

---

# José Antonio Álvarez

Group Chief Executive Officer

Helping people and  
businesses prosper

Simple | Personal | Fair

## GROUP STRATEGY UPDATE

NY, October 10<sup>th</sup>

# 2017



Banco Santander, S.A. ("Santander") cautions that this presentation contains statements that constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as "expect", "project", "anticipate", "should", "intend", "probability", "risk", "VaR", "RORAC", "RoRWA", "TNAV", "target", "goal", "objective", "estimate", "future" and similar expressions. These forward-looking statements are found in various places throughout this presentation and include, without limitation, statements concerning our future business development and economic performance and our shareholder remuneration policy. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to: (1) general market, macro-economic, industry, governmental and regulatory trends; (2) movements in local and international securities markets, currency exchange rates and interest rates; (3) competitive pressures; (4) technological developments; and (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties. Numerous factors, including those reflected in the Annual Report on Form 20-F filed with the Securities and Exchange Commission of the United States of America (the "Form 20-F" and the "SEC", respectively) on March 31, 2017 and the Periodic Report on Form 6-K for the six months ended June 30, 2017 filed with the SEC on October 5, 2017 (the "Form 6-K") –under "Key Information-Risk Factors"- and in the Documento de Registro de Acciones filed with the Spanish Securities Market Commission (the "CNMV") –under "Factores de Riesgo"- could affect the future results of Santander and could result in other results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

Forward-looking statements speak only as of the date of this presentation and are based on the knowledge, information available and views taken on such date; such knowledge, information and views may change at any time. Santander does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise

The information contained in this presentation is subject to, and must be read in conjunction with, all other publicly available information, including, where relevant any fuller disclosure document published by Santander. Any person at any time acquiring securities must do so only on the basis of such person's own judgment as to the merits or the suitability of the securities for its purpose and only on such information as is contained in such public information having taken all such professional or other advice as it considers necessary or appropriate in the circumstances and not in reliance on the information contained in the presentation. No investment activity should be undertaken on the basis of the information contained in this presentation. In making this presentation available, Santander gives no advice and makes no recommendation to buy, sell or otherwise deal in shares in Santander or in any other securities or investments whatsoever.

Neither this presentation nor any of the information contained therein constitutes an offer to sell or the solicitation of an offer to buy any securities. No offering of securities shall be made in the United States except pursuant to registration under the U.S. Securities Act of 1933, as amended, or an exemption therefrom. Nothing contained in this presentation is intended to constitute an invitation or inducement to engage in investment activity for the purposes of the prohibition on financial promotion in the U.K. Financial Services and Markets Act 2000.

Note: Statements as to historical performance or financial accretion are not intended to mean that future performance, share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior year. Nothing in this presentation should be construed as a profit forecast.

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](http://www.cnmv.es)- and at Banco Santander - [www.santander.com](http://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](http://www.cnmv.es)) and on Banco Santander's website ([www.santander.com](http://www.santander.com)).

# Contents

- 1** Uniquely positioned in the new environment
- 2** Focus on delivering the best execution
- 3** Main opportunities to strengthen growth in our franchises
- 4** Key takeaways

1

**Uniquely positioned in the  
new environment**

# Our 3 differentiators offer profitable growth opportunities...

## *Critical mass*



## *Geographic diversification*



## *Scalable digital transformation*



**131MM customers.**  
**Top player in 10 markets**  
with ~1Bn people

**Predictability and growth in earnings = less capital or capital at a lower cost**

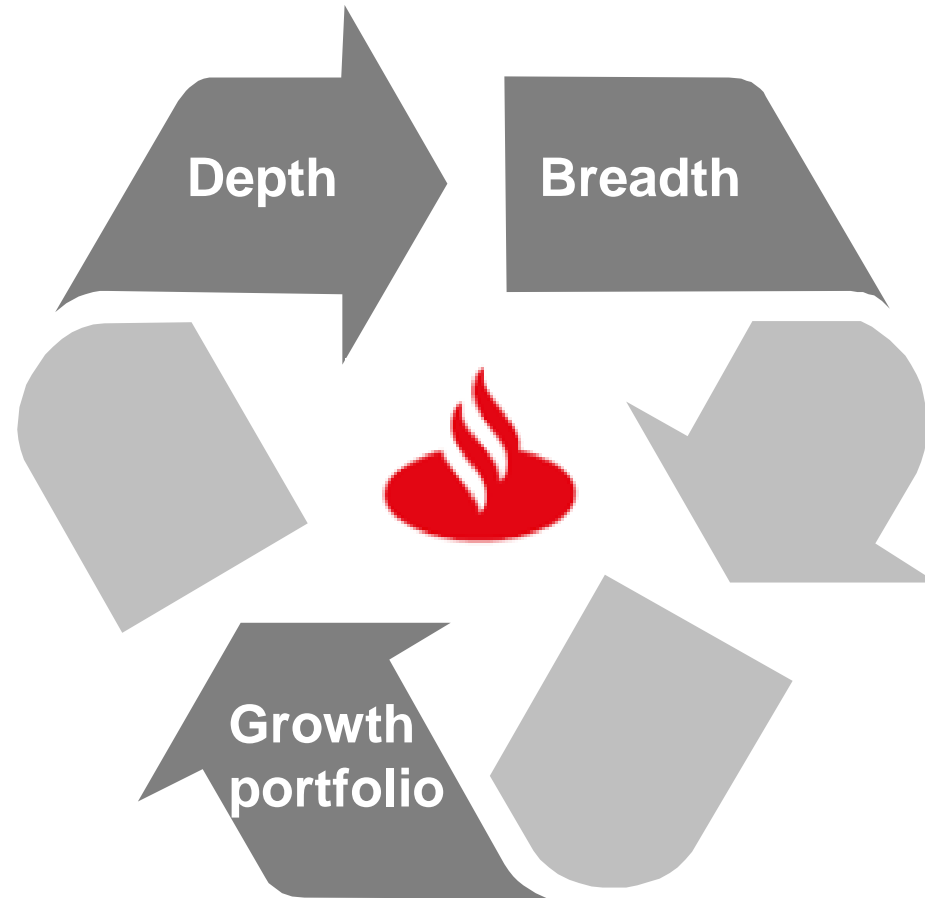
**Working as a Group** within our subsidiary model creates synergies and operational excellence

...while creating shareholder value relative to peers

Large market share

=

*high RoTEs*



Well diversified

=

*low earnings volatility*

Emerging Markets presence

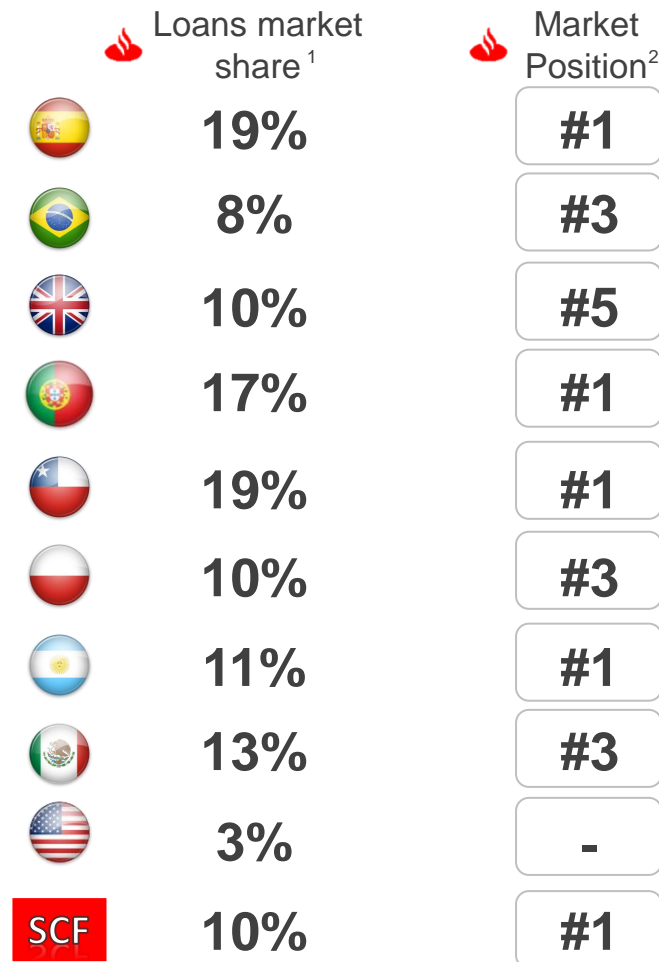
=

*Sustainable & high growth*

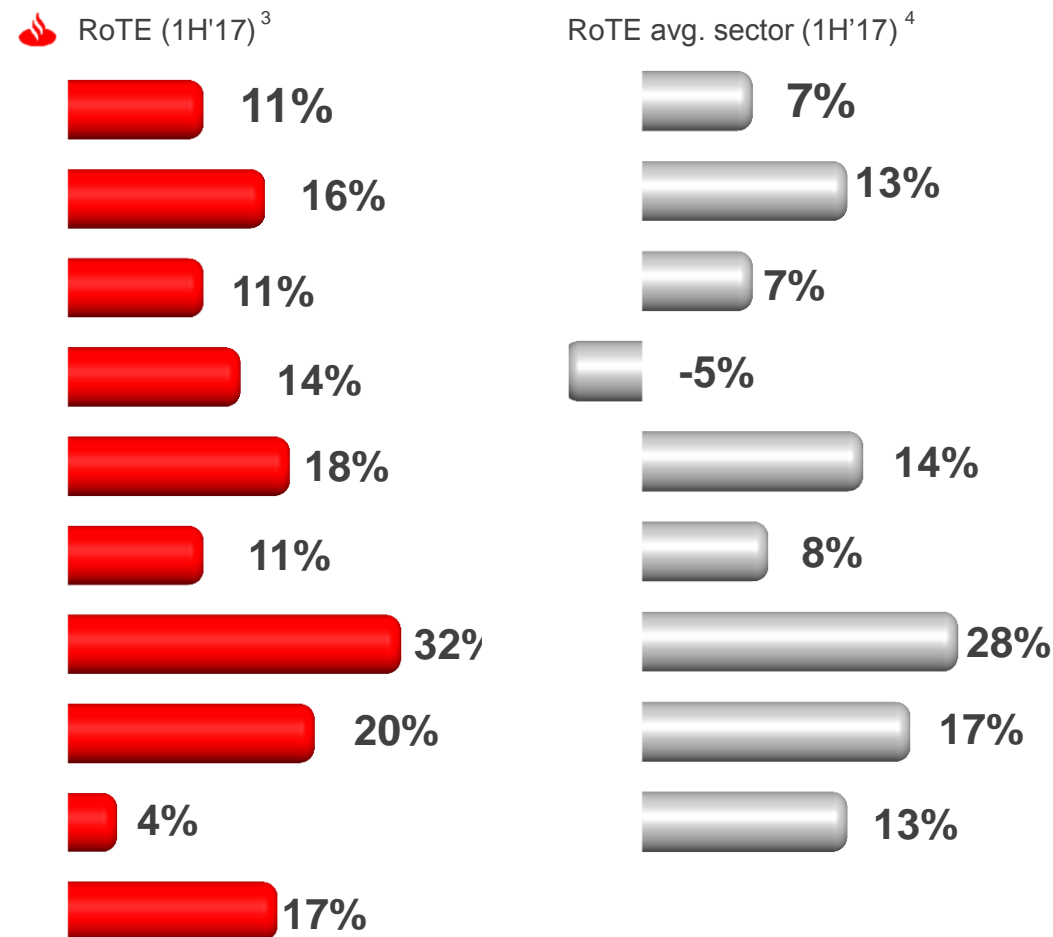


# Depth: Large market share leads to high(-er) profitability

## Leading position in our markets



## Top 3 = higher profitability



(1) Spain & Portugal includes Popular, UK: Mortgages (excluding Social Housing), consumer credit and commercial loans (ex-Financial Institutions), SBNA in the states where the bank operates and SCF in new car loans, including PSA operation & not considering brand's financial captive  
 (2) Only private banks for Portugal, Brazil and Argentina (3) Spain public perimeter. SCUSA's RoTE: 15%, SBNA's RoTE: 3% (4) Peers average (UK Statutory). Source: Companies reports, analyst's reports and Bloomberg

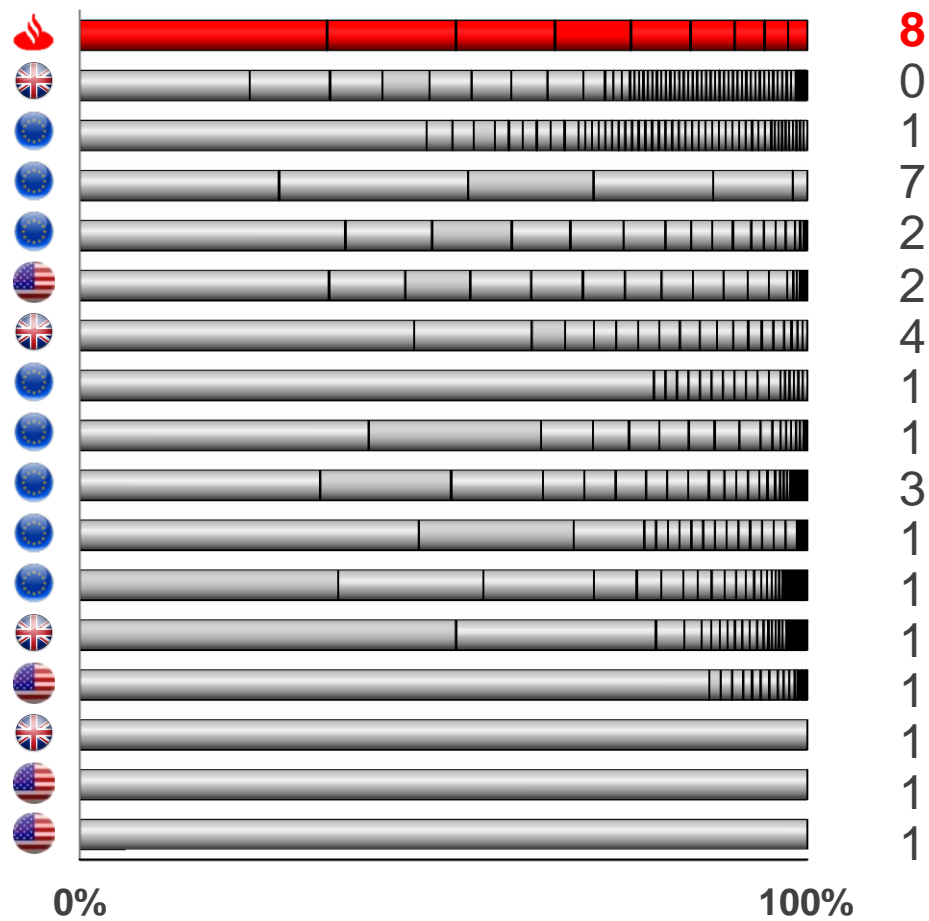


# Breadth: Our geographic diversification = low earnings volatility

## Well balanced diversification...

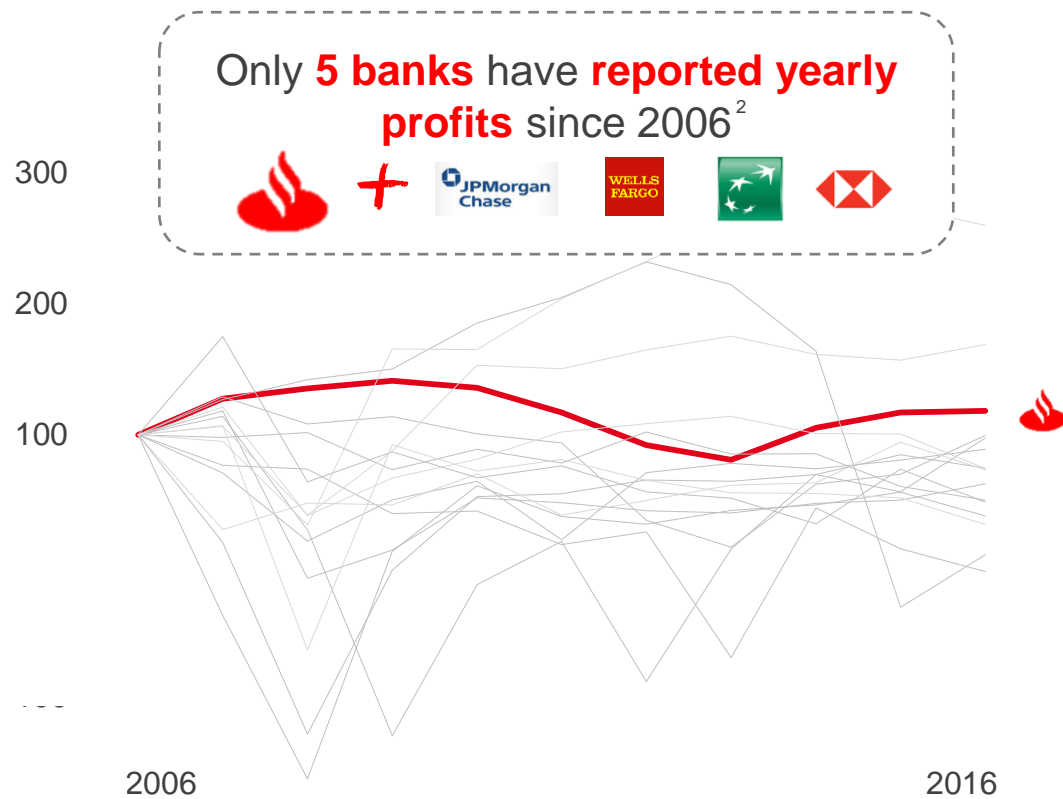
Revenues split per country

# countries where bank is Top 5<sup>1</sup>



## ...increases earnings predictability vs. peers

Profit growth (%; 2006 banking profit = 100 base)



(1) Top 5 according to volume of assets in the world's 50 largest economies according to IMF

(2) Peers include: BBVA, BNP Paribas, Citigroup, Deutsche, HSBC, Intesa Sp, JP Morgan, Lloyds, Société Générale, UBS, UniCredit, Bank of America, Wells Fargo, Barclays, Standard Chartered and ING. Source: Company data and Bloomberg

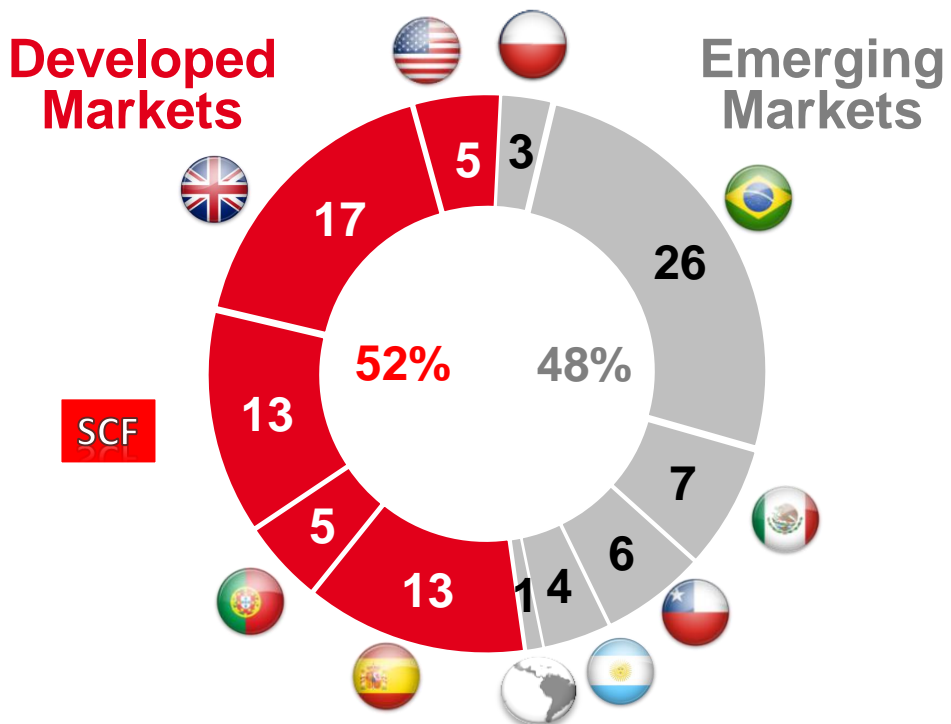




# Growth portfolio: Our presence in Emerging Markets = sustainable & high growth

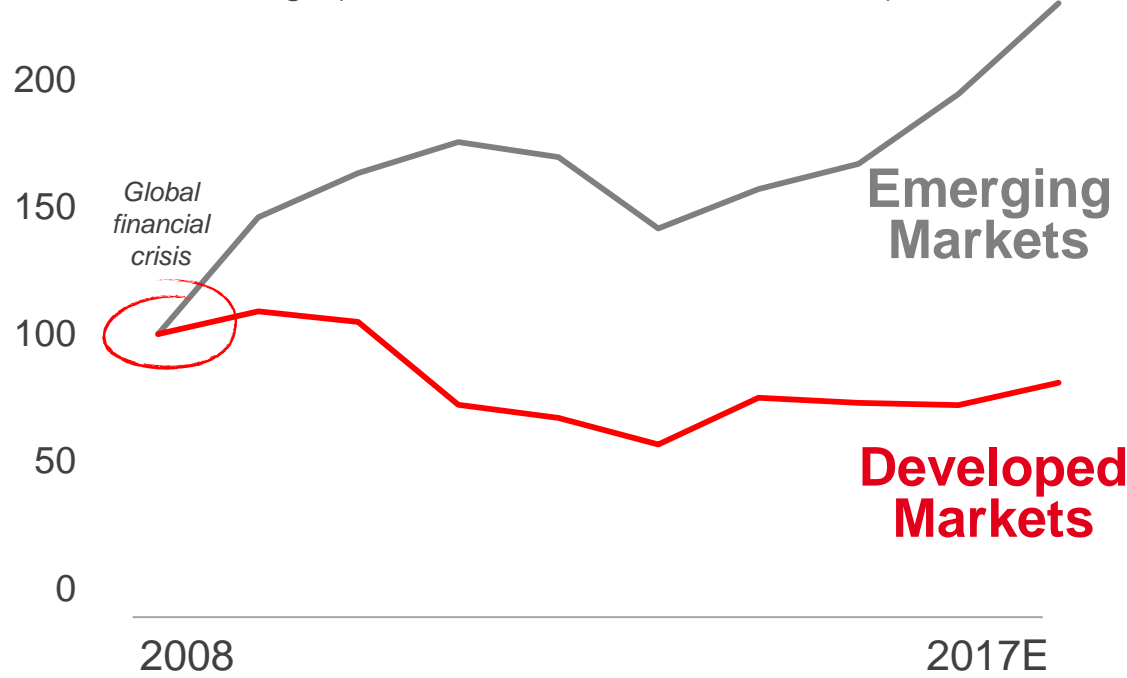
## Well balanced earnings across markets

Santander 1H'17 earnings (%)<sup>1</sup>



## Sustained earnings growth in Emerging Markets

Santander earnings (Constant euros; 2008 =100 base)



Higher and sustainable earnings growth in Emerging Markets

(1) Over operating areas excluding Real State Activity in Spain, Corporate Centre and Banco Popular

# Current macro outlook "ticks the right boxes" for Santander

## Developed Markets: Cyclical macro acceleration

Europe recovers steadily and US remains **solid**

Interest rates and credit demand **slowly improving**



## Emerging Markets: Structural growth remains intact

**Robust growth** cycle

**Better asset quality** and **strong credit** demand



*Solid global economic growth with gradual interest rate increases:  
best **macro scenario***

- 1** Positive GDP growth in our markets
- 2** Higher interest rates accelerate NII growth
- 3** Improving credit quality
- 4** Increasing investment into Latam

# Our markets: Solid economic growth & gradual interest rates increase

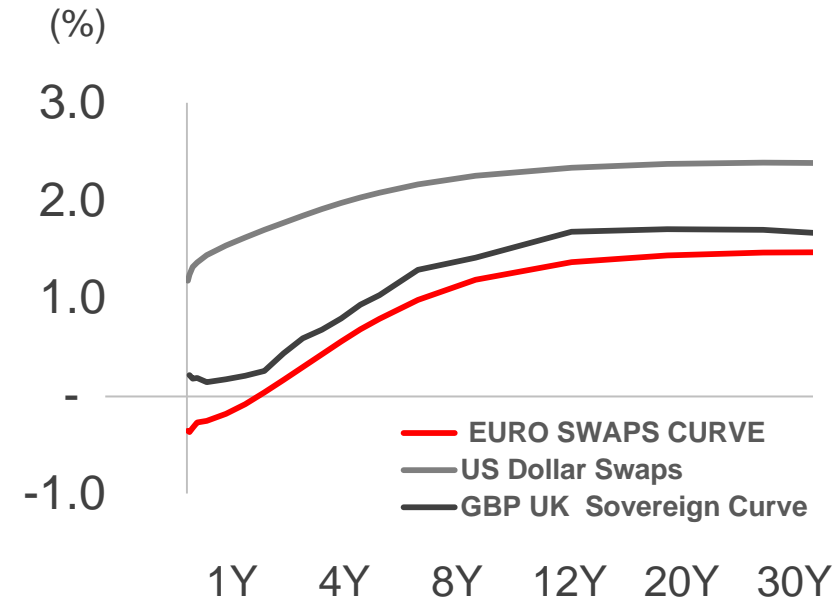
1

## Positive GDP growth in our markets

GDP (YoY)		2017E	2018E
<b>Developed Markets</b> 		3.2%	2.8%
		2.6%	1.9%
		1.6%	1.4%
		2.0%	2.3%
	<b>SCF</b>	1.9%	1.7%
<b>Emerging Markets</b> 		3.8%	3.5%
		0.7%	2.4%
		2.1%	2.1%
		2.2%	3.0%
		3.0%	3.5%

2

## Higher interest rates accelerate NII growth



**+100bps** in Europe and US  
generates **~€1.4Bn** additional  
annual revenues

Sources: IMF, INE, HMT, Banco Central do Brasil, consensus projections and Santander Research

# Credit outlook remains robust, inflows into Latam continue to be strong





3

## Improving credit quality

*Santander* NPL ratio<sup>1</sup> 1H'16 1H'17






### Developed Markets



	6.1%	5.0%
	10.5%	7.7%
	1.5%	1.2%
	2.2%	2.6%
<b>SCF</b>	3.0%	2.6%

### Emerging Markets



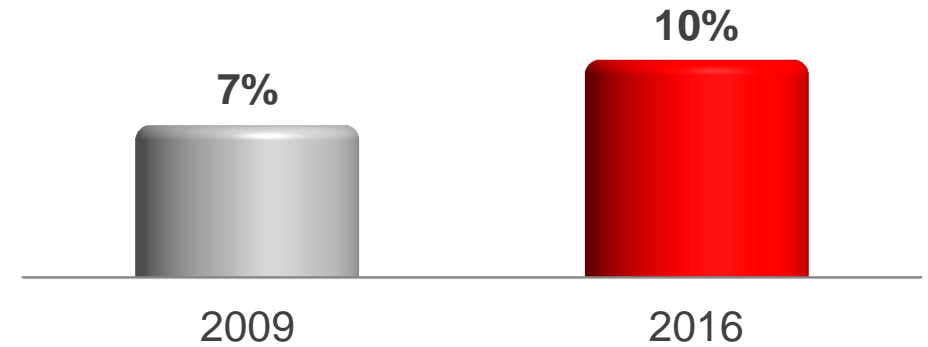
	5.8%	4.7%
	6.1%	5.4%
	3.0%	2.6%
	5.3%	5.0%
	1.4%	2.2%

(1) Group criteria

4

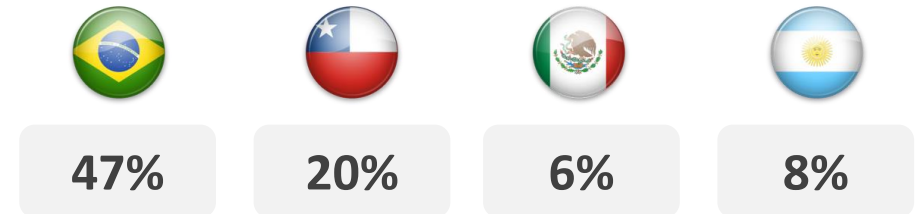
## Increasing investment into Latam

Latam share of total Foreign Direct Investment (FDI)




*Brazil is the #4 host economy in the world in terms of FDI inflows*

~ \$170Bn FDI into Latam



Source: Economic Commission for Latin America and the Caribbean (ECLAC)

# Different trajectories... different market opportunities

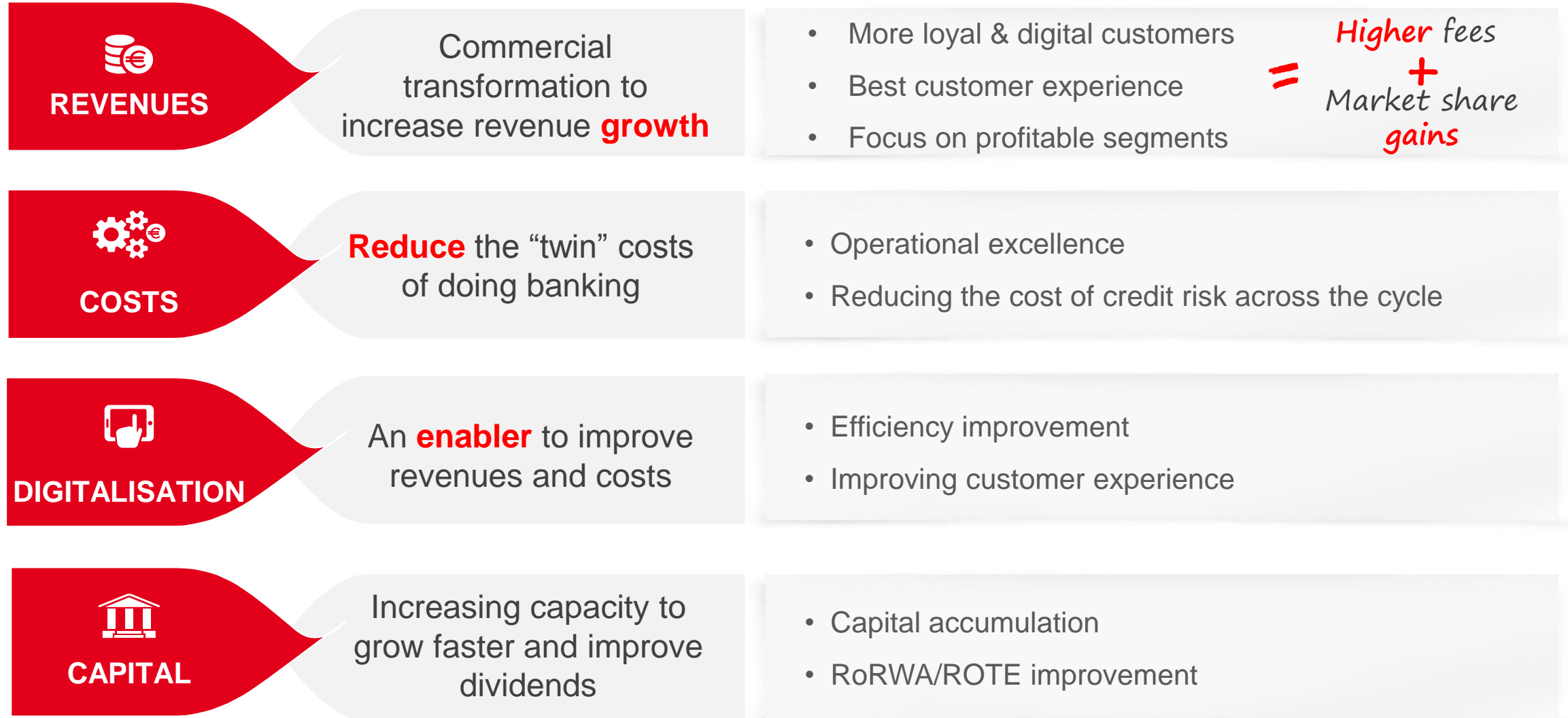
	 <b>Developed Markets</b> <i>Priorities: Increase profitability/RoRWA</i>	 <b>Emerging Markets</b> <i>Priorities: Growth acceleration and sustainable high profitability</i>	
<b>Macro</b>	Interest rates	0-2%	3-9%
	Inflation	~2%	2-5%
	Nominal GDP growth <sup>1</sup>	2-3%	6-8%
	Middle class growth <sup>1</sup>	0%	+73%
	Growing population <sup>1</sup>	0-1%	+2%
<b>Banking</b>	Banking penetration	~95%	~40%
	Return on Equity	~10%	>15%
	Debt/ GDP	~200%	<100%
	Credit growth	Single digit	Double digit
	RoRWA	~1.5%	>3%

Source: Eurostat, U.S. Census, Cepal, The Economist Intelligence Unit and IMF (1) Period considered: From 2017 to 2025

**2**

**Focus on delivering the  
best execution**

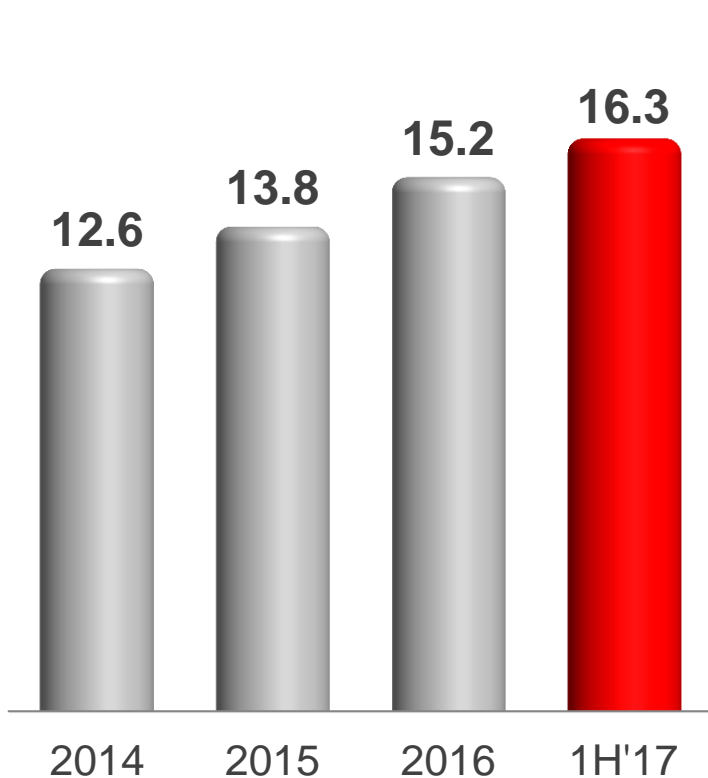
# Four strategic levers to continue improving profitability



# Progressing on our commercial transformation...

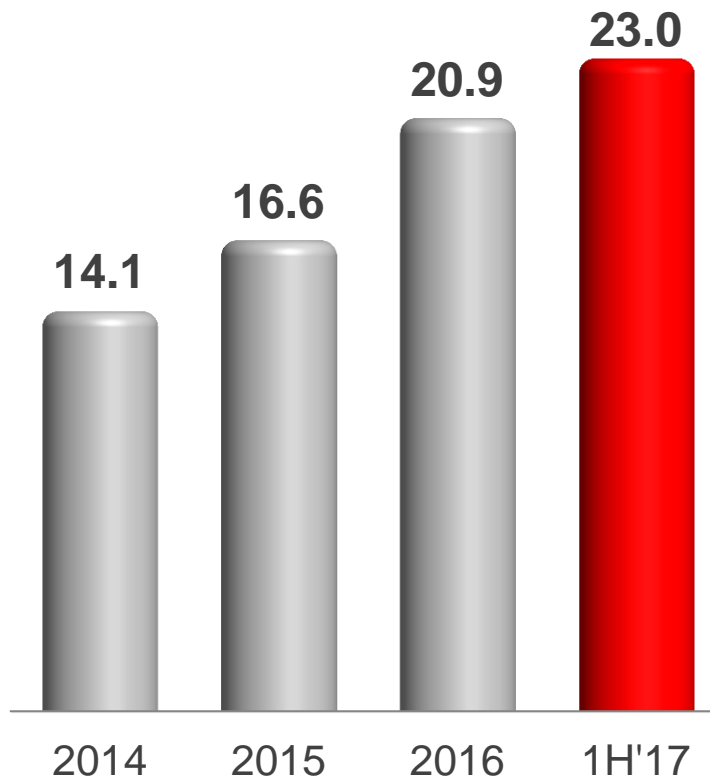
## More loyal...

Loyal customers (MM)



## ...more digital...

Digital customers (MM)



## ...and more satisfied customers

**6** of our **10** markets are **top 3 in customers experience<sup>1</sup>**

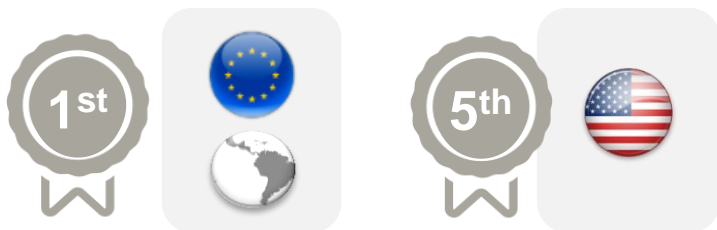


(1) GCT Global Competitor Tracker, 1H' 2017. Otherwise, in the U.K, Top 5 as per FRS, 1H'2017



# ...while strengthening segments with high RoRWA

## Consumer finance



**20%** Group's profit  
**RoRWA >2%**

Consolidating our leading position in auto loans/ personal finance

## SMEs & Corporates



**21%** Group's profit  
**RoRWA ~2%**

Increasing investment in SME to improve our value proposition

## Private Banking & AM



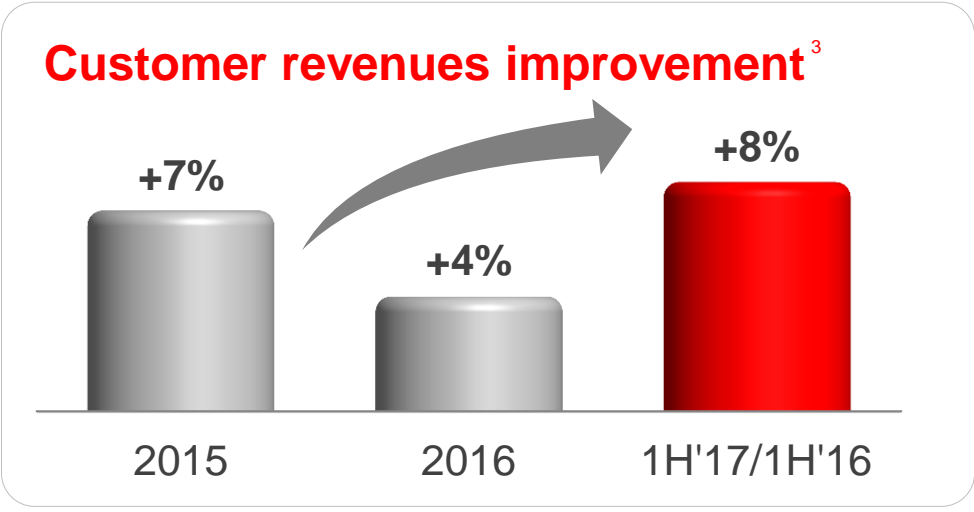
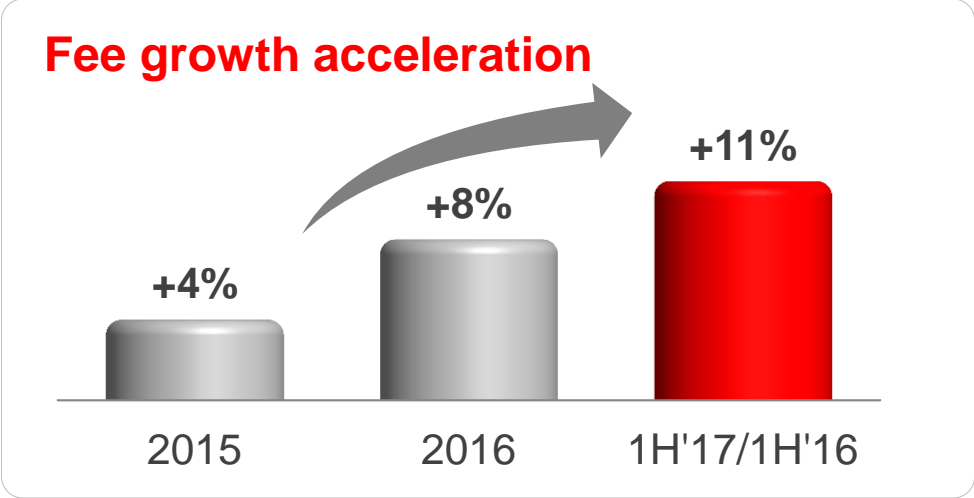
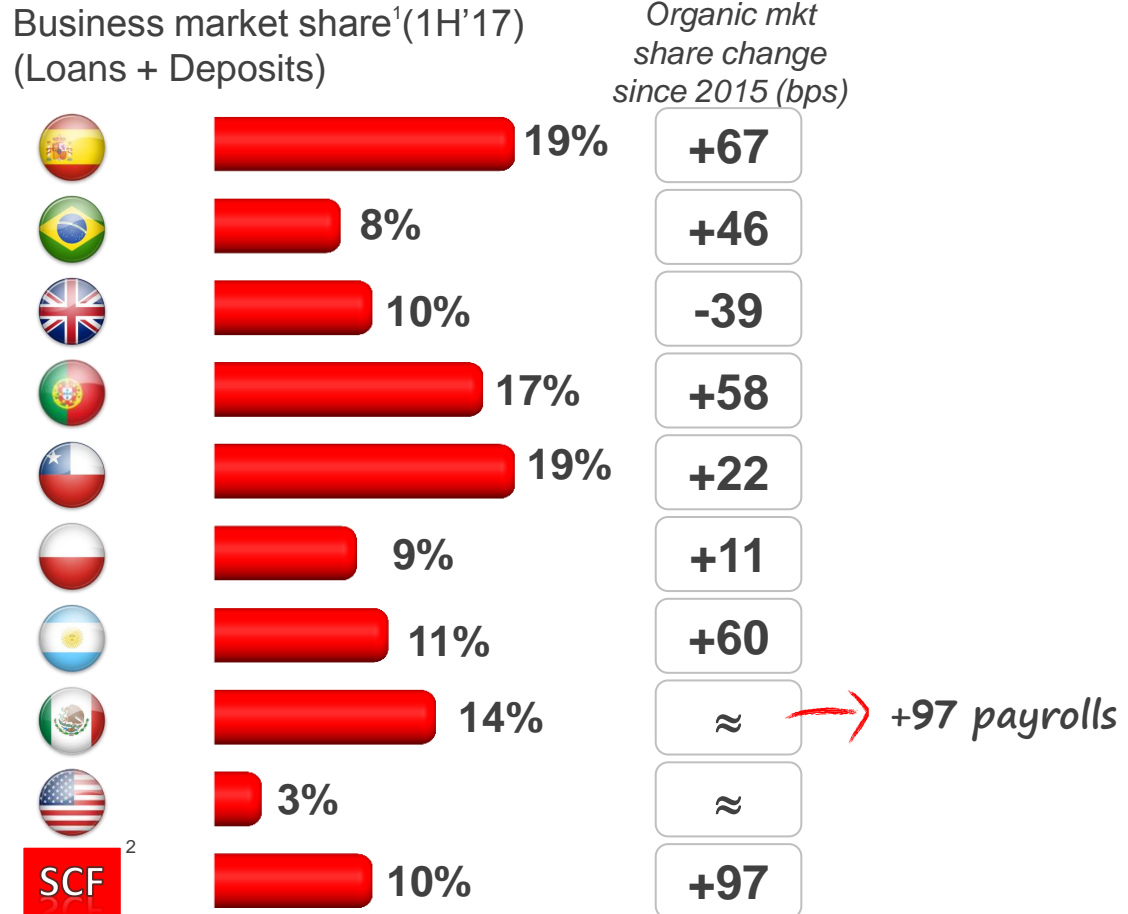
**6%** Group's profit  
**RoRWA >6%**

Reinforce investment for a greater exposure on our portfolio

Note: Data as of 1H'17

# The outcome is profitable share gains & revenue acceleration...

## Market share gains in most of our markets

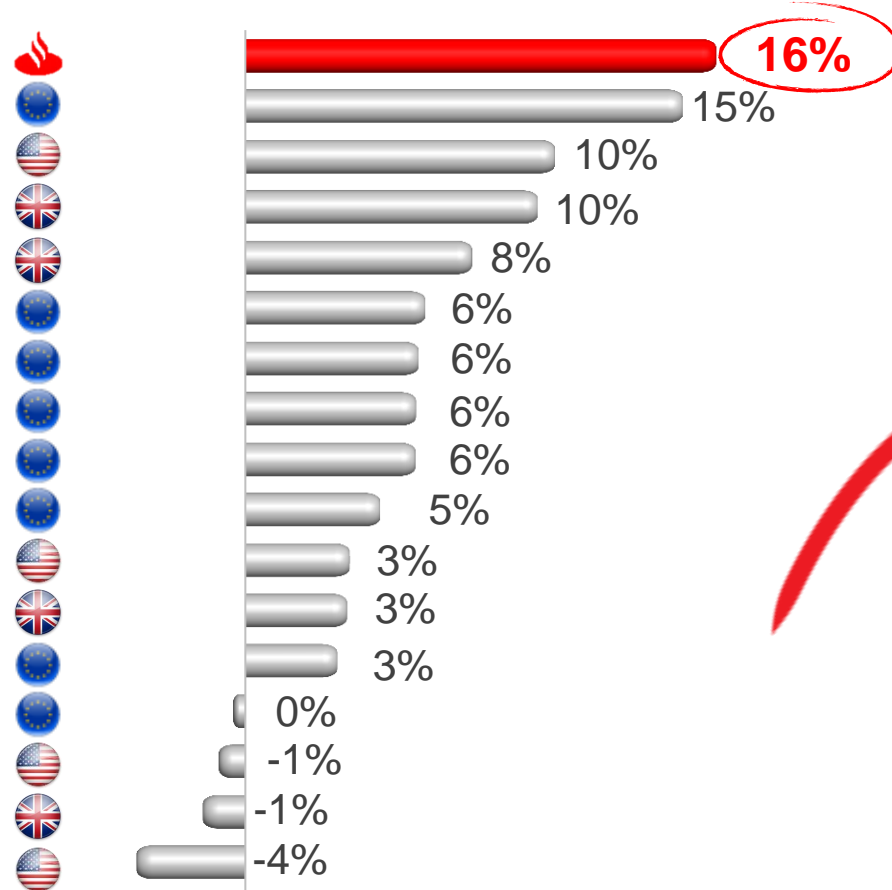


Note: Growth rates in constant euros (1) Spain and Portugal including Popular, UK: Mortgages (excluding Social Housing), consumer credit and commercial loans (excluding Financial Institutions) and SBNA in the states where the bank operates (2) MSI and internal estimates for new car loans (3) NII + Fees

# ...allowing us to outperform peers in fees and revenues growth

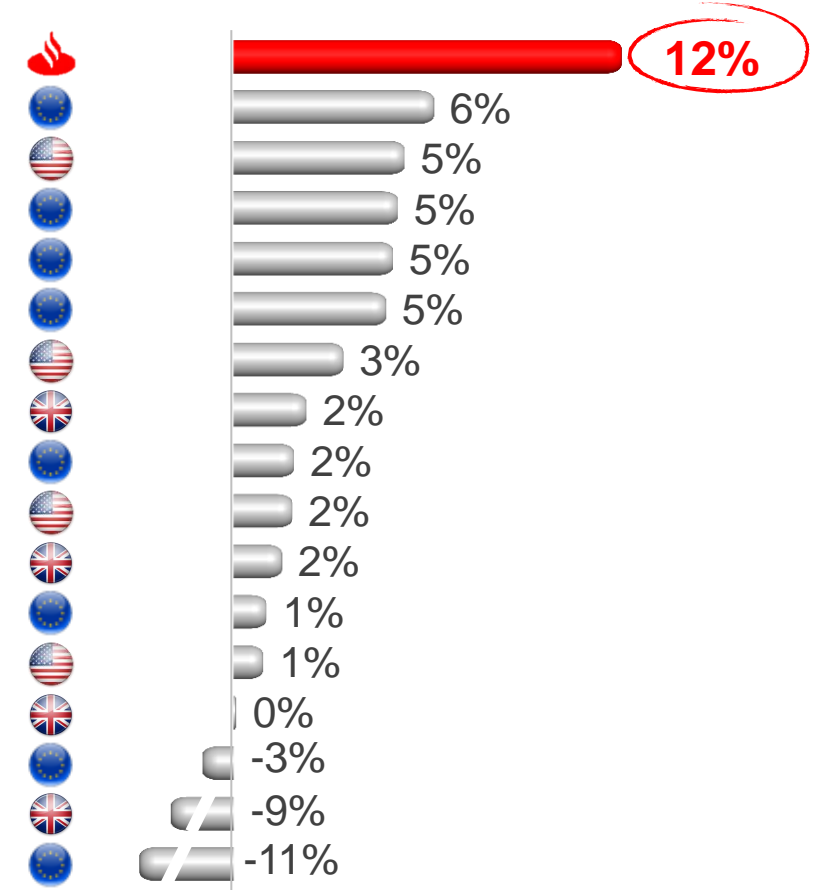
## Leaders in fees growth...

Fees (Change 1H'17 vs. 1H'16)



## ...and customer revenues growth

Customer revenues<sup>1</sup> (Change 1H'17 vs. 1H'16)



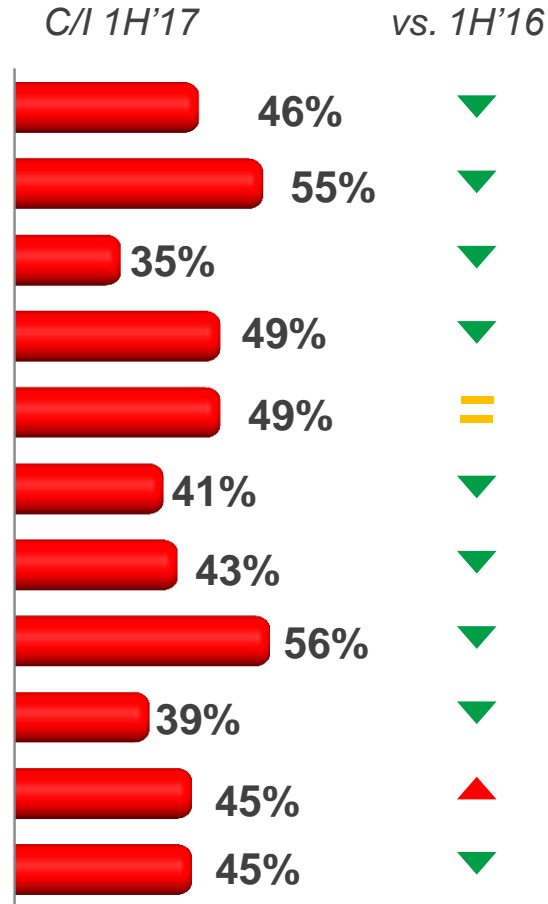
Note: Peers include : Wells Fargo, JP Morgan, Bank of America, UBS, BBVA, ING, BNP, HSBC, Unicredit, Lloyds, Citi, Intesa, Société Générale, Standard Chartered, Deutsche Bank, Barclays. Source: Company data and Bloomberg (1) NII + Fees

# Operational excellence: Consistent improvement in customer experience and cost control

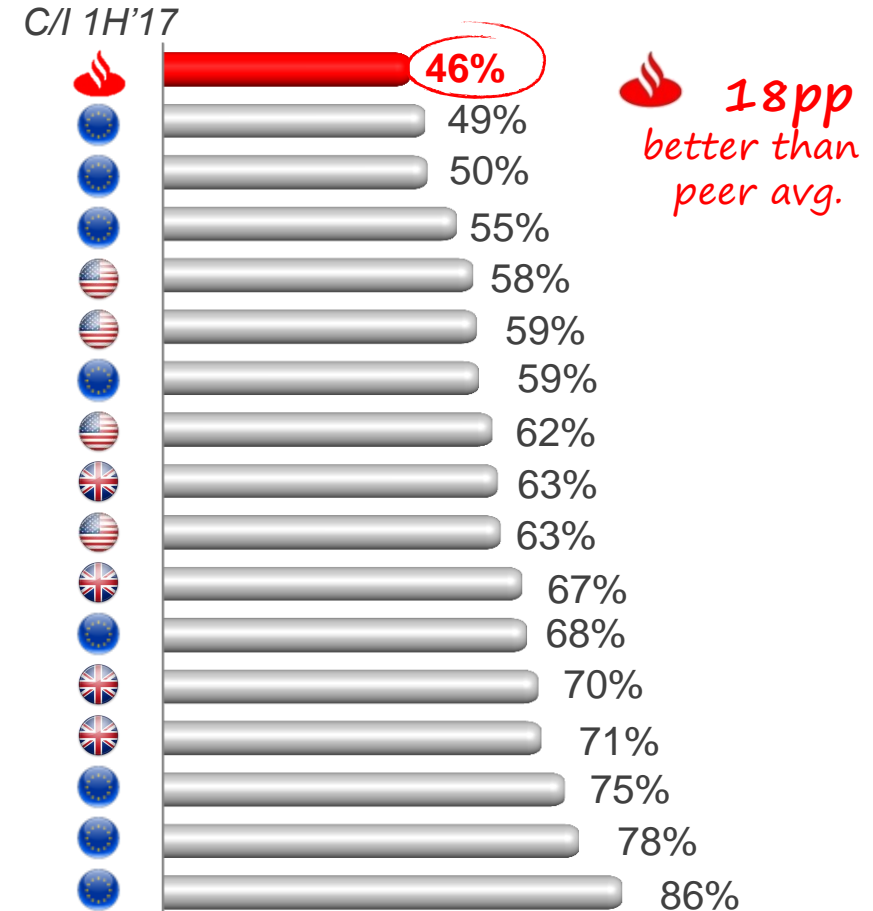
## Top customer experience



## <50% C/I in most of our geographies



## Leaders in efficiency



Note: Peers include : Wells Fargo, JP Morgan, Bank of America, UBS, BBVA, ING, BNP, HSBC, Unicredit, Lloyds, Citi, Intesa, Société Générale, Standard Chartered, Deutsche Bank, Barclays. Source: Company data and Bloomberg

# Digitalisation as a means to...



**Better customer experience**



**Higher sales**



**Lower cost per transaction:**  
10% of traditional systems



**Market share gains**



**Tailor made offerings**



**Lower processing cost**

## Our digital transformation - examples



### Santander Financiamentos

Disruptive change on the auto-loans digital platform



- Credit Simulations / month **+62%**<sup>1</sup>
- New production Mkt Share **27% (+4pp)**<sup>2</sup>
- Profit before taxes **+97%**<sup>2</sup>



*Cloud migration*

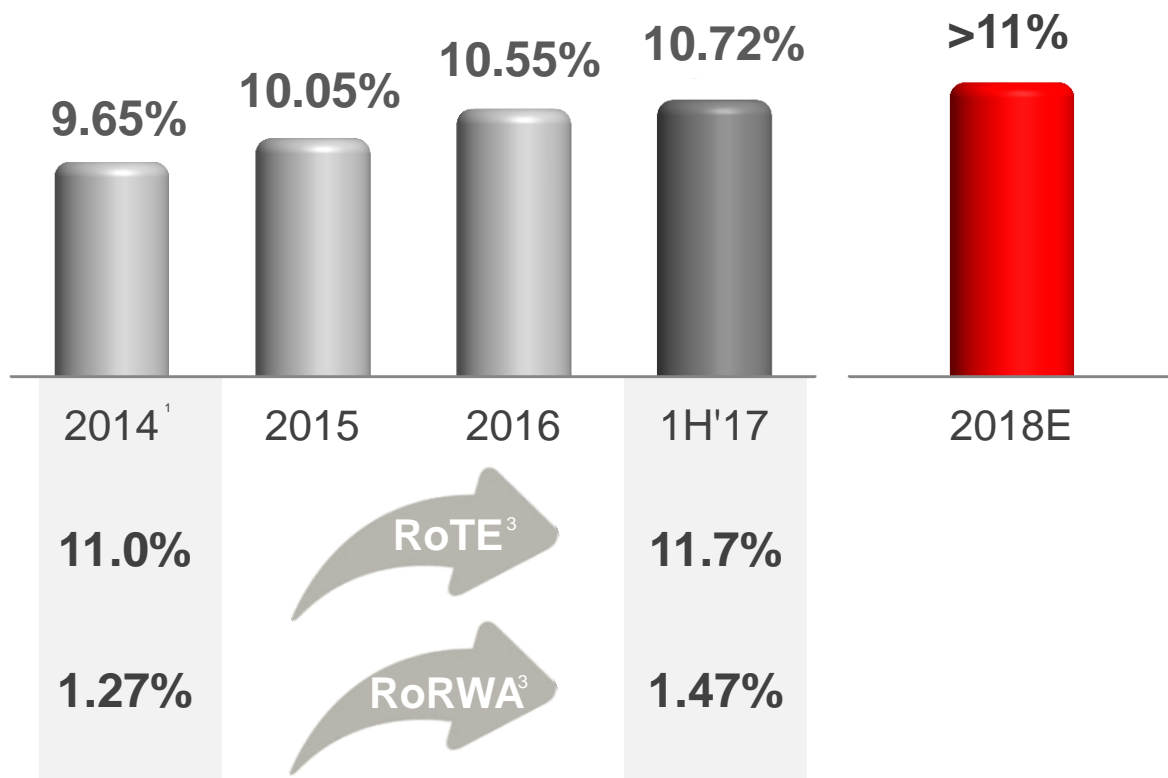
**>30%** savings in IT infrastructure costs

(1) Versus December 2016 (2) July '17 (YoY)

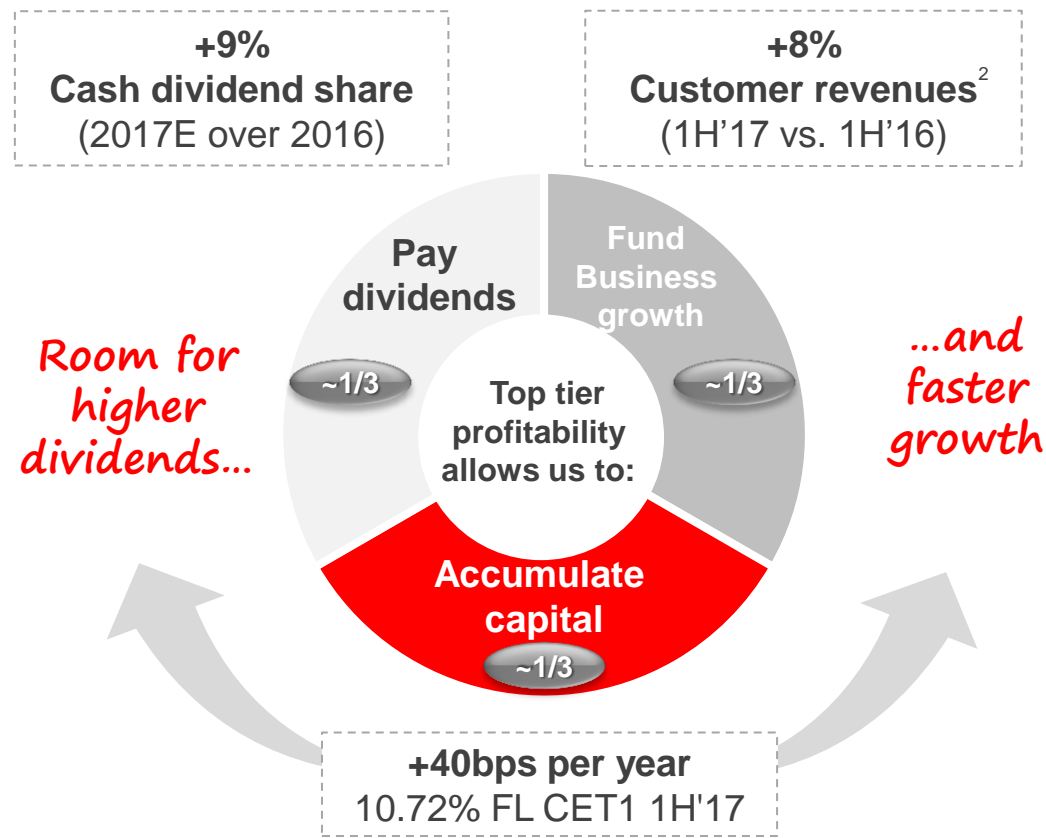
# On track to meet our capital target by 2018

**Committed to accumulate organically  
10bps CET1 per quarter**

FL CET1 (%)



**Increased capacity to grow faster and improve dividends**



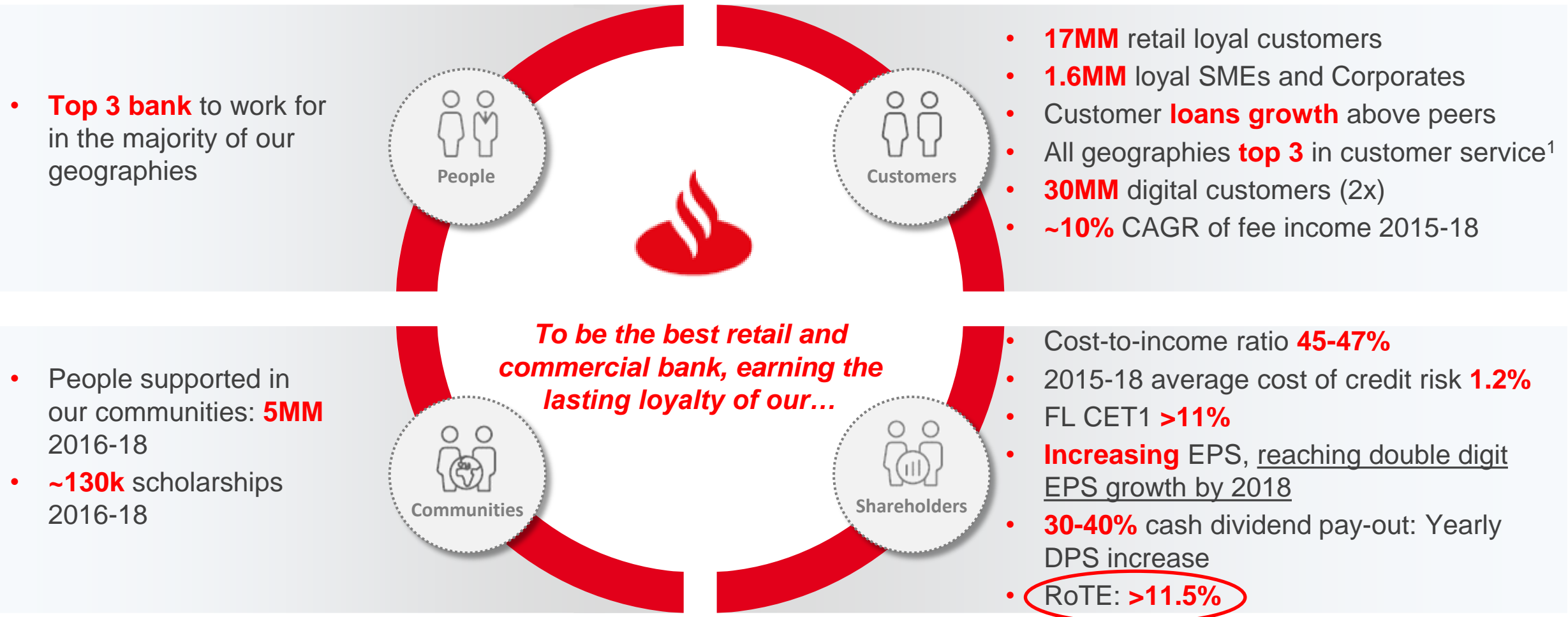
(1) Pro-forma, including Jan '15 capital increase (2) Constant euros, NII + Fees (3) Group excluding Popular

# We are delivering ahead of plan on our commitments

	2015	2016	1H'17 <sup>3</sup>	2017	
Loyal customers (MM)	13.8	15.2	16.3	17	✓
Digital customers (MM)	16.6	20.9	23.0	25	✓
Fee income <sup>1</sup>	4.3%	8.1%	11%	Increase	✓
Cost of credit risk	1.25%	1.18%	1.19%	Improve	✓
Cost-to-income	47.6%	48.1%	46.3%	Broadly stable	✓
EPS (€)	0.40	0.41	0.24	Increase	✓
DPS (€) <sup>2</sup>	0.20	0.21	0.22	Increase	✓
FL CET1	10.05%	10.55%	10.72%	+40bps Organic per year	✓
RoTE <sup>4</sup>	11.0%	11.1%	11.7%	Increase	✓

(1) % change (constant euros) (2) Total dividends charged to 2017 earnings are subject to the Board and AGM approval (3) Grupo ex-Popular (4) Underlying

# We improve our RoTE target for 2018 and reiterate all other targets



(1) Except for the US - approaching peers



**3**

# Main opportunities to strengthen growth in our franchises

# Main opportunities to strengthen growth in our franchises

1



Popular, positive delivery on a transformational deal

2



We have built a great and improving bank

3



Efficiently relaunching our commercial banking while improving the risk-return-profile of SCUSA

4

**Argentina:** Great potential to grow & consolidate market leadership

5

**Poland:** Most profitable bank in the country with double digit earnings growth



**SCF**

6

**SCF:** Consolidate our leadership while increasing penetration in personal loans via digital transformation

7

**UK:** Well positioned as the only full-service scale challenger



8

**Mexico:** High potential growth in a stable and largely untapped market

9

**Chile:** Leaders in a stable growth and profitable market

**GCB**

**WM**

10

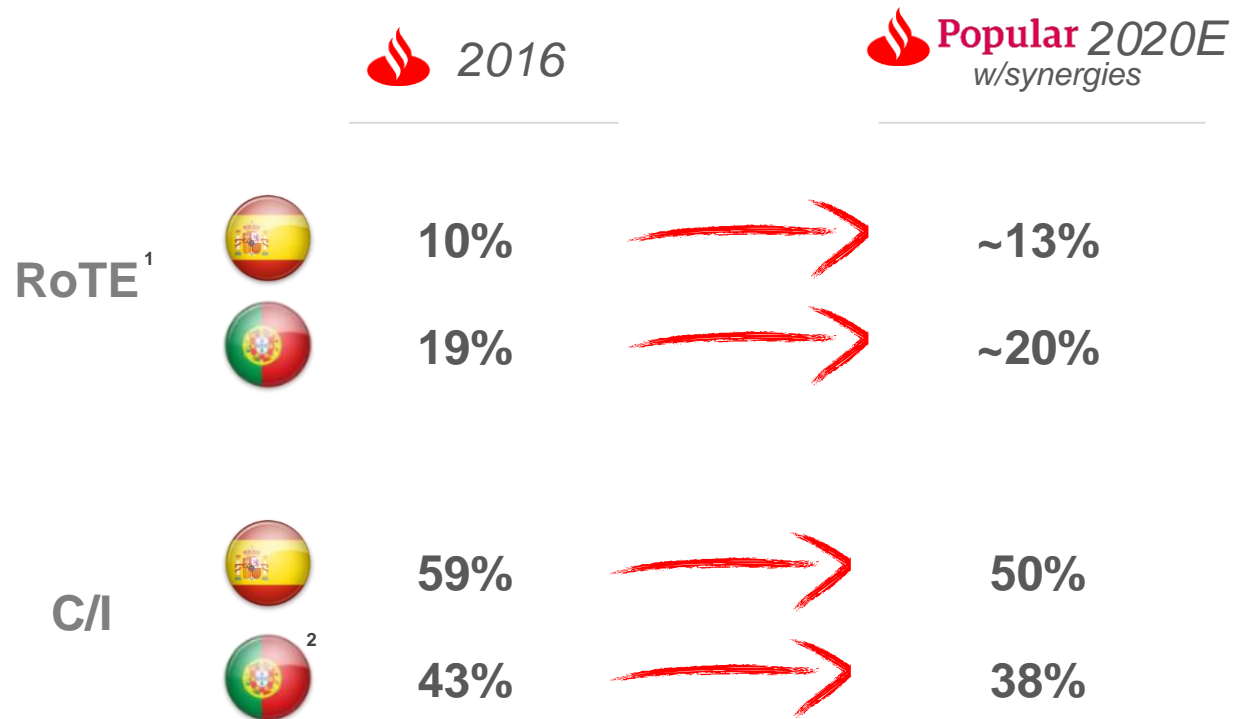
**GCB:** Expanding international / trade business & collaboration revenues

11

**Wealth Management:** Strengthen our Asset Mgt. & Private Banking Unit

# Spain & Portugal: Popular, positive delivery on a transformational deal

## Improving core KPIs



## Main priorities ahead

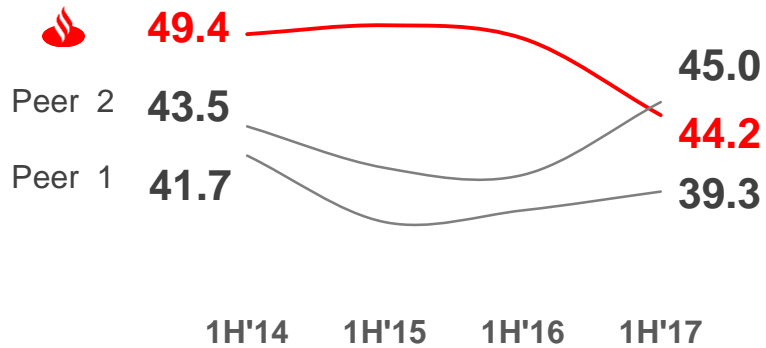
- *Preserve Popular's leadership in SME*
- *Achieve cost synergies (€500MM) ahead of plan*
- *Earn Popular's customers loyalty*
- *Reducing NPAs to non-material levels*
- *Reiterate all our committed targets*

(1) 11% over RWA and in Spain using public perimeter (2) Local criteria excluding amortisations otherwise 49%

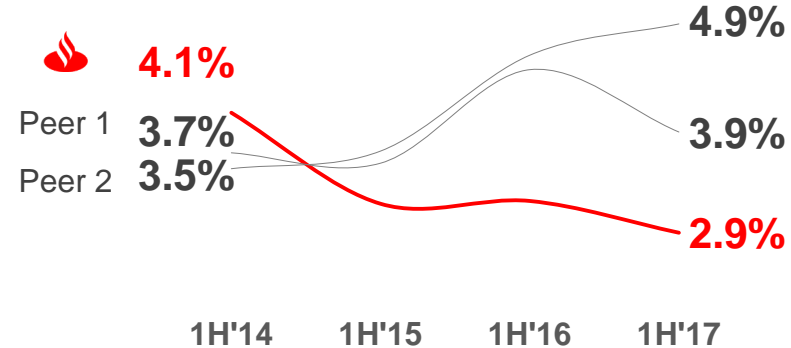
# Brazil: We have built a great and improving bank



## Efficiency

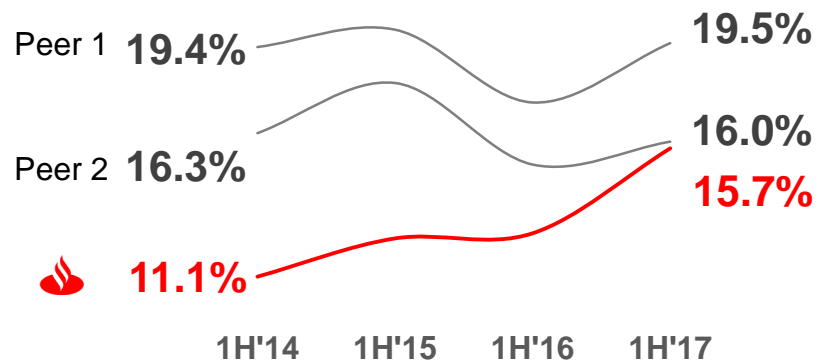


## NPL

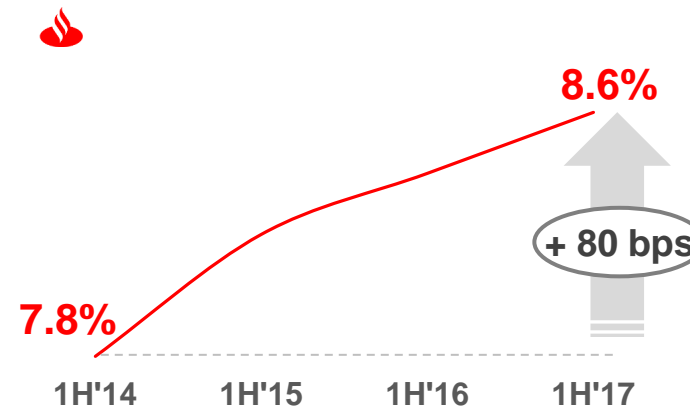


*Close the gap vs. best-in-class  
avg. RoE delivers **BRL1.5Bn**<sup>3</sup>  
additional earnings*

## RoE<sup>1</sup>



## Business market share<sup>2</sup>



- Strengthen our customer centric retail approach, with sustainable and recurring revenue growth
- Focus on:
  - ✓ Retail and specialised consumer businesses
  - ✓ Continue to reinforce **Corporate and GCB**
  - ✓ Potential **synergies** across the entire bank

Note: Peers: Itau and Bradesco. Data refers to BR GAAP (1) Banking Excluding insurance (2) Loans and Deposits (3) Estimated

# US: Efficiently relaunching our commercial banking and improving the risk-return-profile of SCUSA



## Key strengths of our franchise



Regional bank presence in **attractive US geography**

- 670 branches in Northeast region



Globally connected **Corporate & Commercial** business

- Operating across Europe, US, and Latam



At scale **auto finance** company

- +15,000 dealer network relationships



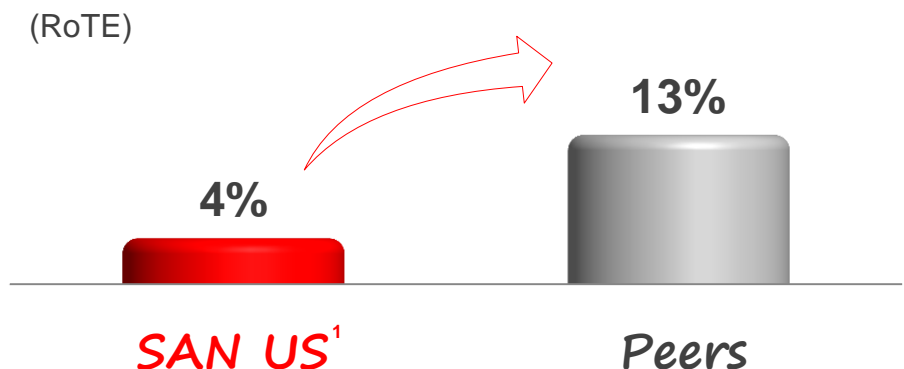
Leading **private banking** in Latam

- Top 5 player in Latam

Once regulatory issues are addressed:

- **Focus on growing our commercial business**  
...while optimizing our costs base  
...and improving profitability to peers average
- **Grow our GCB business based on Group connectivity**

Our commitment is to **close the gap versus peers'** profitability



(1) Adjusted to 11% CET1, 1H'17. Group criteria

4

## Argentina: Great potential to grow & consolidate market leadership



Leader private bank in high potential market

RoTE: 32%

- **Economy normalisation** means high **potential growth** for the country...  
...and a large **re-bancarisation** of Argentina
- **Leader private bank** after Citi acquisition
- Targeting **market share gains** and strong **profit** growth in the next 2-5 years

Credit / GDP<sup>1</sup>



14%



~49%

(1) Source World Bank

5

## Poland: Most profitable bank in the country with double digit earnings growth



Most profitable bank in the country

RoTE: 11%

- **Largest private bank**
- Fast digitalisation sustains market share gains (+22bps loans market share since 2015)
- Solid **volumes and customer loyalty growth**...  
...while operational transformation keep **cost under control**

Note: Data as of 1H'17

6

## SCF: Consolidate our leadership while increasing penetration in personal loans via digital transformation

SCF

Leading consumer business in Europe

RoTE: 17%



### Car finance

- **Support partners:** Original Equipment Manufactures & dealers
- **Enhancing agreements** through value added
- Participate in **new market opportunities**



### Consumer Finance

- **Value proposition** to increase retailer capillarity and customer experience
- Build **capillarity** in **medium merchant network**
- Enhance **Big Retailer** agreements with online offering

7

## UK: Well positioned as the only full-service scale challenger



Growth opportunities with resilient balance sheet

RoTE: 11%

- Strong focus on **loans to UK corporate and SME**
- Best-in-class efficiency: **Negative cost growth in real terms for next 3 years**
- Growing our **GCB, Corporate, SME and business banking** franchises
- **Improving customer experience to increase revenues**

Note: Data as of 1H'17

8

## Mexico: High growth potential in a stable and largely untapped market



Expanding  
position in the  
retail segment

RoTE: 20%

- Consolidating our strengths on: SME, middle market, GCB and mortgages
- Increasing market share in retail segments by leveraging our leading position in corporates, and executing initiatives to attract customers and promote loyalty
- Focusing on fee business growth
- Operational transformation focused on customer experience
- Expanding our product offering into complementary markets

9

## Chile: Leaders in a stable growth and profitable market



Fee driven and  
less capital  
intensive growth

RoTE: 18%

- Consolidating our leadership in market share and profit levels
- Commercial transformation via the new branch network model and digital banking
- Increasing revenues: Insurance, investment, credit-cards and mutual funds
- Market share gains with focus in AM, Corporates/SMEs and deposits
- Efficiency plans to growth costs in line/below inflation

Note: Data as of 1H'17



## 10 GCB: Expanding international / trade business & collaboration revenues

GCB

Focus on trade corridors



RoRWA: ~2%

- The best Latam franchise (# 1 in DCM, PF, ECM, ECA)
- Outperforming our competitors (a corporate bank vs institutional banks)

Focus on..

- Increasing international / connectivity revenues
- Accelerating growth in **collaboration revenue** between R&CB, PB, AM
- Evolving towards a **capital-light business** via disciplined rotation of the balance sheet
- **Developing product capabilities** to capture the full potential of connectivity

## 11 Wealth Management: Strengthen our Asset Mgt. & Private Banking Unit

WM

Attractive returns on capital

RoRWA: 6%

AM & Private Banking underrepresented (6% of Group's profit):

- Attractive returns on capital
- An advisory-driven model for all countries
- Maximize collaboration with R&CB, GCB and BPI

Strengthening and growing our wealth business:

- Either **leaders or well positioned** to become leaders in our markets
- **Regain full control** of our asset management business

Note: Data as of 1H'17



# Key takeaways

- Our **3 differentiators offer profitable growth and earnings stability**: **Critical mass** in Developed and Emerging markets, geographic **diversification** and scalable **digital transformation**
  - The **macro outlook "ticks the right boxes" for Santander**:
    1. Developed Markets: Cyclical macro acceleration and progressive rate hikes
    2. Emerging Markets: Robust growth cycle
  - **Focused on delivering the best execution**: Progressing on our commercial transformation to **outperform our peers** in revenue growth and efficiency improvement
  - **Clear roadmap to strengthen** the growth of our franchises and capture customer and shareholder value
  - We are **delivering ahead of plan**, and reiterate our commitments for 2018 with an improved RoTE target (**>11.5%**)



# 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**

