The case of Banco Santander

OMG Meeting – May 20th 2008
01. Santander today

Santander is one of the main financial institutions in the world…

- Over EUR 1.0 trillion under management
- Over 65 million customers
- 11,178 branches, the international bank with the largest branch network
- 131,819 employees
- The bank with more shareholders in the world: 2.3 million
- Among the 10 largest banks by capitalisation and 1st in Eurozone

(*) Data excluding ABN. With ABN, more than 78 mill. customers and more than 13,000 branches
(**) Capitalisation figures at the close of May 15th, 2008
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01. The History of Santander
02. Santander’s Model
03. Vision and Strategy
The History of Santander

- **1857**: Foundation of the Santander bank. Issues its own money.
- **1920**: From a local bank to a regional bank.
- **1946**: Buys the Mercantil Bank.
- **1950**: Expansion in Spain. First branches in Latin America.
- **1988**: Alliance with Royal Bank of Scotland.
01. The History of Santander

1989
Launch of the "Supercuenta" (Super account)

1994
Acquisition of Banesto
Wave of expansion in Latin America

1999
Merger with the Central Hispano Bank
Acquisitions in Portugal, Brazil, Chile, Mexico
Santander Consumer Finance

2004
Acquisition of Abbey

2007
Acquisition of ABN Amro
In a short time, we have taken a gigantic leap …

<table>
<thead>
<tr>
<th>1985</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of customers</td>
<td>750,000</td>
</tr>
<tr>
<td>Attributable profit</td>
<td>EUR 133 mill.</td>
</tr>
<tr>
<td>Market capitalisation</td>
<td>EUR 2,455 mill.</td>
</tr>
<tr>
<td>65 million</td>
<td>EUR 9,060 mill.</td>
</tr>
<tr>
<td>EUR 92,501 mill.</td>
<td></td>
</tr>
</tbody>
</table>
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01. The History of Santander
02. Santander’s Model
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Our Businesses

International profile

Europe. Santander has presence in:
- Spain
- UK
- Portugal
- Italy
- Germany
- France
- Netherlands
- Poland
- Czech Republic
- Austria
- Hungary
- Finland
- Norway
- Sweden
- Russia

Latin America. Santander also conducts businesses in:
- Brazil
- Mexico
- Chile
- Argentina
- Venezuela
- Puerto Rico
- Colombia
- Uruguay

USA. Through Drive Financial

In the past twenty years we went from having 75% of total profit in Spain to a 45%
Santander’s Model

1. Critical mass in our core markets...
2. ... diversification with focus on retail banking...
3. ... continuous efficiency improvement ...
4. ... balance sheet strength...
5. ... active management of business portfolio ...
6. ... and single brand
01. Large **market share**: critical mass in our core markets …

<table>
<thead>
<tr>
<th>Key market data</th>
<th>Dec. 2007 (or latest available)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ranking¹</td>
</tr>
<tr>
<td>Spain²</td>
<td>1st</td>
</tr>
<tr>
<td>UK³</td>
<td>6th</td>
</tr>
<tr>
<td>Santander Consumer⁴</td>
<td>--</td>
</tr>
<tr>
<td>Portugal²</td>
<td>4th⁵</td>
</tr>
<tr>
<td>Brazil⁶ (with Banco Real)</td>
<td>3rd</td>
</tr>
<tr>
<td>Mexico</td>
<td>3rd</td>
</tr>
<tr>
<td>Chile</td>
<td>1st</td>
</tr>
</tbody>
</table>

Focus on Europe and Latin America: potential market of 800 million people

(1) Loans + deposits (balance sheet funds) + mutual funds
(2) Santander Consumer not included (in Spain: 3.6 million customers and 93 branches; Portugal: 0.2 million customers and 3 branches)
(3) Abbey figures only. Ranking by assets and mortgages market share (third in residential mortgages)
(4) Presence in 14 countries. Loyalty cards not included under customers
(5) Third largest private bank in Portugal and first by profit of the business in Portugal
(6) Excluding public-sector banks. Including Banco Real: 3rd in ranking; 12% market share; >4,000 branches and >21 mill. customers
02. Strong geographical and business area **diversification**: retail banking focus

Attributable profit by operating business areas*

<table>
<thead>
<tr>
<th>Geographical distribution (Attributable profit *)</th>
<th>Business distribution (PBT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America 32%</td>
<td>Commercial Banking 80%</td>
</tr>
<tr>
<td>Continental Europe 53%</td>
<td>Global Wholesale Banking 16%</td>
</tr>
<tr>
<td>UK (Abbey) 15%</td>
<td>Asset Management &amp; Insurance 4%</td>
</tr>
</tbody>
</table>

9 units / countries generating over EUR 500 million per year

84% retail

(*) Data as of December 2007
03. **Efficiency** as a target: continuous improvement backed by ...

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**Efficiency ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Efficiency Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>'98</td>
<td>68.6%</td>
</tr>
<tr>
<td>'99</td>
<td>65.0%</td>
</tr>
<tr>
<td>'00</td>
<td>63.0%</td>
</tr>
<tr>
<td>'01</td>
<td>60.3%</td>
</tr>
<tr>
<td>'02</td>
<td>58.6%</td>
</tr>
<tr>
<td>'03</td>
<td>55.2%</td>
</tr>
<tr>
<td>'04</td>
<td>52.8%</td>
</tr>
<tr>
<td>'05</td>
<td>52.9%</td>
</tr>
<tr>
<td>'06</td>
<td>48.6%</td>
</tr>
<tr>
<td>'07</td>
<td>44.2%</td>
</tr>
</tbody>
</table>

*Abbey*

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**Different cost strategies**

- **Abbey Group**
  - Efficiency ratio: 44.2%
  - Variance vs. 2006: (-4.4 p.p.)

- **Continental Europe**
  - Efficiency ratio: 38.8%
  - Variance vs. 2006: (-2.0 p.p.)

- **United Kingdom (Abbey)**
  - Efficiency ratio: 50.1%
  - Variance vs. 2006: (-5.0 p.p.)

- **Latin America**
  - Efficiency ratio: 41.8%
  - Variance vs. 2006: (-5.2 p.p.)

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(*) Efficiency ratio with amortisations. Figures from 2004 on according to IFRS.
2005 includes Abbey's incorporation (efficiency: 62.2%)

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"costs in line with infrastructure growth" at Abbey: -3% operat. exp. (local currency)

"restructuring" at Abbey: +6% operating expenses (local currency)

"selective growth" at LatAm: +15% operating exp. (local currency)
04. High Balance sheet strength…

Medium-low and predictable risk profile

- High RISK QUALITY
  - 91% retail lending
  - Well diversify by markets and products
  - NPLs at minimum levels with high coverage

- Minimal exposure to complex structured products
  WITHOUT IMPACT ON RESULTS

Careful balance sheet management

- COMFORTABLE LIQUIDITY:
  - Very limited use of short term financing
  Moreover ...
  - ... BCE financing available: approx. EUR 30 bn.

- High SOLVENCY RATIO:
  - Core capital > 6%
  - Hedging to maintain capital base

Strength within an environment of increasing uncertainty
05. **Active management of business portfolio**

In addition to organic growth, we keep the strategic flexibility to re-balance our Group, acquiring in high growth / profitable areas and selling in low growth / profitability ones.

<table>
<thead>
<tr>
<th>Acquisitions ...</th>
<th>... and disposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Banespa (Brazil), Grupo Totta &amp; Açores (Portugal), Mexico, Chile...</td>
<td>■ Financial stakes (San Paolo IMI, Urbis, BPI…)</td>
</tr>
<tr>
<td>■ Abbey (United Kingdom)</td>
<td>■ Abbey Insurance business</td>
</tr>
<tr>
<td>■ Consumer businesses: 19 countries, between them Germany, Italy, USA ...</td>
<td>■ LatAm pensions</td>
</tr>
<tr>
<td>■ ABN AMRO (in consortium)</td>
<td>■ Real estate sales (lease-back)</td>
</tr>
<tr>
<td></td>
<td>■ Antonveneta (Italia, part of ABN)</td>
</tr>
</tbody>
</table>
05. Active management of business portfolio

Rigour in our acquisition policy: all acquisitions must meet a double discipline, strategic and financial.

### Strategic Discipline

- Good fit with our core competencies:
  - Markets we know well
  - Potential to add value

### Financial Discipline

- The acquisition needs to meet strict financial criteria:
  - ROI > cost of capital plus
  - Positive EPS impact ... within three years

ABN AMRO is an example of our commitment to our strategy and financial discipline.
06. Single Brand

2007

Global brands

- Santander
  - Asset Management
  - Private Banking
  - Cards
  - Consumer Finance
  - Global Banking & Markets
  - Insurance
06. Single Brand

Image and Brand Plan 2007-10

- 150th Anniversary
- Positioning
- Sponsorship of the McLaren motor-racing team
- Santander Libertadores Cup
- Full Marketing Management
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04. Vision and Strategy

Santander vision of 2008. New economic environment …

Global economy
- Growing at a lower pace than in 2007

Europe
- Lower growth.
- Interest rates: stable in next months
- Lower business growth in Spain and United Kingdom

Latin America
- Somewhat lower growth, although still high
- Solid macro fundamentals within a convergence and structural growth environment for the coming years
- “Bancarisation” will continue to increase

In short, a growth environment with greater uncertainties
04. Vision and Strategy

... and a more demanding financial environment

Cycle normalisation

Going from the “excess liquidity” of recent years to a “normalised cycle”:
- Greater risk valuation
- Focus on in-depth customer relationship, efficiency ratio management and capturing of customer funds

New “winners” and “losers” among our peers

- Asset economies lose specific weight
- Increase of differential value of emerging markets
- Demand for universal banking vs. monoliners model

Opportunity: universal banking models leveraged on the economies of scale of a global group
04. Vision and Strategy

Santander faces 2008 from an excellent starting point …

<table>
<thead>
<tr>
<th>Diversified business based on retail banking</th>
<th>Recurrent revenues and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk quality</td>
<td>Low and predictable risk</td>
</tr>
<tr>
<td>Balance sheet strength</td>
<td>Comfortable liquidity and solvency ratio</td>
</tr>
<tr>
<td>Differential business portfolio</td>
<td>In developed and emerging markets</td>
</tr>
<tr>
<td>Investing in growth in recent years</td>
<td>Will continue to bear fruit</td>
</tr>
<tr>
<td>Track record in costs</td>
<td>Back office weight decreases to strengthen the front office and to face new investments</td>
</tr>
<tr>
<td>Contribution of ABN businesses</td>
<td>Critical mass in Brazil. SAN only international bank with significant presence in a BRIC</td>
</tr>
</tbody>
</table>

Solid positioning and superior execution capabilities
04. Vision and Strategy

... and clear management focus

... with well defined management focus in 2008:

- Greater importance of spreads management
- “Jaws” management with main focus on costs:
  - Strict cost control in all units
- Special focus on risk (provisions)
- Greater significance of deposits
- Special focus on service quality in all units

... and all of it without forgetting:

- To maintain discipline in financial and capital management
- Framed within a global environment, increasing cross-border businesses and technological integration
04. Vision and Strategy

In 2008 we are confident that Santander will continue to grow and create value in the medium and long term …

**EPS excluding capital gains***

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>CAGR: +14%</th>
<th>CAGR: +21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>'97</td>
<td>0.34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'98</td>
<td>0.38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'99</td>
<td>0.43</td>
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<tr>
<td>'01</td>
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</tr>
<tr>
<td>'02</td>
<td>0.48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'03</td>
<td>0.55</td>
<td></td>
<td></td>
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<tr>
<td>'04</td>
<td>0.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'05</td>
<td>0.84</td>
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<td></td>
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<tr>
<td>'06</td>
<td>1.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'07</td>
<td>1.28</td>
<td></td>
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</tbody>
</table>

**Dividend per share**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>CAGR: +14%</th>
<th>CAGR: +25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>'97</td>
<td>0.18</td>
<td></td>
<td></td>
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<td>0.30</td>
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<tr>
<td>'04</td>
<td>0.33</td>
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<tr>
<td>'05</td>
<td>0.42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'06</td>
<td>0.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'07</td>
<td>0.65</td>
<td></td>
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</tr>
</tbody>
</table>

(* Adjusted from share splits and capital increases
From 2004 under IFRS criteria

... to continue outperforming our competitors …
... our objectives are:

1. Become the world’s leader in retail and consumer banking
2. Be a reference bank in wholesale and private banking in our core markets
3. Be the best in the world in terms of growth, profitability and efficiency
4. Attract the best global talent
5. Become one of the most recognized financial brands worldwide