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Agenda

1 Market and financial system

2 Strengths and opportunities

3 Strategy

4 Targets

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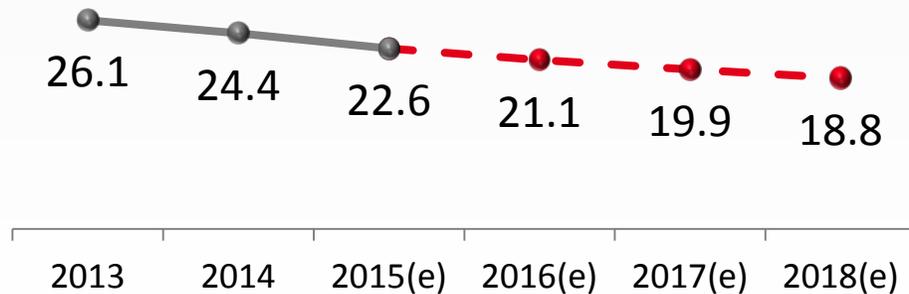
Macro environment: a return to growth

Spanish economy on the path to recovery...

GDP (annual growth, %)



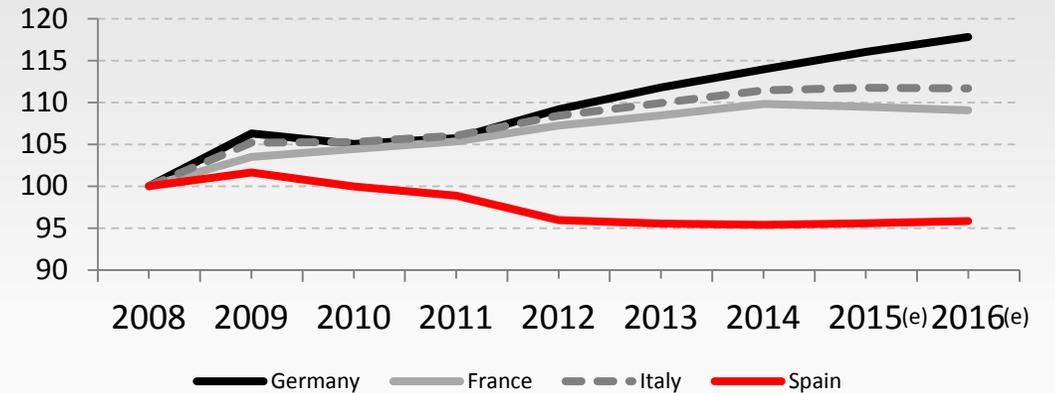
Unemployment (%)



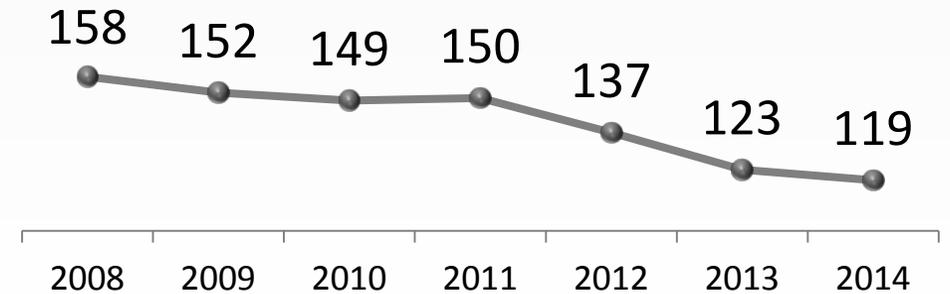
(1) Other resident sector Source: European Commission AMECO, Bank of Spain, IMF

...backed by the adjustments and the structural reforms undertaken

Competitiveness (unit labour cost)



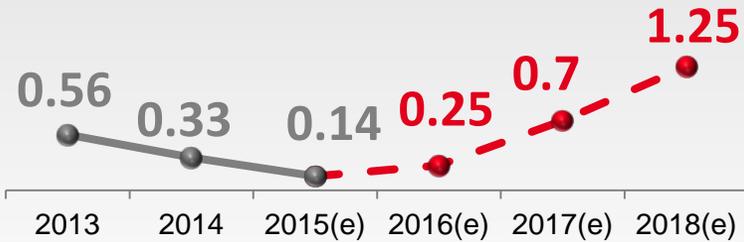
Loan to deposit ratio¹ (%)



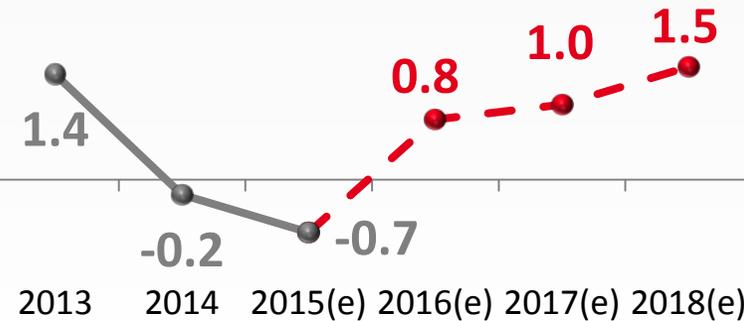
Financial sector back to growth but with additional challenges

Inflation and interest rates will remain low in the short term...

Interest rate¹ (%)

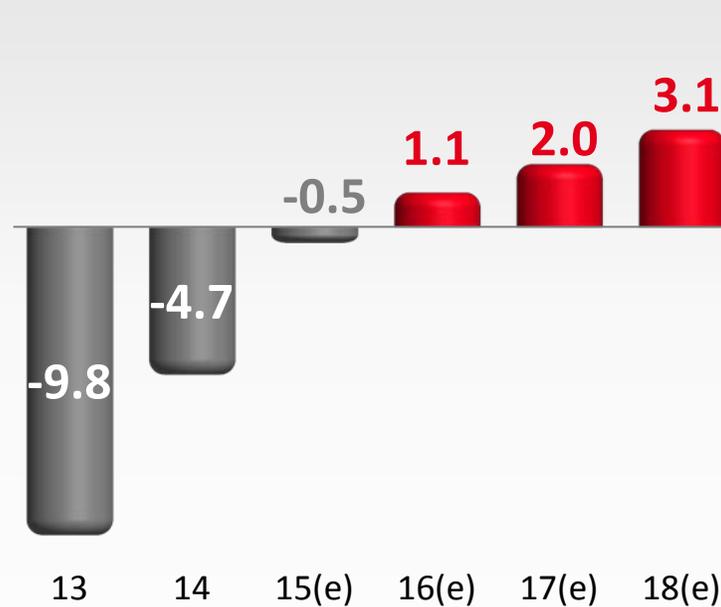


Inflation (annual acc., %)



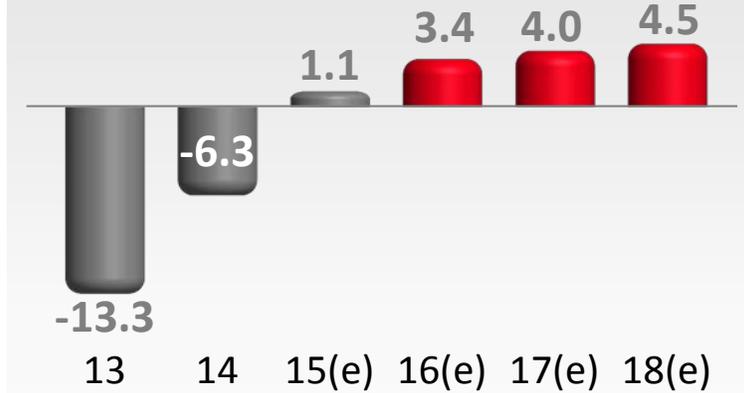
...but lending will start to grow...

Loans² (annual change, %)

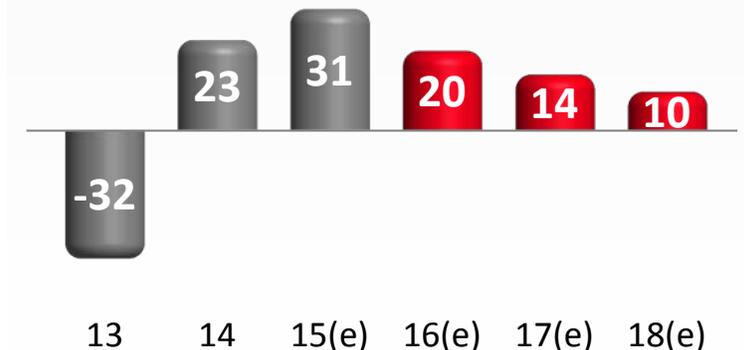


...with corporates sector leading the trend

Non financial Corporate loans (annual change, %)



Mortgages production³ (annual change, %)



(1) EURIBOR 12 months (2) Private sector. Source: IMF, Banco Santander Service of Economic Studies (3) Mortgages to retail customers

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We have a strong starting point



Strong brand awareness and recognition



The leading bank for new customers¹. "Flight to Quality"



Top bank in high value segments



Market leaders in Affluent (17%²), Private Banking (21%²) and Corporates (18%²). Working with all top Spanish corporates



Strong risk profile



NPL ratio below system average and positive recovery rates. Advanced risk management



Reinforced governance model



Creation of Santander Spain Board of Directors, same governance model as other subsidiaries



Part of Santander Group



Leverages the value of the Santander Group, Corporate Centre and culture: Simple | Personal | Fair

(1) Top bank, with 27%, for customers interested in dealing with a new bank (FRS Survey for Financial Behavior of mass market customers in 2014)

(2) Market share figures

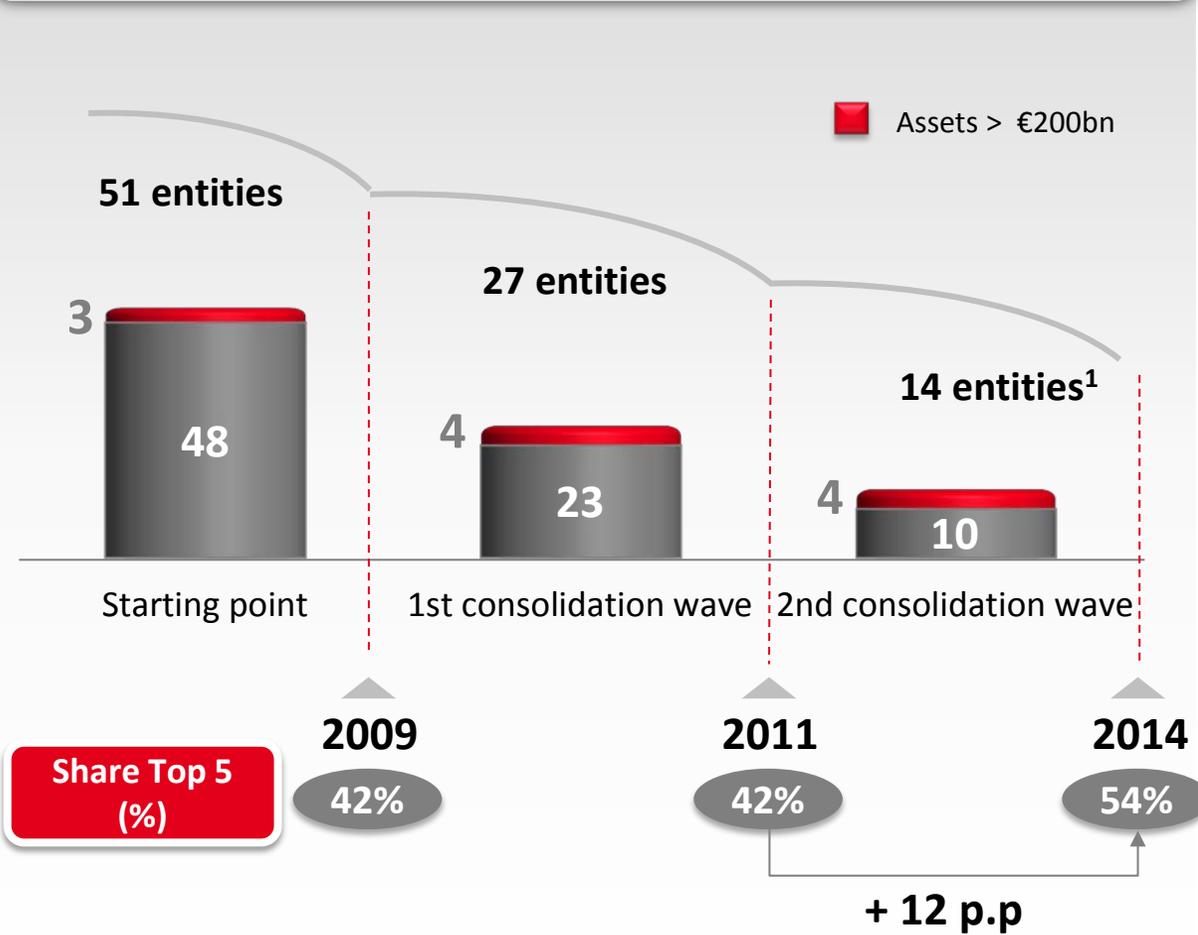
With solid market share in all dimensions

<i>Amounts in €MM</i>	Jun'15	YoY (%)	Market share ¹	Market share ¹ vs branch market share
Gross loans²	161,357	0%	13.4%	+2.4 p.p
Deposits²	181,716	3%	13.8%	+2.8 p.p
Mutual Funds	45,471	17%	16.1%	+5.1 p.p
Total savings	227,187	6%	14.2%	+3.2 p.p
Branches	3,490	-3%	11.0%	

(1) Loans, Deposits and Funds market share data as of May 2015 with data from Bank of Spain statistical bulletin (chapters 4, 8 and 19) (2) Without repos

During the consolidation process, we grew thanks to “flight to quality”

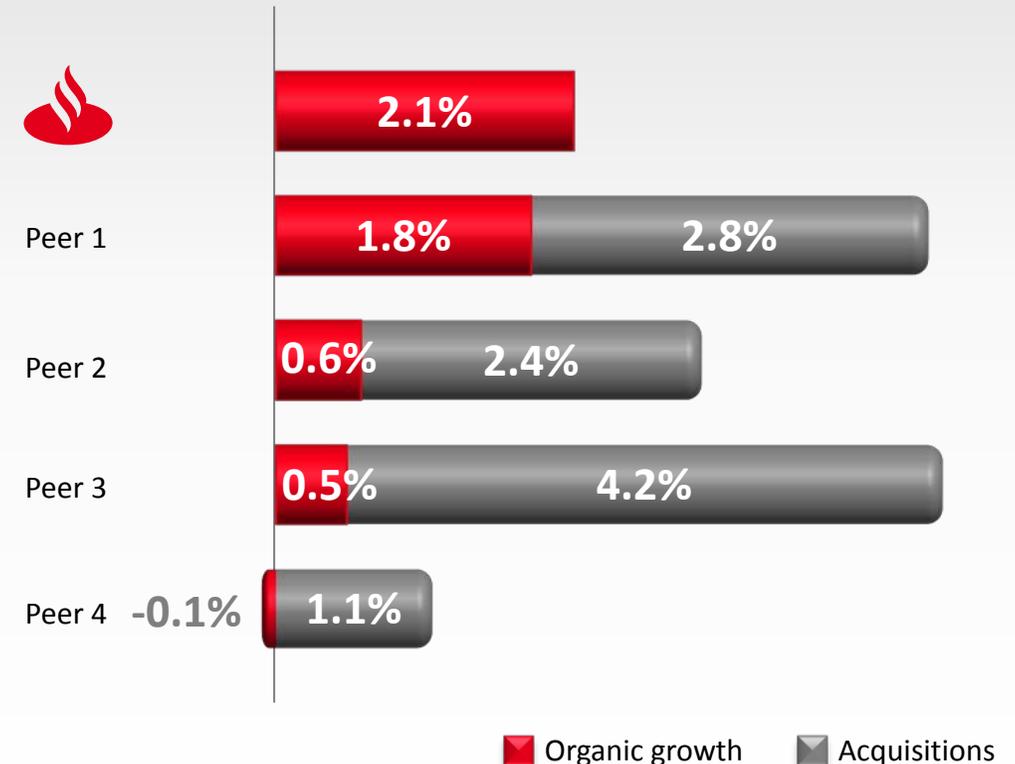
Consolidation of the banking system allowed top players to increase market share...



Note: Figures at 31/12/2014 (1) Financial entities supervised by ECB

...while we grew due to “flight to quality” effect

Growth of deposits market share 2011-2014

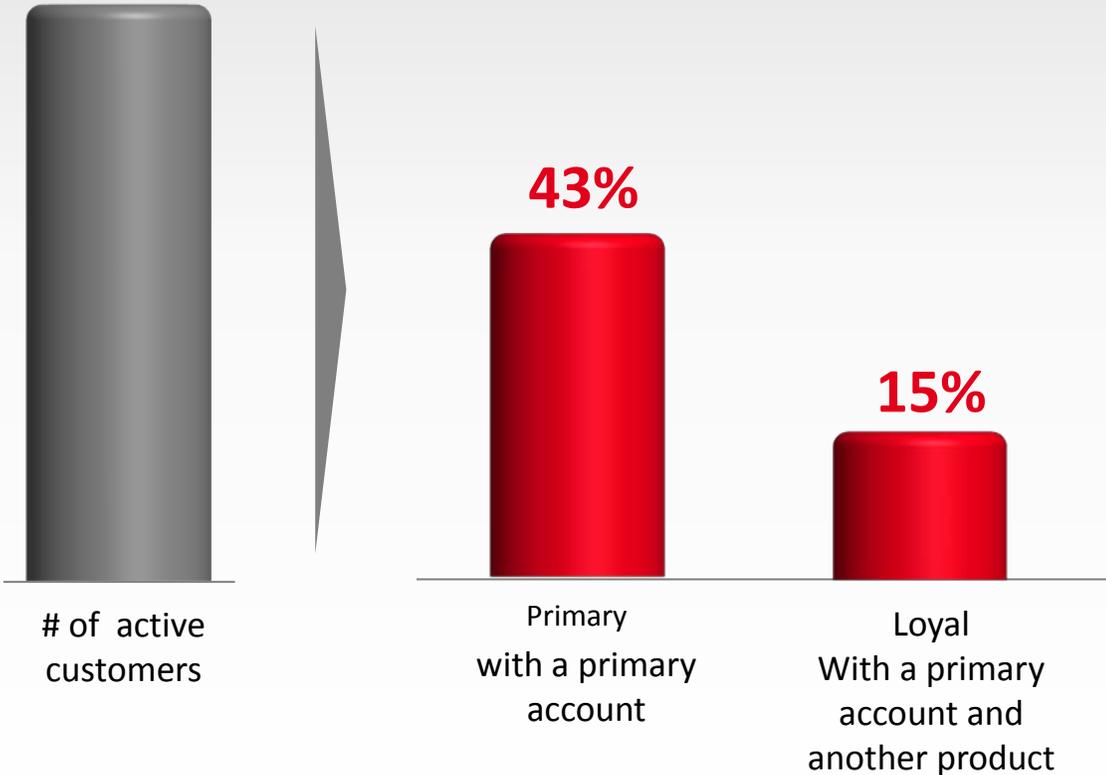


We have a great opportunity to increase our number of loyal and primary customers

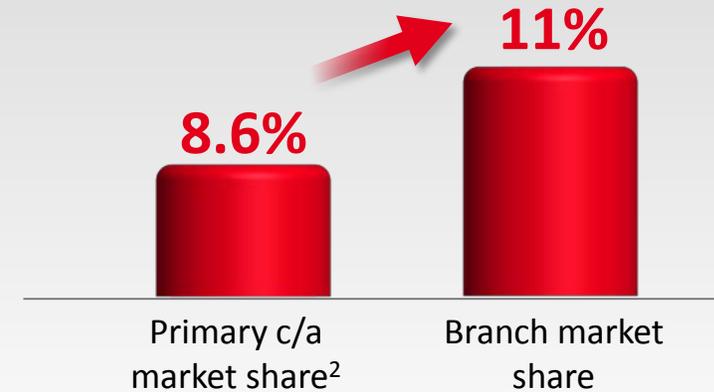
Opportunity to increase customer loyalty...

customers¹ by level of loyalty

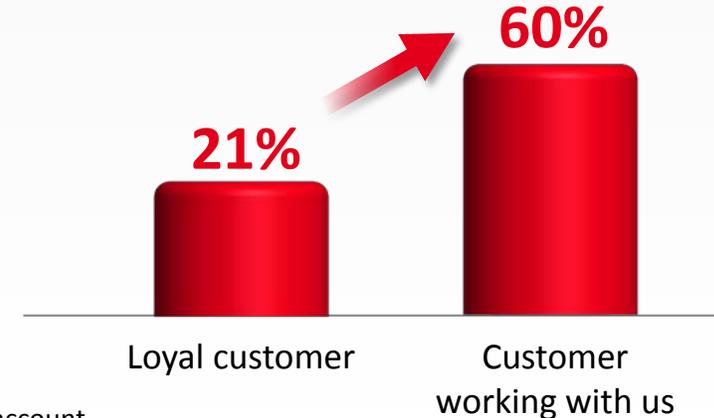
6.6 MM



... both in retail...



... and in SMEs and Corporates



(1) Customers considering only active customers. Figures at June 2015 (2) Primary c/a = Salary paid monthly into current account

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Strategic priorities – a transformation based on five pillars

1 | Build deep, long lasting relationships with our customers

2 | Be the 'bank of choice' in Spain for SMEs and Corporates

3 | Excellence in customer service

4 | Advanced Risk Management

5 | Sustainable profitability

Culture

**Simple
Personal
Fair**

Strategic priorities – a transformation based on five pillars

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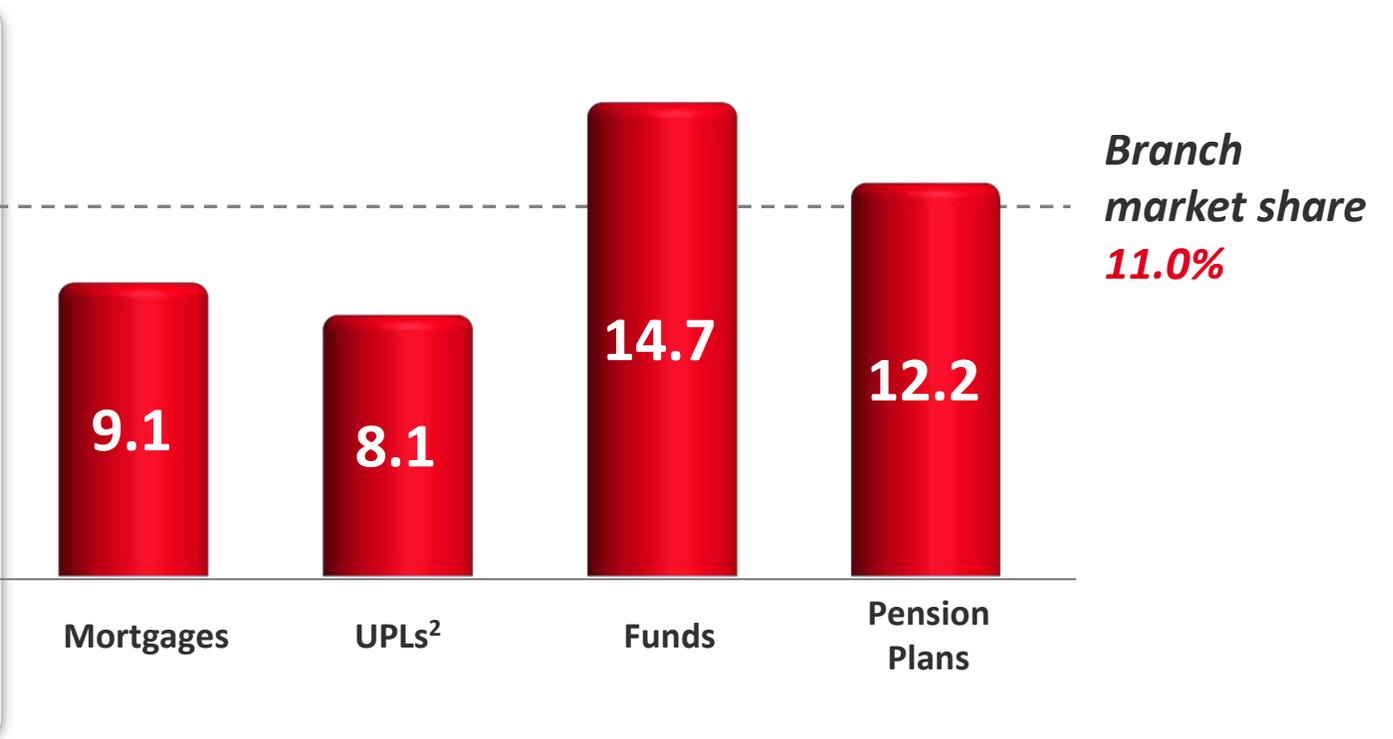
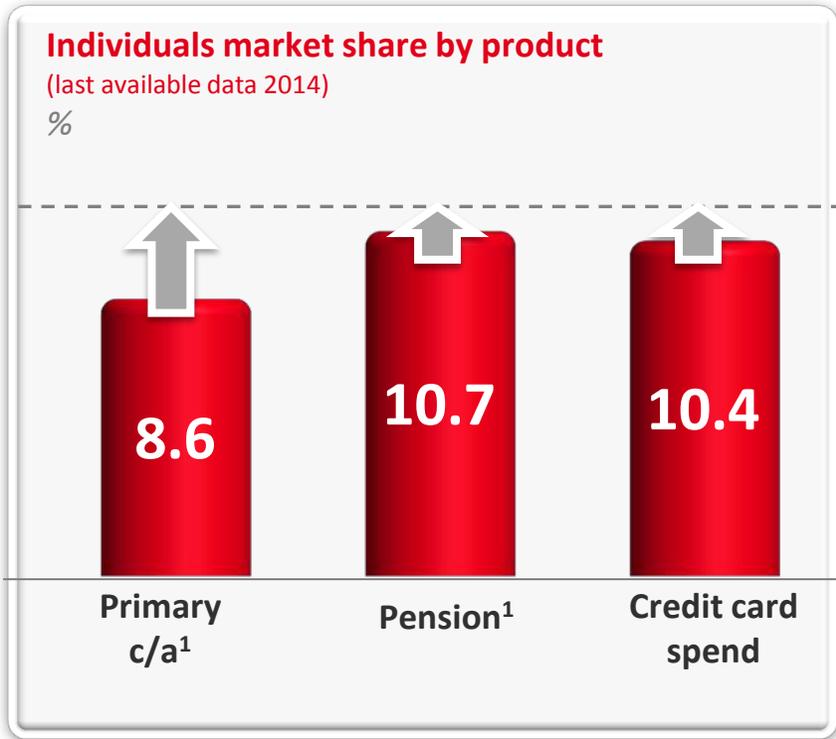
Culture

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Personal
Fair

In mass market we have a big opportunity to grow transactionality

Transactional products:
Current account + credit/ debit card + direct debits

Other products



(1) Primary c/a or Pension = Salary/Retirement pension paid monthly into current account (2) Data from Bank of Spain 2014 report
Note: 1,064MM salaries paid into c/a to 12.5million employees in Spain excluding sole traders and freelance, 841k pension funds. Public government data. Figures May 2015

We are in process to transform our commercial model

From: free banking and campaigns commercial model

0€ Fees
Queremos ser tu banco
0€ COMISIONES DE SERVICIO

Plan Ahorra
¿QUERES CONSEGUIR HASTA UN 7% DE DESCUENTO EN GASOLINA?
Ahorro en tus compras

Campaings

Tramo 1 De 4.000 a 8.999,99€	
Tramo 2 De 9.000 a 24.999,99€	
Tramo 3 De 25.000 a 44.999,99€	
Tramo 4 Más de 45.000€	

Diferent loyalty programs
Tarjeta de Crédito César, Tarjeta de Crédito Lux, Tarjeta de Crédito 1.2.2, Tarjeta Santander Light 0%

Customer up-front campaign
Ahorra hasta 1.000€ agrupando tus seguros

Mortgage Campaign
Sí, has leído bien
EURIBOR **+1,69%**
T.A.E. variable: cumpliendo condiciones **3,237%** | Primer Año: **2,45%**

To: Customer strategy, based on “pay for value”

Cuenta 1|2|3

- Up to **3% interest** payable on your entire balance up to €15,000
- 1%, 2% and 3%** cashback on your regular direct debits
- 1 Banco Santander share**, the first of many with 1|2|3 World

- Large amount of customers **without fees**
- **Complex commercial offer**
- **Multiple campaigns** with up-front cost

- **Reward customer loyalty**
- **More focused commercial network**
- **Monthly fees**

New strategy with sound economic fundamentals



Cuenta 1|2|3

Key access to

1|2|3 World

1 | Lower customer churn

2 | Reduced customer acquisition costs

3 | Enhanced customer profitability due to loyalty

4 | From customers to advocates

5 | Increased focus of the commercial network

Our new strategy will create a deeper customer relationship

1|2|3 World is not a product, it is a new customer strategy

A new relationship model...



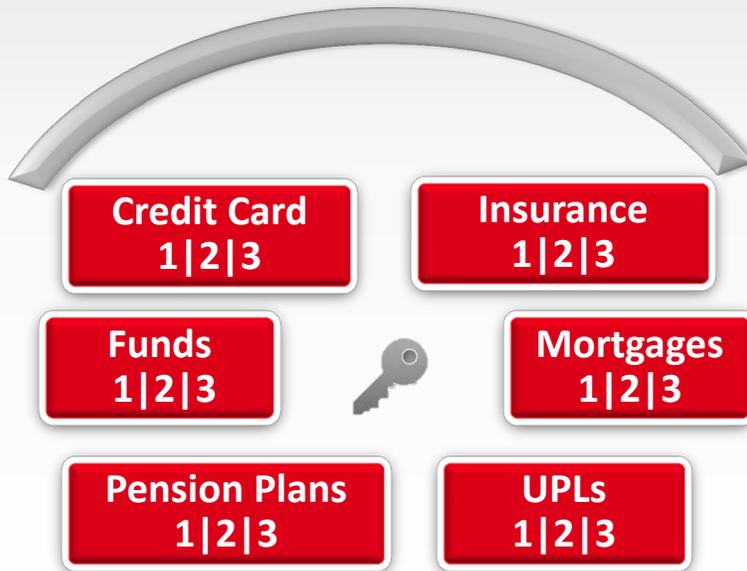
A new concept that **rewards transactionality** increases our relationship with our customers, by giving **one SAN share**

From **customer...**

to **Customer + Shareholder**

...core of 1|2|3 World...

1 | 2 | 3 World



...to increase customer loyalty

2015 to 2018 Targets

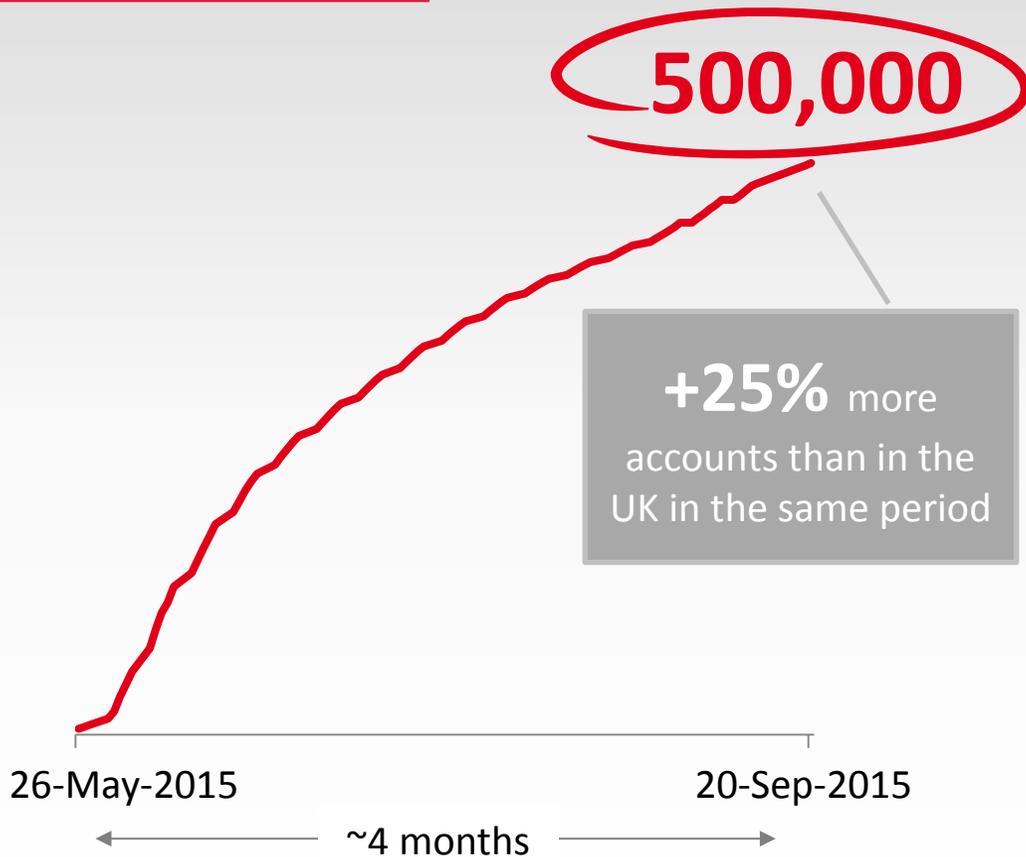
x2 Loyal customers

+60% Transactional base: primary customers

So far, we have opened 500,000 new 1|2|3 accounts

This strategy delivers positive returns vs. our previous strategy: customers churn was, by far, more expensive than 1|2|3

New 1|2|3 accounts (#)



In four months we have achieved...

More than **135,000** “switchers” bringing their payroll to Santander

~**250,000** new debit and credit cards

7 direct debits per account

Initial results of the 11213 account

11213 account strategy will allow to grow loyal customers

Better customer profile



Higher income



Payroll average **32%** higher and pension **36%** higher than other customers

Greater value



1 out of 4 affluent and private customers, **4x** market

Larger transactionality



67% higher card expenditure

Multichannel behaviour



70% more customers with multichannel behavior

More loyal



2.4x products and services, with high growth potential

Our target 1|2|3 account for 2018

4,000,000
1|2|3 accounts in 2018

We are market leaders in affluent and private banking, with a unique growth value proposition

Solid affluent base

With personal relationship managers for every single customer

- **488k** Affluent customers
- Total assets under management **€65bn**
- Total funds volume **€12bn**



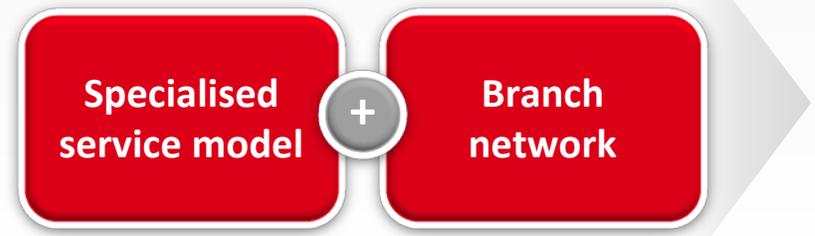
Evolving our customer base to younger profile
1|2|3 World

- Growth in transactionality
- Increase lending product needs
- With a stronger multichannel behavior

Leadership in the Market

Maximum quality of service with the proximity of our branch network

- **21%** market share
- **89k** private banking customers
- Total assets under management **€89bn**



- Integral advice
- Personal offer
- Compliance
- Strong local presence

Strategic priorities – a transformation based on five pillars

1 | Build deep, long lasting relationships with our customers

2 | **Be the 'bank of choice' in Spain for SMEs and Corporates**

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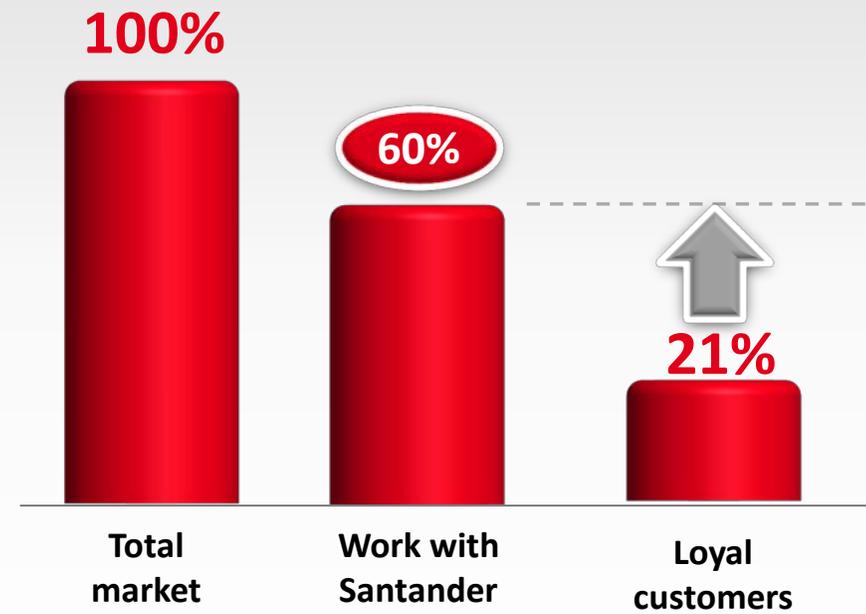
Culture

Simple
Personal
Fair

We have a big opportunity to build our position in SMEs and Corporate through greater customer loyalty

60% of the potential market has already an account with us

We need more loyal customers to become the leader of the market



Segments: SMEs and Corporate

3 specialised segments with specific plans and objectives



Source: Spanish Statistical Office and Informa

In SMEs we want to be the bank of choice in Spain, increasing loyal customers



Integrated Customer Management

Customer vision as a key factor for the rest of the strategy

Focus in Assets

Lending as a vehicle for SMEs transactionality

Specialised Commercial Branches

More flexible pricing and simpler processes

Improvement in high value offer

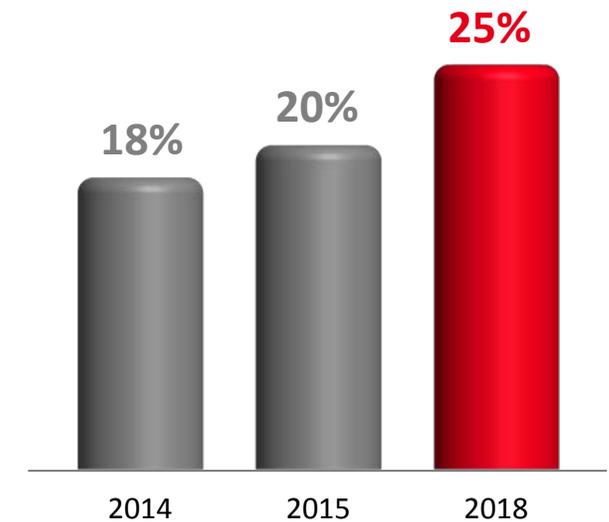
Structural improvement of value-added products for our customers

New Multichannel strategy

Process improvements with digital focus

Relationship as primary bank

(€2-50M revenues)



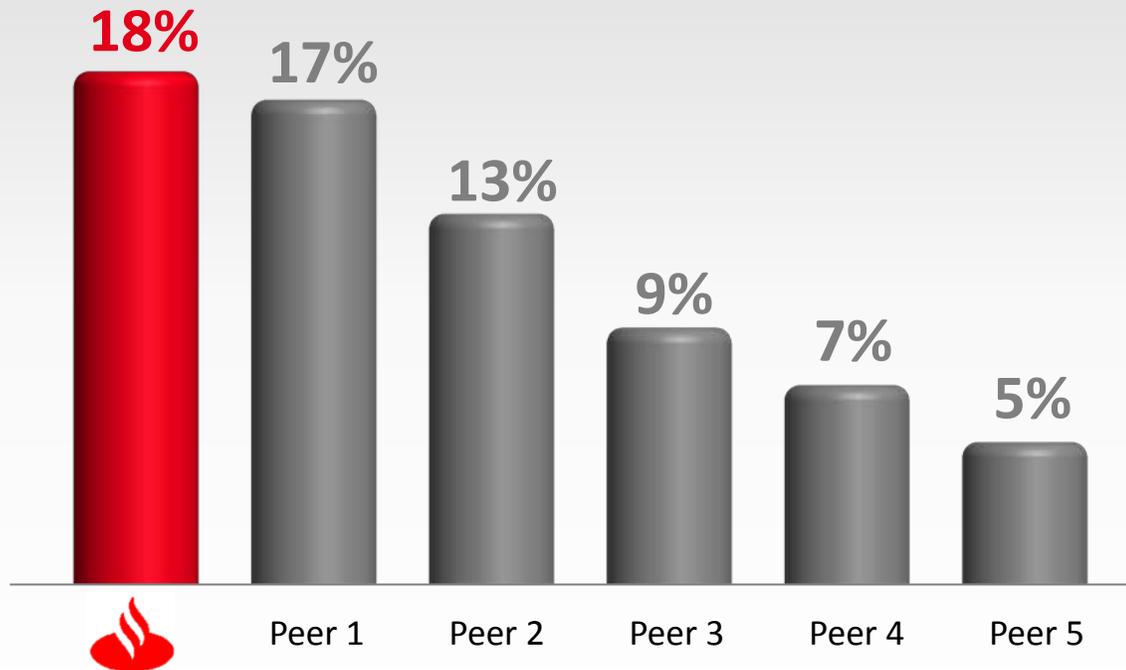
Source: FRS Report December 2014. First Bank Customer Relationship

In Corporate we will continue to be leaders in Spain

We have a relationship with 80% of the corporate market, and are the first-choice bank for 1/3 of them

Corporate customers

Assets market share



Source: Top Peer Corporate Annual Accounts

Key elements of the strategy

- **Evolution of the commercial model** based on specialisation and differentiation ...
- ...and **high value-added products and services...**
- ...to offer **differential coverage** for our TOP customers

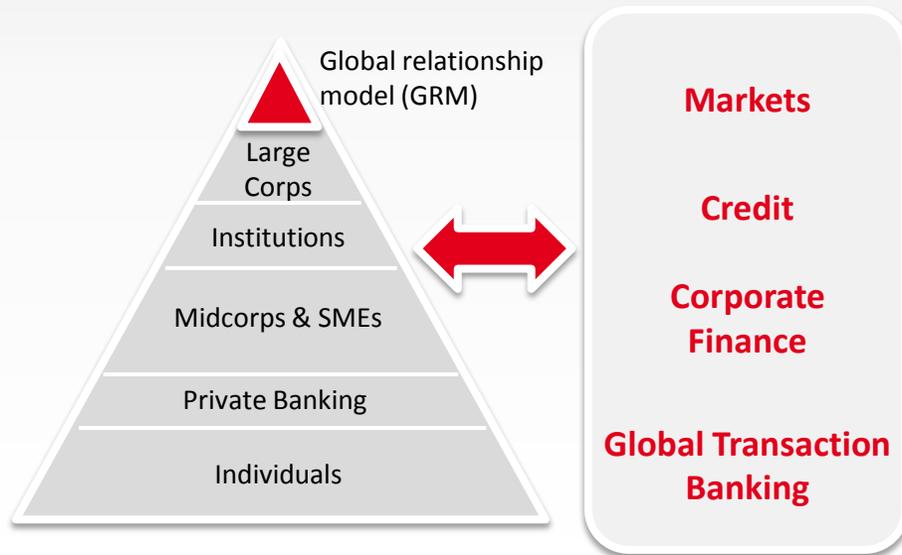
2018 targets

- From 23% to 35% high value-added products and services
- Share of Risk: from 24% to 31% **in Top Tier 1 groups**

Global Corporate Banking: continue leading while improving our capital efficiency

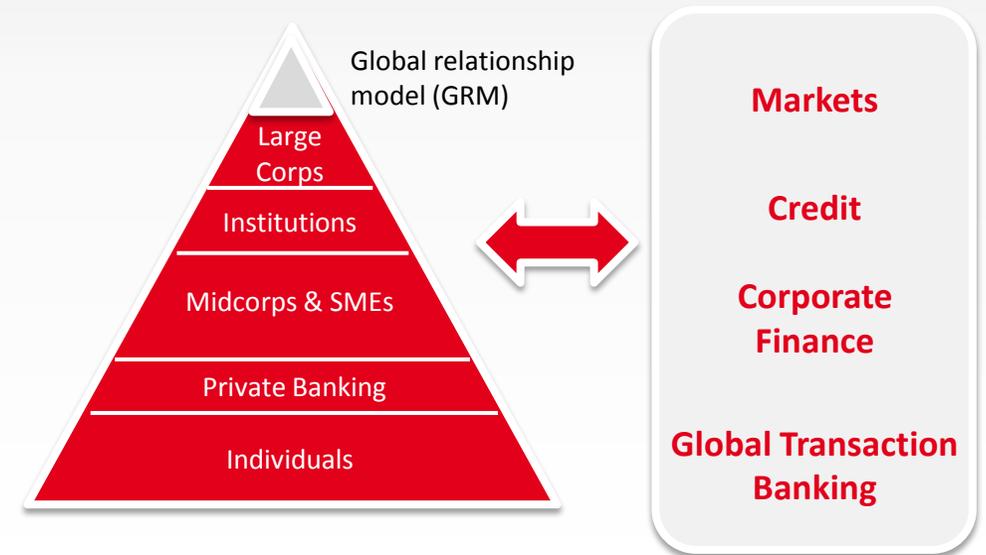
Maintain our leadership with Global Corporate Banking customers

- Increase **transactional banking share** from 27% to 30%
- Implement **capital optimisation initiatives**
- **Develop the required infrastructure** to satisfy new regulatory context

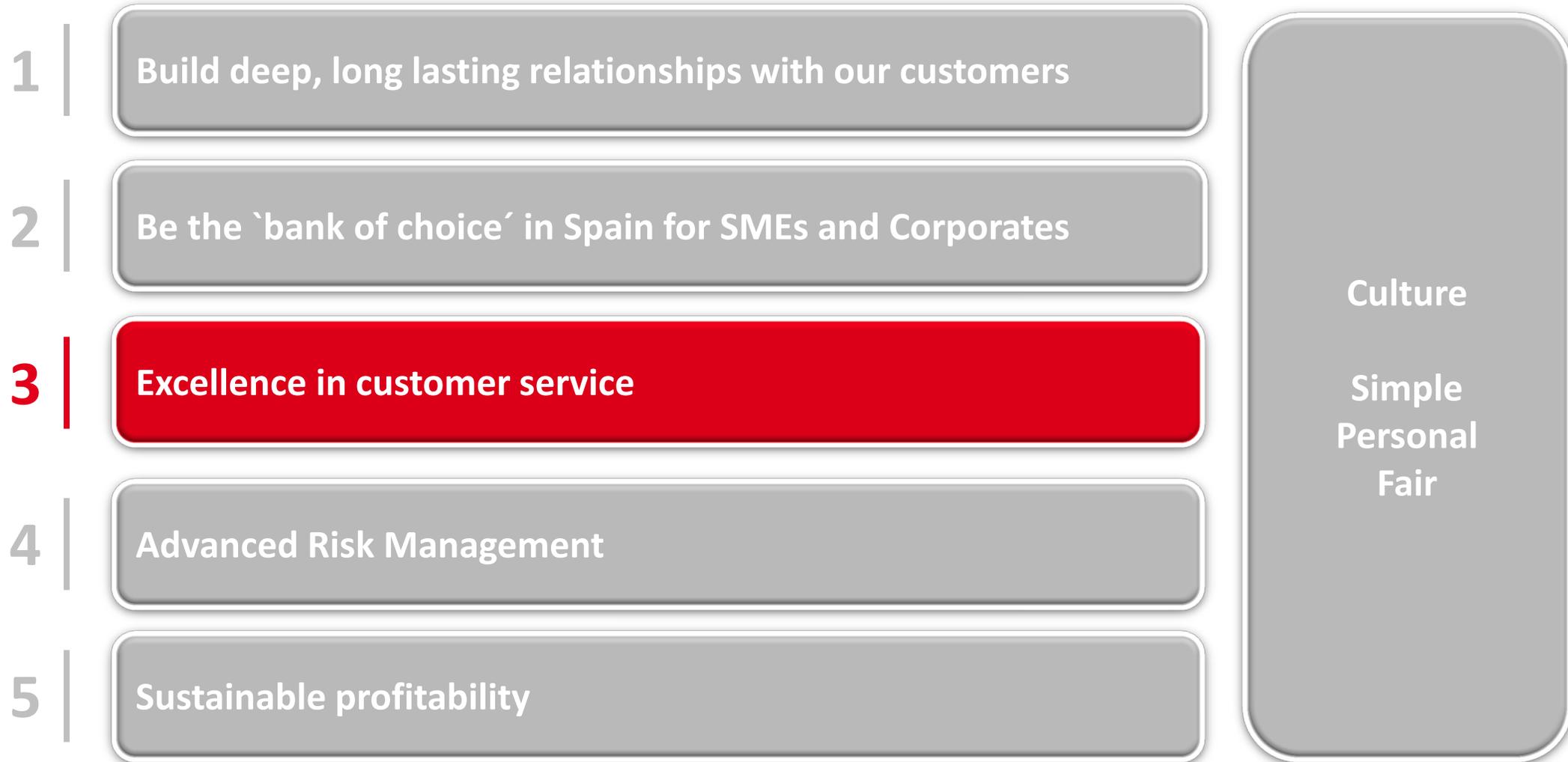


Increase high value added products with Retail and Commercial Banking customers

- Increase penetration of:
 - **Credit (originate and distribute)**
 - **Capital Markets & M&A**
 - **and Structured Trade products**
- Boost **FX, Equity and Structured Products**



Strategic priorities – a transformation based on five pillars



Our operational excellence plan is making a strong impact at all levels

Digitalisation

- **Grow our digital customer base**
- Guarantee the **best customer experience**



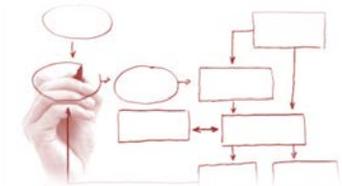
Data driven focus

- Use **Big Data** to improve customer and operational experience



Processes

- **End-to-end** key processes **review** (~120)
- **Reducing time to market** (Mortgage processes, risk credit approval...)



Improve customer experience across channels

- **New branch concept** adapted to digital strategy
- **Upgraded ATMs with new functionalities**
- **Focus on digital channels**, primarily on mobile: new web, mobile apps, etc.



(1) SLAs – Service Level Agreements

Digital will be at the core of everything we do, building on the 1|2|3 World

Customers can open a 1|2|3 account in four steps on digital channels – both on web and mobile¹



1 account per 1 minute on digital channels^{1,2}

-  PRIVATE WEB
-  MOBILE
-  CONTACT CENTRE

(1) Applicable to Santander existing customers (2) Opened every weekday minute on digital channels

New Supernet Mobile and New APPs: mobile and watch

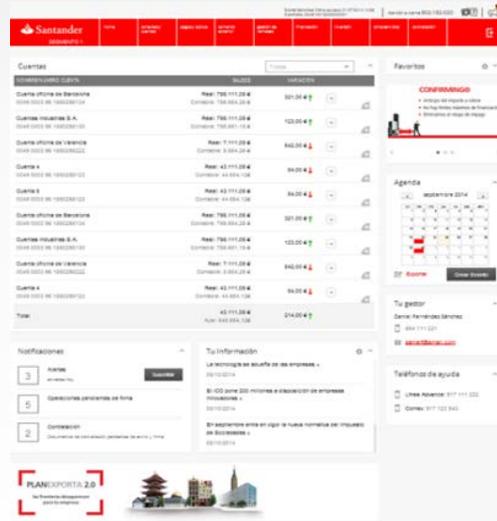
- New **look & feel** and usability
- **Biometric authentication** (voice)
- Improvement of **digital sales** functionalities
- **NFC payment**



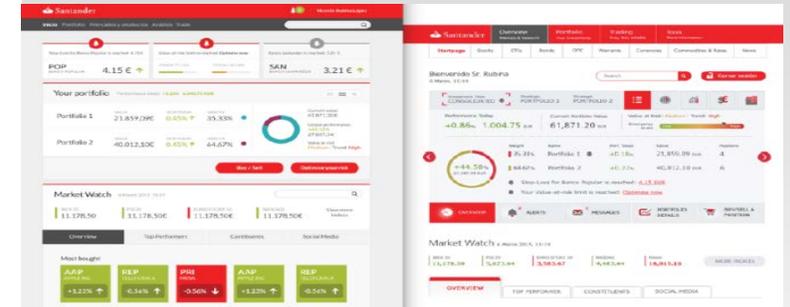
Santander Watch

Digitalisation for Business and Corporates

- **New web** functionalities for Business and corporates
- **Commercial lending**
- **Valued added products integration:** Confirming, factoring, leasing, renting



New online Broker



Contact Centre

- **1st Bank call centre** by customer experience
- **End-to-end sales** in the channel
- **Service to sale**
- **Speech & Text analytics**

Strategic priorities – a transformation based on five pillars



The Advanced Risk Management (ARM) program will further strengthen our risk culture

ARM's strategic priorities

Risk management model

- **Risk appetite** development and cascading-down into portfolios
- **Customer risk limits** enhancement
- Customer management based on **risk adjusted return**

Forward looking approach

- Improved **risk models and stress test**
- New scenarios and analysis tools

Robust governance model

- Reinforce lines of defense

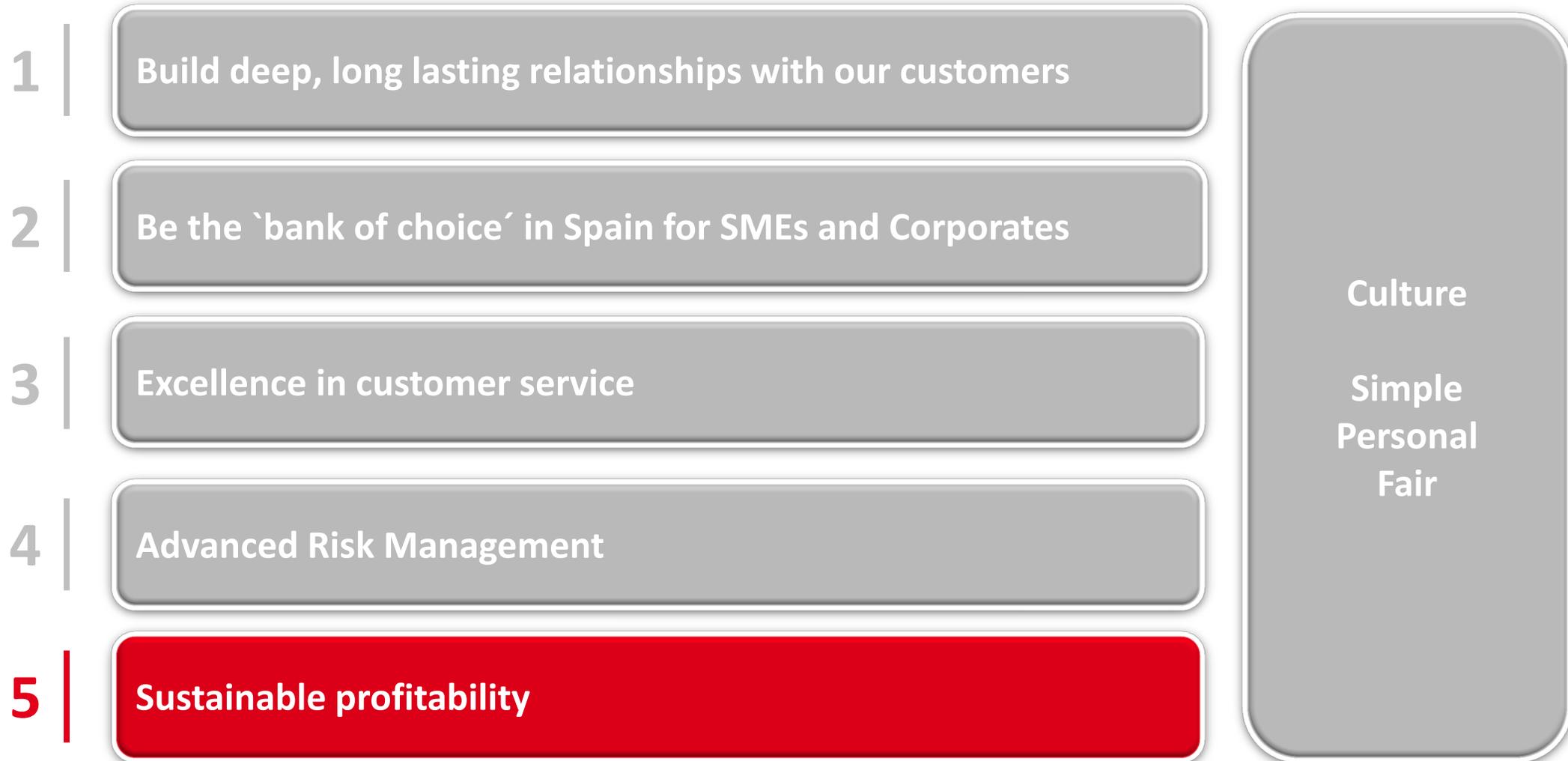
Risk culture implementation

- Ensure all employees understand and act accord to the Advanced Risk Management culture

Reduction plan for NPL and cost of credit

- Cost of Credit from **0.84% in 1H'15** to **<0.5% in 2018**
- One to one NPL management
- Exceptional portfolio sales evaluating return and strategic fit

Strategic priorities – a transformation based on five pillars

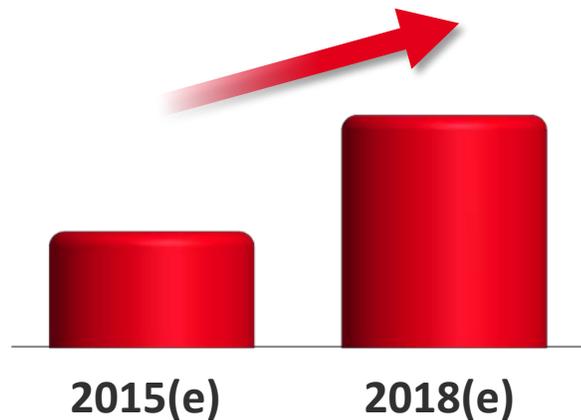


Our strategy will deliver increased profitability and a more efficient capital model

Our strategy is focused on improving the underlying business
RoTE in 2018: ~14%

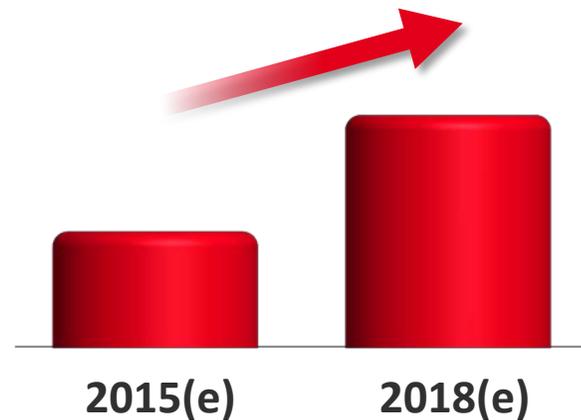
Increased margin per customer
by increasing loyalty

x2 loyal customers with **x4**
margin versus active customers



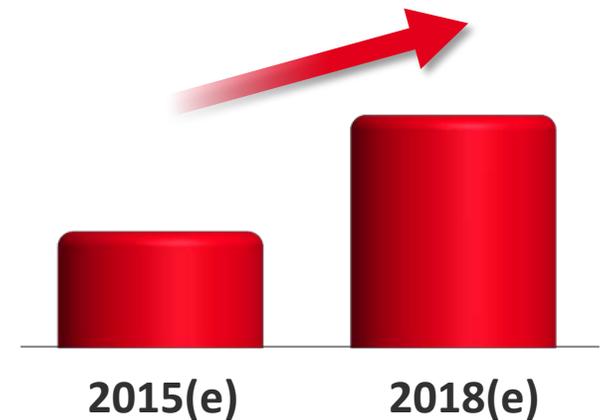
More **stable profit** through
increased fees

+25% fees in the period



More **efficient capital** model
moving beyond lending

+3 p.p. transactional market
share in Global Corporate Banking
and fees increase



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2018 Spain targets

		1H'15	2018
People	Best bank to work	1 st	1 st
	Individual career plans	13,120	15,400
	Evaluation 180° for commercial positions	-	7,000
Customers	Total loyal customers (MM)	1.0	2.5
	1I2I3 accounts (k)	290	4,000
	Digital customers (MM)	1.9	4.2
	Best in class banks in customer satisfaction	5 th	1 st
	Fee income CAGR	-8%	5-10%
Shareholders	NPL ratio	6.9%	<4.5%
	RoTE	11.5%	c.14%
	C/I ratio	52%	c.50%
Communities	Number of scholarships 2016-2018 (k)		39.2

Note: Group criteria (1) 1H'14-1H'15 (2) 2015-2018

Transparent performance metrics for 2016

Key metric	1H'15	2016	Improvement
11213 accounts (k)	290	2,000	7x
Customer satisfaction (position)	5 th	3 rd	+2
Cost of credit	0.84%	0.60%	-24bp
SMEs market share	20%	22%	+2pp

Key takeaways



Santander starts from a **leading position**



Build long-term relationships with retail customers – 1|2|3 strategy



Bank of choice for SMEs and corporates with segment-based strategy



Digital, mobile and Big Data at the core of our strategy



Embed the corporate culture: **Simple | Personal | Fair**



Simple | Personal | Fair