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Country Head Spain

Helping people and
businesses prosper

Simple | Personal | Fair

**GROUP
STRATEGY
UPDATE**

NY, October 10th

2017



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The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries.

In addition to the financial information prepared under International Financial Reporting Standards ("IFRS"), this presentation includes certain alternative performance measures as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415es) as well as Non-IFRS measures. The APMs and Non-IFRS Measures are performance measures that have been calculated using the financial information from the Santander Group but that are not defined or detailed in the applicable financial information framework and therefore have neither been audited nor are capable of being completely audited. These APMs and Non-IFRS Measures are used to allow for a better understanding of the financial performance of the Santander Group but should be considered only as additional information and in no case as a replacement of the financial information prepared under IFRS. Moreover, the way the Santander Group defines and calculates these APMs and Non-IFRS Measures may differ to the way these are calculated by other companies that use similar measures, and therefore they may not be comparable. For further details on the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, see Section 26 of the Documento de Registro de Acciones for Banco Santander filed with the CNMV on July 4, 2017 (available on the Web page of the CNMV - www.cnmv.es- and at Banco Santander - www.santander.com), Item 3A of the Form 20-F and "Presentation of Financial and Other Information" and "Selected Consolidated Financial Information" in the Form 6-K. For a discussion of the accounting principles used in translation of foreign currency-denominated assets and liabilities to euros, see note 2(a) to our consolidated financial statements on Form 20-F and to our consolidated financial statements available on the CNMV's website (www.cnmv.es) and on Banco Santander's website (www.santander.com).

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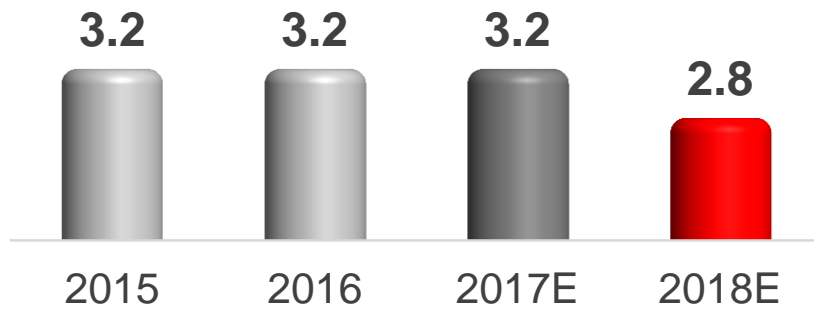


Spanish market and outlook

Positive economic growth outlook...

Positive GDP growth momentum...

YoY growth (%)



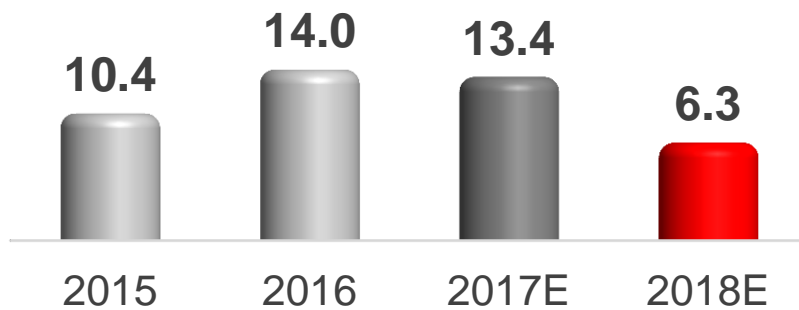
...with a strong employment creation

Unemployed rate (%)



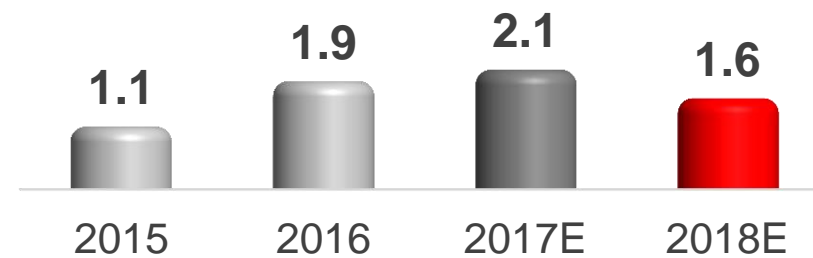
Recovery in property transactions...

YoY growth of property sales (%)



... aligned with growth in Real Estate prices

YoY growth (%)

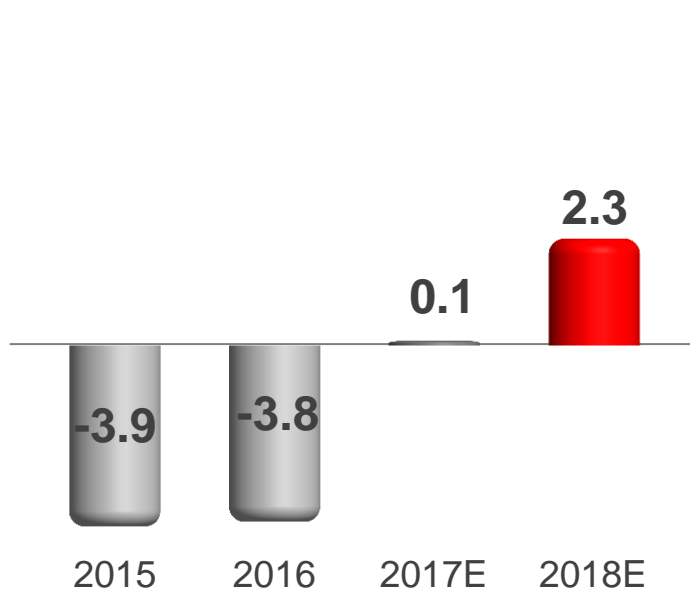


Source: INE and Santander Research Department

... and the financial sector showing improving prospects

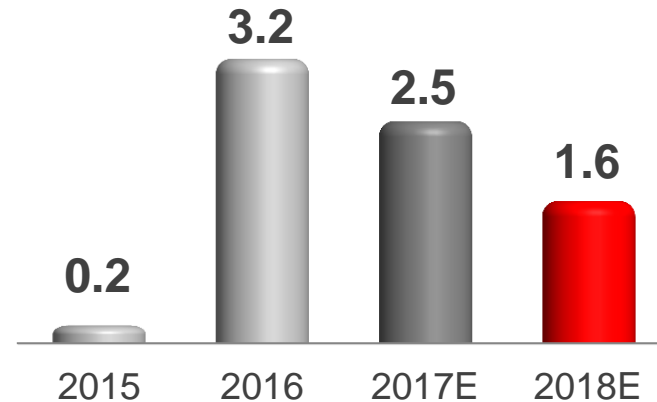
Positive loans dynamics...

YoY Private sector growth (%)



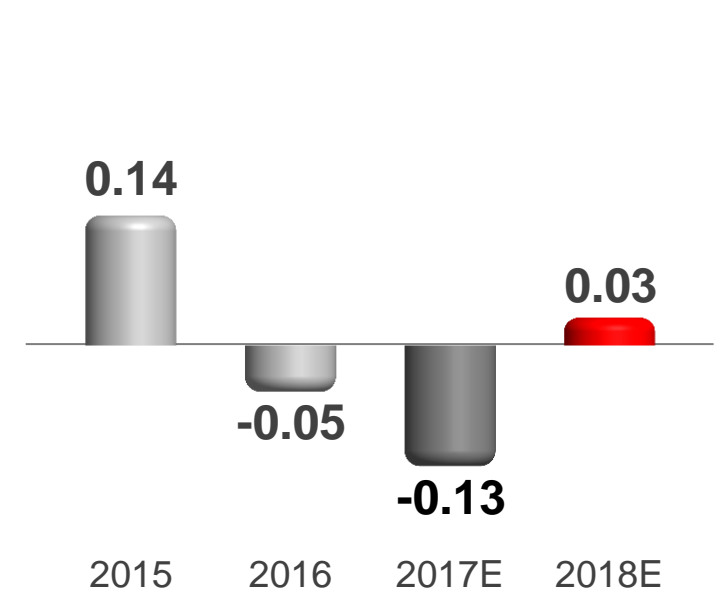
...and deposits growth

YoY growth (%)



Interest rates environment to improve

Interest rates (Euribor 12 months, %)



Source: INE and Santander Research Department.

2

Delivering on our strategic targets ahead of plan

Our strategy already delivers tangible results in all our targets

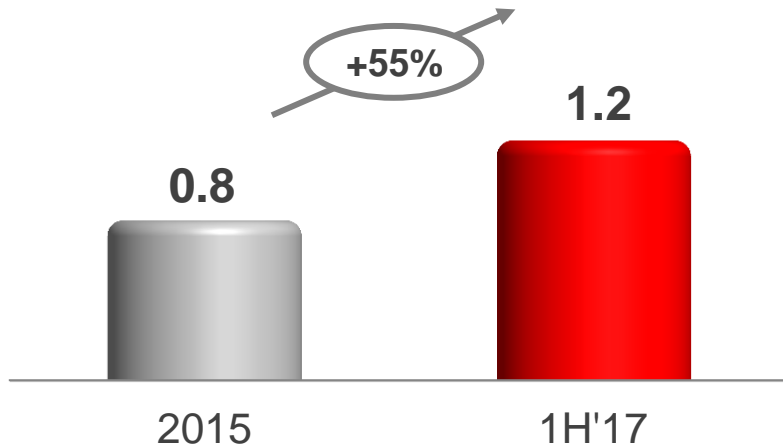




Loyalty strategy supports strong results in retail customers...

1|2|3 strategy improves loyalty and customer profile

Retail loyal customers (MM)



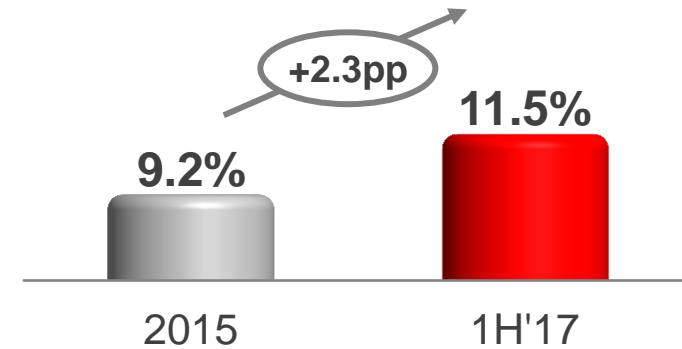
Better customer profile:

- Higher **income 1.4x**
- **2x products** held by customers
- Better **risk profile**
- **90%** satisfied customers¹
- **~60%** of commercial activity



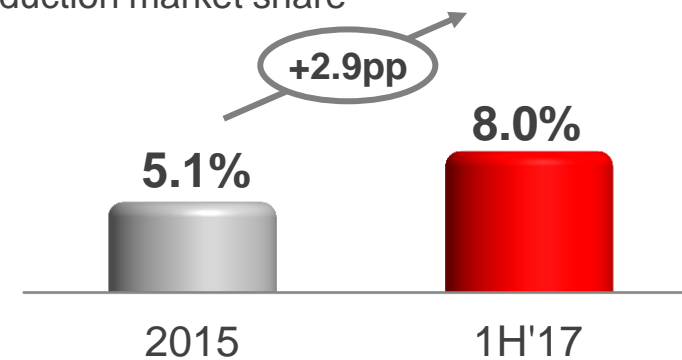
Market share gains in mortgages...

Mortgages new production market share



...and in unsecured personal loans

UPLs new production market share²



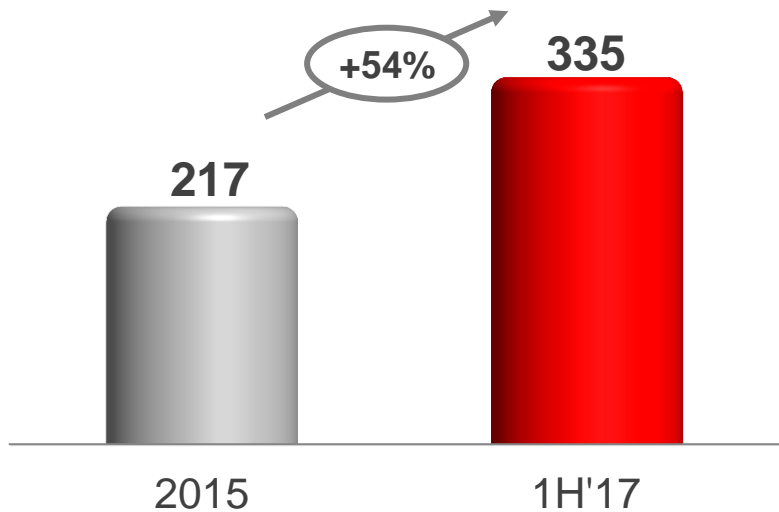
Note: Figures excluding Popular (1) Recommendation rate of 1|2|3 customers (2) UPL share excluding SCF and other consumer finance entities from Santander Spain



...while strengthening our position in SMEs and Corporates

Deepening customer loyalty

Business banking, SME and Corporate loyal customers (k)

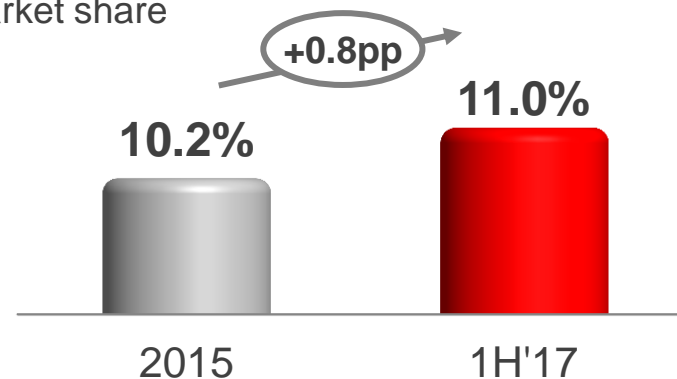


Avg. Assets per customer
(YoY growth) **+6%**

Avg. Liabilities per customer
(YoY growth) **+9%**

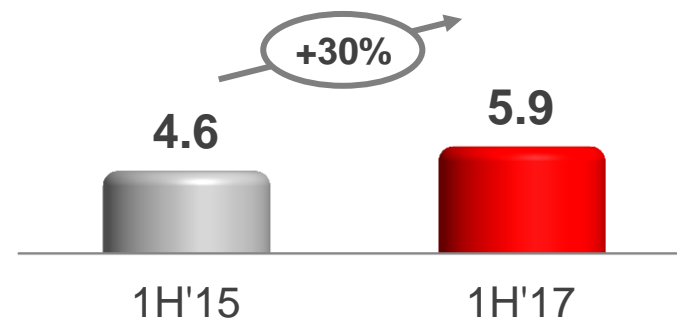
Driving new loans growth in SME...

SME loans market share



...and International Business

International Business loans (€Bn)



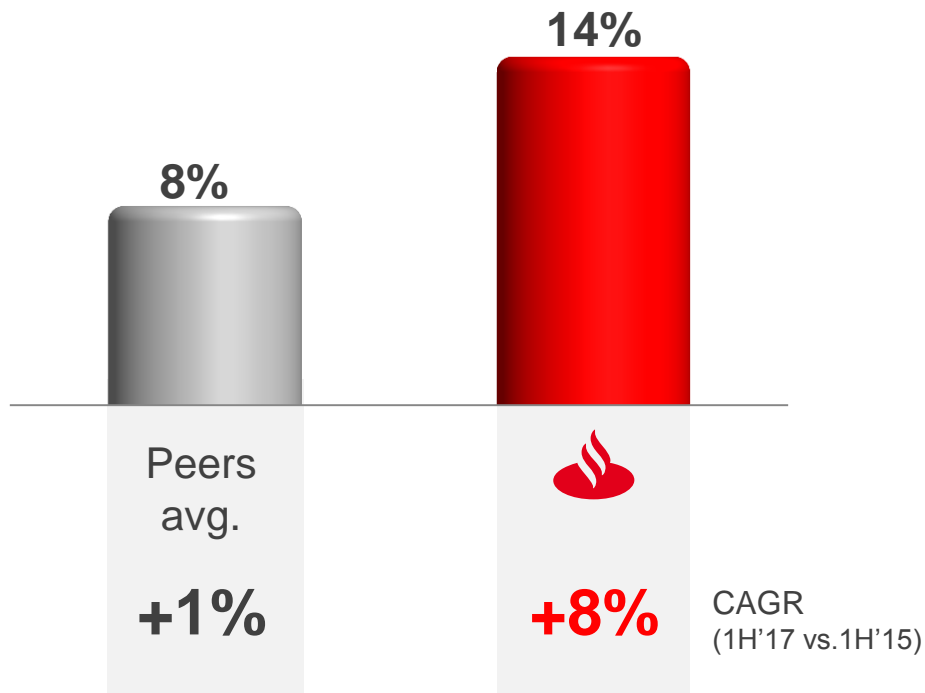
Note: Figures excluding Popular. Average credit and deposits for SMEs and Corporates



Our strategy is providing solid results and outperformance

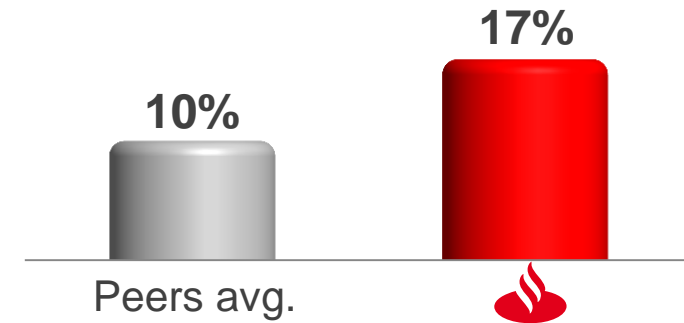
Our loyalty and *pay for value* model delivers increasing fee income growth

Fee income growth (1H'17, YoY)



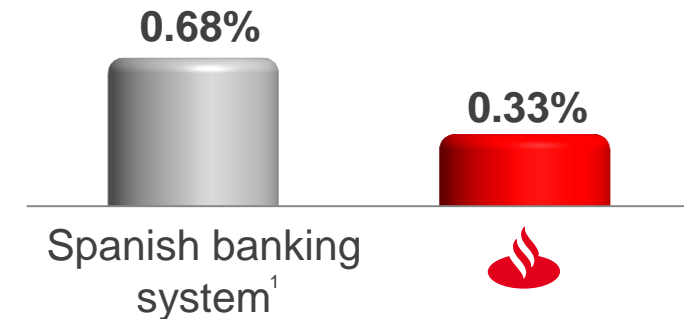
Combining high business returns...

Profit Before Taxes growth (1H'17, YoY)



...with strong risk management

Cost of credit risk (1H'17)



Note: Figures excluding Popular. Peers including Caixabank, BBVA, Sabadell, Bankia and Bankinter (1) Spanish banking system cost of credit risk as of March 2017 based on Bank of Spain data

Strong commitment with employees and communities: Implementing our Simple | Personal | Fair culture



Be the best bank to work for our people



Helping people and businesses



Top Employer
Spain 2017



>12,000
scholarships in 2017



Promoting female
leadership



100 new business ideas
development through our
Co-working program

Note: Figures excluding Popular



Popular: Sizing up our growth opportunities

Popular: Transformational, right time in the cycle, consistent with targets...

In 60 days we have *addressed the three key challenges...*

1

Capital
increase

- +€7Bn with 13-14% RoIC
- **Narrowest TERP discount** in a European bank rights issue since 2012

2

Commercial
action

- **Loyalty bonds:** >50% take up in two weeks
- +€10Bn (+19%) in deposits since announcement.
Loans recovering
- **Popular teams are highly engaged**

3

Real Estate
disposal

- ~€30Bn transaction: **Largest ever in Spain**
- **Positive impact on capital**

Popular

...and now,
working hard on
integration

...and entails a unique domestic consolidation opportunity

Santander is the market leader...

19%

Share in loans and deposits

25%

Share in SME¹

1st

Private Banking

1st

Global Corporate Banking

...with 4 core priorities that fit within our strategy

1

Create shareholder value

2

Combine the best of both Banks:

- Improve SME franchise
- Grow in customer loyalty

3

Leverage on Santander Group strengths

4

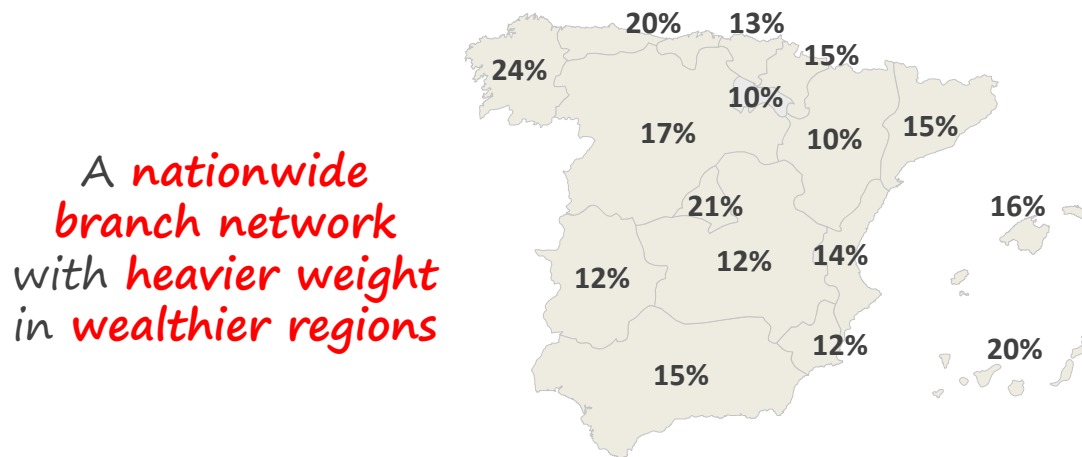
Enhance digital transformation to boost efficiency and productivity

Note: Market shares including Popular. Leaders in Private banking by Funds People ranking and Dealogic. Leaders in GCB main league tables by Dealogic (1) Credit risk exposure

1 Creating shareholder value through in-market consolidation

Strong and balanced footprint in all regions to increase shareholder value

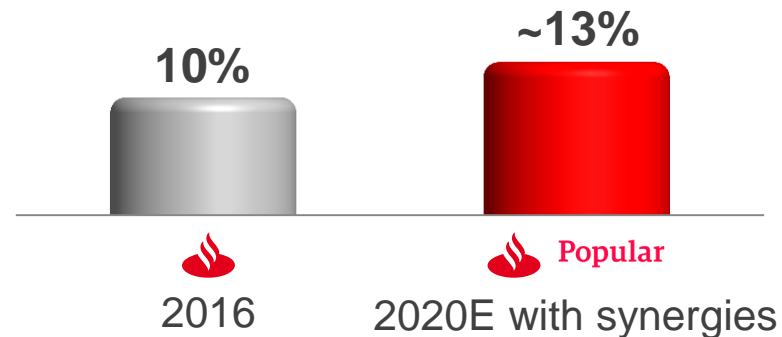
Post transaction branch market shares



RoIC	13-14% in 2020 Above Cost of Equity in 2019
EPS accretion	2019: ~2% 2020: ~3%
TNAVPS accretion	2018: ~3%

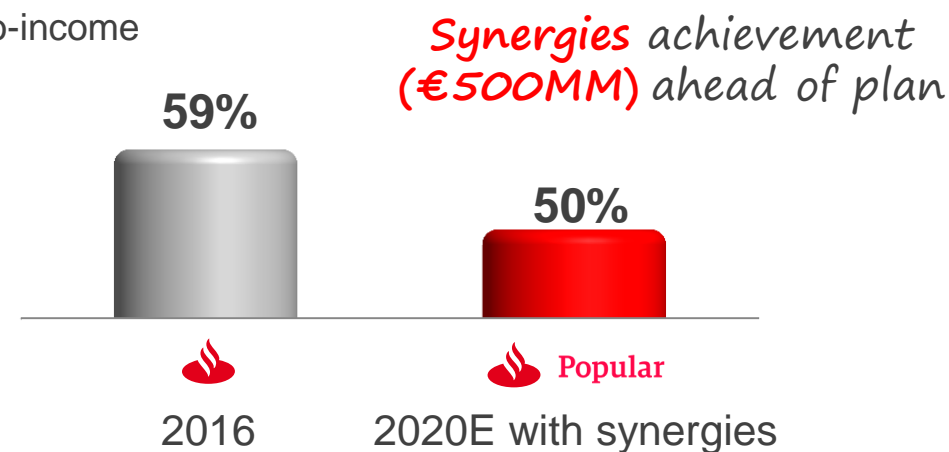
Improving profitability...

RoTE¹



...and efficiency

Cost-to-income

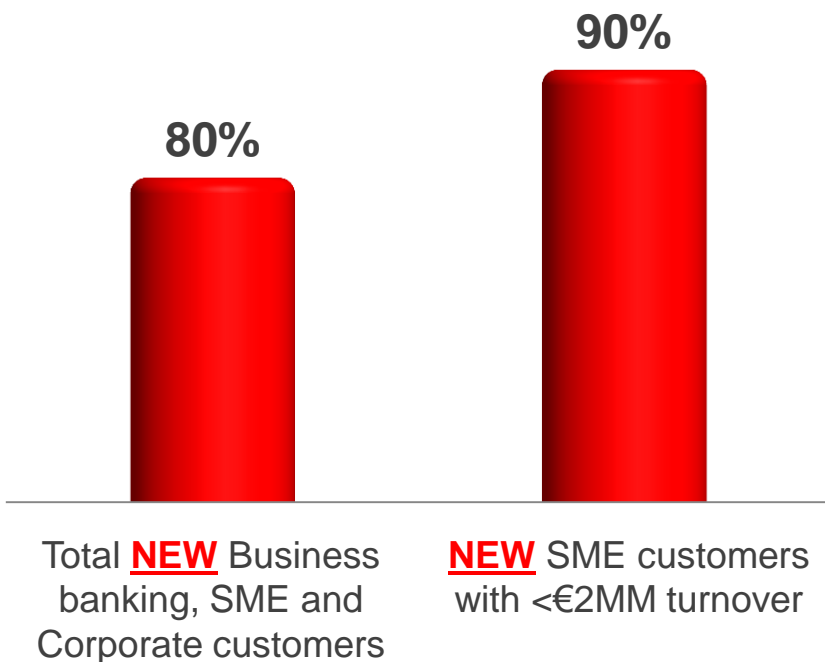


Note: Figures including Popular (1) RoTE Spain public perimeter. Calculated with equity as 11% over RWA

2 Combining best of both banks to strengthen and enhance SME franchise

Popular has an outstanding SME franchise that strongly fits Santander...

% of Popular customers new to Santander

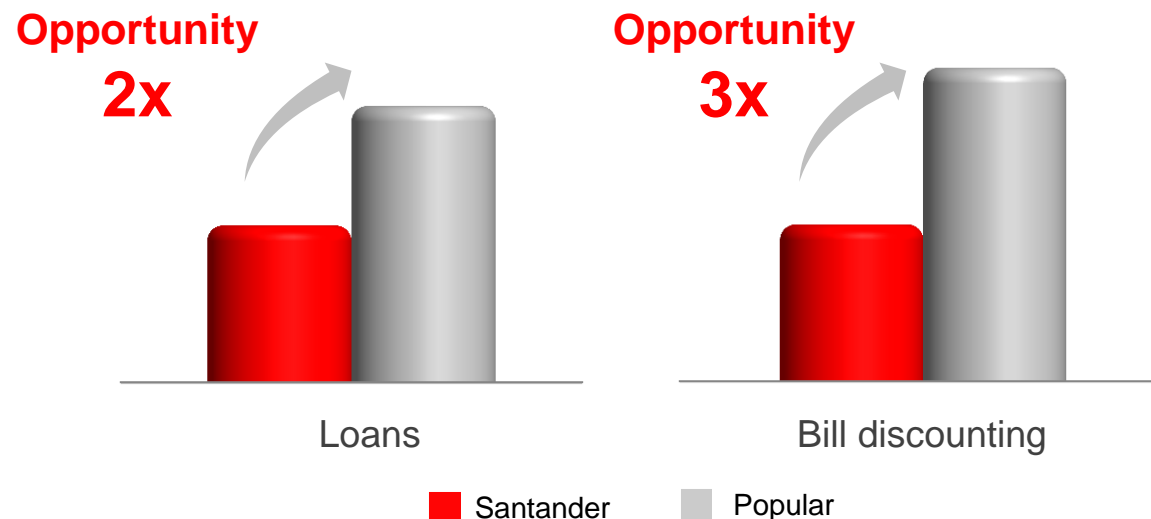


...with solid best practices that will be reinforced and transferred to Santander

- **SME culture** widespread in the commercial network
- **Strong loyalty** with face to face commercial approach to customers

Focus on added-value products for Santander

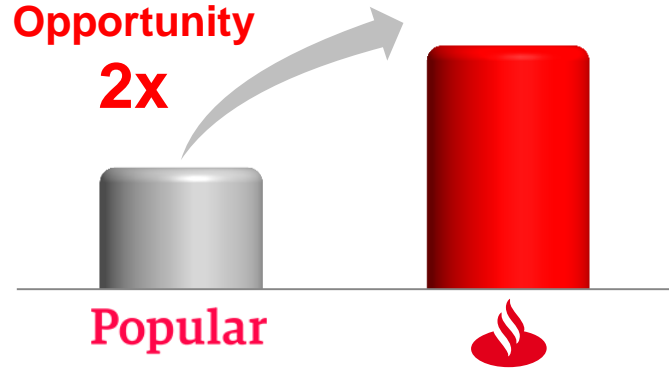
% of customers with product¹



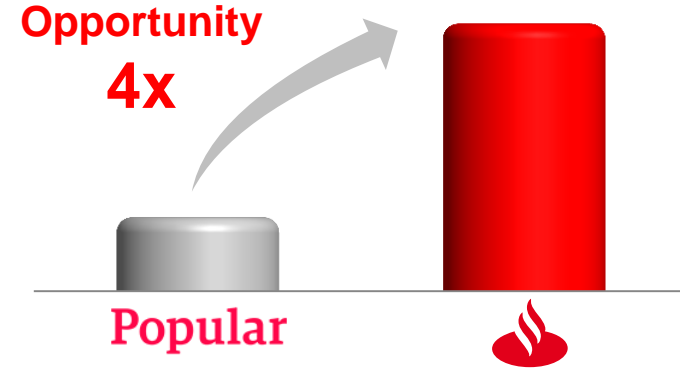
(1) SME customers with >€2MM - €50MM turnover

2 Growth opportunity through Santander added-value products...

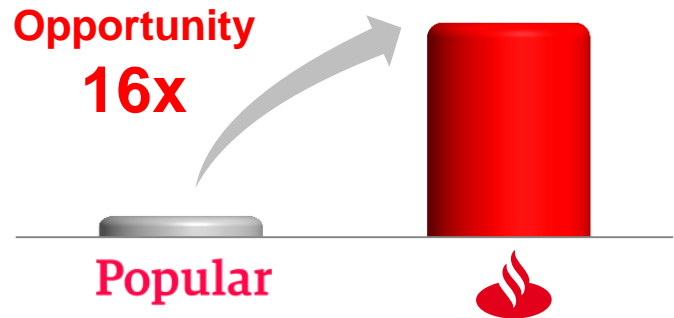
International business customers



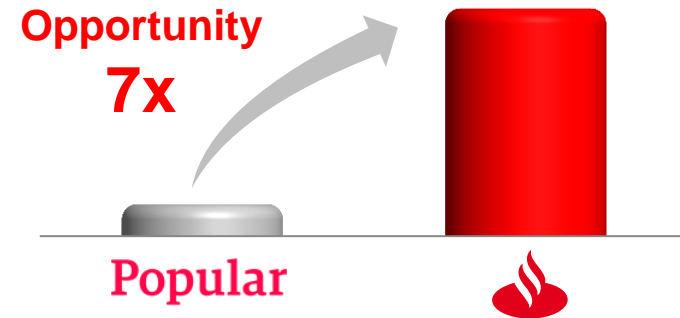
Factoring volume



Vehicles in renting



Reverse factoring volume

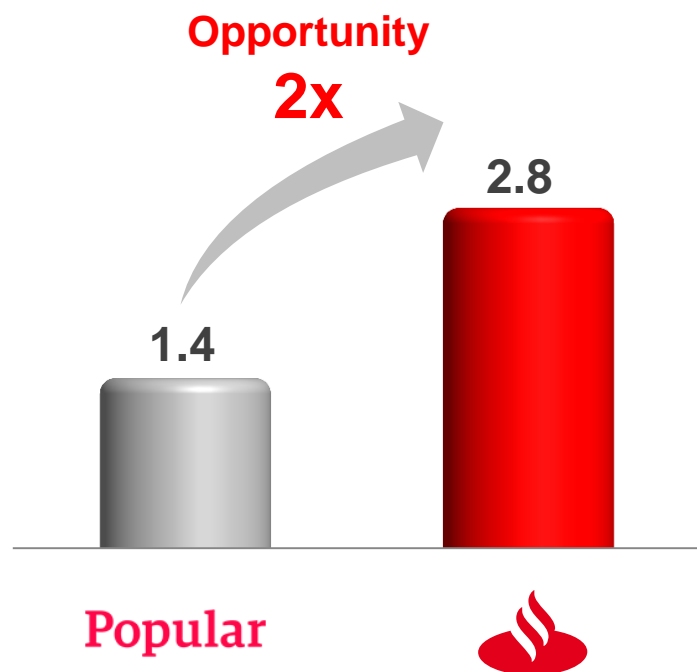


Note: SME customers with >€2MM - €50MM turnover

...and potential to enhance Retail customer loyalty in Popular

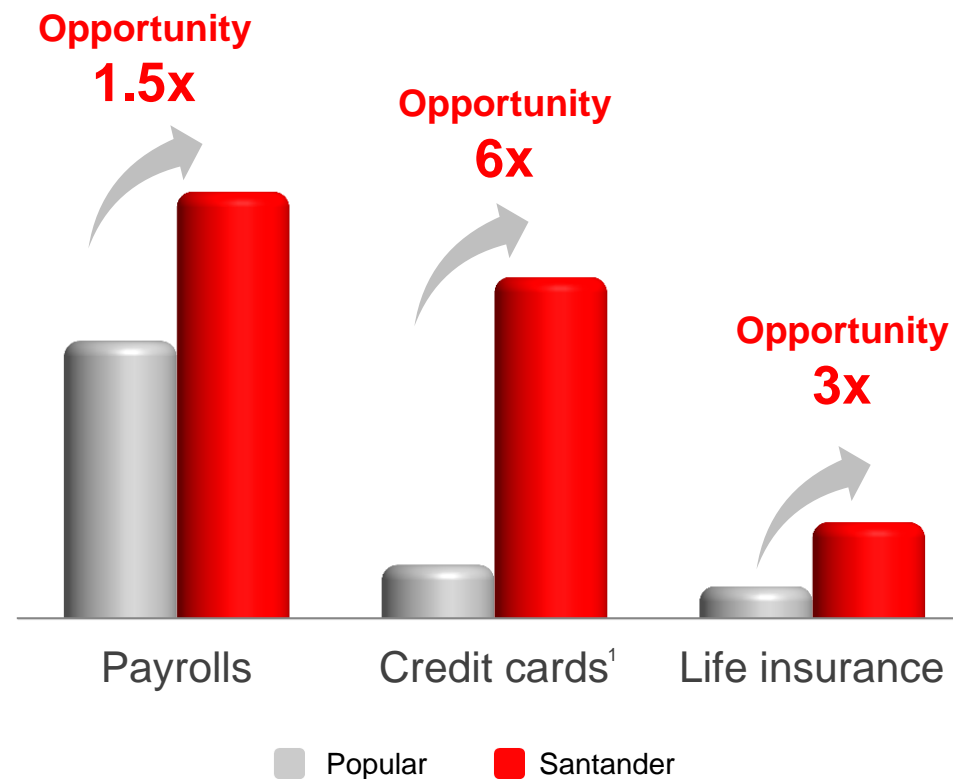
Upside for customers loyalty

Average products held by retail customers



Popular customers can benefit from additional transactional products

Product penetration in retail customers
% of customers holding the product



(1) Credit card does not include WiZink

3 Leveraging on Santander Group strengths to foster growth

Capturing the potential of our international footprint

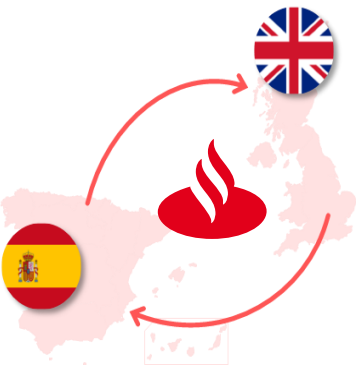
1st Corridor
launched:
Spain-UK

Unique value proposition

- Seamless onboarding
- Cross-country risk assessment

International
customers

4x
more
profitable¹



*Santander >50%
market share in
trade corridor*

Leveraging our GCB capabilities to serve customers with high potential

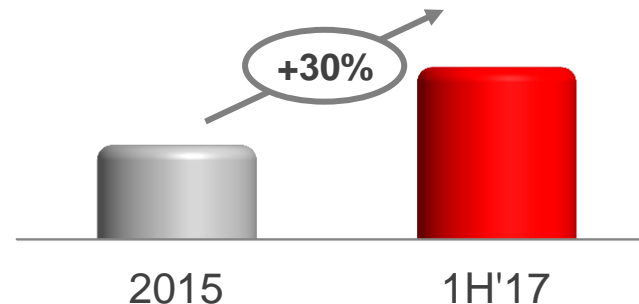
Increase
penetration of
**specialised
product**

**Foreign exchange,
Equity, Capital Markets
and M&A, Structured
Trade Products**

SMEs and
Corporates with
GCB products

2.5x
more
profitable²

SME and Corporate customers with GCB products³



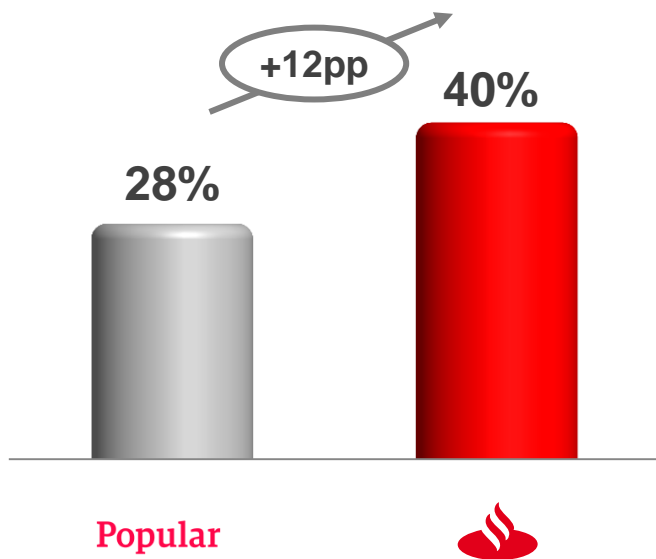
*...but still only **8%**
of our **customers**
hold **GCB products***

(1) Gross margin SME customers with international business vs customers without (2) Gross margin SMEs and Corporates with Global Corporate Banking products vs customer without (3) SME customers with foreign exchange product

4 Enhance digital transformation to boost efficiency and productivity...

Growing digital customers to improve profitability...

Retail digital customers (%)



Popular

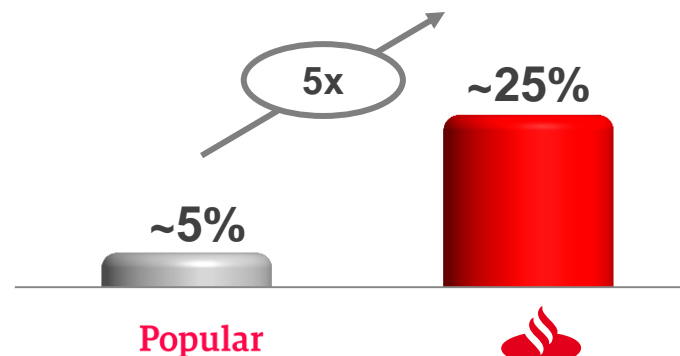


Digital customer

3x more profitable¹

...as it leads to better customer experience and efficiency

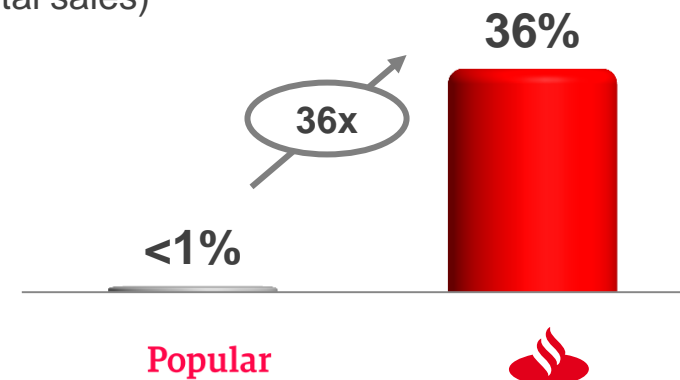
UPL sales through digital channels (% of total sales)



Popular



International business lending through digital channels² (% of total sales)



Popular



(1) Gross margin digital vs. non-digital (2) Total international trading operations

...due to a solid breakthrough in digital banking

New added-value capabilities to increase digital penetration

Leaders in **mobile payments**



60%
Market share

Seamless **3 clicks** process



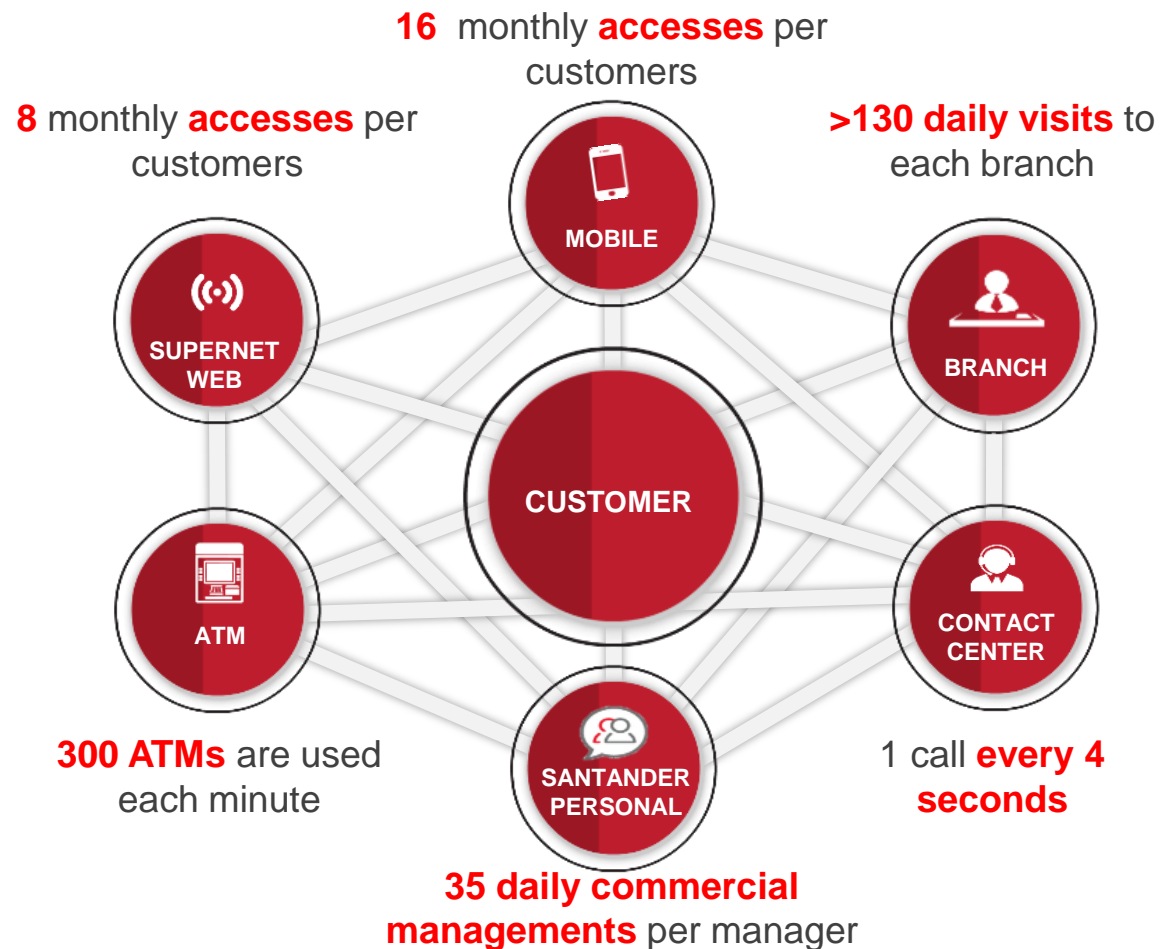
+45%
Digital sales¹

Best-in-class remote banking advisor



+20pp
customer satisfaction²

Omni-channel strategy to deliver the best seamless experience across channels



(1) Loans, commercial paper, Funds, Cards and International business (2) Customer satisfaction index growth YTD for Santander Select and SME customers using Santander Personal



Key takeaways

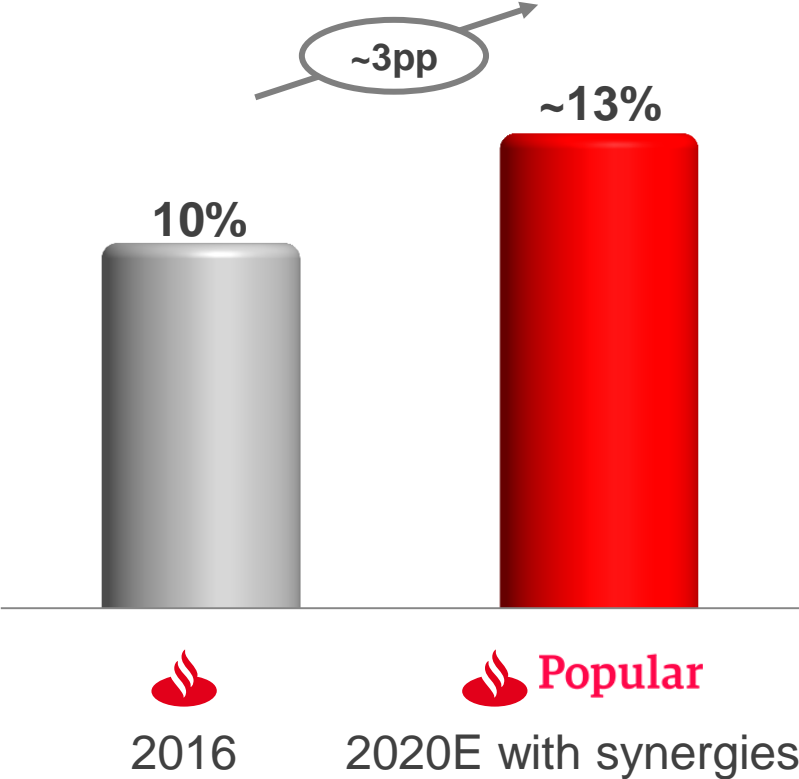
We are delivering ahead of plan on our commitments

		2015	2016	1H'17	2018	
People	Best bank to work	2nd	2nd	2nd	1 st	✓
	Individual career plans (k)	13.1	13.2	17.8	15.4	✓
	180° appraisals (k)	6.5	6.5	7	7	✓
Customers	Total loyal customers (MM)	1.0	1.3	1.6	2.5	✓
	11213 customers (MM)	0.8	2.0	2.3	4	✓
	Digital customers (MM)	2.4	2.7	3.0	4.2	✓
	Best-in-class bank in customer experience	5th	3rd	4 th	1 st	✓
	Fee income (YoY)	-5.9%	5.5%	14%	5-10% ¹	✓
Shareholders	NPL ratio	6.5%	5.4%	5.0%	<4%	✓
	RoTE ²	10%	12%	15%	~13%	✓
	Cost-to-income ratio	56%	59%	55%	~55%	✓
Communities	Number of scholarships 2016-2018 (k)	n.a.	12.2	24.5	39.2	✓

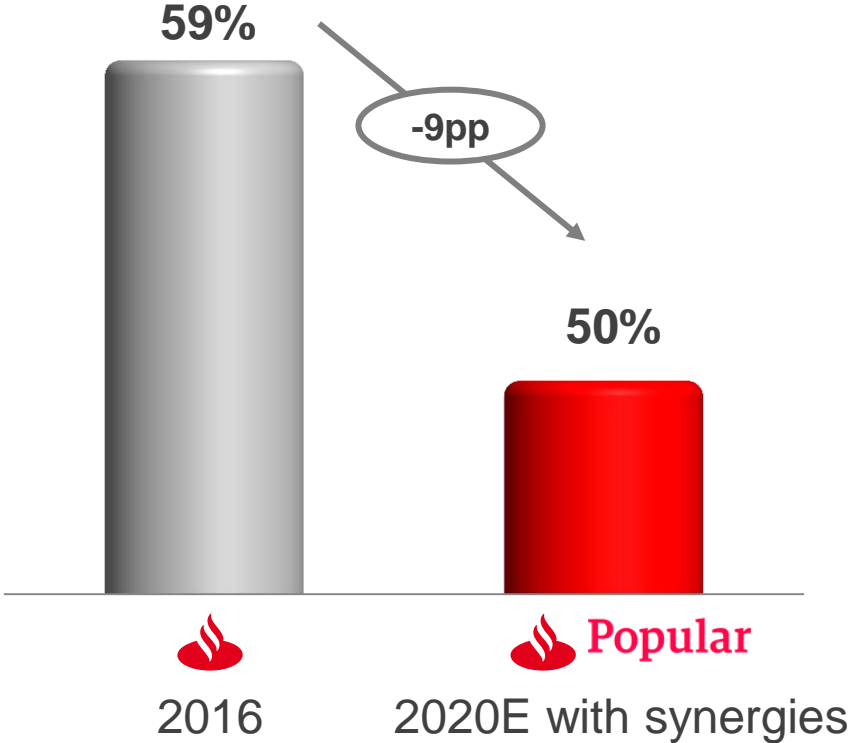
Note: 2018 excludes Popular (1) CAGR 2018/2015 (2) Management perimeter

On track to deliver our 2020 commitments

RoTE¹



Cost-to-income



(1) Public perimeter, calculated with equity as 11% over RWA

- Banco Popular acquisition is **a unique opportunity** to **create** additional **shareholder value**
- We are **ahead of plan** to achieve our 2018 targets and our Popular acquisition 2020 targets:
 - Capture **500MM€ synergies** (ahead of plan)
 - Improve **RoTE** from ~10% to **~13%**
 - Reduce **cost-to-income** from 59% to **50%**
- **We are leaders**, but we have **opportunities to grow further** as we combine the **best of both banks**, improve **customer loyalty** and upgrade **digital capabilities**



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

