

Portugal Q3 2011

Lisbon, October 27th 2011

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Note: The results information contained in this presentation has been prepared according to Spanish accounting criteria and regulation in a manner applicable to all subsidiaries of the Santander Group and as a result it may differ from the one disclosed locally by Banco Santander Totta.

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Macroeconomic outlook and financial system

Business growth

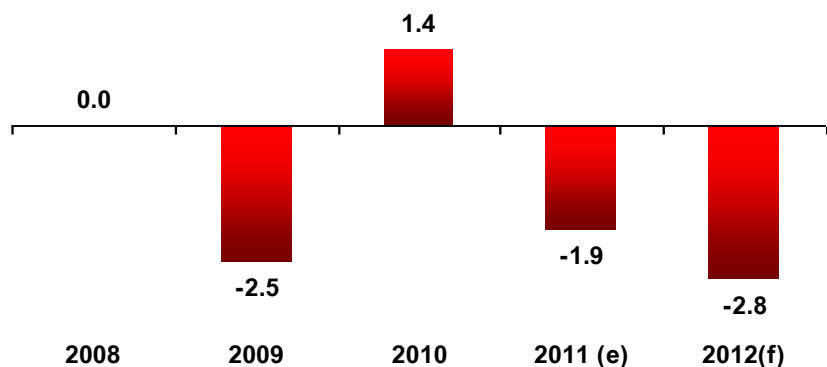
Q3 2011 Results

Annexes

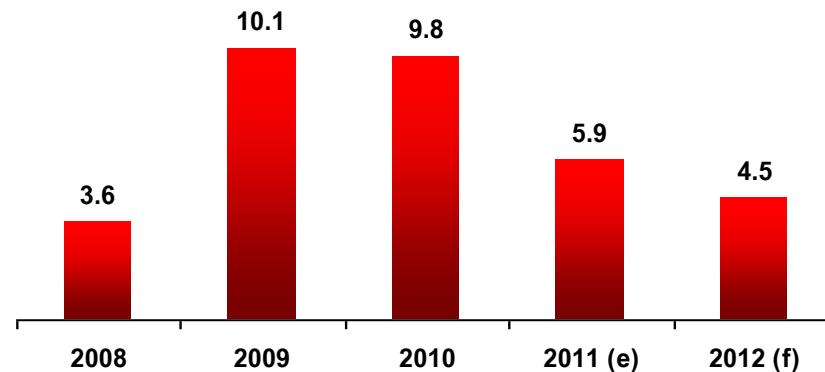
Macroeconomic Outlook

The contraction in domestic demand will likely deepen in 2H11 and will extend into 2012, which may mark the trough

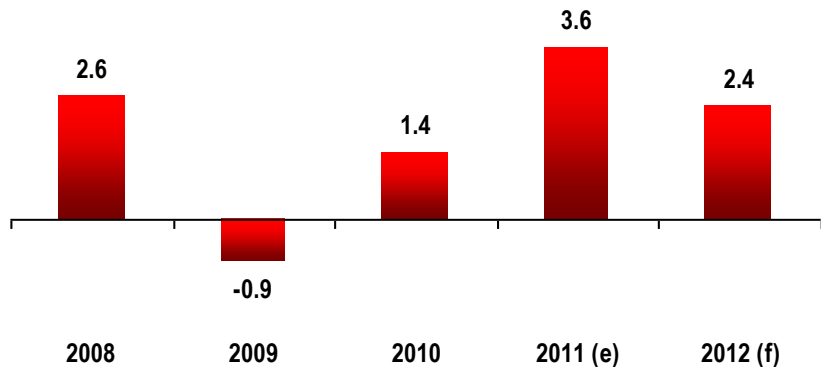
GDP (YoY, at 2006 Prices)



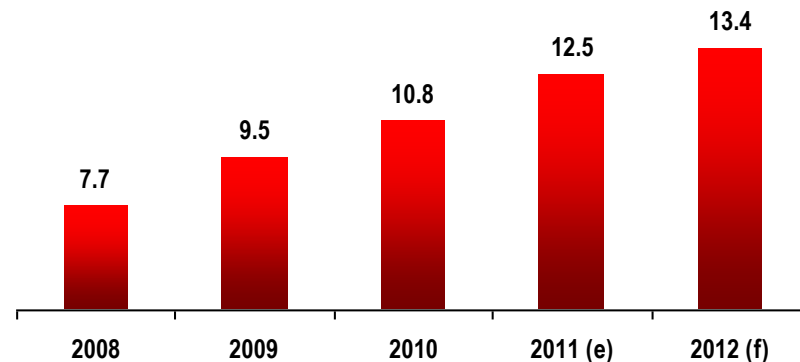
Fiscal Deficit (% GDP)



CPI Inflation (%)



Unemployment (%)



Source: Santander Research

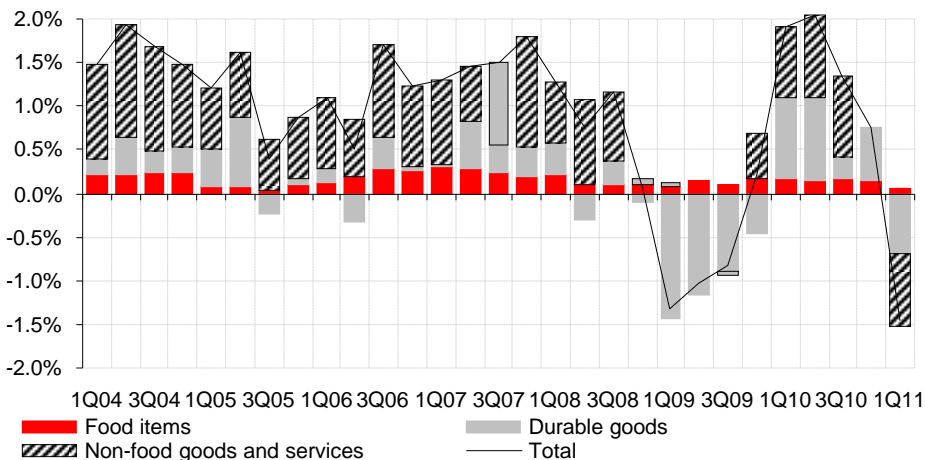
Activity continued to contract

Economic activity has likely continued to contract in 3Q11

- Households have become even more conservative, as pointed out in the drop in consumer confidence
 - The announced special tax on the Christmas bonus and higher taxes on energy, as well as high unemployment, likely have weighed on discretionary spending
 - Auto sales have fallen steeply
- The reduction in public expenditure may have steepened, as the new Government took office
- Poor demand prospects and even tighter credit markets may have brought down investment
- Net exports remain resilient, but are losing some steam, as external demand is losing momentum
 - Still, net exports have continued to have a positive contribution to GDP growth

Domestic demand has taken the toll from the tougher austerity measures, in place and announced

Private Consumption (contributions to YoY growth)

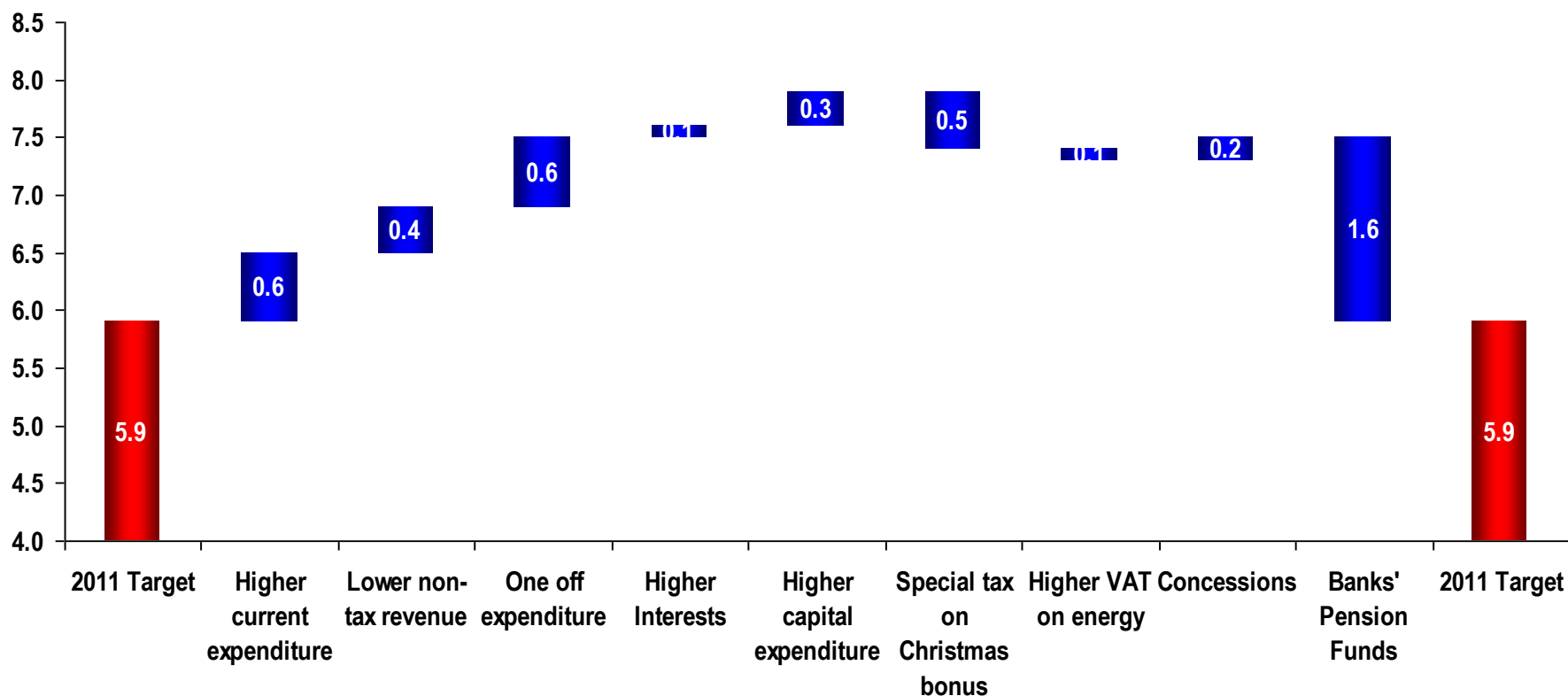


Exports (YoY)



The Government has announced new measures to meet the 5.9% of GDP target for the fiscal deficit in 2011, offsetting the shortfalls in non-tax revenue (lower dividends) and the one-off expenditure from Madeira and recapitalization of BPN

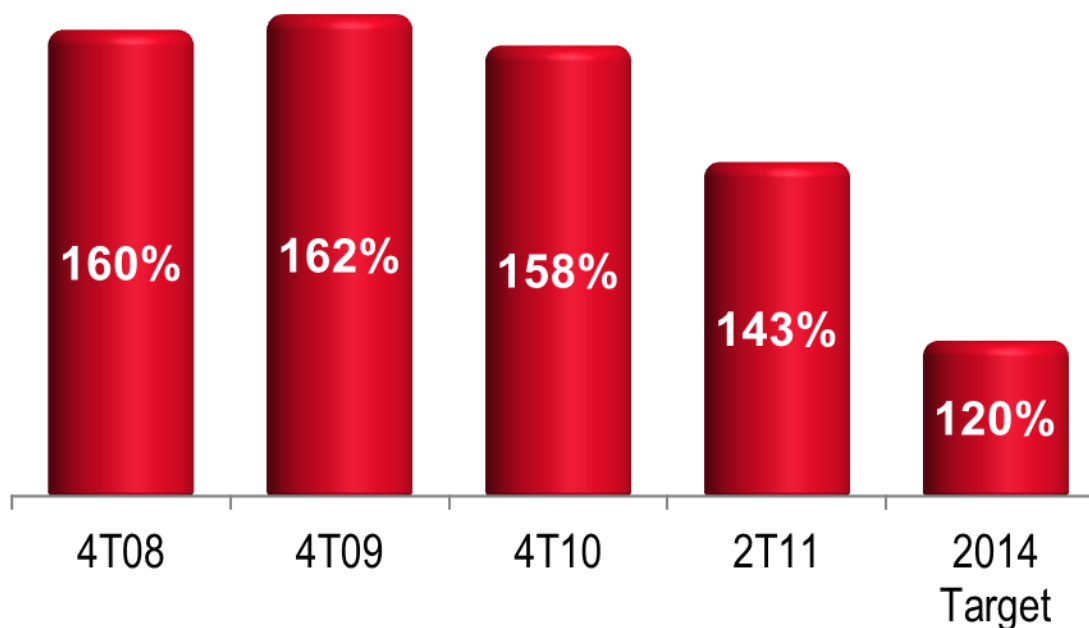
2011 Fiscal Deficit: targets and additional measures (% GDP)



Deleveraging of the banking sector

Banks have begun their deleveraging process, with the loan to deposit ratio for the 8 largest banks falling by 15pp, to 143% in 2Q11 (vs 4Q10)...

Loan to Deposit Ratio (*)

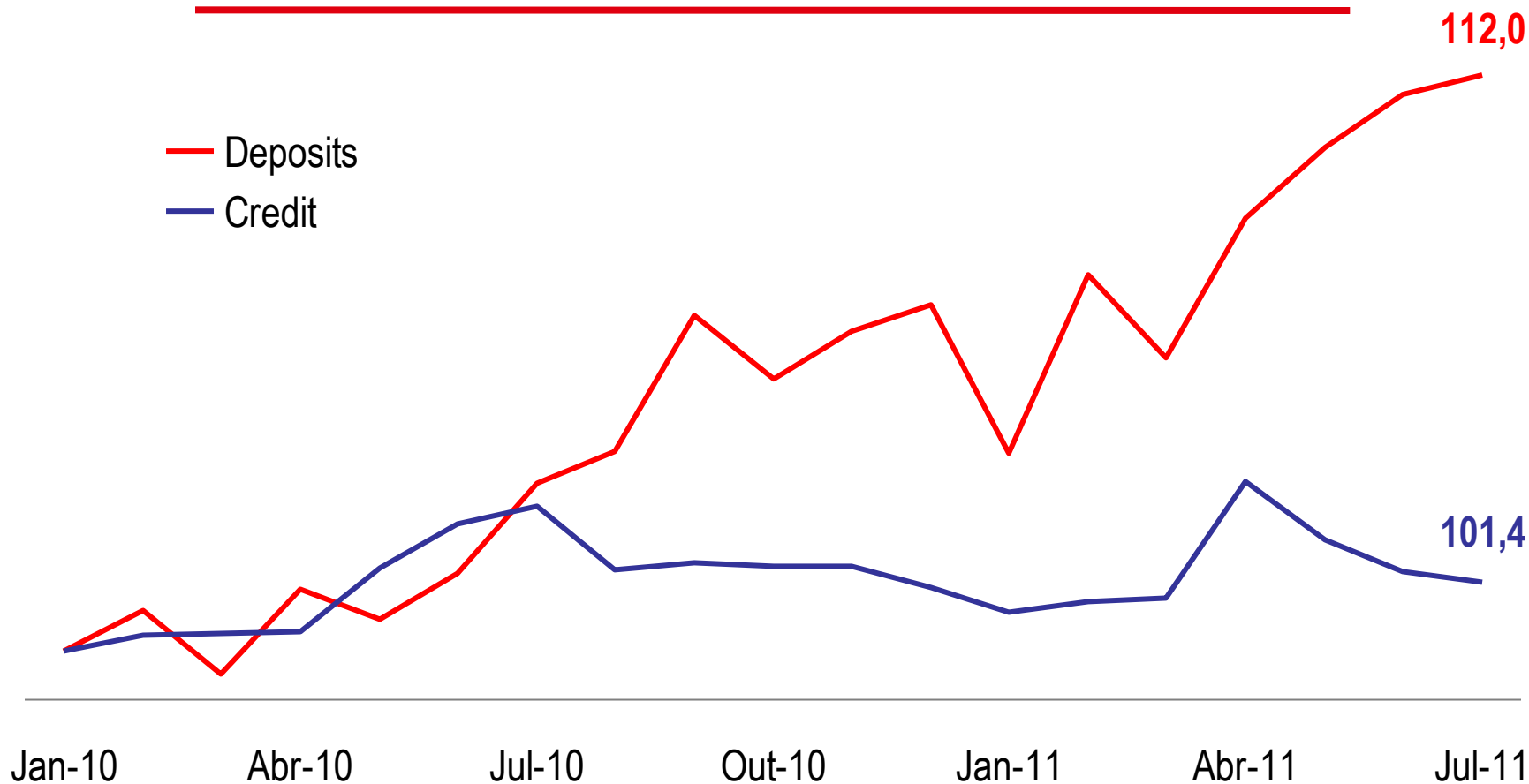


(*): 8 largest banks

Deleveraging of the banking sector

... as a result of the greater focus on deposits, which have been increasing at a fast pace since mid-2010

Bank loans and Deposits (Jan 2010=100)



Conclusions

Adjustment continues, in line with the targets set in the Economic and Financial Adjustment Program

- Activity is contracting, namely at the level of domestic demand
 - Net exports remain resilient and the Bank of Portugal estimates a mild gain in market share
- 2011 budget execution impacted by special factors
 - Lower non-tax revenue, as state-owned companies have retained earnings instead of paying dividends (CGD, the public bank, for instance)
 - Special one-off effects (recognition of Madeira fiscal slippage and recapitalization of BPN, prior to privatization)
 - The Government announced additional measures to meet the 2011 target
- The banking sector continues its deleveraging process
 - The loan-to-deposit ratio, for the eight largest banks, has fallen to 143% in June 2011 (-16pp vis-à-vis June 2010)
 - Banks continue to increase its deposit base
 - Credit is beginning to fall, as demand subsides

Annex

2012 State Budget Highlights

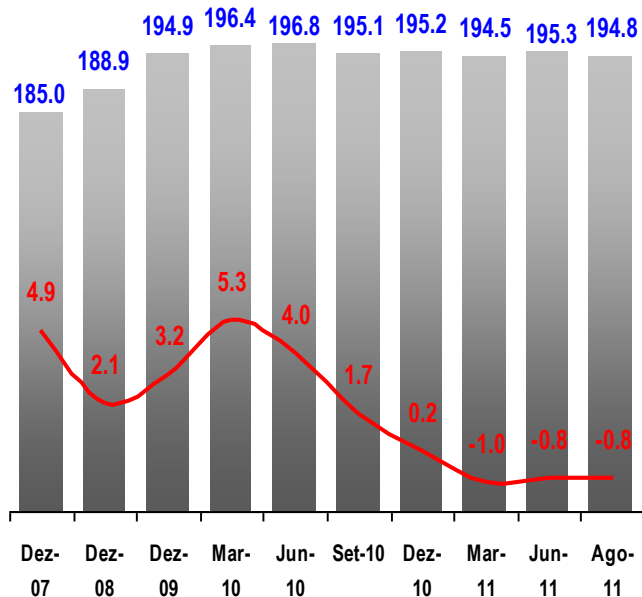
- **Target of 4.5% of GDP to be met with further cuts in expenditure**
 - Current primary expenditure to be cut 6.8%
 - Holiday and Christmas bonuses cut for all civil servants and pensioners with monthly income above €1,000; all others face a gradual cut, on average 1 bonus per year
 - Cuts in social transfers, besides the reductions in pensions, in intermediate consumption and public investment
 - Tax revenue is estimated to increase 2.8%
 - Higher Personal Income Tax, due to lower deductions and benefits; households with taxable income in excess of €153,300 will pay an extra special tax of 2.5% on top of the marginal rate of 46.5%
 - Change in VAT rate structure, with many goods and services being taxed at 23% (up from 6% or 13%)
 - Increase in property and specific consumption excises and taxes
 - Elimination of reduced corporate income tax rates and implementation of a surtax of 3% for profits above €1.5mn and 5% for profits above €10mn

Financial System: Resources from households

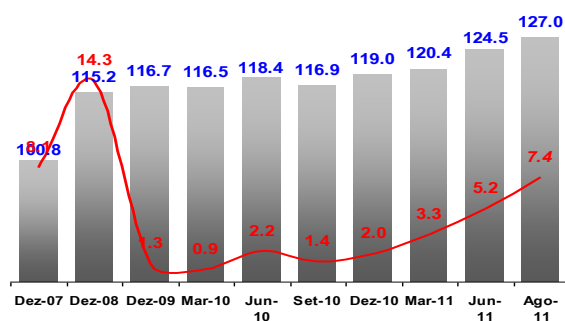
Overall resources flat, but banks continue to transform household resources into deposits

€bn

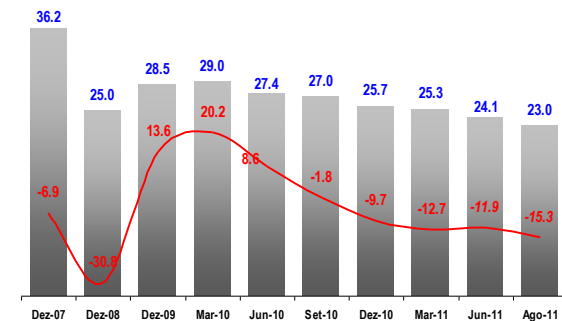
Resources (Depos+MF+Bonds+Insurance)



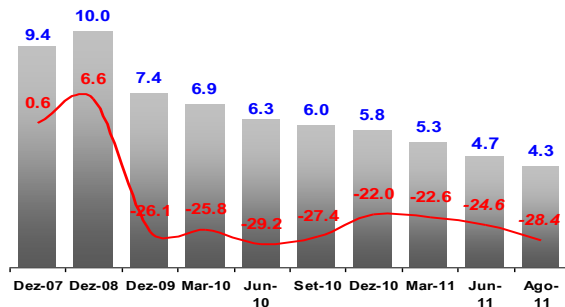
Deposits



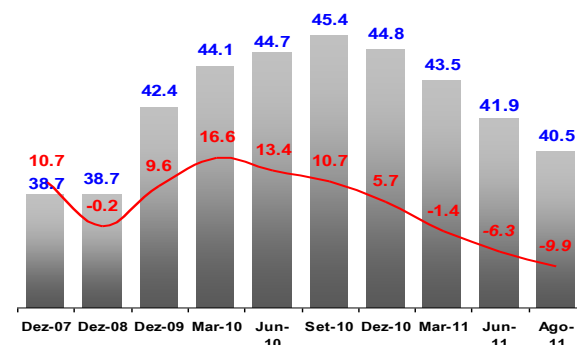
Mutual Funds



Retail Bonds



Insurance



Volume

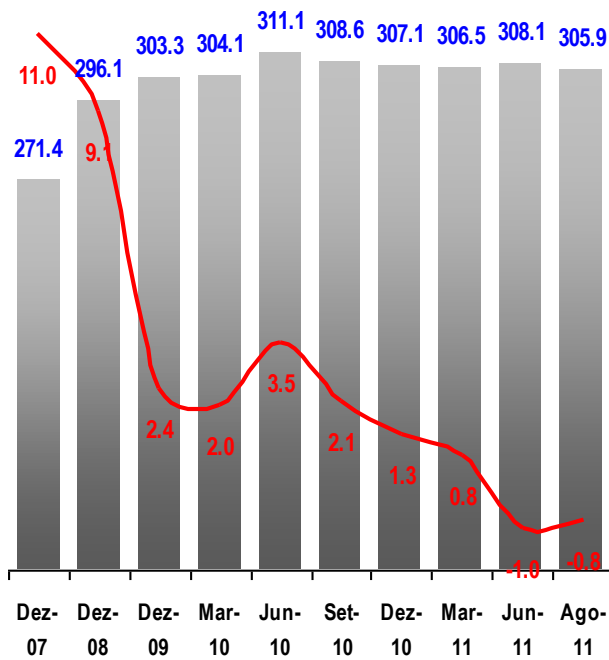
YoY, %

Financial System: Credit

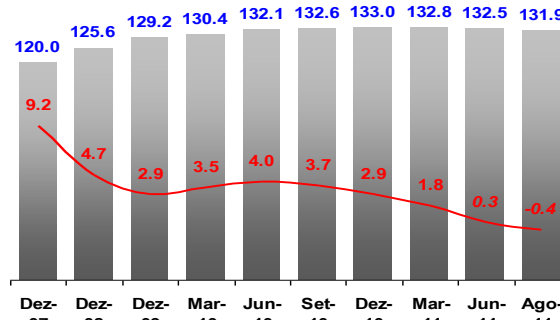
Credit to the private sector is falling, especially at the level of consumer and corporate credit, while mortgages are beginning to fall, as new production fails to offset the natural redemptions

€bn

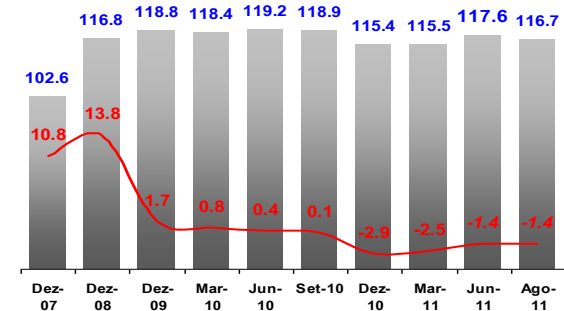
Credit (*)



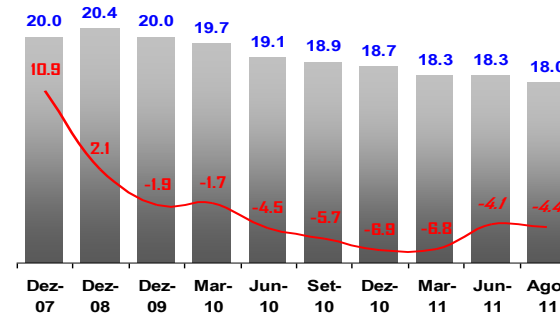
Mortgages (*)



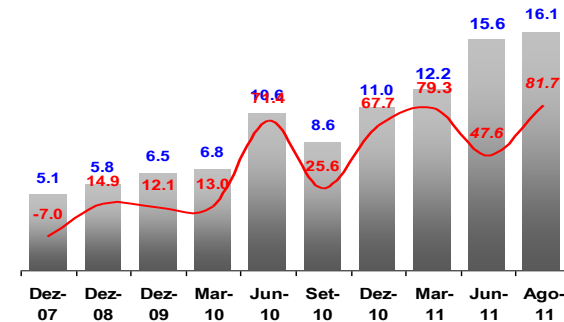
Corporates (*)



Consumer Credit (*)



Public Sector



Volume YoY, %

* Adjusted for securitization

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☐ **Business growth**

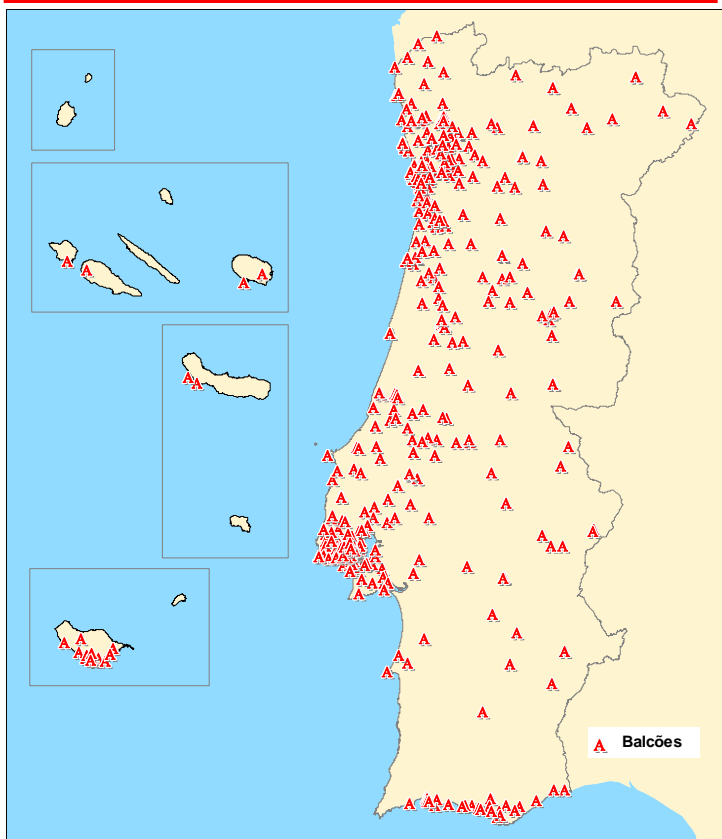
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Our Franchise

Santander Totta is the 3rd private bank in domestic activity by total assets

Santander Totta branches



Million Eur Sep11 Mkt share(*)

Loans	31,030	9.0%
Deposits	22,812	9.1%
Total Resources	31,218	9.8%
Pension Funds	983	6.3%
Net income	129	22.4%(E)

Branches	724	11.6%(APB)
Employees	6,084	-

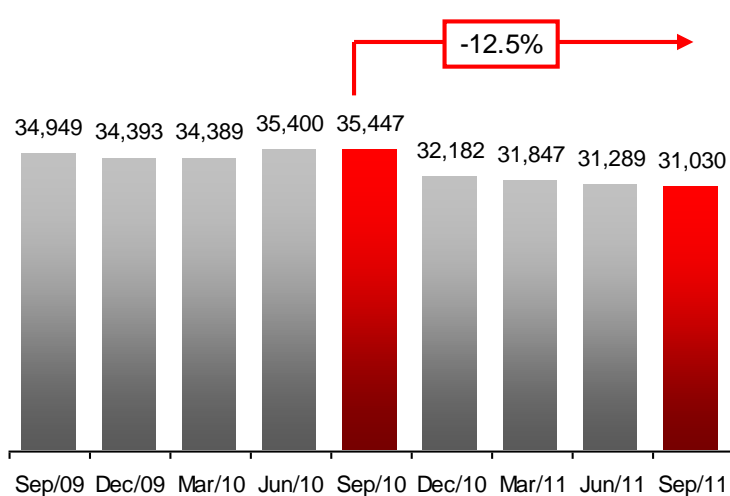
(*) As at Jun/11 (activity in Portugal)

Business: loans performance

The deleveraging process continues

Million Euro

Total Loans^(*)



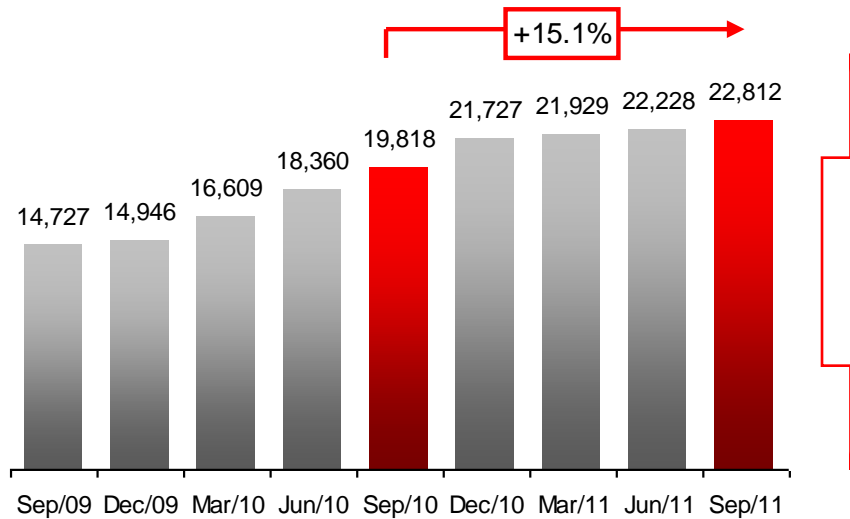
	Sep/11 Volume (M n Eur)	% Var.2011/2010
Individuals	18,313	-2.3%
<i>from which</i>		
Mortgage	16,160	-1.8%
Consumer credit	1,553	-5.1%
Corporates	10,846	-27.2%
<i>from which</i>		
Small business	3,812	-7.0%
Corporates	4,858	-22.0%
Large corporates	2,176	-52.4%
Guarantees and Other	1,871	3.8%
Total	31,030	-12.5%

(*) Includes: gross credit, securitizations and guarantees.

We keep our focus on deposits

Million Euro

Total Deposits



	Sep/11 Volume (M n Eur)	% Var.2011/2010
Customer deposits	22,812	15.1%
Sight Deposits	4,587	-17.7%
Time and Saving Deposits	18,225	27.9%
Securities (retail)	485	-13.7%
Mutual funds and Pension Funds	3,141	-34.7%
Other	94	-94.8%
Total Client Resources	26,532	-1.7%

* The total client resources excludes wholesale debt

Business: market share dynamics

Market share	Jun11 share, %	chg., pp 11/10
Loans to individuals	12.3%	+0.1 pp
Mortgage credit (production)	9.0%	-3.8 pp
Mortgage credit (stock)	12.7%	+0.0 pp
Consumer credit	8.9%	+0.2 pp
Loans to corporates	6.6%	+0.5 pp
Credit cards	9.2%	+0.1 pp
Total Loans	9.0%	-0.4 pp
Deposits	9.1%	+0.3 pp
Deposits + Invest. Funds	9.6%	+0.0 pp
Insurance (stock)	10.8%	+0.4 pp
Net income (E)	22.4%	-6.4 pp

Source: Bank of Portugal - Monetary Statistics – activity in Portugal

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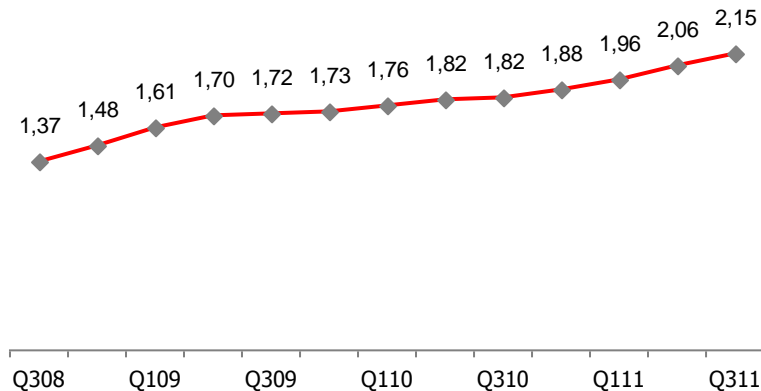
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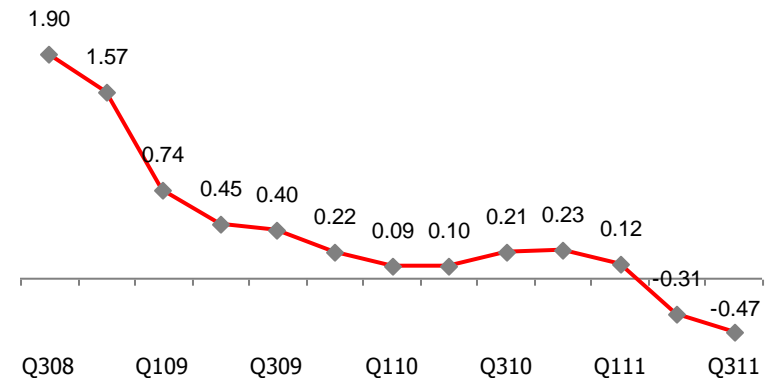
Results: spreads

Increase in cost of deposits while loan spreads continue to increase at a steady pace

Loans spreads – Retail banking



Balance Sheet Resources spreads – Retail banking

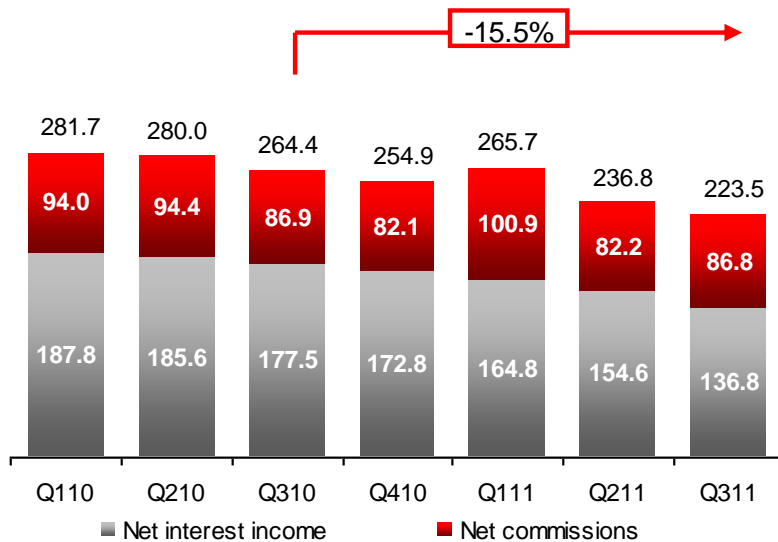


Results: net interest income vs commissions

**Net interest income decreases due to higher cost of funding.
Commissions evolution reflects lower volumes.**

Million Euro

Net interest inc.^(*) + Net commissions



	Volume (Mn Eur)		%
	9M'11	9M'10	Var.2011/2010
Net interest income	456,2	550,9	-17,2%
Net commissions	269,9	275,2	-1,9%
Total	726,1	826,1	-12,1%

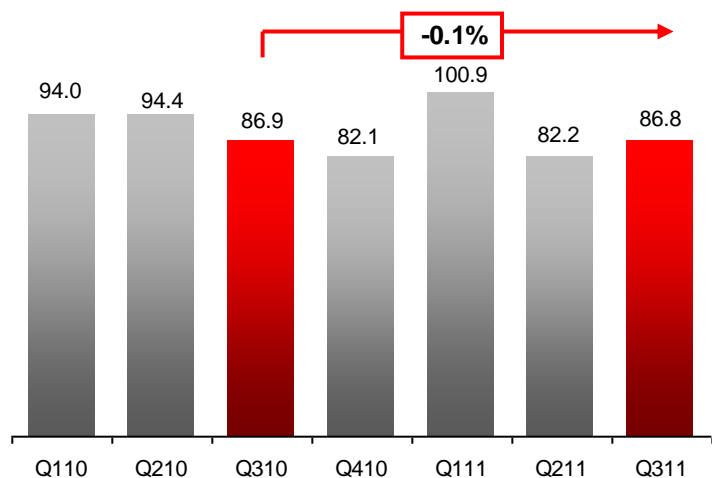
* Without dividends

Results: commissions

Commissions down 1.9% - GBM with better performance

Million Euro

Net commissions



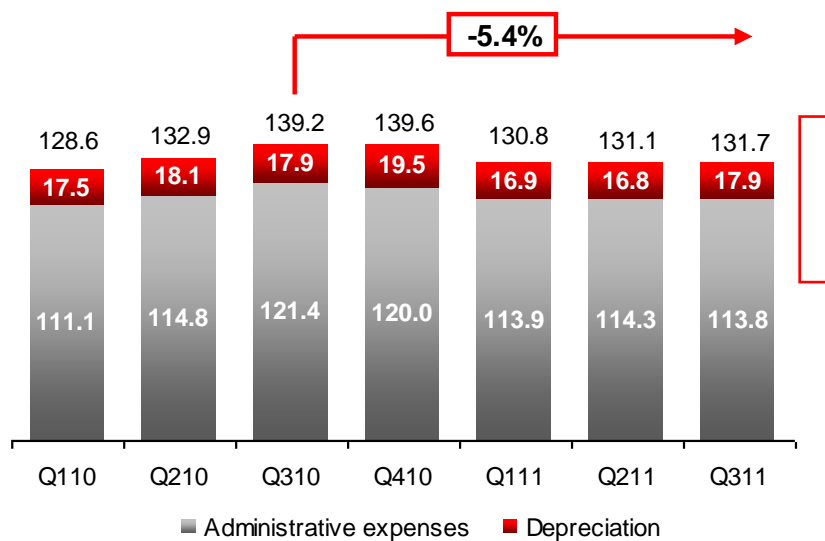
	Volume (Mn Eur)		%
	9M'11	9M'10	
Credit	53,9	61,8	-12,7%
Credit cards	46,4	46,0	1,1%
Mutual funds / Asset management	27,4	34,4	-20,3%
Insurance	76,6	84,2	-9,0%
Other	29,2	29,2	0,0%
Commercial banking	233,5	255,5	-8,6%
GBM	58,0	48,0	20,8%
Other	(21,7)	(28,4)	-23,5%
Total	269,9	275,2	-1,9%

Results: administrative expenses and depreciation

**Operating expenses decrease 1.8%.
We are streamlining our branch network.**

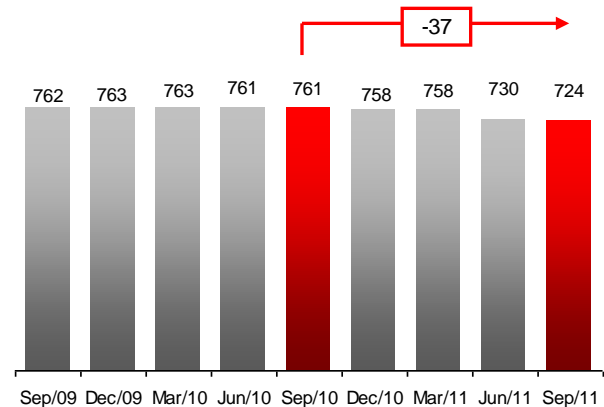
Million Euro

Total operating expenses



	Volume (Mn Eur)		% Var.2011/2010
	9M'11	9M'10	
Administrative expenses	342,1	347,3	-1,5%
Personnel expenses	237,0	239,1	-0,9%
Other expenses	105,1	108,1	-2,8%
Depreciation	51,5	53,4	-3,5%
Total	393,6	400,7	-1,8%

Branches



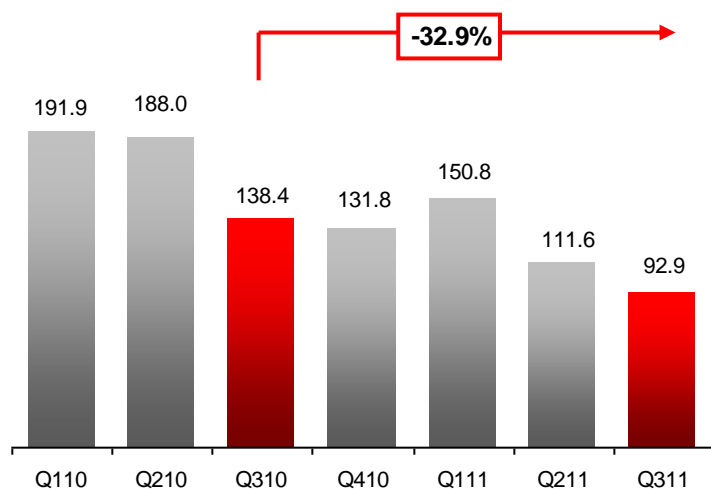
Results: net operating income

Net operating income down 31.4%

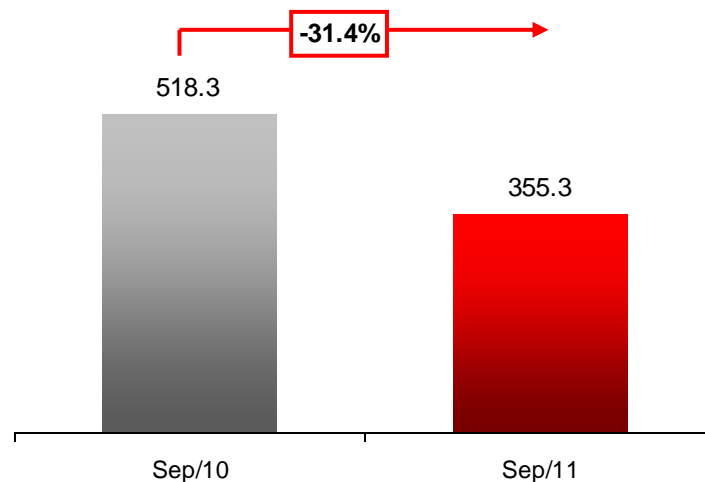
Million Euro

Net operating income

quarterly performance



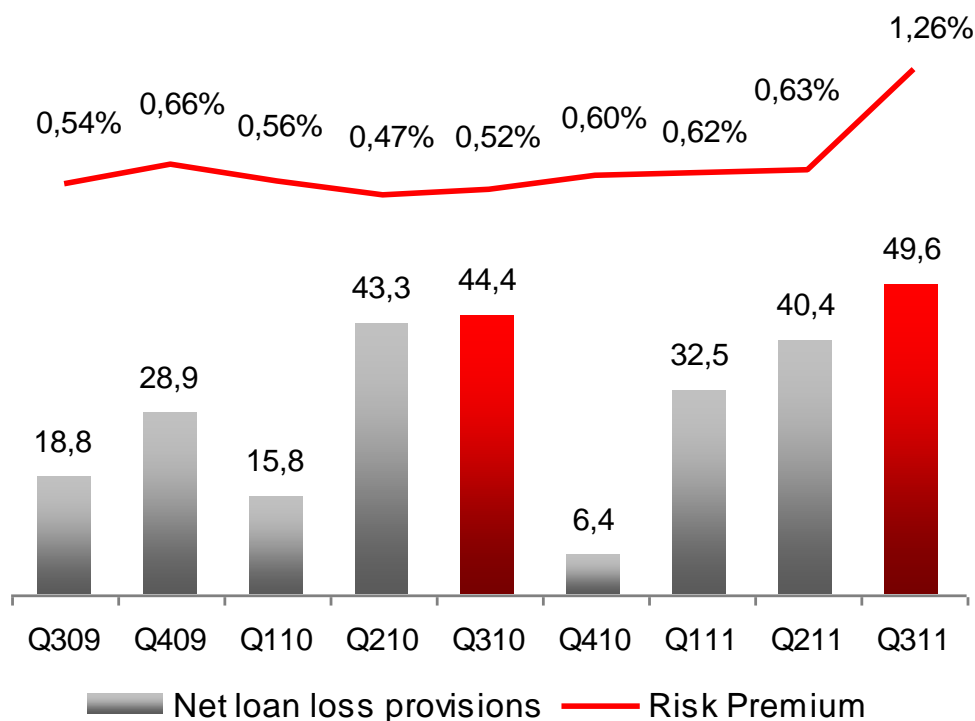
cumulative performance



Results: Loan Loss Provisions and Risk Premium

Risk Premium increases as economic activity deteriorates further

Loan Loss Provisions and Risk Premium

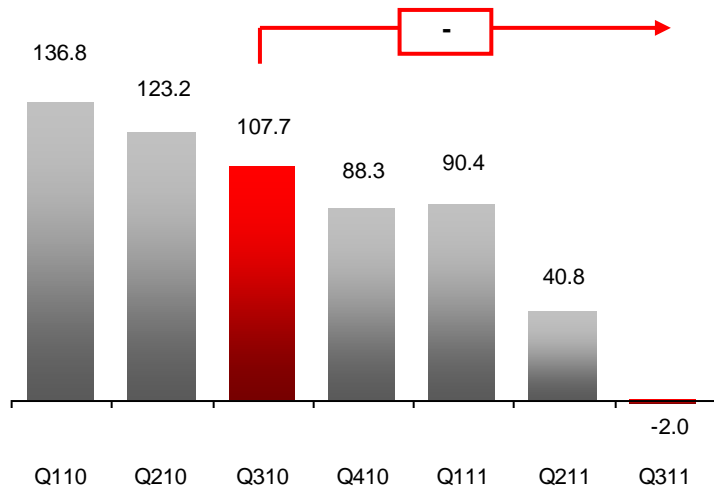


Results: net income

Net income down 64.9% due to NII fall and higher provisions

Million Euro

Net income quarterly growth



Million Euro

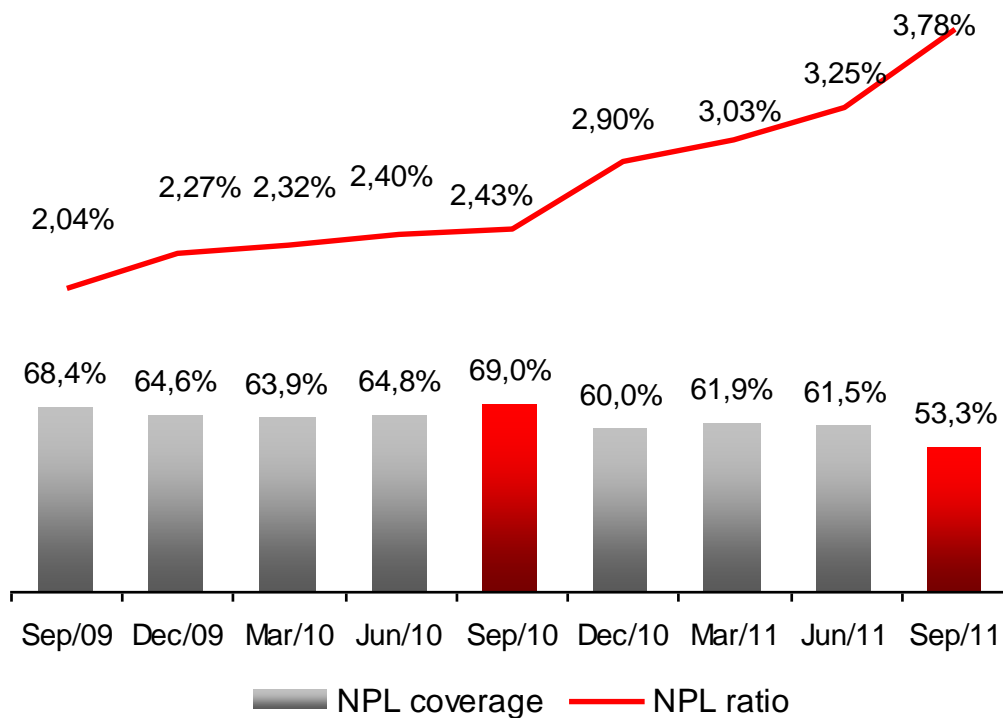
Net income

(million euros)	9M'11	9M'10	% Var.2011/2010
Income before taxes & MI	165,2	442,9	-62,7%
Taxes	(36,0)	(74,7)	-51,8%
Minority Interest	0,0	(0,5)	n.s.
Net income	129,1	367,7	-64,9%

Results: asset quality levels

Deterioration of the quality in loan portfolio with NPL's ratio reaching 3.8%

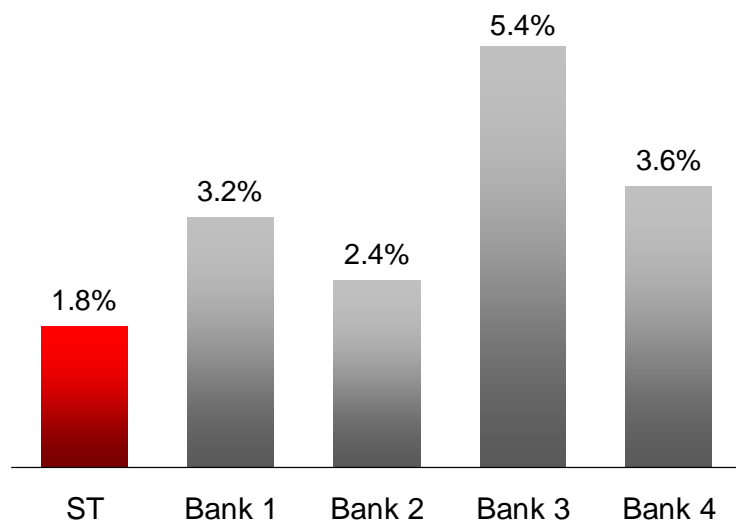
NPL ratio and NPL coverage



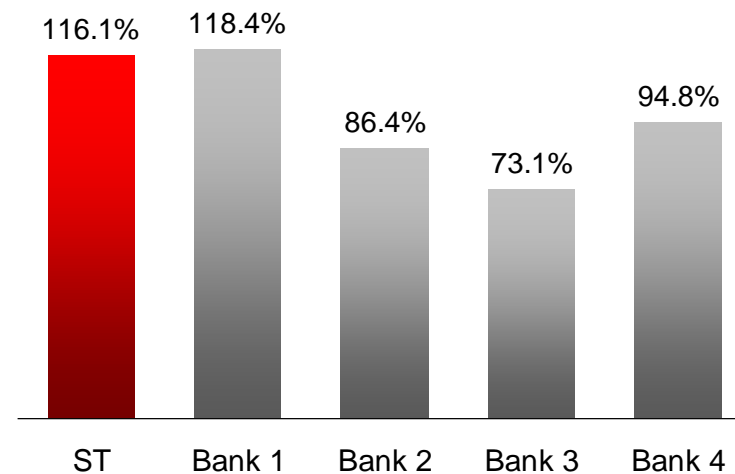
Results: asset quality levels

However, ST performance compares favourably with its peers

NPL ratio



NPL coverage

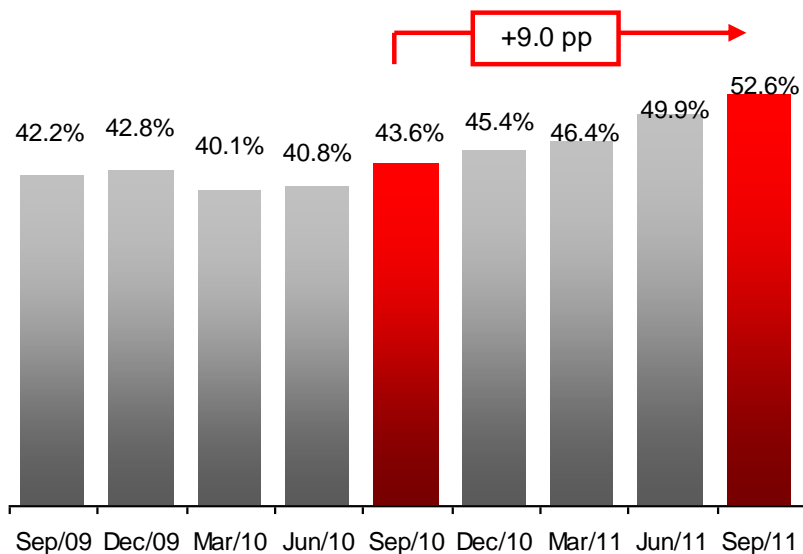


As of Jun/11. Local criteria

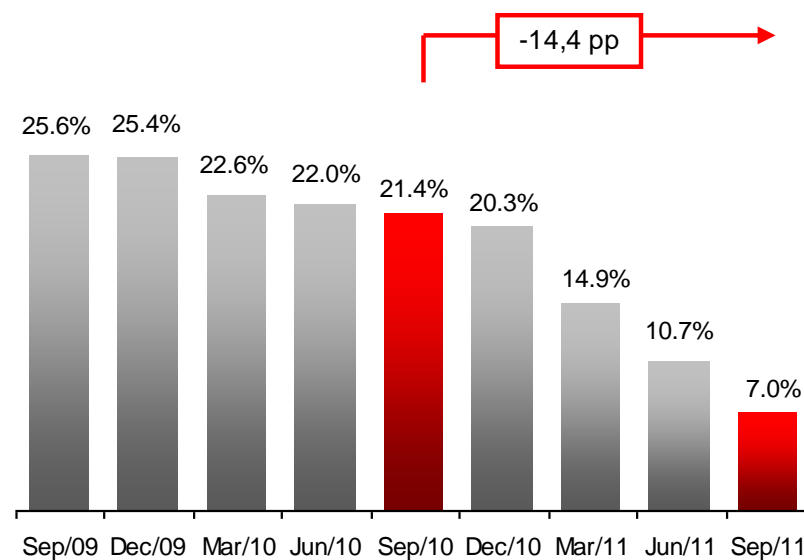
Results: ratios

The adverse economic environment impacts on efficiency and profitability

Efficiency (%)



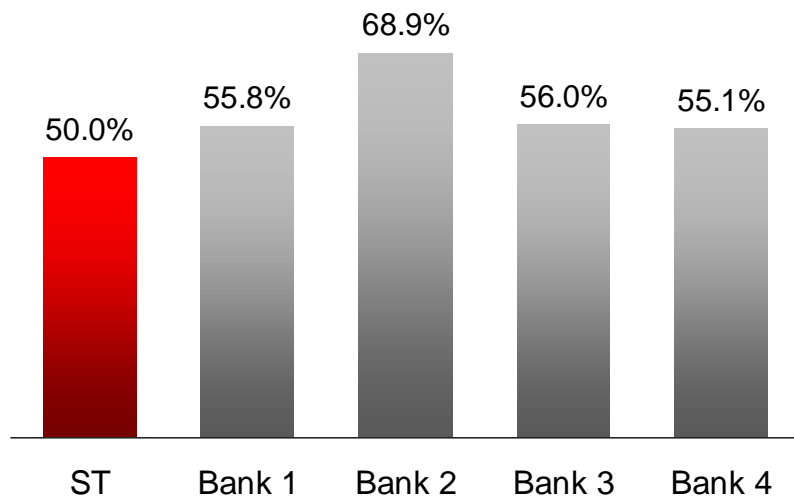
ROE (%)



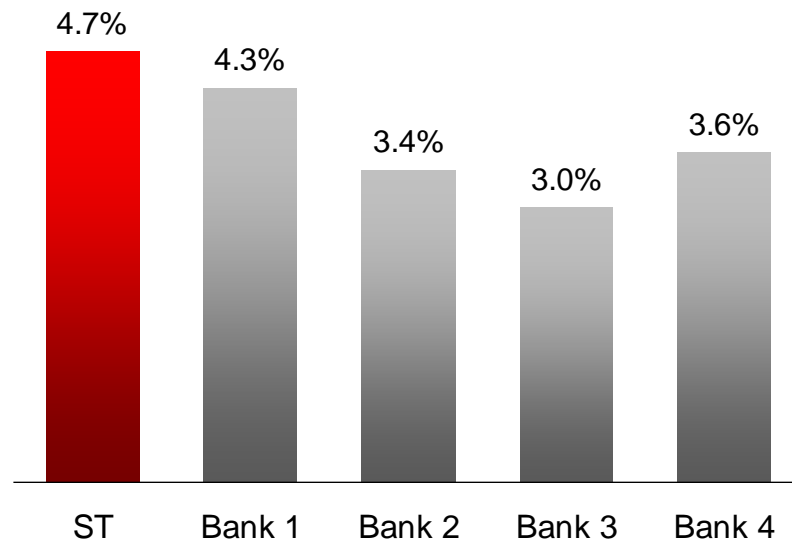
Results: ratios

ST remains best in class among Portuguese banks

Efficiency (%)



ROE (%)



As of Jun/11. Local criteria

Conclusions

- **According to the rescue package with the EFSF and IMF, Portuguese banks have to deleverage their balance sheets, reaching a loan to deposit ratio of 120% at the end of 2014. Simultaneously they will have to increase capital ratios to ensure a core capital of 9% at the end of 2010 and 10% at the end of 2011**
- **In this scenario Santander Totta already complies with the new targets on capital ratios**
- **The macroeconomic environment is having a severe impact on the financial sector profitability, through higher impairment but ST maintains levels of credit quality better than the average of the sector**
- **Results were driven by the decrease in NII and higher provisions. However operating costs showed a good performance**
- **Net interest income down 17.2% due mainly to the increase in the cost of funding**
- **Net income decreased 64,9%**

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Income statement as of Sep11

EUR million	Variation			
	9M 11	9M 10	Amount	%
Net interest income	456	551	(95)	(17,2)
Net fees	270	275	(5)	(1,9)
Gains (losses) on financial transactions	6	58	(51)	(89,0)
Other operating income*	16	35	(19)	(53,1)
Gross income	749	919	(170)	(18,5)
Operating expenses	(394)	(401)	7	(1,8)
General administrative expenses	(342)	(347)	5	(1,5)
<i>Personnel</i>	(237)	(239)	2	(0,9)
<i>Other general administrative expenses</i>	(105)	(108)	3	(2,8)
Depreciation and amortisation	(52)	(53)	2	(3,5)
Net operating income	355	518	(163)	(31,4)
Net loan-loss provisions	(122)	(103)	(19)	18,3
Other income	(68)	28	(96)	—
Profit before taxes	165	443	(278)	(62,7)
Tax on profit	(36)	(75)	39	(51,8)
Profit from continuing operations	129	368	(239)	(64,9)
Net profit from discontinued operations	—	—	—	—
Consolidated profit	129	368	(239)	(64,9)
Minority interests	(0)	0	(1)	—
Attributable profit to the Group	129	368	(239)	(64,9)

Quarterly income statement

EUR million

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Net interest income	188	186	178	173	165	155	137
Net fees	94	94	87	82	101	82	87
Gains (losses) on financial transactions	25	29	4	9	8	0	(1)
Other operating income*	14	12	9	7	8	6	2
Gross income	320	321	278	271	282	243	225
Operating expenses	(129)	(133)	(139)	(140)	(131)	(131)	(132)
General administrative expenses	(111)	(115)	(121)	(120)	(114)	(114)	(114)
<i>Personnel</i>	(77)	(79)	(83)	(82)	(79)	(79)	(79)
<i>Other general administrative expenses</i>	(34)	(36)	(38)	(38)	(35)	(35)	(35)
Depreciation and amortisation	(17)	(18)	(18)	(20)	(17)	(17)	(18)
Net operating income	192	188	138	132	151	112	93
Net loan-loss provisions	(16)	(43)	(44)	(6)	(32)	(40)	(50)
Other income	(8)	(1)	37	(8)	(9)	(14)	(45)
Profit before taxes	168	144	131	117	110	57	(2)
Tax on profit	(31)	(20)	(23)	(29)	(19)	(17)	(0)
Profit from continuing operations	137	123	108	88	91	41	(2)
Net profit from discontinued operations	—	—	—	—	—	—	—
Consolidated profit	137	123	108	88	91	41	(2)
Minority interests	0	0	0	0	0	(0)	(0)
Attributable profit to the Group	137	123	108	88	90	41	(2)

* Including dividends, income from equity-accounted method and other operating income/expenses

Balance sheet as of Sep11

EUR million			Variation	
	30.09.11	30.09.10	Amount	%
Loans and credits*	28.945	33.342	(4.398)	(13,2)
Trading portfolio (w/o loans)	1.575	1.787	(213)	(11,9)
Available-for-sale financial assets	4.172	6.786	(2.614)	(38,5)
Due from credit institutions*	2.164	4.702	(2.538)	(54,0)
Intangible assets and property and equipment	460	479	(18)	(3,9)
Other assets	6.569	4.514	2.055	45,5
Total assets/liabilities & shareholders' equity	43.884	51.610	(7.726)	(15,0)
Customer deposits*	22.812	19.818	2.994	15,1
Marketable debt securities*	5.170	8.545	(3.375)	(39,5)
Subordinated debt	22	254	(232)	(91,3)
Insurance liabilities	75	1.494	(1.419)	(95,0)
Due to credit institutions*	13.079	18.490	(5.411)	(29,3)
Other liabilities	183	883	(700)	(79,3)
Shareholders' equity**	2.543	2.126	417	19,6
Off-balance-sheet funds	3.213	6.348	(3.135)	(49,4)
Mutual funds	2.159	3.496	(1.337)	(38,2)
Pension funds	983	1.314	(331)	(25,2)
Managed portfolios	72	130	(59)	(45,0)
Savings-insurance policies	—	1.408	(1.408)	(100,0)
Customer funds under management	31.218	34.965	(3.748)	(10,7)

* Includes all stock of concept classified in the balance sheet

** Not including profit of the year

