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# Nathan Bostock

Country Head UK

Helping people and  
businesses prosper

Simple | Personal | Fair

## GROUP STRATEGY UPDATE

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

# 2017



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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 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)).

# Contents

- 1 UK market and outlook**
- 2 Delivering on our strategic targets ahead of plan**
- 3 Positioned to capture further growth opportunities**
- 4 Key takeaways**

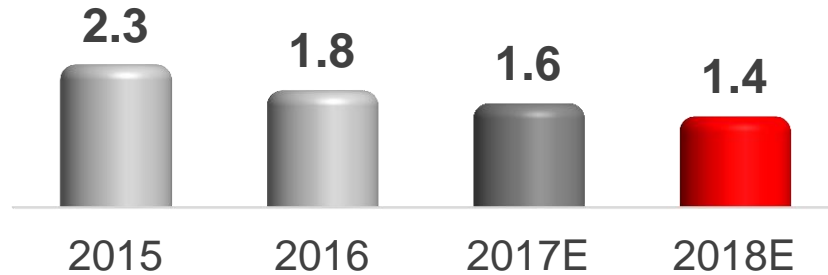


# UK market and outlook

# The UK macroeconomic outlook is broadly stable but uncertainty remains

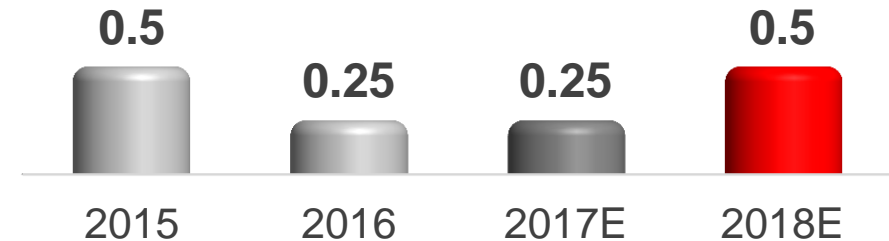
## Stable GDP growth

GDP (% , annual average)



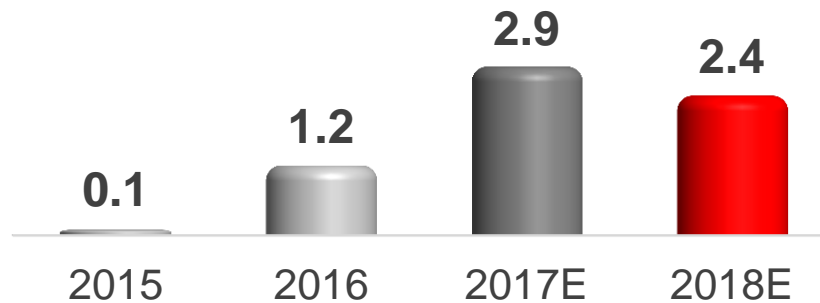
## Low interest rates

Bank Rate (% , year end)



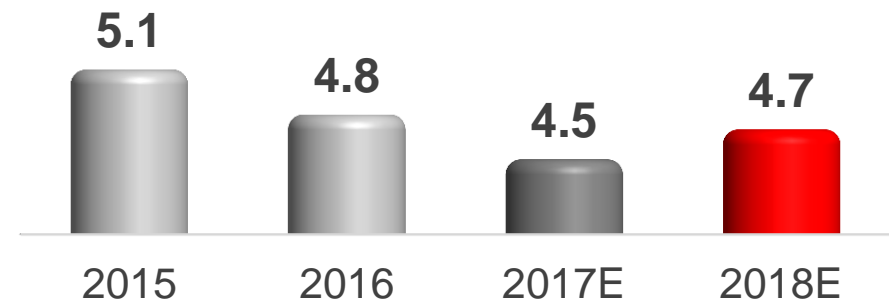
## Rising inflation

CPI inflation (% , 4Q)



## Stable labour market

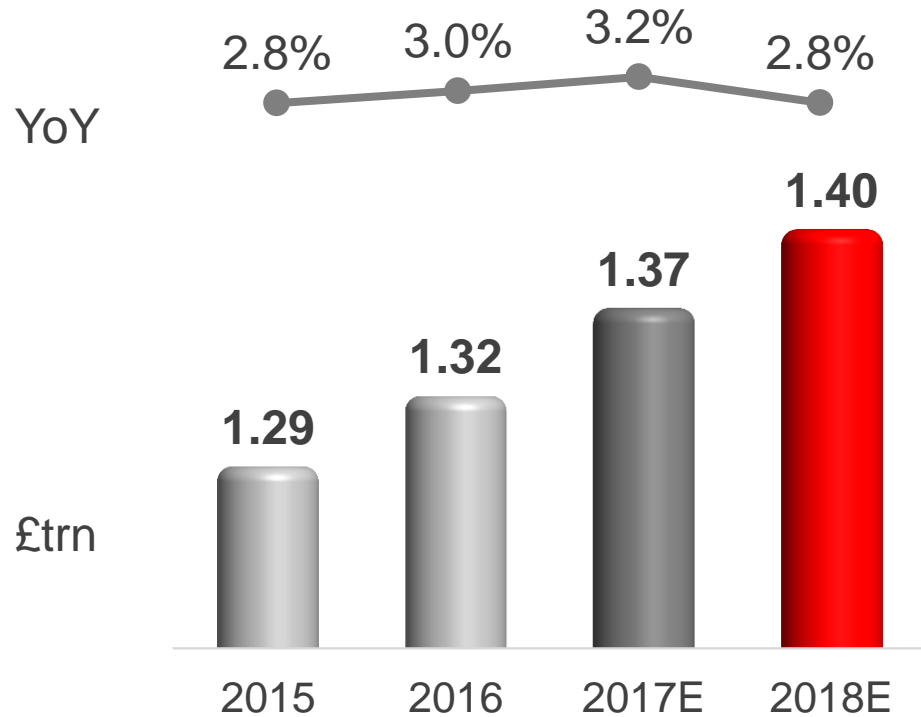
Unemployment (% , 4Q)



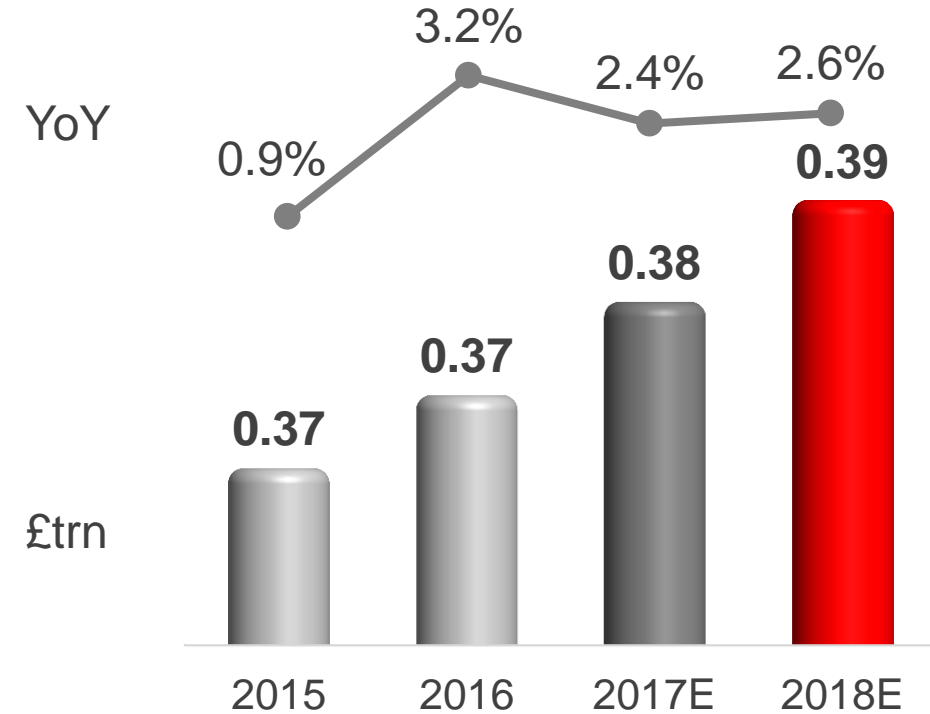
Source: HMT consensus (September 2017)

# UK Banking market is expected to continue to grow

## Positive retail mortgage loans growth...



## ...and commercial loans positive trend



Source: Bank of England Bankstats (2015-2016 data); Oxford Economics (2017-2018 data) August'17

**2**

**Delivering on our strategic targets ahead of plan**

# We have a unique position in the UK market...

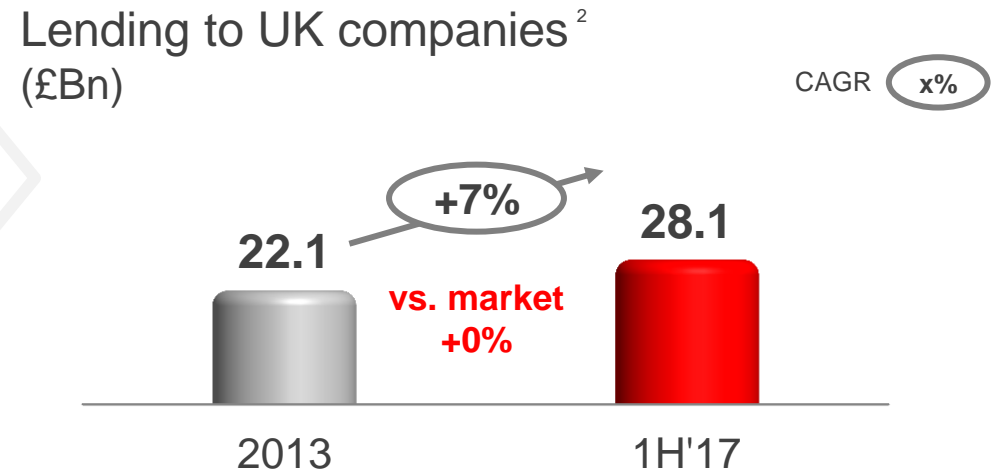
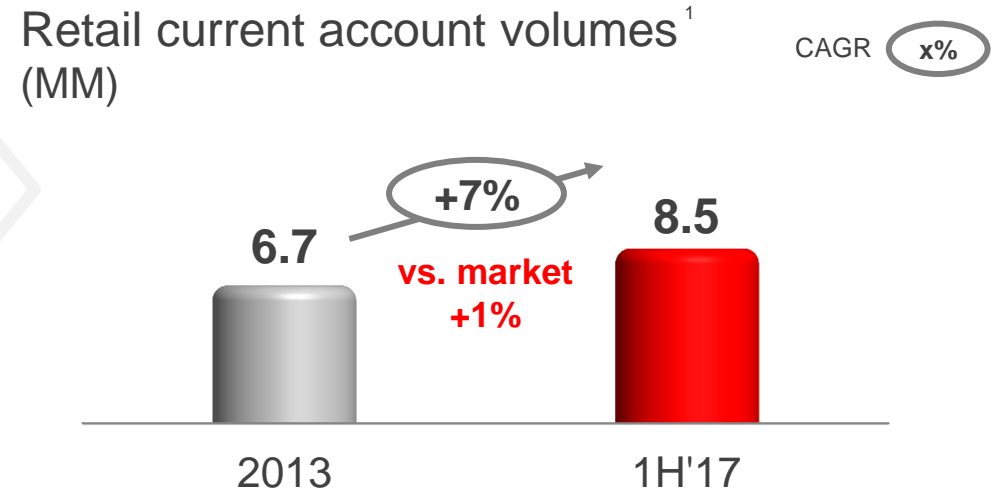
**Full-service franchise** with **meaningful scale...**

**14MM** retail active customers  
**£200Bn** customer loans, **#3** in mortgages  
**£174Bn** customer liability, **#4** in retail deposits  
**Omni-channel**

**...challenging incumbents** to increase competition and customer choice

**Innovative, value-added** solutions  
**Transparent** benefits **excellent service**  
**Leading international** proposition

## Winning market share



(1) Market source: CACI's CSDB, Stock, Volume data as at December 2013 and June 2017 (2) Market source: Bank of England Bankstats



# ...which allows us to deliver on our 2015-18 strategy



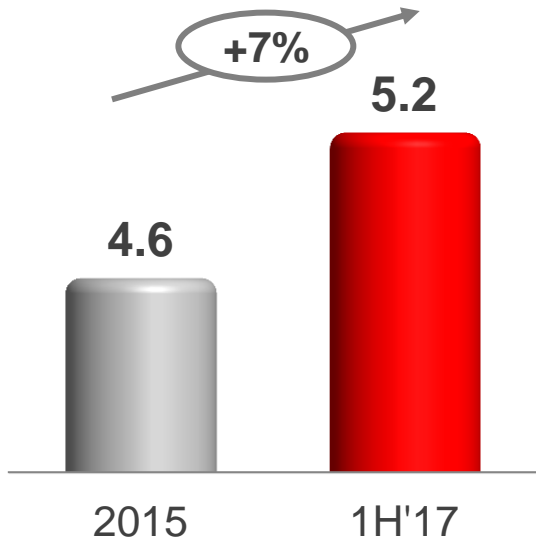


# Building valuable and lasting customer relationships

## Retail

1|2|3 World customers (MM)

CAGR x%



- Adaptable to market conditions
- Deeper relationships
- Improved profiles
- Satisfied customers
- Reduced attrition

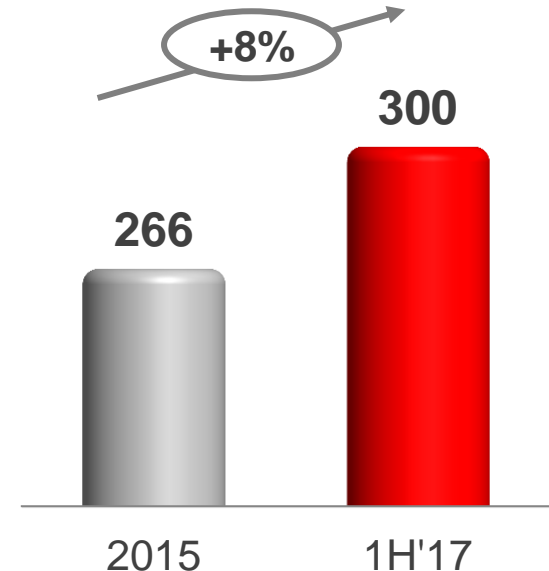
	2015	1H'17
<b>Deposits per customer<sup>1</sup>(index)</b>	100	105
<b>Income per customer<sup>1</sup>(index)</b>	100	177

(1) Excludes Lite, Mini and student accounts

## SME / Corporate

Loyal customers (k)

CAGR x%



	2015	1H'17	CAGR
<b>Asset (£Bn)</b>	24	26	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">+5%</span>
<b>Liability (£Bn)</b>	18	23	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">+16%</span>
<b>Income (£MM)</b>	886	1,052	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">+12%</span>

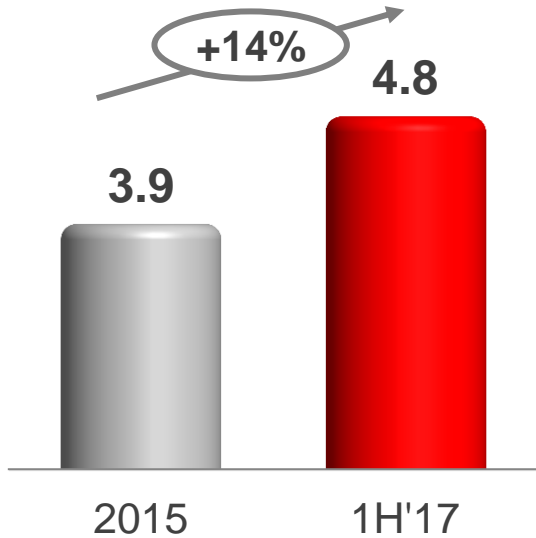


# Digitalising the bank to improve customer experience and efficiency

## Increasingly digital interactions

Digital customers (MM)

CAGR **x%**



**>30%**

sales

**>40%**

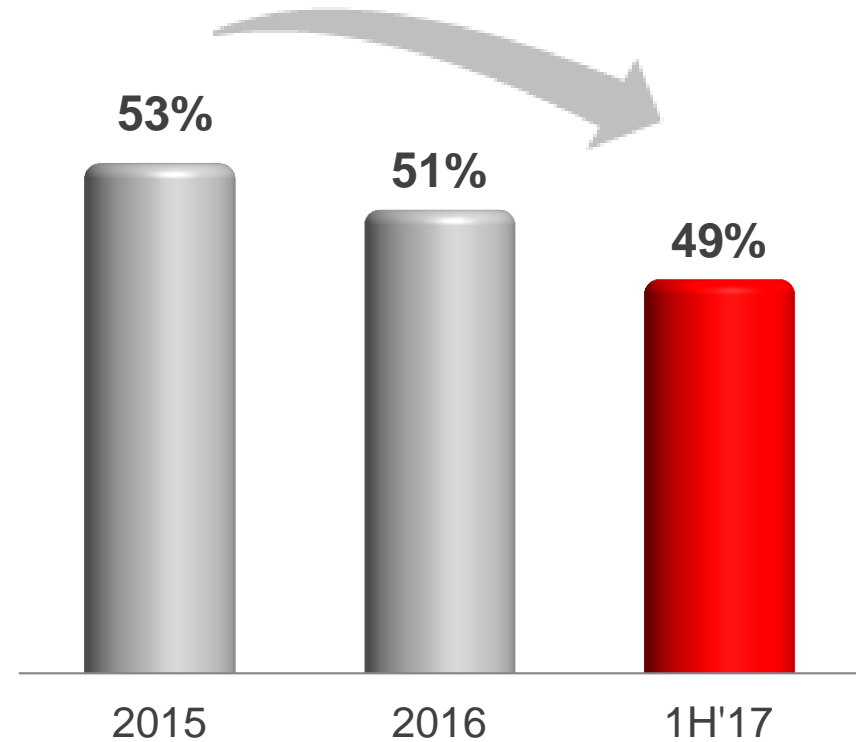
mortgage  
retentions

**>90%**

touchpoints

## Improving efficiency

Cost-to-income ratio



Note: Data at 1H'17

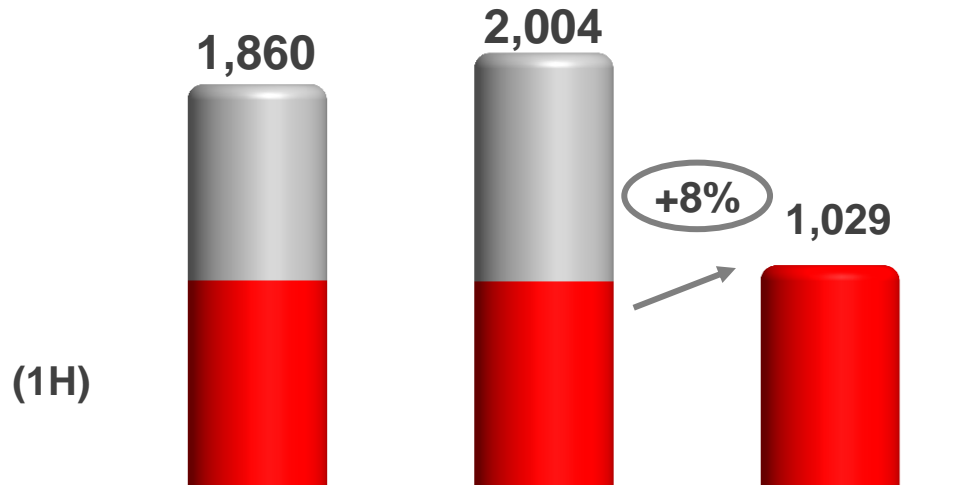


# Growing profitability while continuing to strengthen the balance sheet

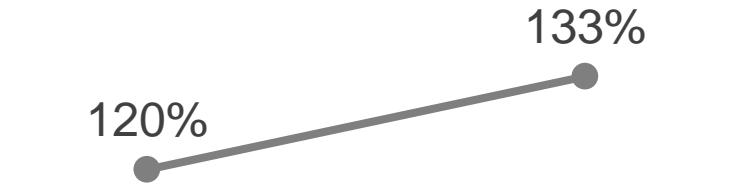
## Growing profits

## Strengthened liquidity and funding

PBT (£MM)

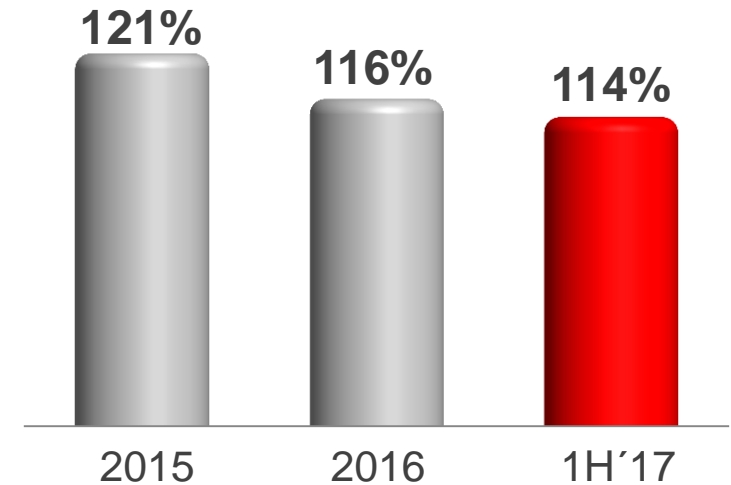


Liquidity coverage ratio (LCR)



(1H)

Loan to deposit ratio (LDR)



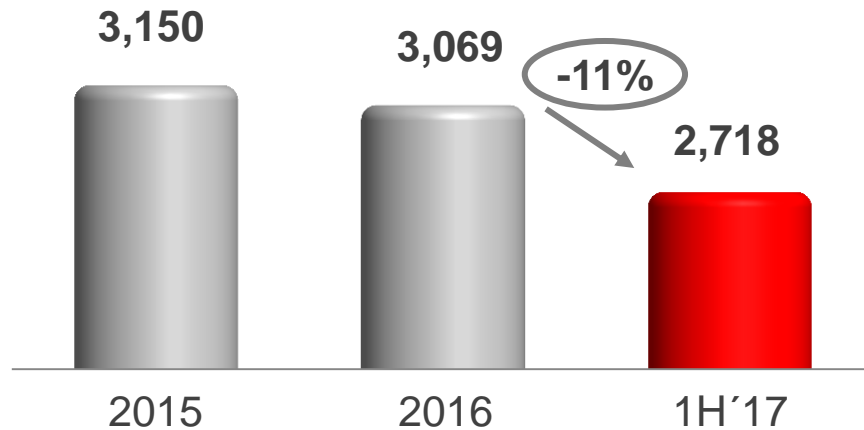
	2015	2016	1H'17
RoTE	11.8%	10.6%	11.1%
Banking NIM	1.83%	1.79%	1.91%
Fee growth (YoY)	-4%	+7%	+6%
CET1 FL	11.6%	11.6%	12.1%



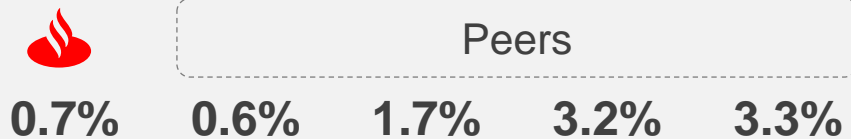
# Maintaining the highest levels of resilience

## Improving credit quality

NPLs (£MM)

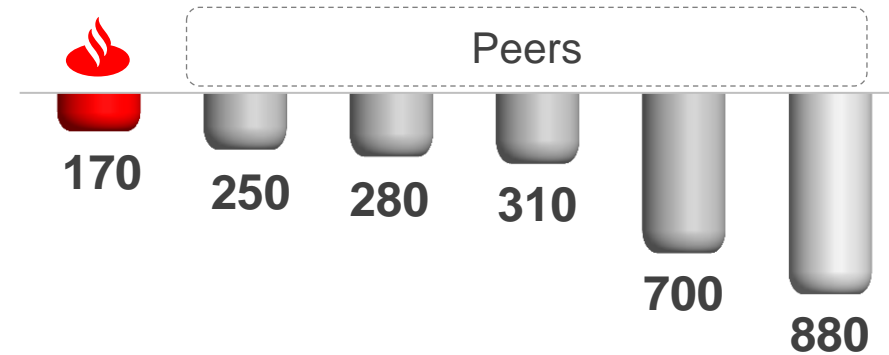


## Delinquency % (2016)<sup>1</sup>



## Most resilient UK bank<sup>2</sup>

2016 BoE stress tests (CET1 drawdown, bps)<sup>3</sup>



(1H'17)

Mortgage avg. stock LTV	43%
Mortgage stock with LTV >85%	5%
Unsecured lending exposure <sup>4</sup>	6%
Commercial Real Estate exposure <sup>4</sup>	4%

Peer group: Lloyds, Barclays, RBS, Nationwide, HSBC (stress test only) (1) Source: Moody's (Problem loans % of gross customer loans) (2) SAN UK had lowest CET1 drawdown of the banks included in 2016 Bank of England stress test (3) CET1 drawdown is defined as CET1 ratio as at Dec15 less minimum stressed ratio (after the impact of 'strategic' management actions and conversion of AT1) (4) Percentage of total customer loans

# Doing things The Santander Way



## Engaging teams

**72%**  
Engagement<sup>1</sup>



**+6pp**  
vs. FS norm<sup>2</sup>



## Supporting communities

The  
**Discovery Project**

**291k**  
people supported

 **Santander**  
UNIVERSITIES

**12k**  
students supported

Note: Data at 1H'17 (1) Korn Ferry (2016), % favourable responses (2) UK Financial Services norm

**3**

**Positioned to capture further growth opportunities**

# We are well positioned to capture further growth opportunities

Growing  
**retail** revenues  
by...

increasing  
customer  
loyalty

developing  
high potential  
segments

**A1**

**A2**

Building  
**corporate**  
primacy for  
increased returns

**B**

Leveraging  
**digitalisation** to  
deliver excellent  
customer  
experience

**C**

Maintaining  
best-in-class  
**efficiency**

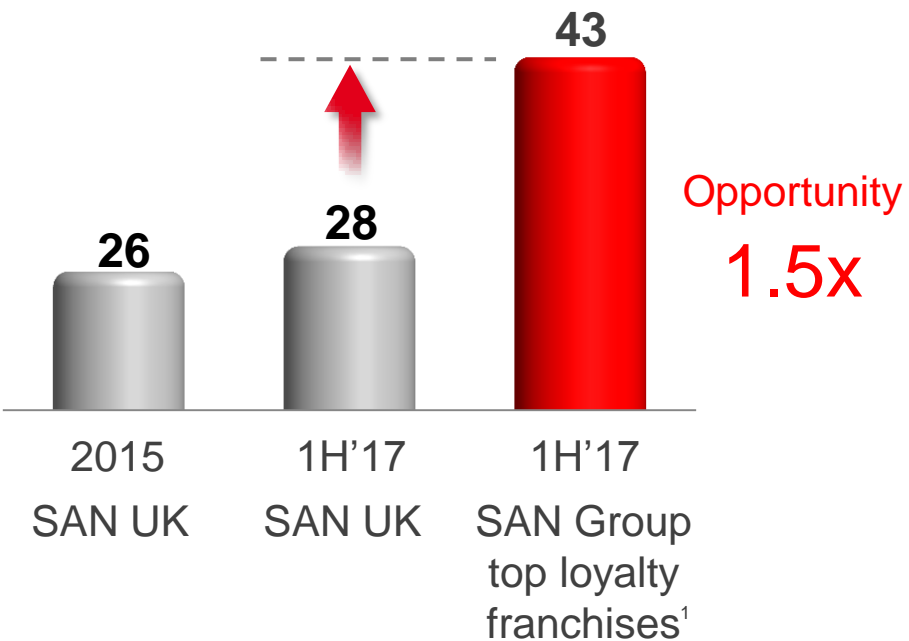
**D**



# A1 Growing retail revenues through increased loyalty...

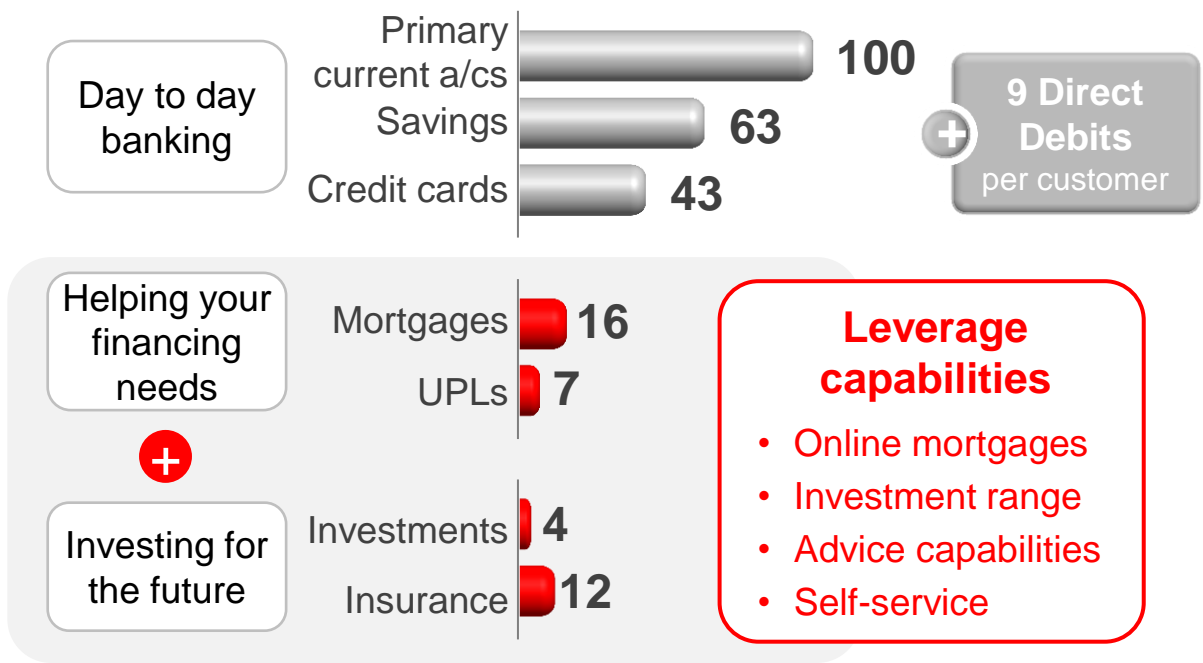
## More loyal customers...

Loyal customers (% of active)



## ...enabling deeper relationships

% loyal customers holding products (1H'17)



(1) Argentina, Chile, Poland and Portugal

# ...and realising the potential of our business banking franchise




## Strong momentum for change in SME market



...

Supporting transparency, switching, capabilities and innovation

## We are uniquely placed to capitalise

-  **Scale challenger** with established and robust infrastructure
-  **Customer-centric** operating model
-  **Innovative and differentiated** propositions

## Opportunity for profitable growth

### 1 Increasing market share through customer acquisition

Market share<sup>1</sup>  
(Business current a/c)



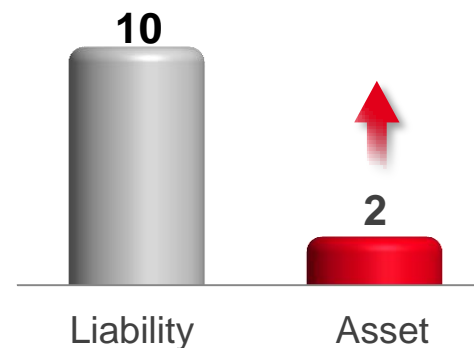
5-10%

Top 4 Banks

83%

### 2 Deepening relationships through enhanced capabilities e.g. in asset based products

Santander Business balance sheet<sup>2</sup>  
(£Bn, 1H'17)



% of customers holding asset products

	Market <sup>1</sup>
Lending	15%
Credit Card	50%
Asset finance	10%

(1) Source: CMA Retail and Business Banking Investigation 2014-2016 (2) Small and medium sized businesses with annual turnover <£6.5MM

# Building corporate primacy to increase returns

## Primacy

- Completion of core banking proposition
- Asset finance

## Differentiation

- Challenger status
- Global reach and international expertise

## Proximity

- Local network and unique credit partner model
- Event driven approach to finance solutions

### International proposition

Trade Portal



Trade Club



FX platform



### Group-wide collaboration

Trade corridors



Alliance partners



GCB capabilities

Transactional banking, ...

*International Customer<sup>1</sup>*

**2X** products

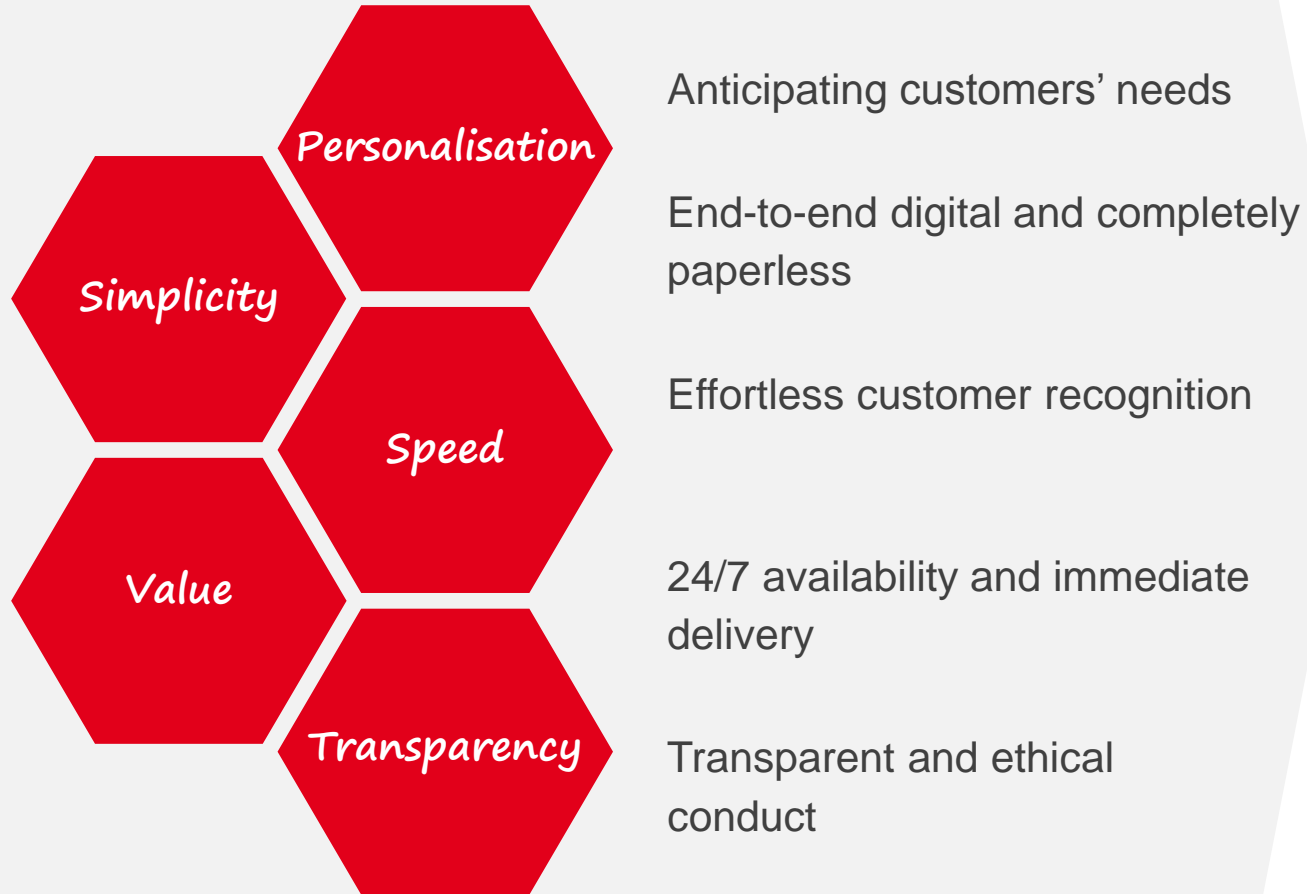
**2.5X** income



*Higher resilience in an economic downturn*

(1) International customer vs domestic only

## Our customer-centric approach



**Customer-  
centricity**

**NEOCRm**



**Omni-channel  
choice**

- Full service mobile
- New role of branch

**Frictionless  
experience**



**Innovation &  
FinTech**

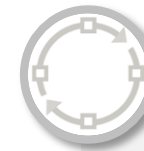
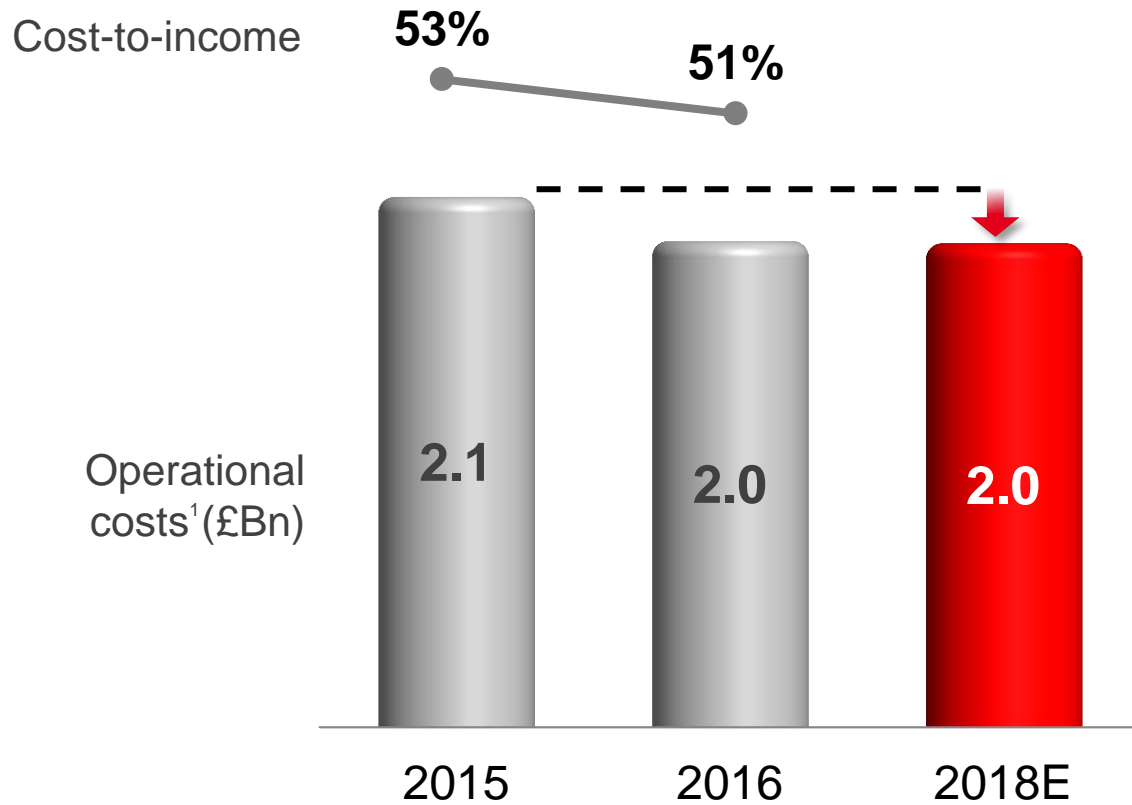


Collaboration and sharing best practice (e.g. payments)

**New ways of  
working**

- Agile organisation
- Increased connectivity
- Skills evolution

# D Maintaining best-in-class efficiency



**Simplifying and digitalising** our organisation and processes



**Optimising our distribution** with leading digital tools



**Leveraging Group scale** through shared capabilities

£100MM reduction in operational costs while absorbing inflation and investing in growing the business

(1) Ongoing costs excluding depreciation and project investment (systems plan, banking reform)



# Key takeaways

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

Group view		2015	2016	1H'17	2018
<b>Customers</b>	Retail loyal customers (MM)	3.7	3.7	3.9	4.7
	SME/Corp. loyal customers (k)	266	290	300	308
	Digital customers (MM)	3.9	4.6	4.8	6.5
	Retail customer experience	63%	63%	62%	Top 3
	Fee income growth (% YoY)	-4%	+7%	+6%	5-10% <sup>2</sup>
<b>Shareholders</b>	RoTE	11.8%	10.6%	11.1%	9-10%
	Cost-to-income ratio	53%	51%	49%	50-52%
	CET1 ratio (stat)	11.6%	11.6%	12.1%	~12%
	Non performing loan ratio	1.5%	1.4%	1.2%	<2%
	Dividend pay-out ratio (yearly)	50%	51%	-	50%
<b>People</b>	Colleague engagement	71%	72%	-	Top 3 UK Bank
<b>Communities</b>	Number of scholarships (vol) <sup>1</sup>	-	8,000	11,600	24,100
	People supported (vol) <sup>1</sup>	-	196,300	290,600	600,000

(1) Cumulative from 2016 (2) CAGR 2015-2018

- **We are successfully delivering ahead of plan on our commitments**, building valuable customer relationships and growing profitability
- **Our balance sheet quality and risk management** ensures we will continue to meet our targets
- Maintaining the **highest levels of resilience** and **well positioned to capture further growth opportunities** by:
  - Increasing **loyalty** and **primacy**
  - Improving **customer experience**
  - Enhancing **efficiency**





# 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**

