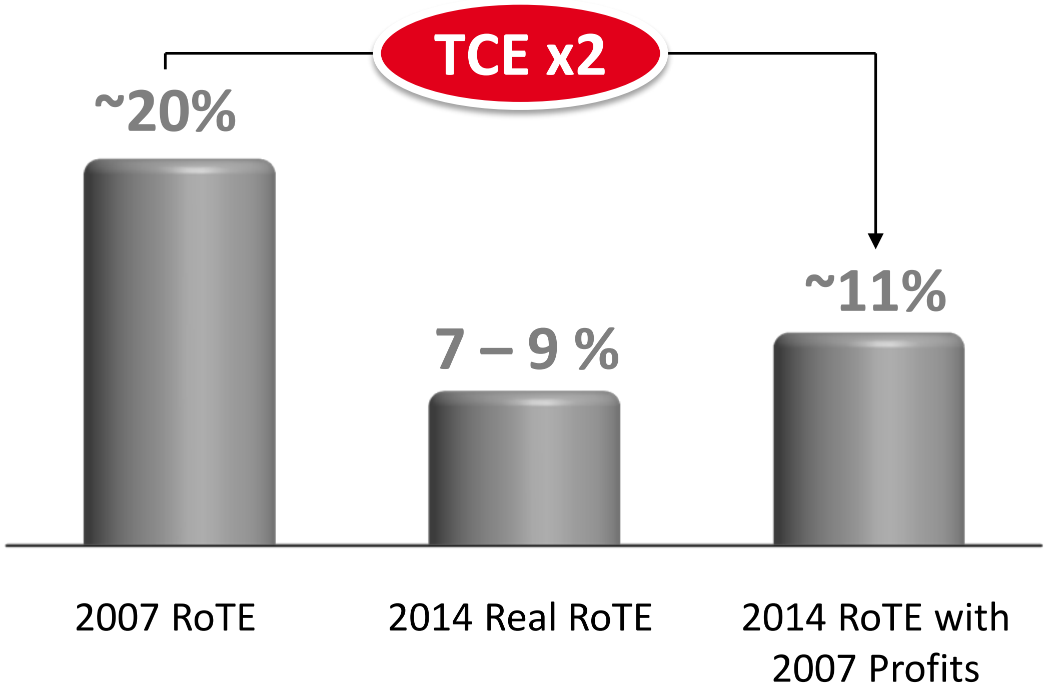
Prudent risk culture

An uncertain environment with a dual macroeconomic and banking sector scenario

	Macroeconomic	Banking sector
Mature markets	• Growth is back but below pre-crisis level • High global debt levels • Weak demographics • Low inflation • Excess supply and weak demand • Digitalisation is deflationary factor • Low and flat yield curves **Lower but stable growth with low rates**	• Low interest rates = Lower margin • Low asset growth • Regulation affecting revenues and increasing costs • Increasing competition / shadow banking • Higher capital requirements • Structural pressure on banking profitability **Revenue pressures push banks to: re-engineer business models**
Emerging markets	• L-T growth potential, currently under cyclical adjustments • Commodities, US rates and US$ put temporary pressure • Devaluation generates inflation and pushes rates higher • Stronger demographics • Traditional slope of yield curves **Solid growth to resume after cyclical adjustments**	• Low penetration: L-T opportunity • Middle classes are being bancarised • Low leverage levels • Sustainable credit demand in the L-T • Banking model RoTE sustainable. Some excesses are absorbed in the S-T with provisions temporarily rising **Sustainable models do not require fixing: focus on growth**

The economics of the sector have changed: RoTE will be structurally lower

European Banks RoTE well below pre-crisis



Even assuming profits of 2007, RoTE would have halved as a result of regulatory pressure

- Net profit has halved
- RWAs are about stable
- TCE has doubled
- FL CET1 are now higher
- **All of the above leading to RoTE below half of those pre-crisis**

TCE: Tangible Common Equity

In this challenging environment being a leader demands:

Improving the Santander model…

+

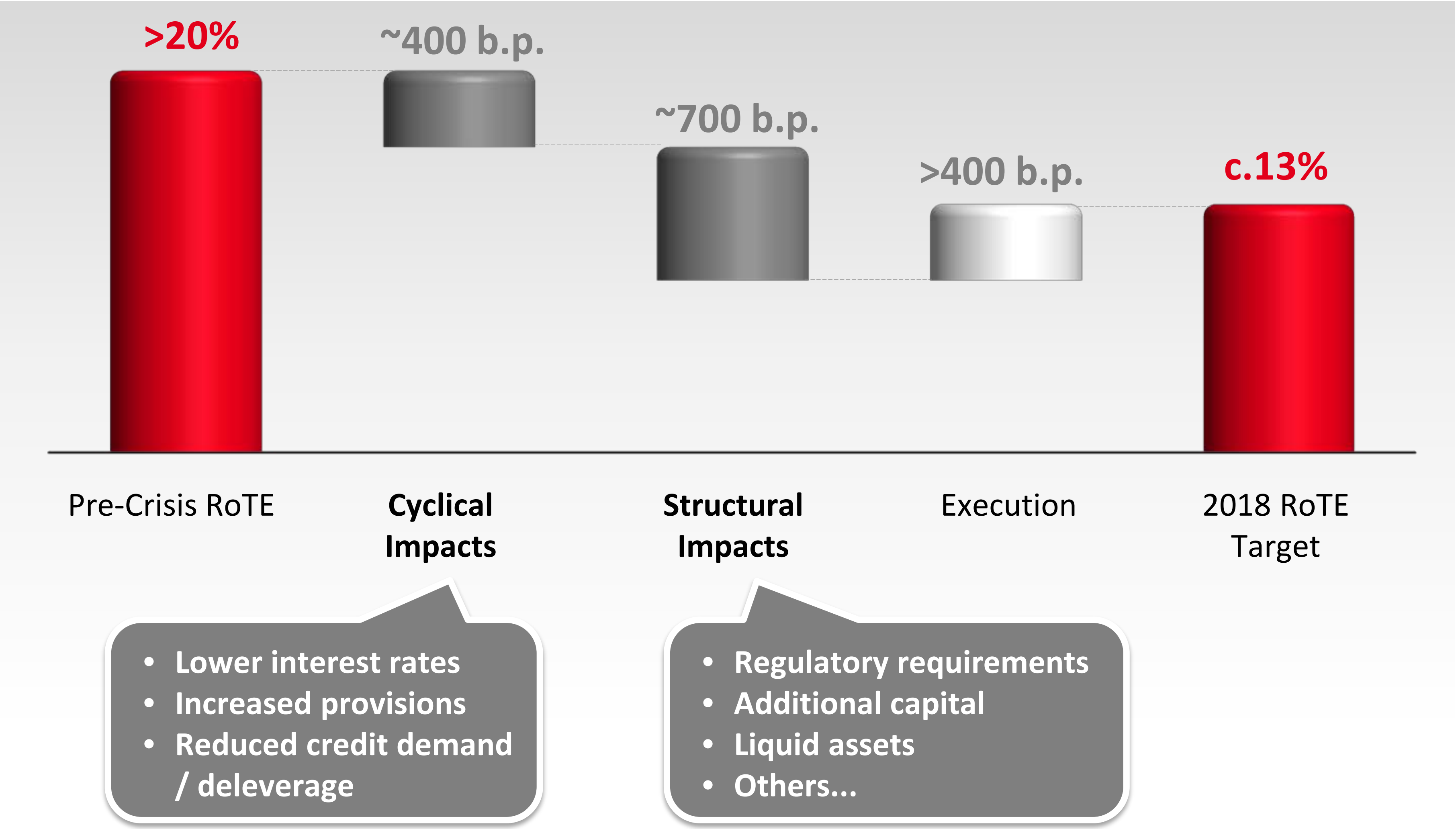
…ensuring:

1. **P&L Execution Discipline**
2. **Efficient Capital Allocation**

2

Committed to P&L execution discipline and efficient capital allocation

In this new environment, we have defined a new business/commercial model and will use two levers to achieve our targets



Our commitments within each group of tools

1 P&L execution discipline

- Corporate Centre: Cost efficient, value adding, transparent and favouring accountability
- Increasing revenues to drive profitable growth
- Maintaining operational excellence as part of our DNA
- Ensuring cost of credit normalization

2 Efficient capital allocation

- Quarterly organic capital generation after 30%-40% cash pay-out
- Strict M&A criteria
  - Accretive EPS at least in year 3
  - ROI > CoE at least in year 3
- Group-wide risk management
- Good starting point: c. 10% FL CET1 Ratio

Increasing subsidiaries management responsibility for execution

1 P&L execution discipline

Corporate Centre

- Funding Group investments
- FX Hedging
- Liability management

Subsidiaries

Spain:

- Accounting for its funding costs
- Gains/Losses for its liquidity gap
- Benefitting from ALCO portfolio

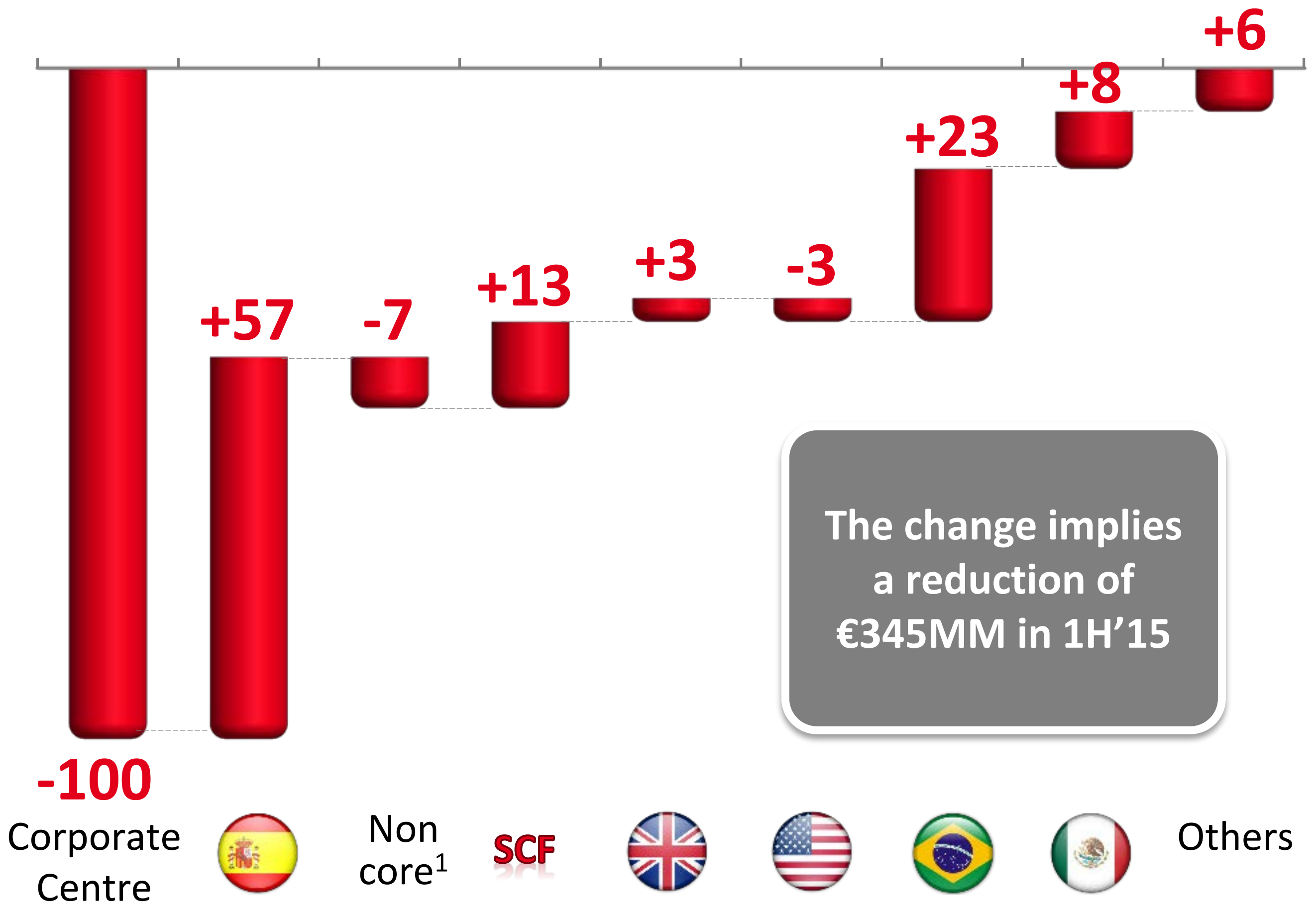
Brazil and Mexico:

- Full cost of their issued hybrids

All subsidiaries:

- Refinement of the scope of costs allocated to units

P&L changes *(% of allocation change, 1H'15)*



The change implies a reduction of €345MM in 1H'15

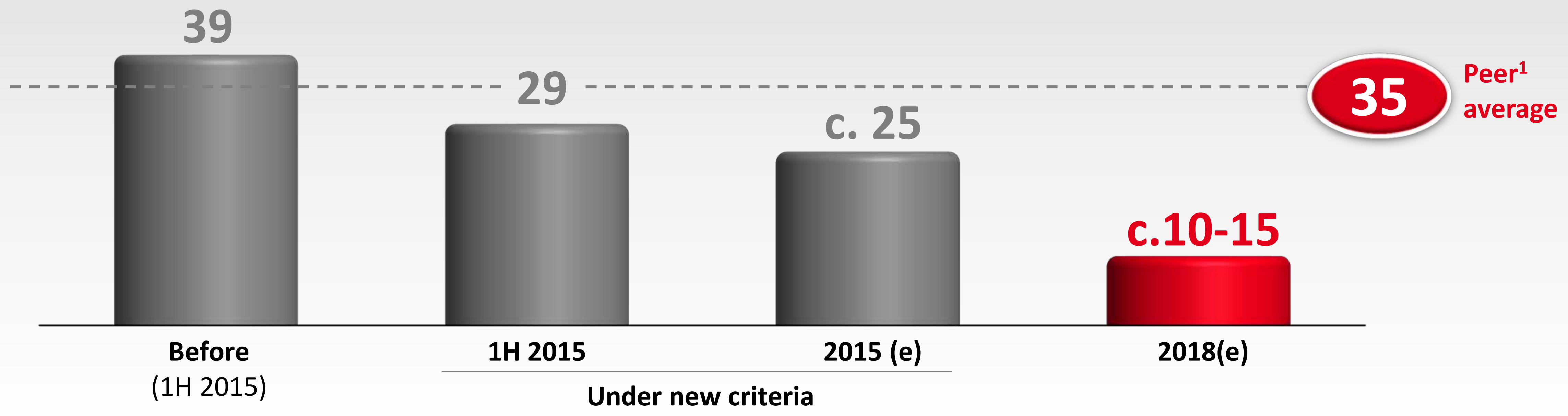
(1) Spain Real Estate

Our corporate centre will account for a declining share of our profit

1 P&L execution discipline

Increasing divisional transparency

Corporate centre attributable loss / total attributable profit, %



2018 target: C/I <45%

(1) Societe Generale, BBVA, BNP, Intesa, Unicredit, Credit Agricole

Top P&L levers to drive profitable EPS growth

1 P&L execution discipline

Revenue growth

- Increasing customer loyalty and gaining market share
- Country commercial strategies
- Group support to promote and share best practices

2018 Target

+€3bn loyalty

+

Cost control

- Cost savings plan increased to €3bn from €2bn
- Positive jaws after investments in digital and new regulation

2018 Target

<45% C/I

+

Cost of credit normalisation

- Risk appetite: medium-low profile
- Group-Wide Risk Management in an Autonomous Subsidiary model
- Advanced Risk Management Program

2018 Target

2015-2018 average cost of risk 1.2%

=

2018 Target

Double digit EPS growth

Our commitment: improve the efficiency of our capital allocation

2 Efficient capital allocation

Group capital management levers and directives

1 **Keeping RWA growth** below profit growth, ensuring **coordination** with all units

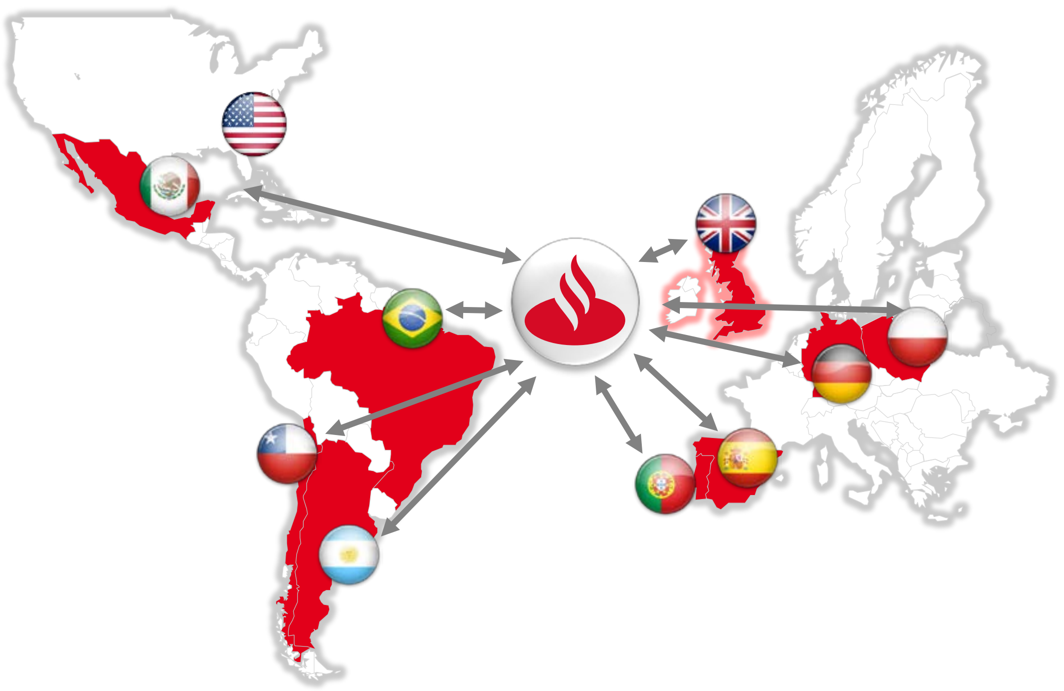
2 **Developing and executing plans to optimise capital** at Group, country and business level

3 Anticipating and **adapting to prospective regulations**

4 Defined **capital structure, capital plans and living wills**

5 Enforcement of **capital discipline** across the Group and **disciplined M&A**

6 Listing of subsidiaries **no longer a priority**

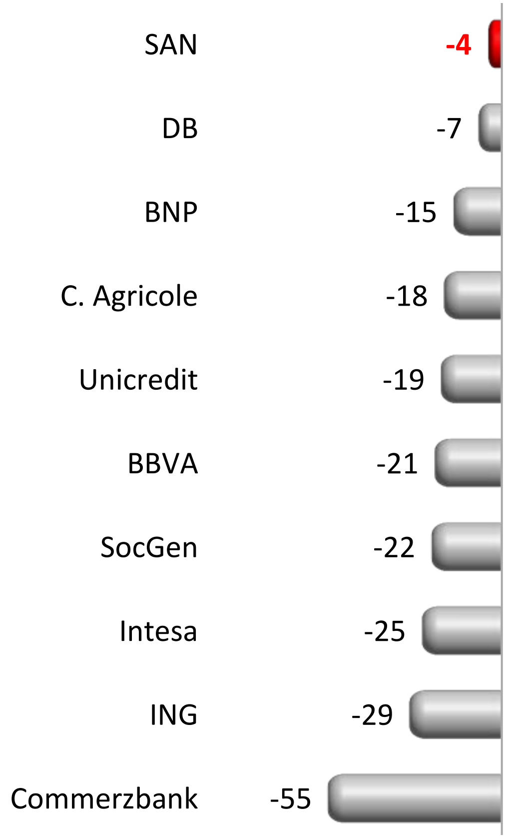


We have a simple, low risk and highly diversified model that requires less economic capital

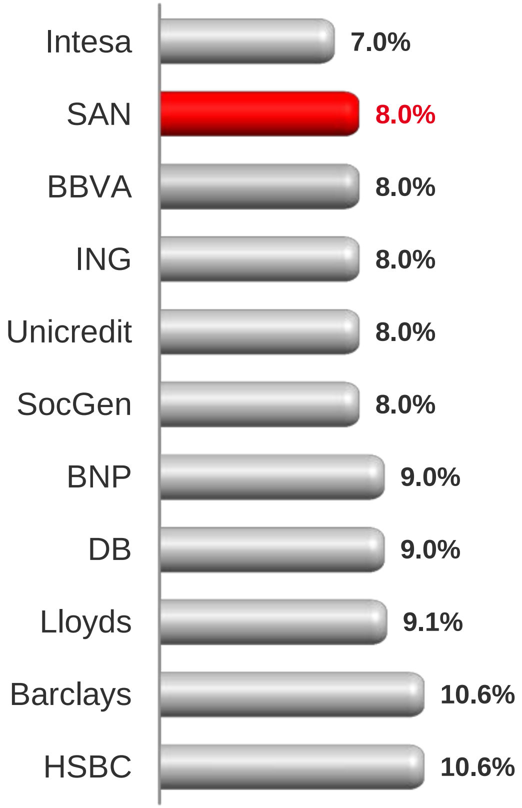
2 Efficient capital allocation

AQR impact on CET1 (b.p.)

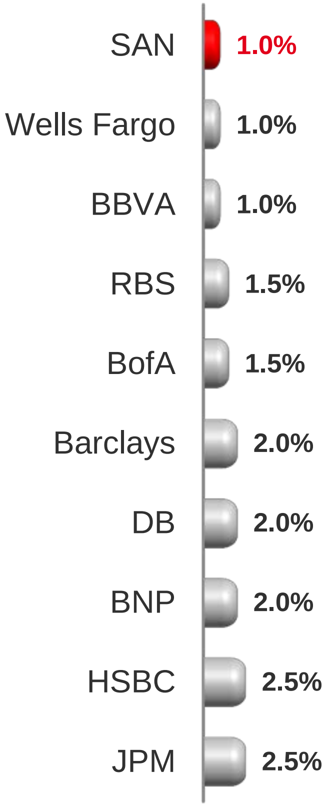
SAN: lowest adjustment among competitors



Lower minimum capital ratio requirement…



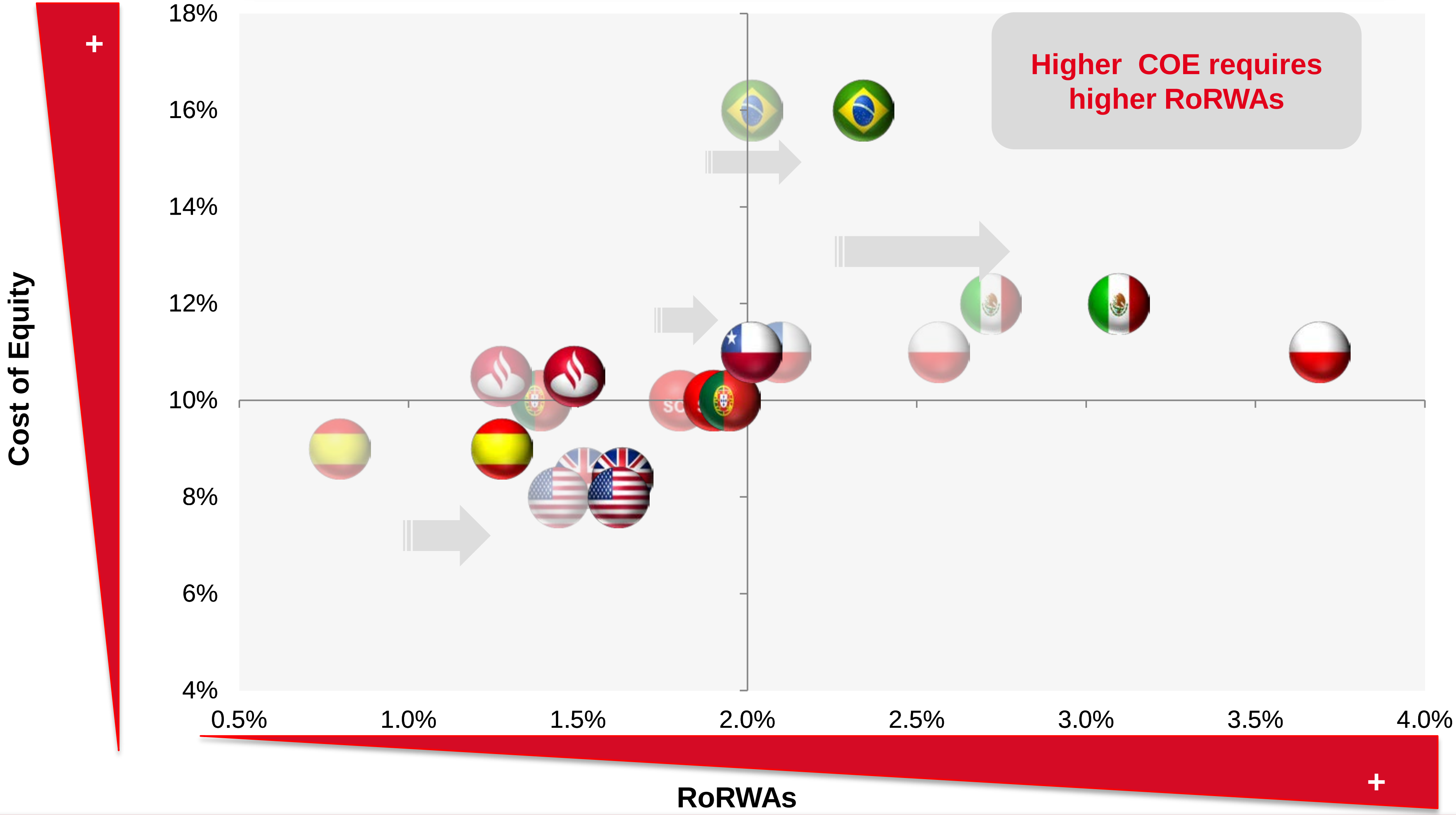
…and lower G-SIBs surcharge than competitors



Our countries are focused on improving RoRWAs

Efficient capital allocation

2015(e) vs 2018(e) RoRWAs

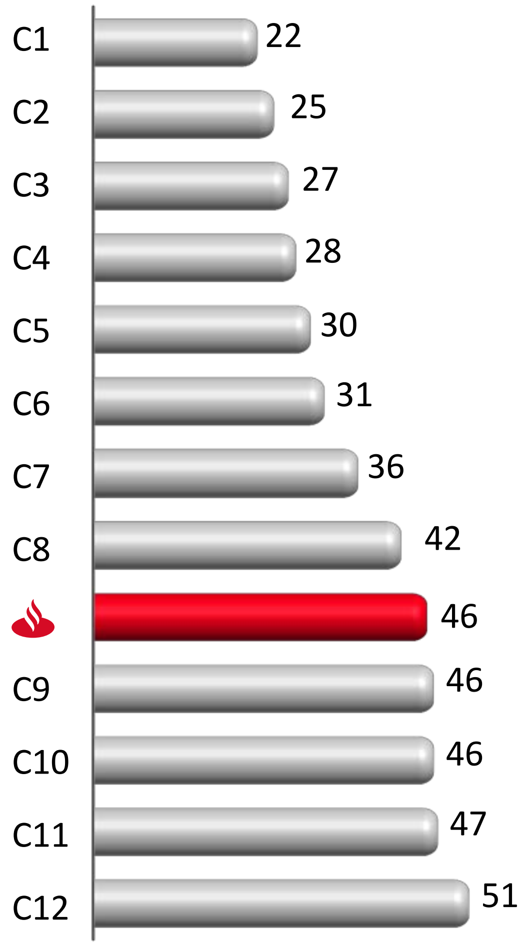


With room to manage RWAs due to our low risk and high diversification

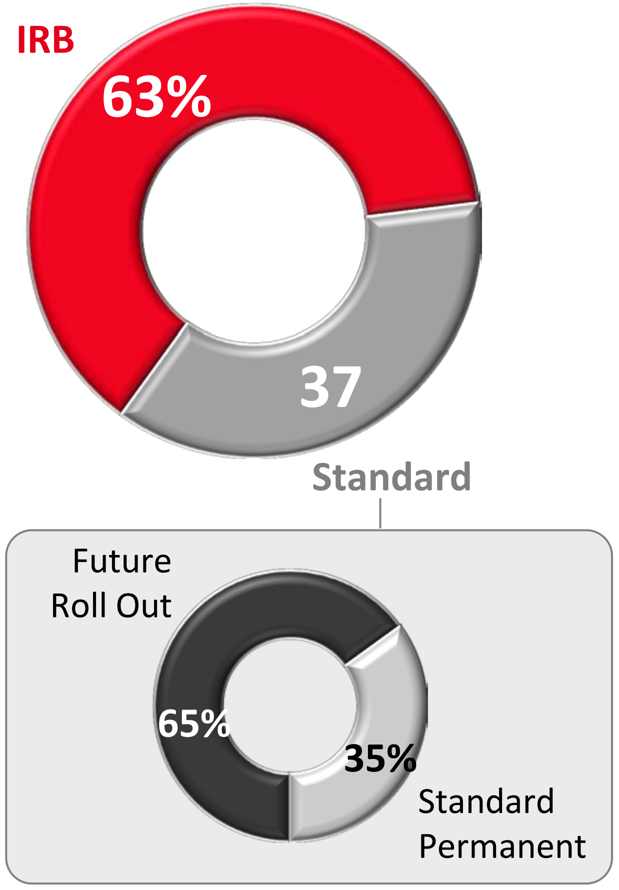
Taking advantage of organic growth opportunities

- We will not 'sell' profits to reduce RWAs
- We are committed to grow our business organically
- **Optimisation:** We have plans to reduce RWA by ~4% or ~€30bn, equivalent to capital generation of c.€3bn
- **More efficient use of capital: We will maintain overall RWA growth below profit growth and below loan growth**

RWA / Total assets[1] %; 1H'15

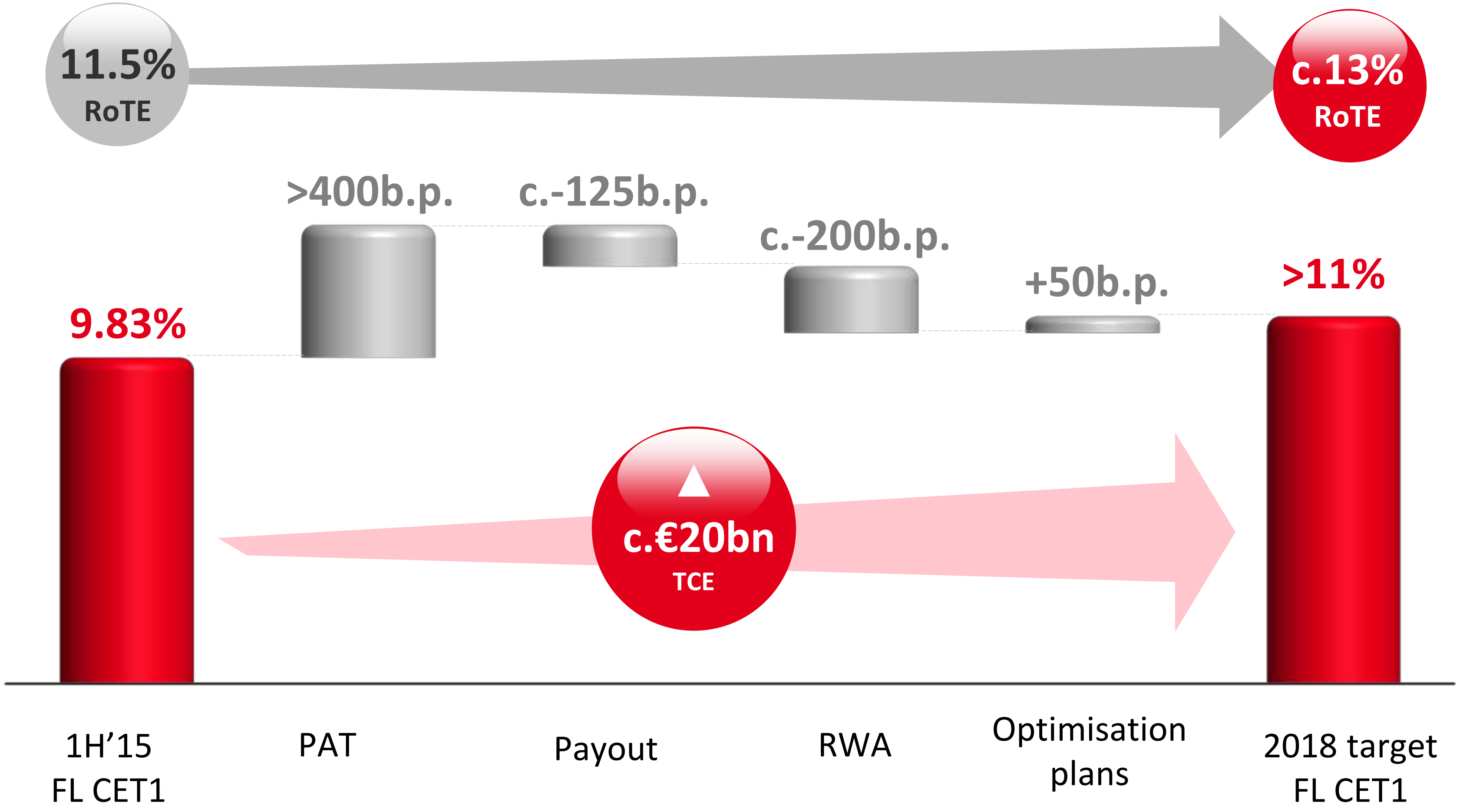


% Exposure at default (EAD)



(1) Main European banks

Our commitments: a growth model, with growing: RWA, TBV and overall with increased profitability



Generating Capital

- **>100b.p.** increase in our FLB3 CET1
- Generation of Tangible Common Equity (TCE) **c.€20bn**
- Improving **RoTE (c.150b.p.)**
- **RoRWA** c.+20b.p.

3

Financial management in line with a prudent banking model

Our subsidiary model is geographically ring-fenced, which reduces systemic risk

A decentralised model where subsidiaries are…

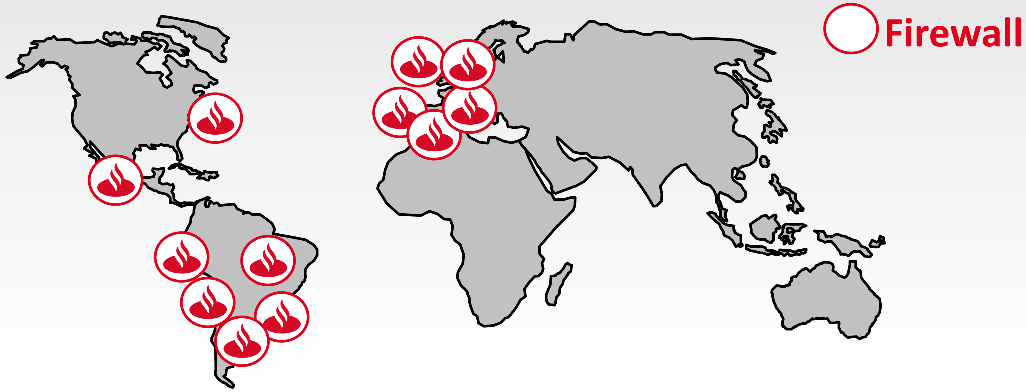
…legally independent and…

Local banks for all purposes, subject to double supervision and internal control: local and global

Subject to local supervision and regulation

National deposit guarantee fund

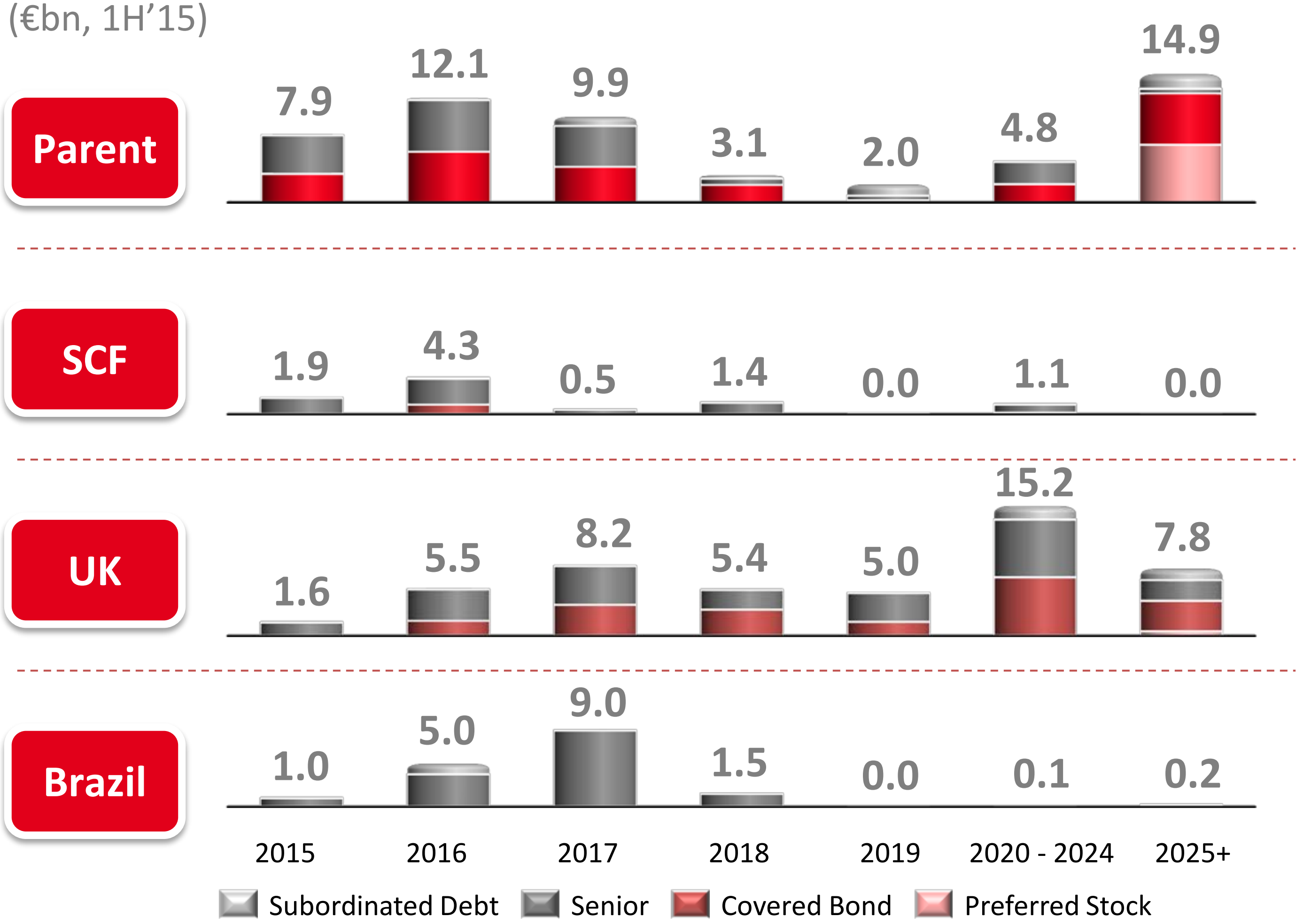
…autonomous in capital and liquidity



This model is a strong incentive for local managers and enables local resolvability

Funding maturities are well diversified by issuers and products, hence our refinancing risk is limited

(€bn, 1H'15)



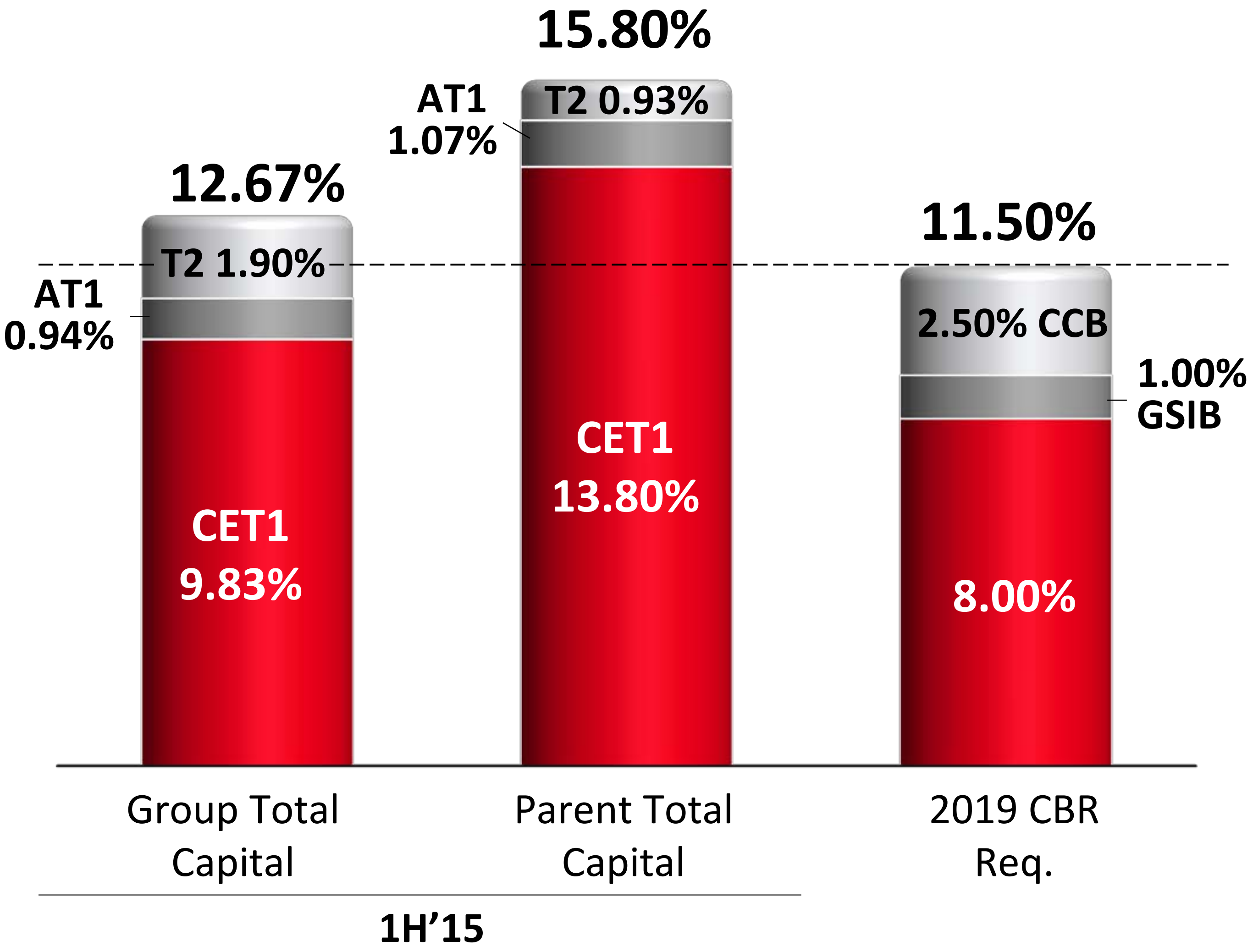
YTD Group M/LT issuances €26.1bn

Consolidated Liquidity metrics
Jun'15

Commercial Gap	€111bn
LCR	133%
NSFR	109%
Encumbrance	25%

Maturities in Brazil include Letras Financeiras

Already above total capital requirements including Combined Buffers



Group T2: includes all complying instruments as of 14/09/15
CBR: Combined Buffer Requirement

We are already 117 b.p. above CBR*, before AT1 and T2 buckets

2018 targets

- **AT1:** ~€5bn; 1.5% of RWA
- **T2:** ~€7bn; 2% of RWA

Current CET1 + Targeted AT1 and T2 will be more than 150b.p. above total CBR

TLAC-MREL: comfortable position

	MREL[1]	TLAC[2]
Covered entities	All EU credit institutions	International GSIFIs
Santander	Santander, Portugal, Poland, UK, Germany and Group/European Group	Each resolution entity
Focus	Pillar II	Pillar I + Pillar II
Eligible liabilities	Wider definition	Limits to 2.5% *pari passu* instruments to excluded liabilities
Denominator	Total balance sheet	RWAs / Leverage ratio
Minimum ratio	8%	16% initially + Capital Buffers 6% Leverage ratio
Date	Jan'16; 4 years phase-in	Jan'19

All European subsidiaries and Group already met MREL requirements

(1) MREL: Minimum requirement for own funds and elegible liablities (2) TLAC: Total Loss Absorbing Capacity

And ready to comply with expected TLAC requirements[1]

TLAC requirements[1]

- Santander has a resolution strategy approach of multiple point of entry (MPE)
- Parent Bank current stock of senior debt would be sufficient to meet the TLAC requirement Group-wide risk management
- Most of our subsidiaries are already TLAC compliant or have very low deficit

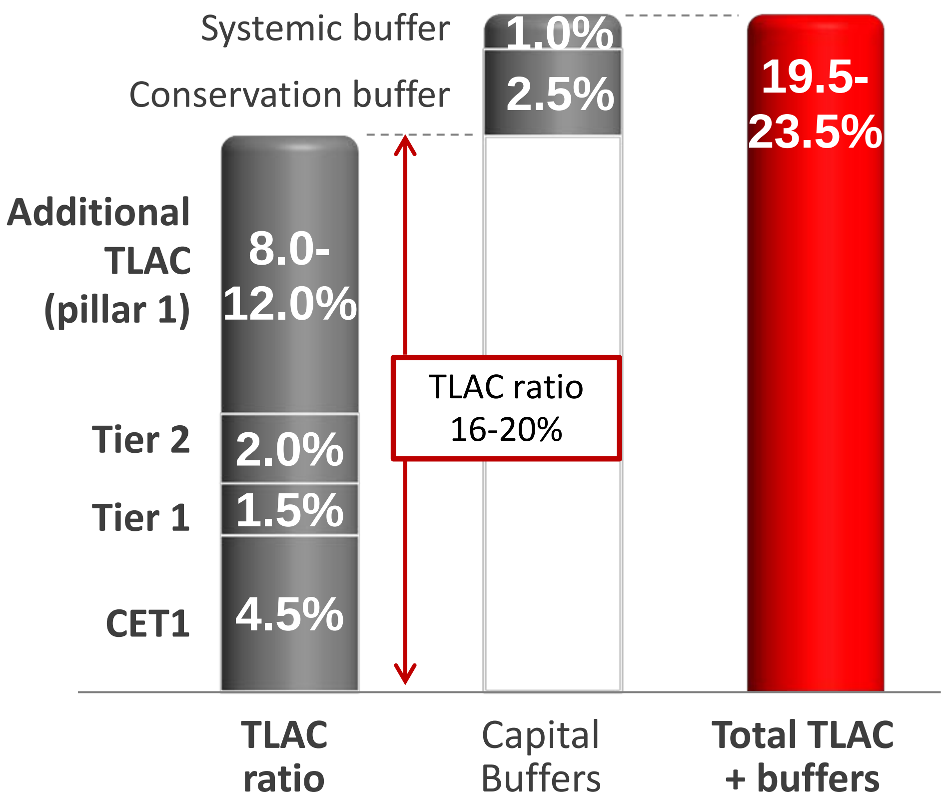
The MPE model

- The absence of significant financial linkages in MPE groups is a natural firewall to reduce contagion
- Each Subsidiary Bank should have sufficient individual Loss Absorbing Capacity (TLAC)
- The excess TLAC at subsidiaries can be used at the Parent

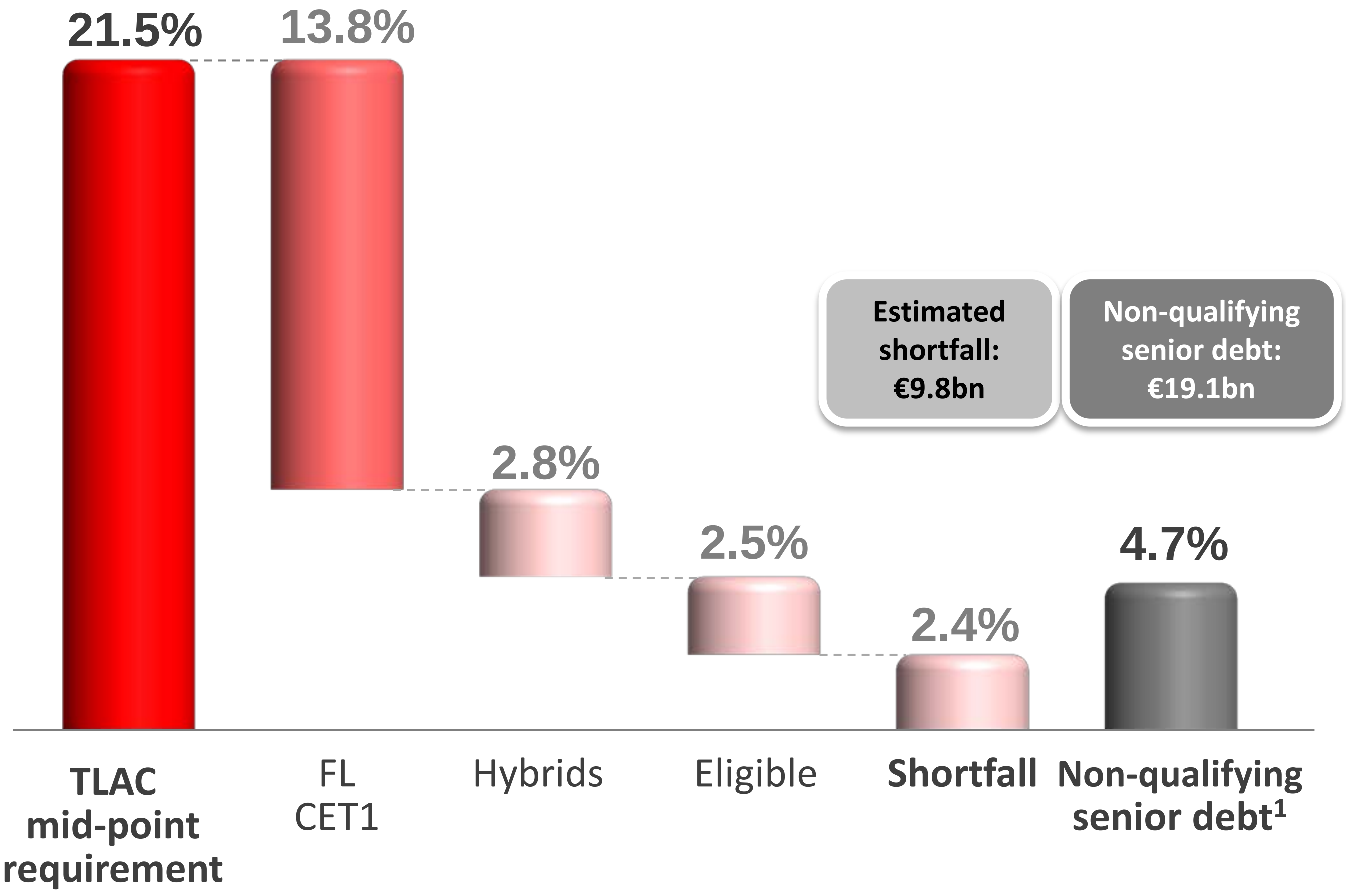
(1) The introduction of TLAC by the FSB is still a proposal. Final position of the FSB expected by the end of 2015, for expected implementation not before 1st January 2019. TLAC estimates are based on our interpretation on the FSB's November 2014 consultation document on the "Adequacy of loss-absorbing capacity of global systemically important banks in resolution"

Parent bank is already in a good situation to comply with TLAC…

Potential TLAC requirement



Current situation Parent company (Jun'15)



(1) Eligible senior debt under the FSB term sheet but don't qualify as they rank pari-passu with excluded liabilities

…at the sub-consolidated level in our main units

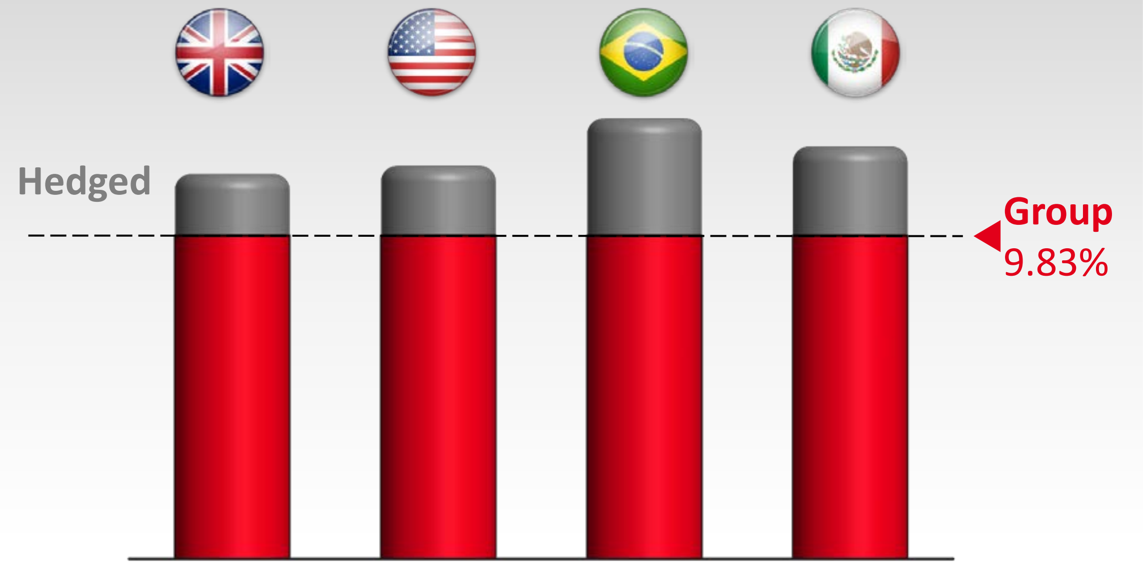
€bn	Shortfall	Non-qualifying Senior debt[1]	Annual issuance volumes[2]
	9.8	19.2	[10-12]
	3.3	19.5	[10-15]
	0	25.8	[5-8]
	6.3	0	[2-3]
Other units	8.2	8.4	[10-15]
TOTAL	**27.6**	**72.9**	**[37-53]**

Total shortfalls including all subsidiaries amount to <€28bn, a quite manageable level for Santander

(1) Eligible senior debt under the FSB term sheet but don't qualify as they rank pari-passu with excluded liabilities
(2) Normal issuance volumes for managing the structural balance sheet activity

We have an active FX hedging policy for our capital and P&L

FX risk on capital: 100% excess capital hedged



- To neutralize FX volatility in our Fully Loaded B III ratio
- Based on Group regulatory capital and RWA figures

FX risk on P&L hedging our budgeted P&L

- Dynamic hedging on non euro budgets
- Hedging the budget on a yearly basis
- Reduces the impact of FX volatility

Corporate Centre assumes the cost of carry and the outcome of the strategies

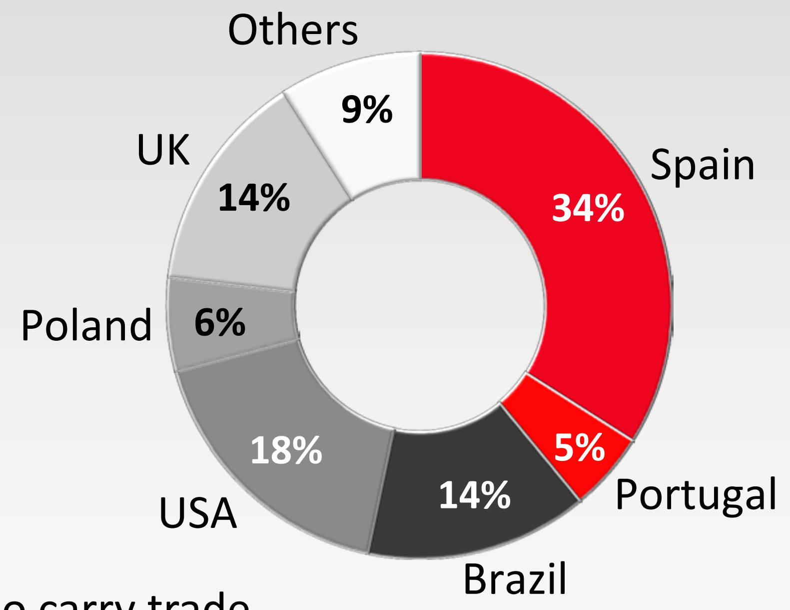
Interest rate risk hedging to protect core deposits profitability

Interest rates sensitivity as of Jun'15

(+100b.p. parallel shift, €MM)

EUR	+316
GBP	+150
USD	+58
PLN	+23
BRL	-219
CLP	-41
MXP	+53

AFS portfolio to hedge interest rate risk
(€87bn in total, Jun'15)



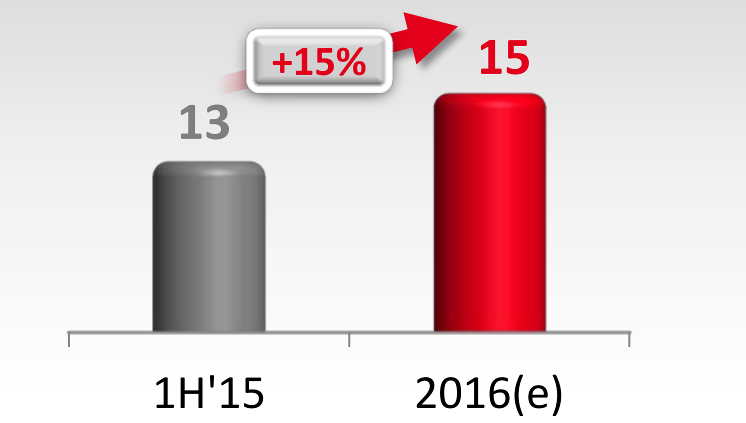
- No carry trade
- Average duration: ~3 years
- Marked to Market (AFS)
- Hedged locally

4

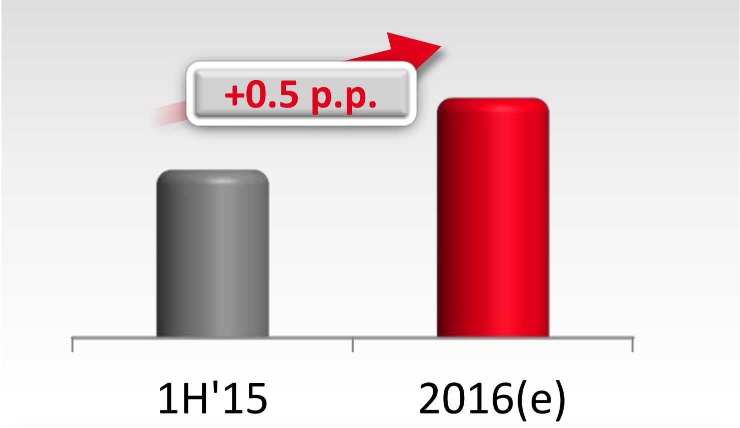
Group and Country financial guidance

Transparent performance Group metrics in 2016

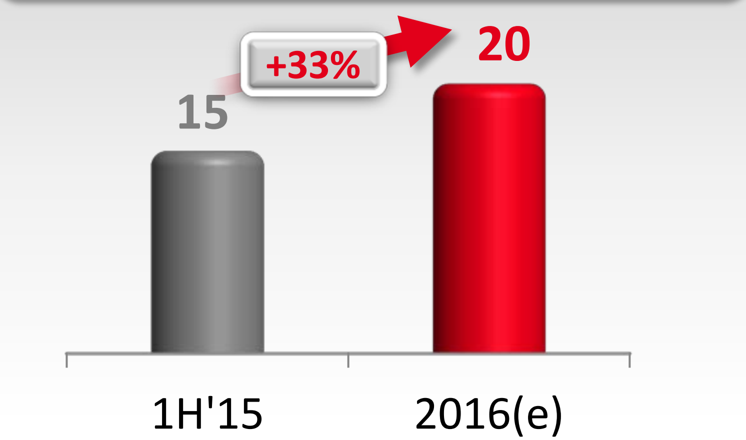
Loyal retail and commercial customers (MM)



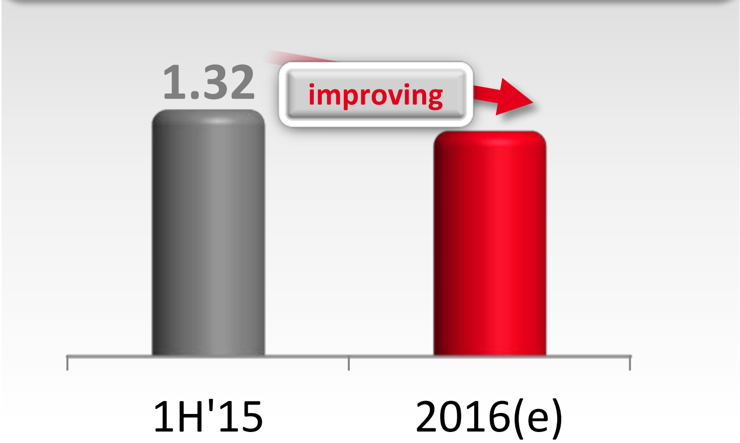
Average SME and Corp. market share growth



Digital customers (MM)



Cost of risk (%)



2016 vs. 2015:

- **Accelerating fee income growth**
- **Stable C/I**
- **Growth in dividend and EPS**

2018 financial targets

A dual macroeconomic- financial environment

DMs

EMs

Developed markets recovery is established

- Europe periphery recovers fast
- Cost of risk coming down across the board

Emerging markets are facing some cyclical adjustment

- Though keeping structural L-T growth
- Currencies are a source of P&L volatility

Global macro

- Global growth continues to be below pre crisis level (and below potential?)
- …and as a result interest rates might stay lower for longer

In summary, short-term market uncertainty with long-term potential

	1H'15	2018 Target
C/I Ratio	47%	**< 45%**
Cost of risk	1.3%	**1.2%(1)**
RoTE	11.5%	**c. 13%**
FL CET1	9.8%	**>11%**
Cash Dividend Payout	30%	**30%-40%**

- Increasing **EPS**, reaching **double digit growth by 2018**

(1) Average for 2015 – 2018

Country targets aligned with the Group

2018 targets

		Group				SCF						
Growth CAGR 2015-2018	Loans	Above peers	SD	SD	SD	SD	SD	DD	SD	DD	DD	SD
Operating excellence	C/I ratio	<45%	<50%	37%	c.50%	c.42%	c.37%	<37%	<42%	50%	<40%	<45%
Risk management	NPL ratio	c.4%	<1.5%	~peers	<4.5%	c.4%	2.5%	<3.5%	<5.5%	<1.7%	c.5%	<8%
Profitability	RoTE	c.13%	12-14%	c.17%	c.14%	14-15%	>11%	>16%	16-17%	c.30%	>17%	>14%

SD: Single Digit DD: Double Digit

Key takeaways

Santander has an unique model to cope with the current new macroeconomic and tougher regulatory environment, in which **P&L execution discipline** and **efficient capital allocation are key**

Our commitment: to improve RoTE to generate **organic capital accumulation after growing dividends and business growth**

Our financial management corresponds to a **prudent banking model**

As a result of our transformation program (customer loyalty, digital innovation and operational excellence) **reaching double digit EPS growth by 2018**

Santander

Simple | Personal | Fair