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Country Head Mexico

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Agenda

1 Market and financial system

2 Strengths and opportunities

3 Strategy

4 Targets

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1 Market and financial system

2 Strengths and opportunities

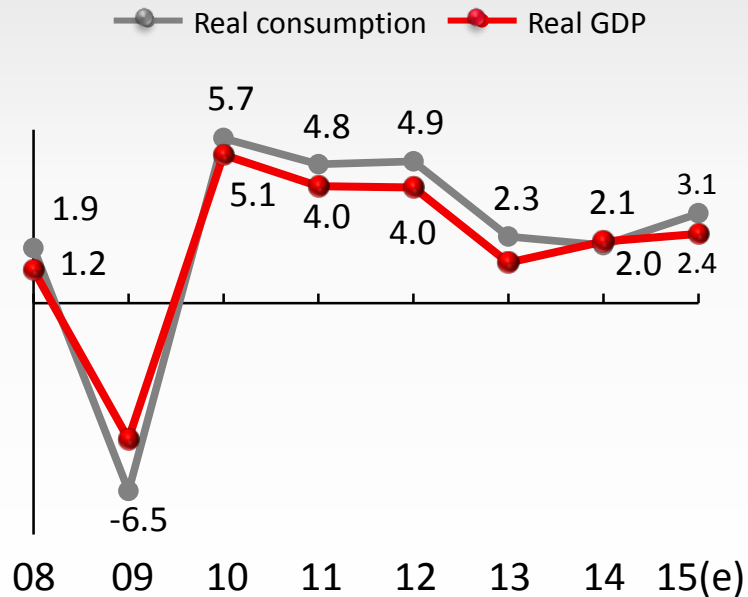
3 Strategy

4 Targets

The evolution of Mexican macroeconomic fundamentals indicate a solid and growing economy

Growing economy

Real GDP and real consumption growth (annual growth rate, %)



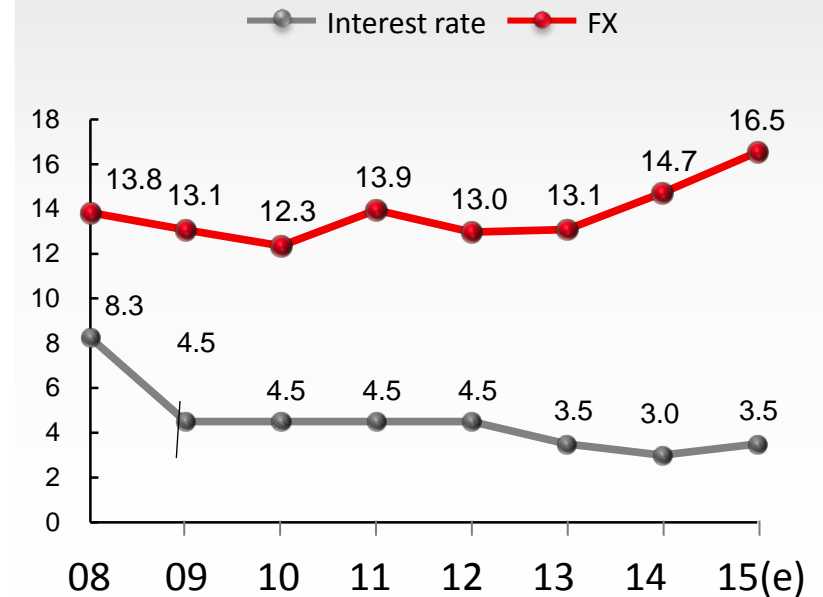
Stable macroeconomic fundamentals

Inflation and unemployment (%)



Economic variables

Interest rate¹ and foreign exchange rate (% , MXN/USD)



(1) Central Bank reference interest rate (closing)

Source: EIU; CEFP; Banxico, INEGI & Santander estimates

The Mexican banking industry is solid and has high growth potential, with five key factors that will continue to drive its expansion

A solid banking industry...

- **Second largest** in LATAM's
- **Underpenetrated** market (23% loan to GDP in Mexico vs. 47% LATAM average¹)
- **10% CAGR** loans and deposits volumes (2007-2014)
- **Stable regulatory** environment
- **Healthy liquidity and risk** position with NPLs constant at ~3% for the past 5 years

... where 5 key factors will drive further growth



Favourable macroeconomic environment



Positive demographic and socio-economic evolution



Low and increasing bank penetration



Credit opportunities for Micro and SMEs



Growth opportunity in retail and commercial banking

Source: World Bank: Bank Regulation and Supervision Survey, CNBV, Press clippings, ABM, INEGI, World Bank Enterprise survey 2010, McKinsey MSME financing Model, McKinsey Global Institute analysis
(1) Considers Brazil, Chile, Colombia, Mexico and Peru

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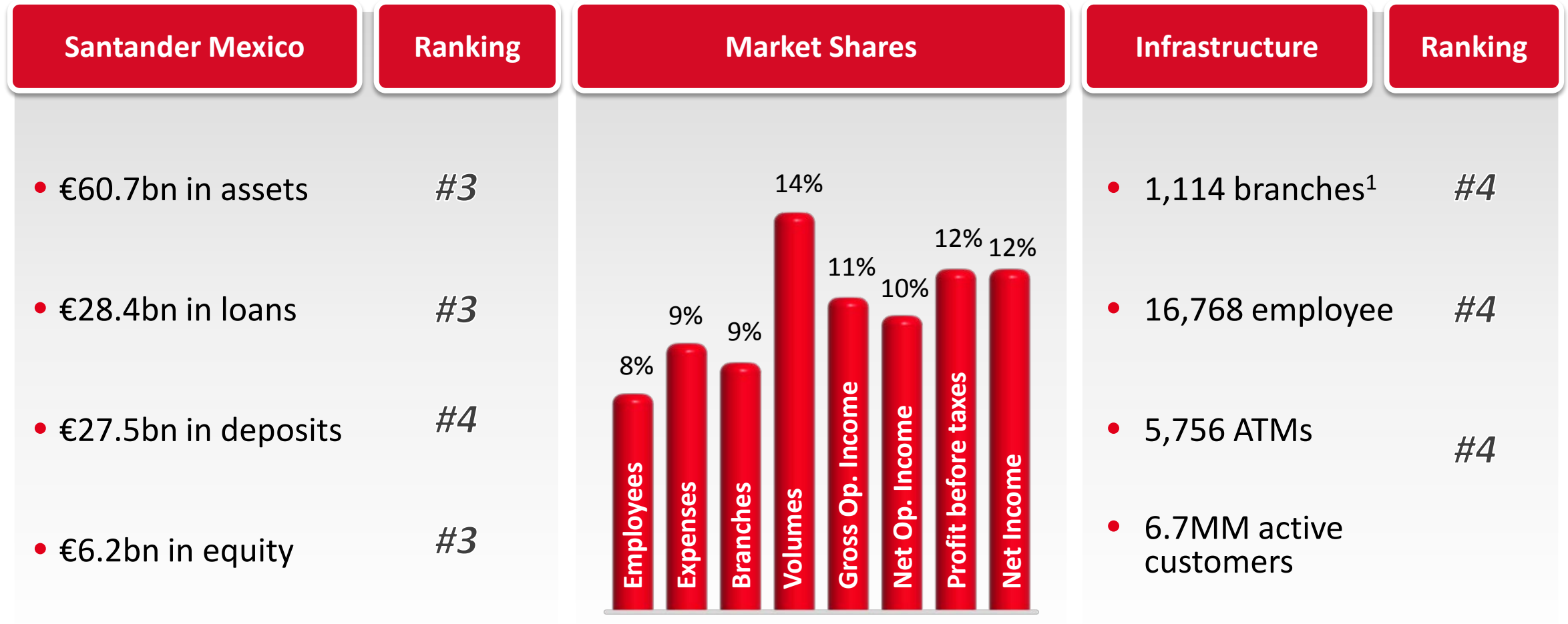
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Santander has a leading franchise in Mexico ...



(1) Complemented by cash desks (ventanillas), and Santander Select branches (including Centros Select, Espacios Select and box branches) as of 1H'15
 Source: CNBV and Santander Mexico as of 1H'15

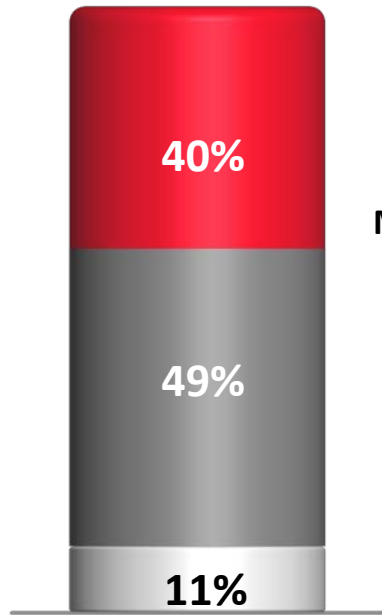
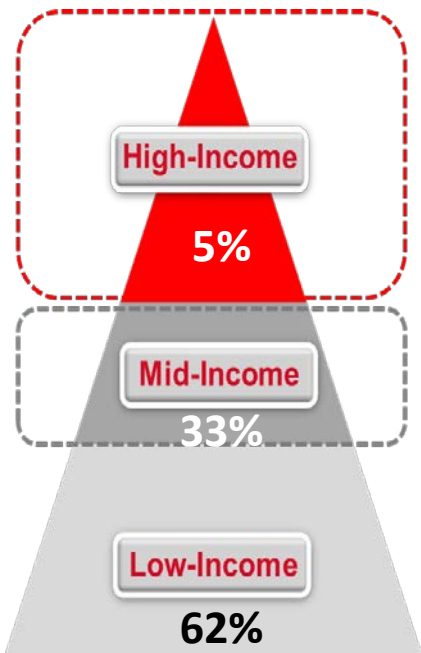
... with a diversified portfolio focused on high income individuals, SMEs and middle market segments

Retail

Segmentation

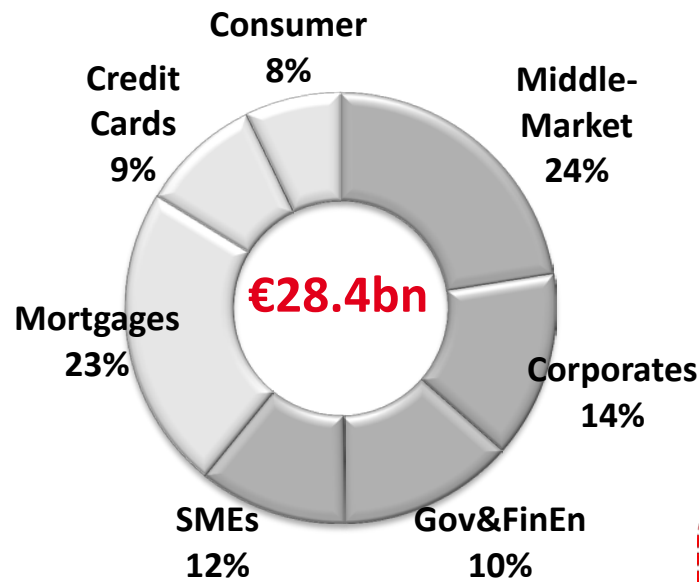
Contribution

% of customers



Revenues

Total Loan Portfolio

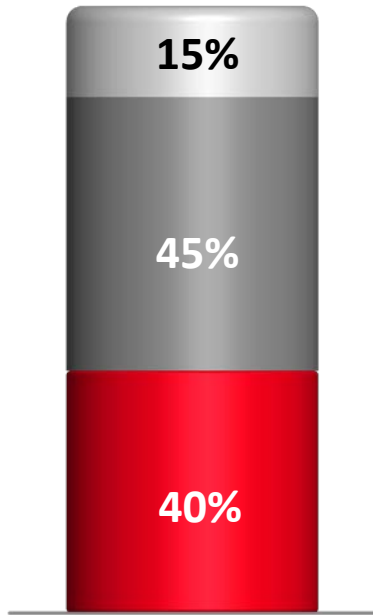
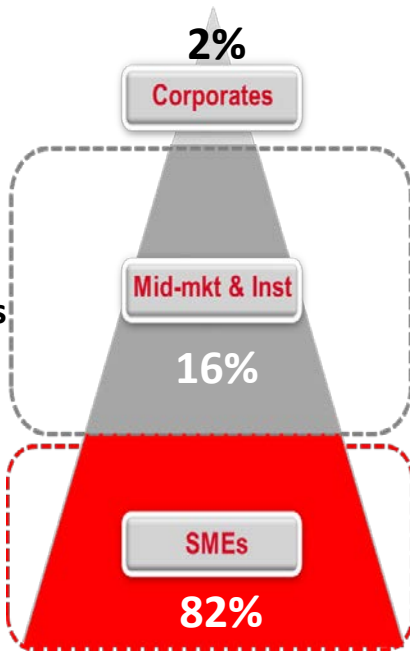


Commercial

Segmentation

Contribution

% of customers



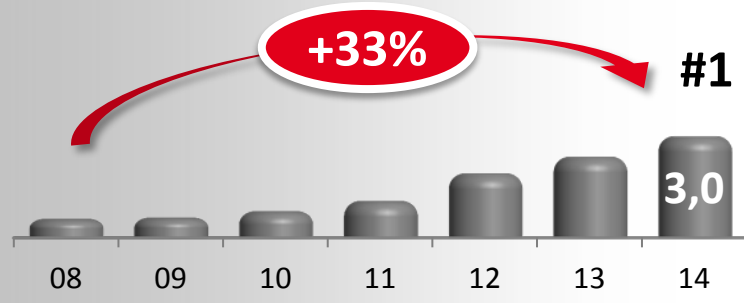
Revenues

Source: Company data as of 1H'15

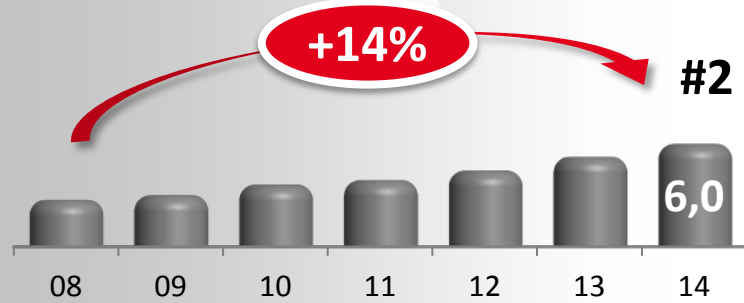
Santander has achieved a leading market position across its key strategic segments while growing profits above its peers since the financial crisis...

€bn

Leading player in the high-potential SMEs segment



Consolidating Middle Market position

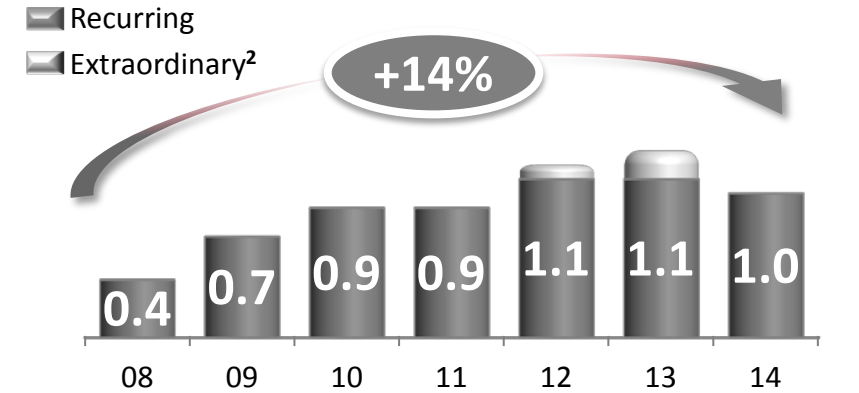


Strong focus on mid and high income mortgage market



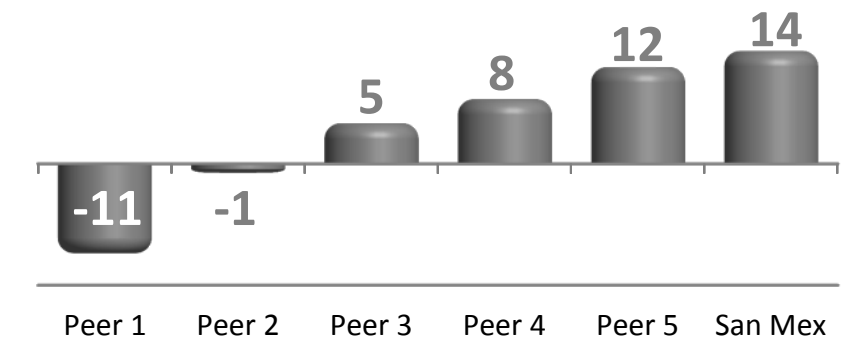
Sanmex EBT¹

€bn



Peers³ EBT

CAGR (%) 2008 - 2014



Source: Company data as of Dec '14 and San Mex Analysis (1) Earnings Before Taxes (2) Excludes €0.1bn from sale and lease back in 2012 and €0.2bn from non cash benefit in expenses in '13 (3) Top 5 Banks

... and maintaining a strong and healthy profile

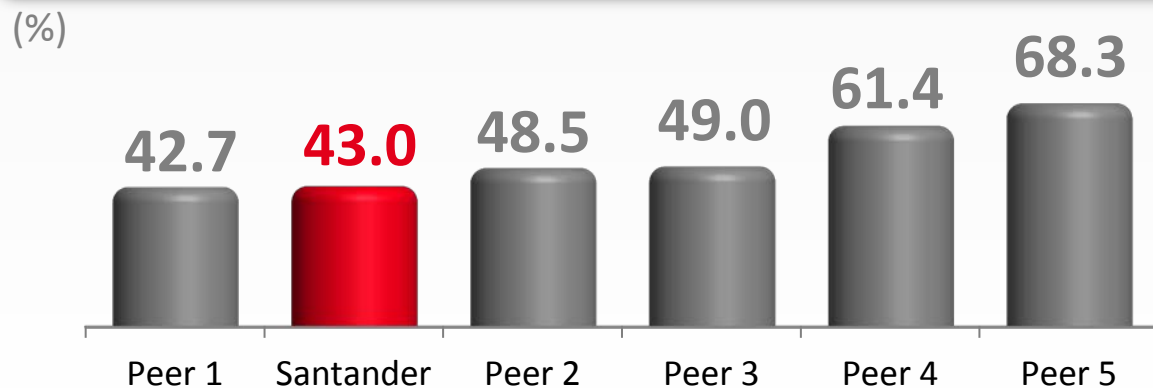
Capitalisation



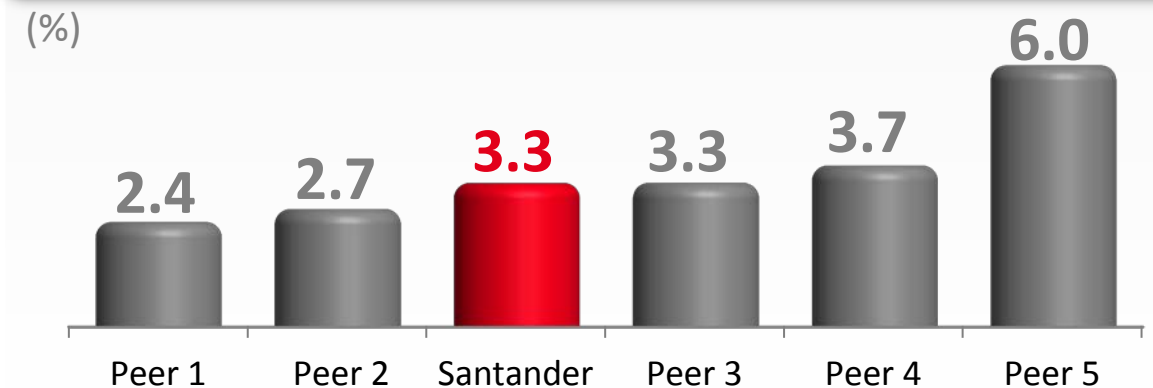
Net Loans to Deposits



Cost to Income



Cost of Risk



Source: CNBV Financial Groups as of 2014

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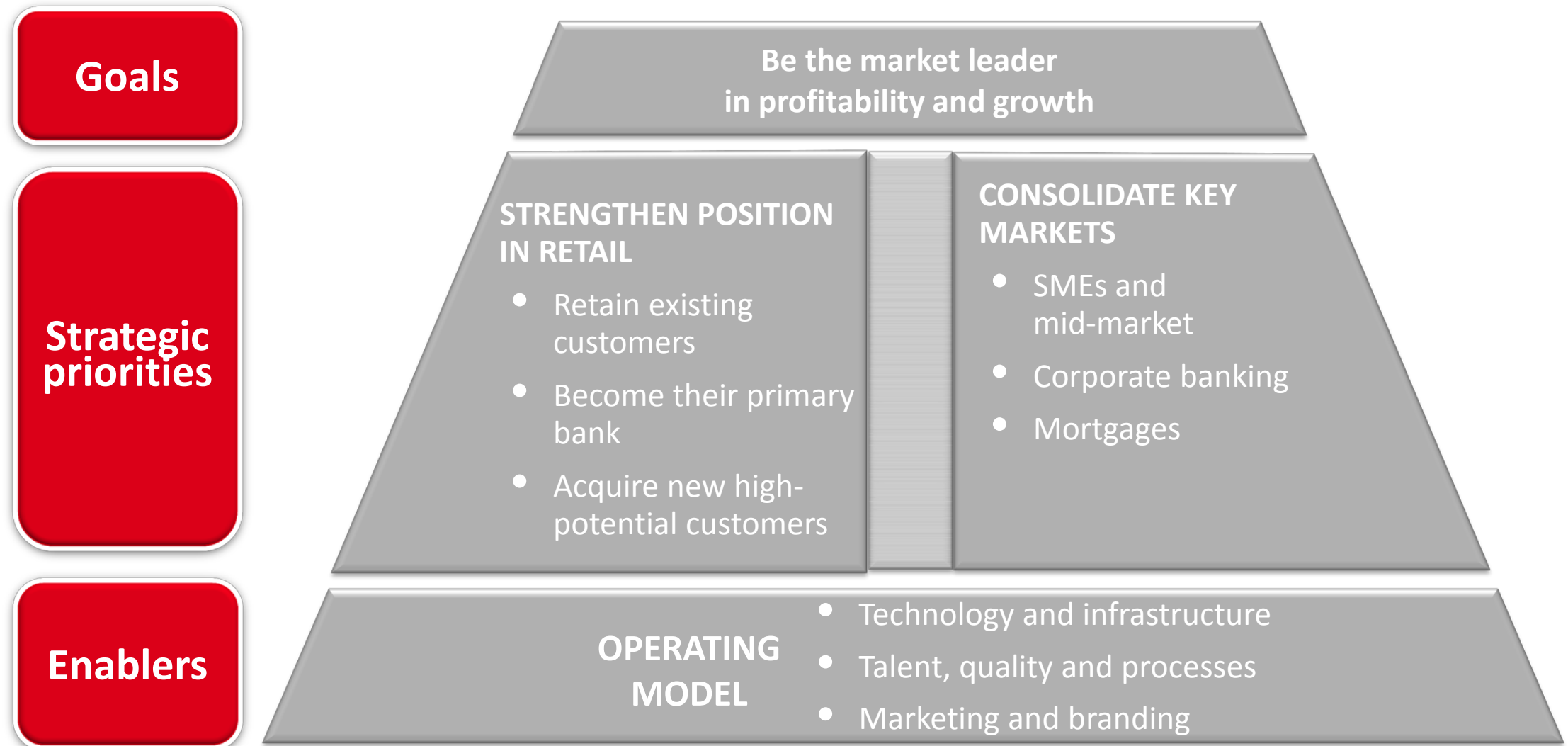
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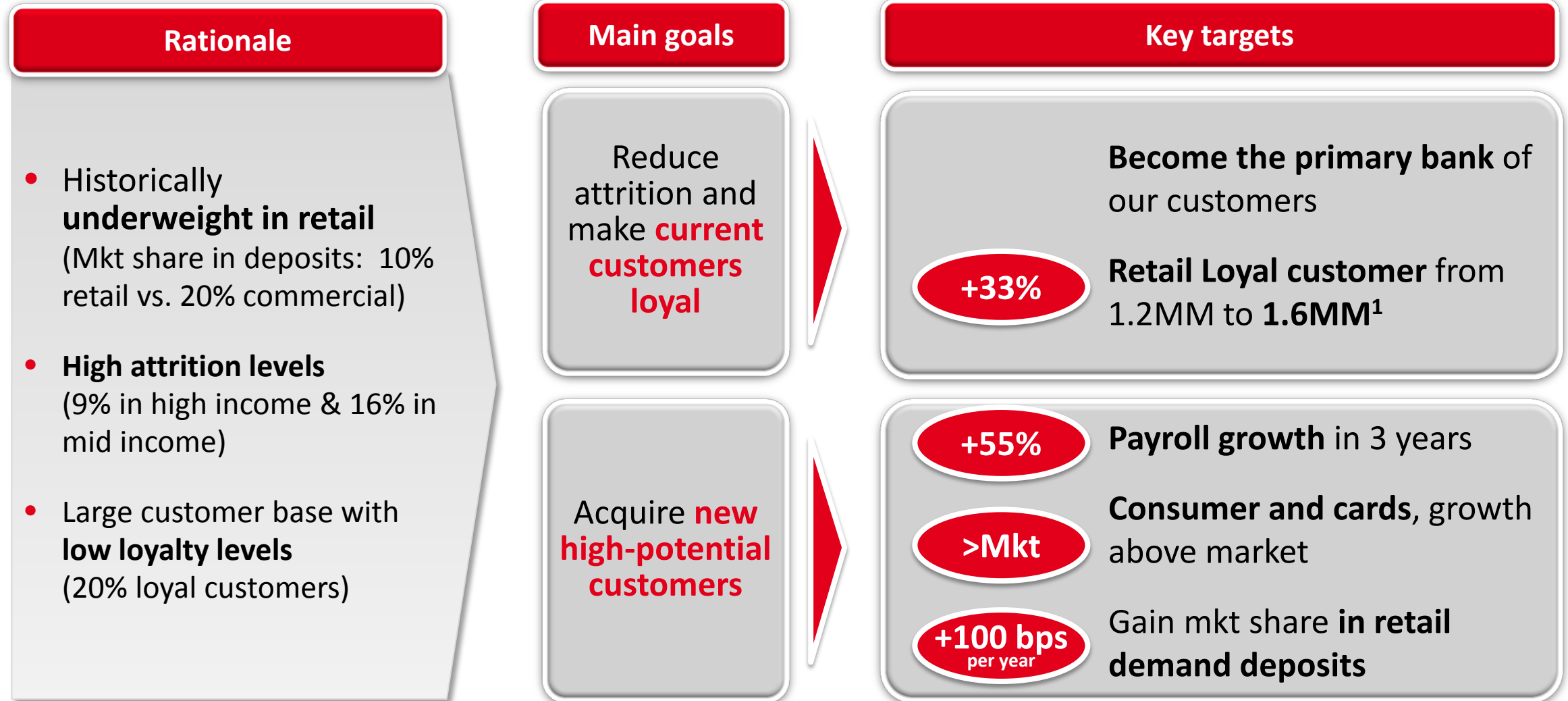
3 Strategy

4 Targets

Santander Mexico aims to be the market leader in profitability and growth through a focus on innovation and operational transformation



Strengthen position in the retail segment...



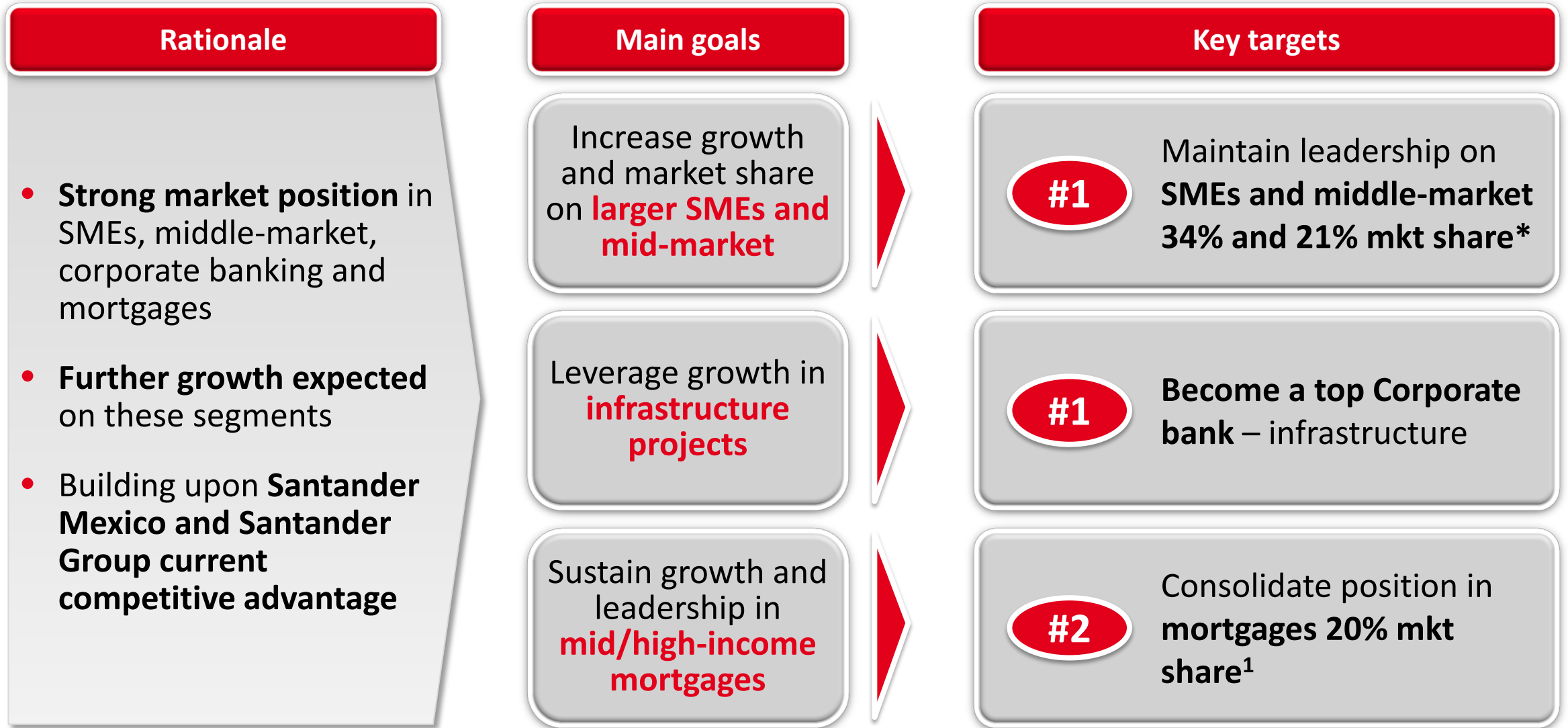
(1) 2018(e)/1H'15

...with initiatives targeting all the relevant levers of growth



- **Increase penetration to high-potential customers**
 - Insurance and personal loans to high-income mortgage customers
 - Educational loans and credit cards to university students
- **Focus on direct debit**
 - Agreements with national service suppliers
 - Guarantees to overcome existing mistrust in providers
- **Special products (Bundles / open-market)**
 - New product with cash-backs and special benefits
 - Develop risk/value based pricing and leverage alternative channels
- **Comprehensive payroll plan**
 - Focus on high-income and low rotation companies
 - Employee: tailored offers by segment, close contact and effective on-boarding
 - Employer: better infrastructure and process support
- **Targeted value propositions**
 - Develop attractive financial and non-financial offers for specific clusters
 - Strategic alliances (e.g., Telefonica, Spotify)

Consolidate leading positions in key markets...



(1) Among the 6th largest banks in Mexico, in loans

... leveraging Santander's position and experience



SMEs and mid-market

- Create exclusive commercial offer for SMEs II (focus on fee income)
- Direct payment to suppliers
- Collaboration agreements (Amex, Telefonica)
- Sector-specific packages (Agro, Comex)



Corporate banking

- Leverage on Santander's competitive advantages
- Strong relationships and track record
- Combine global network and local presence



Mid and high-income mortgages

- Focus on Santander financed home-developments
- Simplify the credit substitution process
- Re-launch liquidity credit initiatives

To successfully achieve these goals, Santander Mexico needs to execute a deep operating model transformation



Technology and infrastructure

Upgrade to **state-of-the-art technology**

- **Infrastructure** (multi-function ATM network)
- **Channels** (online/mobile)
- **CRM** (segment/big data)

Talent, quality and processes

Improve **satisfaction** and **customer experience**

- **Corporate culture**
- **Personnel retention, training and career plan**
- **Customer service**
- **Operating processes**

Brand / Marketing

Position Santander as the **'Top of mind' bank**

- **Marketing and brand awareness** strategy
- **Commercial actions** (high-visibility product promotions)

Prudent risk management and focus on efficiency

Risks

Prudent risk management leads to stable asset quality

- NPLs



Stable cost of risk

- Cost of risk

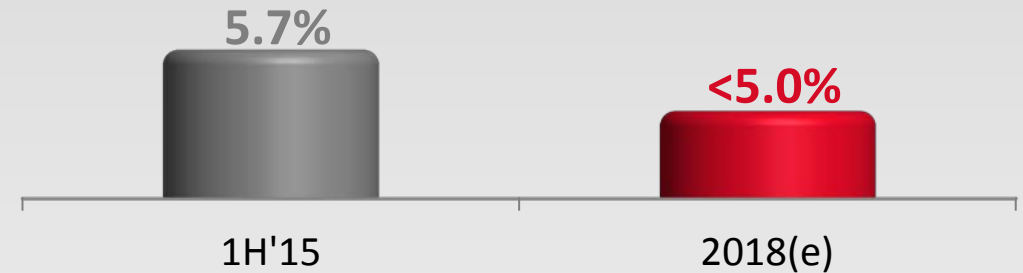


Group criteria

Expenses

Accompany business growth

- Expenses growth



Execute deep operational transformation

- Efficiency



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2018 Mexico targets

| | | 1H'15 | 2018 |
|---------------------|---|-------------------|--------------------|
| People | Great Place to Work bank ranking ¹ | Top 9 | Top 5 |
| | Commercial Team Turnover | 14.7% | ~12% |
| Customers | Total loyal customers (MM) | 1.3 | 1.7 |
| | Digital customers (MM) | 0.8 | 1.8 |
| | Customer satisfaction | Top 4 | Top 3 |
| | Growth in business volumes | >Mkt | >Mkt |
| | Fee income CAGR | 2% ⁽²⁾ | 10% ⁽³⁾ |
| Shareholders | FL CET1 | 12.5% | >10% |
| | RoTE | 13.4% | >16% |
| | C/I ratio | 42.4% | <37% |
| | NPL ratio | 3.8% | <3.5% |
| Communities | Number of scholarships 2016-2018 (k) | | 17.6 |

Note: Group criteria except FL CET1 (1) Out of 42 companies in the financial sector (2) 1H'14-1H'15 (3) 2015-2018

Transparent performance metric for 2016

| Key metric | 1H'15 | 2016 | Improvement | Comment |
|-------------------------------------|--------|--------|-------------|---|
| Digital Customers (k) | 752 | 1,040 | +38% | <ul style="list-style-type: none"> We will improve on-boarding processes to new channels, implement a new multichannel on-boarding strategy and add new functionality to our digital platform |
| Retail Payrolls (k) | 2,970 | 3,319 | +12% | <ul style="list-style-type: none"> Improve on-boarding process to guarantee contactability and focus on client needs Reduction in processing time of loan applications and approval Plan to reduce attrition |
| Credit Card Accounts (k) | 2,593 | 2,900 | +12% | <ul style="list-style-type: none"> Supported by new clients attraction plan and the increase in engagement efforts |
| SMEs Loan Portfolio (MXN MM) | 60,000 | 75,000 | +25% | <ul style="list-style-type: none"> Development of new SME II segment (from 50 to 200 million pesos of annual sales) |

Key takeaways



Mexico has **high potential for growth** in a **strong** and **healthy** financial system



Santander Mexico is well positioned to take advantage of this potential to become the **market leader in profitability and growth...**



...by **strengthening our position in the retail segment** and **consolidating our leadership position in key markets** through...



...an **operational transformation** focused on **quality** and **technological innovation**



Simple | Personal | Fair