

Santander Group Strategy

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Boadilla del Monte, 3rd February 2015

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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.

I. The new banking framework

II. Santander today and tomorrow

III. What does it mean for our main geographies?

IV. Key operating and financial targets

V. Conclusions

The New Banking Environment

Bifurcated macro

- US,UK: growth and rising rates
- Europe: less growth, QE and low rates
- Emerging markets: diverse, slower growth and higher risk premiums

Demographic changes

- Ageing population: focus on wealth management
- Growth of affluent
- New middle class in emerging markets

New social and reputational environment

- Demand of cultural transformation of banks



Increased regulatory pressures

- More capital, liquidity, compliance
- Higher intervention and demands

Industrial renaissance in mature markets

- Unit labour cost adjustment
- SMEs/ corporates banking opportunity
- Trade finance importance

Technology disruption

- Technology critical to rebuild strategy
- Category killers threatening traditional model
- "Digital" generations

Framework of reference is changing in an accelerated pace, creating challenges but also opportunities for institutions that are ready to adapt

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Santander today

Santander's model



Diversified and attractive portfolio/market presence

Strong retail and commercial banking franchises

Autonomous listed **subsidiaries model** with **fully-integrated IT systems** and **support functions**

Strong balance sheet and **amongst the best in capital position** with **prudent risk management**

A top global brand

Santander is today a well diversified retail and commercial bank with recurrent earnings generation, low risk and attractive growth profile

The Santander Way



Our purpose

*To help
people and
businesses
prosper*

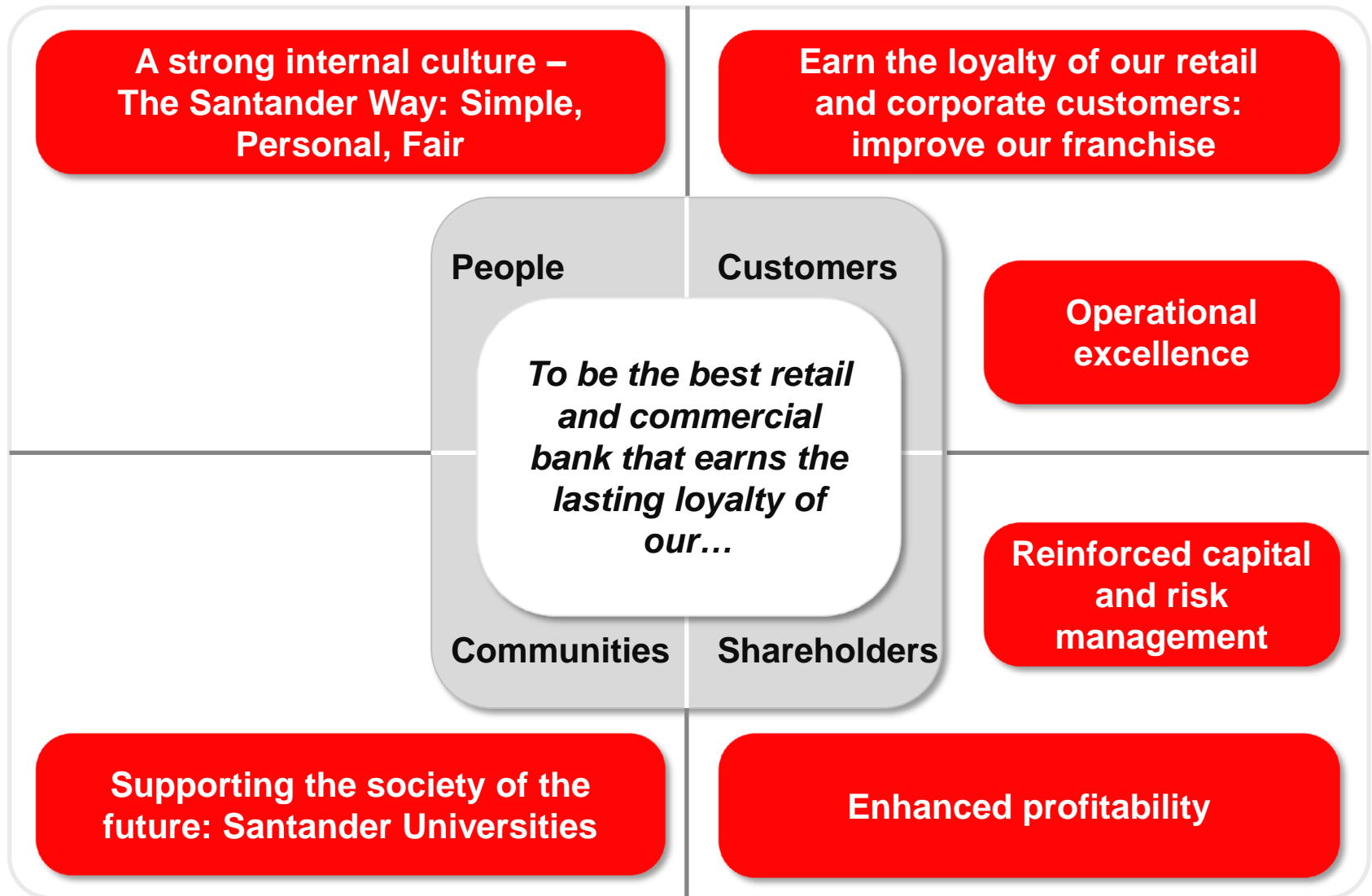
Our aim

*To be the best retail and commercial bank
that earns the **lasting loyalty** of our people,
customers, shareholders and communities*

A bank that is...

Simple | Personal | Fair

Our strategic priorities in our chosen businesses and markets



We aspire to be the best bank for our people

Simple, Personal, Fair

Key initiatives

- Global talent management program
- Top management communications sessions
- Training and development enhancements
- Objectives and incentives review

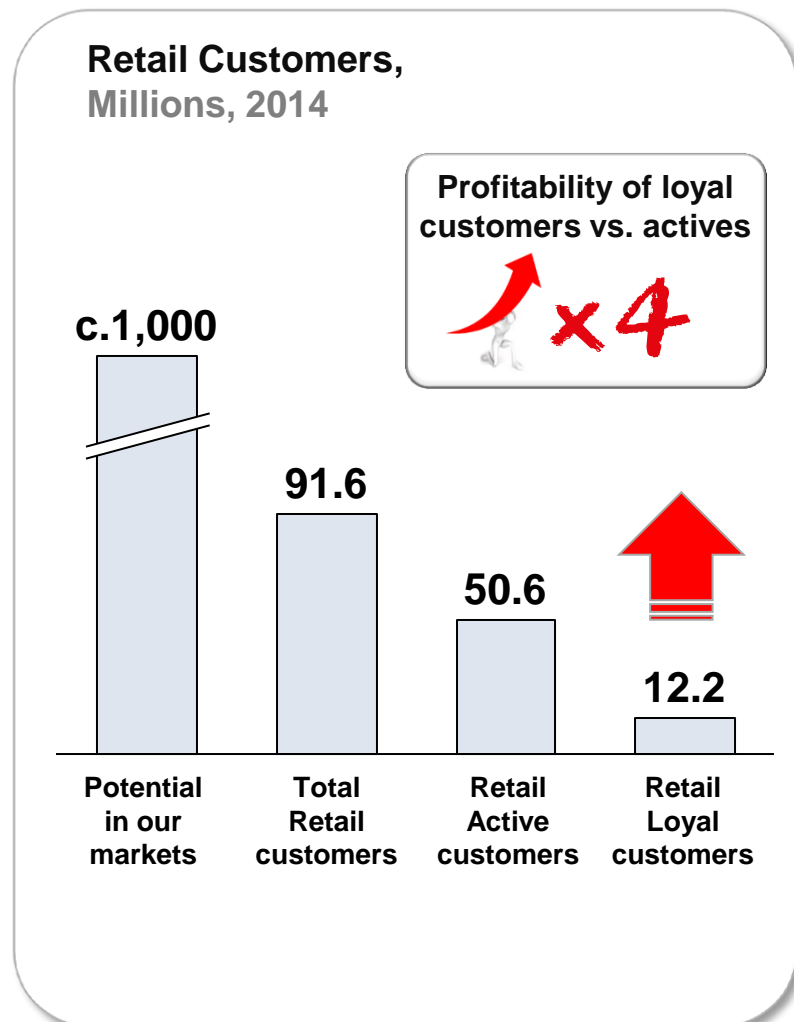
Goals 2017

- Top 3 bank to work in the majority of our 10 core geographies according to the relevant rankings

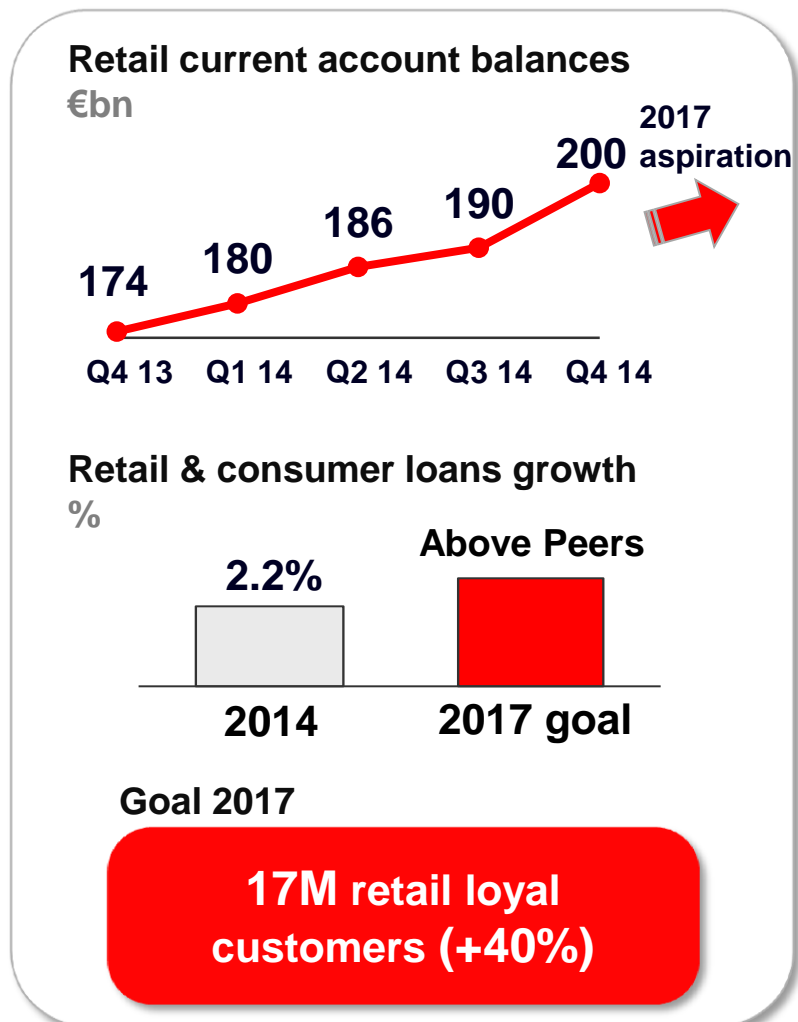


Our opportunity in retail: to earn the loyalty of our customers

Our opportunity



Impact and 2017 goals



Similar opportunity in SMEs and Corporate: More customers, more loyal and improved ROE for the segment

Our opportunity

SMEs & Corporate Customers

#

3 million

Loyal customers

% of active customers

26%

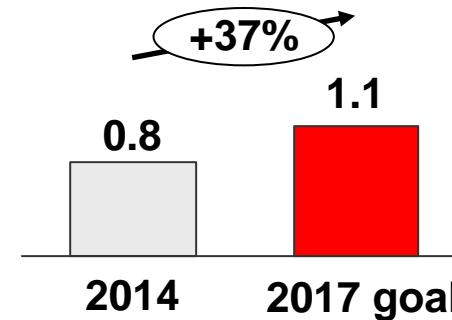
Profitability of loyal customers

 **SMEs x4**
Corporates x5

Impact and 2017 goals

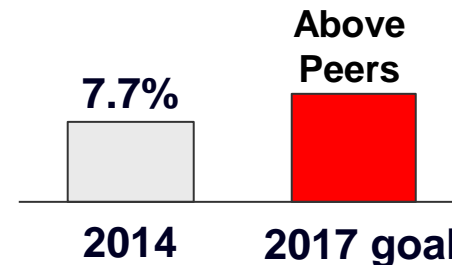
Number of loyal Corporate and SME customers

Millions



SME + Corporate lending growth*

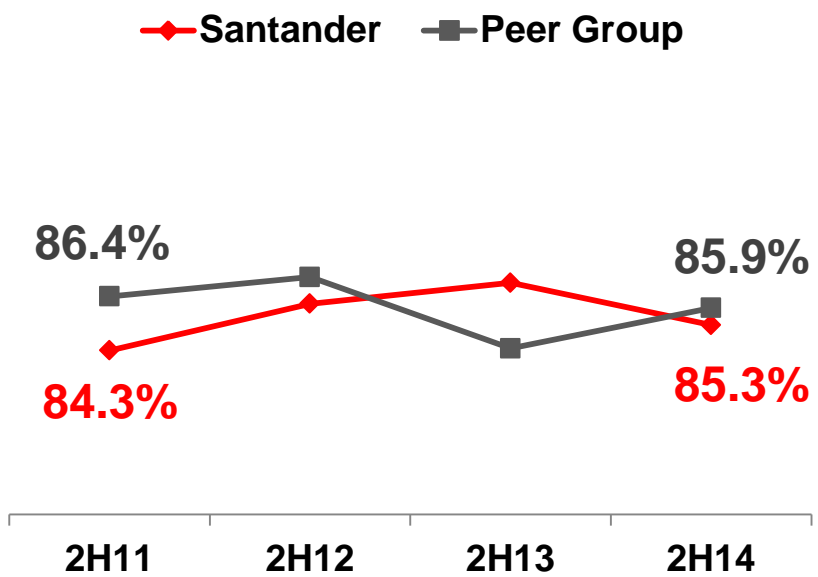
%



(*) Including GBM

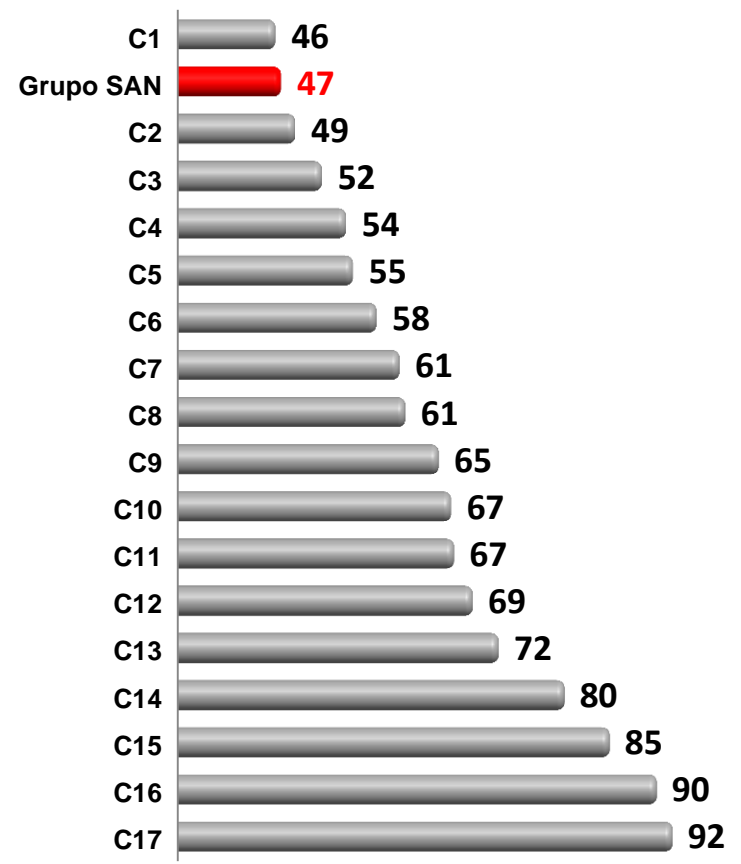
Operational excellence: delivering the best service, efficiently

Customer satisfaction index



Goal: Top 3 in all Geographies(*)

C/I ranking vs. Peers**(%, Sep' 14)



Goal: C/I below 45%

(*) Top 3 in net satisfaction; US to the average

(**) "Peer Group": BBVA, BNP Paribas, Citigroup, Deutsche, HSBC, Intesa Sanpaolo, Itaú, JPMorgan Chase, Lloyds, Société Générale, UBS, UniCredit, Bank of America, Wells Fargo, Barclays, Standard Chartered and ING



Make our services available anytime, anywhere, means growth in active and loyal customers

Our opportunity

Active digital customers
% of active customers

28%

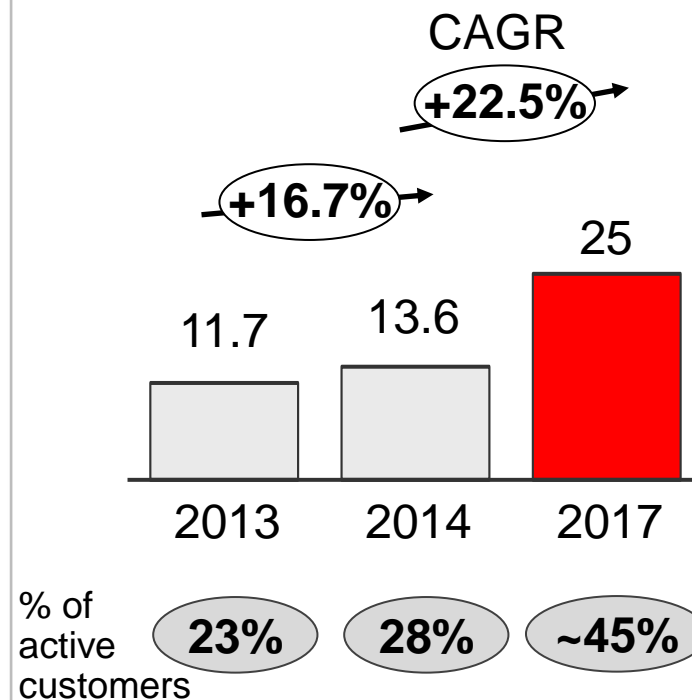
Profitability of digital customers*
vs. active customers

x2.6

60% of our loyal and transactional customers are multichannel*

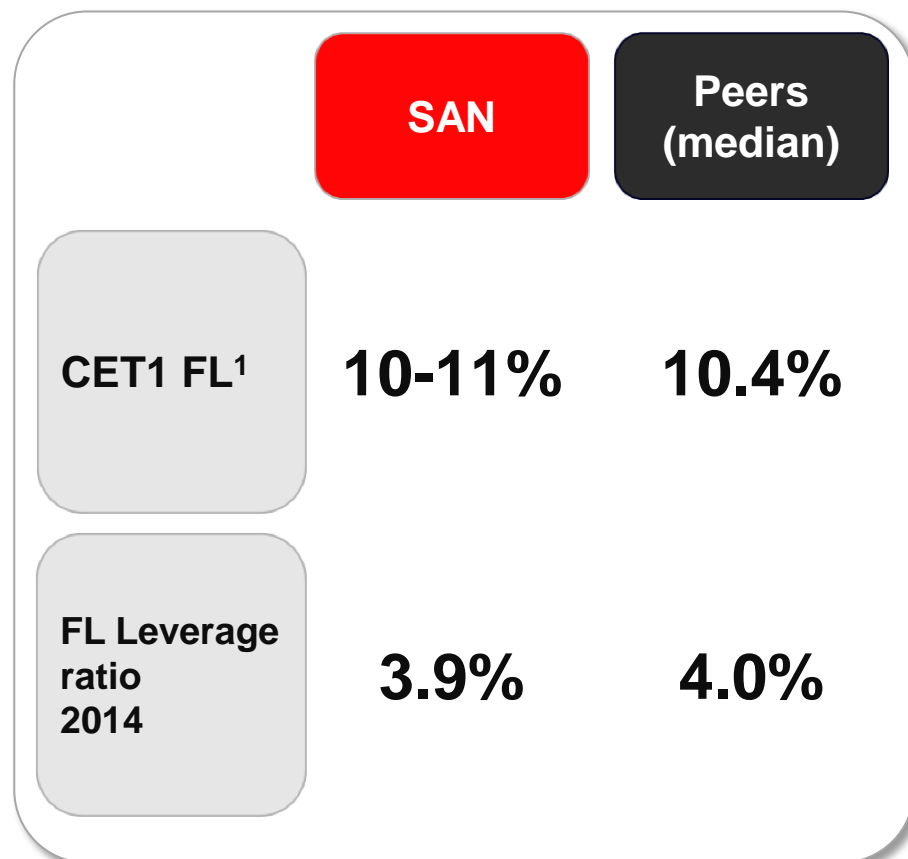
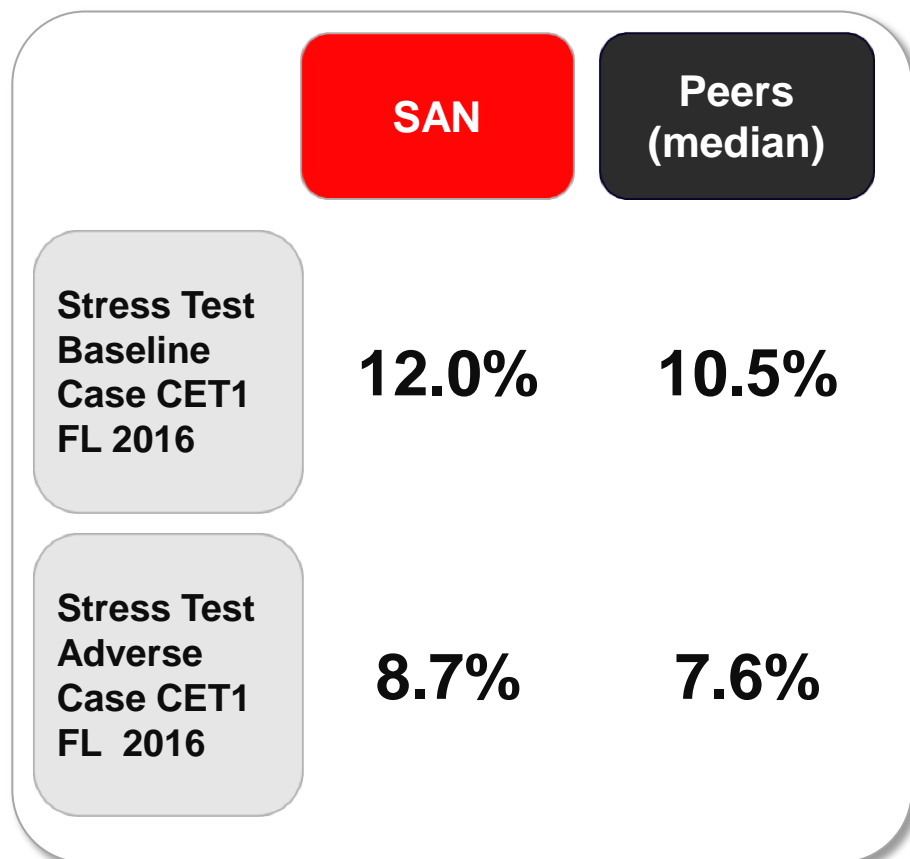
Impact and 2017 goals

Number of digital customers
Millions



(*) Spain data

Considering the most relevant metrics, we are amongst the best in capital adequacy



¹ Santander target; peers 2014
European Peer group: HSBC, Barclays, BBVA, BNP Paribas, Deutsche Bank, ING, Intesa, Lloyds, Société Générale and UniCredit.

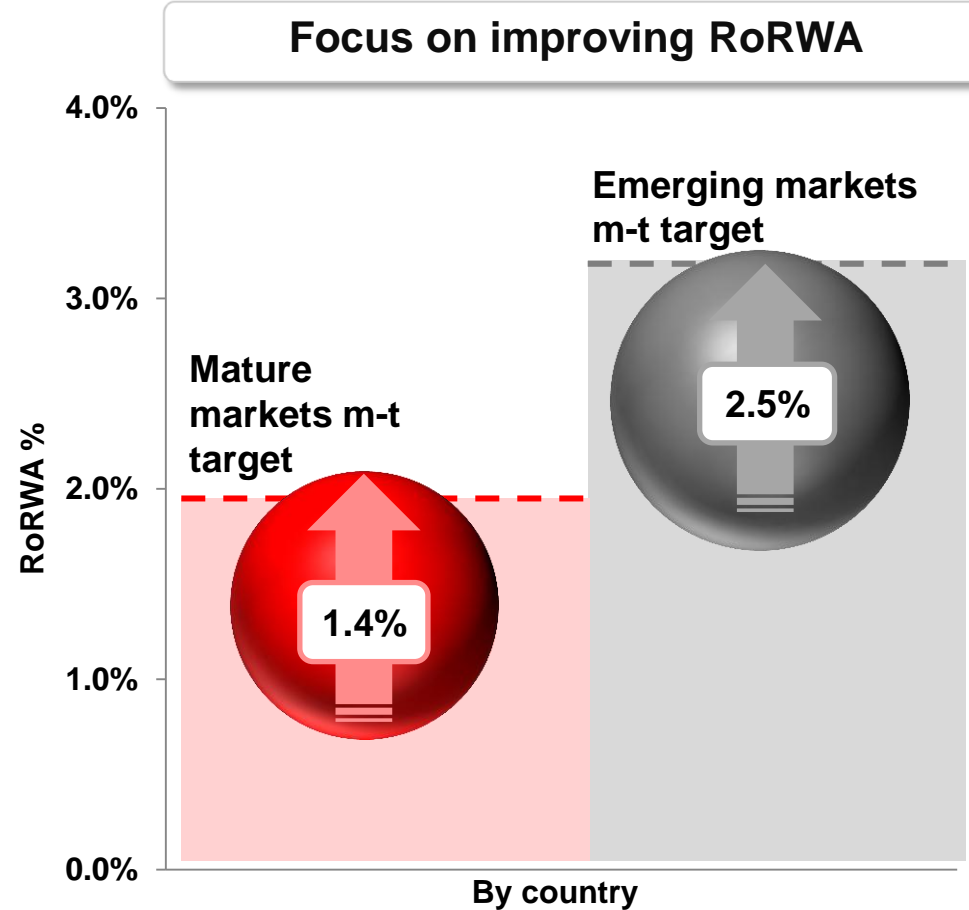
With an efficient and disciplined capital allocation to deliver value to our shareholders

Going forward:

- Organic growth
- Stricter in capital allocation

Favor higher profitability and growth potential segments and countries

- Manage profitability by businesses
- Europe and Americas
- Acquisitions, not a priority. Need to be non-dilutive and ROI above COE in year 3



**2017 Goal:
ROTE 12-14%**

Our Group Wide Risk Management Framework will allow us to improve our average risk profile

Group Wide Risk Management

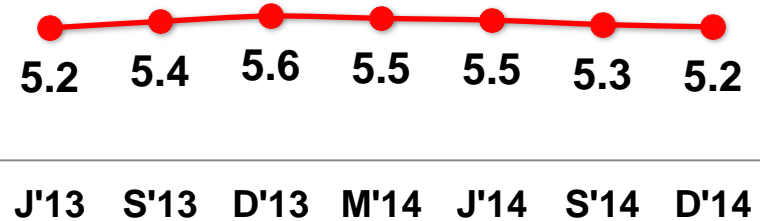


Risk metrics

Coverage ratio %



NPL ratio %

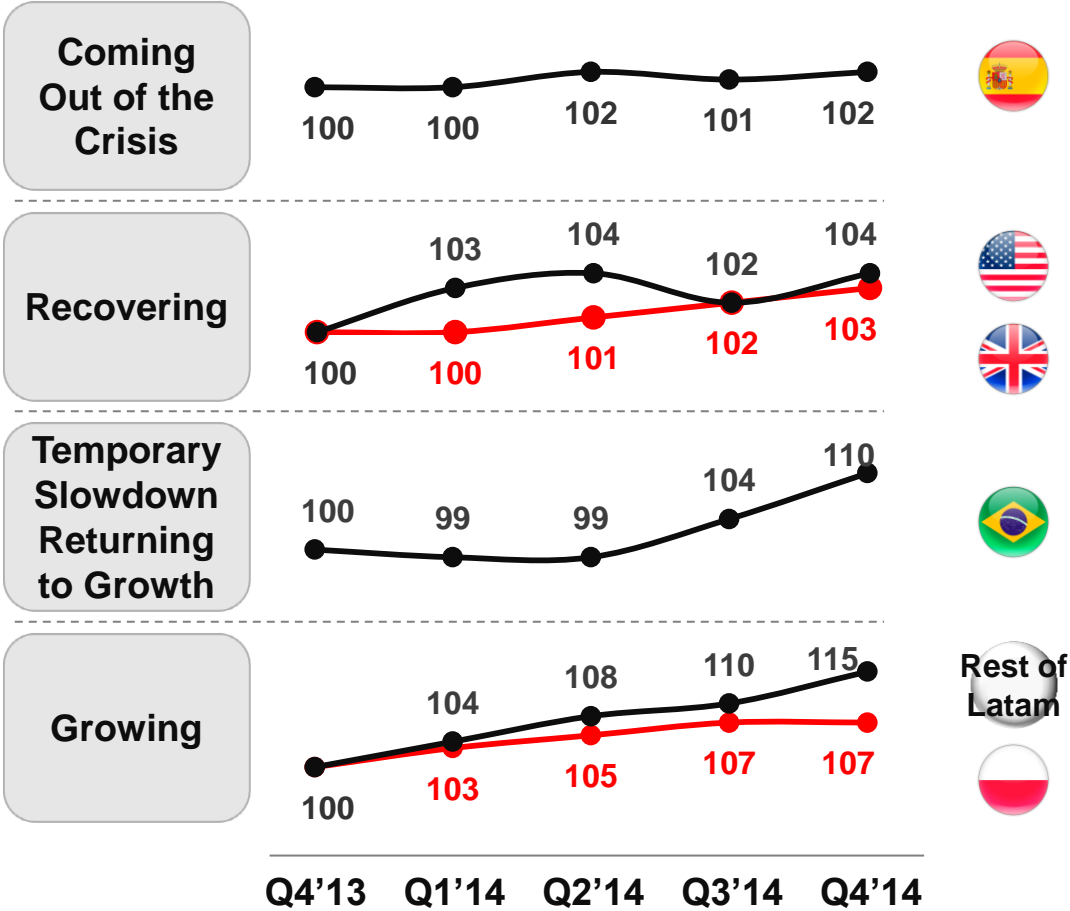


€500m investment in Risk Data Aggregation program across the Firm

2017 Goal: NPL ratio <5%

Most of our geographies are entering growth cycles

Customer Loans (4Q'13 base 100)



- Average 2016 GDP growth in Santander core markets close to 3%
- Critical mass and a retail and commercial focus to leverage the change of cycle

And we are building from a solid base of results..

MM €

	<u>2013¹</u>	<u>2014</u>	<u>% €</u>	<u>Var. 13-14</u> <u>%Constant</u> <u>currencies</u>
Net interest income	28,419	29,548	+4.0	+8.8
Net fees	9,622	9,696	+0.8	+5.4
Gross income	41,920	42,612	+1.7	+6.2
Operating expenses	-20,158	-20,038	-0.6	+3.0
Net operating income	21,762	22,574	+3.7	+9.1
Net loan-loss provisions	-12,340	-10,562	-14.4	-10.5
PBT	7,362	9,720	+32.0	+41.3
Attributable profit to the Group	4,175	5,816	+39.3	+49.3

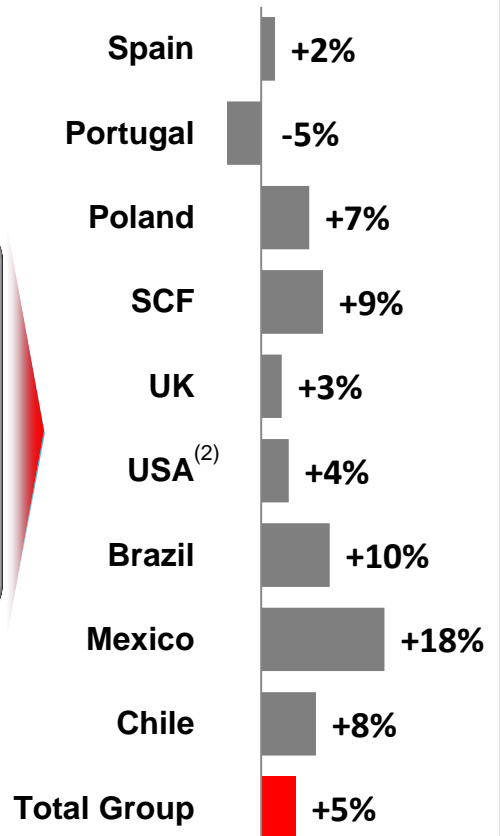
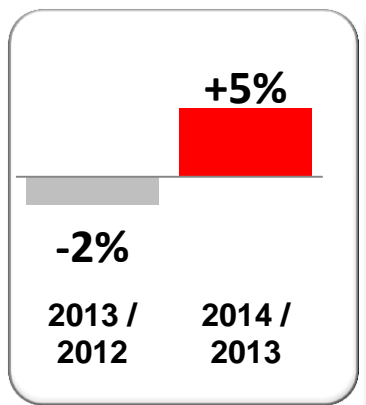
Goal for 2017: EPS growth greater than peers

(1) Profit adjusted to the entry into force with retroactive effect, of the interpretation of the international accounting standard IFRIC 21, which means anticipating the accounting of contributions to the Deposit Guarantee Fund. Net impact 2013: -Eur 195MM

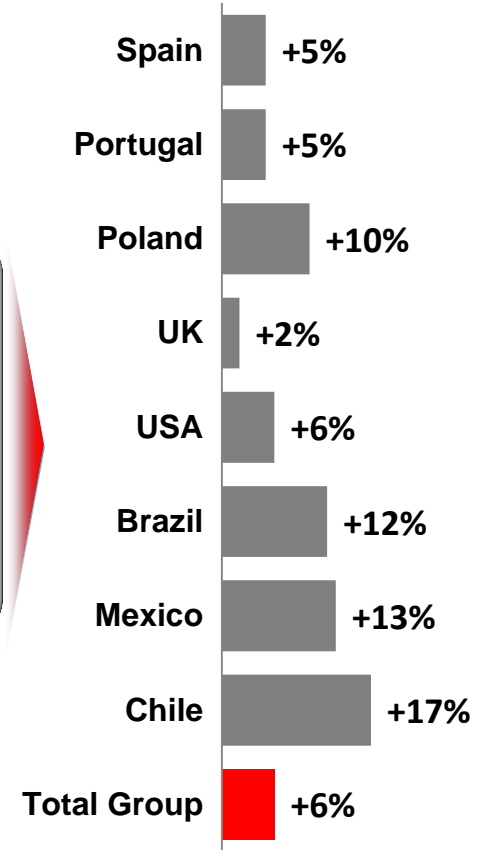
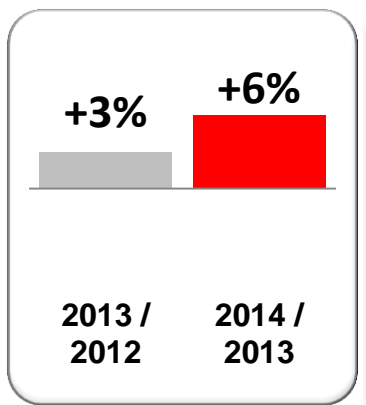
We are growing our customer loans and deposits + funds in a balanced way

% 2014 YoY

Loans



Deposits + Mutual Funds



(1) Loans and deposits excluding repos in constant currency
 (2) Excluding portfolio and securitisation disposals: 7%

Santander Universities is our approach to supporting communities with c.€700m committed for next 4 years



- **1,175** agreements with Universities in 20 Countries
- **€154M** in **4,200 projects** in 2014
- **7.8M** student users of the Intelligent Card
- **28,527** scholarships and grants in 2014
- **2,200** professionals, with 650 branches in campus

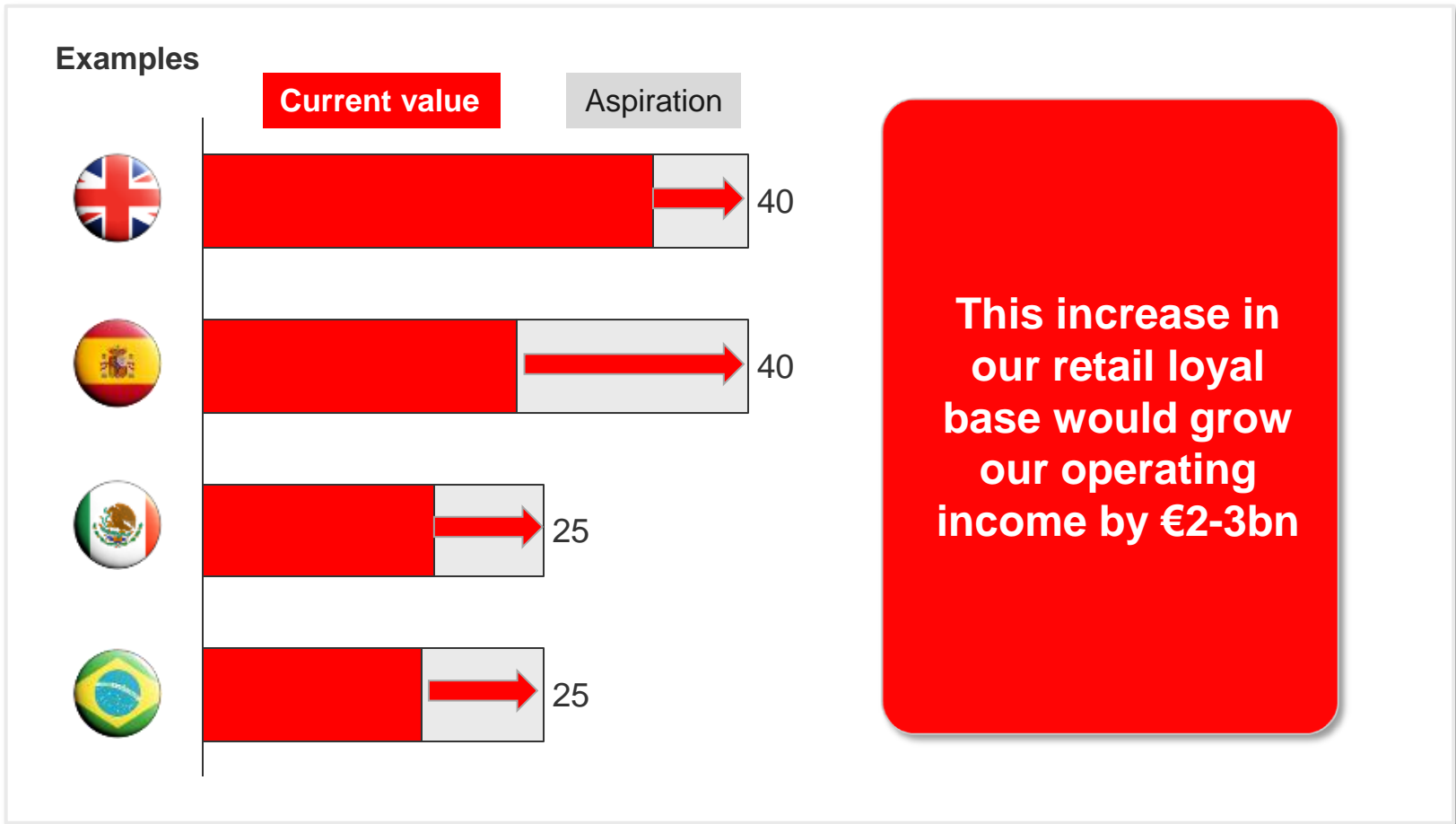
- **Unique value proposition**
- **Number 1 in Varkey Foundation and UNESCO in terms of support to Education**
- **Linked to our support to entrepreneurship and SMEs**

Since 1996, more than **160,000** students, professors and researchers have benefited from our scholarships

- I. **The new banking framework**
- II. **Santander today and tomorrow**
- III. **What does it mean for our main geographies?**
- IV. **Key operating and financial targets**
- V. **Conclusions**

Commercially, we have a unique opportunity especially in larger markets

Retail Loyal customers,
% of active customers



Commercial transformation and operational excellence, with focus on increasing loyal customers and growing SME / Commercial (1/2)

Priorities 2017



- **Bank of choice** for the majority of the customers
 - **SMEs and Corporate** leadership
 - **Digital** enhancements
-



- Top line **growth**
 - **Loyal** customers
 - Profitability increase through **business mix enhancement**
-



- **Retail franchise/ 123 world**
- **SMEs and Corporate** profitable growth

- **Retail transformation**
- **Top line growth**
- **SMEs and commercial**

Commercial transformation and operational excellence, with focus on increasing loyal customers and growing SME / Commercial (2/2)

Priorities 2017



- **Adaptation to new regulation**
 - Gradually refocus the bank on **commercial activities**
-



- **Commercial transformation**
 - **SMEs/ corporates**
 - Exploit opportunities derived from **reform agenda**
-



- **Continue growth maintaining ROE levels**

- **Retail transformation**
- **Top line growth**
- **SMEs and commercial**

- I. The new banking framework**
- II. Santander today and vision for tomorrow**
- III. What does it mean for our main geographies?**
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Our targets for 2017 are ambitious... Simple, Personal, Fair to deliver sustainable results

- **Top 3** bank to work in the majority of our core geographies



People

- **17** Million Retail Loyal Customers
- **1** Million SMEs and Corporates Loyal Customers
- Customer loans growth **above peers*****

Customers

- All geographies in **top 3** among peers in customer service*
- **25** million digital customers



- **700 M€** support through Universities in the next 4 years**
- **90,000** scholarships in 2015-2017
- **Top 10** in Dow Jones Sustainability index

Communities



Shareholders

- **12-14%** ROTE
- FL CET1 of **10%-11%**
- NPL ratio of **<5%**
- C/I **<45%**
- Higher EPS growth than peers***



(*) US above peers average

(**) 4 years: 2015-2018

(***) "Peer Group": BBVA, BNP Paribas, Citigroup, Deutsche, HSBC, Intesa Sanpaolo,

Itaú, JPMorgan Chase, Lloyds, Société Générale, UBS, UniCredit, Bank of America, Wells Fargo, Barclays, Standard Chartered and ING

Save the date



Investor Day

23rd – 24th September 2015



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V. Conclusions

Santander: A combination of financial strength and a recurrent, profitable low risk business model geared towards growth above market

- Current environment provides a huge opportunity....
- ... Santander is the best positioned bank to benefit from it...
 - ... We will do it by strengthening our culture and proposition to our customers and communities and....
 - ... by growing our existing business organically, increasing our customers' loyalty profitably through best customer banking experience and leveraging our operating excellence
- We will be even more rigorous in capital allocation internally, and now have the capital in place and a strong balance sheet to accompany the turning cycle in our core markets

To be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities



Simple Personal Fair

What a bank should be

