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Group Chief Financial Officer

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GROUP STRATEGY UPDATE

NY, October 10th

2017



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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.

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- and at Banco Santander - 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) and on Banco Santander's website (www.santander.com).

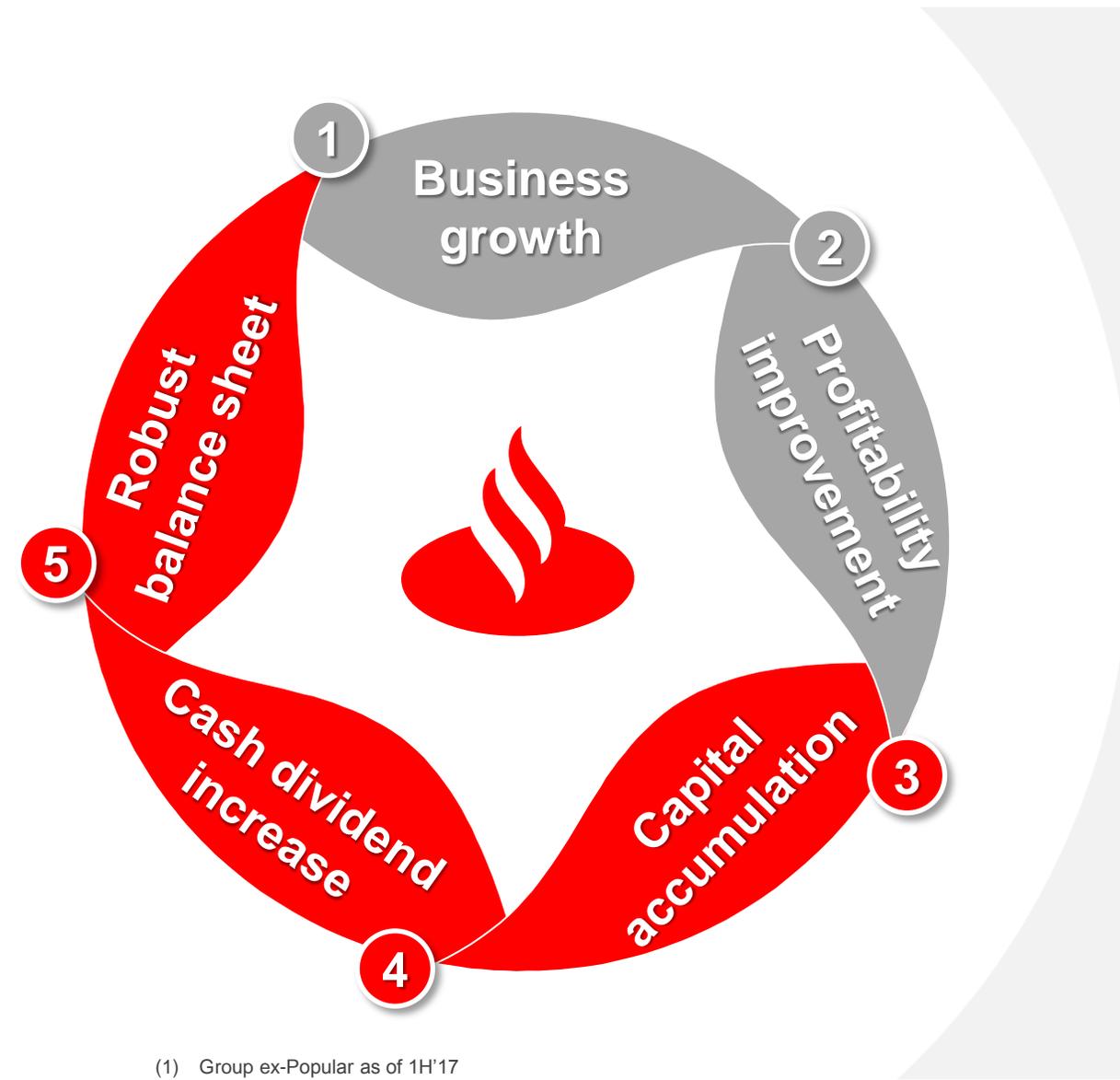
Contents

1 Disciplined capital management

2 Conservative funding and hedging management

3 Key takeaways

Our financial strategy combines five levers



1 Committed to **grow organically**
Leveraging **our business model & improved commercial strategy**

2 **RoTE: 11.7%¹ ▶ Top 3 vs. peers**
RoRWA: 1.47%¹

3 **CET1: 10.72%** (meeting our targets consistently)
Growing TNAV/share¹ (from €4.01 Dec'14 to €4.15 Jun'17)

4 **Higher total and cash dividend per share**

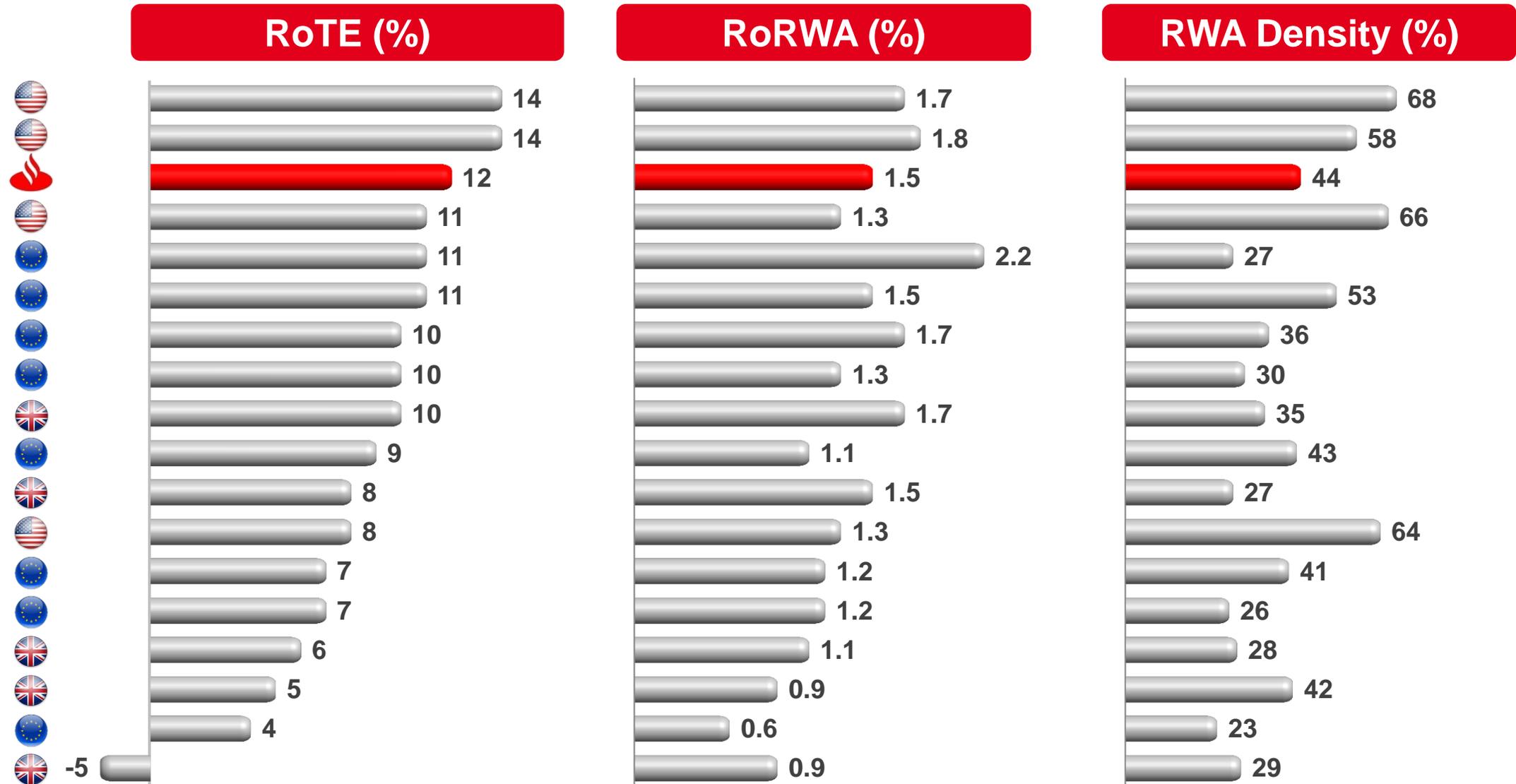
5 **NPL: 3.55%¹ and coverage ratio: 73%¹**
Prudent funding & liquidity management

(1) Group ex-Popular as of 1H'17



Disciplined capital management

Santander outperforms in profitability with much lower volatility...

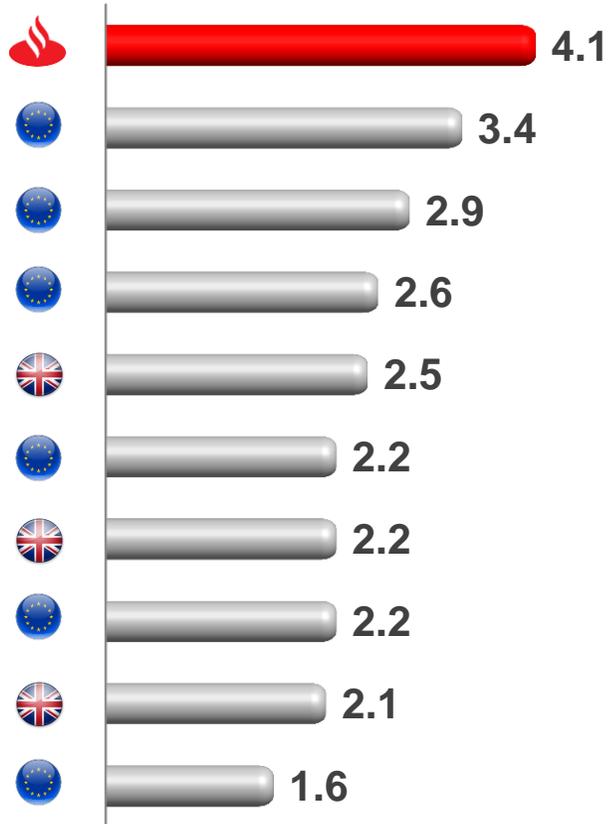


Note: Peers included are Wells Fargo, JP Morgan, Bank of America, UBS, BBVA, ING, BNP Paribas, HSBC, Unicredit, Lloyds, Citibank, Intesa Sanpaolo, Société Générale, Royal Bank of Scotland, Standard Chartered, Deutsche Bank and Barclays
 Source: Company data and Bloomberg as of 1H'17

...as business models matter: Santander has wide room to absorb losses

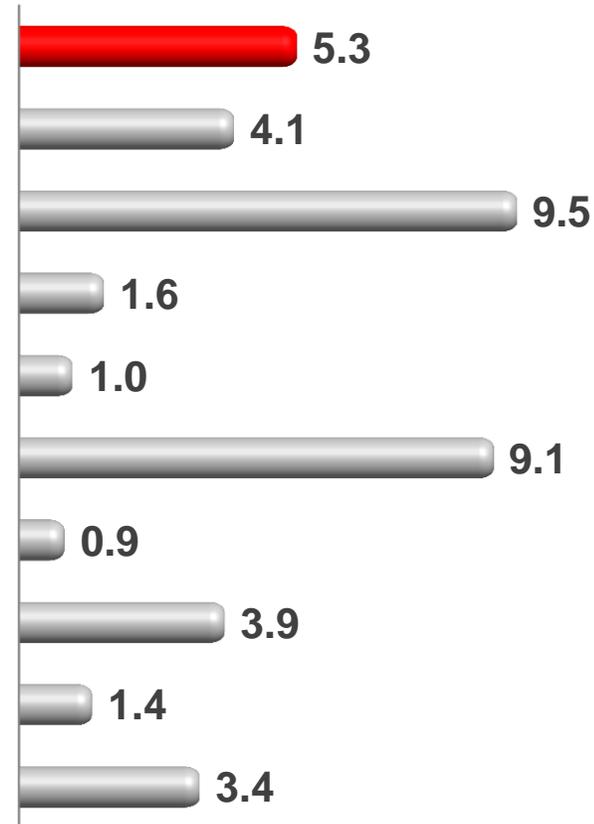
Higher profitability...

Pre-provision profit / RWA (%)



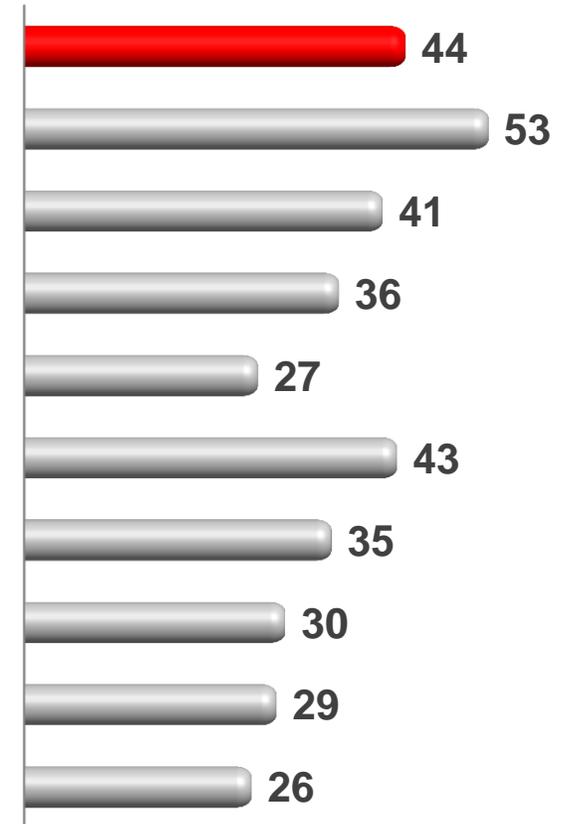
...with higher coverage...

Loan-loss allowances / RWA (%)



...over a conservative density

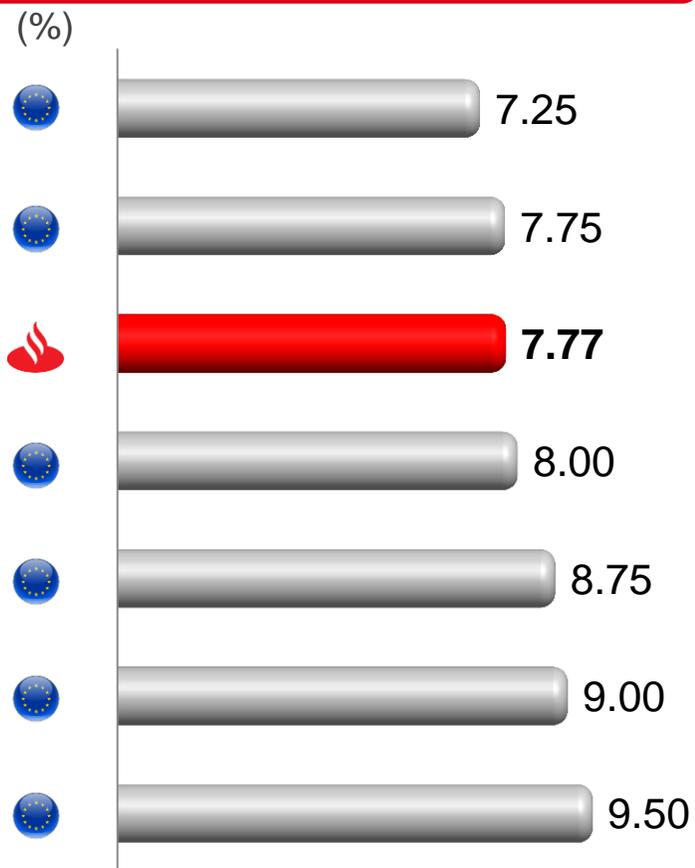
RWA / Total assets (%)



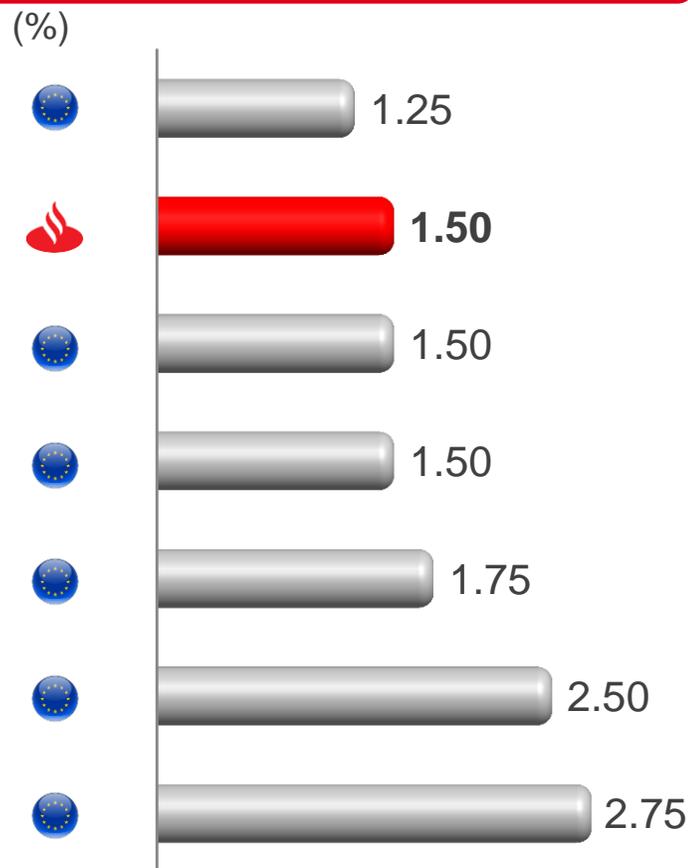
Note: Peers included: BBVA, Unicredit, BNP Paribas, Société Générale, Intesa Sanpaolo, ING, Barclays, Lloyds and HSBC Source: Company data and Bloomberg as of 1H'17

Santander's capital ratio is well above regulatory requirements

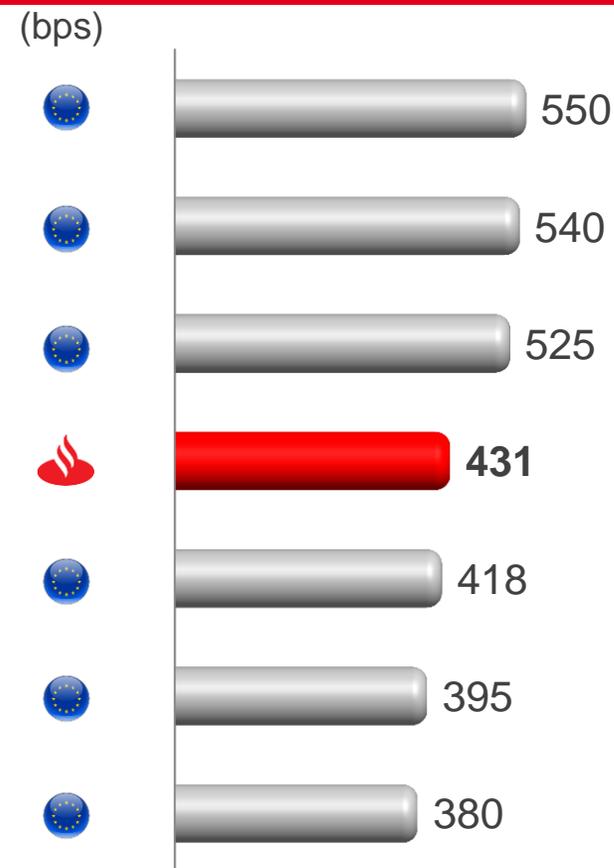
2017 SREP requirement among the lowest in Europe...



...due to a reduced pillar 2R...



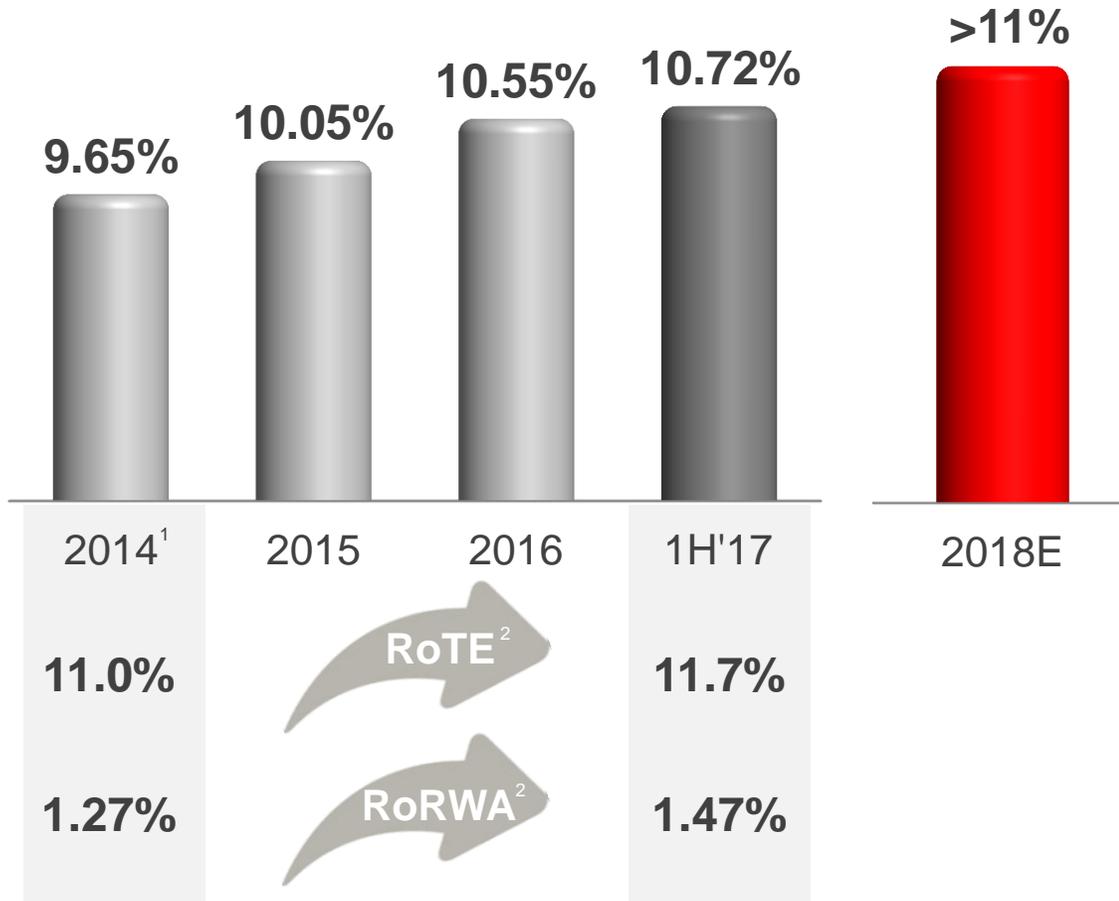
...which results into a comfortable buffer¹



Note: Peers included: Unicredit, Deutsche Bank, BNP Paribas, Société Générale, Intesa Sanpaolo and ING (1) Buffer defined as Phased-in CET1 1H'17 – SREP requirement Source: Company data

We meet consistently our organic capital accumulation commitment...

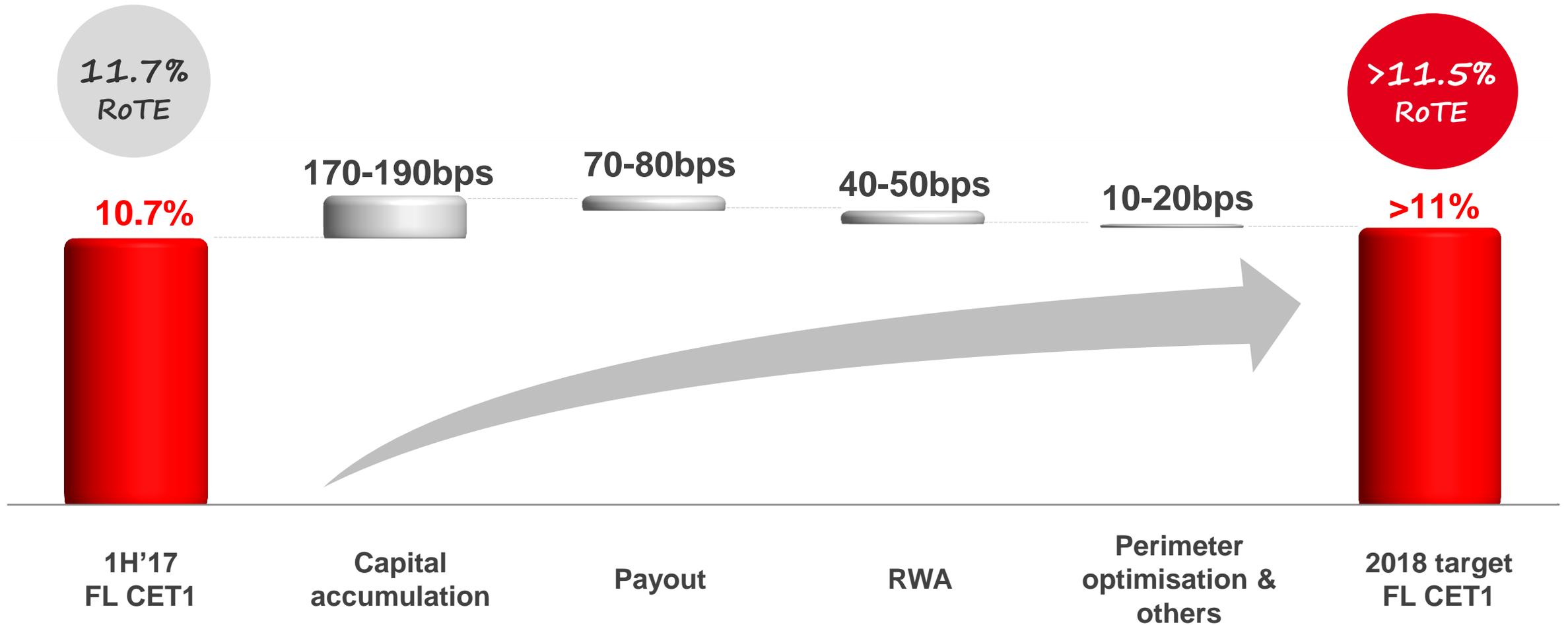
FL CET1



- Committed to accumulate organically an average of **10bps CET1 per quarter**
- **RWA growth** below profit growth
- Plans to **optimise return on capital**
- Capital increase for the Popular acquisition is **capital neutral**

(1) Pro-forma, including Jan '15 capital increase (2) Group ex-Popular

...therefore we are on track to meet >11% CET1 in 2018

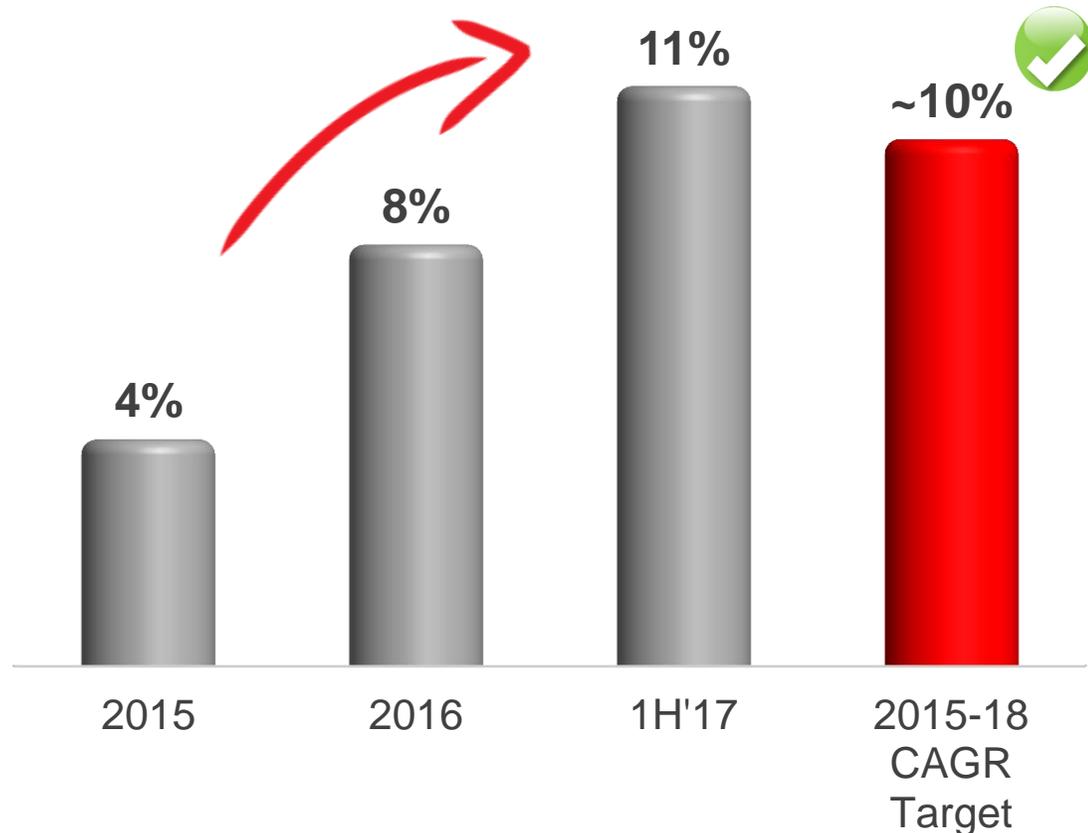


Note: Assuming no change in AFS portfolios valuation. Data ex-Popular. All amounts except 1H'17 are estimates

Building a low capital consumption business and improving recurrence...

Significant fee growth

(YoY)



- Enhanced *customer loyalty*
- *Fee generating business growth*
- *Increased recurrence¹ ratio from 48% to 52% YoY*

Less capital intensive commercial strategy

Note: Constant euros (1) Fees to cost as of 1H'17

...and disciplined M&A and capital allocation

Popular *Becoming leader in Spain and Portugal*

- **ROI:** 13-14% in 2020
- **EPS:** Accretive by ~3% in 2020
- **TNAVPS:** ~3% accretion

Gaining full control on a key fee business *growth driver*

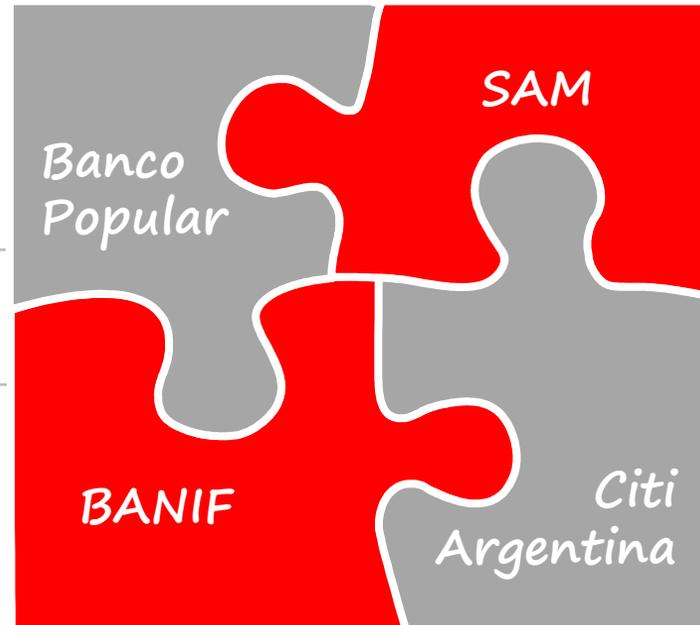


- **ROI:** >20% in 2018, >25% in 2019
- **EPS:** Accretive >1%
- **CET1 impact:** -11bps in 2017



Reinforcing our franchise *gaining 2.5pp market share*

- **ROI:** Aligned with Santander Portugal RoTE
- **EPS:** Accretive
- **CET1:** No negative impact

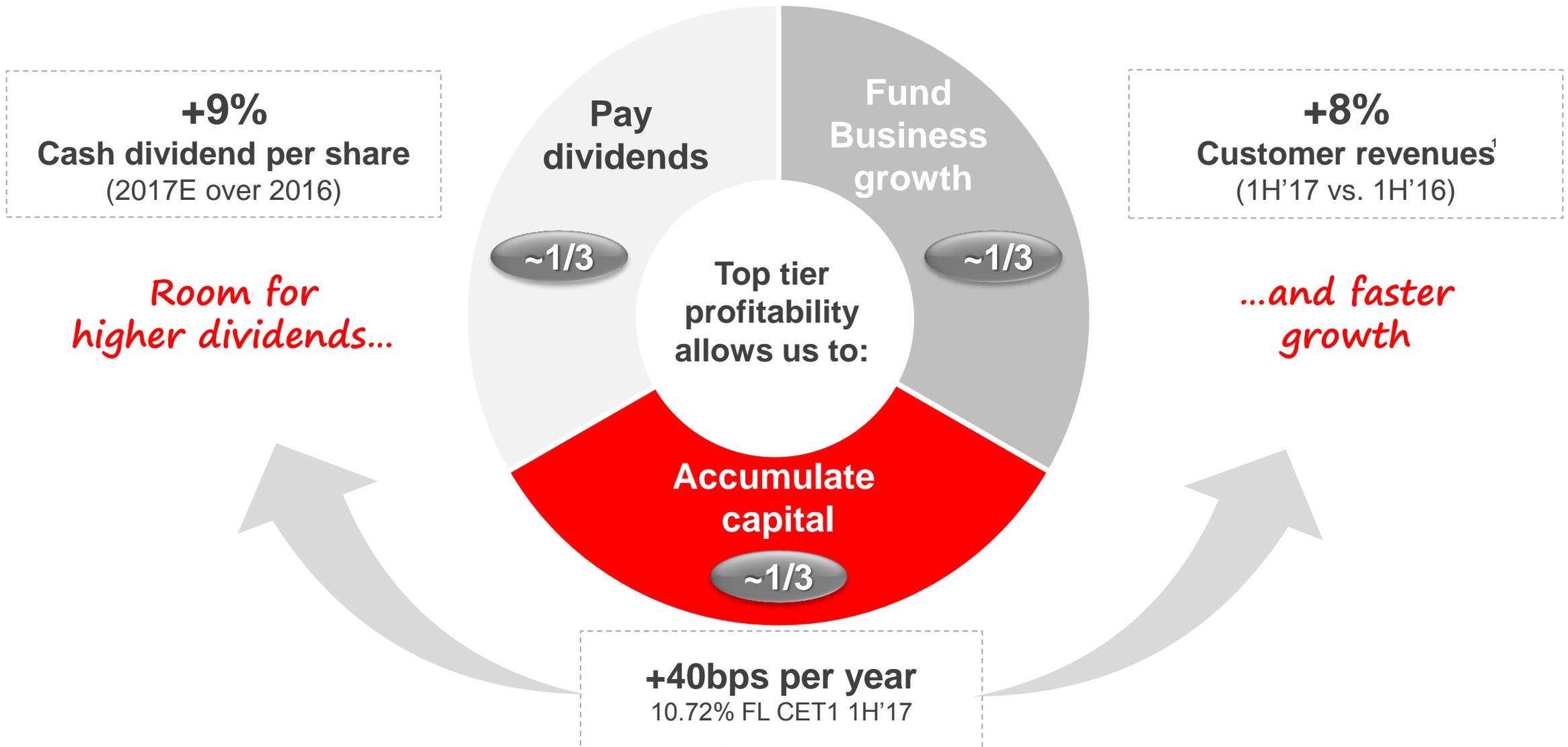


Consolidating our position as the *1st private bank*



- **ROI:** ~30%
- **EPS:** Accretive since year 2 (2018)
- **CET1 impact:** -3bps

Increased capacity to grow faster and improve dividends

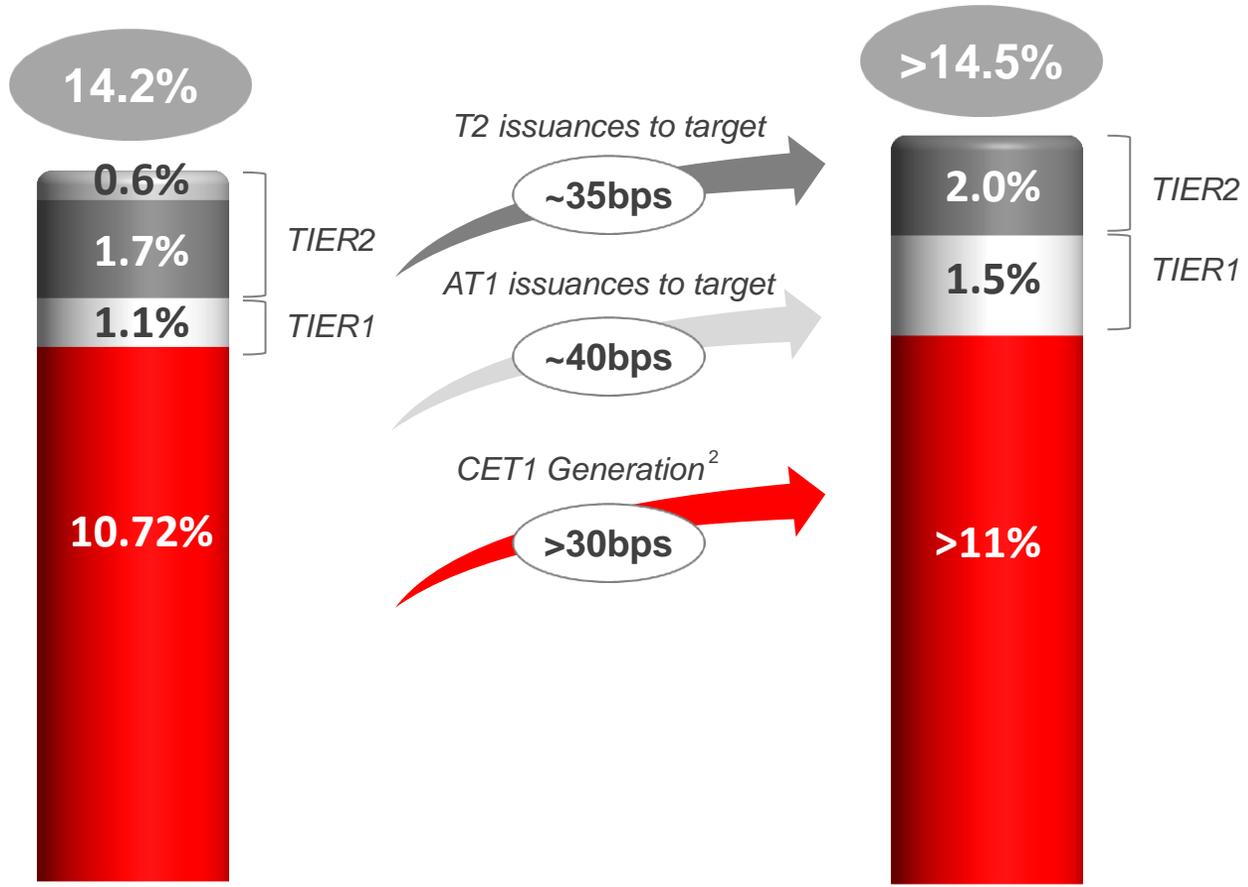


(1) Constant euros, NII + Fees

AT1/T2 buckets to be achieved during the transitional period

Group FL Total capital ratio
1H'17¹

Group FL Total capital ratio
2018E

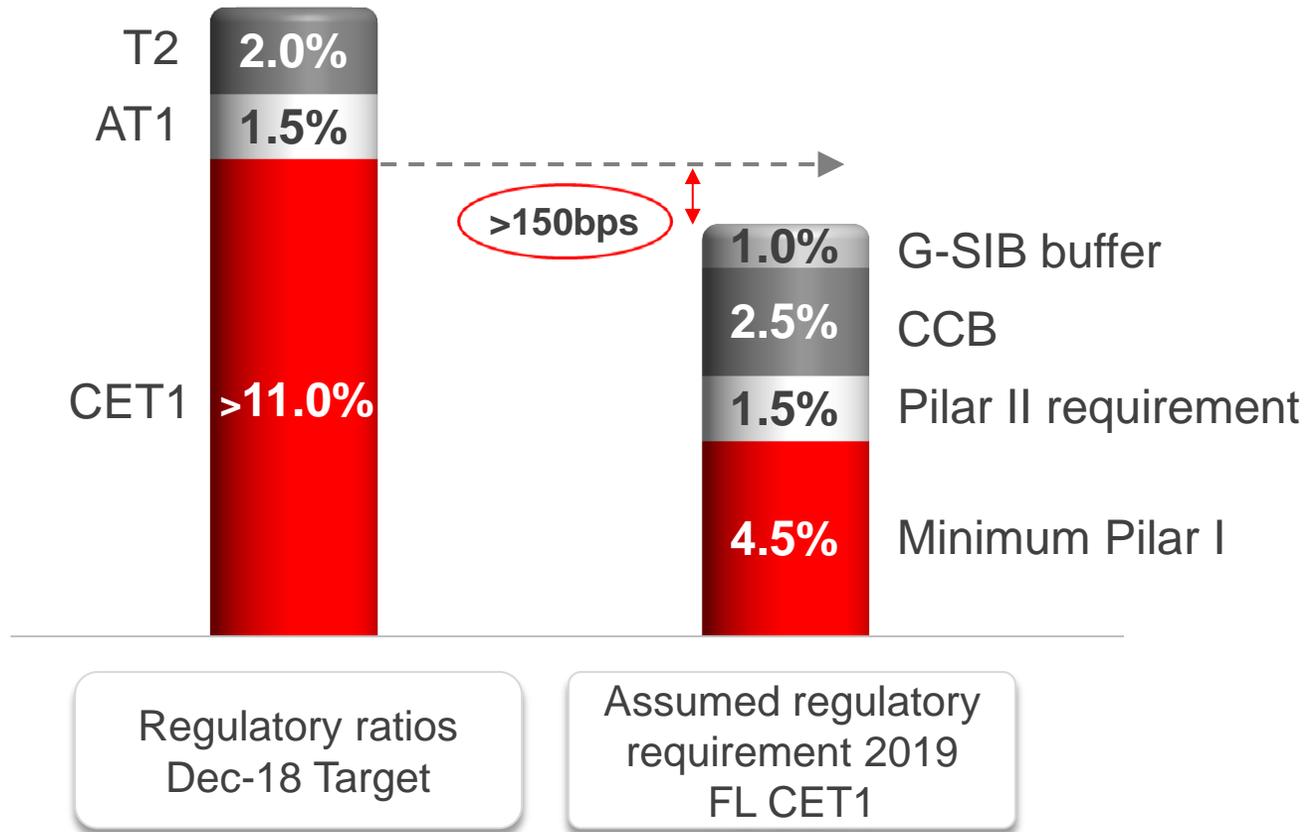


- No excess of generic provision in 2018 considered (0.6pp)
- AT1 issuances to target of **1.5%** in 2018: **~€2.5Bn (o/w €1Bn issued in Sep'17)**
- T2 issuances to target of **2%** in 2018: **~€2.1Bn**

Note: Assuming constant RWA. All amounts except 1H'17 are targets (1) Total capital ratio fully-loaded proforma (2) Net of announced acquisitions + IFRS9

Comfortable buffer for AT1 bondholders

Targeted distance to MDA in December 2018



- Significant payment capacity from distributable items
More than 150 times estimated 2016 full AT1 cost¹
- Management targets MDA >100bps at all times

(1) As of Dec'16 ADIs at Santander Parent Bank (€44Bn)

2

Conservative funding and hedging management

Funding plan focus on TLAC-eligible instruments¹

Parent Bank funding plan

🔥 (€Bn)		Target 2017	Ytd issuances (as of 30th Sep'17)
Senior Non preferred		12-14	6.2
Senior preferred		-	0.7
Hybrids	AT1	2-3	1.7
	T2		1.1
Total		14-17	9.9

Total Group issuances:

€18.4Bn (~€13Bn TLAC-eligible as of Sep'17)

Diversified issuers:

Parent bank, SCF, UK and USA

Diversified currencies:

EUR, USD, GBP

Popular:

Additional need for €750MM AT1 and €1Bn T2

Parent Bank and rest of units on track to meet 2017 funding plan



SCF

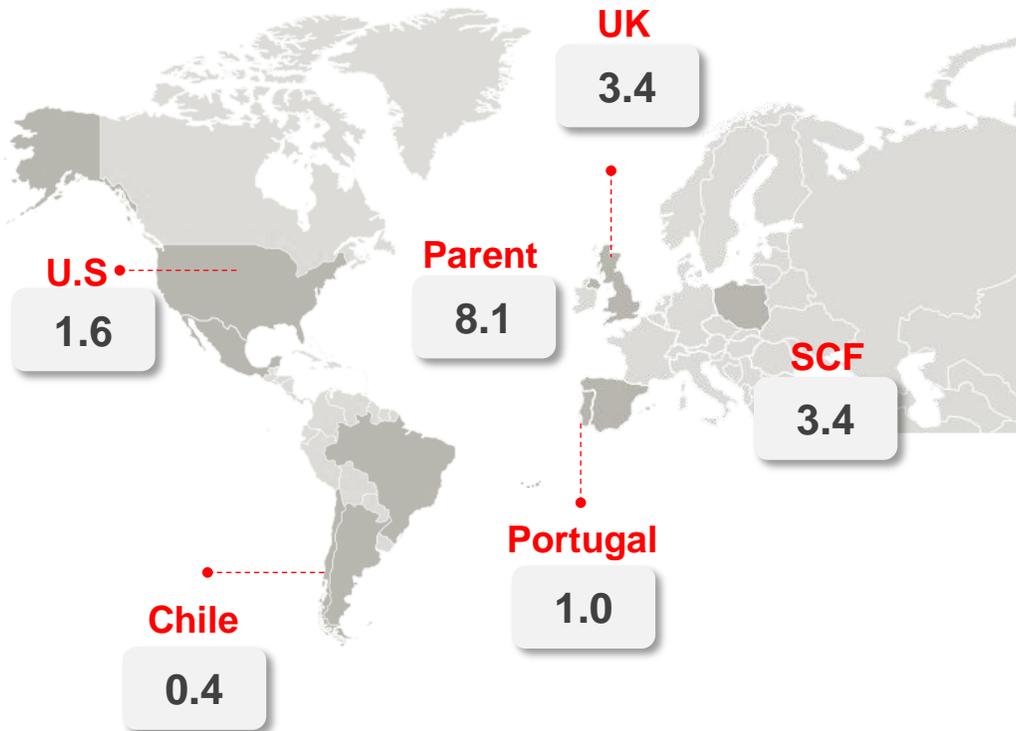


(1) Estimates are based on current financial forecasts and are subject to changes

Conservative and decentralised liquidity and funding model

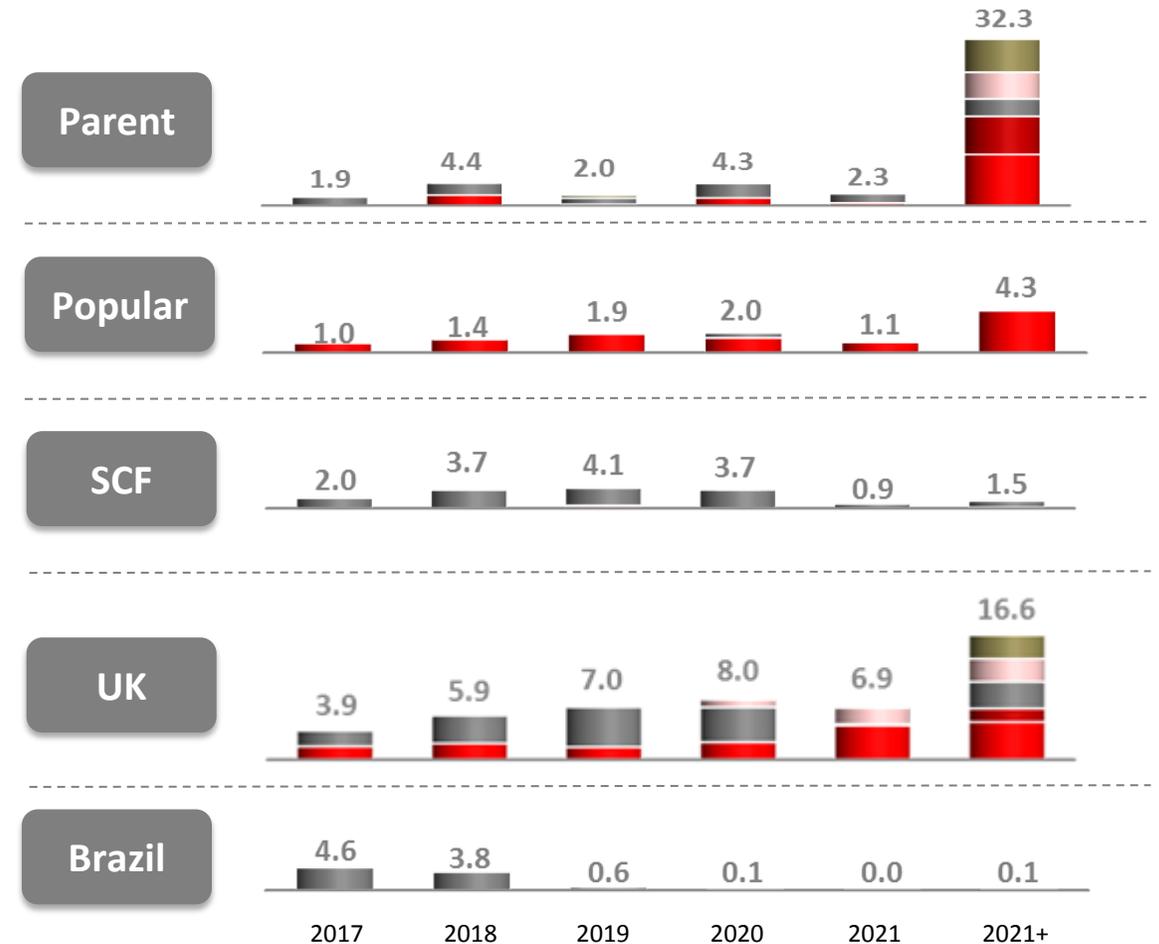
€18Bn issued during 1H'17¹

(€Bn)



Very manageable maturity profile

Data as of Jun'17 (€Bn)

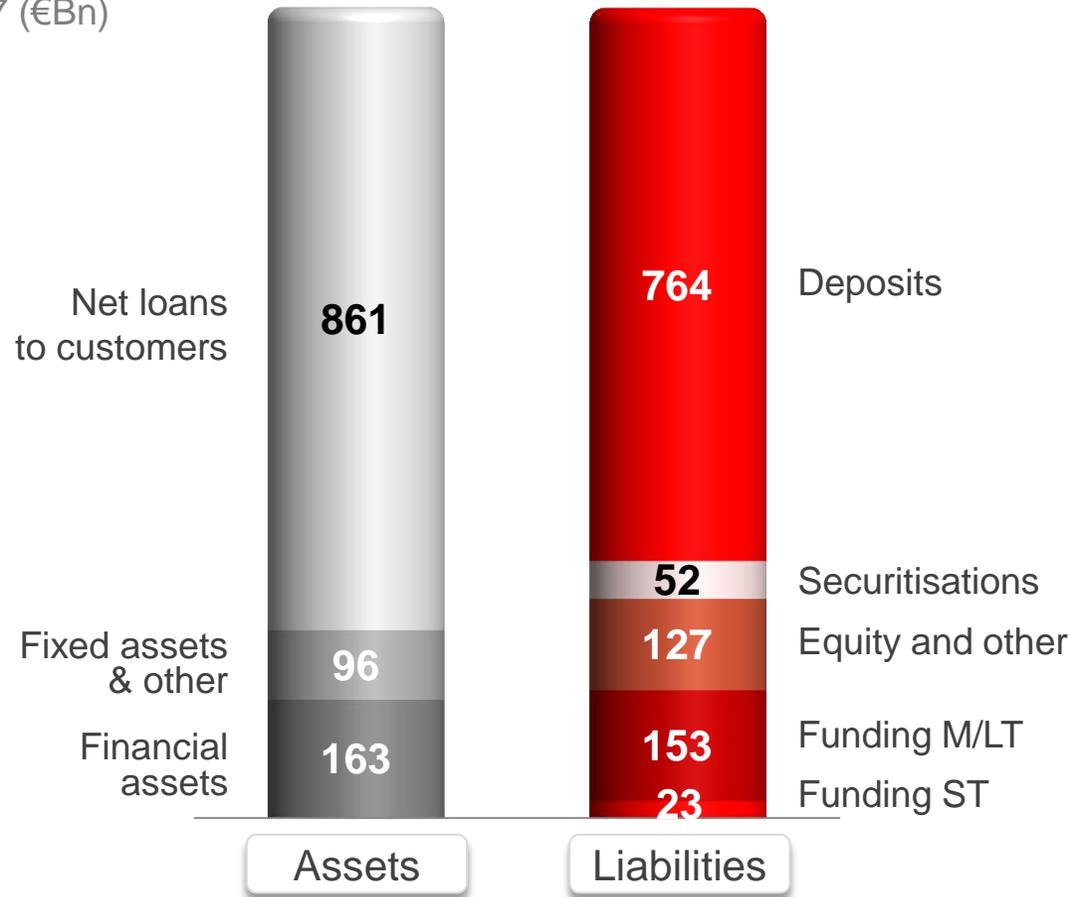


■ Subordinated Debt
 ■ Senior TLAC
 ■ Senior Debt
 ■ Covered Bond
 ■ Preferred Shares

(1) Medium and long term debt including covered bonds until June 30th

Well funded and highly liquid balance sheet

1H'17 (€Bn)

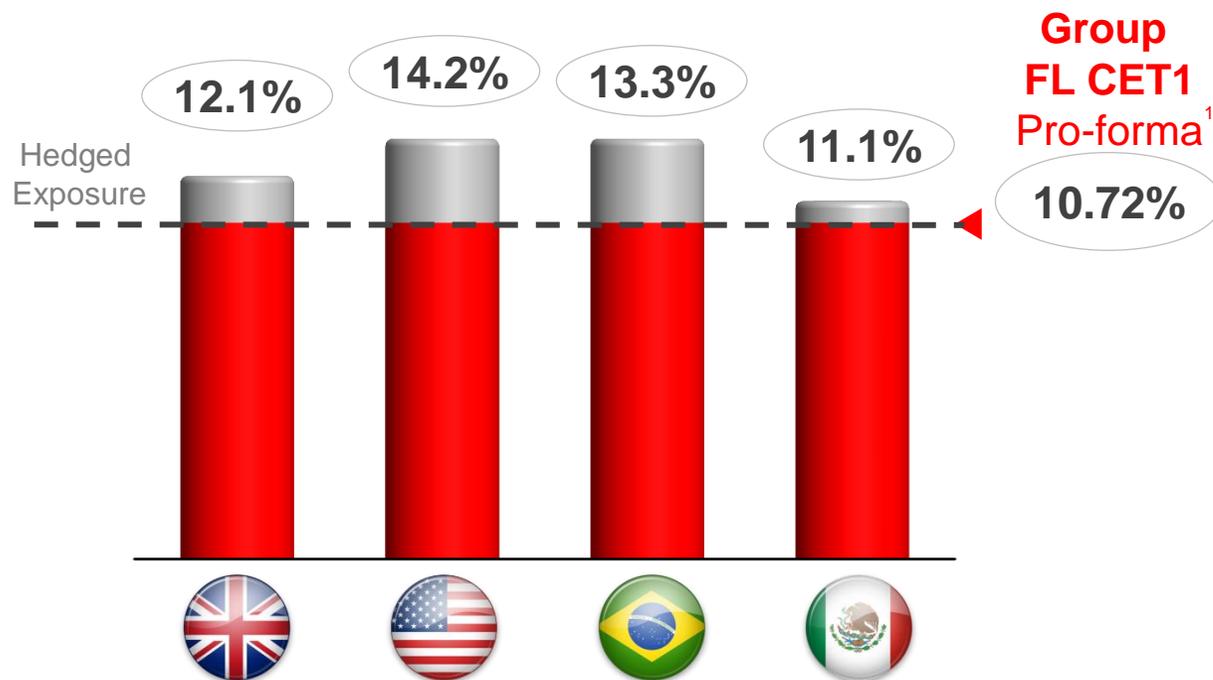


	Liquidity Coverage Ratio (LCR)	Net stable Funding Ratio (NSFR)
 Group	140% ¹	113%
	133%	126%
	132%	106%
	130%	103%

Note: Liquidity balance sheet for management purposes (net of trading derivatives and interbank balances) (1) Includes Banco Popular

Prudent FX hedging policy on capital ratio and P&L...

Group FL CET1 fully hedged



- Neutralises FX volatility in our FL CET1 ratio
- Based on Group regulatory capital and RWA

Dynamic hedging of non euro profits

- Budget generally *hedged on a 12-month basis*
- *Reduced impact of FX volatility*
- More *conservative* approach in 2017
- *Corporate Centre* assumes all *hedging costs*

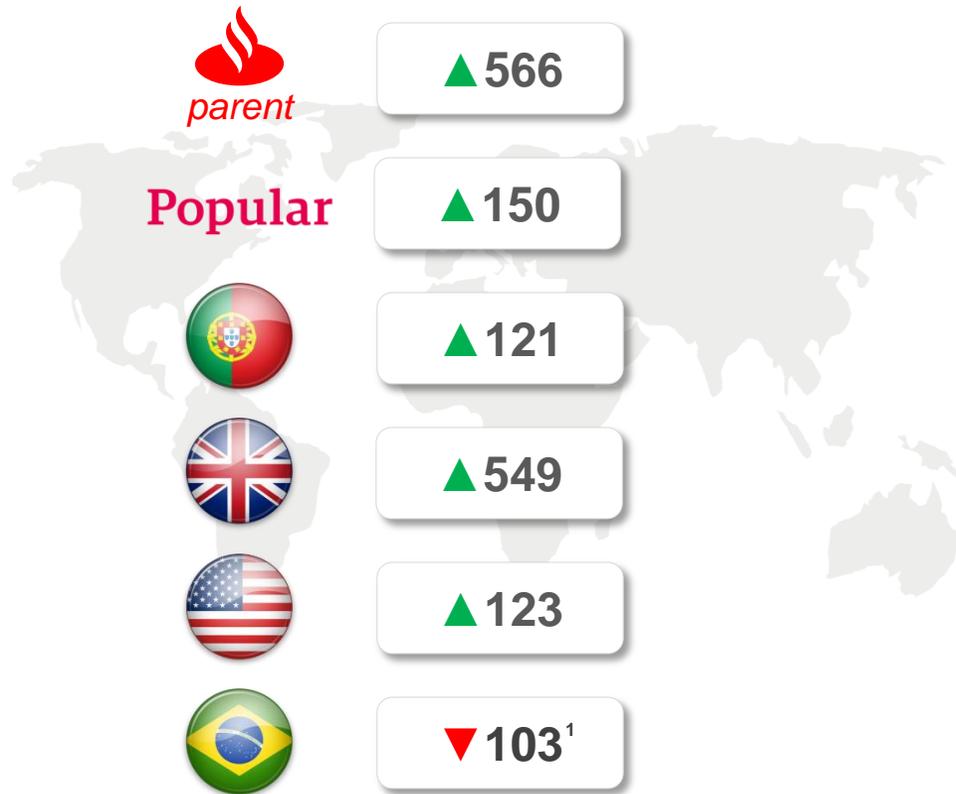


(1) Including rights issue completed on 27 July 2017 after Banco Popular's acquisition

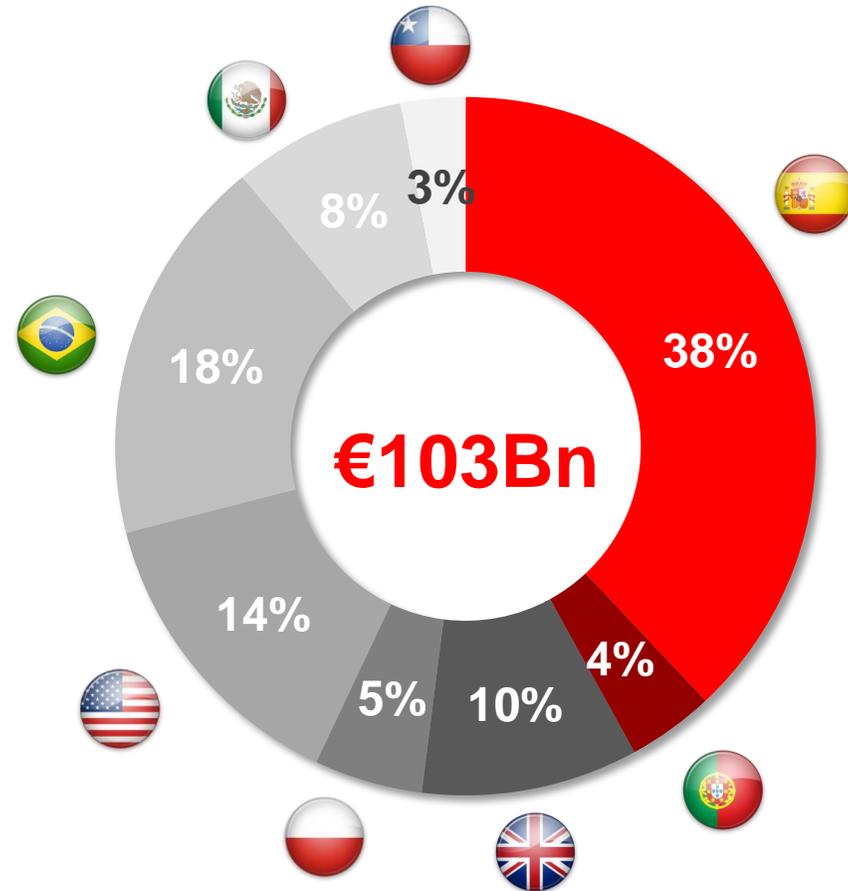
...and prudent interest rates risk hedging

Mostly positive interest rates sensitivity

Net interest income sensitivity to +100bps parallel shift (€MM)



AFS portfolios reflect our geographic diversification



Note: Data as of 1H'17 (1) In the case of Santander Brazil, there is a negative sensitivity which means that for a -100bps parallel shift we would have a positive impact of c. €100MM



Key takeaways

We are delivering ahead of plan on our commitments

	2015	2016	1H'17 ³	2017
Cost of credit risk	1.25%	1.18%	1.19%	Improve
Cost-to-income	47.6%	48.1%	46.3%	Broadly stable
EPS (€)	0.40	0.41	0.24	Increase
DPS (€)²	0.20	0.21	0.22	Increase
FL CET1	10.05%	10.55%	10.72%	+40bps Organic per year
RoTE¹	11.0%	11.1%	11.7%	Increase

(1) Underlying (2) Total dividends charged to 2017 earnings are subject to the Board and AGM approval (3) Group ex-Popular

We improve our RoTE target for 2018 and reiterate all other targets



FL CET1
>11%



Increasing EPS,
reaching double digit growth



Cost of Credit Risk
1.2% 2015-18 average



Cash Dividend
30-40% cash dividend pay-
out: Yearly DPS increase



Cost-to-income
45-47%



RoTE
>11.5%

Countries contribution to 2018 Group Targets

	 Group				SCF							
Growth (loans YoY)	2015	6%	5%	+9%	-3%	21%	7%	19%	11%	52%	11%	26%
	2016	2%	2%	+0.4%	-4%	14%	-2%	8%	7%	37%	8%	-5%
	1H'17	+1%	-1%	+7%	-4%	+8%	-6%	+2%	+3%	+58%	+4%	-4%
	2018 Target	> Peers	SD	SD	SD	SD	SD	DD	SD	DD	SD	SD
Operational excellence (C/I ratio)	2015	48%	53%	40%	56%	45%	39%	41%	43%	56%	47%	49%
	2016	48%	51%	40%	59%	45%	42%	40%	41%	54%	44%	49%
	1H'17	46%	49%	35%	55%	45%	45%	39%	41%	56%	43%	49%
	2018 Target	45-47%	50-52%	37%	~55%	42-43%	~45%	37-39%	40-42%	48-49%	~40%	~45%
Risk Mgt. (NPL ratio)	2015	4.4%	1.5%	6.0%	6.5%	3.4%	2.1%	3.4%	5.6%	1.2%	6.3%	7.5%
	2016	3.9%	1.4%	5.9%	5.4%	2.7%	2.3%	2.8%	5.0%	1.5%	5.4%	8.8%
	1H'17	3.6%	1.2%	5.4%	5.0%	2.6%	2.6%	2.6%	5.0%	2.2%	4.7%	7.7%
	2018 Target	3%	<2%	~6%	<4%	<3.5%	<2.5%	<3%	<5%	<1.5%	<5%	<6%
Profitability (RoTE)	2015	10.0% ¹	12%	14%	10%	13%	7%	13%	16%	32%	13%	13%
	2016	10.4% ¹	11%	14%	12%	15%	3%	15%	17%	36%	12%	13%
	1H'17	11.7%	11%	16%	15%	17%	4%	20%	18%	32%	11%	14%
	2018 Target	>11.5%	9-10%	~17%	~13%	~13%	~4%	~20%	~18%	~30%	~12%	~15%

Note: Group criteria. Spain: public perimeter (excluding Popular) except for RoTE. Loan growth constant euros SD: Single Digit DD: Double Digit (1) 11.0% underlying (2015) 11.1% underlying (2016)

- A unique model that offers **best-in-class efficiency and RoTE** allowing us to **accumulate capital, pay growing cash dividends** and **finance profitable growth**
 - Efficient and prudent **balance sheet management** through recurrent **capital** accumulation and prudent **liquidity, funding** model and **hedging** policies
 - We are **delivering ahead of plan**, and reiterate our commitments for 2018 with an improved RoTE target (>11.5%)



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

