

12 April 2019

Announcement to acquire minority interests in Santander Mexico



Disclaimer

IMPORTANT INFORMATION FOR INVESTORS ABOUT THE PROPOSED TRANSACTION

If it determines to move forward with the proposed transaction, Banco Santander, S.A. (“Santander”) will file with the U.S. Securities and Exchange Commission (the “SEC”) a Registration Statement on Form F-4 that will include a prospectus and offer to exchange. Santander will also file with the Comisión Nacional Bancaria y de Valores (the “CNBV”) a prospecto and/or folleto informativo in connection with the transaction and the prospective offer as required under applicable law. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE REGISTRATION STATEMENT, PROSPECTUS, OFFER TO EXCHANGE AND ALL OTHER RELEVANT DOCUMENTS THAT WILL BE FILED WITH THE SEC AND THE CNBV REGARDING THE PROPOSED TRANSACTION WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. All such documents filed with the SEC will be available free of charge at the SEC’s website at www.sec.gov and through the CNBV’s website at www.cnbv.gob.mx.

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Forward-Looking Statements

This communication contains forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will” or words of similar meaning and include, but are not limited to, statements about the expected future business and financial performance of Santander resulting from and following the implementation of the transaction described herein. These statements are based on management’s current expectations and are inherently subject to uncertainties and changes in circumstance. Santander does not undertake any obligations to update the forward-looking statements to reflect actual results, or any change in events, conditions, assumptions or other factors.



Proposed transaction



Rationale of the transaction



Key takeaways

Proposed transaction

- **Voluntary offer** to acquire Santander's minority interest (c.25%) in Santander Mexico
 - Santander Mexico shareholders to receive **0.337 shares of Santander Group for each Santander Mexico share**, equivalent to MXN\$32.376 per share⁽¹⁾
 - Offer represents a **14% implied premium** based on last trading session⁽¹⁾ on 11 April 2019 or 22% premium based on the past 1 month volume weighted average price
 - Santander Mexico ADS holders that accept the offer will receive 1.685 Santander Group ADSs for each ADS⁽²⁾
 - Up to 572mn Santander Group shares will be issued (3.5% over total Group shares)
 - Remaining Santander Mexico shares expected to continue trading in the Mexican stock exchange (BMV) and NYSE
- **Santander Group shares to be listed in the Mexican stock exchange**
- Santander Mexico holders that accept the offer will receive Santander Group dividends starting in October 2019, including the first dividend against 2019 results (otherwise, exchange ratio to be adjusted)
- **Transaction is expected to be completed in the second half of the year.** Launch of the offer and the offer itself subject to customary conditions, including regulatory authorizations, absence of any material adverse change in Santander Mexico and the approval at our shareholders' meeting

Indicative timetable

12th April 2019	Transaction / Voluntary Offer Announcement
April-August 2019	Approval by securities regulators in Mexico and the US
Mid 3Q 2019	Commencement Offer
End 3Q 2019	Offer Period Expires
End 3Q 2019	Offer Settlement



Proposed transaction



Rationale of the transaction

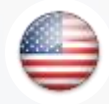


Key takeaways

Rationale of the transaction

1. Transaction is consistent with Santander Group strategy
2. Mexico has attractive fundamentals
3. Santander: a leading bank in Mexico that remains key component of Santander's growth story in LatAm
4. Attractive for both Group and Mexico shareholders

Higher exposure to LatAm as a lever to increase profitability



US

Accelerating growth with sustainable profitability



LatAm

A region with structural growth and high and increasing profitability



Europe

Building the leading European bank in customer experience and profitability, leveraging our scale & digital





Strong position in all of our LatAm markets with a sharp improvement in profitability since 2015

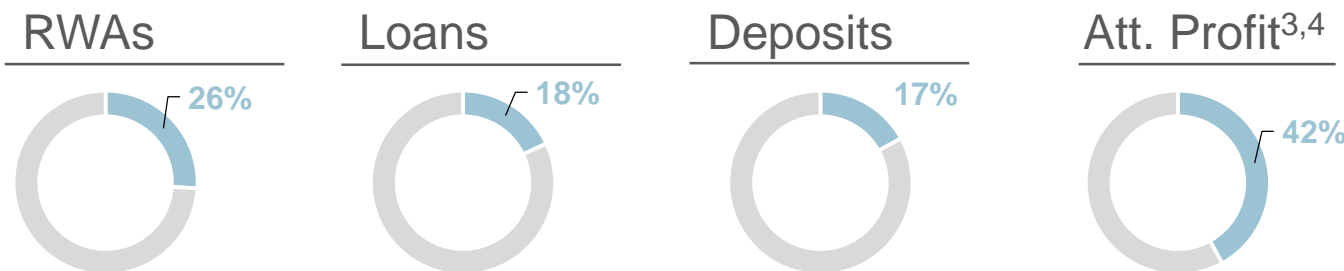
Top-tier in most countries

(loans market share)



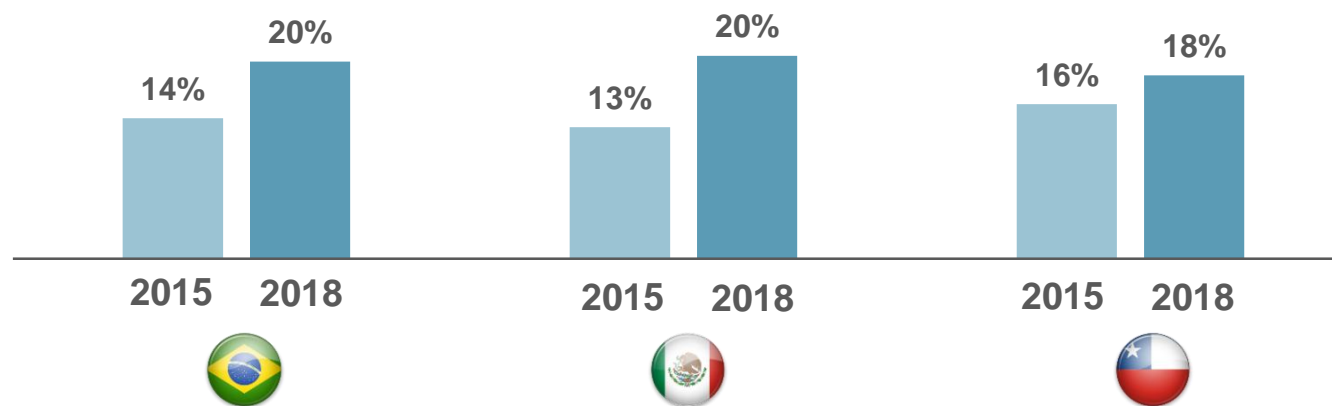
High potential to increase its contribution

(as % of total Group; 2018)



LatAm offers high structural growth & returns

(RoTE⁴ evolution 2018 vs. 2015; local currency)



(1) Including only private-owned banks. Including public banks: Brazil Top 5, Argentina Top 4 and Uruguay Top 2
 (2) CIB & auto loans franchise
 (3) Excluding Corporate Centre and Spain Real Estate Activity
 (4) Underlying

LatAm: a high growth & profitability region that will consequently increase its weight



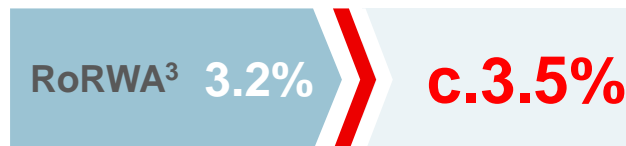
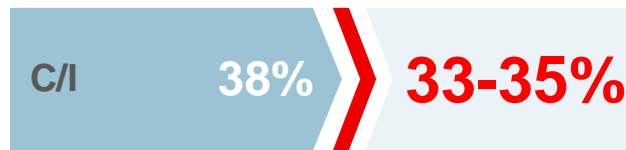
Key expected levers

- ✓ High structural growth: Loans to GDP at 49%
- ✓ Focus on customer experience & digitalisation
- ✓ High & sustainable revenue growth (double digit expected CAGR⁴)
- ✓ Organically deploying more capital (>30% of RWAs in the medium-term)
- ✓ Stable credit quality

Medium-term goals



Financial (2018 > Medium-term)



Commercial (2018 > Medium-term)



(1) Includes Brazil, Mexico, Chile, Argentina and Uruguay.

(2) Latest available. CSAT: Customer Satisfaction internal benchmark of active customers' experience and satisfaction audited by Stiga / Deloitte. In the medium term we will be also following NPS as indicator.

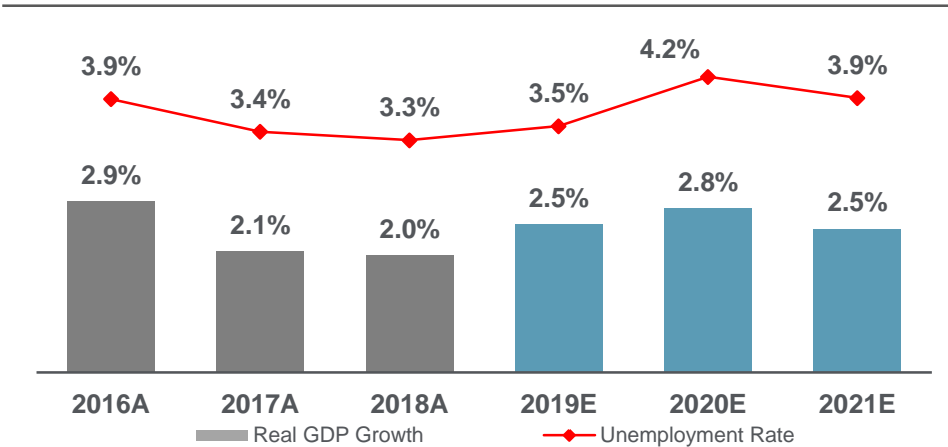
(3) Underlying

(4) In constant €

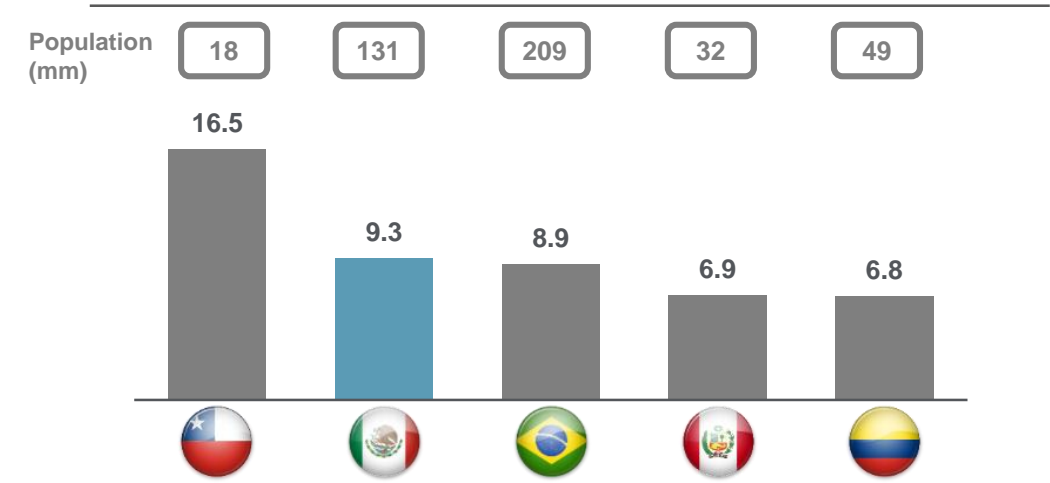


Mexico is a core market in LatAm

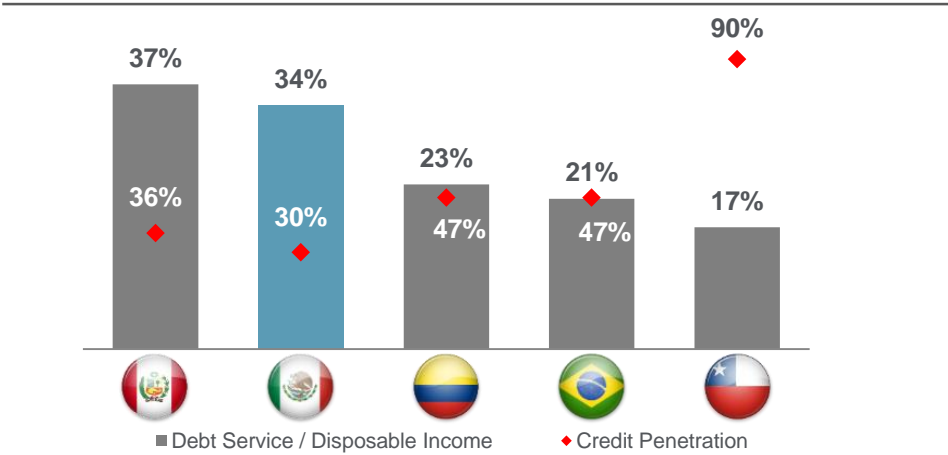
Real GDP Growth and Unemployment (%)



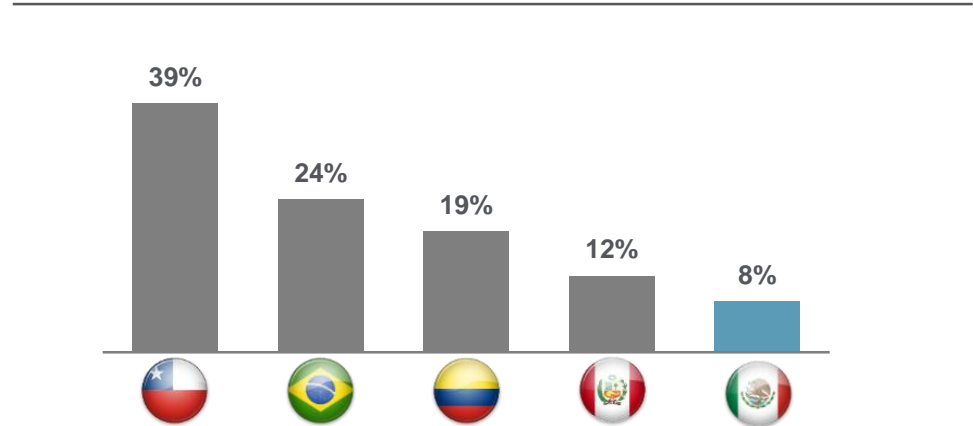
GDP Per Capita (US\$'000) and Population (mm)



Credit Penetration vs other LatAm Countries (%)



Retail Loans to GDP (%)



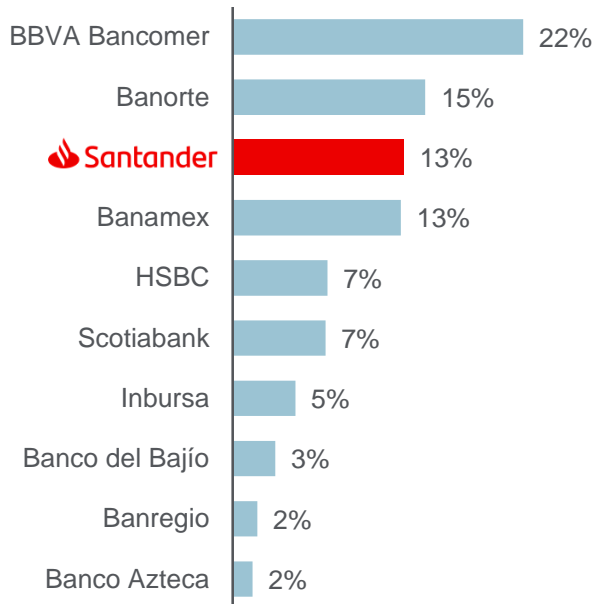
Santander Mexico – One of the leading banks in Mexico...



- Market is heavily concentrated amongst top 6 players (~80% of Loans and Deposits)
- Santander Mexico has **leading market shares across multiple categories**
- **#3 in loans and #2 in corporate**

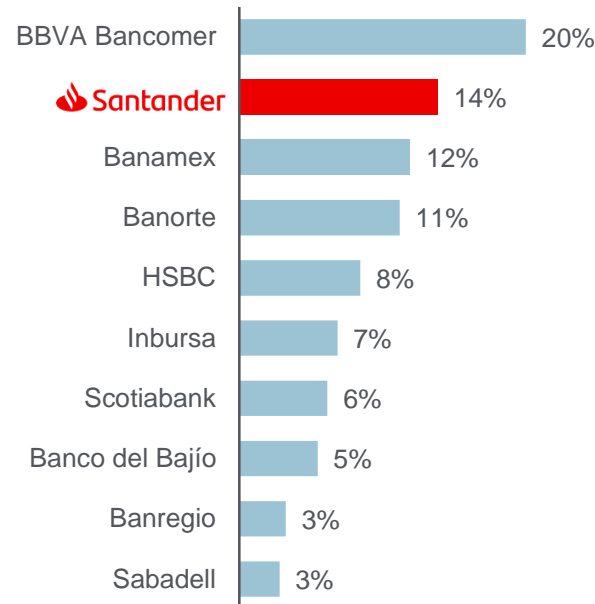
Loans

Total Market: MXN\$5,185 bn



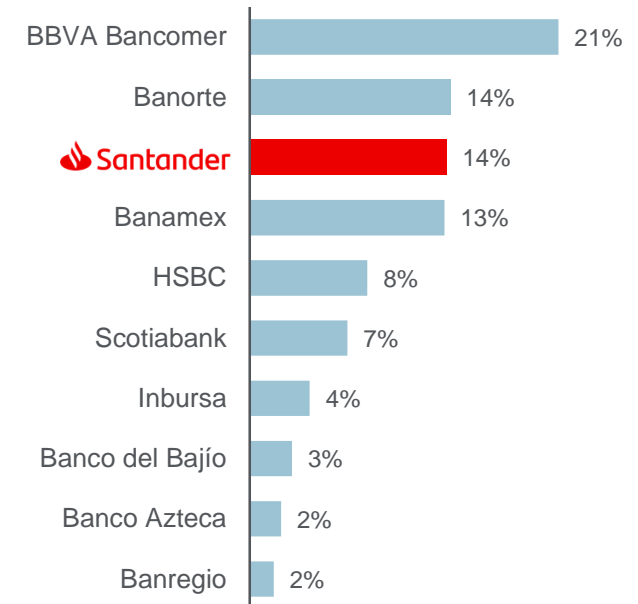
Corporate Loans

Total Market: MXN\$2,559 bn



Deposits

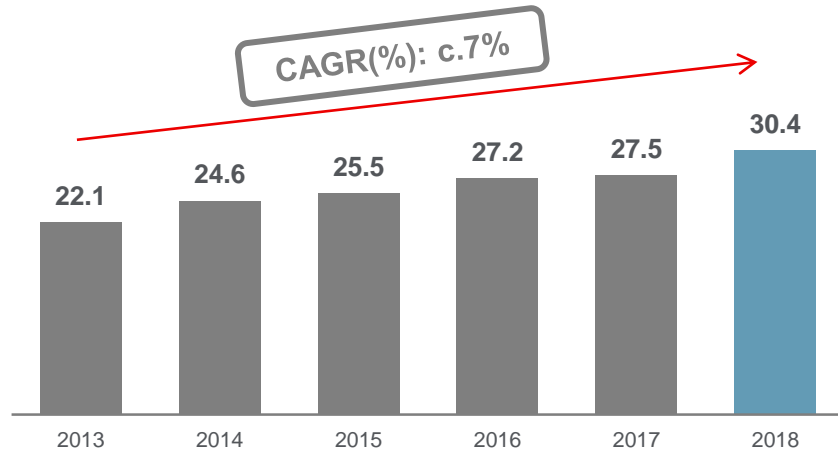
Total Market: MXN\$5,722 bn



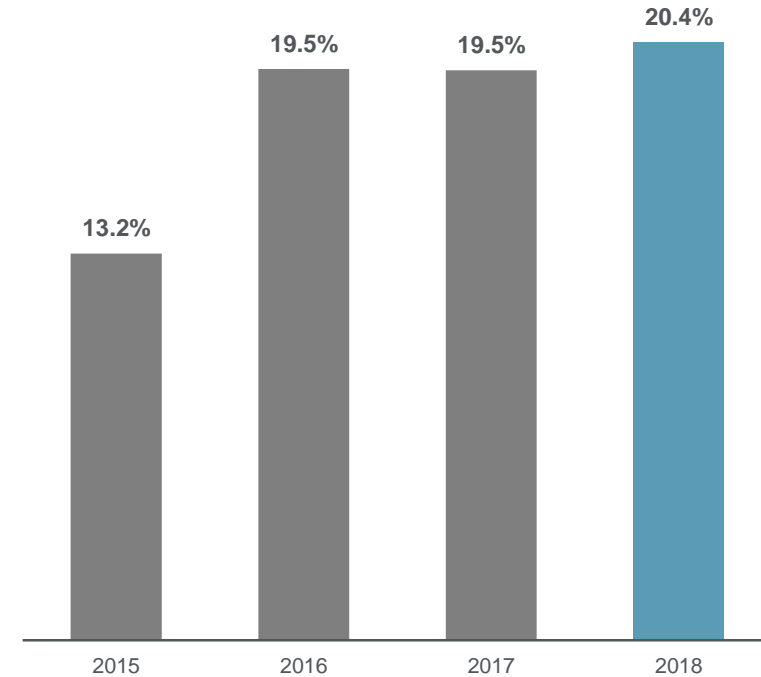


... and is a key component of our growth story in LatAm

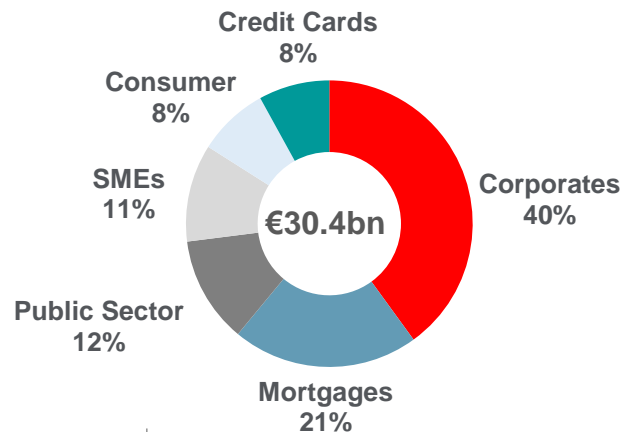
Total Gross Loans (Constant €bn)⁽¹⁾



Significant improvement of RoTE (%)



Loan Book Breakdown (2018)



(1) End period exchange rates.



Santander Mexico delivers consistent profitable growth

Key Metrics (2018)

Target		Results	
Net Loans	Δ7%-9%	+10.5%	✓
Net Income	Δ9%-11%	+11.0%	✓
CoR	3.2%-3.4%	3.18%	✓
Opex	Δ12%-14%	+13.1%	✓

Investor Day Goals in Mexico

	2018	Medium-term Goal
Underlying RoTE	20%	19-21%
Loyal/active customers	29%	33%
✓	Higher customer satisfaction leading to sustainable revenue growth	
✓	Opening operational jaws as the investment plan ends in 2019	
✓	Declining cost of credit but increase in the effective tax rate	

Attractive transaction for Santander Group shareholders...



EPS neutral

ROI
c.14.5%

Slightly positive impact on
Group CET1

...as well as for Santander Mexico shareholders

Attractive Valuation

Opportunity to monetize at a 14% premium for Santander Mexico shareholders⁽¹⁾

Implied 22% premium based on past 1 month volume weighted average price

Santander offer price is higher than current consensus target price at MXN\$30 per share⁽²⁾

Exposure to Santander Group

Gaining exposure to a global and well diversified leading financial institution with predictable earnings potential



Group Medium-Term Goals

RoTE⁽³⁾

13-15%

Efficiency

42-45%

FL CET1

11-12%

Dividend pay-out ratio

40-50%



Proposed transaction



Rationale of the transaction



Key takeaways

Key takeaways

Proposed Transaction	<ul style="list-style-type: none">○ Voluntary offer. Santander Mexico shareholders to receive 0.337 shares of Santander Group for each Santander Mexico share and 1.685 ADSs of Santander Group for each Santander Mexico ADS, representing a 14% premium to yesterday's closing share price
Rationale of the Transaction	<ul style="list-style-type: none">○ Consistent with Santander Group target to deploy more capital in LatAm, in one of the most attractive markets with strong fundamentals○ Continue investing in one of the leading banks in Mexico with strong performance, improving Santander Group's growth profile in a low risk transaction○ EPS neutral transaction○ Slightly improves Group CET1 ratio○ Opportunity for Santander Mexico shareholders to monetize at a 14% premium
Expected Timetable	<ul style="list-style-type: none">○ Transaction is expected to be completed in the second half of the year. Launch of the offer and the offer itself subject to customary conditions, including regulatory authorizations, absence of any material adverse change in Santander Mexico and the approval at our shareholders' meeting

Thank You.

Our purpose is to help people and businesses prosper.

Our culture is based on believing that everything we do should be:

Simple Personal Fair



MEMBER OF
**Dow Jones
Sustainability Indices**
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