TLAC STRATEGY UPDATE – JANUARY 2017

FIXED INCOME INVESTORS PRESENTATION

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Executive summary

- Santander is presenting its updated 2017-18 funding plan, following the release of the proposed transposition of the TLAC requirements in the EU (23 November 2016)

- The objective of the funding plan is to:
  - Enhance the Group's TLAC position
  - Optimize its cost of capital

- Santander is considering various interim approaches for issuing TLAC-eligible debt instruments before the TLAC-requirements final regulation has been approved

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Our model has unique competitive advantages

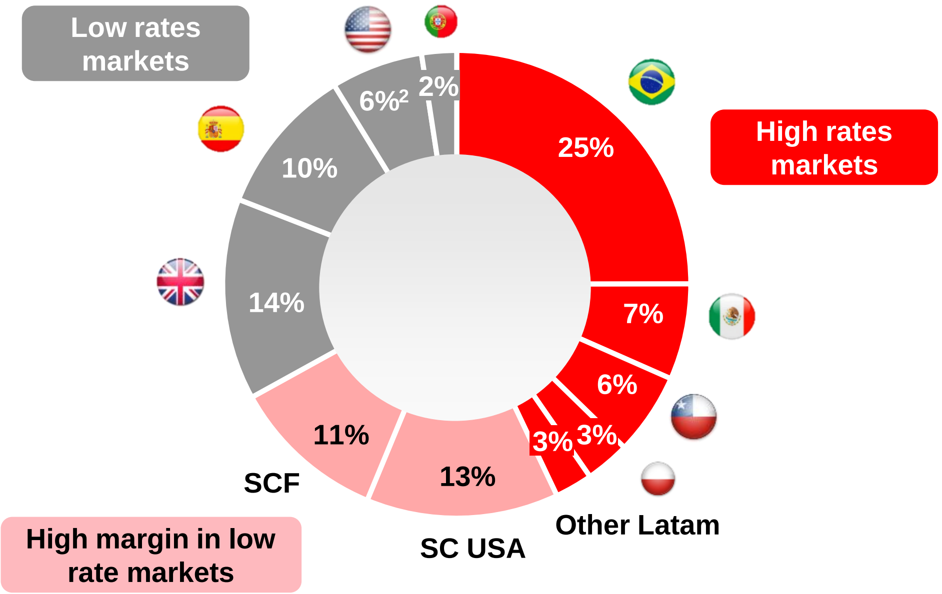
Critical mass in retail+commercial banking in 9+1 countries

124 million customer relationships

Geographical diversification

Relevant exposure to markets with high interest rates

Net Interest Income, % of total[1]



(1) Does not include Corporate Centre. Data as of September 2016
(2) USA ex- SC USA

We are organised in a decentralised model…

… with subsidiaries legally independent and …

- Local banks for all purposes, subject to double supervision and internal control, both local and global
  - Subject to local supervision & regulation
  - Participates in national deposit guarantee funds

… autonomous in capital and liquidity

This model is a strong incentive for local managers and enables local resolvability

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Delivering on our target of fully-loaded CET1 >11% in 2018, with profitable business growth

Active capital management

Currency-neutral. Sep'16 vs. Sep'15

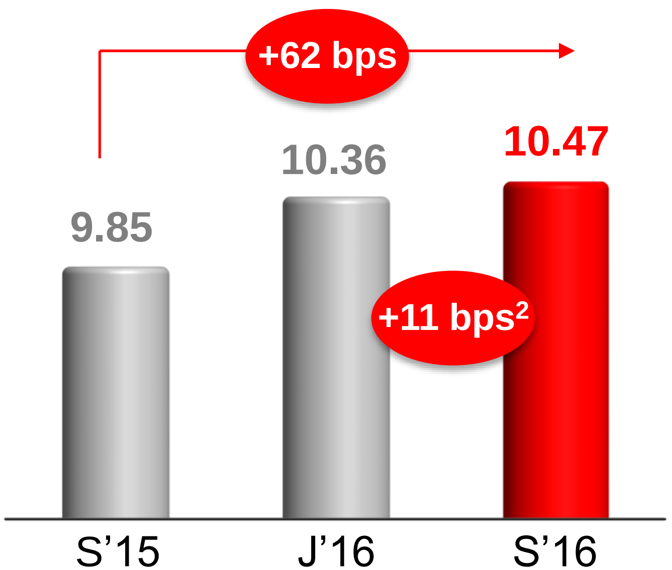
Loans growth > RWA growth
3% > 0%

Profit growth > RWA growth
8% > 0%

- **Capital selectively allocated** to businesses with **higher RoRWAs**

RoRWA[1]	Dec'15		Sep'16
	1.30%	vs.	1.37%

Fully-loaded CET1 (%)



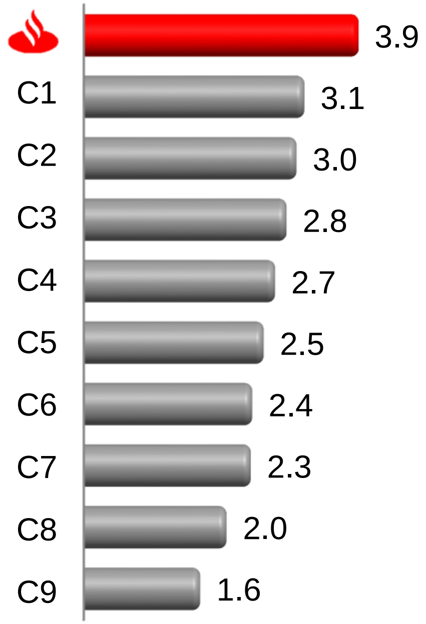
- **The fully-loaded total capital ratio rose** to **13.70%** (12.75% in September 2015)
- Fully-loaded **leverage ratio improvement: 5.0%** (4.7% in September 2015)

(1) Underlying consolidated profit / average risk-weighted assets
(2) Quarterly change: ordinary generation (+16 bp), perimeter (-4 bp), and AFS and others (-1 bp)

Business models matter,
Santander has ample room to absorb losses …

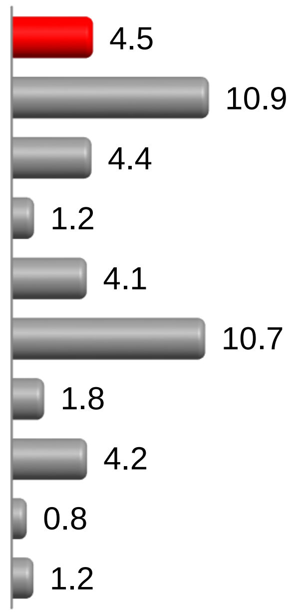
Higher profitability…

Pre provision profit / RWA (%)



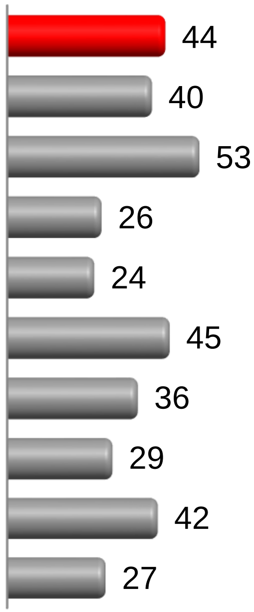
…with broad coverage…

Loan-loss allowances / RWA (%)



…over a conservative density

RWAs / Total assets (%)

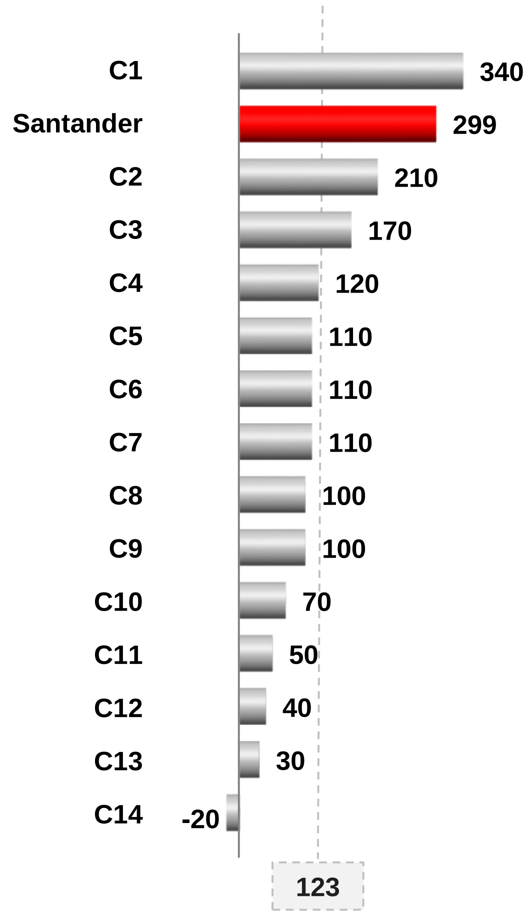


Source: Based on public company data - Bloomberg. Data as of Jun'16

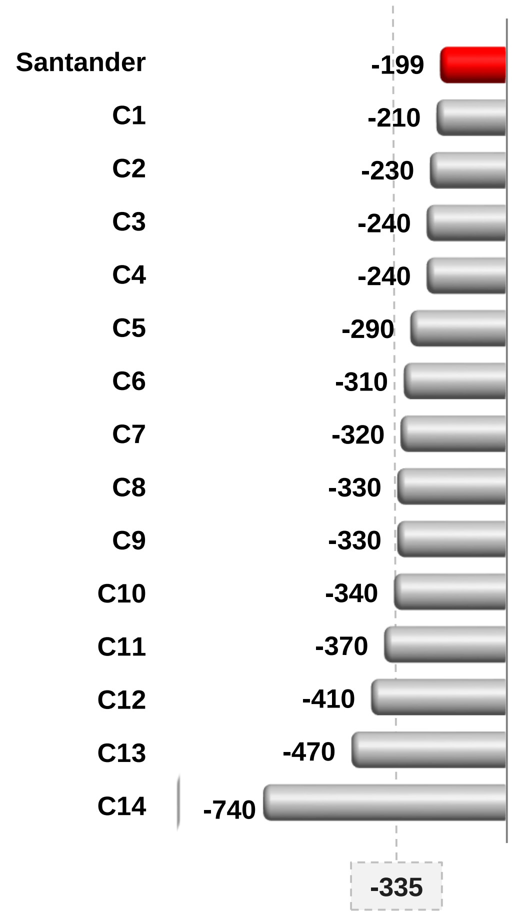
Peers: BBVA, BNP, Soc Gen, Unicredit, Intesa Sanpaolo, ING, Lloyds, HSBC and Barclays

… and the EBA stress test shows, once again, that Santander business model requires less capital

Change CET 1 2015 vs baseline scenario (bps)



Change CET 1 2015 vs adverse scenario (bps)

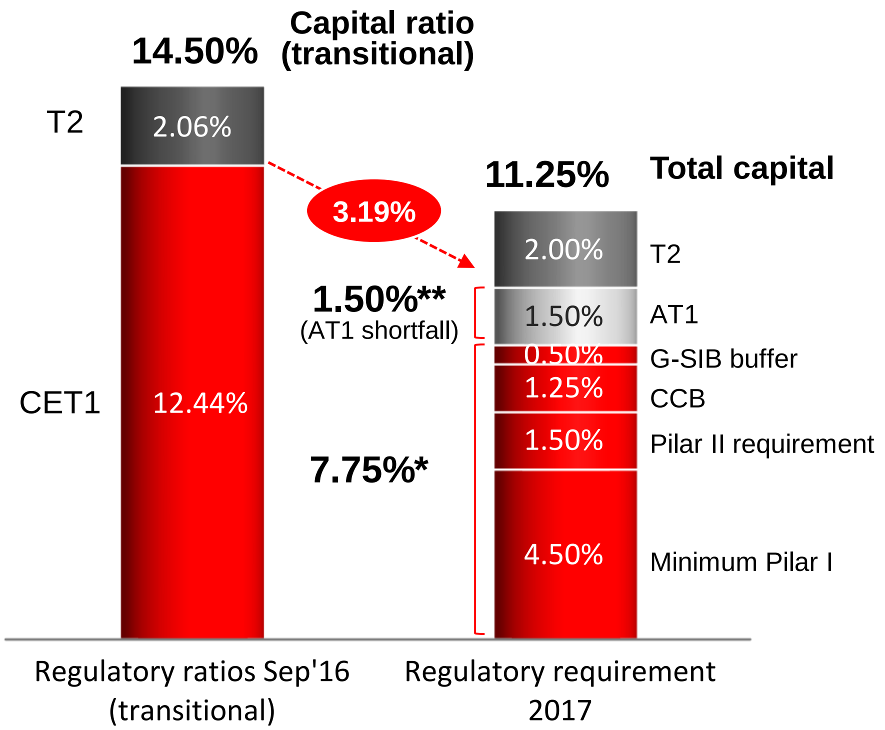


Peers: BBVA, BNP, Soc Gen, C. Agricole, Deutsche Bank, Commerzbank, Unicredit, Intesa Sanpaolo, ING, Nordea, Lloyds, HSBC, Barclays and RBS

Group regulatory capital and current distance to MDA

- **Comfortable buffer to MDA in regulatory transitional total capital and CET1 ratios**
- **As of Sep'16 the distance to the current MDA amounts to 3.19%**

Current distance to MDA



(*) 7.75% is the MDA threshold which reflects the minimum CET1 to be maintained by the Santander Group as communicated by the ECB on its decision regarding prudential minimum capital requirements for 2017 following the results of the Supervisory Review and Evaluation Process (SREP)

(**) Following the EBA interpretative criteria such shortfall is to be added to the MDA threshold to calculate the final applicable MDA at a given moment in time.

Santander is committed to fulfil the AT1&T2 buckets through the transitional period

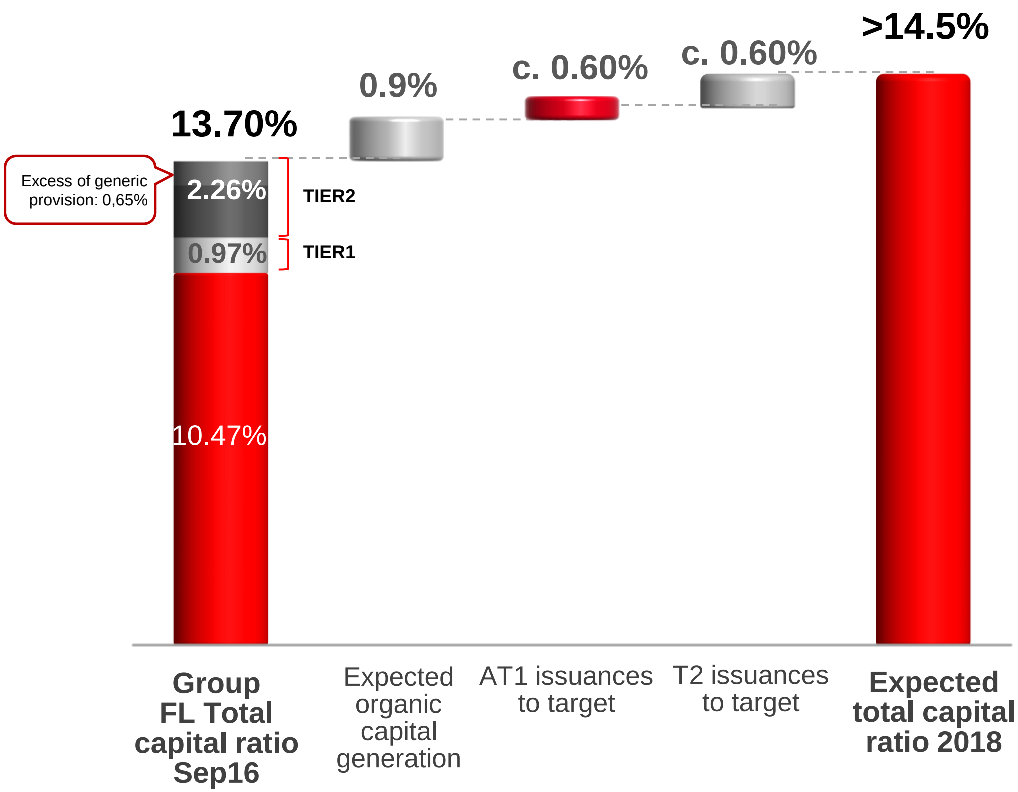
Hypothesis:

- RWAs growth of ~3.5% per year.
- No excess of generic provision in 2018 (prudent approach)
- Capital generation of 40 bps per year

- AT1 issuances to target of 1.5% in 2018: ~€4bn
- T2 issuances to target of 2% in 2018: ~€4bn

- CET1 FL ratio Sep'16: 10.47%
- Total Capital FL ratio Sep'16: 13.70%

Expected total capital ratio in Dec. 2018



Group targeted end-point distance to MDA

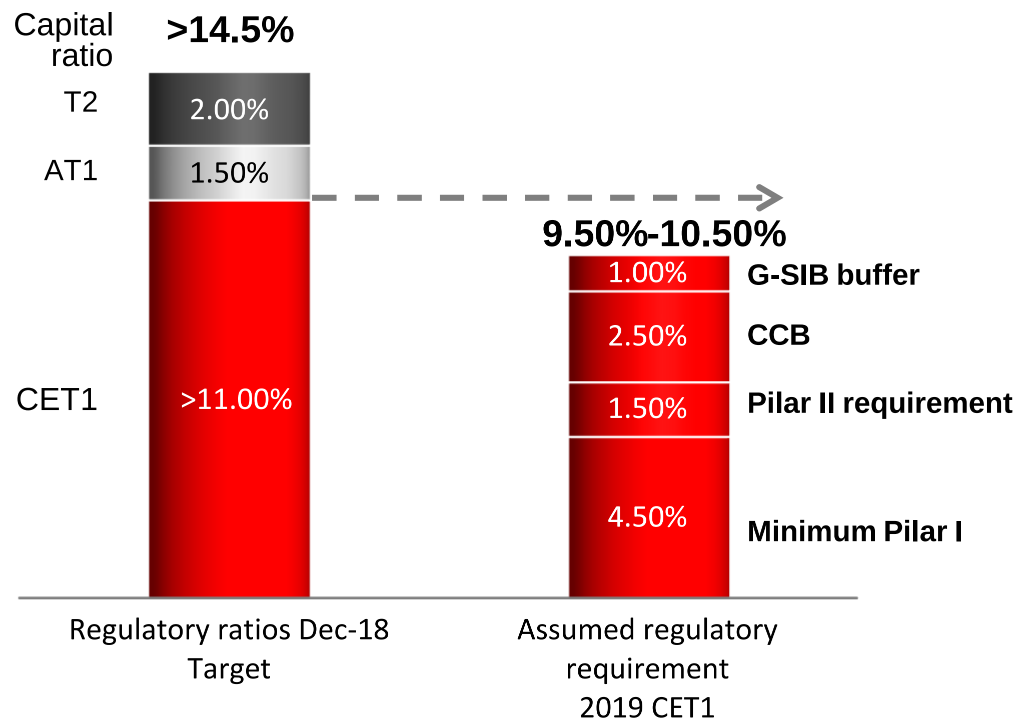
Targeted distance to MDA in Dec. 2018

Targets

- **CET1 FL >11% in Dec-2018**
- **Total capital FL >14.5% at end 2018**

- **All else being equal, this would imply a distance to a 9.5% MDA of at least 1.50%***

- **The required CET1 for 2019 is estimated to be between a range of 9.50% and 10.50%**



(*) Any potencial shortfalls in AT1 / T2 will need to be covered by CET1, increasing the MDA over the MDA threshold

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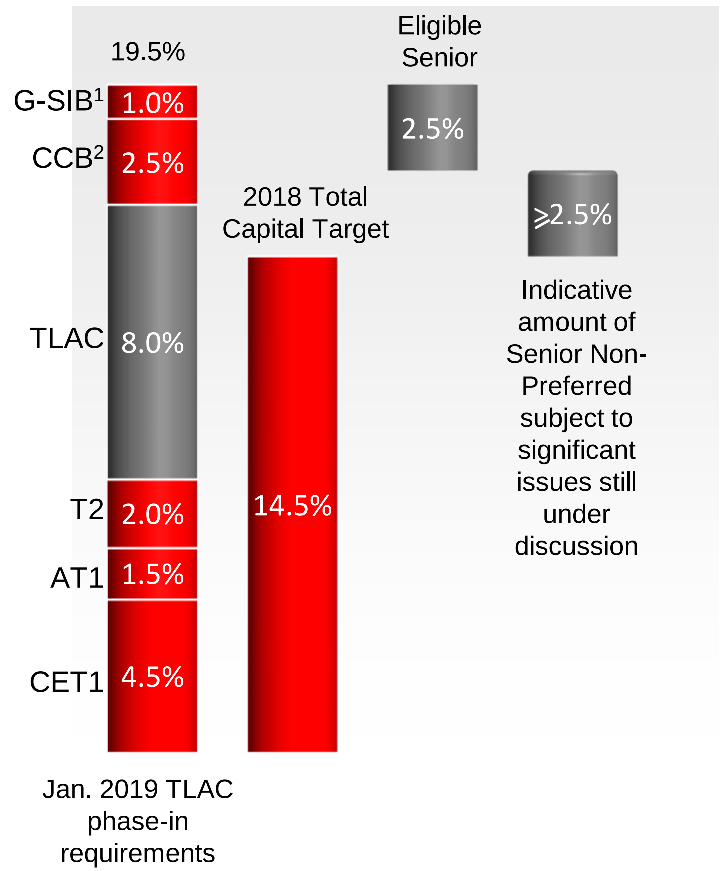
- Santander Business Model
- Capital
- **TLAC requirements and Funding Plan**
- Ratings
- Appendix

TLAC requirements are manageable and an optimisation exercise for Santander

- The TLAC requirements regulation is "work in progress". On 23 November 2016 the European Commission published the proposals to amend the CRD IV and CRR.
- On the same date the European Commission also published a proposal for the amendment of the BRRD as regards the ranking of unsecured debt instruments in the creditor insolvency hierarchy (the 'Senior Ranking Harmonisation Directive').
- The amendments include measures that will implement the TLAC requirement into EU and national law.
- Implementation of the TLAC requirement is expected to phase-in from 1st January 2019: 16% from 1st January 2019 (18% from 2022) plus applicable capital buffers.
- Santander has a resolution strategy approach of multiple point of entry (MPE). The TLAC requirement is expected to be requested at each resolution entity.

TLAC phase-in requirements

Using the Group requirements as a proxy for the aggregate TLAC requirement



CRD IV: Capital requirement directive. CRR: capital requirement regulation. BRRD: Bank recovery and resolution directive
(1) G-SIB buffer. (2) Capital Conservation Buffer

Significant issues still under discussion

- Final TLAC transposition to EU and relevant jurisdictions
- TLAC level and perimeter of resolution groups
- Eligible Senior debt final treatment
- Senior Ranking regime harmonisation
- Internal TLAC requirement
- Deductions and mitigants final treatment
- Excess of generic provisions in T2

Funding plan will focus on TLAC-eligible instruments*

2017-2018 Funding plan

Bn. EUR	2017				2018			
	SENIOR NON PREFERRED	SENIOR PREFERRED	HYBRIDS	TOTAL	SENIOR NON PREFERRED	SENIOR PREFERRED	HYBRIDS	TOTAL
SAN	12 - 14	-	2 - 3	**14 - 17**	10 - 12	-	2 - 3	**12 - 15**
SCF	-	5 - 7	-	**5 - 7**	0.5	4.5 - 5.5	-	**5 - 6**
UK	2 - 3	-	1 - 2	**3 - 5**	0.5 - 1	-	0.5 - 1	**1 - 2**
SHUSA	2 - 3	-	-	**2 - 3**	1 - 2	-	-	**1 - 2**
TOTAL	16 - 20	5 - 7	3 - 5	24 - 32	12 - 15.5	4.5 - 5.5	2.5 - 4	19 - 25

2016 MLT ISSUANCES (provisional)

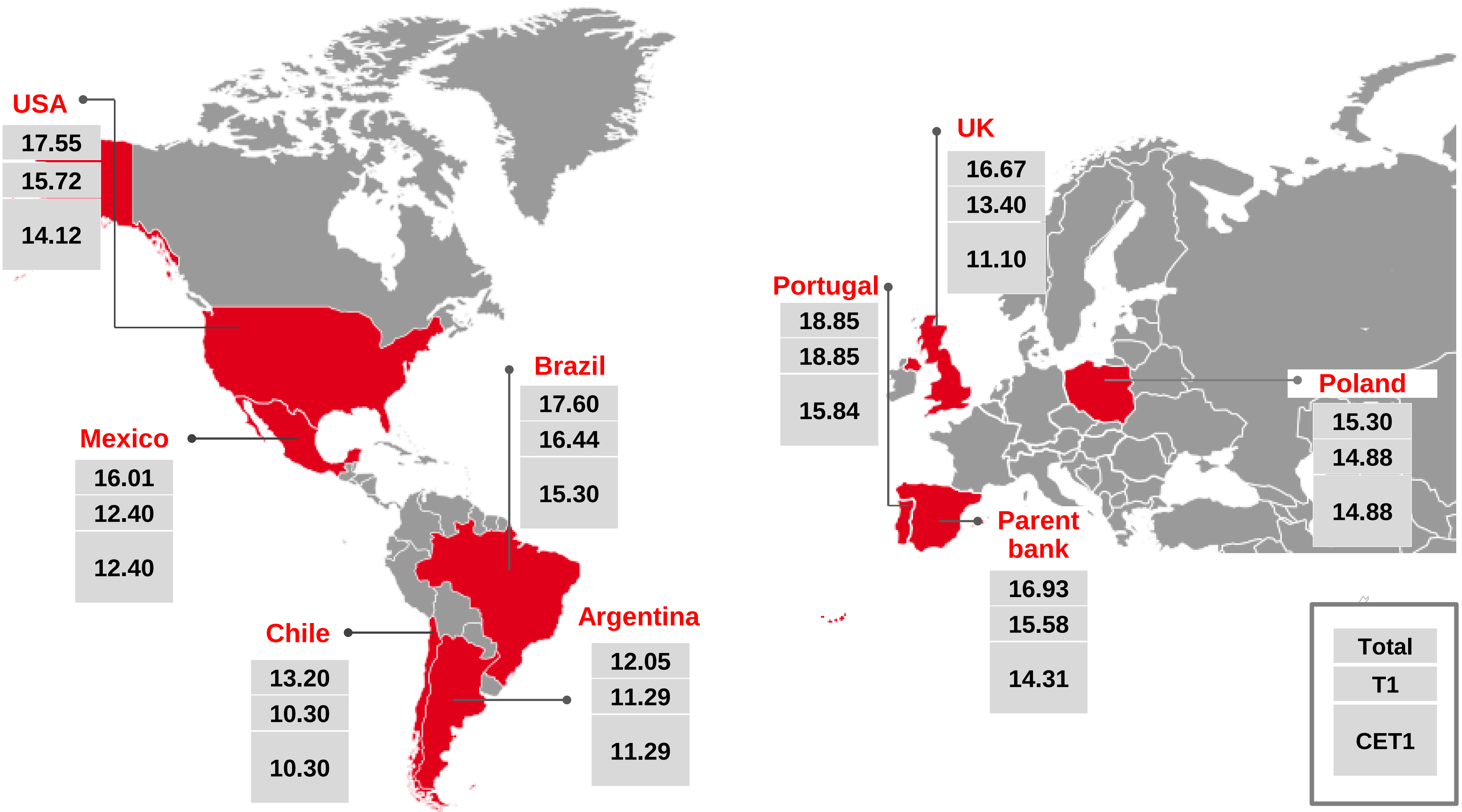
Bn. EUR	SENIOR	HYBRIDS	TOTAL
SAN	4,2	2,3	6,5
SCF	5,8	-	5,8
UK	6,8	-	6,8
USA	1,4	-	1,4
TOTAL	18,2	2,3	20,5

SANTANDER PARENT 2016 MLT ISSUANCES

Bn. EUR	SENIOR	%	Tier 2	%
Private Placements	3,2	76%	0,8	36%
Public deals	1,0	24%	1,5	65%
Total	4,2	100%	2,3	100%

(*) Estimates are based on current financial forecasts and are subject to changes depending on the regulatory environment

MPE approach follows Santander model of autonomous subsidiaries in capital and liquidity



Local figures as of September 2016. Figures are subject to usual regulatory approval

Content

Banco Santander S.A. ratings

Long Term Ratings

Moody's		Standard and Poor's		Fitch	
A3	LT senior unsecured debt	A-	*Stand-Alone Credit Profile, Issuer Credit Profile* LT senior unsecured debt	A-	*Viability Rating, Issuer Default Rating* LT senior unsecured debt **Senior non-preferred** (expected)
Baa1	*Adjusted Baseline Credit Assessment*	BBB+	**Senior non-preferred** (expected)	BBB+	Dated T2
Baa2	Dated T2 **Senior non-preferred** (expected)	BBB	Dated T2	BBB	
Baa3		BBB-		BBB-	
Ba1	Additional T1	BB+		BB+	

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Senior Ranking Harmonisation Directive and funding plan

New Senior Non-Preferred layer

- On 23 November 2016, the European Commission presented amendments to Bank Recovery and Resolution Directive (BRRD) as regards the ranking of unsecured debt instruments in the creditor insolvency hierarchy (the 'Senior Ranking Harmonisation Directive').
- The proposal keeps the existing class of senior debt while creating a new liabilities class of 'non-preferred' senior debt that in resolution or insolvency scenarios would rank below the unsecured senior debt and other senior liabilities, but ahead of capital and subordinated instruments, in line with the framework promulgated in France on 10 December 2016.
- The proposal requires Member States to transpose the Senior Ranking Harmonisation Directive in their national laws by June 2017 and apply it by July 2017. However, the timing of implementation is uncertain and will depend on the EU and national legislative processes.

Interim Approach

- **Santander may consider the issuance of TLAC-eligible instruments ahead of the final approval of the relevant law through the use of contractual provisions within the terms and conditions of such instruments.**

- **Contractual senior second ranking provision**: Senior notes would include a contractual status clause which would contemplate a senior second ranking ("senior non-preferred") in resolution and insolvency

- **Automatic alignment to future legislation will be contractually contemplated**: The senior second ranking status will automatically be aligned with the Spanish law transposing the Insolvency Harmonisation Directive

Thank you

Our purpose is to help people and businesses prosper

Our culture is based on the belief that everything we do should be

Simple | Personal | Fair

Santander

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