
Rami Aboukhair

Country Head Spain

**GROUP
STRATEGY
UPDATE**

LONDON, 30 SEPTEMBER

Simple | Personal | Fair



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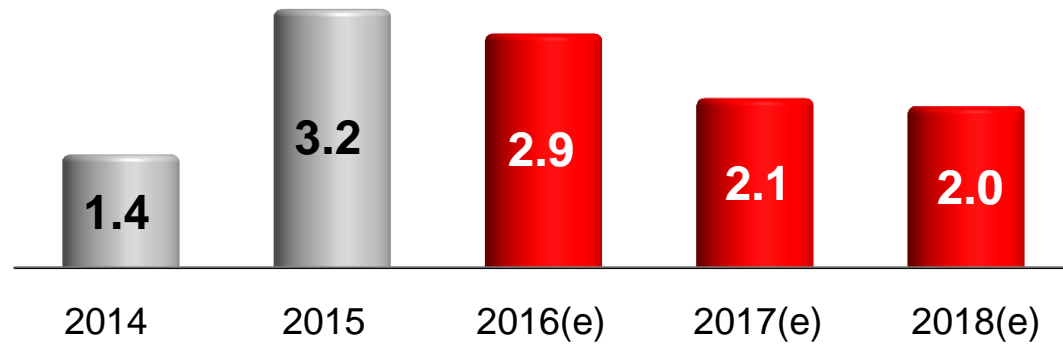
4 Looking forward and key takeaways

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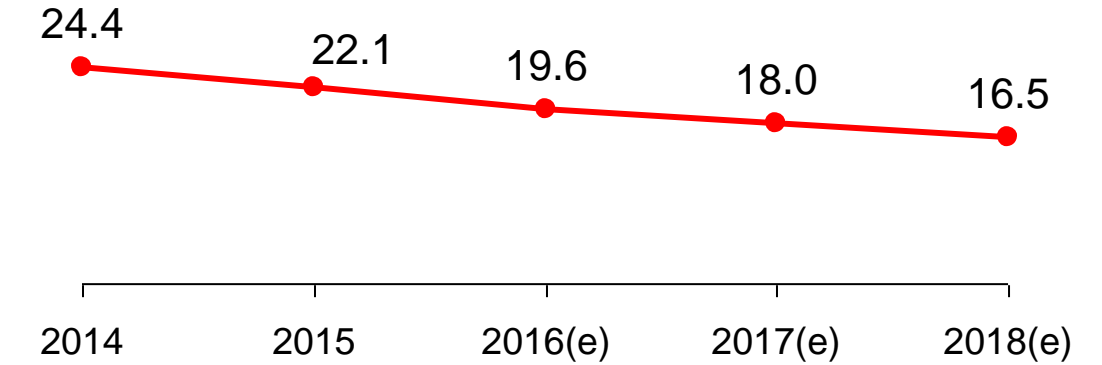
Market and financial system

Solid macroeconomic perspectives

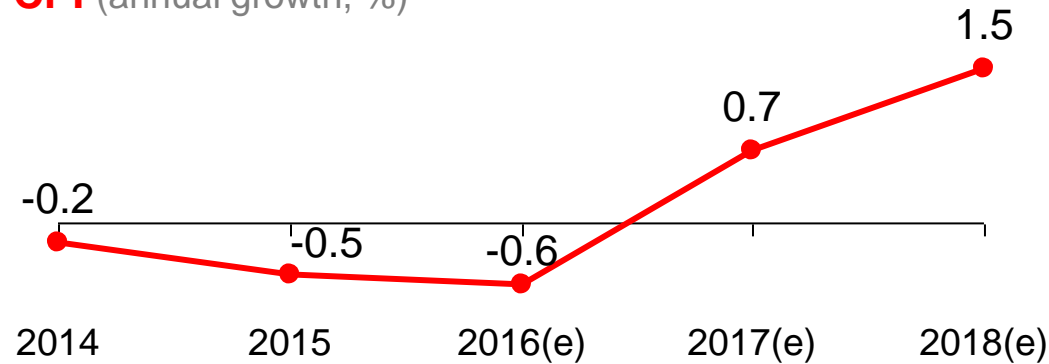
GDP (annual growth, %)



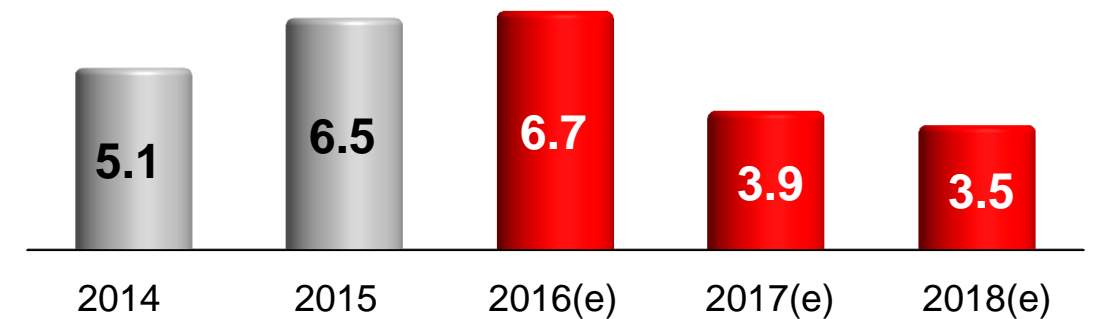
Unemployment (%)



CPI (annual growth, %)



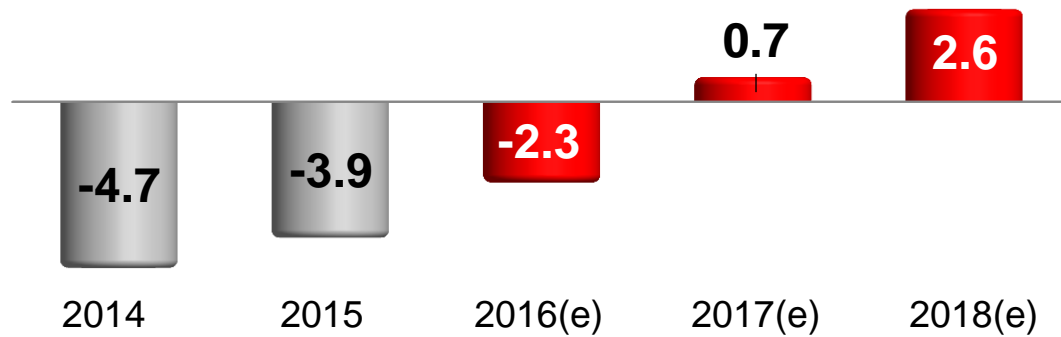
Goods and services exports (annual growth, %)



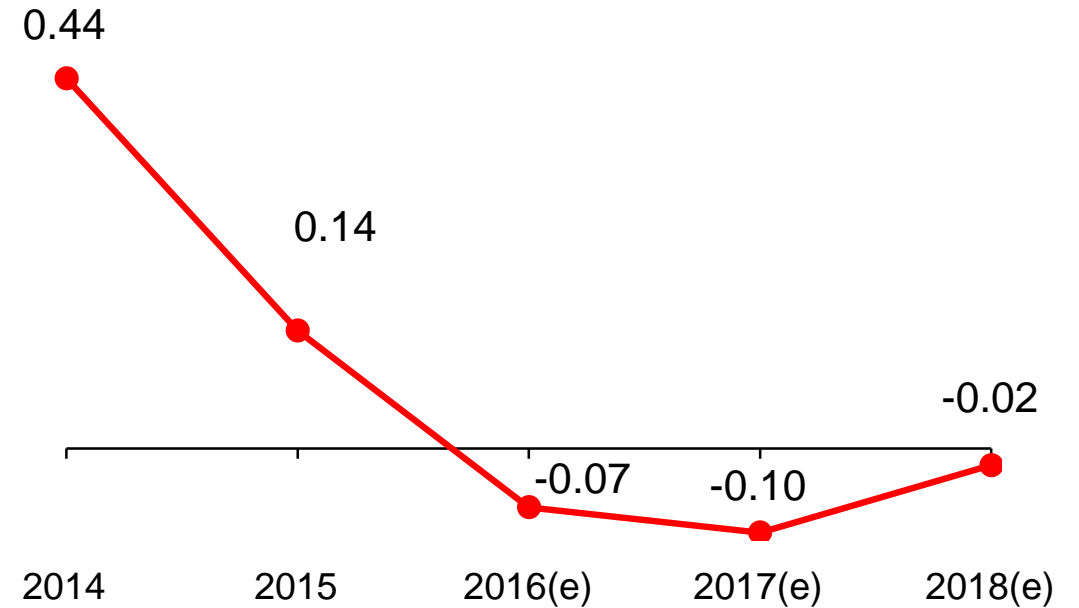
Source: INE and Santander Research Department. Estimated as of Jul'16

Opportunity for growth in a low rates context

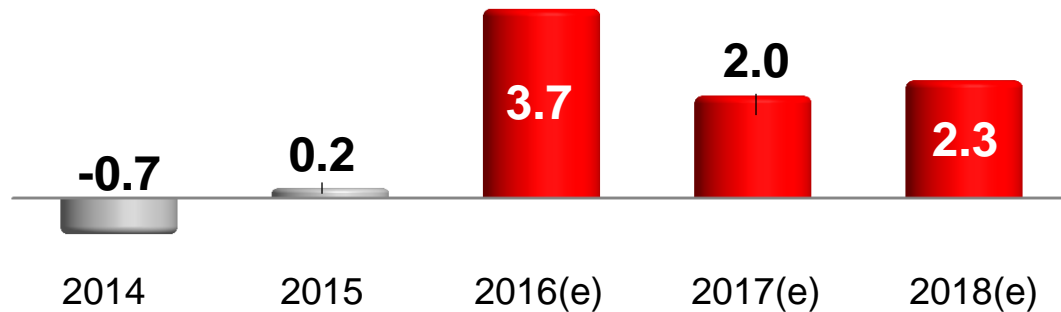
Loans to private sector (annual growth, %)



Interest rate (Euribor 12 Months, %)



Customer deposits (annual growth, %)



Source: INE, Thomsom Reuters and Santander Research Department. Estimated as of Jul'16

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Strengths and opportunities

Santander Spain is a leading player in the market

	June 2016	Market share ¹	Market Share vs branch market share ¹
Loans	€157.3 bn	13.4%	+3.0pp
Deposits	€171.8 bn	13.0%	+2.6pp
Funds	€46.9 bn	15.6%	+5.2pp
Total Savings	€218.7 bn	13.4%	+3.0pp
Branches	3.1k	10.4% ²	

(1) Data as of Jun'16 obtained from Bank of Spain's Statistical Bulletin (chapters 4, 8 and 19) related to total Credit Institutions and Credit Financial Intermediaries and confidential reports M-21, UME-1 and UME-2

(2) EDIBAN

Strong foundations for profitable growth



Strong brand awareness

1 choice for customers considering switching¹



Best-in-class for high value segments

Leaders in high income payroll acquisitions, Affluent, Private Banking and Corporates segments



Strong risk profile

NPL ratio below sector average and positive recovery rates



Wide customer access

3.1k branches, +5.1k ATMs and growing digital customers



Balanced business

Well balanced business mix serving individuals and businesses



Part of Santander Group

Unique global connectivity value proposition with capacity to leverage on Group's **investments, resources** and **brand**

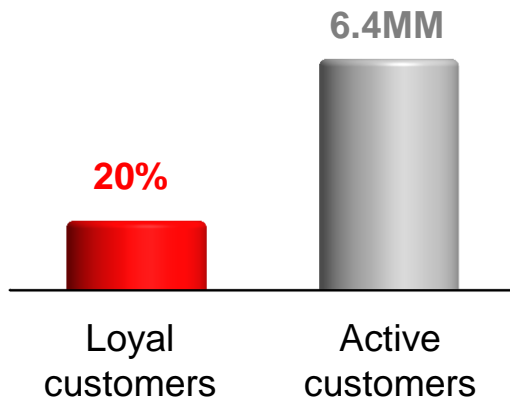
(1) With 27%, for customers interested in dealing with a new bank (FRS Survey for Financial Behavior of mass market clients in 2014)



Opportunities to increase profitability and market share



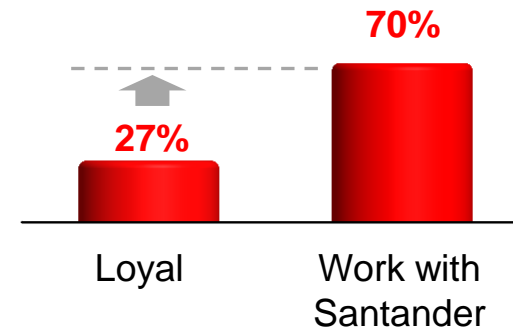
Potential to continue increasing customer loyalty



- **+18%** in loyal customers as a result of **1|2|3 strategy**
- Increase **insurance and asset management** market share



Strengthen our position in SMEs

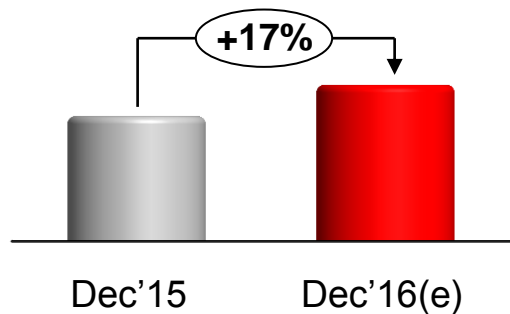


- **1|2|3 SME account**
- **+54k** loyal SMEs (**+26%**)
- High **value-added products**



Efficient and customer oriented

Margin per branch



- Boost **omni-channel transformation**
- Distribution **network optimisation**



Digital and innovation for value generation



- **Data driven** company
- Improved **customer journeys**

Note: 1H'16 vs. 1H'15

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Update on our 2015-18 strategy

Consistent and well established goals and priorities

Strategic goals

Increase **market share** based on **organic growth** with a **customer loyalty strategy**

Improve our efficiency while enhancing our **customer experience**

Be the **best bank to work for** strengthening our **Simple | Personal | Fair** culture

Priorities

- 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 & innovation to generate value**
- 4 **Advanced Risk Management**
- 5 **Sustainable profitability**

Culture
Simple
Personal
Fair

1

1|2|3 strategy is paying off

Better customer acquisition

- **425k** switchers with **better customer profile**
- **+54k** loyal SMEs (**+26%**)

Deepening customer loyalty

- **+18% loyal** customers, **x2.4** more **products and services**
- **+64bps** payroll market share
- **9.4 direct debits** per account and **+72% higher card spending** than other customers

Strong commercial results

- Representing **50% of new volume production**
- **SMEs volumes** starting to grow
- Retail **fee income +7%** YoY

Increased customer experience

- From **5th** (2015) position to **TOP 3** (2016)

Improving risk profile

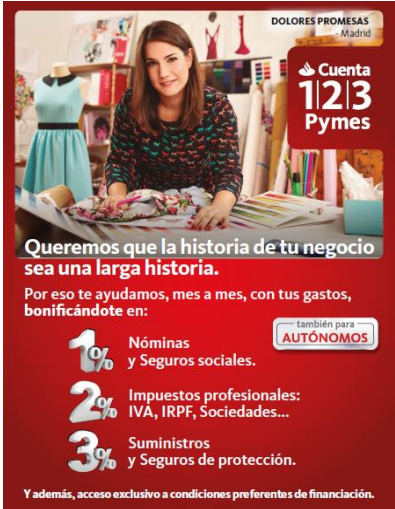
- **x2** pre-approved **credit limits**
- Improved average **credit score**



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To grow in SMEs is key for our future profitability

1|2|3 SMEs account



Increase customer acquisition

- **+100K SMEs current accounts** in just 10 months

Boost loyalty and transactionality

- **x9 annual growth rate** of loyal SMEs customers

SMEs and Corporate strategy

Relationship model

- **c.2.5k** business Relationship Managers
- **150** business branches

Digital transformation

- **New private web and mobile app**
 - Digital and active business customers **+84%**
- **Contact center:** from customer support to customer management

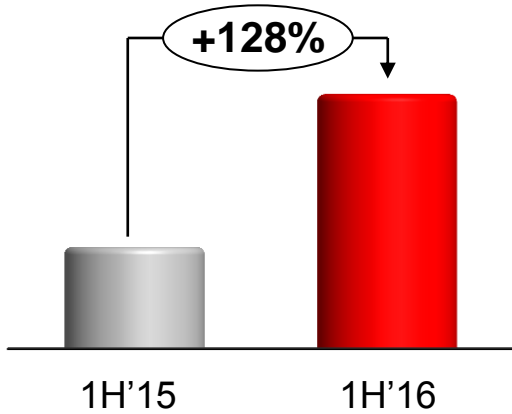
Value added products

- **International business, Factoring and Confirming, Leasing and Renting**

1-2

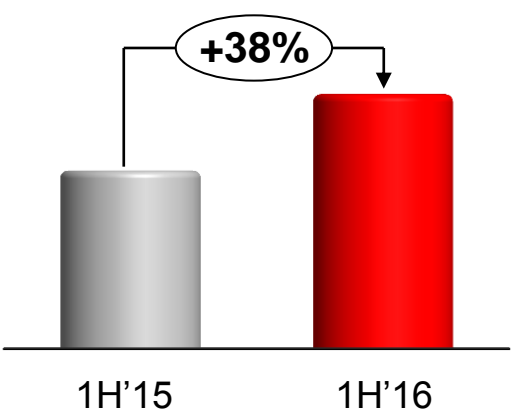
Customer loyalty driving growth in lending...

UPLs new volumes



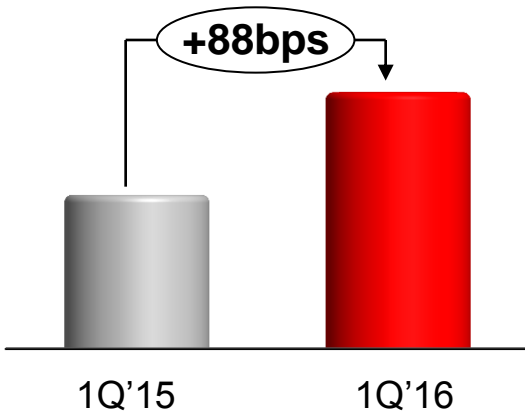
• **+300bps** market share

Mortgages new volumes



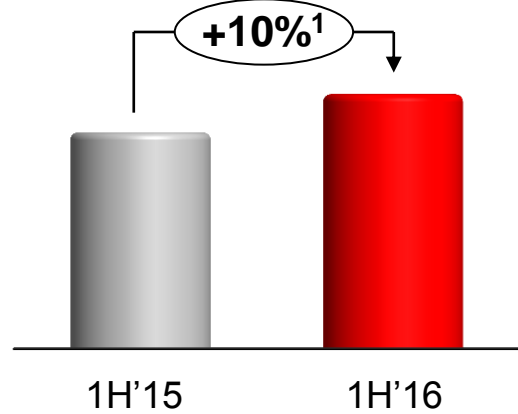
• **New production pricing > stock**

Credit Cards spend market share



• **>65%** cards from 1|2|3 customers

International business lending



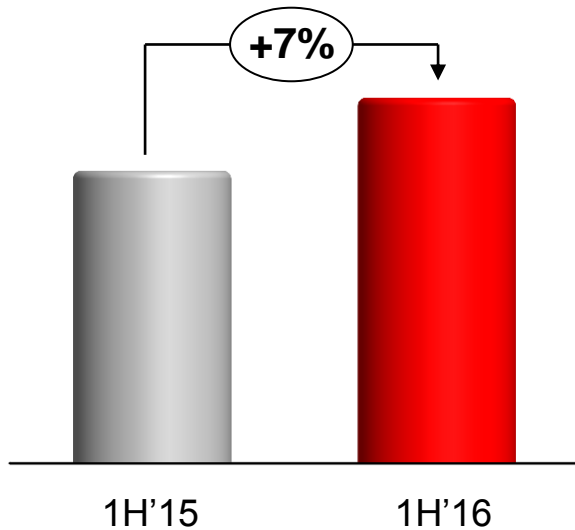
• **+25%** in international business approved limits

(1) Data as of May '16

1-2 ...while supporting higher fee income and capital efficiency

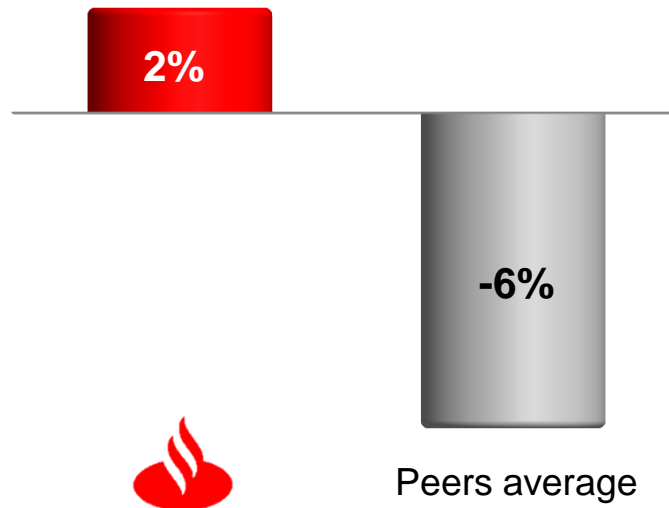
Our “pay for value” delivers high fee income growth...

Retail banking fee income YoY



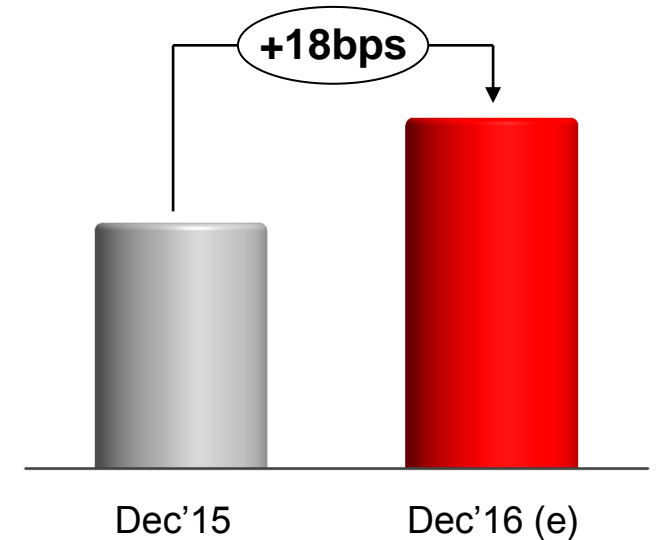
...outperforming our peers...

Fee income evolution YoY (1H'16)



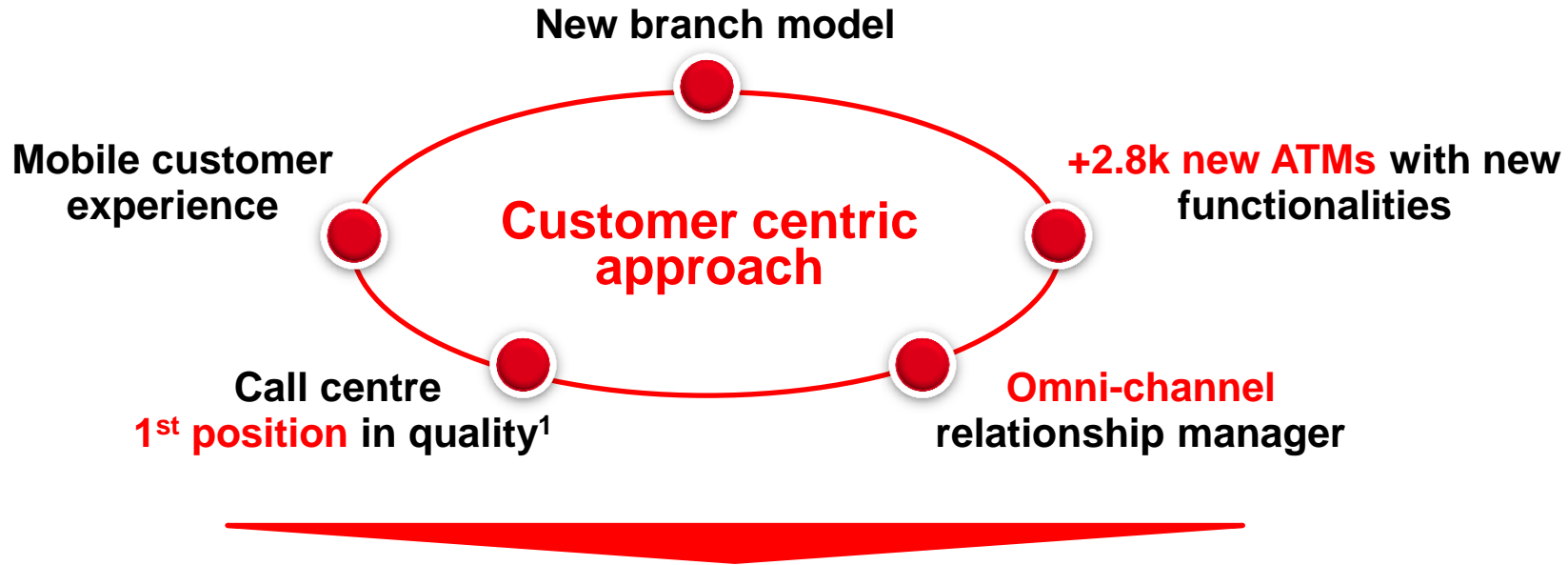
...and moves us towards a more capital light model

RORWA

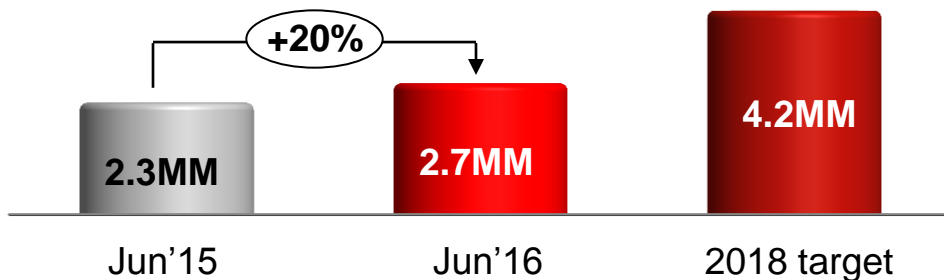


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Our omni-channel model improves customer experience efficiently

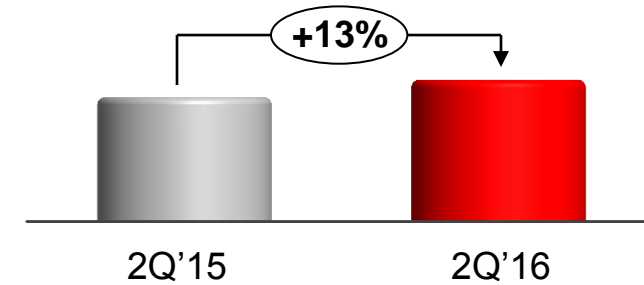


Digital customers growth



Online transactions growth

digital transactions in personal segment



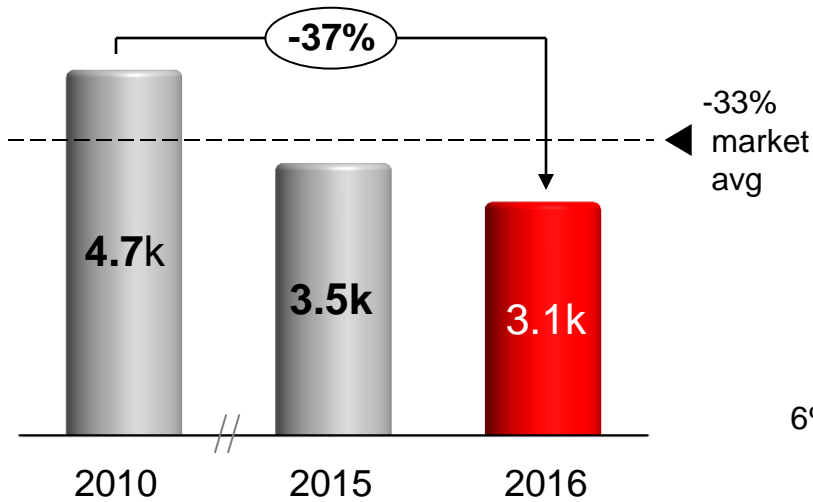
(1) EQUOS quality research December 2015

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We have developed our commercial network to improve efficiency and customer experience

Despite closures, our commercial activity has not suffered

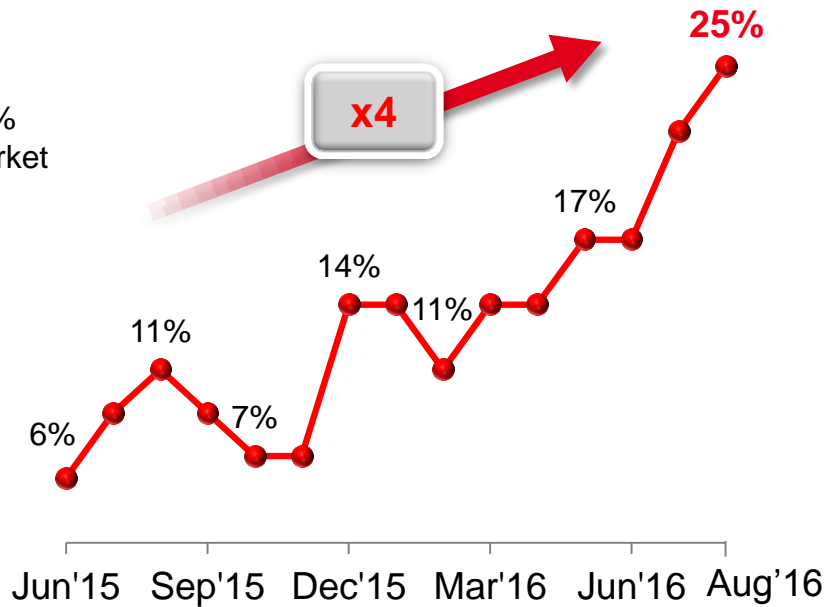
Santander Branch evolution



+29% credit production per branch²

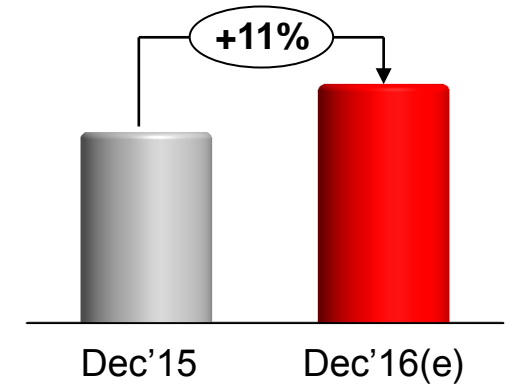
Improving customer referrals

% of 1|2|3 accounts openings through referrals

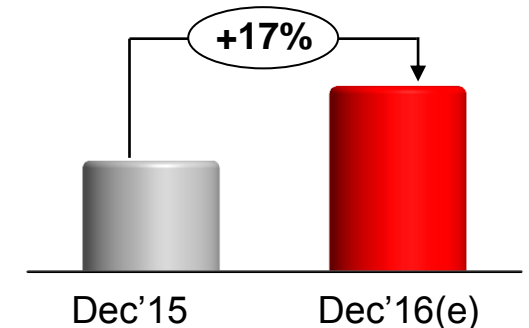


Transformation of our branches to provide a better customer experience

Branch average headcount



Business volume per branch (MM€)



(1) Santander Branches in 2010, 2015 and Jun'16

(2) 1H'16 vs. 1H'15. After the last efficiency plan

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Looking forward and key takeaways

We are on track to deliver our 2016 commitments

	1H'15	1H'16	2016 commitments	
11213 customers (k)	290	1,240	2,000	✓
Customer experience (position)	5 th	3 rd	3 rd	✓
Cost of risk	0.84%	0.45%	0.60%	✓
SMEs market share	20%	20%	20%	✓

2018 Santander Spain targets

		1H'16	2018
People	Best bank to work	2 nd	1 st
	Individual career plans	13,200	15,400
	Evaluation 180° for commercial positions	6,500	7,000
Customers	Total retail loyal customers (MM)	1.2	2.5
	1I2I3 customers (k)	1,240	4,000
	Digital customers (MM)	2.7	4.2
	Best-in-class banks in customer experience	3 rd	1 st
	Fee income CAGR	2%	5-10%
Shareholders¹	NPL ratio	6.1%	<4%
	RoTE	12%	c.13%
	Cost to income ratio	53%	c.55%
Communities	Number of scholarships 2016-2018 (k)	12.2 ²	39.2

(1) Management perimeter (2) Total scholarships for 2016



We are **uniquely positioned to grow further** by challenging the retail and SMEs market with our **1|2|3 strategy**, and continue leading in Affluent, Private Banking and Corporate Banking



A **commercial transformation** in place to favour **customer loyalty** and **customer service and efficiency** improvement



Our model ensures **predictable, sustainable and profitable organic growth** with **less capital consumption** and a **best-in-class risk profile**



Simple | Personal | Fair