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# José Antonio Álvarez

Group Chief Executive Officer

**GROUP  
STRATEGY  
UPDATE**

LONDON, 30 SEPTEMBER

Simple | Personal | Fair



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# Content

- 1 Delivering in a challenging environment**
- 2 Focus on execution: placing customers at the centre of our model**
- 3 Key priorities in our main markets: a profitable growth story**
- 4 Looking forward and key takeaways**

# 1

## Delivering in a challenging environment

# We are on plan to deliver our 2016 commitments...

	2015	1H'2016	2016 commitments	
Fee income <sup>1</sup>	3.0%	6.6% <sup>2</sup>	Increase	✓
Cost to income ratio	47.6%	47.9%	Stable	✓
Cost of risk	1.25%	1.19%	Improve	✓
Underlying RoTE	11.0%	11.1%	Improve	✓
TNAV / share (€)	4.07	4.13	Increase	✓
Cash dividend / share (€cents)	15.8	17.2 <sup>3</sup>	Increase	✓
FL CET1	10.05%	10.36%	10.45%	✓

(1) Currency neutral (2) +7.7% including perimeter: PSA and Banco Internacional do Funchal (3) 2016(e), assuming an acceptance percentage of the scrip dividend equal to that in 2015

# ...within a sector facing 3 challenges

1

**Mature markets  
profitability  
headwinds**



- A low-economic growth
- Low and flat yield curve
- New regulatory environment

**Structurally higher  
profitability  
in Emerging Markets**

2

**Need to redefine  
customer  
relationships**



- More demanding customers...
- ...who require a better service at a lower cost
- The industry needs to place the customer at the centre of the business model

3

**New entrants**



- Banking disintermediation
- Shadow banking
- Digital players

# 1 Profitability headwinds in mature markets while structural higher profitability in emerging markets

## Mature markets

## Emerging markets

### Revenues

- Lower nominal **growth**
- **Lower interest rates** for longer
- Asset pricing **pressure**
- **Lower credit demand**

- **Cyclical adjustment** (mostly) completed
- Stable political / regulatory **environment**
- Structural **growth** remains intact

### Costs

- Higher **regulatory / compliance costs**
- **Tax** increases
- **Digital transformation** needs investments

- **Nominal growth** but maintaining **positive jaws**

### Capital

- Upwards pressure due to **regulation**

- High capital levels required to finance growth

## RoTE

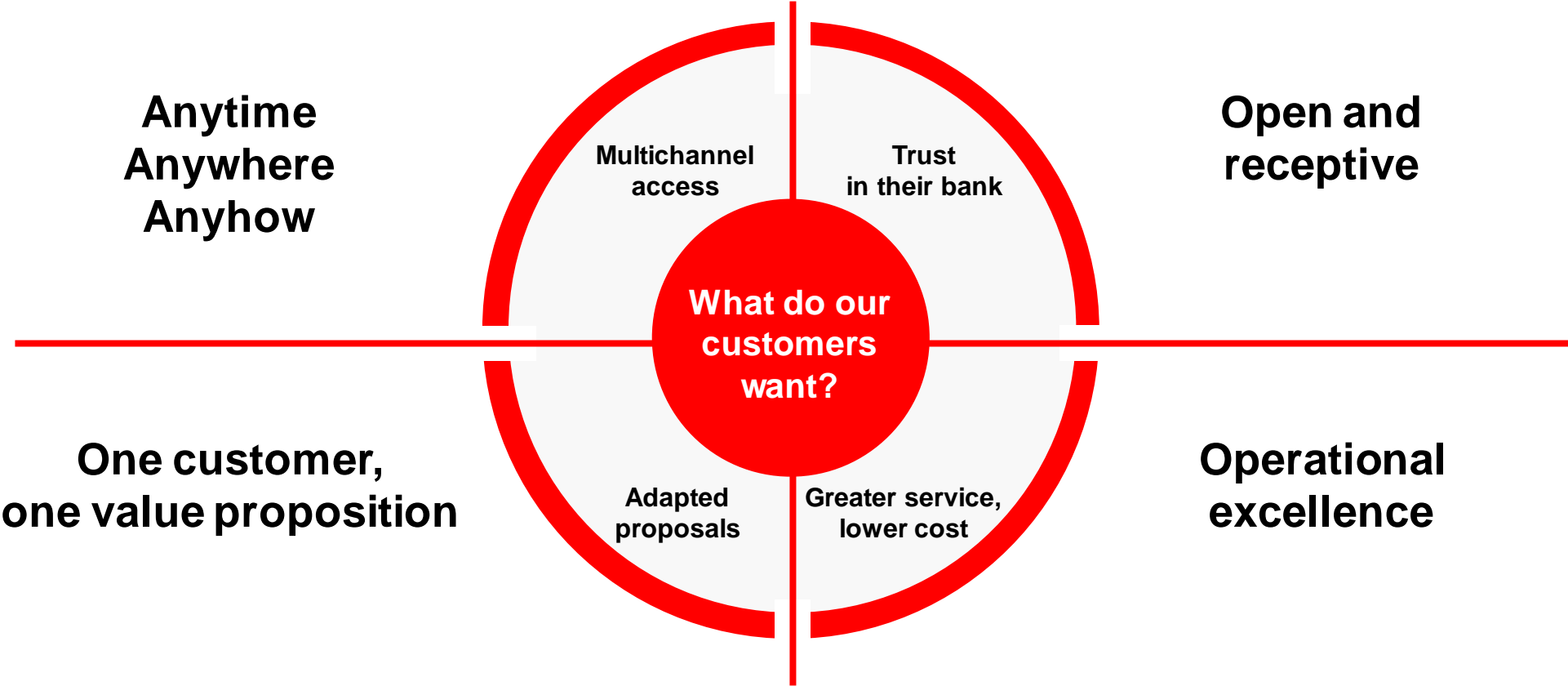
**below cost of capital**  
(European banks)

## RoTE

**15-20%**  
**with sustainable high growth “g”**

**2**

Need to redesign customer's relationships: a commercial transformation is required



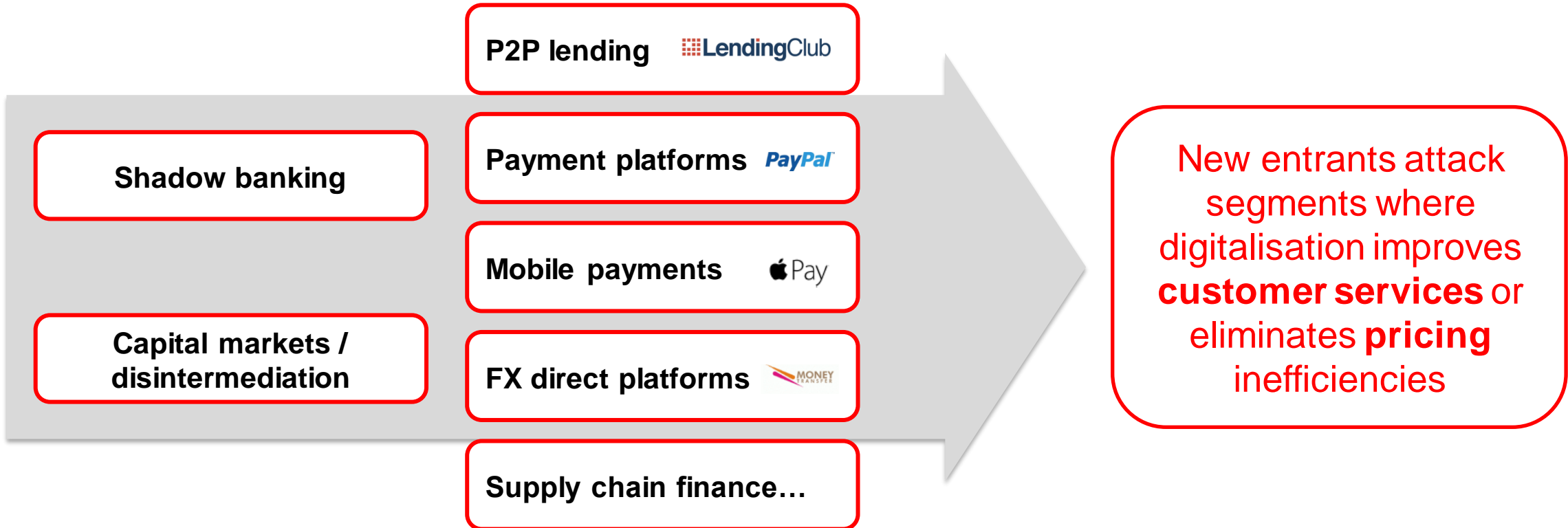
Customer's experience & loyalty become a must



# 3 New entrants compete in less capital intensive segments

## Financial competitors

## Technology competitors



# Santander's strategy tackles these 3 sector's challenges

## Challenges

## Executing our strategy

## Outcome

1

**Mature markets  
profitability  
headwinds**

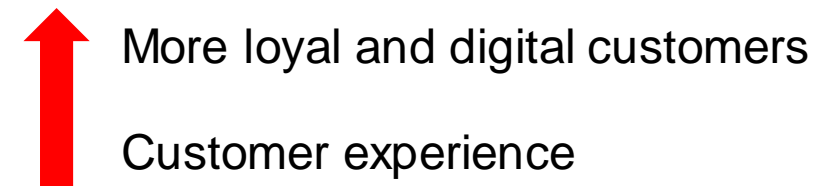
- Commercial transformation
- Operational excellence
- Capital optimisation
- Digitalisation



2

**Need to redesign  
customer  
relationships**

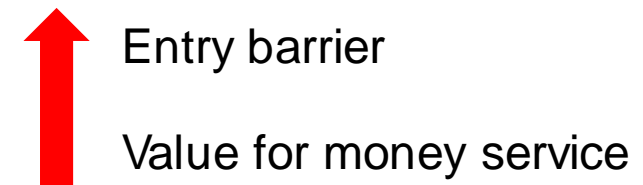
- Commercial transformation
- Operational excellence
- Processes re-engineering



3

**New entrants**

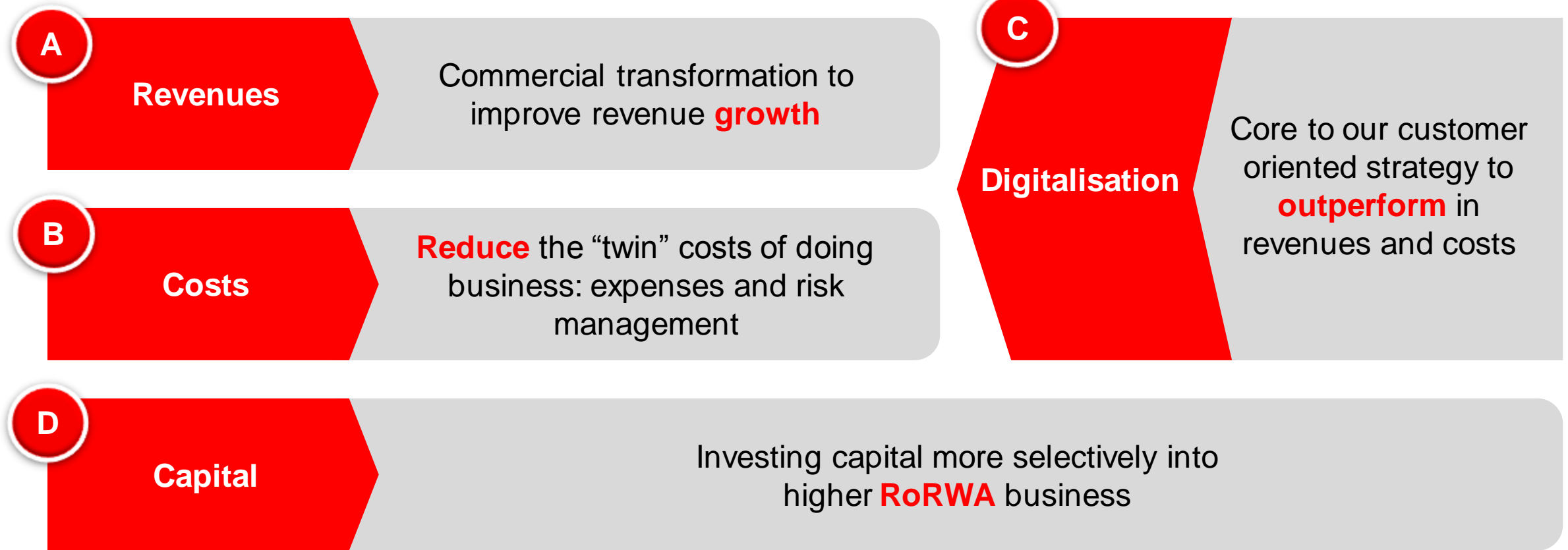
- Commercial transformation
- Digitalisation



# 2

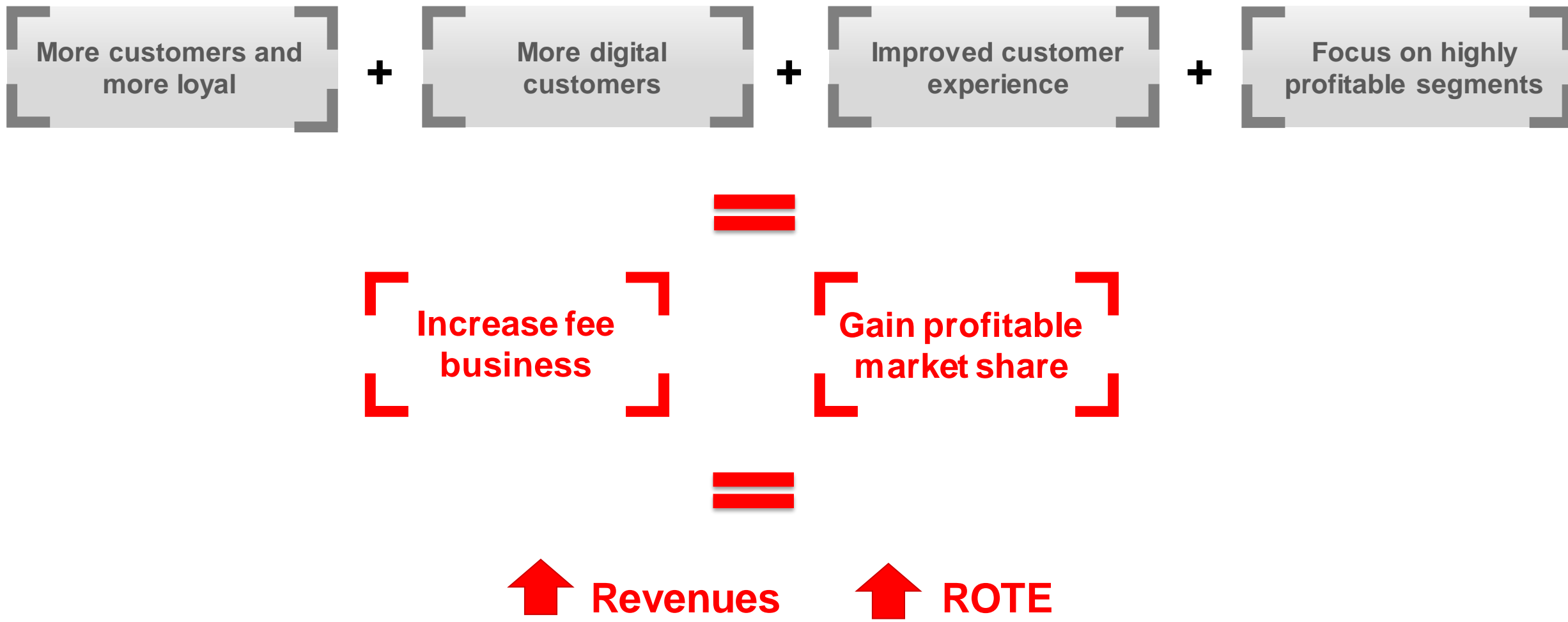
**Focus on execution: placing customers at the centre of our model**

# Clear strategy, focused on execution



## Improve RoTE

# A Revenues: commercial transformation to improve revenue growth

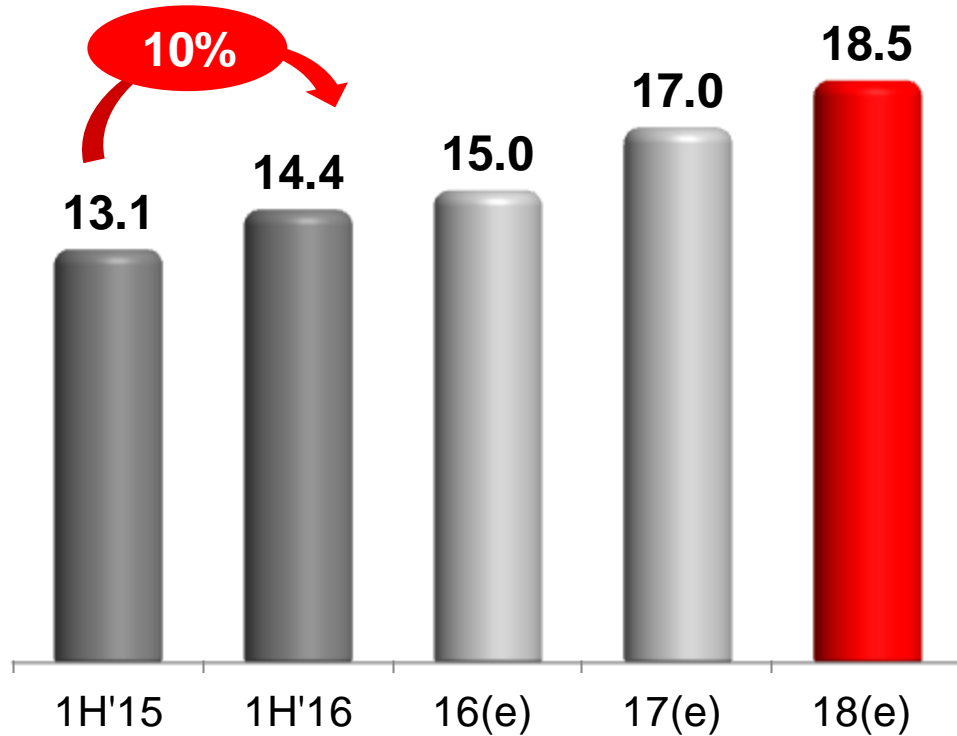


**A**

# Revenues: loyal customers growth consistent with our commercial transformation

## On track to meet our targets

Loyal customers (MM)



Since the launch<sup>1</sup>

 **Spain**



**100k** SME customers  
**1.1MM** retail customers

 **Brazil**



**650k** new accounts

 **Mexico**



**174k** credit cards in only 4 months

 **Portugal**



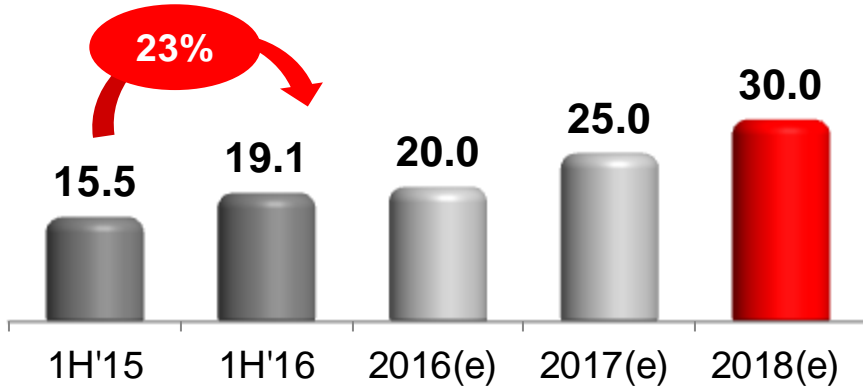
**130k** customers

(1) Spain: 1|2|3 current account from May'15 to Jun'16, 1|2|3 SME from Nov'15 to Jun'16. Brazil: ContaSuper from 2012 to Aug'16. Mexico: Aeromexico from Feb'16 to Aug'16. Portugal: Mundo1|2|3 from Mar'15 to Aug'16

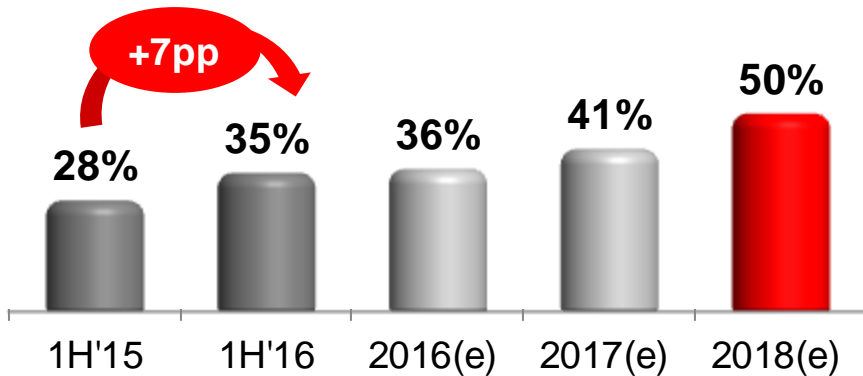
# A Revenues: strong growth of digital banking customers

## On track to meet our targets

Digital customers (MM)



% digital customers / total active customers



Since the launch<sup>1</sup>



**NeoClick – loans in 3 clicks**

**+40k loans, \$200MM**



**Biometric authentication**

**+4MM customers, 8MM by year end**



**Digital bank awards**

**Best digital bank in Argentina**  
(Global Finance magazine)



**Banking app ranking**

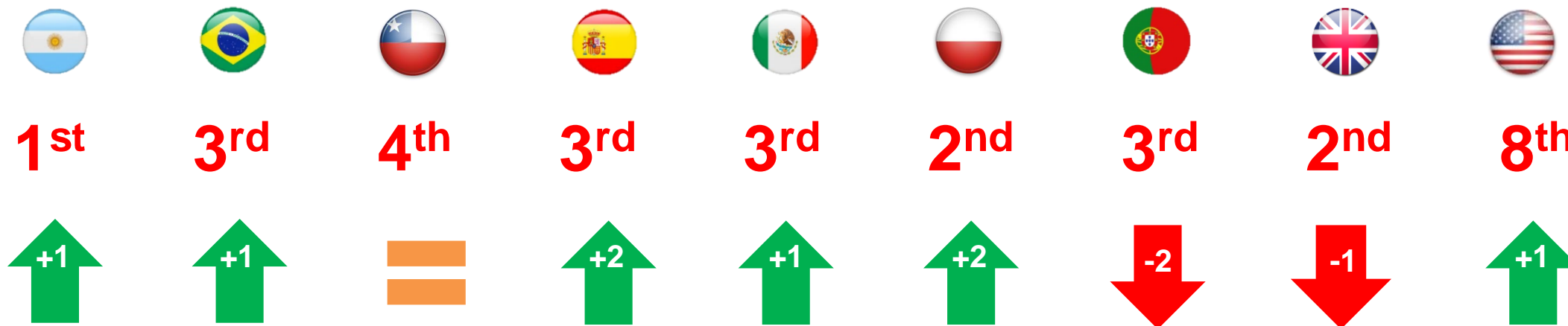
**3<sup>rd</sup> best European banking app**  
(Forrester research)

(1) Chile: NeoClick from Apr'16 to Aug'16. Brazil: Biometric authentication from Jan'16 to Aug'16

A

# Revenues: continuous improvement on customer experience

Evolution in customer satisfaction rankings<sup>1</sup>



2018 target:  
all geographies  
**Top 3 in customer  
service<sup>2</sup>**

(1) Corporate customer satisfaction benchmark. 1H'16 vs. 1H'15

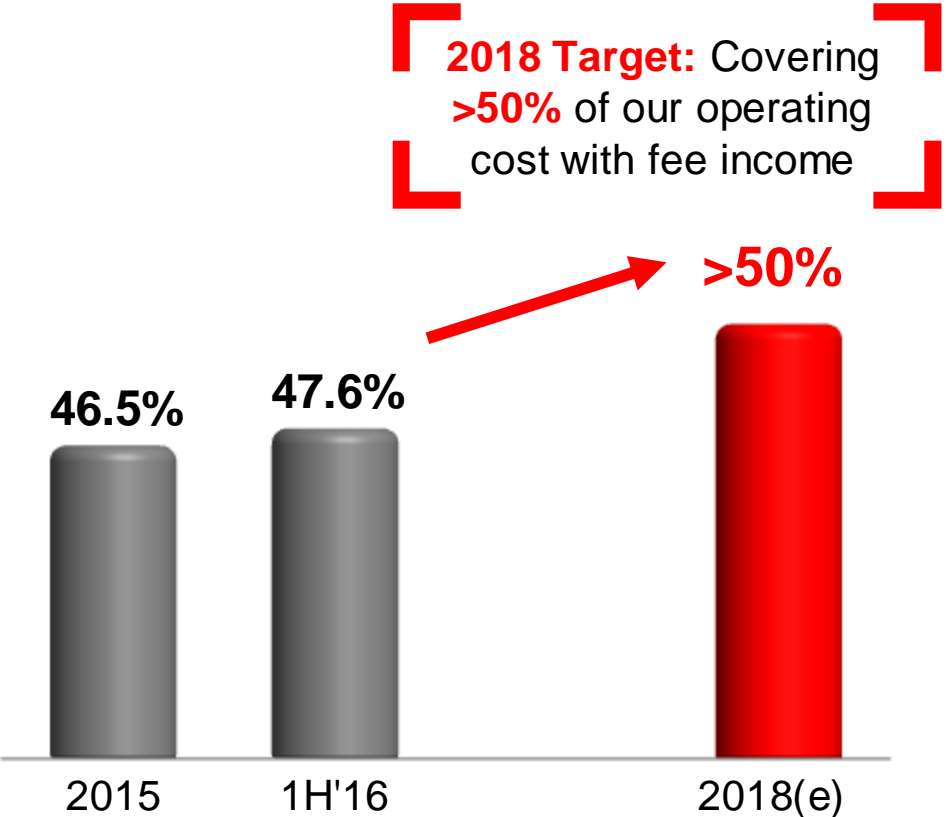
(2) Except for the US – approaching peers



A

# Revenues: our commercial transformation delivers fee business growth and profitable market share gains

## Our recurrence ratio (fees/costs) is improving



1H'16 vs. 1H'15

### International business

Revenues **+13%**

### Insurance

Premiums (open market) **+10%**

### Cards

Volumes (turnover) **+11%**

# B Costs: reducing the 'twin' costs of doing business

1

**OPERATING COSTS**  
Operational excellence

- Targets**
- All geographies **top 3 in customer service**<sup>1</sup>
  - Cost to income ratio: 45-47% in 2018
  - Leading Cost-to-income in the industry

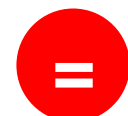
- Customer loyalty
- Flat costs in real terms

2

**COST OF RISK**  
Excellence in risk management

- 2015-2018 average **cost of risk 1.2%**

- Reducing CoR across the cycle

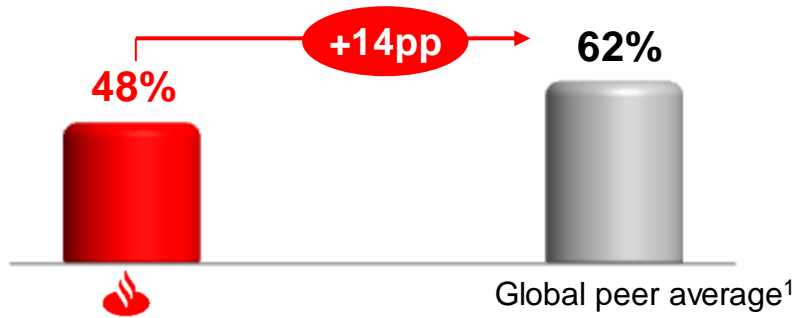


**Higher profitability**

(1) Except for the US – approaching peers.


# B Costs: committed to deliver flat cost growth in real terms

## One the most efficient international banks



## Initiatives to capture savings

**HQ** Re-sizing and optimisation

 Re-sizing (c.450 branches) and optimisation

 **Fit-to-Grow** program

 **Headquarters optimisation**

 **Footprint optimisation** and digital transformation

 **Organisational** and IT optimisation

 **Post merger integration** (BANIF)

 **Process reengineering**

**Mid-single digit cost reduction**

## Our principles

- Cost-growth below / around inflation
- **Positive jaws**
- IT investments **financed by BAU savings**
- **Simplification** of corporate centres
- **Branch network optimisation**

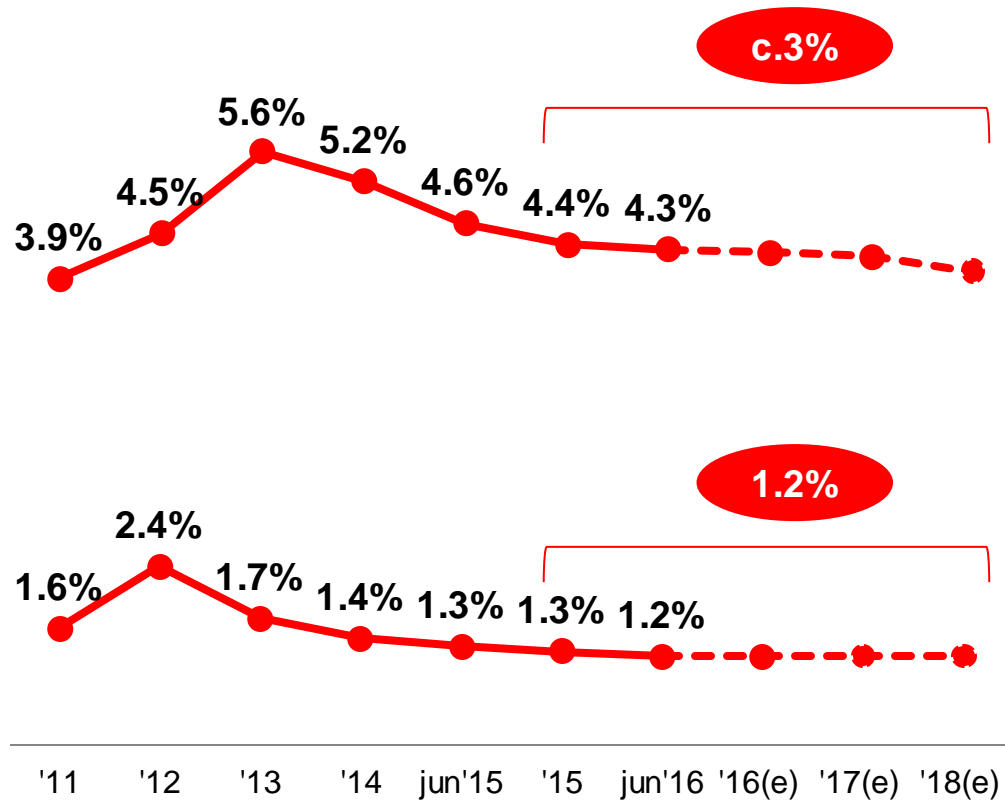
┌ **2018 target** ┐  
└ **C/I 45-47%** ┘

**=**  
**Santander to continue to lead on efficiency**

(1) BBVA, BNP Paribas, HSBC, Intesa Sanpaolo, Lloyds, Société Générale, UBS, UniCredit, Barclays, Bank of America, Wells Fargo, Citi, JP Morgan, Itau and ING. Source: Company data – Bloomberg

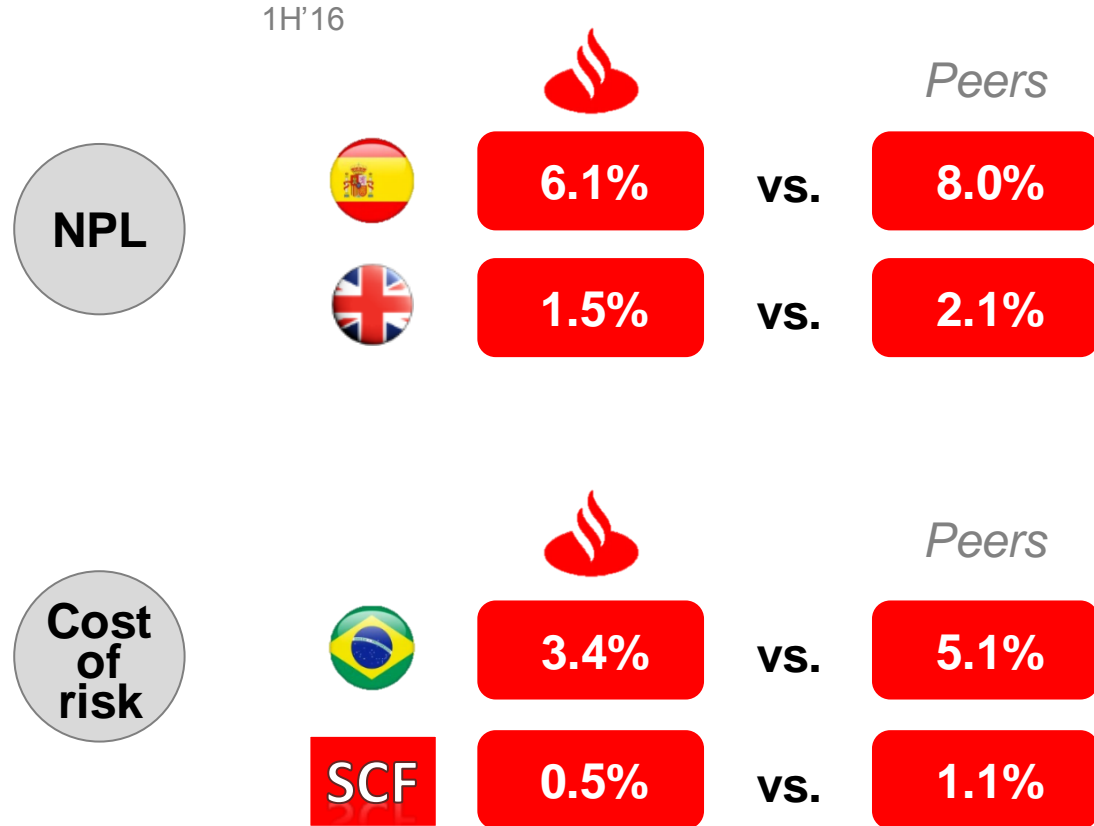
# B Costs: reducing the cost of risk across the cycle

## Comfortable asset quality trends...



## ...and outperforming local peers<sup>1</sup>

1H'16








Avg. 2015-18

Note: Local criteria

(1) Spain: BBVA España, Popular, CaixaBank, Bankinter, Bankia and Sabadell; UK: Barclays, RBS, LBG, Nationwide and HSBC Bank plc; Brazil: Large private banks; SCF: Credit Agricole and BNP

# c Digitalisation creates a 'virtuous circle' on P&L dynamics

Digitalisation	Service/revenues improvement	Expense savings	Cost of risk savings
 ...of front	✓	✓	
 ...of big data	✓		✓
 ...of processes	✓	✓	
 ...of architecture (cloud)		✓	
 ...of software development		✓	

1H'16 vs. 1H'15



“Atendimento Digital”

**+20%** loyal customers, **+30%** gross margin and **-25%** service costs



“NeoClick”

**93%** of process is paper less = **200K** sales force hours



“Customer service centre”

**-35%** branch transactions and **+20%** sales



“Buy-by-click”

**100%** digital granting process



“Risk data aggregation”

Big data infrastructure: **-25%** cost reduction

# D Capital: A disciplined approach to use our capital

## Our golden rules...

Currency neutral. 1H'16 vs. 1H'15



**Loan growth > RWA growth**  
4% > 1%

**Profit growth > RWA growth**  
9% > 1%

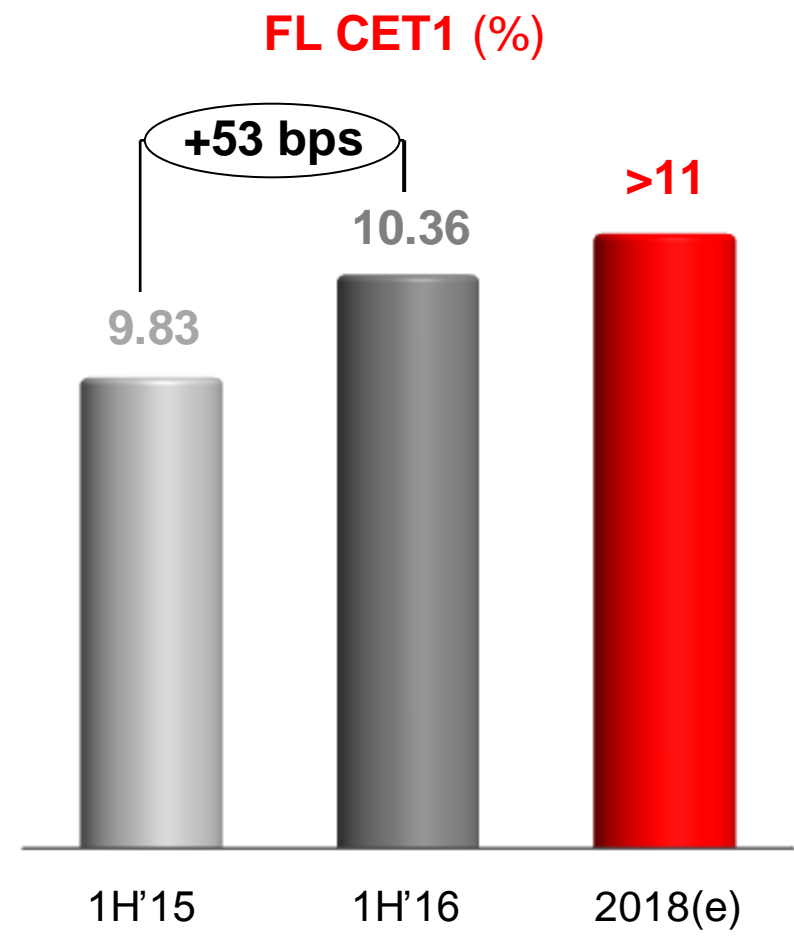
**Capital selectively allocated into higher RoRWAs businesses**

RoRWA<sup>1</sup> **1.30%** vs. **1.35%**

Dec'15                      Jun'16

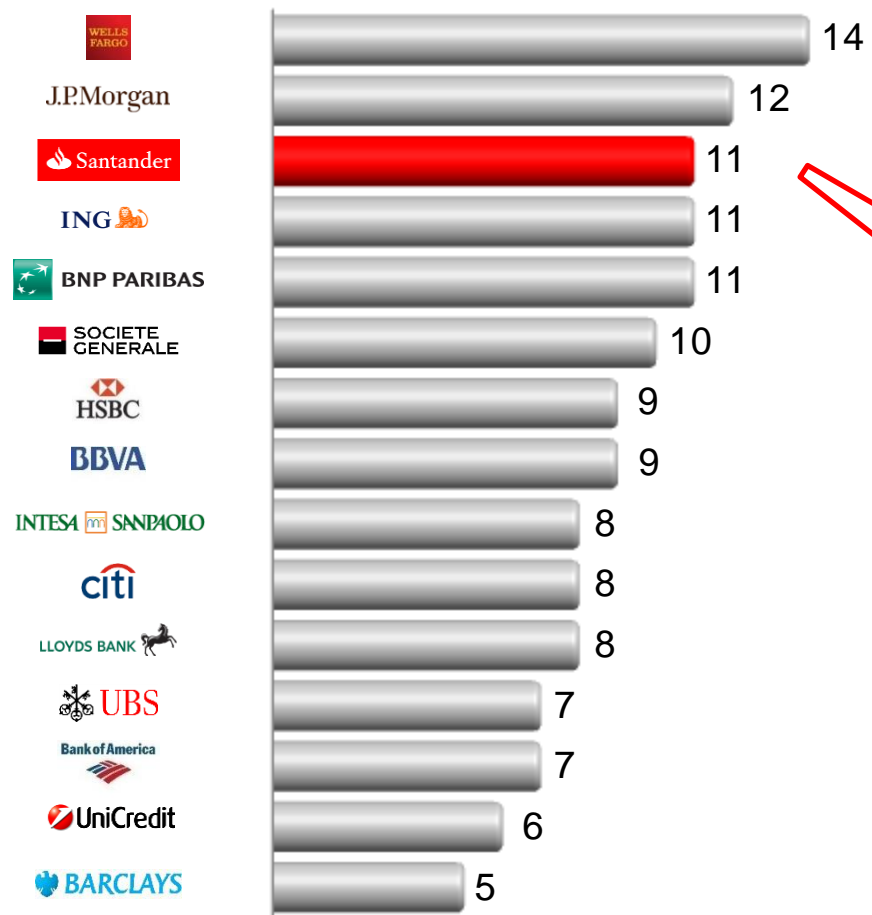
(1) Underlying consolidated profit / average risk-weighted assets

...to allow us to accumulate capital after growing cash DPS and the business



# Our strategy, business model and execution allow us to fund profitable growth, increase cash dividend per share and accumulate capital

## RoTE 1H'16<sup>1</sup> (%)

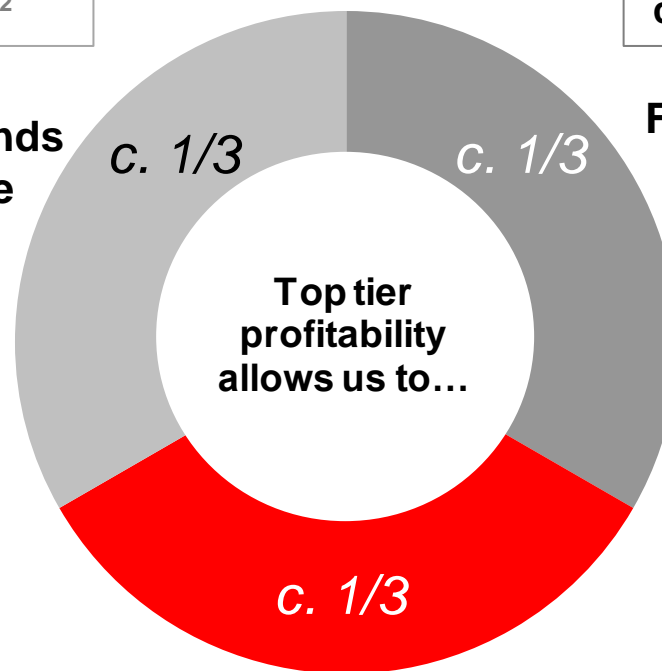


**+10%**  
cash DPS<sup>2</sup>

**Increase cash dividends per share**

**+4%**  
customer loans<sup>3</sup>

**Fund business growth**



**Accumulate capital**

**+53bps**  
**FL CET1**

(1) Source: Based on public company data - Bloomberg. Santander Underlying. RoTCE for US Banks

(2) 1<sup>st</sup> interim dividend charged to 2015-16 earnings

(3) Currency neutral

# 3

## Key priorities in our main markets: a profitable growth story



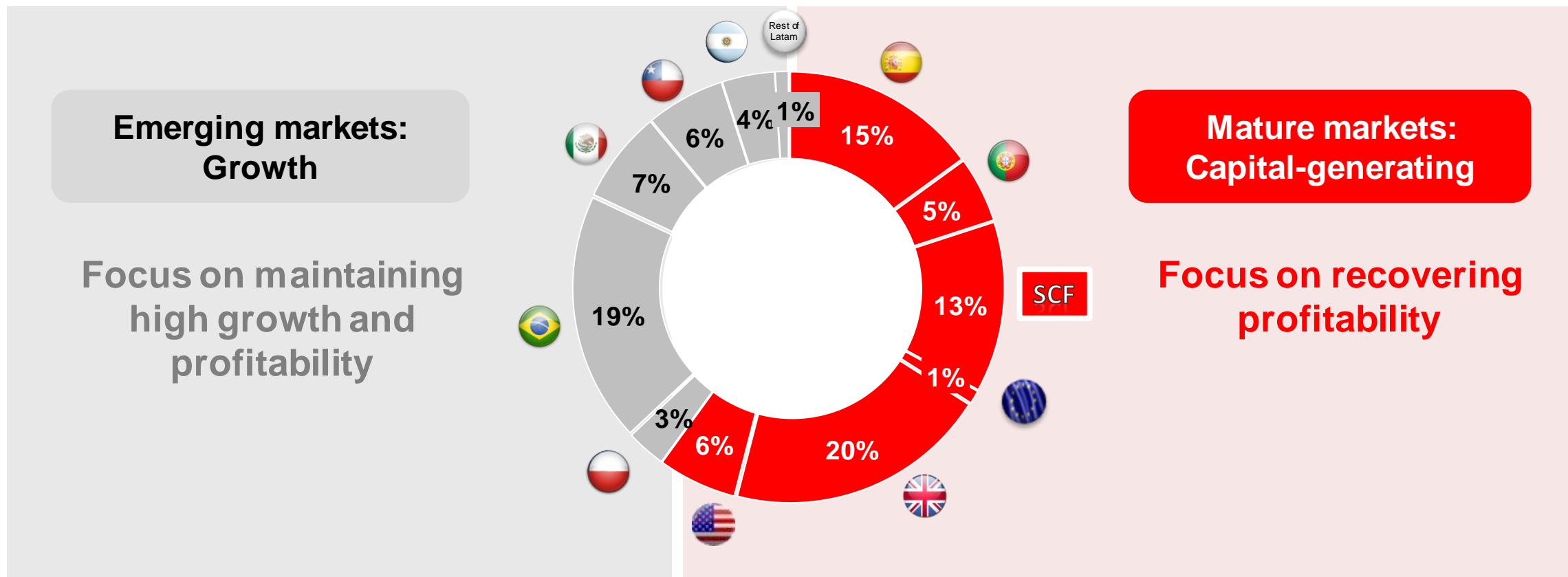
# As mature markets profitability headwinds remain, long-term presence in Latam is a strong competitive advantage

	Latam	Europe & US
<b>Yield curves</b>	Steeper and higher	Low / negative
<b>Low levels of banking penetration</b>	c.40%	c.95%
<b>Low leverage Debt/ GDP</b>	<100%	>200%
<b>Credit demand (2015-2020)</b>	Sustainable high double-digit growth	Low single-digit growth
<b>Nominal GDP growth (2015-2020)</b>	+6-8%	+2-3%
<b>Growing population (2015-2020)</b>	+2%	+0.5%
<b>Middle class (2009-2030)</b>	+73%	-4%

Source: Eurostat, U.S. Census, Cepal, The Economist Intelligence Unit and IMF

# Two differentiated markets and approaches to sustain profits and dividends growth

Underlying attributable profit (1H'16)



# Spain and UK

## Key priorities



- Recovery of profitability to **c.13%**
- **Loyal** and **digital customer** growth and **market share** gains
- Focus on **fee businesses**
- **Operational excellence** improvements

## Key priorities



- We maintain our **strategy**
- **Only scale challenger in the UK**
- **Customer loyalty** and market share growth
- **Cost management** remains a priority
- Enhanced **focus on risk management** and protecting current **RoTE**

# Brazil and Mexico

## Key priorities



- Focus on **revenue growth**: improving risk adjusted margins and fee business
- **Increasing market share**: acquiring (GetNet), consumer, SMEs...
- **Digital transformation**
- Continued improvement in **risk management** and **collections**

## Key priorities



- Grow our franchise to **become #2 / #3 operator** in most segments
- Improve **retail customers franchise** while maintaining our strengths
- **Infrastructure** and **digitalisation**
- Improve **RoTE** to **c.17%**

# SCF and US

## Key priorities

SCF

- Maintain **high profitability** and continue to gain **market share**
- Expand **agreements** with pan-European retailers
- **Digitalise** the business model
- Continue to be a **mostly self-funded operation**

## Key priorities



- Enhance elements to meet **regulatory requirements**
- Improve **customer experience** and gain **brand awareness**
- Maintain **leadership** in Auto Finance
- Recover **profitability**: above CoE for SBNA and maintain high levels at SC USA

# Portugal and Poland

## Key priorities



- Leading **RoTE** and top **RoRWA**
- Focus on profitable **market share** gains (corporates / SMEs)
- Improve in **customer loyalty** and **cost efficiency**
- Active asset quality management: **reducing NPL ratio to below 6%**

## Key priorities



- Maintain **RoTE leadership**
- Achieve above market growth in **volumes and profits** while growing our **loyal customer base**
- Continue **digitalisation**
- Monitoring **regulatory cost** and its impact on cost of risk

# Chile and Argentina

## Key priorities



- Keep high **profitability, efficiency** and **capital discipline**
- Maintain **market leadership** / continue to grow **market share profitably**
- Work on **productivity gains** to achieve consistently positive jaws
- At least **top 3 in customer experience**

## Key priorities



- Establish Santander as the **market leader** in a normalising economy
- Focus on **revenue / market share** growth
- **Maintain RoTE** in a falling CoE environment

# 4

## Looking forward and key takeaways







Santander is well placed to overcome current sector challenges due to its **unique business model** and **commercial transformation** and to continue to deliver **profitable organic growth**



Strong increase on **loyal and digital** banking customers while delivering **operational excellence** in a less **capital** intensive growth model



As we work to progressively **improve mature markets profitability** despite current headwinds, long-term presence in **LatAm is a strong competitive advantage** to offer quality and predictable **shareholder value creation**





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