Portugal
Q4 2011

Lisbon, January 30th 2012

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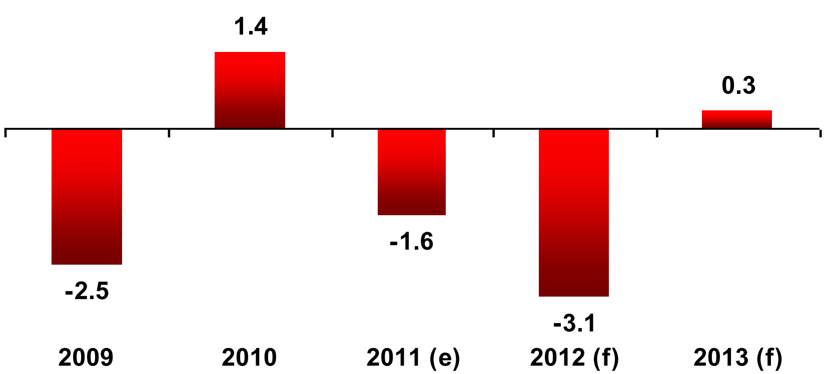
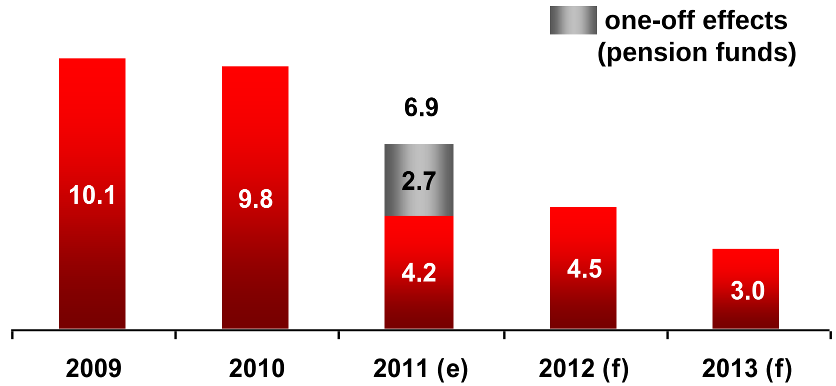
Macroeconomic Outlook

Activity has deteriorated further in the second half of 2011 and the trough of the recession should be seen in the first half of 2012

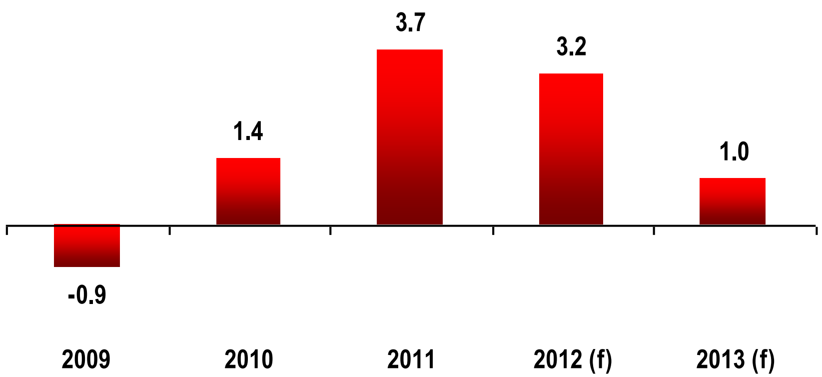
GDP (YoY, at 2006 Prices)



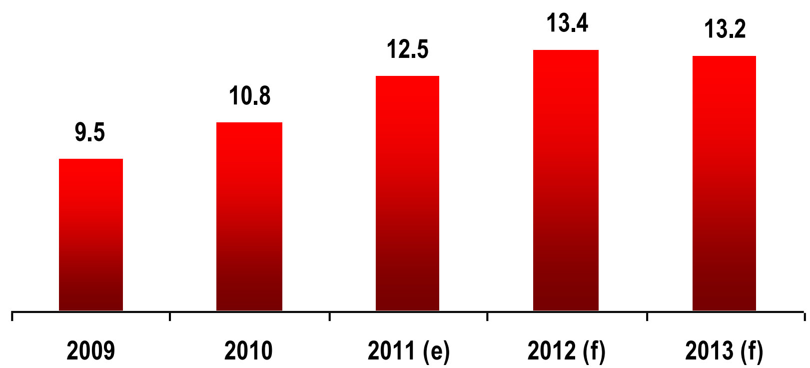
Fiscal Deficit (% GDP)



CPI Inflation (%)



Unemployment (%)



Source: INE, Santander Totta Economic Research

Macroeconomic Outlook

The recession has deepened in the final quarter of 2011

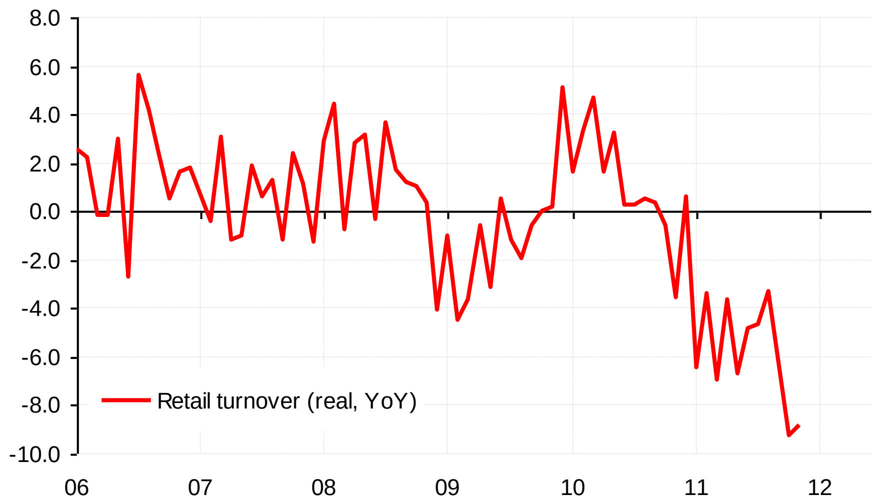
The main quantitative and qualitative indicators point to further deepening of activity

- Private consumption should have contracted at a faster pace, as households adapted to the cut in the Christmas bonus, but especially due to base effects, as auto sales had increased significantly in 4Q2010, prior to the increase in VAT rates
- Investment should have deepened its contraction, as economic conditions deteriorated (weakening demand, halt in construction activity, tighter credit conditions)
- Net external demand may have continued to contribute positively to economic growth, as exports have held up quite well, while imports have contracted at a faster pace, in line with domestic demand
- Unemployment may have increased further in the final quarter of 2011, approaching maximum levels around 13%

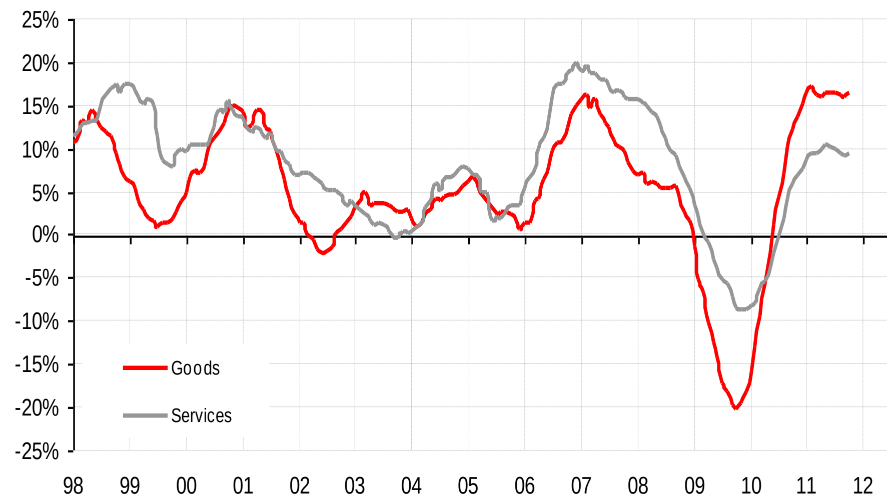
Macroeconomic Outlook

Households have cut back expenditure at a faster pace, while exports continue to show little signs of moderation

Retail sales (deflated, YoY)



Exports (YoY)

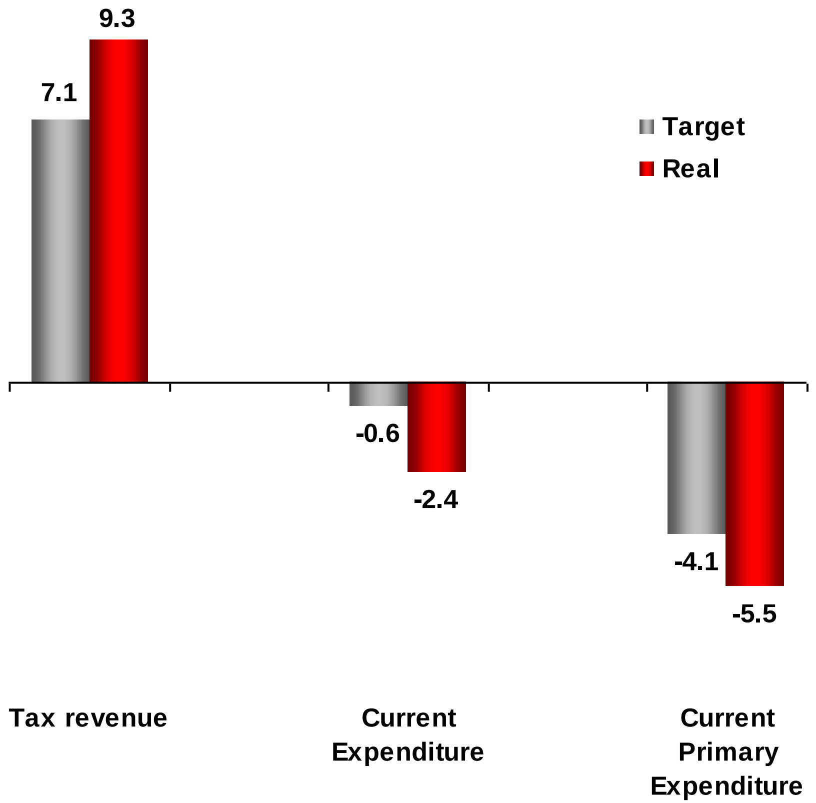


Source: INE

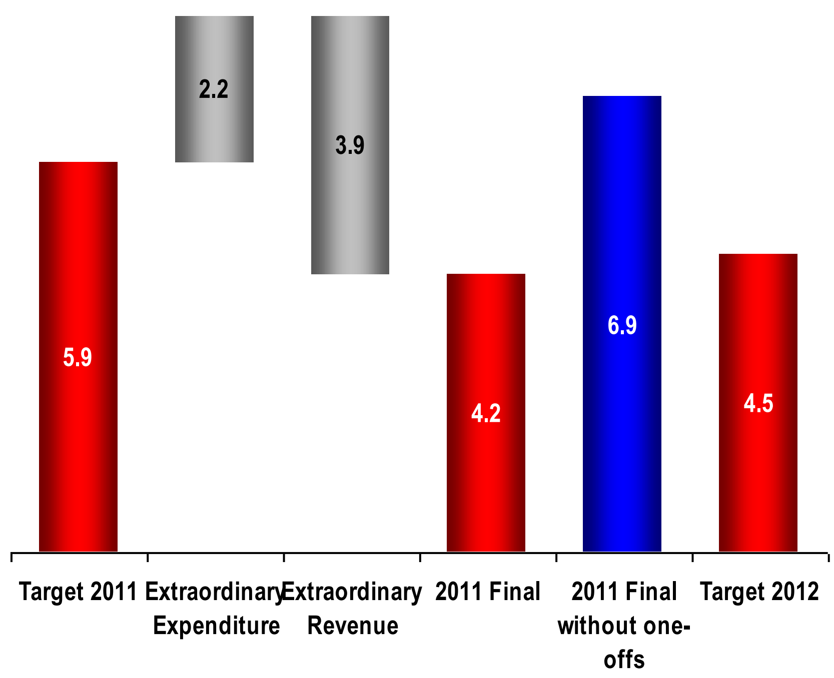
Macroeconomic Outlook

Fiscal developments in 2011, at Central Government level, proved better than anticipated. The 2011 deficit will likely be just above 4% of GDP, following the transfer of part of the pension funds of the banking sector to Social Security

Tax revenue and current expenditure (YoY, %)



Budgetary Targets (% GDP)

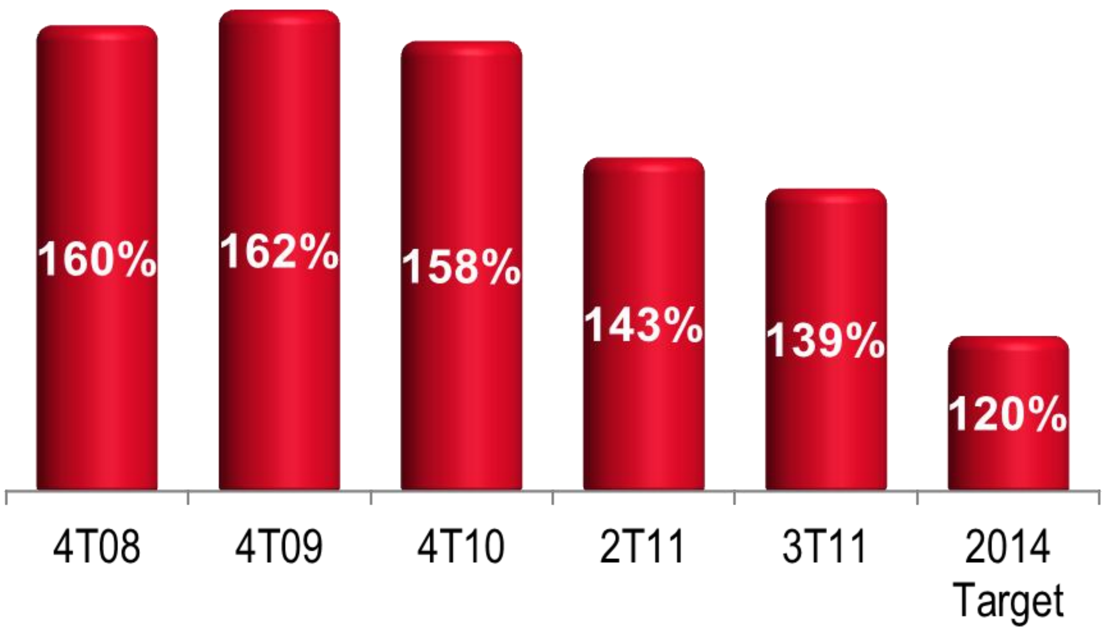


Source: Ministry of Finance, Santander Totta Economic Research

Deleveraging of the banking sector

The banking sector is delivering in terms of reducing the loan to deposits ratio

Loan to Deposit Ratio (*)



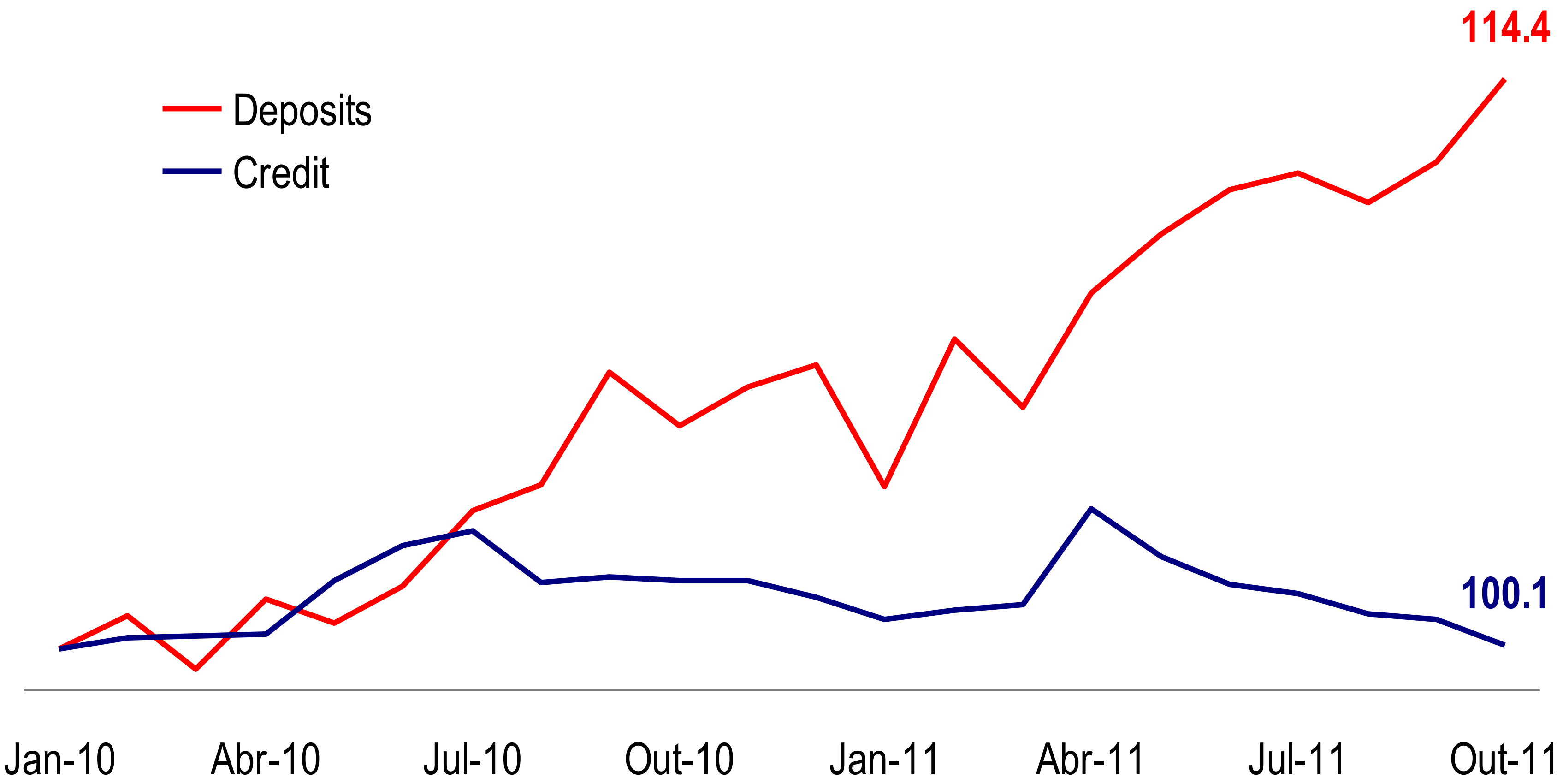
(*): 8 largest banks

Source: Bank of Portugal

Deleveraging of the banking sector

… as it continues to attract deposits, while reducing only marginally the credit to the economy

Bank loans and Deposits (Jan 2010=100)

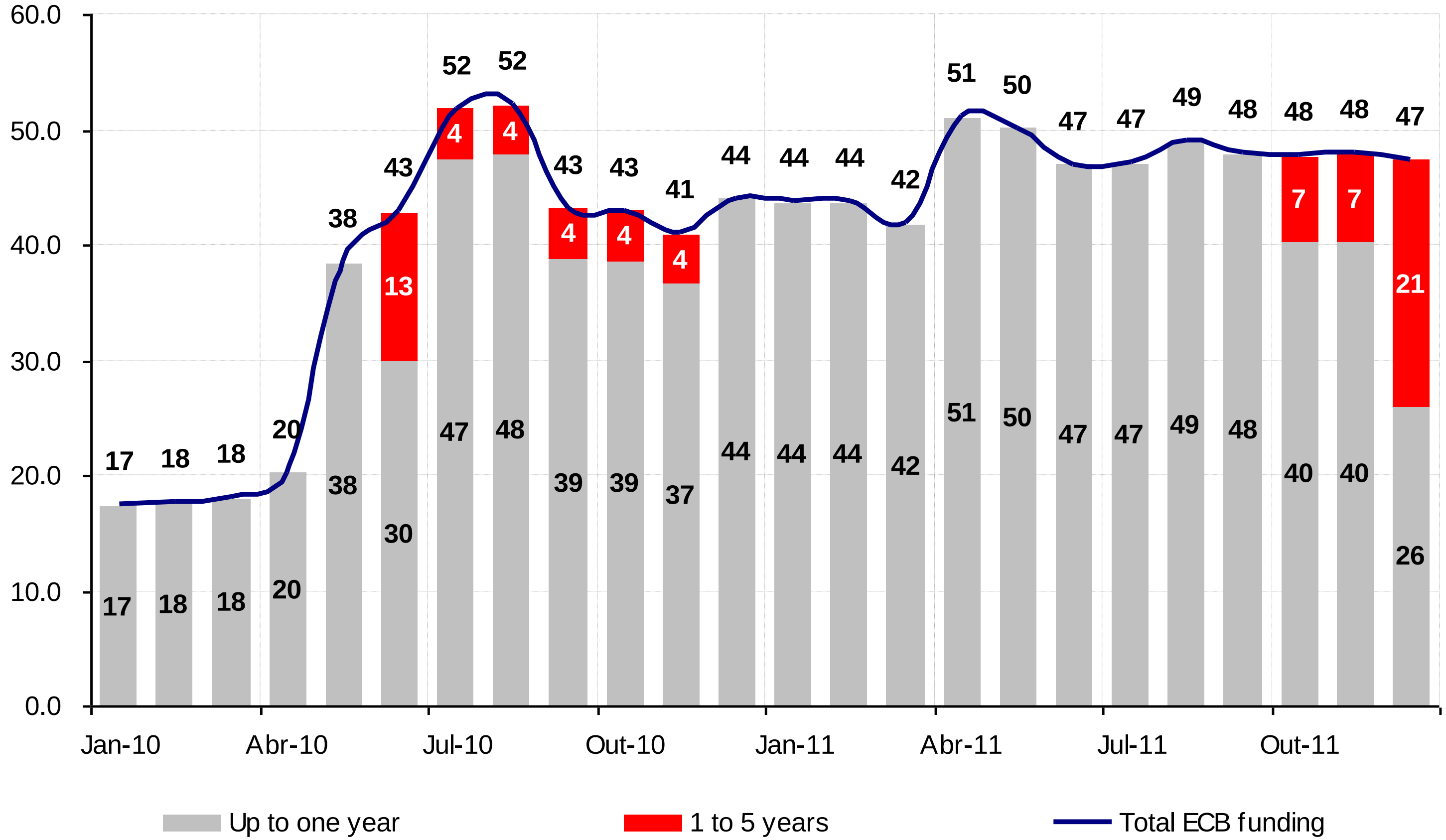


Source: Bank of Portugal

Stable funding at the ECB

Portuguese banks have kept stable their funding at the ECB, at around €46bn, since Summer 2010

ECB funding (€ bn)



Source: Bank of Portugal

Conclusions

The Adjustment Program is broadly on track

- The IMF considers, in its second evaluation of the adjustment program, that the end of September performance criteria and structural benchmarks were all met

- Activity is contracting at a faster pace, especially in terms of domestic demand
  - Despite the slowdown in Europe, exports have held up well

- The 2011 budget deficit is estimated at slightly above 4% of GDP
  - The one-off slippages in expenditure have been met with one-offs revenues, such as the special tax on the Christmas bonus, but especially by the partial transfer of the Banking sector pension funds to Social Security
  - Data on tax revenues and expenditure show a better than expected performance, pointing to a deficit ex one-offs of c. 6.9% of GDP in 2011

- The deleveraging process continues to be based on deposit retention by the banking sector, permitting a gradual adjustment at the level of credit: reduction in mortgages and fairly stable funding to the non-financial corporate sector

Annex

Main Highlights for 2012

- Strict compliance of the budgetary measures, in order to meet the 4.5% of GDP target for the full year
  - Cuts in primary expenditure are key to meeting the targets

- Structural reforms currently in discussion (labour market, justice, new urban lease law) will be put in place in 2012

- Economic activity will likely reach the trough of the cycle, by mid-2012, with domestic demand being affected by the measures to bring down the fiscal deficit. GDP could fall by 3.1% in 2012

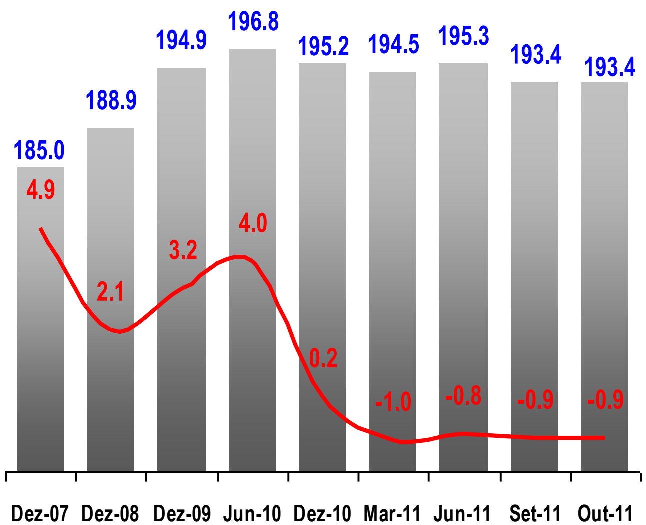
- The banking sector will have to continue to deleverage and meet the 10% requirement for core Tier 1 capital, besides the 9% core Tier 1 capital requirement from EBA

Financial System: Resources from households

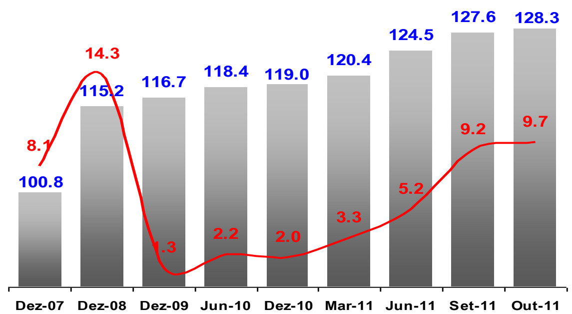
Overall resources flat, but banks continue to transform household resources into deposits

€bn

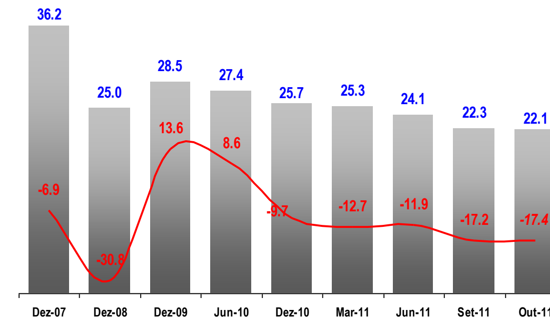
Resources (Deps+MF+Bonds+Insurance)



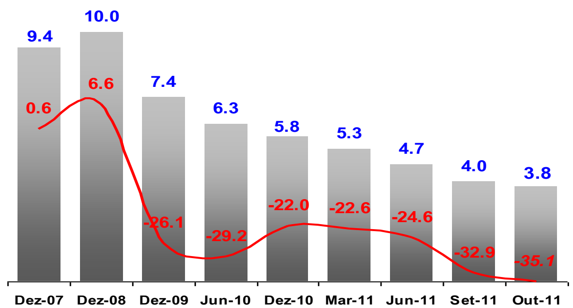
Deposits



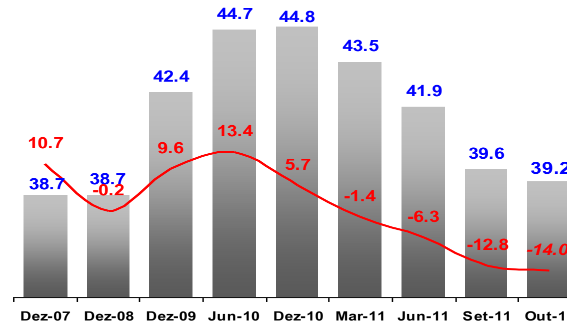
Mutual Funds



Retail Bonds



Insurance



Volume — *YoY, %*

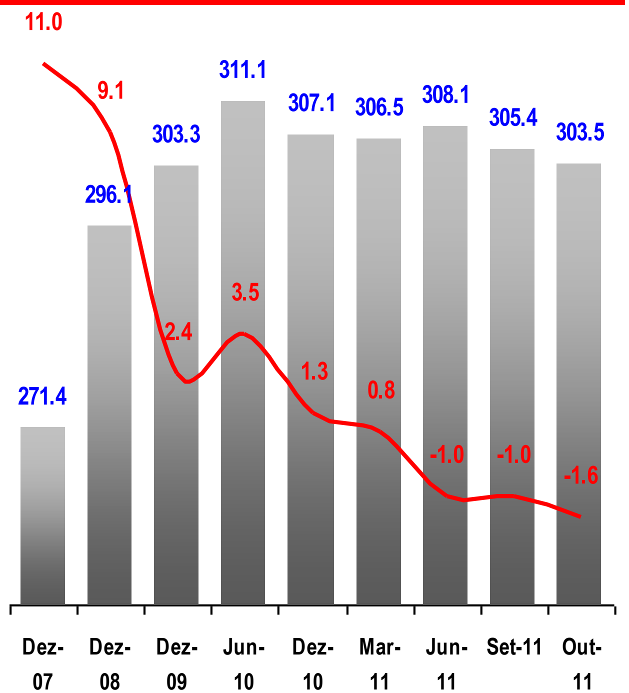
Source: Bank of Portugal

Financial System: Credit

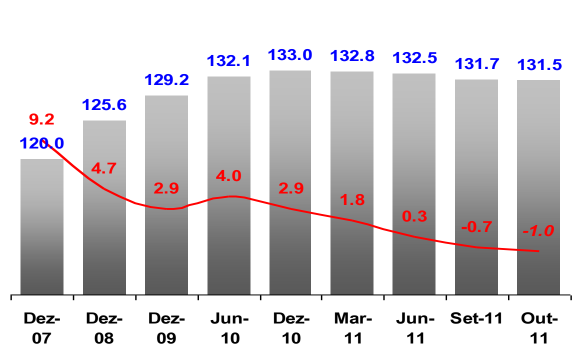
Credit to the private sector is falling, especially at the level of consumer and corporate credit, while mortgages are beginning to fall, as new production fails to offset the natural redemptions

€bn

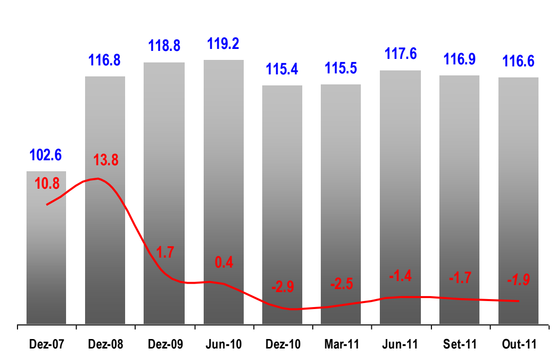
Credit (*)



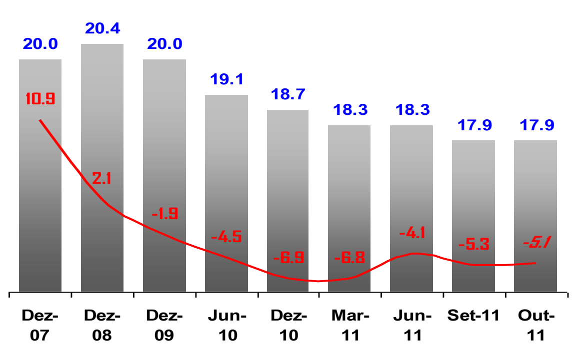
Mortgages (*)



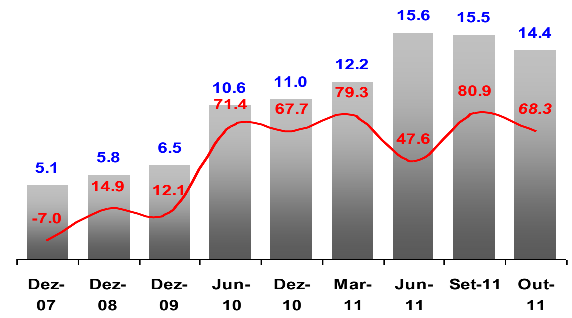
Corporates (*)



Consumer Credit (*)



Public Sector



Volume YoY, %

* Adjusted for securitization

Source: Bank of Portugal

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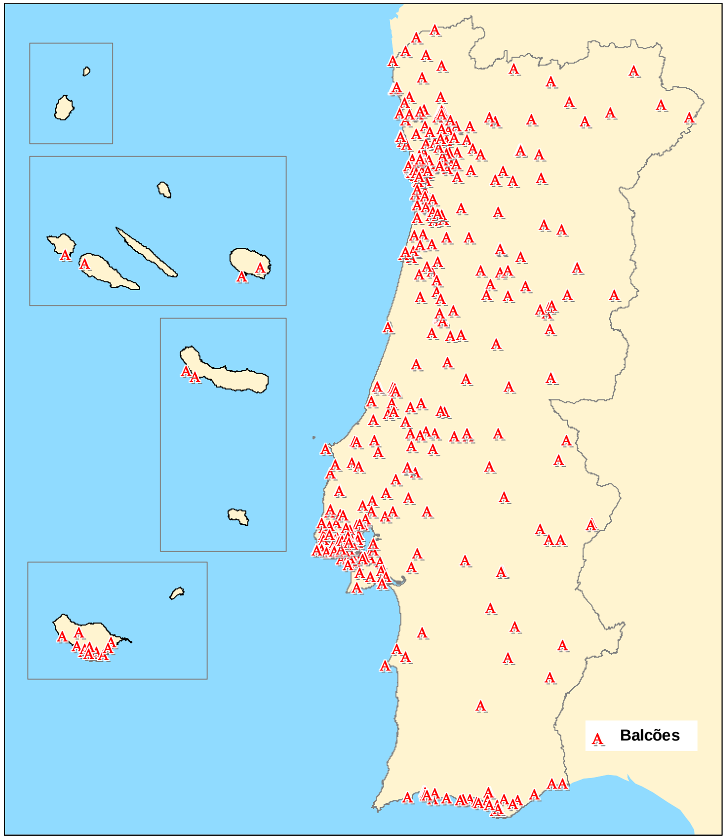
Our Franchise

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

Santander Totta branches



Million Eur	Dec11	Mkt share(*)
Loans(**)	**30,545**	**9.0%**
Deposits	**23,465**	**9.4%**
Total Resources	**31,187**	**9.8%**
Pension Funds	**760**	**5,5%**
Net income	**174**	**31.8%(E)**
Branches	**716**	**11.6%(APB)**
Employees	**6,091**	**-**

(*) As at Sep/11 (activity in Portugal)
(**) Includes guarantees

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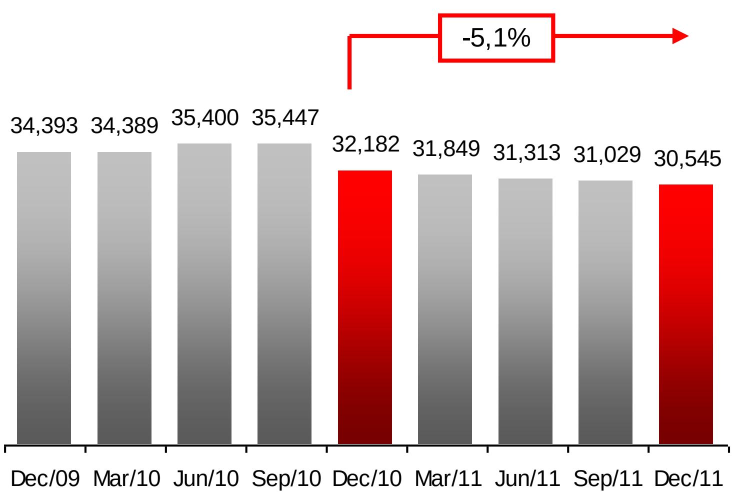
Business: loans performance

Credit maintains its downward trend…

Million Euro

Total Loans(*)



	Dec/11 Volume (Mn Eur)	% Var.2011/2010
Individuals	**18,126**	**-3.1%**
from which		
Mortgage	16,032	-2.6%
Consumer credit	1,516	-5.8%
Corporates	**10,258**	**-12.2%**
from which		
Small business	3,603	-12.5%
Corporates	4,596	-14.3%
Large corporates	2,059	-6.6%
Guarantees and Other	**2,161**	**20.2%**
Total	**30,545**	**-5.1%**

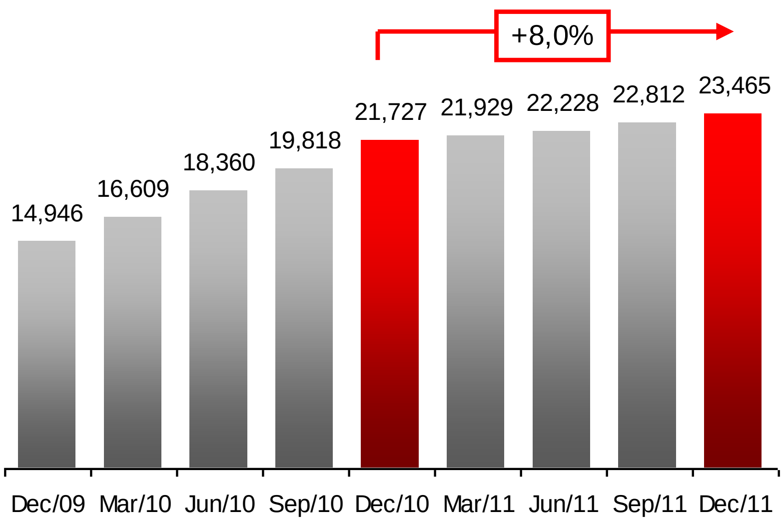
(*) Includes: gross credit, securitizations and guarantees.

Business: customer funds performance

… while we keep our focus on deposits

Million Euro

Total Deposits



	Dec/11 Volume (Mn Eur)	% Var.2011/2010
Customer deposits	23,465	8.0%
Sight Deposits	4,788	-8.7%
Time and Saving Deposits	18,677	13.3%
Securities (retail)	471	-15.7%
Mutual funds and Pension Funds	2,626	-42.0%
Other	59	-55.0%
Total Client Resources	**26,621**	**-1.2%**

* The total client resources excludes wholesale debt

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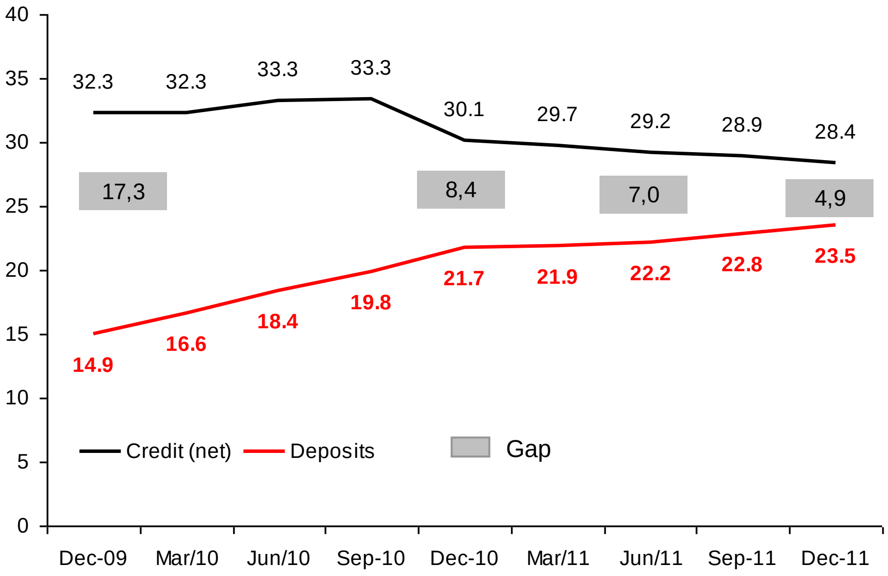
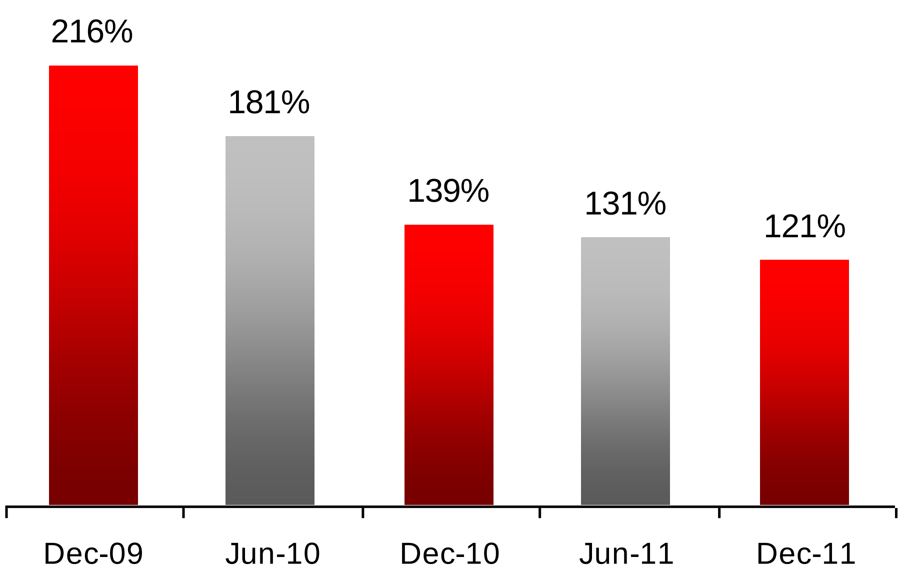
Business: Deleveraging process

Deleveraging process continues



Loan to Deposit Ratio



Business: market share dynamics

Market share	Sep11 share, %	chg., pp 11/10
Loans to individuals	12.3%	0.1%
Mortgage credit (production)	9.1%	-3.1%
Mortgage credit (stock)	12.7%	0.1%
Consumer credit	8.9%	0.0%
Loans to corporates	6.5%	0.3%
Credit cards	9.2%	0.2%
Total Loans	9.0%	-0.7%
Deposits	9.4%	0.7%
Deposits + Invest. Funds	9.6%	0.1%
Insurance (stock)	11.1%	0.7%
Net income (E)	**31.8%**	0.9%

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

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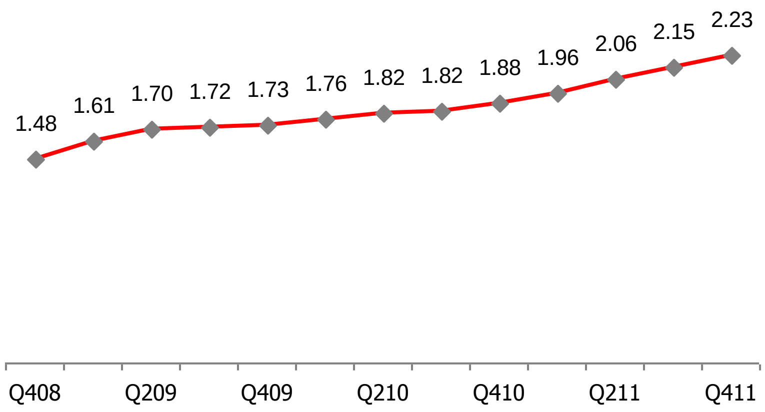
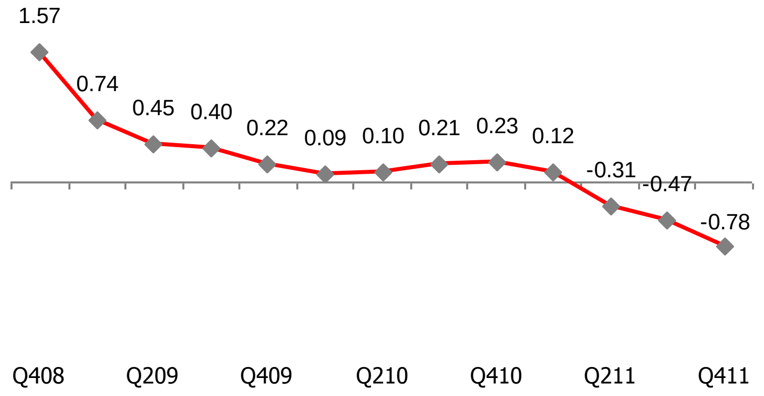
Results: spreads

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

Loans spreads – Retail banking



Balance Sheet Resources spreads – Retail banking

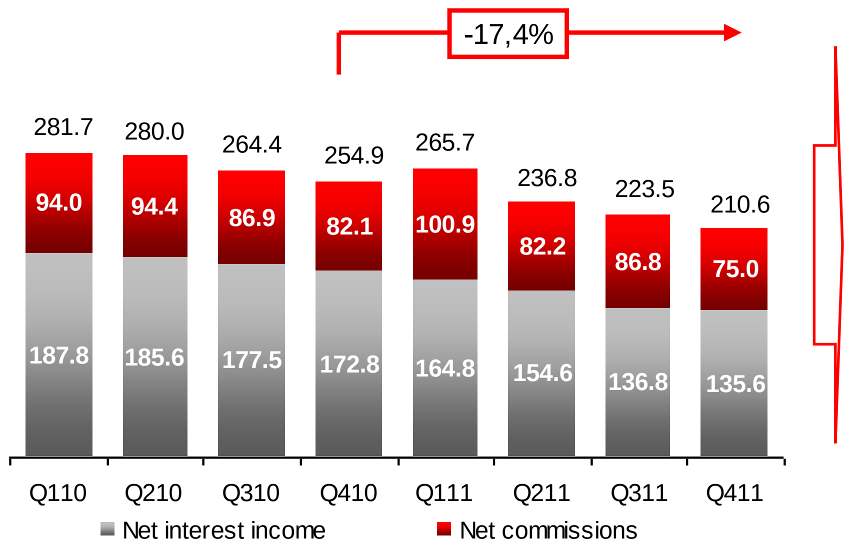


Results: net interest income vs commissions

Higher cost of funding impacts on net interest income evolution and commissions decrease due to lower volumes.

Million Euro

Net interest inc.(*) + Net commissions



Volume (Mn Eur)

	Dec/11	Dec/10	% Var.2011/2010
Net interest income	591.8	723.6	-18.2%
Net commissions	344.8	357.3	-3.5%
Total	**936.7**	**1,080.9**	**-13.3%**

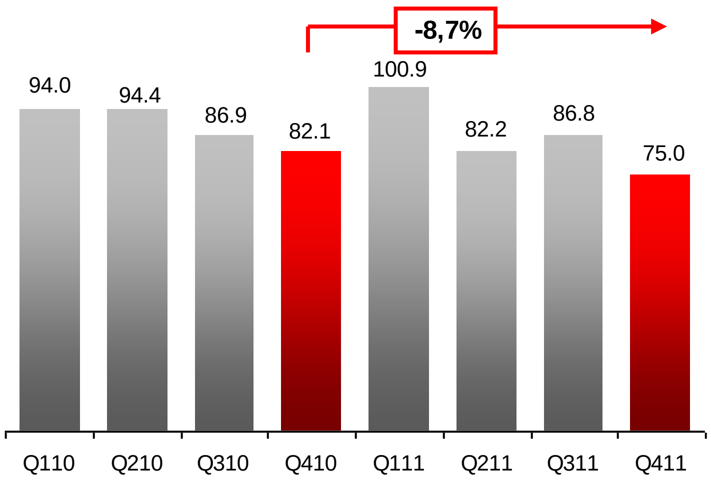
* Without dividends

Results: commissions

Commissions decrease 3.5% - GBM maintains the best performance

Million Euro

Net commissions



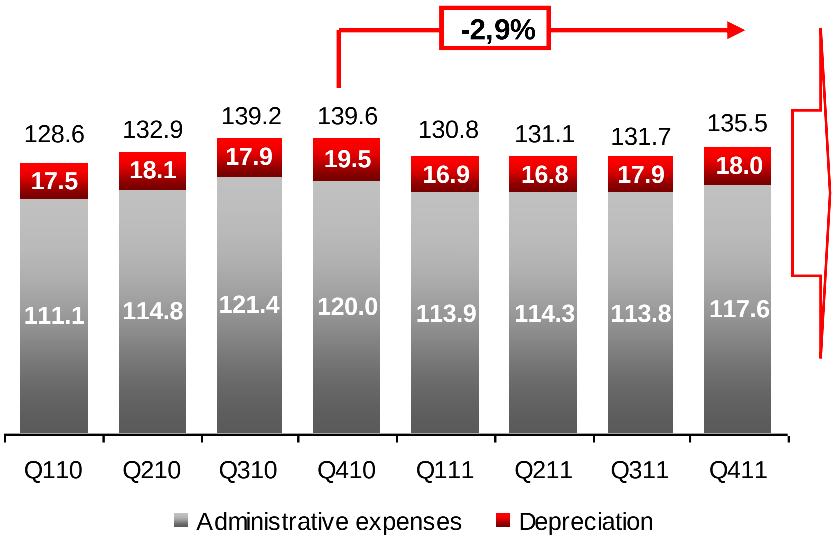
Volume (Mn Eur)	Dec/11	Dec/10	% Var.2011/2010
Credit	69.5	81.8	-15.1%
Credit cards	61.5	58.2	5.6%
Mutual funds / Asset management	35.4	46.6	-24.1%
Insurance	101.5	110.5	-8.1%
Other	36.2	39.2	-7.7%
Commercial banking	**304.0**	**336.4**	**-9.6%**
GBM	66.7	56.8	17.5%
Other	(25.9)	(35.9)	-27.8%
Total	**344.8**	**357.3**	**-3.5%**

Results: administrative expenses and depreciation

Operating expenses reduce 2.1%.
We are streamlining our branch network.

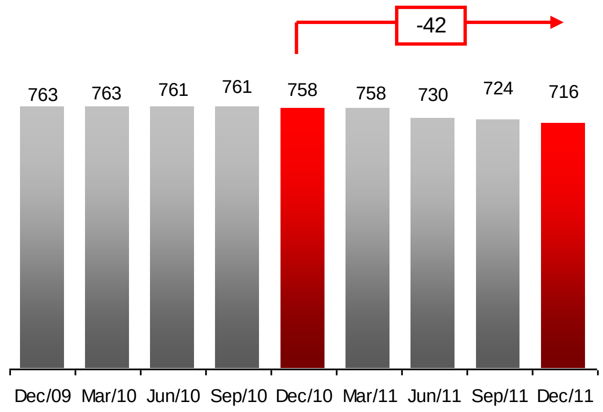
Million Euro

Total operating expenses



	Volume (Mn Eur) Dec/11	Dec/10	% Var.2011/2010
Administrative expenses	459.6	467.3	-1.6%
Personnel expenses	316.6	321.2	-1.4%
Other expenses	143.0	146.1	-2.1%
Depreciation	69.5	72.9	-4.8%
Total	**529.1**	**540.2**	**-2.1%**

Branches



Santander

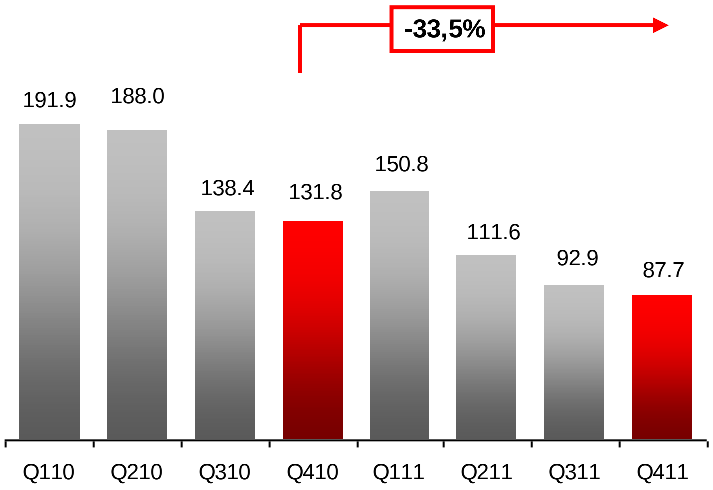
Results: net operating income

Net operating income down 31.9%

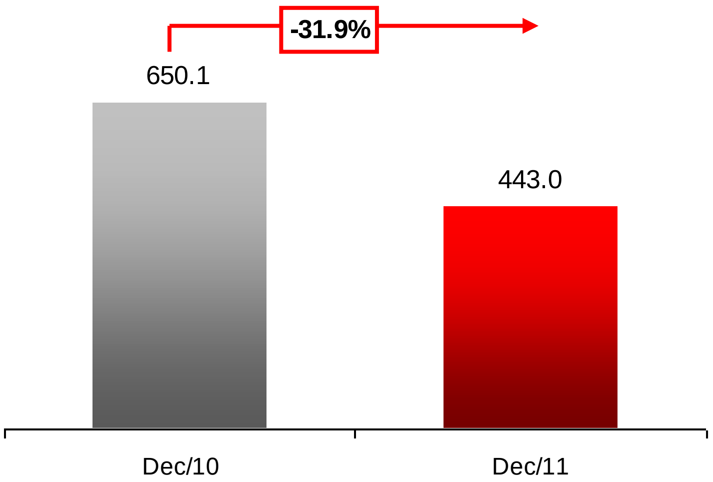
Million Euro

Net operating income

quarterly performance



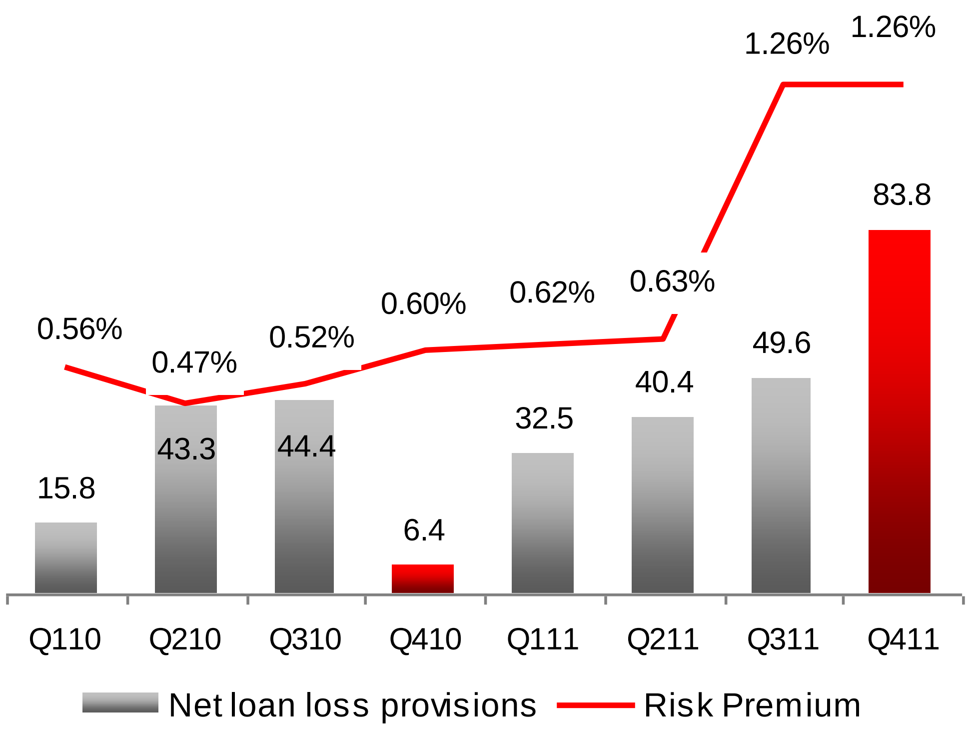
cumulative performance



Results: Loan Loss Provisions and Risk Premium

Risk Premium increases with the deterioration of economic activity

Loan Loss Provisions and Risk Premium

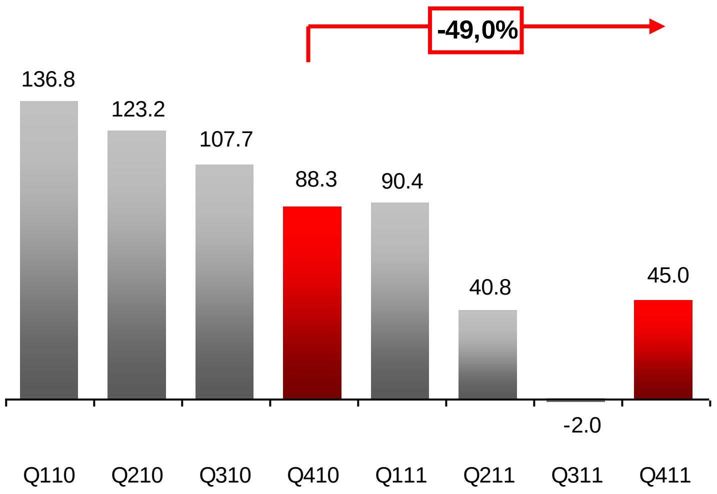


Results: net income

Net income down 61.8% due to NII fall and higher provisions

Million Euro

Net income quarterly growth



Million Euro

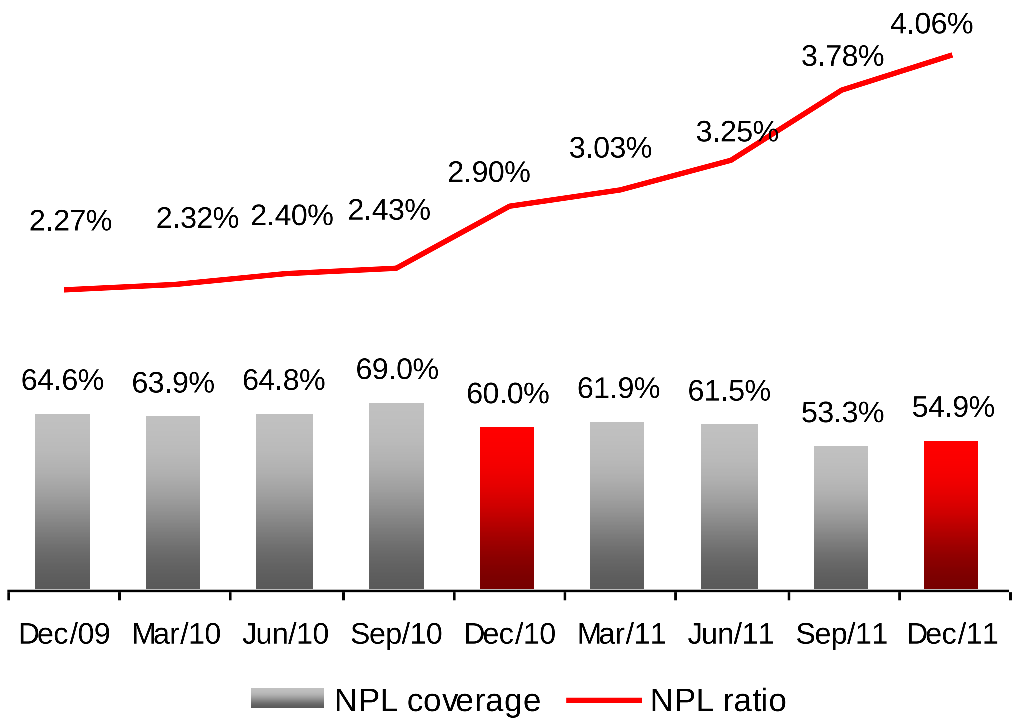
Net income

(million euros)	Dec/11	Dec/10	% Var.2011/2010
Income before taxes & MI	**186.7**	**560.2**	**-66.7%**
Taxes	(12.6)	(103.6)	-87.8%
Minority Interest	(0.0)	(0.6)	-99.3%
Net income	**174.1**	**456.0**	**-61.8%**

Results: asset quality levels

NPL's ratio reaches 4.1% following the deterioration on economic activity

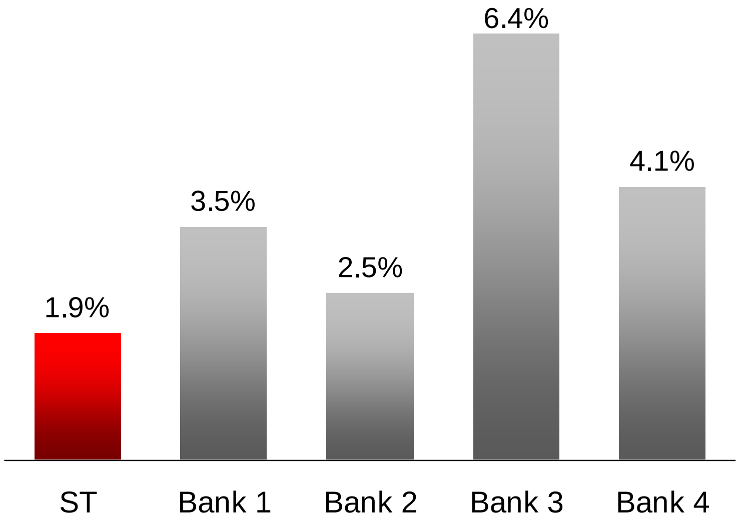
NPL ratio and NPL coverage



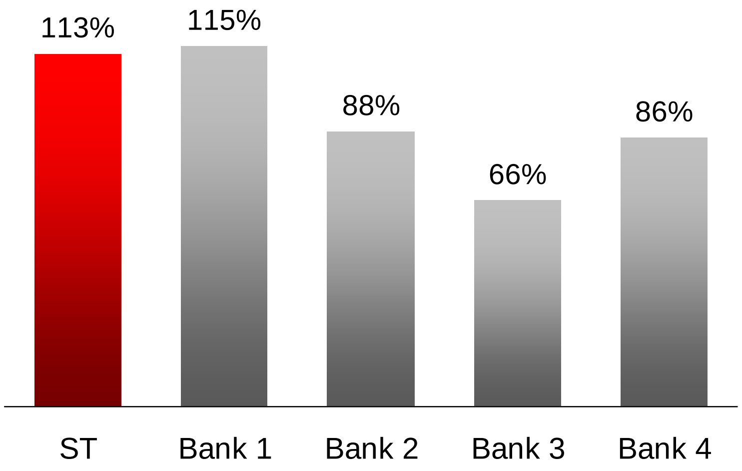
Results: asset quality levels

However, ST performance compares favourably with its peers

NPL ratio



NPL coverage

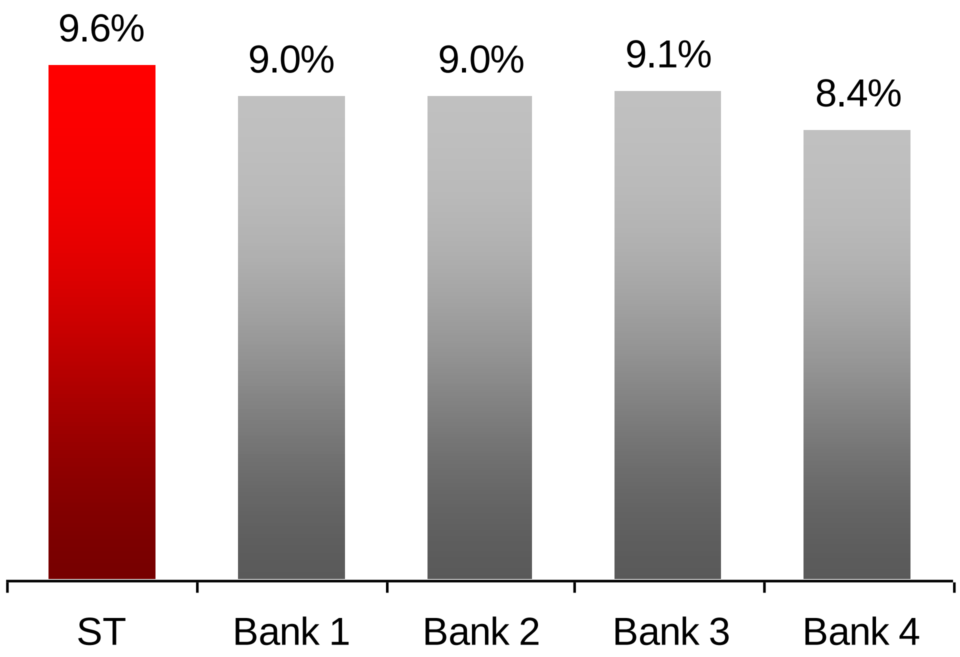


As of Sep/11. Local criteria

Capital

Santander Totta maintains the best ratio among peer's

Core Capital - Sep/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 2011 and 10% at the end of 2012

- In this scenario Santander Totta already complies with the new targets on capital ratios. Additionally, ST is reducing its loan-to-deposit ratio at a steady pace, as deposits continue to grow above the market average

- The deterioration in the quality of loan portfolio due to the macroeconomic environment is reflected in the increase in NPL ratios and higher impairment, but ST continues to have better credit quality indicators than the average of the sector

- Results continued to be driven by the decrease in NII and higher provisions, despite the continued effort in cutting operating costs

- Net interest income down 18.2% due mainly to the increase in the cost of funding

- Net income decreased 61.8%

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Income statement as of Dec11

EUR million			Variation	
	2011	2010	Amount	%
Net interest income	**592**	**724**	**(132)**	**(18,2)**
Net fees	345	357	(12)	(3,5)
Gains (losses) on financial transactions	14	67	(53)	(78,8)
Other operating income*	21	42	(21)	(49,8)
Gross income	**972**	**1.190**	**(218)**	**(18,3)**
Operating expenses	(529)	(540)	11	(2,1)
General administrative expenses	(460)	(467)	8	(1,6)
Personnel	*(317)*	*(321)*	*5*	*(1,4)*
Other general administrative expenses	*(143)*	*(146)*	*3*	*(2,1)*
Depreciation and amortisation	(69)	(73)	3	(4,8)
Net operating income	**443**	**650**	**(207)**	**(31,9)**
Net loan-loss provisions	(206)	(110)	(96)	87,7
Other income	(50)	20	(70)	—
Profit before taxes	**187**	**560**	**(374)**	**(66,7)**
Tax on profit	(13)	(104)	91	(87,8)
Profit from continuing operations	**174**	**457**	**(283)**	**(61,9)**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**174**	**457**	**(283)**	**(61,9)**
Minority interests	0	1	(1)	(99,3)
Attributable profit to the Group	**174**	**456**	**(282)**	**(61,8)**

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

Quarterly income statement

EUR million

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Net interest income	**188**	**186**	**178**	**173**	**165**	**155**	**137**	**136**
Net fees	94	94	87	82	101	82	87	75
Gains (losses) on financial transactions	25	29	4	9	8	0	(1)	8
Other operating income*	14	12	9	7	8	6	2	5
Gross income	**320**	**321**	**278**	**271**	**282**	**243**	**225**	**223**
Operating expenses	(129)	(133)	(139)	(140)	(131)	(131)	(132)	(136)
General administrative expenses	(111)	(115)	(121)	(120)	(114)	(114)	(114)	(118)
Personnel	*(77)*	*(79)*	*(83)*	*(82)*	*(79)*	*(79)*	*(79)*	*(80)*
Other general administrative expenses	*(34)*	*(36)*	*(38)*	*(38)*	*(35)*	*(35)*	*(35)*	*(38)*
Depreciation and amortisation	(17)	(18)	(18)	(20)	(17)	(17)	(18)	(18)
Net operating income	**192**	**188**	**138**	**132**	**151**	**112**	**93**	**88**
Net loan-loss provisions	(16)	(43)	(44)	(6)	(32)	(40)	(50)	(84)
Other income	(8)	(1)	37	(8)	(9)	(14)	(45)	18
Profit before taxes	**168**	**144**	**131**	**117**	**110**	**57**	**(2)**	**22**
Tax on profit	(31)	(20)	(23)	(29)	(19)	(17)	(0)	23
Profit from continuing operations	**137**	**123**	**108**	**88**	**91**	**41**	**(2)**	**45**
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Consolidated profit	**137**	**123**	**108**	**88**	**91**	**41**	**(2)**	**45**
Minority interests	0	0	0	0	0	(0)	(0)	0
Attributable profit to the Group	**137**	**123**	**108**	**88**	**90**	**41**	**(2)**	**45**

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

Balance sheet as of Dec11

EUR million			Variation	
	31.12.11	31.12.10	Amount	%
Loans and credits*	28,403	30,102	(1,698)	(5.6)
Trading portfolio (w/o loans)	1,617	1,741	(124)	(7.1)
Available-for-sale financial assets	4,496	6,458	(1,962)	(30.4)
Due from credit institutions*	2,467	3,401	(933)	(27.4)
Intangible assets and property and equipment	452	480	(28)	(5.8)
Other assets	7,120	7,091	28	0.4
Total assets/liabilities & shareholders' equity	**44,555**	**49,272**	**(4,717)**	**(9.6)**
Customer deposits*	23,465	21,727	1,738	8.0
Marketable debt securities*	5,037	7,544	(2,507)	(33.2)
Subordinated debt	(0)	0	(0)	—
Insurance liabilities	70	79	(9)	(11.1)
Due to credit institutions*	13,395	16,817	(3,423)	(20.4)
Other liabilities	31	1,171	(1,140)	(97.4)
Shareholders' equity**	2,557	1,933	624	32.3
Off-balance-sheet funds	**2,686**	**4,655**	**(1,969)**	**(42.3)**
Mutual funds	1,866	3,209	(1,343)	(41.8)
Pension funds	760	1,315	(555)	(42.2)
Managed portfolios	59	131	(72)	(54.9)
Savings-insurance policies	—	—	—	—
Customer funds under management	**31,188**	**33,927**	**(2,739)**	**(8.1)**

*** Includes all stock of concept classified in the balance sheet**

**** Not including profit of the year**

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