

INVESTOR DAY: STRATEGIC PLAN 2016-2018

Ana Botín announces earnings and dividend per share growth for the next three years

- Banco Santander's top management team presented its strategic plan 2016-2018 and gave details of the commercial transformation taking place, based on client loyalty, digitalization and operational excellence.
- Ana Botín said that "the transformation of our commercial model will result in a more efficient use of our assets and capital accumulation".
- The management team has set clear milestones and targets for 2016: growth in loyal and digital customers (15% and 33%, respectively), whilst keeping cost-income stable vs 2015, and growing earnings per share and dividend per share.
- The three-year plan financial targets are to increase EPS, reaching double digit growth by 2018, ROTE of c13%, and cost-income ratio of less than 45%, while growing CET1 fully loaded to be above 11% in 2018.
- The bank detailed plans about how the new commercial strategy would lead to organic capital growth.
- Santander Spain has opened 500,000 11213 accounts in four months, of which 135,000 are customers who have transferred their payroll deposits from other banks.

London, September 23rd, 2015. The Executive Chairman of Banco Santander, Ana Botín, opened the Group's Investor Day in London where its management is presenting the strategic plan 2016-2018 to more than 200 analysts and investors. In her opening speech, she explained that in the last 12 months the bank has made significant progress on a transformation programme in which it:

- Raised €7.5 bn of equity capital in the largest overnight capital raise ever done by a European company;
- Announced a new and sustainable dividend policy;
- Strengthened corporate governance and reinforced its leadership teams;
- Simplified its organisation, reducing layers and number of divisions by 33%, increasing accountability and improving the operations of the corporate centre;
- Introduced a new and common global culture programme (Simple Personal Fair and "The Santander Way");

- Continued to deliver to its shareholders: in the 12 months to June, producing 24% growth in profit after tax (PAT), improving at the same time our cost-income ratio (46.9%), return on tangible equity (ROTE, 11.5%) and fully loaded CET1 (9.83%)

“I am proud of what we have accomplished over the past year, and confident that Santander is positioned as the bank with the greatest potential for the future”, said the Executive Chairman.

Among the priorities for 2016, in addition to the commercial transformation, Ana Botín emphasized the bank’s intention to “make more efficient use of our assets, thereby improving the bank’s profitability. We will consistently generate capital, to increase dividends per share and earnings per share”, said Santander’s Executive Chairman, adding that, in the context of the bank’s policy of a cash payout of between 30% and 40%, “the dividend per share will increase from 2016 and earnings per share will reach double digit growth by 2018”.

The goal is to “generate capital organically to be above 11% CET1 fully loaded in 2018, if not before”, and to get there, emphasis will be placed on “optimizing risk weighted assets, by being very transparent in allocating capital and very disciplined in our mergers and acquisitions policy”. In addition, she added, “listing subsidiaries is no longer a priority”.

This will begin to show in 2016 in several key underlying performance and commercial metrics:

➤ **At Group level, in 2016:**

- Customers: loyal customers from 13 to 15 million (+15%), digital customers from 15 to 20 million (+33%);
- For Small and Medium Enterprises and corporates: a 0.5 percentage point average market share growth;
- Stable to current cost-income ratio (46.9%);
- Improved cost of risk.

➤ **At local level, 2016** country targets were highlighted, including:

- In Spain we will have 2 million 11213 accounts;
- In Brazil we will have “NPLs in line with private bank peers”;
- In the UK we will continue growing SME loans at a rate 5% above market;

Achieving these targets will deliver EPS and dividend growth in 2016.



By 2018, the transformation programme “will produce higher quality and more predictable earnings than peers based on enhanced profitability”. Specific strategic goals include a focus on and investment in three areas:

- Growing customer loyalty;
- Digital innovation; and
- Operational excellence.

The targets announced to achieve by 2018 are:

- Enhanced profitability (ROTE c.13%);
- Increasing EPS, reaching double digit growth by 2018;
- Fully Loaded Core Tier 1 Equity (CET1) greater than 11%;
- A cost-income ratio of less than 45%;
- An average cost of risk for the period 2015-2018 of 1.2%

The customer, at the centre of our transformation

Earning the lasting loyalty of customers is the key to Santander’s commercial transformation. “Customer loyalty, digitalization and operational excellence that will allow us to be more profitable and generate above market growth for the next ten years”, Ana Botín stated. She continued: “2016 is just the start of a new phase that will keep us on the right track to achieve our goal: to be the best retail and commercial bank for our people, customers, shareholders and communities. Being the best bank does not mean being the biggest bank. It means being the best for customer satisfaction, profitability and return to shareholders”.

Ana Botín explained that “we have a potential market of one billion customers,” the sum of the population in the ten main countries where the bank operates. “Currently, we have a relationship with more than 117 million clients throughout the world and that is where the opportunity lies”.

The bank has set a goal for 2018 to have 17 million loyal retail customers and 1.6 million SMEs and corporate clients, a total of c.18.5 million. Ana Botín explained that “loyal customers tend to be satisfied customers” and that “the goal for 2018 is to be among the top three banks in terms of customer satisfaction in all of our markets”.

In addition, she referred to operational excellence as a lever for transformation. “Digitalisation will be key to reach our goal of improving customer satisfaction while we improve the efficiency ratio”, she stressed. “We are increasing the number of digital customers at a rate of 15% or 20% annually, which will allow us to reach the goal of 30 million digital clients in 2018.

Comunicación Externa.

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Organization and model

Regarding the changes carried out in recent months, Botín emphasized that “one of the fundamental parts of our job this year has been to simplify the organization of the Group. We reduced the number of divisions from 15 to 10, 33% less”. Also, “our corporate centre is increasingly efficient and, most importantly, will add even more value to our countries.” In this sense, she highlighted its role in control and supervision, of facilitating the sharing of best practices between countries, in reaching economies of scale and in developing global products for clients.

The Executive Chairman also referred to the strength of the Santander model and the bank’s excellent position to take advantage of the opportunities of the economic, demographic, regulatory and technological environment, as well as those derived from the need to provide answers to new social demands and to recover the confidence in the financial sector. “We are large, but not complex, with a presence in ten core markets where we have critical mass and sufficient potential to be among the top three”. She pointed out: “Our future begins with our purpose, our aim and how we want to do things”. She also highlighted the importance of “our social responsibility agenda, where our goal is to support 4.5 million people across our core geographies between 2016 and 2018”.

José Antonio Álvarez: “Revenue growth with discipline in costs, risk and capital”

The Chief Executive Officer of Santander, José Antonio Álvarez, detailed the transformation and explained that “our priority is revenue growth while keeping our focus on traditional discipline measures in the areas of costs, risk and capital”. He laid out the levers of the bank’s commercial transformation:

- Increase customer loyalty: to do this, it is crucial to increase our transactional relationships with existing customers. “Reaching a loyal customer base of 18.5 million will allow us to increase revenue by around 3 billion Euros”;
- Digitalisation: Santander intends to double the number of digital customers to 30 million by 2018, with 16 million mobile customers;
- Improve customer satisfaction: The bank has put initiatives in place to measure and monitor customer satisfaction. “Our ambition is to be top three in customer satisfaction in each of our 10 core markets”;
- Focus on the most profitable and highest growth segments: Álvarez mentioned SMEs, consumer finance and private banking as the segments with the greatest capacity to generate revenue.

José Antonio Álvarez reiterated that the bank will maintain its traditional discipline in costs and announced that the cost reduction goal has been increased to three billion Euros for 2018, once the 2016 goal of two billion Euros has been reached this year.



Spain: “500,000 1|2|3 accounts in four months; 4 million in 2018”

The country head of Santander Spain, Rami Aboukhair, offered the first data on the 1|2|3 account in Spain, a strategy that the bank has successfully carried out in the UK and that has proven itself to be good for customers and shareholders, increasing the loyalty and satisfaction of customers, as well as revenue.

Since its launch at the end of May of this year, 500,000 1|2|3 accounts have been opened, of which, more than 135,000 (the equivalent to 1,000 per day) are customers that have transferred their payroll deposit to Banco Santander. Aboukhair pointed out that in just four months 250,000 new debit and credit cards have been issued and more than seven direct debits have been registered per account.

Aboukhair explained that the average amount of payroll deposits has increased 32% and pensions, 36%. He also highlighted the multichannel preference of these clients. One of every three accounts formalized has been via digital channels. He stated that by the end of 2018, Santander Spain expects to have four million 1|2|3 account customers.

United Kingdom: “Grow SME lending at a rate 5% above market”

The CEO of Santander UK, Nathan Bostock, explained that the bank has delivered well on its 2015 targets and is now positioned as a successful scale challenger to the UK’s incumbent banks. It has reset its targets and plans for 2018, aiming for further growth and recurrent returns underpinned by a strong balance sheet and a profitable customer franchise.

Santander UK detailed its three strategic priorities:

- To expand the number of loyal customers in Retail, Business and Corporate Banking, developing deeper and lasting relationships;
- To embrace operational and digital excellence, delivering the best service to its customers, when and where they need it;
- To maintain a focus on profitability and a strong balance sheet, while maintaining a strong capital position.

Bostock said: “As a strong scale challenger to the incumbent UK banks, Santander UK is uniquely placed to help people and businesses prosper. Our successful strategy to date positions us well for the complex and fast-changing environment ahead.

“Santander UK is already a great bank. But we can be even better. We have the plan and the team to succeed. The result will be a growing UK Bank, delivering recurrent returns with a strong balance sheet with a profitable customer franchise.”



Brazil: “ROTE of around 17% in 2018 and 1.4 million more loyal customers”

Sergio Rial, chairman of Santander Brazil, stressed that in recent years the bank has set the foundation for future growth with improvements in efficiency, customer service orientation, and improvement in the quality of the credit portfolio. Also, the bank is well positioned to gain market share thanks to the potential for bancarisation, penetration in credit and development of capital markets in the Brazilian economy in the mid term.

As for specific goals for 2018, Sergio Rial announced a ROTE objective of around 17% (group criteria), compared with the current 15% and an improvement in the efficiency ratio to place it at 37%. Likewise, he advanced the goal of increasing the base of loyal customers by 1.4 million, which will mean a total of loyal retail and SME customers of 4.6 million (42% more), thanks to the rollout of specific programmes designed for different segments and a commercial model that places the customer at the centre of all business decisions. Rial highlighted the simplification of processes to enhance the customer experience and the improvement in the commercial platform, with a multichannel strategy that will bring a doubling in the number of digital customers, to reach 9.2 million in 2018.

Changes to the public reporting of business areas

Banco Santander has reviewed its criteria for the distribution of results of the Group’s different units to reinforce transparency and accountability. This readjustment does not impact profit for the Group, which remains the same. The main change is a substantial reduction in the Corporate Activities area, due to the transfer to countries of certain balance sheet management activities previously attributed to this area.

Santander Spain will be treated the same as the rest of the Group’s countries with its own balance sheet rather than being incorporated into the balance sheet for Corporate Activities. This decision is consistent with the separation of teams that work for the business areas in Spain from those of the Corporate Centre, as well as with the creation of the board of Santander Spain. In addition, a Spanish Real Estate Business unit has been created which will be comprised of the bank’s real estate activities in Spain, portfolios in the process of liquidation, Metrovacesa, whose results have been reported within the area of Corporate Activities until now. Lastly, the Santander USA consolidation is completed. The bank’s branch in New York and Banco Santander Miami will now be within the current business perimeter, which includes Santander Bank, Santander Consumer USA, Santander Holding and Puerto Rico.