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# Hector Grisi

Country Head Mexico

Helping people and  
businesses prosper

Simple | Personal | Fair

## GROUP STRATEGY UPDATE

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

# 2017



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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 been 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)).

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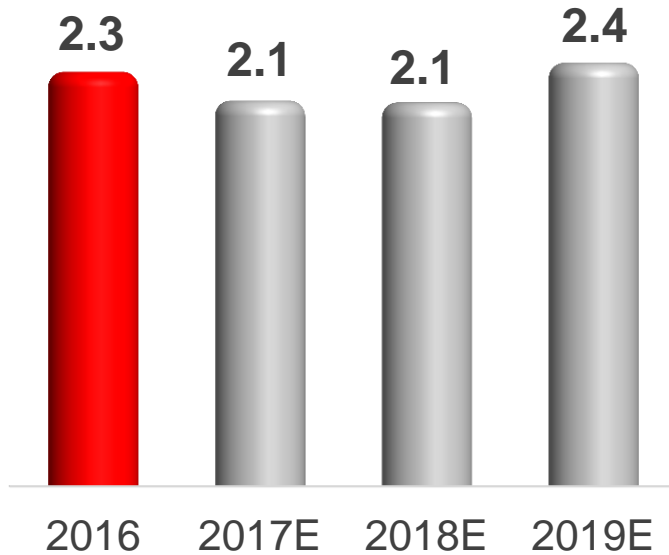


# Mexican market and outlook

# The Mexican economy has shown remarkable resilience...

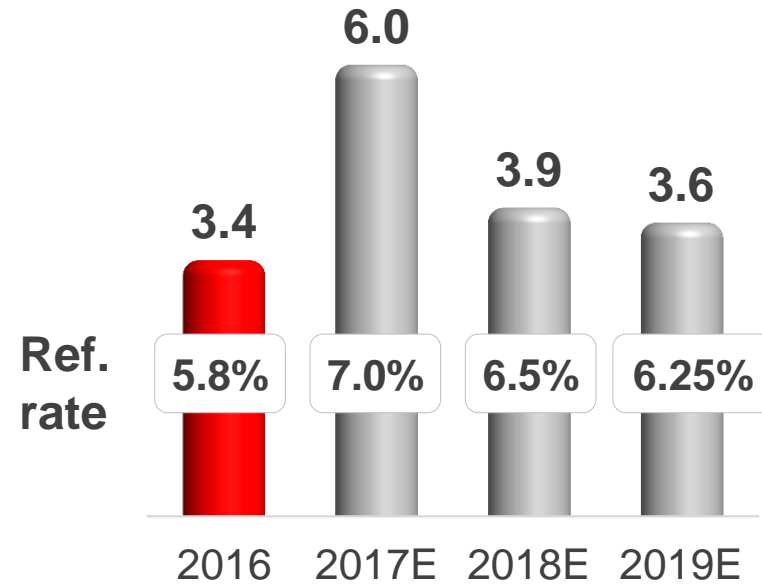
## Stable economic growth

GDP growth (%)



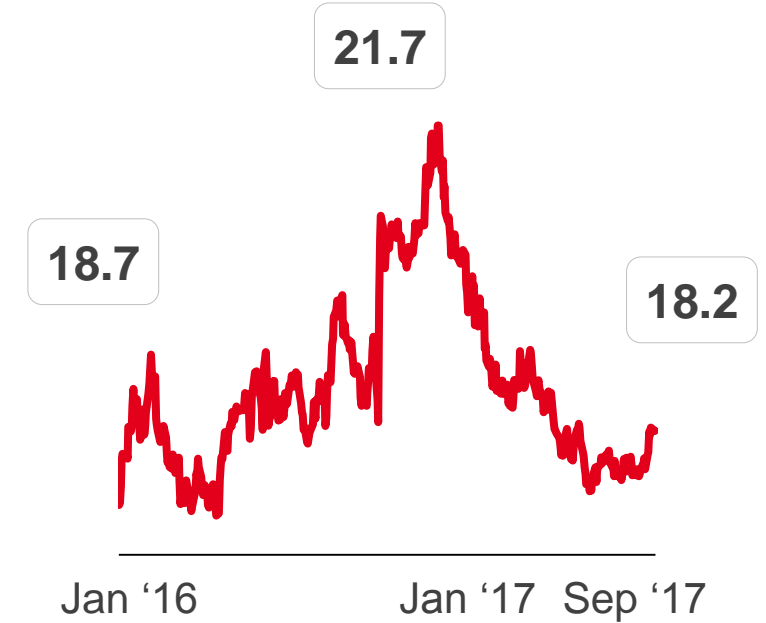
## Hike in interest rates to control inflation

Inflation (%)



## FX back to stable levels

MXN / USD



Private consumption and exports main growth drivers

Strong growth in employment

Low fiscal and external imbalances

Normalised inflation expected in 2018

Uncertainty on NAFTA & 2018 presidential election

Source: Santander Research

# ...and keeps attractive fundamentals for the financial industry



## Positive demographic and socio-economic evolution

- **Young population: +15MM** more working age individuals 2030E
- Growing **middle-class** and **formal employment**



## Financial system with large penetration potential

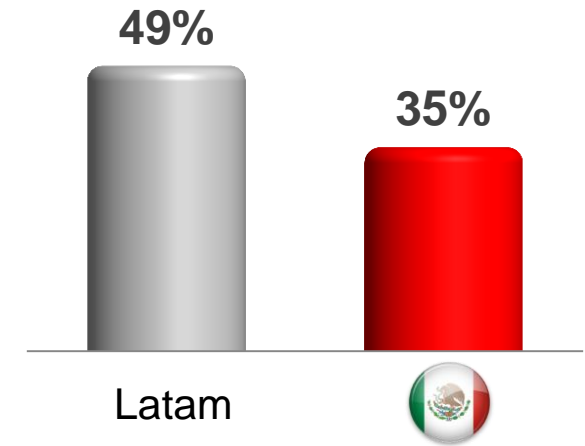
- **Loans to GDP** below other emerging economies
- SME receive only **13%** of financing while contributing **52% of GDP**<sup>1</sup>



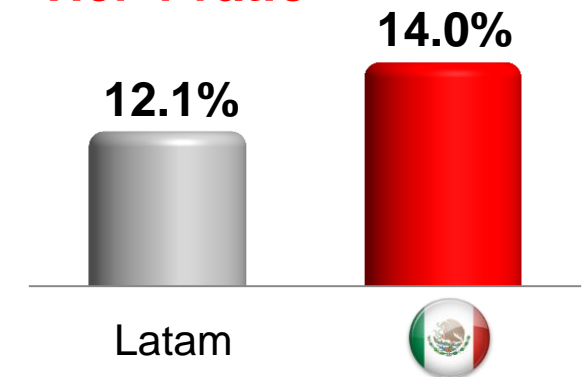
## Sound banking system

- **Double digit growth** in credit and deposits
- Healthy asset quality, **strong capitalisation** and liquidity
- **Stable regulatory environment**

## Loans / GDP<sup>2</sup>



## Tier 1 ratio<sup>3</sup>



(1) Based on financing provided by banks to the non-financial private sector. Source: Banco de México (2) Source: World Bank domestic credit to GDP, CONAPO (3) Latam: Average of Brazil, Chile, Colombia and Peru. Source: IMF

**2**

**Delivering on strategic  
targets ahead of plan**

# We aim to be market leader in profitability and growth, focussing on innovation & operational transformation...



## Goals

- Become a customer centric bank
- Be the market leader in profitability and growth



## Strategic priorities

### Leverage leading position in key segments...

- SME & Middle markets
- Mortgages
- Global Corporate Banking

### ...to increase our business with individuals

- Become customers primary bank
- Continue to increase loyalty
- Acquire new customers with high potential



## Enablers

### Executing 3 year investment plan focussed on:

- Entering new markets
- Technology & infrastructure
- Redefining processes
- Enhancing customer experience
- Embracing digitalisation
- Upgrading data analytics capabilities
- Transforming our culture
- Attracting talent

QUALITY



# ...with clear objectives supported by a well-defined strategy

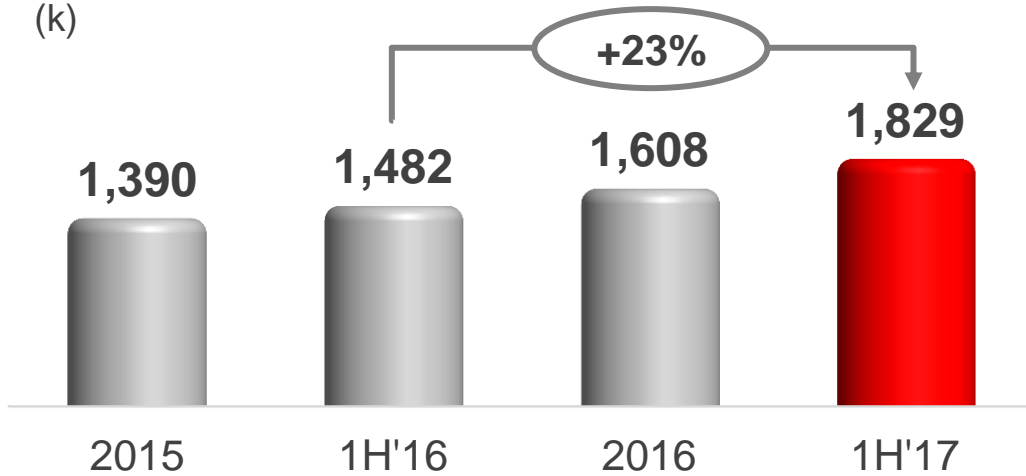




# Improving substantially the quality of our customer base

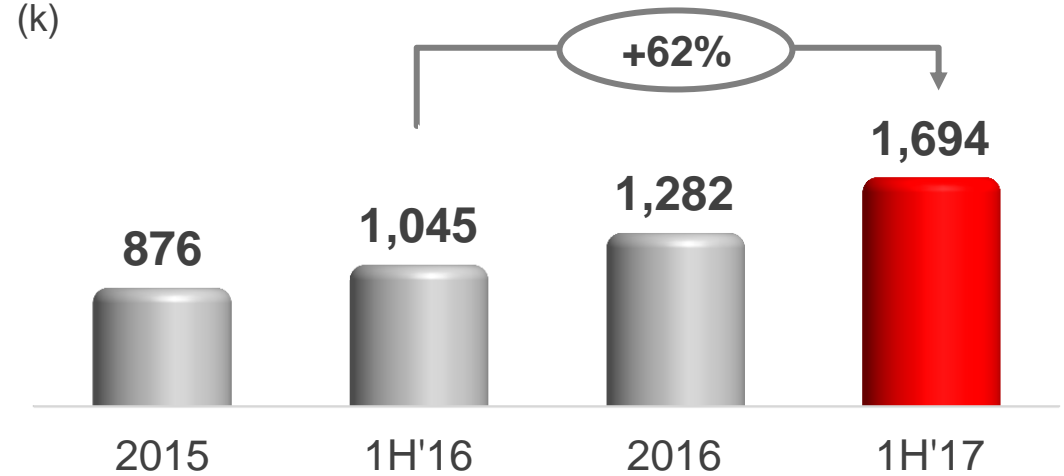
## Loyal customers

(k)



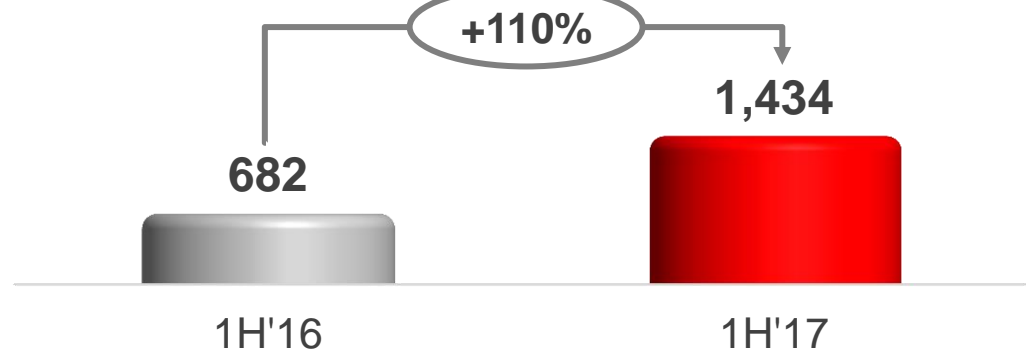
## Digital customer

(k)



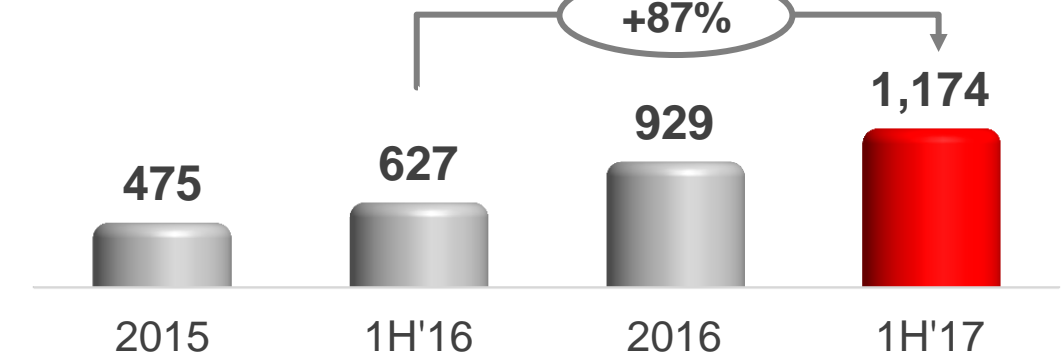
## New customers (net)

(k)



## Mobile customers

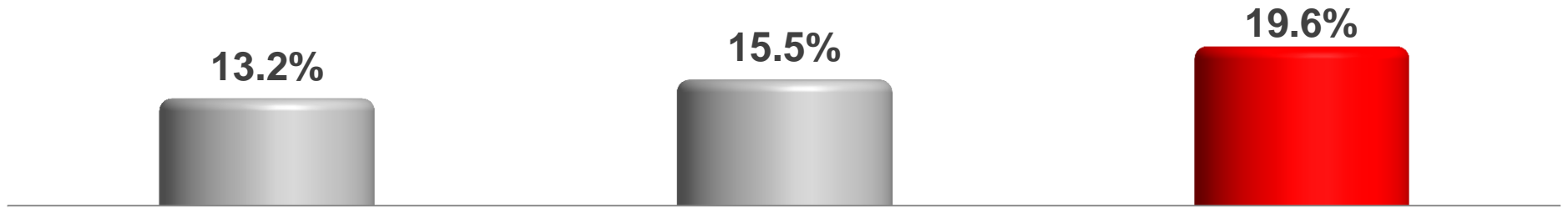
(k)



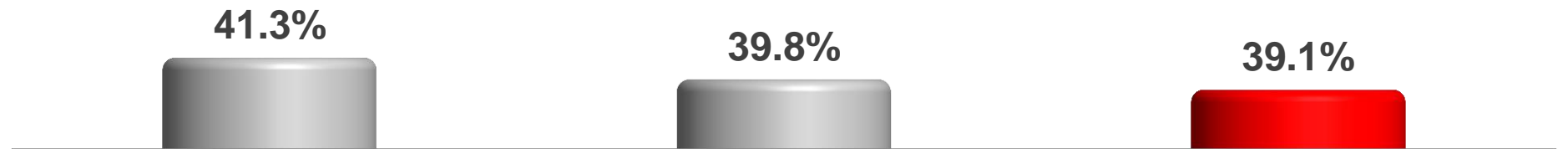


# Delivering shareholder value...

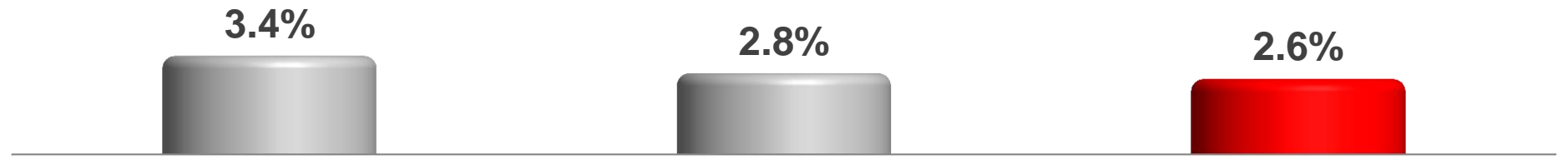
**RoTE**



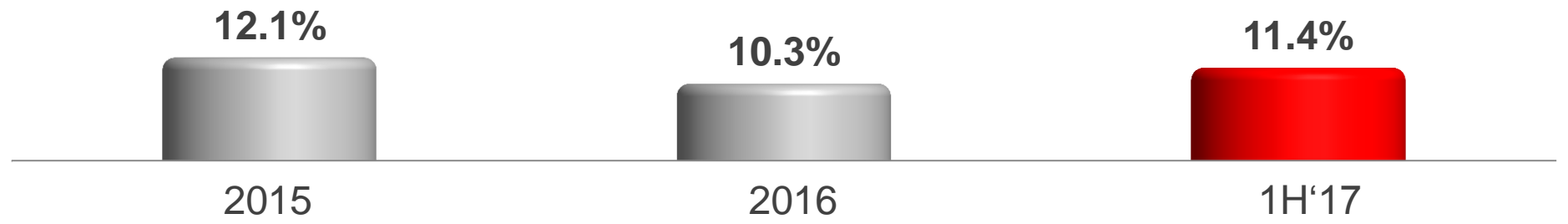
**C/I ratio**



**NPL ratio**



**CET1 ratio<sup>1</sup>**



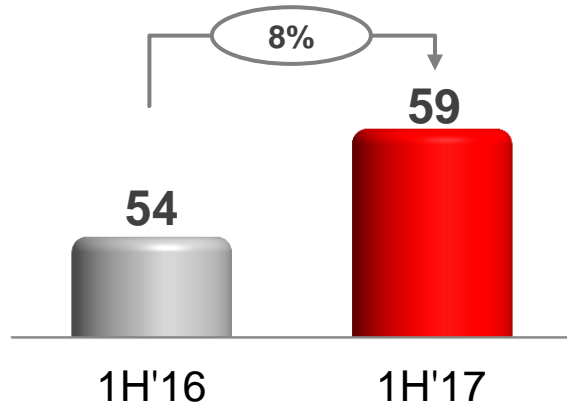
(1) Local GAAP



# ...due to strong financial results focused on profitability improvement

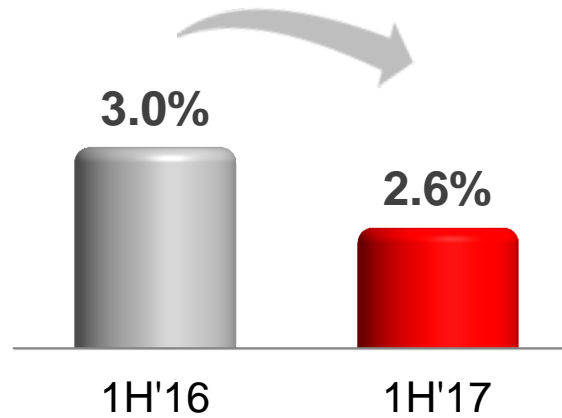
## Business volume growth

Loans & deposits (€MM)



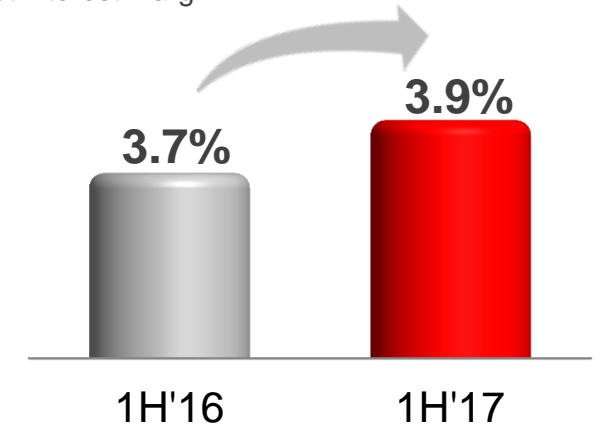
## Asset quality improvement

NPL ratio



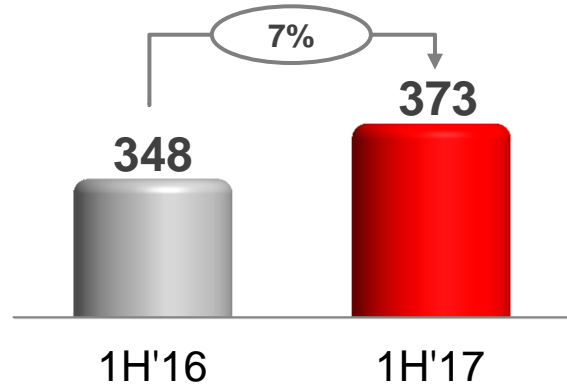
## Increasing NIM

Net interest margin



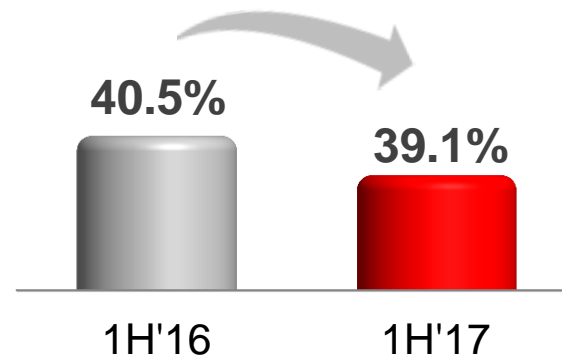
## Growing fees

Fee income (€MM)



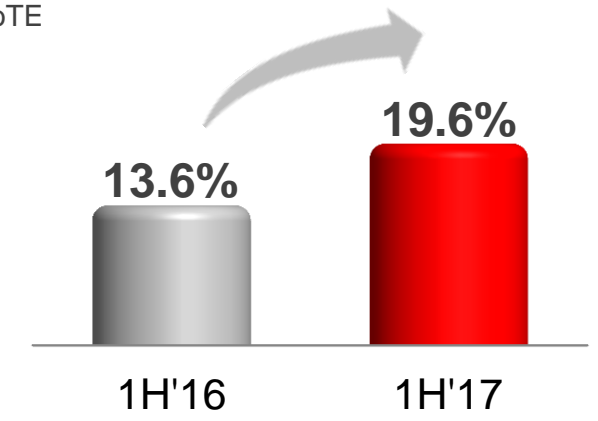
## Enhancing efficiency

Cost-to-income



## Higher profitability

RoTE



Note: Constant euros



# Engaged team delivering the execution of strategic projects

## People

- # 9 company to work for ► **Top 5 by 2018<sup>1</sup>**
- **83% are proud** to work for Santander
- Cultural transformation in process
  - Adapting to working conditions of **new generations**
  - Promotion of **corporate behaviours**



## Communities

- More than **2.9k scholarships**
- **Sustainability index** of the Mexican Stock Exchange
- **>25k children benefited** by the Trust for the Children of Mexico in 2016
- Recognised as the **most socially responsible bank** in Mexico for 2<sup>nd</sup> straight year



(1) Out of 42 companies in the financial sector

**3**

**Positioned to capture  
further growth opportunities**

# Our strength in key segments and footprint enable us to close gaps

## Strengths



SME loans



Middle market



Mortgages



Credit Cards

## Opportunities



Auto loans



Payroll loans

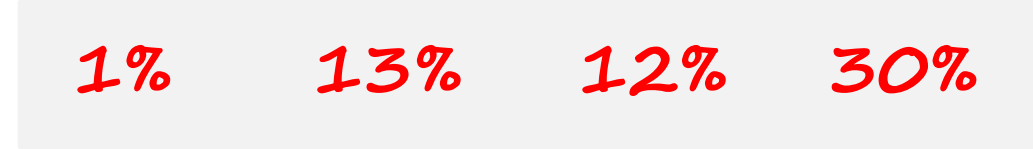


Payroll deposits



Individual deposits mix<sup>1</sup>

 Market share as of Jun'17



vs. market average of 45%

*Consolidating our corporate franchise to increase our business with individuals and enhancing collaboration strategies*

 **Corporate**

 **Middle market**

 **SME**

Source: CNBV (1) Individual deposits / Total deposits



# Aiming to be Mexico's best Corporate Banking franchise with a differentiated business model

## Corporate & Investment Banking Coverage

### Structured Finance

- Best Investment Bank in Mexico<sup>1</sup>

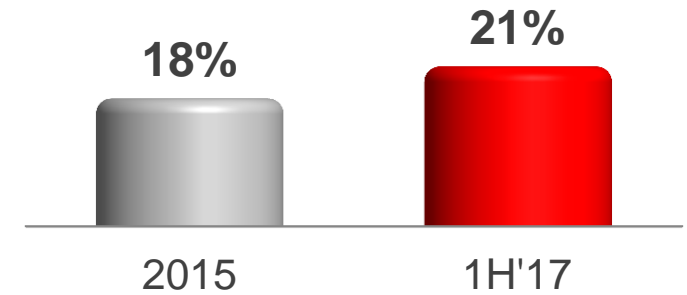
### Lending & cash management

- Strong share-of-wallet
- Risk-free business

### Markets

- **#1** ETDs
- **#2** Fixed Income
- **#3** FX

## GCB contribution to PBT



## Collaboration between business units

- ✓ Global coverage
- ✓ Relationship-driven strategy
- ✓ Teams led by senior bankers, product specialists and risk analysts
- ✓ Combining local knowledge with the global expertise



- Payroll attraction
- Private banking references
- Investment banking products for middle market customers
- Markets solution for middle market and SME

(1) Euromoney 2017





# Tailored offering for Middle-Market and SME with a customer centric model

## Middle-Market

- Geographic coverage expansion
- Developing transactional services solutions
- Offering investment banking products
- Specialized expertise across sectors
- Cross-border initiatives



75% of total payrolls attracted...

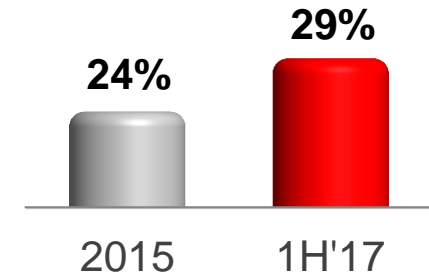


...with 1/3 loyal customers



+2 new zones +13 new teams

### PBT Contribution



## SME

- Differentiated model in terms of customer's needs
- Specialised branches
- Financial markets solutions
- End-to-end digital processes
- Strategic alliances for client attraction



170k active clients

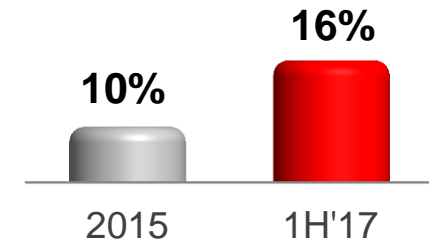


127k Digital customers<sup>1</sup>

# 12%

Loan growth (Jun'15-'17 CAGR)

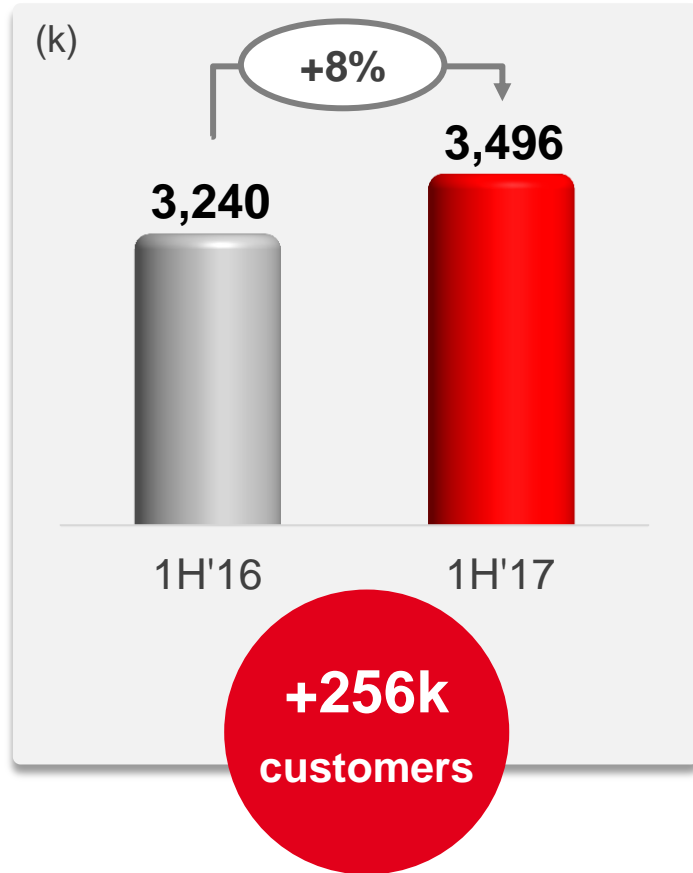
### PBT Contribution



(1) Digital customers includes transactional customers

# On retail we are attracting new customers and increasing loyalty...

## Comprehensive payroll program



## Santander Plus

**Loyalty program** based on payroll to attract customers and promote transactions

- **Strong reduction in attrition** (+110% net new customers)

+2MM customers

+

## AEROMEXICO credit card

Co-branded credit card with Mexico's leading airline carrier

- **35% new customers**
- Increased **share-of-wallet** with customers

+658k cards

A *loyal* customer is **4x more profitable**

# ...and broadening our scope with new high-potential businesses



## Auto loans

- Grow customer base and portfolio
- Unique digital and customised offer
- Leverage global expertise and relationships



## Insurance

- Strong fee generating business
- Leverage on existing corporate customers to accelerate growth



## Leasing

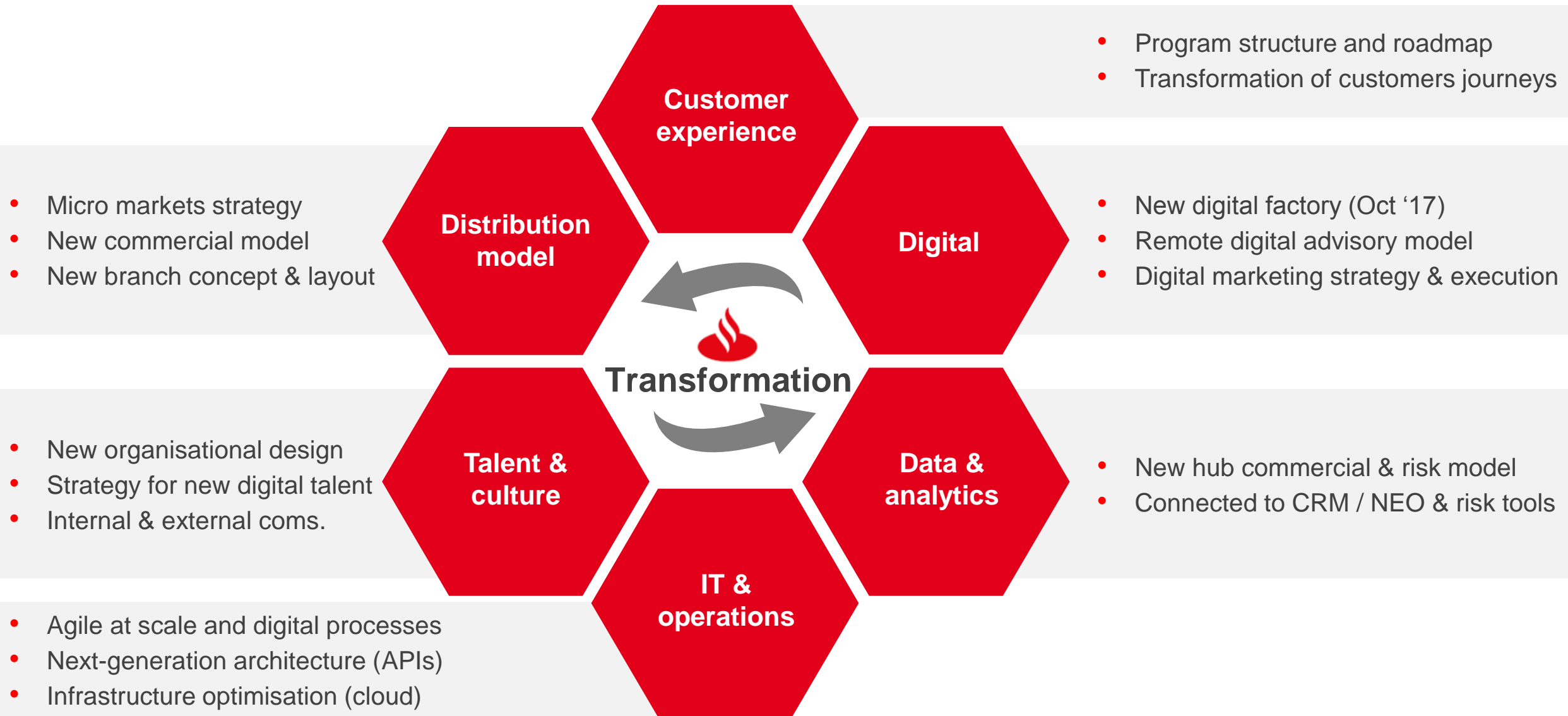
- New customised product offering to SME, middle market and corporate customers



## Financial inclusion

- Comprehensive offer to low income individuals
- Leverage technology to improve operating model
- High social impact (benefiting >350k families over the next 5 years)

# Transforming deeply to become our customers' 1<sup>st</sup> bank





# Key takeaways

# We are delivering ahead of plan and with an improved RoTE

		2015	2016	1H'17	2018
<b>People</b>	Employer ranking	Top 9	Top 9	Top 9	Top 5
	Commercial turnover	14.7%	15.3%	17.7%	~12%
<b>Customers</b>	Total loyal customers (MM)	1.4	1.6	1.8	1.7
	Digital customers (MM)	0.9	1.3	1.7	1.8
	Customer satisfaction	Top 3	Top 3	Top 3	Top 3
	Loans YoY	19%	8%	2%	DD <sup>1</sup>
	Fee income YoY	4%	4%	7%	10% <sup>1</sup>
<b>Shareholders</b>	FL CET1	12.1%	10.3%	11.4%	>10%
	RoTE	13.2%	15.5%	19.6%	~20%
	C/I ratio	41.3%	39.8%	39.1%	37-39%
	NPL ratio	3.4%	2.8%	2.6%	<3%
<b>Communities</b>	BMV Sustainability Index				
	Number of scholarships 2016-2018 (k)	3.5	4.0	2.9	17.6

(1) CAGR 2018/2015

- **Santander Mexico** is delivering **its commitments ahead of plan** as it is already taking advantage of its potential to become the **market leader in profitability and growth...**

...by **leveraging our strong position** in SME, middle market and corporates **to attract new individual customers** and become their primary bank

- Our **ongoing operational transformation** focused on customer experience and **technological innovation** will increase our customers loyalty and enhance profitability



# 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**

