Santander

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Vice Chairman

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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.

Agenda

1. Santander Risk Management Model
2. Risk profile and strategy
3. Conclusions

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1 Santander Risk Management Model

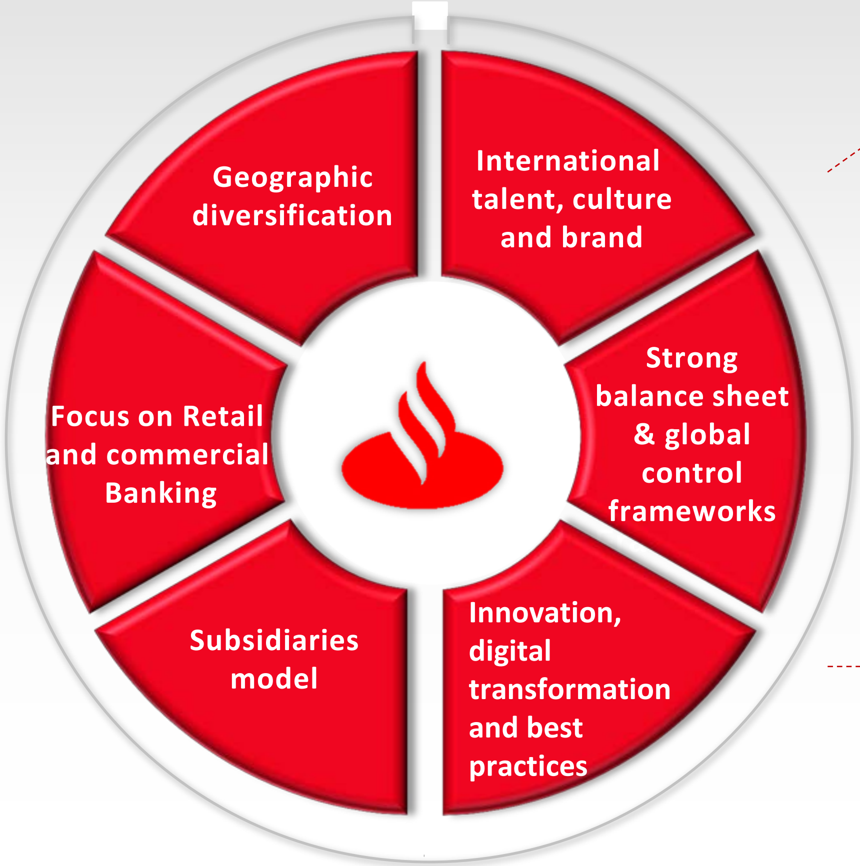
2 Risk profile and strategy

3 Conclusions

Risk management levers

Our strategic business is based on a prudent risk management that ensures …

Santander's Business Model



Risk management models

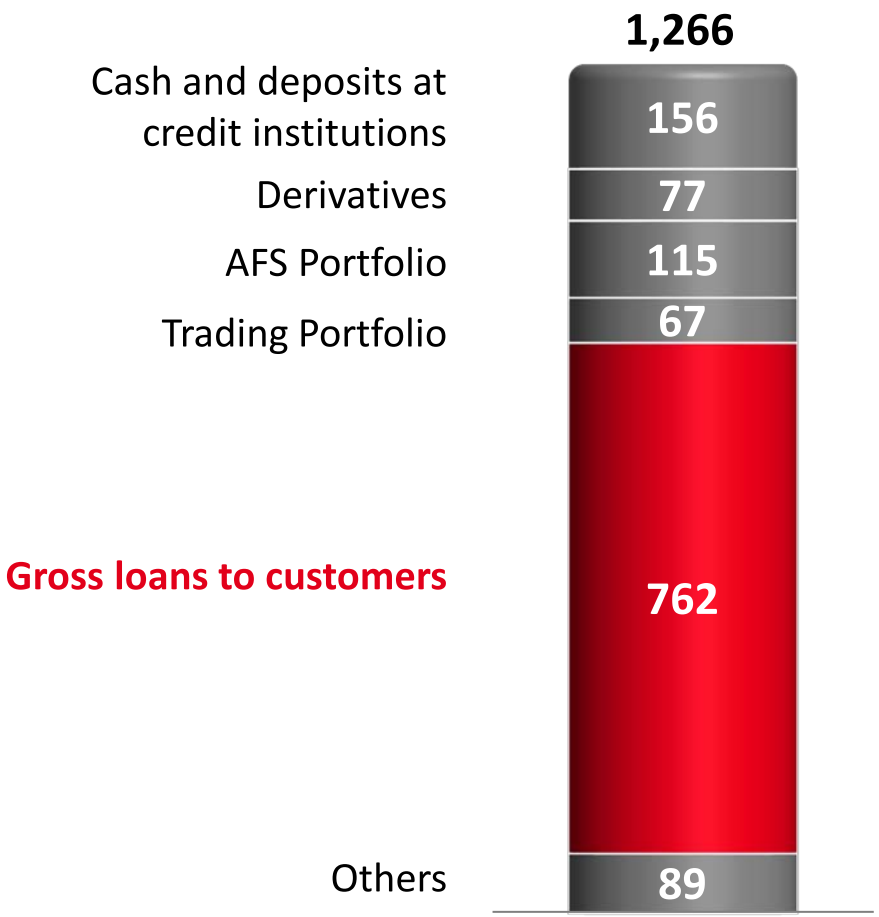
- **Diversification**, both by **geography** and by segment
- Maintaining a **medium low risk profile** through a solid **risk appetite**
- Group Wide Risk Management (GWRM) in an autonomous **subsidiary model**
- **Proactive** and **independent** (Board Risk Committee) **risk management**

…sustainability, low volatility and improving solvency capability

Simple commercial business

Balance-sheet focused on retail and commercial activities customer oriented

(Dec'14, €bn)



- **Credit Risk**

  Our core business

- **Operational Risk**

  Limited exposure with strong control culture

- **Market and Structural Risk**

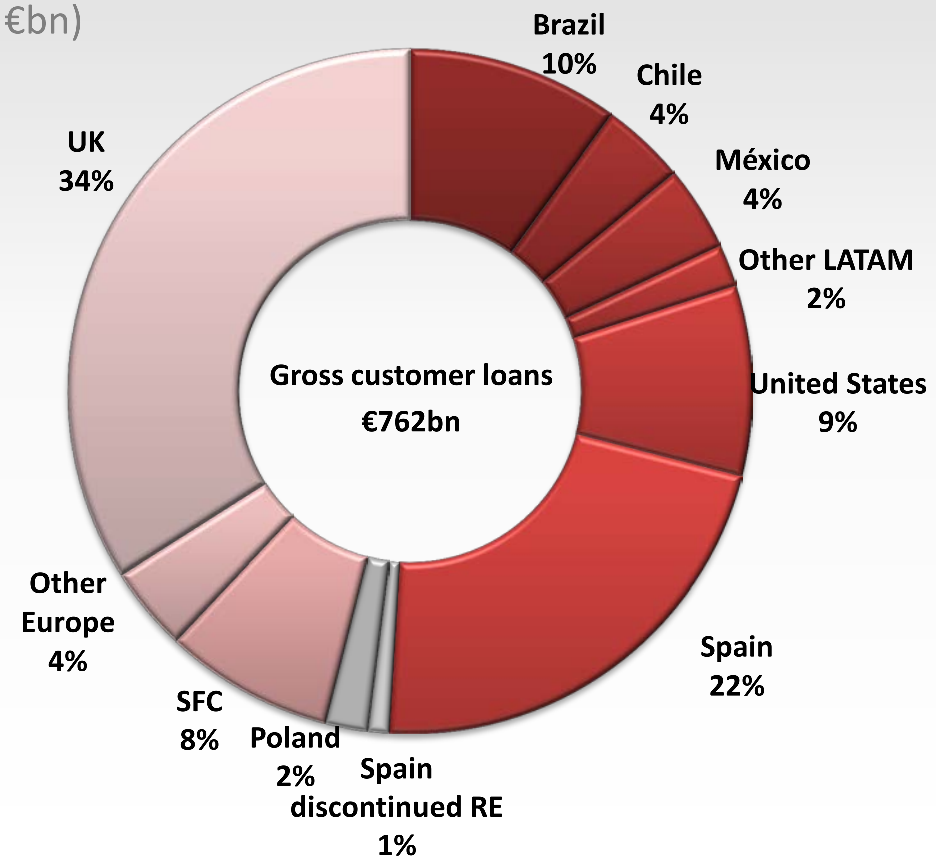
  Low complexity and customer driven activity

Credit Risk Diversification

Diversified customer oriented strategy: Santander's DNA

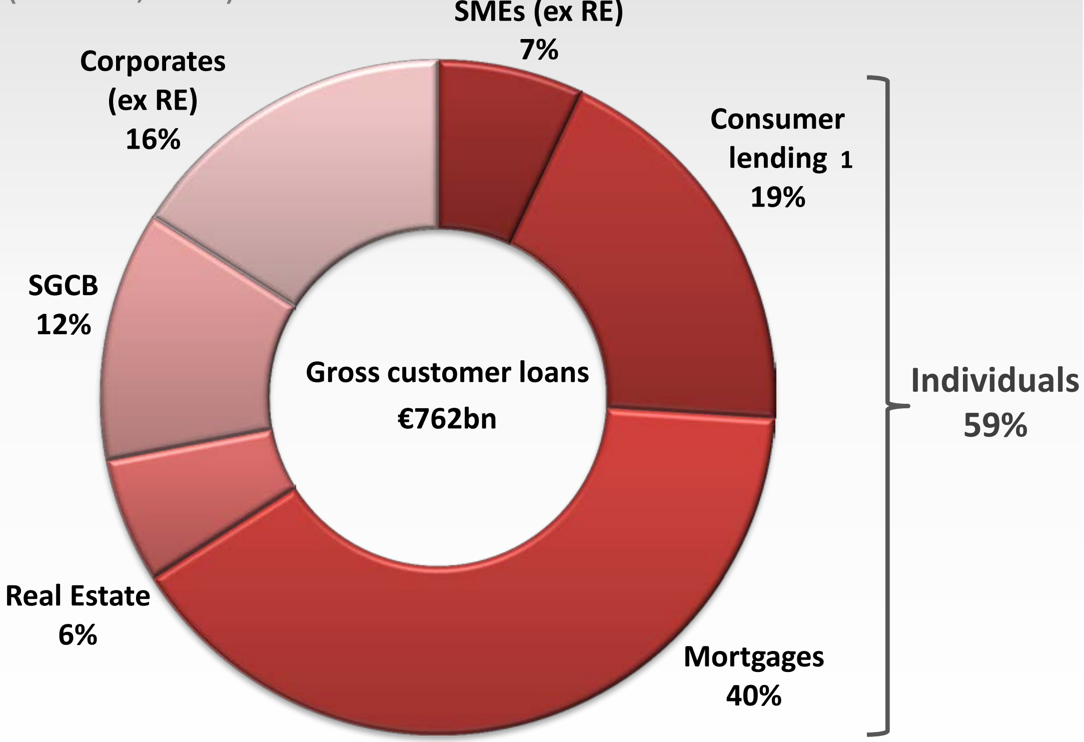
Risk by geography

(Dec'14, €bn)



Risk by segment and product

(Dec'14, €bn)



(1) In 2015 SCF will gradually incorporate PSA portfolio, starting by France, UK and Portugal (€12bn approx.)

Risk Appetite: medium-low risk profile

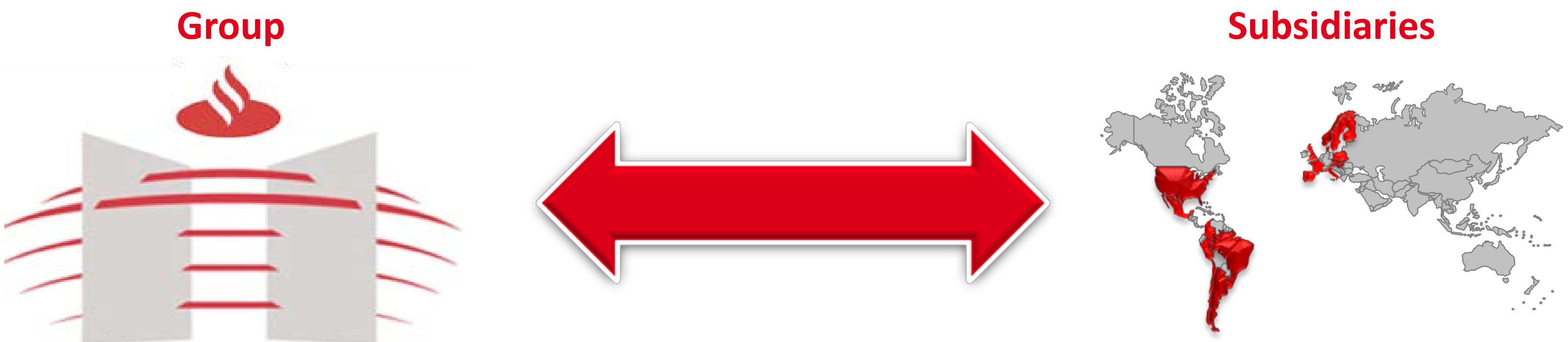
Medium-low risk profile ensured by a conservative risk appetite

Losses / Volatility	• Limit 100% profit before taxes (PBT) in the worst year in a plausible adverse scenario of 3 years • Operational losses / gross margin (YTD) does not exceed 2.8%
Solvency	• Maintain Capital strength (CET1 Ratio FLB3) under normal and stressed conditions ensuring the accomplishment of all the regulatory requirements
Liquidity	• Structural Funding Ratio (parent company) >100% • Maintaining it is stressed survival periods above the limit 30/45 days for each crisis scenario • Liquidity Coverage Ratio (Parent Company) >100%
Concentration	• Limits to the maximum exposure over Own Funds defined in single names and large exposures • Limits to concentration in non-investment grade counterparties and portfolios with high volatility profile • Limits to concentration by sectors
Qualitative elements	• Qualitative indicators of non financial risks reflecting a very low tolerance to Operational, Conduct, Legal & Regulatory Risk

FLB3: Fully loaded Basel III

Group Wide Risk Management in an autonomous subsidiary model

Group-Subsidiaries model: adding value to the sum of the parts



- **Double control** layer both local and global, ensuring effectively a low medium risk profile
- **Sharing best risk management practices** across all geographies
- **Forward looking approach** both at local and global functions
- **Excellence in risk management models**: the global methodology boosts R&D which is cascaded down into local units
- **Embedding of risk management** in the strategic plans both at local and global levels

Independent risk management

Risk Governance

Committee	Frequency	Responsibilities
Executive Risk Committee	TWICE PER WEEK	• **Manages** exposure to different customers, economic and geographic areas, covering **all risks type** • **Ensures** that the Group's activities are **consistent with the risk appetite** • Provides the Board Risk Committee with the information it may require

Executive Committee	WEEKLY	• Approval of the **general policies and strategies of the Company**, particularly:
		  • Strategic plans and annual budget
		  • **General risk management policy**
		  • Corporate governance and social responsibility policy
		• Approval the **communication to all the stakeholders** (shareholders, markets…)

Board Risk Committee	MONTHLY	• **Assists, support and advice the Board** in all actions related to risk strategy (appetite and policies), monitoring an holistic risk profile, supervisors and regulators requirements…

Pro-active and effective risk management

Santander's risk management capabilities have been successfully applied across different geographies and scenarios

SPAIN - Real Estate portfolio run down

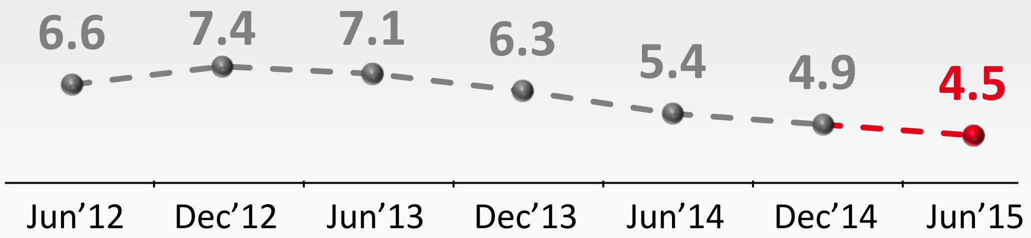
Real Estate Stock Evolution (€bn)

	Dec'11	Jun'15	Var 11-15		Coverage Jun'15
Santander	32.0	14.8	-17.2	-54%	58%
Peer 1[1]	27.0	26.2	-0.8	-3%	55%
Peer 2[1]	37.5	27.8	-9.7	-26%	45%
Peer 3[1]	29.0	26.2	-2.8	-10%	43%

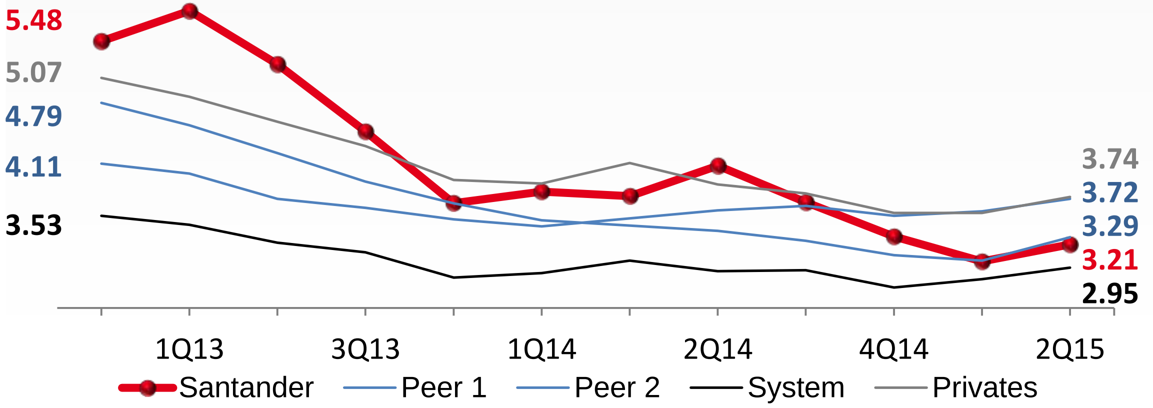
(1) CaixaBank, Sabadell (Dec'14), BBVA
(2) Cost of credit = 12 month loan-loss provisions / average lending
Note graph "over 90 rate": Itaú, Bradesco

BRAZIL- Better mix and pro-active risk management explains Cost of Credit[2] reduction and the convergence in over 90 rate with our peers

Cost of credit[2] (%)



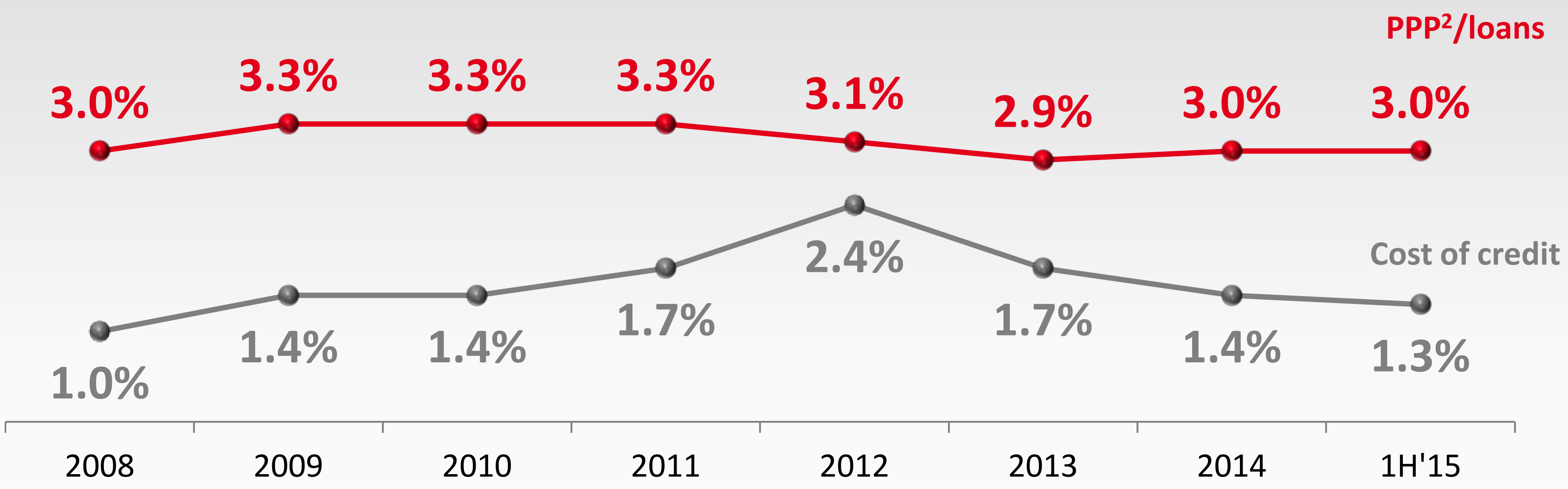
Over 90 Rate (%)



Sustainability, low volatility and improving solvency (1/2)

Results sustainability

Profitability drivers



Santander is 1 of the 3 banks among international G-SIBs[1] without a single quarter of profit losses during the crisis

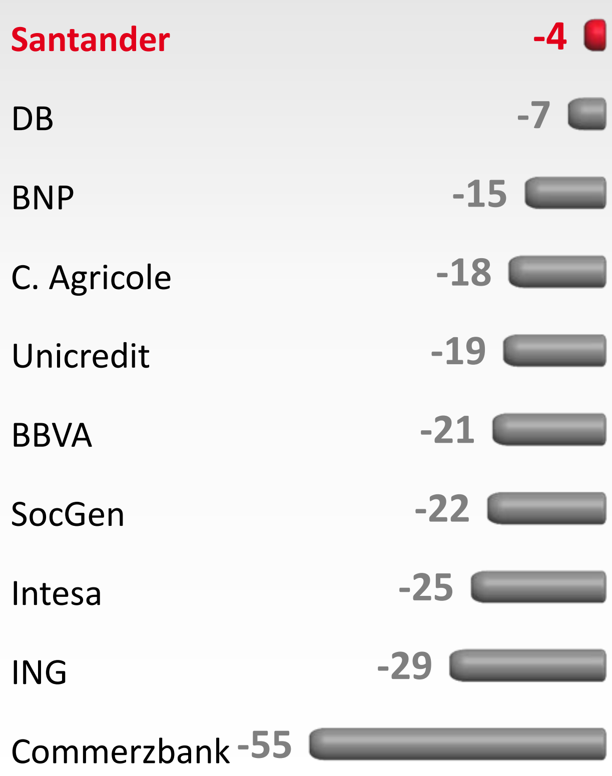
(1) Global systemic all-important banks excluding Chinese banks
(2) PPP: pre-provision profit

Sustainability, low volatility and improving solvency (2/2)

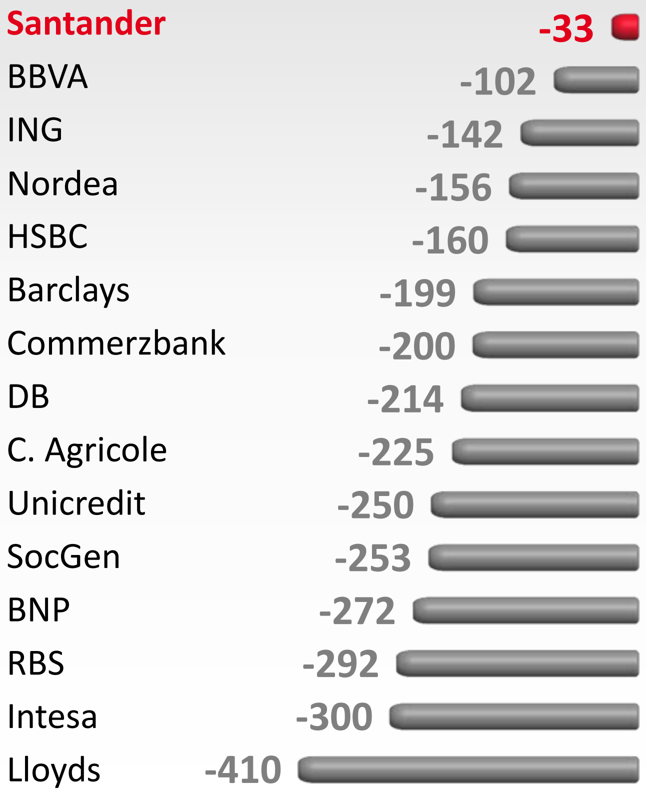
Capital adequacy resilience under the ECB Comprehensive Assessment stress test

- **The comprehensive assessment underscored the resilience of the Group's balance sheet**
  - **Lowest adjustment among its peers (-4 b.p.)**, which shows risks correctly classified and adequate coverage ratios
  - In the adverse scenario, Santander is the bank with the **least negative impact (-33 b.p)** among the big European banks

AQR impact on CET1 (b.p.)



Stress test impact[1] on fully loaded CET1 **adverse scenario** (b.p.)



(1) Difference between fully loaded CET1 2013 and fully loaded CET1 2016 adverse scenario

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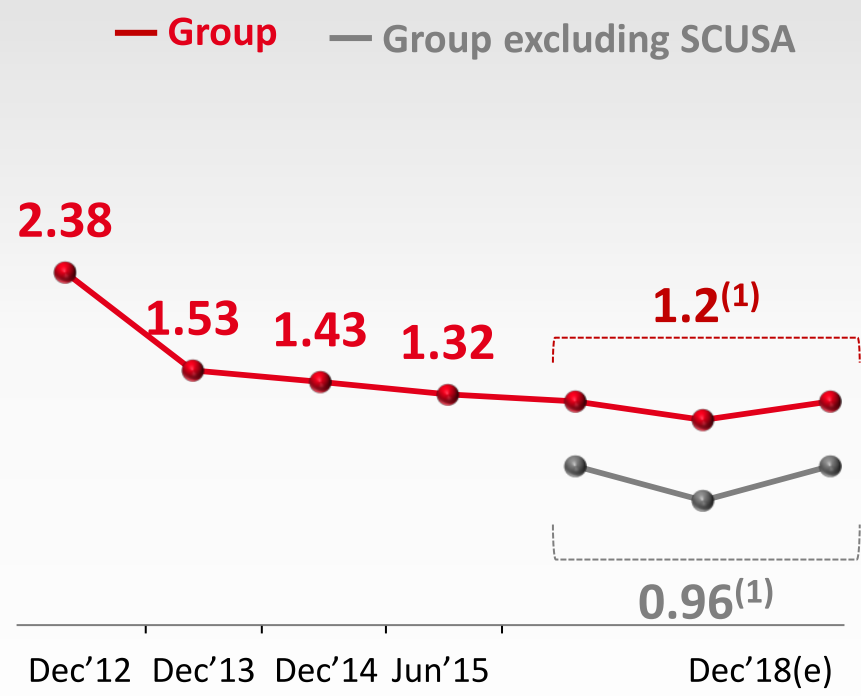
Credit Risk Forecast

Cost of credit still decreasing, heading towards normalised levels

Group (%)



- **Ongoing downward trend** close to pre-crisis levels (approx. 60-70 b.p.), aligned with a better credit quality and macro environment improvements
- Accompany transition for building a retail and corporate bank, while **cost of credit remains in very low levels** (approx. 10 b.p.)
- SCF: A **low credit risk profile** (80-90 b.p.) will be maintained over the next years aligned to a **better macro environment** and **proactive management policies**
- **SBNA**: after a deleverage period, cost of credit is expected **to slightly increase** (approx. 20-30 b.p.), although still in very low levels, due to business normalisation
- **SCUSA:** however cost of credit is expected to **remain close to 11%, risk return ratio** would be **stable** through the next years thanks to proactive risk pricing policies

(1) Average cost of credit 2015, 2016, 2017, 2018 Cost of credit = 12 month loan-loss provisions / average lending

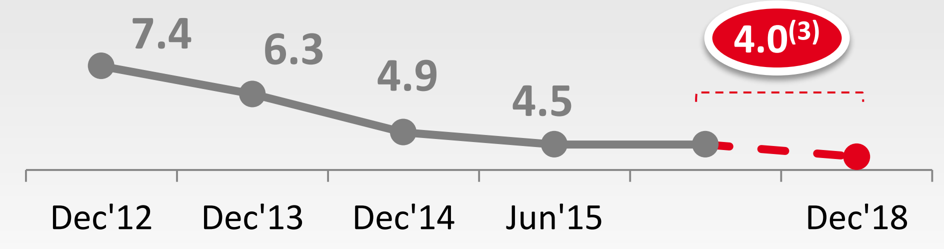
Credit Risk Forecast: Brazil

Increased resilience through tighter Risk policies and better portfolio mix will enable Santander Brazil to successfully overcome a tougher environment

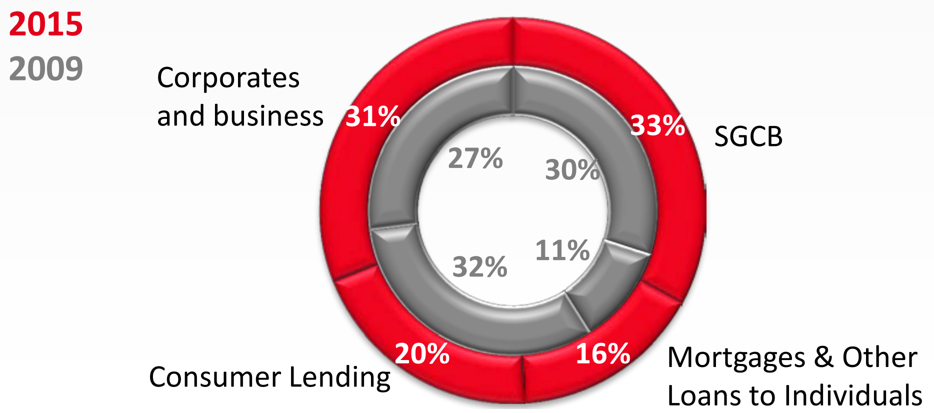
Underwriting, Monitoring & Recoveries

- **Improved underwriting models**: enhanced capabilities for discrimination in Individuals and SMEs
- **Focused on products with a better risk profile** (payroll loans, mortgages, *adquirência*[1])
- Migration from revolving to instalment products alongside higher collateralisation of the portfolio
- Management of **risk appetite by sectors**
- **Customer vision centrered risk models**
- Boosting **non-standardised management** in SMEs
- **Improved collection models**, focused on early delinquency, and channels, leveraging the branch network

Brazil cost of credit[2] projection (%)



Change in portfolio mix 2009 – 2015



(1) Adquirência: Financing of delay on credit card payments to retail stores
(2) Cost of credit = 12 month loan-loss provisions / average lending (3) Average 2015, 2016, 2017, 2018

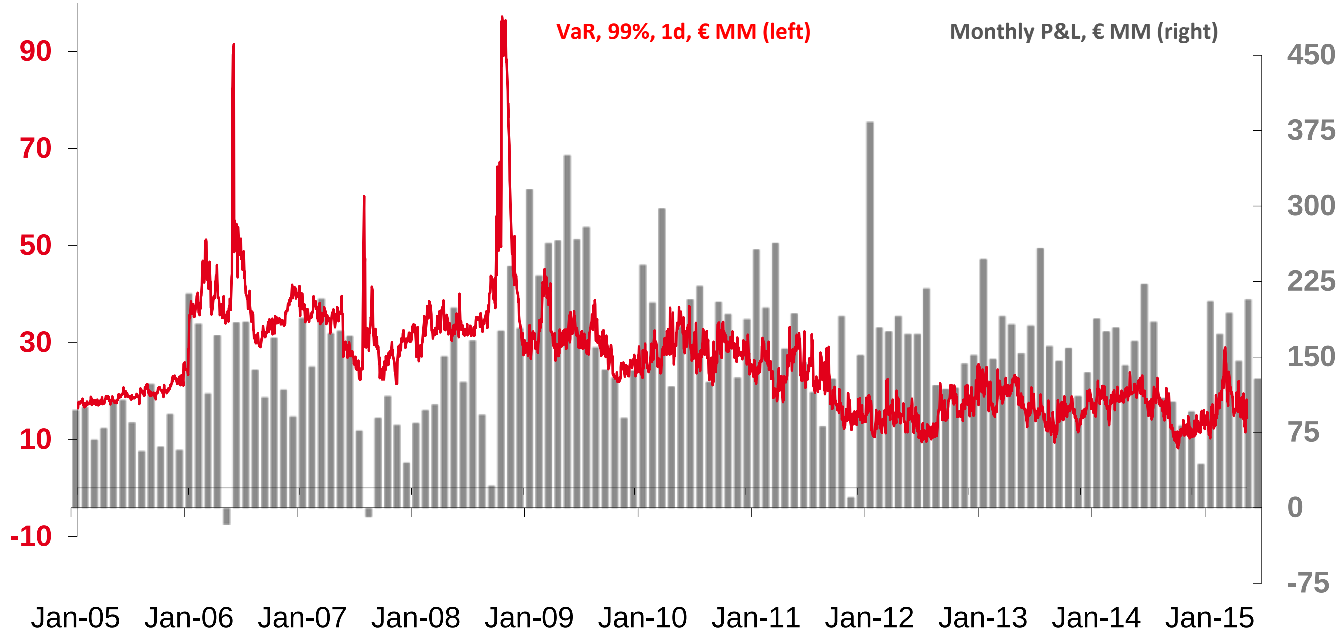
Market Risk

Trading supports a customer driven business. Low and stable VaR of wholesale banking activity (14MM[1] in 1H'15)

Qualitative drivers

- **Low complexity**
- **Low market risk profile**
- **Focused on corporate customers**
- **Flow products**
- **Avoiding complex structured products**

Quantitative drivers



Wholesale Banking Activity: Average daily VaR (€MM)

2009	30
2010	29
2011	22
2012	15
2013	17
2014	17
1H'15	16

(1) Relative to the trading activity of wholesale banking in financial markets. There are other positions catalogued as trading for accounting purposes. The total VaR of trading of this accounting perimeter was EUR13MM

Structural Risk

Interest Rate Risk: profile remains low, covering budgeted financial margin (sens. 100b.p. <3%) and equity value (sens. 100b.p.<4%)

- **Management** decisions taken by country's **ALCO** in coordination with Global ALCO under **risk policies** and **limits approval**
- **ALCO decisions** aim to give **stability** and recurrence to the net interest margin of commercial activity and the economic value, while keeping **appropriate levels of liquidity and solvency**

Liquidity: comfortable liquidity position under normal and stressed circumstances, meeting regulatory requirements ahead of schedule

- **Comfortable** and **stable liquidity** levels thanks to **solid** retail banking **business model**, decentralised funding model and prudent risk management
- **Compliance** ahead of schedule with **regulatory requirements**
- **High level** of customer deposits. **Loan to Deposit ratio** (LTD) for parent company was **117%** as of June 2015
- Sound short and long-term liquidity ratios. **Liquidity Coverage Ratio** (LCR) and **Structural Funding Ratio** for parent company as of June 2015 were **142%** and **107%**, respectively
- Under **stress scenarios** the situation **remains appropriate**, with **liquidity** horizons **above** minimum **limits**

FX Rate Risk hedging policy: mitigates impact on core capital ratio

Operational Risk

Risk profile aligned with our business activities under a conservative risk appetite framework

- **Increasing awareness** of operational risk in the Group. Integral transformation programme in order to implement AMA[1] in all units
- The **ratio of operational risk losses** vs gross margin is 2.50% as of end 2Q'15, but it is reduced to 1.60% when excluding Brazil´s labor losses (industry wide issue)
- Control of stable **Brazil** industry labour (*trabalhistas*) and customer (*civeis*) cost. Downward trend expected
- **Cyber risk**: increasing resources and controls. Procurement of insurance policy, creating greater awareness and culture in the bank
- **Increasing controls** in certain geographies as **to mitigate external fraud related** to cards and internet banking

(1) Advanced Measurement Approach

Conduct and customer protection, Regulatory Compliance and Reputational Risk

Conduct, Compliance and Reputational Risks, focus for next years

- **Conduct**, **AML**, **Regulatory** and **Reputational** risks are gaining relevance due to the current regulatory environment
- **Control** of these risks always has been **embedded** in our **risk culture** trough
  - Global Product Committee
  - Monitoring Global Product Committee
  - Board Risk Committee
- This control environment has allowed us not to suffer idiosyncratic events, focusing our losses in common events for all industry
- We **continue reinforcing** risk management and **control** of **conduct**, **compliance, reputational** and **operational** risks

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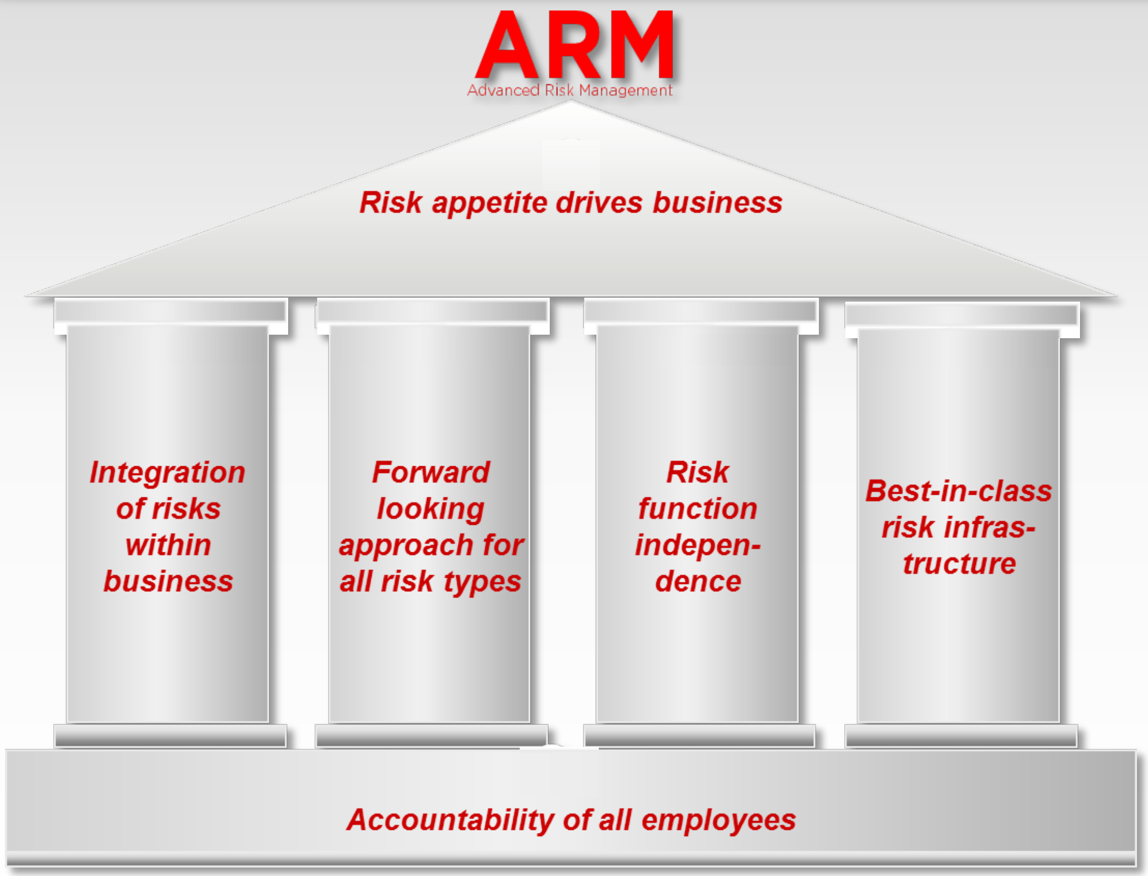
Key takeaways (1/2)

Build our future through forward looking management of all risks, protecting our present through a sound robust control environment



Maintain our risk management model and reinforce:

- Risk Appetite
- Risk Identification and Assessment
- Stress Test and Scenario Analysis
- Models and Model Risk Management
- Lines of Defence (LoD) Framework
- RDA[1]
- Contingency Plans and Crisis Response
- Risk Culture and Talent

(1) Risk Data Aggregation

Key takeaways (2/2)

Sustainable growth plan in a medium-low risk profile

- Balance sheet **focus on retail and commercial**
- **Diversification** by geography, segment and customer
- Budget and strategic plans embedded in **medium-low risk appetite**
- **Double control layer** (global and local)
- Proactive risk **transformation capabilities**

- **Stability and controlled volatility of results**
- **Normalisation of cost of credit c.1%[(1)]**

(1) Lower than 1% excluding SCUSA

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Appendix

Current focus

Credit
- **Normalisation** of risk levels

Market
- **Stable low risk levels** (VaR) with incomes based on customer activities

Liquidity
- **Comfortable and stable liquidity levels,** according to regulatory requirements

Structural
- **Conservative policies** in balance sheet management. FX risk hedge policy mitigates impact on core capital ratio

Operational
- 100% under standard model approach with **increasing control under AMA**[1]
- Maintaining **expected low losses** profile

Conduct and Consumer Protection
- **Focus of resources** and **efforts** to adapt to **evolving regulatory requirements**

Regulatory Compliance
- **Tightening of customers' relation rules** considered in strategic plans

Reputational
- **Strengthening of reputational risk control structure** to maintain and increase quality perception by Santander Stakeholders

Strategic
- **Commitment to maintain (and even reduce) low levels of P&L volatility** with a strategy based on customer's stable relationships and conservative approach in risk

(1) Advanced Measurement Approach

Credit Risk by segment and product

(€MM)	Gross loans	% NPL	PD	EL
Mortgages	304,466	2.73%	1.66%	0.15%
Consumer Lending	145,017	5.47%	6.97%	3.70%
SMEs[1]	55,773	9.17%	5.01%	1.99%
Corporates[1]	118,981	6.78%	3.21%	0.94%
Real Estate	49,726	15.99%	9.77%	2.41%
SGCB	88,141	2.67%	0.80%	0.30%
TOTAL	**762,104**	**5.19%**		

- **Improving risk profile** and **maintaining credit policies** that ensure portfolio and collateral quality
- Ensuring portfolio quality and **improving risk-return balance**
- **Strategic portfolio** which is intended to consolidate supported by corporate projects initiated in 2014 (e.g., Santander Advance)
- **Good quality** portfolio reflected in the AQR exercise
- **Decrease** of the **RE concentration** in terms of Group exposure and improvement of the portfolio´s credit risk profile
- Business **focused** on **customers**, serving their global and local needs with very low NPL ratios

Figures at Dec'14 (1) excl. Real Estate PD: probability of default of a customer within a year EL: expected loss within a year

Credit Risk by segment and product: Mortgages

Improving risk profile and maintaining credit policies that ensure portfolio and collateral quality

(€MM)	Gross loans	% NPL	PD	EL
UK	193,048	1.62%	1.28%	0.03%
Spain	47,721	5.82%	2.48%	0.44%
Portugal	14,805	4.12%	1.73%	0.25%
USA[1]	11,877	3.43%	3.03%	0.82%
Others	Chile represents 3% of total mortgages / SCF Germany 2% / Poland 2%			
TOTAL	**304,466**	**2.73%**	**1.66%**	**0.15%**

Figures at Dec'14
(1) USA Holding Mortgages include Home Equity loans
PD: probability of default of a customer within a year
EL: expected loss within a year

- **Positive macroeconomic environment. Risk policy is maintained**
- **Normalisation** of the NPL portfolio evolution
- **Mortgages portfolio remains stable**
- **Asset reduction** aimed to rebalance the portfolio and improve profitability

Credit Risk by segment and product: Consumer lending

Ensuring portfolio quality and improving risk-return balance

(€MM)	Gross loans	% NPL	PD	EL
Brazil	26,578	8.43%	7.80%	4.56%
USA	25,155	3.93%	17.88%	7.73%
SCF Germany	23,882	3.94%	1.65%	0.80%
SCF Others	27,772	6.55%	3.20%	1.48%
Others	UK represents 8% of total consumer lending / Chile 5% / Spain 5% / SCF Spain 4%			
TOTAL	**145,017**	**5.47%**	**6.73%**	**3.46%**

- **Rebalance** risk **strategy** while keeping high profitability
- SCUSA's growth drives high PD levels and **robust risk-adjusted profitability**
- SCF: **Extremely low expected losses**

Figures at Dec'14

Credit Risk by segment and product: SMEs[1]

Strategic portfolio which is intended to consolidate supported by corporate projects initiated in 2014 (e.g., Santander Advance)

(€MM)	Gross loans	% NPL	PD	EL
Spain	16,482	13.69%	3.88%	1.15%
UK	11,213	5.53%	4.13%	0.90%
Brazil	10,435	8.46%	7.50%	5.25%
USA	4,706	1.34%	1.18%	0.56%
Mexico	2,901	3.13%	7.01%	4.06%
Others	Chile represents 9% of total SMEs / Poland 5% / Portugal 4%			
TOTAL	**55,773**	**9.17%**	**5.01%**	**1.99%**

- Trend to normalisation: **improving behaviours** along with a positive macro economy
- **Extended capacity** to service to follow strategy of evolving the portfolio mix
- Policies **tightened 2 years ago, predictive admission models** help to achieve a better performance
- **Outstanding quality standards**
- Most of the portfolio are under **government guarantee programmes**

Figures at Dec'14
(1) excl. Real Estate

Credit Risk by segment and product: Corporates[1]

Good quality portfolio reflected in the AQR exercise

(€MM)	Gross loans	% NPL	PD	EL
Spain	57,089	7.70%	3.78%	1.08%
Brazil	14,325	5.04%	3.21%	1.56%
UK	9,214	1.63%	4.13%	0.90%
USA	9,346	1.63%	1.15%	0.16%
Others	Chile represents 6% of total Middle Market/ Mexico 5% / Portugal 3%			
TOTAL	**118,981**	**6.78%**	**3.21%**	**0.94%**

- **New production increase** aligned with positive macro environment. Starting the **downward trend** of the risk indicators levels
- Tight underwriting criteria and on-going **deleveraging of potential risky customers**
- Strengthen risk capabilities to accompany transition for **building a retail and corporate bank**
- **High quality** portfolio with **low risk profile**

Figures at Dec'14
(1) excl. Real Estate

Credit Risk by segment and product: Real estate

Decrease of the RE concentration in terms of Group exposure and improvement of the portfolio´s credit risk profile

(€MM)	Gross loans	% NPL	PD	EL	% Coverage
UK	20,531	1.64%	1.35%	0.20%	34.02%
USA	13,277	0.99%	0.38%	0.08%	103.67%
Spain	9,014	68.19%	44.67%	19.31%	64.60%
Others	Mexico represents 3% of total Real Estate / Poland 3% / Brazil 3%				
TOTAL	**49,726**	**15.99%**	**9.77%**	**2.41%**	

- Includes **Social Housing** (low default portfolio), **Regional Property** and **Central Real Estate**
- **Run-off portfolio** continues to **fall** at rates of over 45% (YoY)
- On-going **deleveraging strategy** (-27% YoY)

Figures at Dec'14

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