Overview & Investment Thesis:

- Claims to be the world's most international retail bank with 14,082 branches and 178,000 staff worldwide, serving 97.2 million customers, 31% in Continental Europe, 26% in UK and 43% in the Americas, with 60.4 million debit and credit cards issued worldwide.
- Euro zone's largest bank by market capitalization and the leading retail bank. It is present in 16 countries in Continental Europe.
- Focused on retail and commercial banking, embracing technology, cutting costs relentlessly and emphasizing risk management.
- CEO emphasizes that a sum of the parts calculation on Group's current value (€8-9 per share) suggests an assigned value of close to zero for the Spanish business.

- Santander's business portfolio is well balanced between mature markets with sustained growth and developing markets with faster rates of growth and greater potential.

- **Retail banking:** Euro zone's largest bank and Latin America's leading financial group. Retail banking generates three quarters of the Group's profits and accounts for 86% of Group's risk.

- **Consumer finance**: Investing in bolstering its leadership in Europe and expanding its presence in new markets (Mexico, Chile, France, Finland and Russia). It exports to this segment its retail business model based on efficiency, technology, risk control and exchange of best practices. Its main businesses are auto finance and personal loans. Santander Consumer Finance now operates in 19 countries, serving 9.9 million customers via 285 branches.

- **Global business** (wholesale banking, private banking, asset management and insurance): The Group is striving to exploit the competitive advantages and synergies generated by its international presence, sharing technological developments, identifying business opportunities worldwide and transferring best practices from some markets to others.

- **Spain's retail and private banking leader**, comprising two retail banking networks: the 2,931 Santander branch network and 1,762 Banesto branch network. It serves 14.4 million customers (15% market share).
- 2nd largest private sector bank in Portugal (ranked #3 with a 10% market share) and has high market shares in consumer finance in Spain, Portugal, Germany, Italy and Poland.

- **U.K.'s 2nd largest retail banking franchise** in loans and retail deposits with a 11% market share. 1,416 branches serve over 25 million customers. Grew via acquiring Abbey (in 2004)and Alliance & Leicester and Bradford & Bingley (in 2009), subsequently rebranded Santander UK.
- In 2010, the Group reached agreement to acquire 318 Royal Bank of Scotland branches to expand its U.K. small business franchise.

- **Present in nine Latin American countries** (5,882 branches) with leadership positions in: Brazil (ranked #3, 9% market share, 3,700 branches - the largest contributor to 2010's Group profit); Mexico (#3, 15% market share, 1,100 branches) and Chile (#1, 19% market share 504 branches). Its active role in improving accessibility to the region's banking is reflected in strong growth in customer activity and reinforced with the integration of Brazil's Banco Real, which was successfully acquired via the hostile acquisition of parts of ABN Amro in 2008.

- **U.S.** : Aquired Sovereign Bancorp in 2009 and 90% of Drive Financial (auto finance) in 2006 to extend its global retail banking reach in the U.S. Sovereign with a network of 721 community banking offices in North-Eastern U.S. and 3% market share (in its zone of influence). It is being transformed adopting the Groups more streamlined retail banking model.

- **Global Wholesale Banking** is structured around: global transaction banking; corporate and investment banking, credit market rates, equities and trading.
- Its 2,638 employees in 21 countries maintain an efficiency (cost/income) ratio of just 27%, a benchmark for competitors.

- **Global Private Banking Division** (launched in 2008) has 2,500 employees, 65,000 clients and an international presence in 18 countries with €100 billion assets under management.

- **Santander Asset Management**: Embraces the Group's asset management activities both in securities and real estate for mutual and pension funds and companies with assets under management total €124 billion.

- **Santander Insurance**: Provides protection for more than 14 million customers world-wide. Formed strategic alliance with Zurich in 2010 (Santander 49%, Zurich 51%) to strengthen bancassurance in key markets in Latin America.

Business Description:

Banco Santander S.A. is a financial group that offers a range of financial products. At the primary level, the Group's operating units are segmented by geographical areas, Continental Europe, United Kingdom and Latin America. The Continental Europe segment covers all retail banking (including Banesto, a leading retail bank in Spain and Banif, the specialized private bank), wholesale banking and asset management, and insurance conducted in Europe. Santander Brazil is a 75.6% owned subsidiary.

Industry Growth Drivers/Trends:

- Global retail reach offers attractive growth dimensions to improve mix, margin and share of wallet. Growth in demand for financial products in developing markets (as the percentage of medium-income earners increases) endorses Group's strategy-in-action; its strength in emerging markets is expected to be a very significant driver of growth over the next few years.
- Ongoing consolidation in financial services sector has engendered acquisitive acumen with excellent integration skills. Spain in particular is experiencing a profound restructuring process offering a rare opportunity to expand its domestic franchise and may gain profitable market share while maintaining a low risk profile. Management expects return to "average" profitability in Spain over the next 3 years.
- Growing financial markets and cross-border investing, aging societies, outsourcing management of pension assets, under-funded government pension plans - all may increase demand for wealth management and wholesale (payments, cash management services).
- Having a well diversified business portfolio of franchises with critical mass (both by geography and product) is key to sustainable growth across the cycle.

Competitive Advantages:

- Patient, long term focus upholds value of opportunistic/distressed asset purchasing prowess.
- Famously shrewd senior management dominated by Chairman/CEO - his daughter and probable successor, is currently CEO of Santander U.K.
- Group's international strategy has been aimed at attaining a diversified presence with critical mass (i.e. top 3 rankings) and high key market shares (i.e. 9% to 19%) in its main markets (currently 9); Spain, Portugal, Germany, U.K., Brazil, Mexico, Chile, Argentina, Poland and a 3% U.S. market share (in its zone of influence).
- Strong franchises result from focus on distribution (large branch networks) and vertical strategy of establishing competitive businesses with critical mass.
- Exposure to emerging markets is key as long as mature markets are in a phase of deleveraging.
- Strongly positioned via excellent acquisition skills to exploit, harness homegrown IT ('Alhambra') and lower cost curve. Santander is one of the most efficient international banks.
- Increased brand awareness, strong liquidity position: the capture of deposits via networks and capacity to issue debt in markets where Group is present enables all financial obligations to be met with no need to issue securities in Spain in 2011 and 2012 to cover its expected maturing debt obligations.
- Very few banks have such a deep presence in developing growth markets.

Competitors:

- **Global**: Citi, HSBC, BBVA.
- **Pan-European**: BNP Paribas, Credit Agricole, Barclays, Royal Bank of Scotland, ING.
- **Iberia**: BBVA, BES (Portugal), Banco Popular Espanol (pure retail bank in Spain and Portugal).
- **Americas**: JPMorgan, Wells Fargo, BBVA, Banco do Brasil, Itaú/Unibanco and Bradesco.
- **Asia**: Standard Chartered, HSBC.

Barriers to Entry:

- Governance and regulatory compliance costs include Basel III, IT and capital.
- Extensive global retail network would be prohibitively expensive to replicate.

Customers:

- Diversified global customer base.
- No single customer contributes significant amount to total revenue with 10 markets now contributing significantly to revenue.
- Diversified loan portfolio.

Officers and Directors:

Leadership team: Group Chairman, Emilio Botin. (Botin is the third generation of his family to lead the bank). Group Chief Executive Officer, Alfred Sáenz; Group Vice Chairman and Chairman of Risk Committee, Matias Rodriguez Inciarte; CEO Santander UK, Ana Patricia Botin-Sanz de Sautuola y O'Shea. Other Senior Management: Francisco López (Americas); Adolfo Espinosa (Global Wholesale Banking); Javier Romano (Global Private Banking); José Alvarez (Financial Management) and Enrique Candelas (Spain's branch network).

Corporate Governance:

- **20 member board** – of which 14 are non-executive and independent.
- Directors are from a diverse range of backgrounds, (i.e. technology, legal, financial, economics, media, retail and academia).
- Chairman of the Boards: Audit & Compliance Committee (Manuel Serrano) and Appointments & Remuneration Committee (Fernando de Asua Alvarez) are non-executive and independent.

Ownership:

Members of Santander's board control approximately 3.7% of which Group Chairman's family own approximately 2.5%. Capital Research 4.7%, Barclays 3.4%, BNP Paribas 3.1%, Credit Suisse 2.8%, Vanguard 1.0%. 3,200,000 shareholders.

Capital Allocation/Uses:

Policy is to focus on building a group of diversified significant franchises in select markets that will sustain Group's growth across the economic cycle through a structure of legally independent subsidiaries. Group invests in both organic and acquisitive growth - the latter to achieve critical mass quickly. The 2009 purchases of Alliance & Leicester for £1.26 billion (approximately book value) and Bradford & Bingley's £20 billion of retail deposits for £612 million strengthened its earlier acquisition of the Abbey franchise, to create one of U.K.'s top retail banks; and the acquisition of ABN Amro's Brazilian business created the 4th largest franchise in Brazil. Italian bank Antonveneta was initially acquired in 2008 via the Royal Bank of Scotland - led consortium acquisition of ABN Amro but was then sold to Monte dei Paschi di Siena for €2.4 billion, more than the value assigned at the time of the offer. The purchase of Sovereign Bancorp (2009) for approximately book value improves the Group's geographical diversification with approximately 8% of Group's assets and deposits now in the U.S. In 2010, the Group acquired: Bank Zachodri WBK, Poland, to become Poland's 3rd largest retail bank; 173 branches of the Swedish group SEB and; 25% stake in Santander Mexico (previously held by Bank of America) to become a wholly owned subsidiary. In the last 3 years, the Group's expansion and acquisitions has gone hand in hand with a policy of selling businesses and assets - overall an estimated €14 billion - with an almost neutral impact on capital. To ensure its capital ratios remain comparable to those global peers that were obliged by their governments to recapitalize, Santander did raise €7.2 billion of capital in November 2009 and now intends to generate capital organically to finance organic and acquisitive growth and a progressive dividend policy. By 1Q 2011, its core equity capital and Tier 1 capital ratios had increased to 9.7% and 10.9% respectively, testimony to its capital management and earnings capacity.

Key Products:

- Comprehensive range of banking services worldwide to personal, commercial and corporate customers, which benefits from long-term trend of increasing international connectivity.
- Strong national franchises and market shares via the provision of personal/business loans, mortgages, deposits and cards.
- 3rd year running ranked by 'Euromoney' as "Best Bank" in Spain and U.K.

Portfolio Composition:

Business Mix	2008	2009	2010
Global Retail Banking	75%	69%	71%
Global Wholesale Banking	20%	26%	25%
Global Asset Management	5%	5%	4%

Geographic Mix	2008	2009	2010
U.K.	13%	16%	18%
Spain (branch network)	27%	26%	15%
Portugal	6%	5%	4%
Rest of Europe	16%	17%	16%
Brazil	19%	20%	25%
Mexico	6%	5%	6%
Chile	6%	5%	6%
Rest of Latin America	7%	6%	6%
USA	-	-	4%

Loans & Advances to Customers	2008	2009	2010
Households	54%	54%	53
Energy	2%	2%	2
Construction	4%	3%	4
Manufacturing	7%	6%	6
Services	19%	19%	20
Other Sectors	12%	14%	13
Sovereign/Public Sector (Spain)	1%	1%	2
Sovereign/Public Sector (Other)	1%	1%	-

Sovereign Exposure (€m)			
Sovereign Fixed Income (Spain)	13,700	29,600	26,900
Sovereign Fixed Income (Portugal)	500	2,700	5,500
Sovereign Fixed Income (ROW)	21,100	27,200	27,800

Interest Earning Assets	2008	2009	2010
Treasury / Trading Assets	10%	9%	9%
Loans to Banks	6%	6%	4%
Loans to Customers	67%	71%	72%
Financial Investments	17%	14%	15%

Financial Statement Summary: (€m, except EPS, years ended December 31)

Income Statement	2008	2009	2010
Net Interest Income	18,078	26,299	29,224
Other Income	12,167	14,100	13,078
Provisions for Credit Losses	(5,976)	(11,578)	(10,443)
Non-Interest Expenses	(13,162)	(18,213)	(19,329)
Taxes	(2,025)	(1,206)	(2,923)
Net Income	8,876	8,943	8,181
EPS	1.22	1.05	0.94
Diluted EPS	1.21	1.04	0.94
Dividend per Share	0.58	0.52	0.36
Balance Sheet			
Common Equity	57,587	68,667	75,018
Book Value per Share	6.57	7.89	8.52

Key Profitability Ratios and Figures:

Y/E December 31	2008	2009	2010
Core Equity Capital	7.5%	8.6%	8.8%
Tier 1 Capital Ratio	9.1%	10.1%	10.0%
Total Capital Ratio	13.3%	14.2%	13.1%
Net Interest Margin	2.1%	2.8%	2.9%
Efficiency Ratio (Costs/Income)	43.5%	45.1%	45.7%
Provision for Credit Losses % of Average Loans	0.99%	1.73%	1.45%
Loan Loss Reserve as % of Gross Loans	2.01%	2.64%	2.8%
Loan Loss Reserve as % of Impaired Assets	91%	75%	73%
Return on Average Equity - Adjusted	14.6%	13.2%	11.4%
Return on Average Equity - Reported	17.1%	13.9%	11.8%
S&P Senior Rating of Debt	AA	AA	AA

Sourced from 2010 financial reports.

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