Banco Santander accelerates digital transformation and platform strategy to drive growth and higher returns

More than €20 billion digital and technology investment over four years

Reaffirms key financial targets including: Underlying RoTE of 13-15% and FL CET1 ratio of 11-12%

Targets an improved efficiency ratio of 43-45% and an increased dividend payout ratio of 40-50%

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- At its Investor Day in London, Banco Santander today presents its strategic plan for the medium term to drive growth and increase profitability by accelerating digitalisation, improving operational performance and continuing to improve capital allocation.

- The Group will invest over €20 billion in digital and technology over the next four years, improving customer experiences to further increase loyalty, while lowering the cost of delivery.

- To accelerate the bank's growth, the Group plans to expand several of its digital offerings, including a comprehensive global payments initiative incorporating:
  - A new open-market international payments service called Pago FX.
  - The international expansion of Getnet, the Bank's Brazilian subsidiary, to create a Global Merchant Services platform.
  - And a new Global Trade platform to make it easier for SMEs to trade internationally.

- The bank will drive additional improvements in operational performance and capital allocation, leveraging opportunities for scale and efficiency leading to €1.2 billion of incremental annual cost savings, while re-weighting capital towards more profitable businesses.

- As a result, the Group expects to achieve an underlying return on tangible equity (RoTE) of 13-15% in the medium term, further strengthening its position among the most profitable and efficient banks in Europe. Santander will also target a reduced efficiency ratio of 43-45% and maintain a fully loaded CET1 ratio of 11-12%, while aiming to increase the payout ratio to 40-50%.

- To drive this accelerated execution of the strategy, the bank has today announced a new, simplified management structure, creating unified leadership for Europe, South America, and North America, as well as a management committee with increased business focus which will allow better and more agile execution throughout the Group.

Ana Botín, Executive Chairman of Banco Santander, said:

"We have made excellent progress over the past three years, driving our return on tangible equity to a level amongst the best of our global peers, and increasing EPS by 55% in the period on a constant currency basis. Our focus remains on driving greater loyalty within our customer businesses, and leveraging our global scale to accelerate investments in digitalisation and capitalise on cross-border flows.

"Technology is changing banking as we know it and we are positioning the company to capitalise on the world class assets we have across the Group, including our technology, talent and scale. This will allow us to benefit from the opportunities presented by digital innovation and will result in us becoming a

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digital leader in global financial services for the next decade. Our digital and technology investments will enable us to improve the customer experience while also enhancing our growth and profitability. Combined, we expect these initiatives will create greater value for our shareholders while ensuring we continue to deliver on our commitments to customers and stakeholders."

At its Investor Day in London, Banco Santander today presents plans detailing how it will deliver on its strategy for the medium term. The bank will set out its objectives to drive growth and increase profitability by accelerating digitalisation, and further improving operational performance and capital allocation.

Santander is today reaffirming key financial targets including achieving an underlying return on tangible equity (RoTE) of 13-15% and a fully loaded CET1 ratio of 11-12%. The Group also plans to improve its efficiency ratio to below 45% and increase its dividend payout ratio to 40-50%.

Accelerating digitalisation

Santander expects to extract and create significant value from digitalisation and global platforms, which will grow the top-line and generate cost savings. The company will accelerate the development of its high growth 'speedboat' businesses, which will enable the Group to test new solutions and compete in the open market for new customers.

Santander will continue to leverage its scale to invest in digital and technology to generate customer and revenue growth. As part of the new plan, the Group will invest over €20 billion in digital and technology over the next four years, improving and personalising customer experiences to further increase customer loyalty, while lowering its cost of delivery.

Santander is transitioning its IT infrastructure towards a multi-cloud environment with global platforms supported by agile methodologies which will accelerate the Group's business and technology transformation. The Group is also implementing machine learning and robotics at scale, re-engineering processes and negotiating provider contracts on a global basis to improve pricing.

The cornerstone of Santander's open financial services platform will be payments. With an expected annual revenue growth rate of c.9%, the global payments industry offers an exciting opportunity to build on our existing foundations.

In order to take advantage of this opportunity in payments growth and as part of the bank's transformation, Santander will drive several digital initiatives, such as:

- Introducing Santander One Pay FX, the international payments solution launched across four of the Group's markets last year, to non-customers through a standalone open market app called Pago FX which will be launched in the UK, Germany and Poland for individuals and SMEs in the near future.

- Expanding Getnet, the bank's Brazilian subsidiary, to create a Global Merchant Services platform, initially starting in Mexico before expanding across Latin America and Europe. Santander works with 1.2 million merchants worldwide, with turnover of €150 billion, making Santander a top 10 global acquirer in the world by volume.

- Launching a Global Trade Services platform with the goal of becoming the partner of choice for SMEs that trade internationally. Previously accessible for corporates only, this platform will

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offer trade finance, supply chain, payments, and foreign exchange, while operating quickly and efficiently for SMEs.

In addition, the bank confirmed today that it plans to expand Openbank, Santander's full-service digital bank, the largest of its kind in Europe, to 10 new international markets in the medium term, reaching two million customers. Openbank has already more than one million customers in Spain only, despite being a mature market.

Improving operational performance

Santander will improve operational performance by further leveraging its diversification and scale. This together with efficiency will lead to €1.2 billion of incremental annual cost savings. The bank will also continue to execute against its commercial transformation, and increase its loyal and digital customers.

In Europe, the bank will focus on delivering the best customer experience, as efficiently as possible. The Group expects to increase market share in all its core geographies by growing its loyal and digital customer base and remaining a top three bank in customer satisfaction, and increase its underlying return on tangible equity (RoTE) to 12-14% in the medium term from 11% in 2018.

In Latin America, Santander expects high and sustainable revenue growth (double digit CAGR expected in constant euros), with underlying RoTE in the region improving to between 20% and 22% in the medium term from 19% in 2018.

In the US, an attractive market with stable credit quality, Santander is focused on accelerating sustainable growth and returns by improving profitability through strong operational leverage. The Group expects to increase underlying RoTE to 11-13% in the medium term from 8% in 2018, adjusted for excess capital. The company also expects the efficiency ratio to improve to less than 41%, from 43% at the end of last year.

Santander will also further leverage its global businesses, Santander Corporate & Investment Banking (SCIB) and Wealth Management, to improve its operational performance and create additional value for its local, core banks. SCIB is a highly profitable business which is moving to a capital-light model and Wealth Management has significant potential for growth, particularly in insurance, due to its global capabilities.

Continue improving capital allocation

To increase profitability further, the Group will continue improving its capital allocation, re-weighting capital towards its more profitable businesses, while maintaining minimum profitability thresholds for all its business segments.

Santander expects to generate more than 40 basis points of organic capital per year, supporting business growth while providing flexibility to support shareholder remuneration.

Outlook for countries

Brazil has high growth potential, as there are meaningful opportunities for increased banking penetration, and low interest rates are improving affordability and helping to drive loan growth. We expect Santander Brazil to deliver an underlying RoTE of more than 20% in the medium term, after reaching 20% in 2018.

Santander Spain's priorities are maintaining leadership, in the case of SME and corporates leveraging Popular's know-how, while accomplishing best-in-class integration with Banco Popular. There are growth opportunities in consumer, payments, insurance and wealth management. We expect an underlying RoTE of 14-16% in the medium term, versus 11% achieved last year. Additionally, we expect mid-single revenue growth, a decline in costs in the coming years and a stable cost of credit.

Santander UK's priorities are increasing profitability through improving the customer experience and enhancing efficiency by simplifying, digitalising and automating the bank. We expect Santander UK to deliver an underlying RoTE of 10-12% in the medium term, after reaching 9% in 2018.

Santander Consumer Finance is expected to extract further value from being a specialised monoliner, growing market share and strengthening digital channels and relationships with manufacturers. The company's medium-term underlying RoTE goal is 14-15%.

In Mexico, we expect to continue growing in individuals accounts, whilst maintaining SMEs and corporate leadership. Santander Mexico is expected to maintain an underlying RoTE of 19-21% in the medium term with revenue growth and a decline in cost of credit.

In Portugal and Poland, the business has been improving profitability and efficiency on the back of successful integrations, with underlying RoTE expected to grow to 13-15% in Portugal and 14-16% in Poland (adjusted for excess capital) in the medium term. Chile is also improving profitability expects a RoTE of 19-20% in the medium term.

New simplified management structure

To support and accelerate its strategy and the new medium-term targets disclosed today, Santander announced changes to its organisational structure to simplify management and reporting, creating greater agility and collaboration as well as maximising opportunities to leverage the Group's expertise across its countries and global businesses. The three new roles are:

- Europe, led by Gerry Byrne as Head of Europe, with the country heads of Spain, Portugal, UK, Poland and Consumer Finance reporting to him. Mr Byrne will report to Jose Antonio Alvarez, Banco Santander Group Chief Executive. With Mr Bryne's appointment, Michal Gajewski will become the Country Head for Santander Poland.

- South America, led by Sergio Rial as Head of South America, with the country heads of Chile, Argentina, Uruguay and the Andean region reporting to him. Mr Rial will report to Mr Alvarez and will continue in his role as Santander Brazil Country Head.

- North America, co-led by Hector Grisi and Scott Powell as Co-Heads of North America, and each reporting to Mr Alvarez and maintaining their current local roles as Country Heads of Mexico and the US respectively.

These new roles will work with the support of the current functional heads in the Corporate Centre and there will be no additional functional layers. The Bank's Country Heads will remain as the main representatives of the Group in terms of regulation and supervision locally. Similarly, there is no change to the legal structure of the Group, nor to the current structure and mandate of the Group's subsidiary Boards, or subsidiaries' autonomous liquidity and capital.

Global Payments Services

This continued focus on Banco Santander's core markets will be complemented by its increasing emphasis on global and horizontal businesses, including the global Santander Corporate and Investment Bank (SCIB) and the newly-created Wealth Division. Santander today announced the

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creation of a new global business unit to capture the immense opportunity in the payments business: Santander Global Payments Services, led by Javier San Felix, which will include and manage our Global Trade Services and Global Merchants Services businesses.

Lastly, from 1st May 2019, Rodrigo Echenique will relinquish his executive functions, remaining on the board of Banco Santander and as Chairman of Santander Spain. The Santander Spain Chairman role will continue to be non-executive following the appointment of his successor.

Underlying RoTE targets for the medium term

	2018	Medium-term target
LatAm	**19%**	**20-22%**
Brazil	20%	>20%
Mexico	20%	19-21%
Chile	18%	19-20%
Europe	**11%**	**12-14%**
Spain	11%	14-16%
UK	9%	10-12%
SCF	16%	14-15%
Portugal	12%	13-15%
Poland	13%	14-16%[1]
US	**8%**	**11-13%[1]**

1. Adjusted for excess capital

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