



# INVESTOR DAY 2015

LONDON, 23-24 SEPTEMBER

## José Antonio Alvarez

Group CEO

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# Since 2011 we have been running to stand still: revenues and capital under pressure by macro cycle, interest rates and regulation...

Data in € BN	2011	2014	CAGR
Revenues	44	43	-1,3%
Costs	20	20	0,2%
Provisions	11	11	0,0%
<b>PBT</b>	<b>11</b>	<b>10</b>	<b>-3,5%</b>
Loans	750	735	-0,7%
RWAs	566	585	1,1%
<b>CET1</b>	<b>6%<sup>(1)</sup></b>	<b>10%</b>	
RoTE	16%	9% <sup>(2)</sup>	▼ RoTE   ▼ "g"

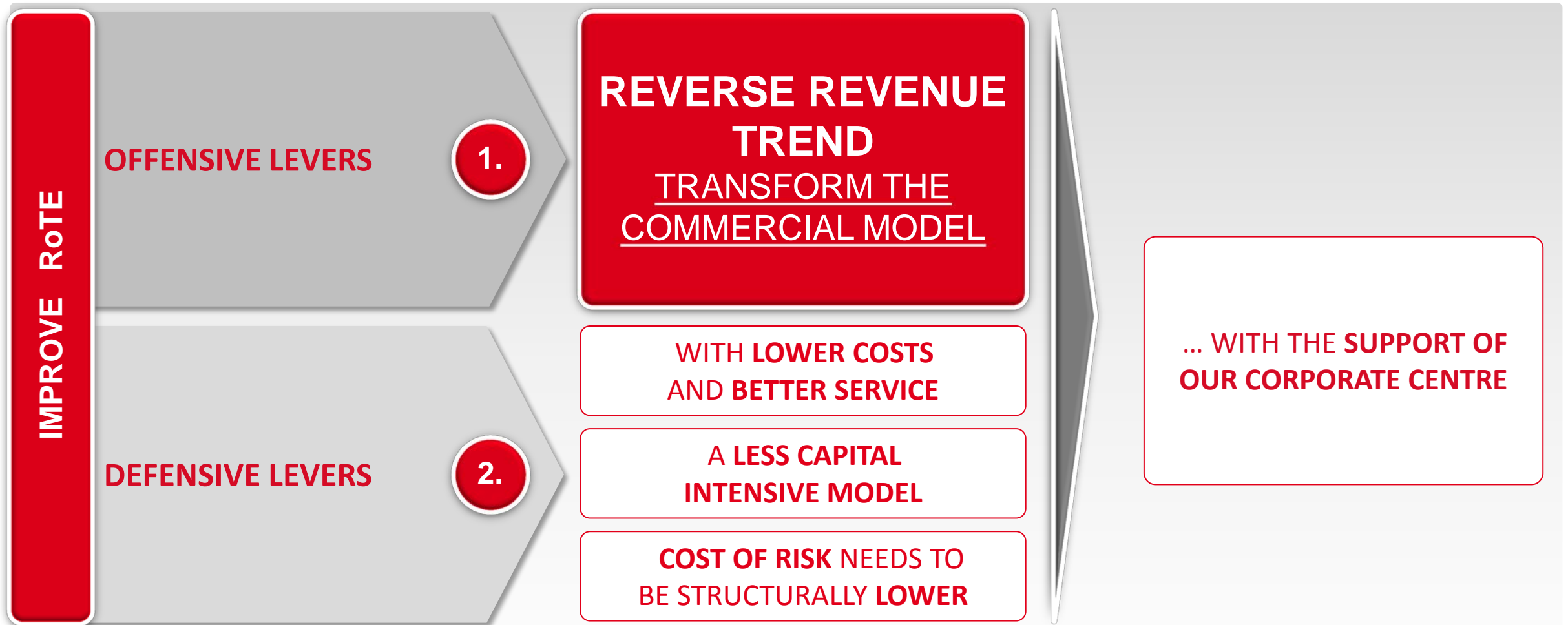
**It is time to reverse the trend and upgrade the model:**

**▲ INCREASE RoTE to support...**

- **BUSINESS GROWTH**
- **DIVIDEND GROWTH**
- **CAPITAL ACCUMULATION**

(1) FL criteria applied(e) (2) BIS III and after capital increase

Our priority is revenue growth while keeping focus on traditional “discipline” measures (cost, risk and capital)

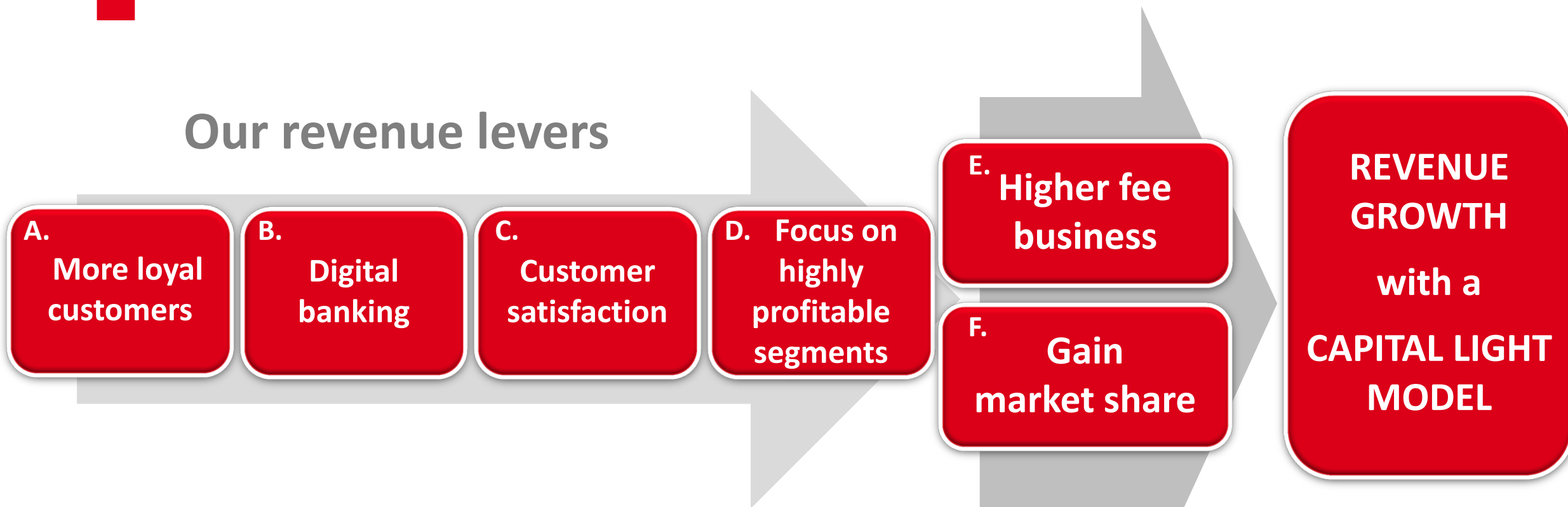


*Improve **profitability** while growing revenues will set winners apart from the rest...*

# 1

## Transforming our commercial model:

### Our revenue levers



Our commercial model has served us well through crisis but looking forward we need to transform and adapt it to the new environment

We need to change the way of doing banking

FROM:



Typical mass market approach

- Complex
- Expensive
- Capital-intensive

TO:



A more customer friendly model

- Simpler
- Cheaper and efficient
- Less capital intensive

# A Our biggest upside is to gain the loyalty of existing customers

More loyal customers

## A large potential to convert customers into loyal customers



- A loyal customer is much more profitable



**x4** Retail  
**x4** SMEs  
**x5** Corporates

- Making customer loyal is cheaper than getting new ones
- Earning the **loyalty** of our customers is our **top priority** and the **core** of our strategy

(1) Retail & Commercial + SGCB +SCF  
(2) Customers that have a minimum level of activity with the bank, which we defined as a minimum credit or deposit balance or a minimum number of monetary transactions in the last 3 months. The threshold depend on the segments  
(3) Customers that have a primary relationship with the bank. The requirements for a customer to be considered loyal include a minimum product holding and a minimum number of monetary transactions per month. The threshold depend on the segments

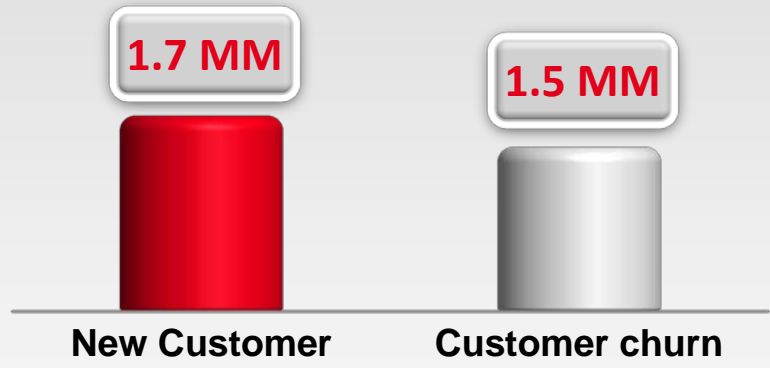
# A We need more loyal customers: increase transactionality

More loyal customers

## Churning customers is a losing proposition



Example: Mexico 2014

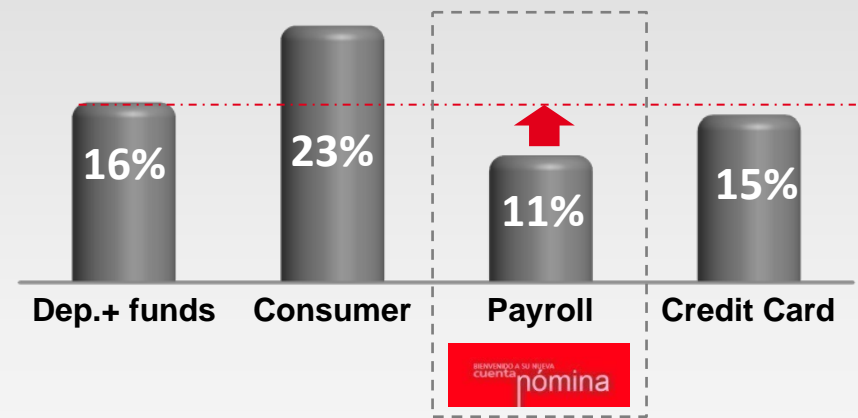


- The first step to **add new customer is not to lose existing profitable customers**
- It is **5x cheaper** to engage a customer than to capture a new one

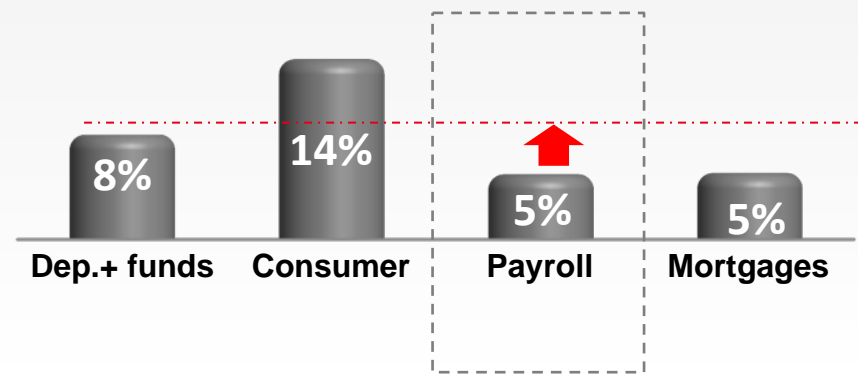
## To make a customer loyal we need to increase our transactional relationships

We have launched indicatives transactional customers

Example: Mexico



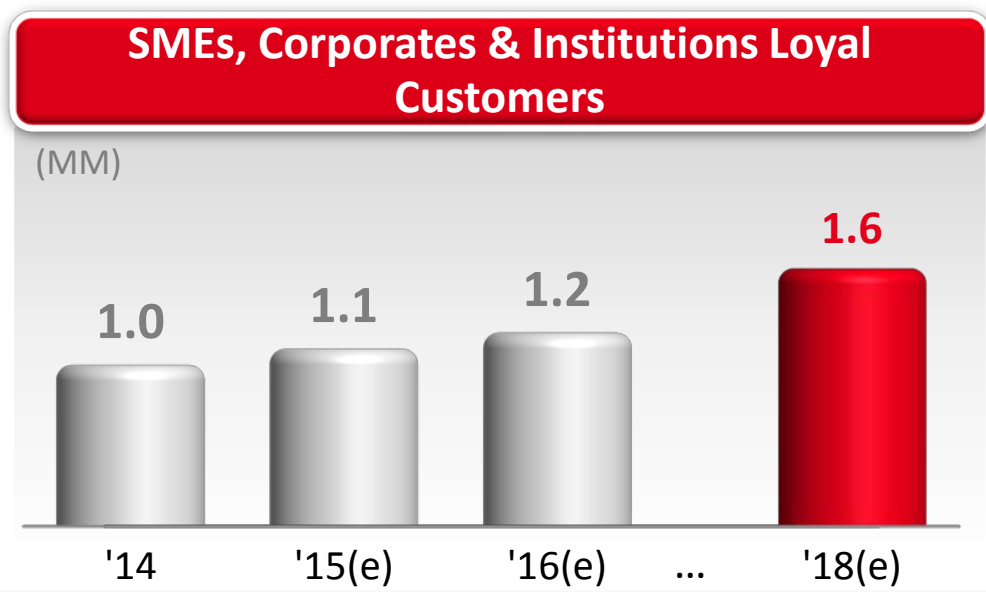
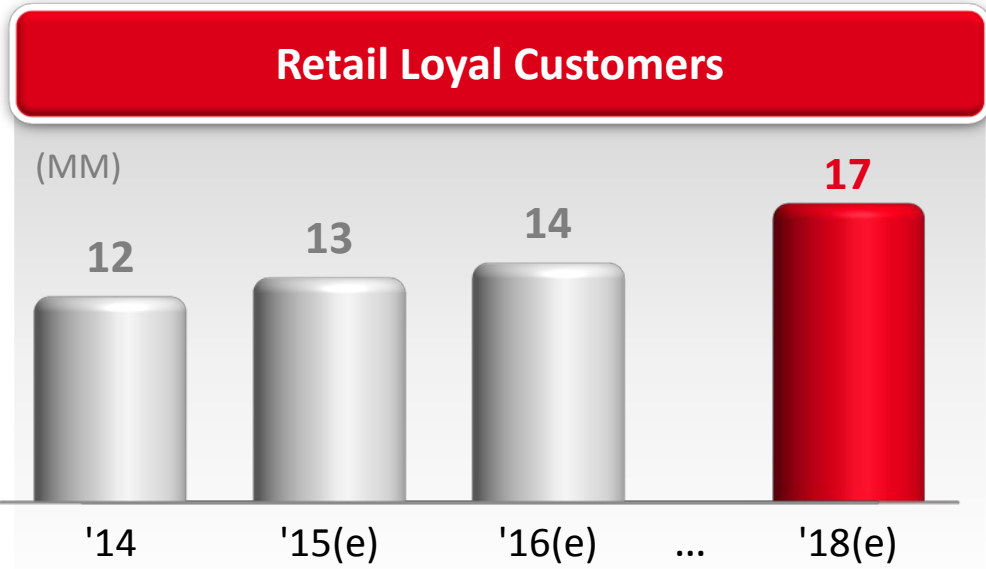
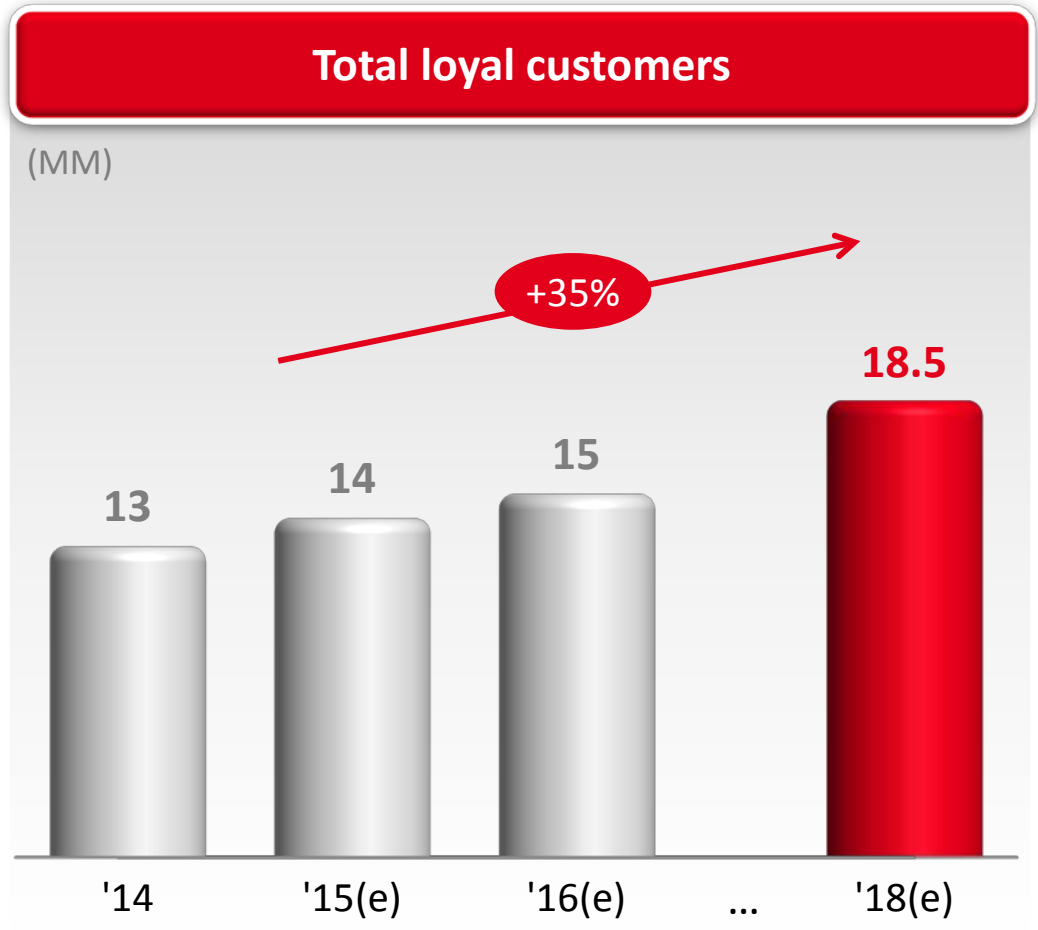
Example: Brazil





# A Our goal for 2018 is to have 18.5 million loyal customers

More loyal customers



Revenues could grow c. + €3bn



## Our aim is to become the best retail bank in Spain

### Our priorities

#### Retail

Build long-lasting customer relationships

- Become the primary bank of our customers / consolidate leadership in affluent segments

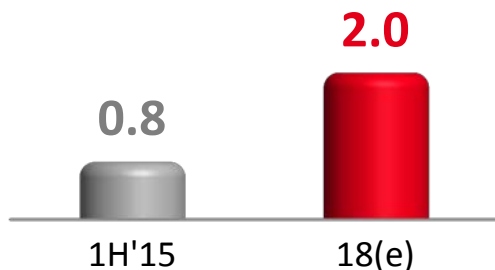
#### SMEs & corporates

Be the reference bank for SMEs & corporate

- Consolidate leadership in large companies/ grow SMEs

### Loyal customers

(MM)



## Challenger bank with fundamentals in place for profitable growth

### Our priorities

#### Retail

Grow active and loyal customer base

- Lead the sector transformation in Brazil / the challenger bank

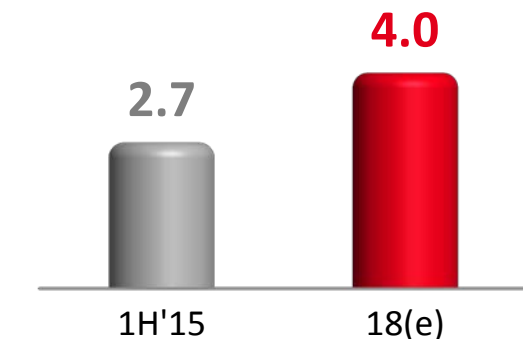
#### SMEs & corporates

Grow selectively to maintain strength in risk performance

- Reinforce specialised models for SMEs / foreign trade business

### Loyal customers

(MM)



**B** Digitalisation is a **2X1** enabler for banks that integrate it well into their business model

1

+

1

>

2

Opportunity to increase contact with customers



Opportunity to reduce costs and improve processes efficiency

Digital customers are valuable

- Mobile customers contact the bank **12x** per month vs **4x** ordinary customers
- Digitalisation enhances customer experience



- Optimise branch network
- Reengineering of processes

- = More revenues and **5x** more profitable
- = Lower cost to serve
- = Better customer knowledge
- = Enhanced customer experience

# B What we want to do in our digital / multichannel proposition: effective digital solutions

1 Move along with our customers



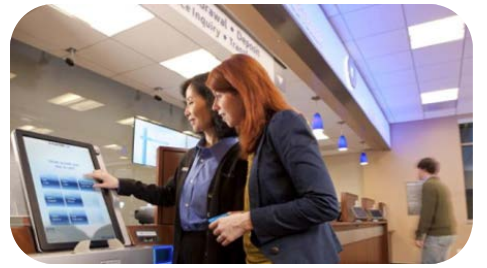
4 Leverage on the **strength and solvency** that Santander offers



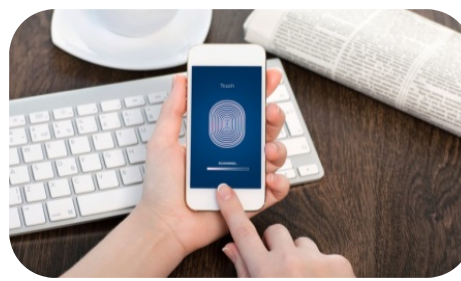
2 A targeted multichannel proposal



5 Offering the best **customer experience** through all channels



3 ...we aim to lead the mobile proposition in each country



6 Digital is not just another **channel** ... thinking digital also in processes, marketing, operations ...



**All our customers will SEE, MANAGE, and BUY all our PRODUCTS through all our CHANNELS**

**B** Digitalisation gives us a huge opportunity to engage customers

**FROM... 15MM**  
digital customers\*

1H'15

**x2**

**TO... 30MM**  
digital customers\*

2018



**5.5MM**  
Mobile users

**15%**  
Sales of the Group done  
in digital channels



**16MM**  
Mobile users

**>30%**  
Sales of the Group done  
in digital channels

(\* ) Customers connect with the bank over internet or via smartphones

# B Digitalisation of processes have a direct impact on service: An effective digital proposition for everyday needs

## Examples of Customer's Onboarding process improvement /simplification



### Current account opening process

#### PREVIOUS...

- Account: **D+8**
- Cards: **D+16**
- Channels: **D+22**
- Access code: **D+28**



#### TODAY

...**D+1\***



### Current account opening process

#### PREVIOUS...

From taking **up to 6 days** to completely open an account ...



#### TODAY

...to **leaving the office with the account activated and operating the contracting day**



### Current account opening process

#### PREVIOUS...

Asking a customer to **sign 6/8 pages** of an account opening contract (**paper based process**)...



#### TODAY

...only **2 signatures** (**tablet based digital process**)



### SME credit

#### PREVIOUS...

**13 days** to fulfil the process...



#### TODAY

...to a tablet based digital process: **48hrs** from application to cash

(\*) D+1 = 24h

# B Examples of digital initiatives

## Driving customer loyalty by delivering value-added digital solutions

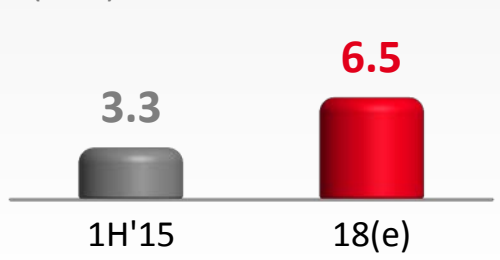


- **+50%** increase in **mobile banking users**
- **1** out of every **3 new account** opened via our digital channels
- Focus on **mobile propositions**: Apple Pay / Spendlytics / Cardlytics

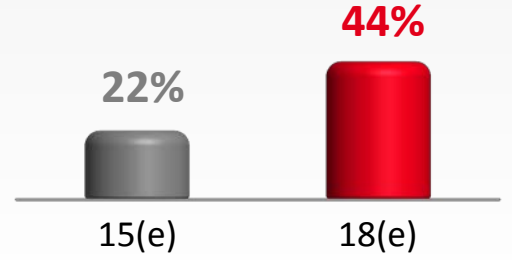


### Digital customers

(MM)



### Digital customers<sup>1</sup> (%)



(1) Digital customers as a percentage of active customers

## Digital innovation oriented at increasing mobile customers

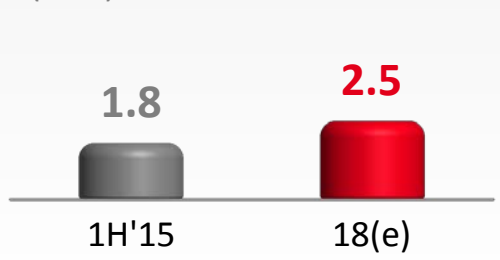


- **Mobile cash loan** in 60 seconds
- **Mobile deposit** app
- **Mobile pay** application /cash from ATMs

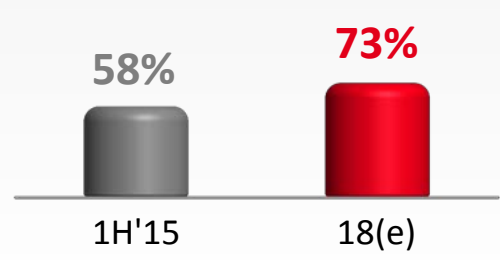


### Digital customers

(MM)



### Digital customers<sup>1</sup> (%)



## **c** Improve customer satisfaction across the board as part of our operational excellence targets

**We continuously conduct customer surveys to monitor how we can better serve our customers**

- **A satisfied customer transacts more**
- **... is more loyal**
- **... profitable**
- **and recommends our services to potential customers**

### Example: Santander customer surveys



**80%** of very satisfied customers have more than 4 classes of products

**93%** want to continue banking with us

**88%** recommend our services



**94%** of very satisfied customers have more than 3 classes of products

**99%** want to continue banking with us

**92%** recommend our services



**C** Our goal is to become top three in customer satisfaction across geographies

**3 main drivers for customer experience**

*Customer Satisfaction*

**Product / Price**

- Price/quality balance
- Pricing vs competition

**Service**

- Operating incidents
- Speed/Agility
- Digital banking / ATMs

**Image**

- Strength / solvency
- Innovation
- Global/ international

**2 Main actions**

**A**

**Continuous improvement in channels and products**

**B**

**Customer experience transformation**

**Customer satisfaction: We measure it, we follow it and we make it a big part of top management incentive programme**

# D A greater focus on high growth and profitable segments (with significant fee opportunity)

## Affluent / Private Banking

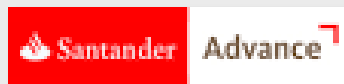
- Global value proposal for high-income customers



- New products for HNWI
- Focus on AM: Santander AM + Pioneer<sup>1</sup>

Low capital-intensive

## SMEs & corporates



SMEs



Corporate

High potential growth

## Network banking

Total world trade flows: US\$18trn



23% of trade flows within Santander regions<sup>2</sup>

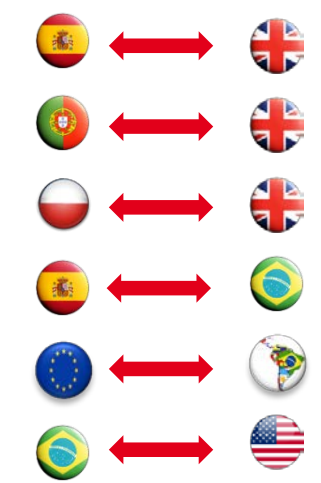
10% Santander market share

- Advantage of a local bank within an international network
- Local competitors cannot provide similar international service

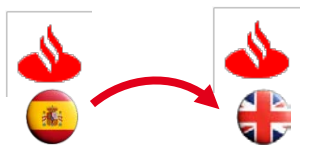
High fee generation

(1) Deal is pending on regulatory approvals (2) Santander footprint. In the case of the US: considering all states where Santander Bank operates

# D We are working to be the main bank on the key commercial corridors within the group: Significant upside to capture trade flows



We aim to be the dominant player in corridors with presence on both sides



Example: Spain - UK Corridor

- SAN Spain sends €14bn to UK
- SAN UK receives <2%... c.98% go to other banks



## HOW?

- Improve technological and operational capabilities: focus in connectivity
- Specific trade corridor initiatives
- Customer support to internationalisation



## SAN TARGETS

Revenues	
2014	2018
~ €1.5bn	€2-2.5bn

SAN Network business  
CAGR 12%  
vs  
Trade growth CAGR 4%

*International Business is a lever to acquire customers, increase engagement and market share*

# D We are a global leader in consumer finance (a state of the art consumer finance monoliner model)

Santander Consumer is in a unique position to deliver high yielding assets in a low interest rate world

## 1 Car financing platform

- Leader in captive and non captive auto lending
- TOP 3 positions in all key European countries
- TOP 5 in US
- Strong positions in Brazil, Chile, Peru...

## 2 Consumer Finance

- SC finances agreements with retailers POS
- An advanced platform for converting indirect customers into direct ones
- TOP 3 in all core European markets



Total loans > €100bn

RoRWAs > 2%

### Example:

**SCB Germany is the consumer finance leader in Germany**

- # 1 Consumer finance player (14% m.s.)
  - # 1 in Durables financing (>40% m.s.)
  - # 2 in Auto financing (15% m.s.)
  - # 2 in Direct Loans (10%)
  - # 3 in Credit Cards (4%)

E

# As a result of upgrading our commercial model we expect to grow our fee businesses...

Fee businesses

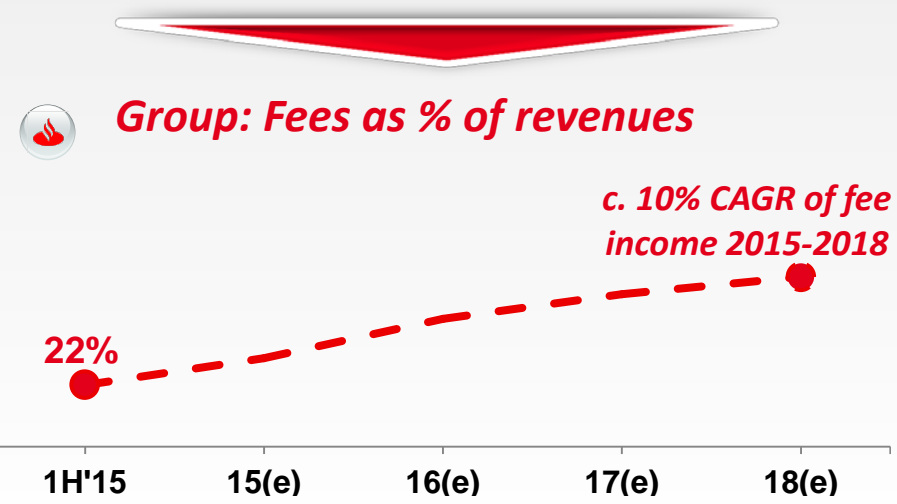
Fee generating businesses are key in a low rate and high capital demand world

Fee model of each country shows different level of maturity

Fees as % of revenues Jun'15

		<u>SAN<sup>1</sup></u>	<u>Peer #1<sup>2</sup></u>
High	Argentina	33%	36%
	Portugal	29%	24%
	Poland	24%	29%
	Spain	25%	23%
Medium	Mexico	25%	29%
	Brazil	27%	36%
	Chile	14%	18%
	UK	17%	29%
Low	US <sup>3</sup>	21%	32%

More loyal customers  
+  
A greater focus on high growth & profitable segments  
+  
Network banking

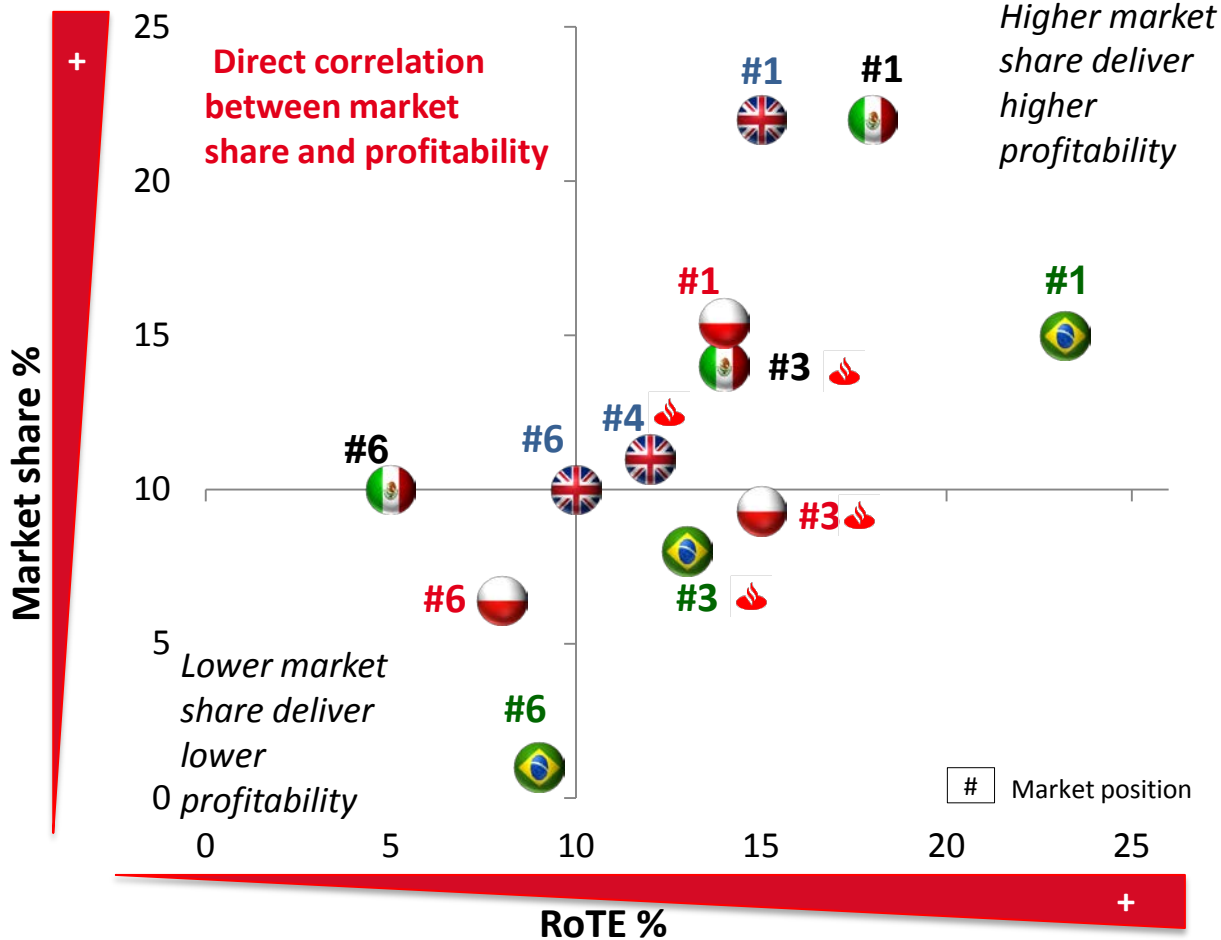


(1) Local criteria  
 (2) Best banks in fee: Banco Galicia, Millennium, Barclays, M&T, Pekao, Itau, Banamex and Banco de Chile (3) Santander US Bank

**F** ..and we expect to **gain profitable market share**: We are focused on the profitable segments in each market

**Large market shares deliver higher RoTEs**

Comparison between local banks (1)




**In a low growth world where rates are low, scale is paramount**

- We already **have critical mass** in our core geographies
- We want to gain **profitable market share in all of our markets**
- Special **focus on**
  - **Corporates, SMEs / Midcorps**
  - **Affluent / WM / Private banking**
  - **Insurance / AM**
  - **International business / trade finance / Network banking**
  - **Greater mass market scale in UK / Spain / Brazil / Mexico**


# F Each country targets different segments for profitable market share gain

Gain market share


## Example:

- 
  - Primary c/a, credit card
  - SMEs
  - Private banking and Select


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- 
  - Current account
  - SMEs, WM and insurance

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- 
  - Payroll
  - Agro segment
  - Acquirer business / Cards (agreement with Elavon)
  - SMEs / Midcorps

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- 
  - Payroll accounts
  - Demand deposits and term deposits

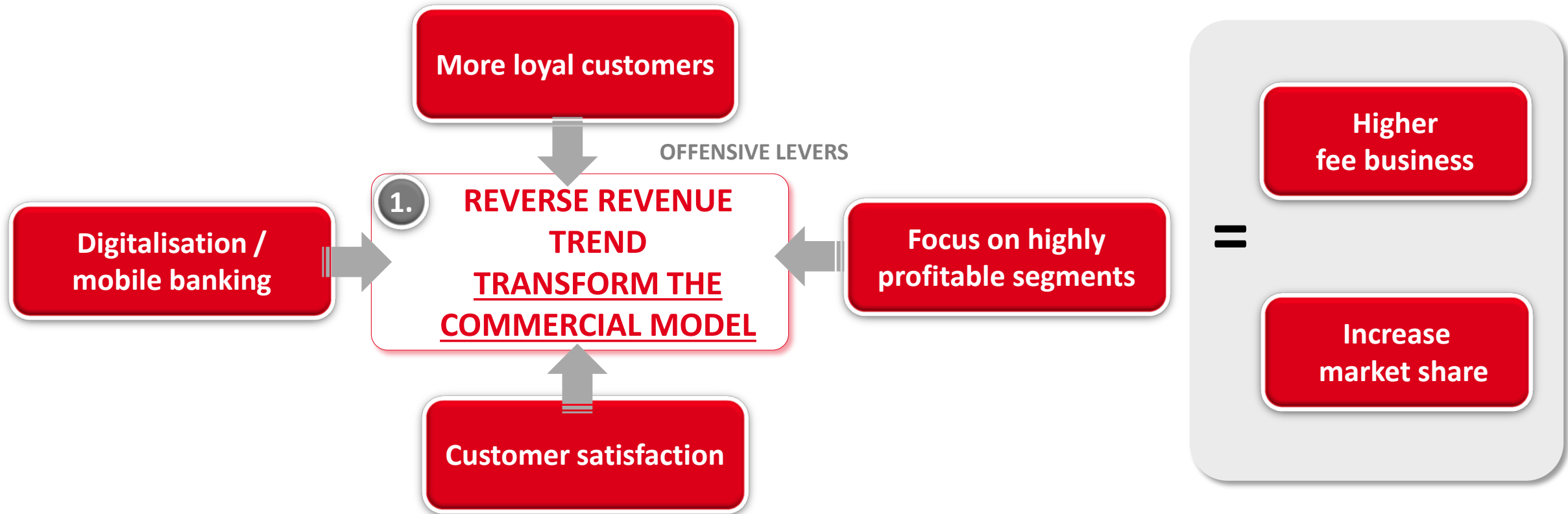
**We are already gaining market share in all our markets over the last year**

June 2015

Strong Position <sup>1</sup>	Loans market share growth yoy bp	Deposits market share growth yoy bp
#1 	+ 30	+ 100
#3 	+ 5	+ 9
#3 	+ 47	+ 84
#2 	+ 88	+ 89
#3 	+ 150	+ 110
#4 	+ 60 <sup>2</sup>	=
#1 	+ 44	+ 26
#3 	+ 23	+ 30
- 	=	=

(1) Brazil: Only private banks; Argentina: Private banks; Portugal: Only private domestic banks; UK: UK banking (2) SMEs

*Improve profitability while growing revenues will set winners apart from the rest...*





# 2

## Our defensive levers

**A.**  
Lower cost & better  
service

**B.**  
Cost of risk  
structurally lower

**C.**  
A less capital  
intensive model

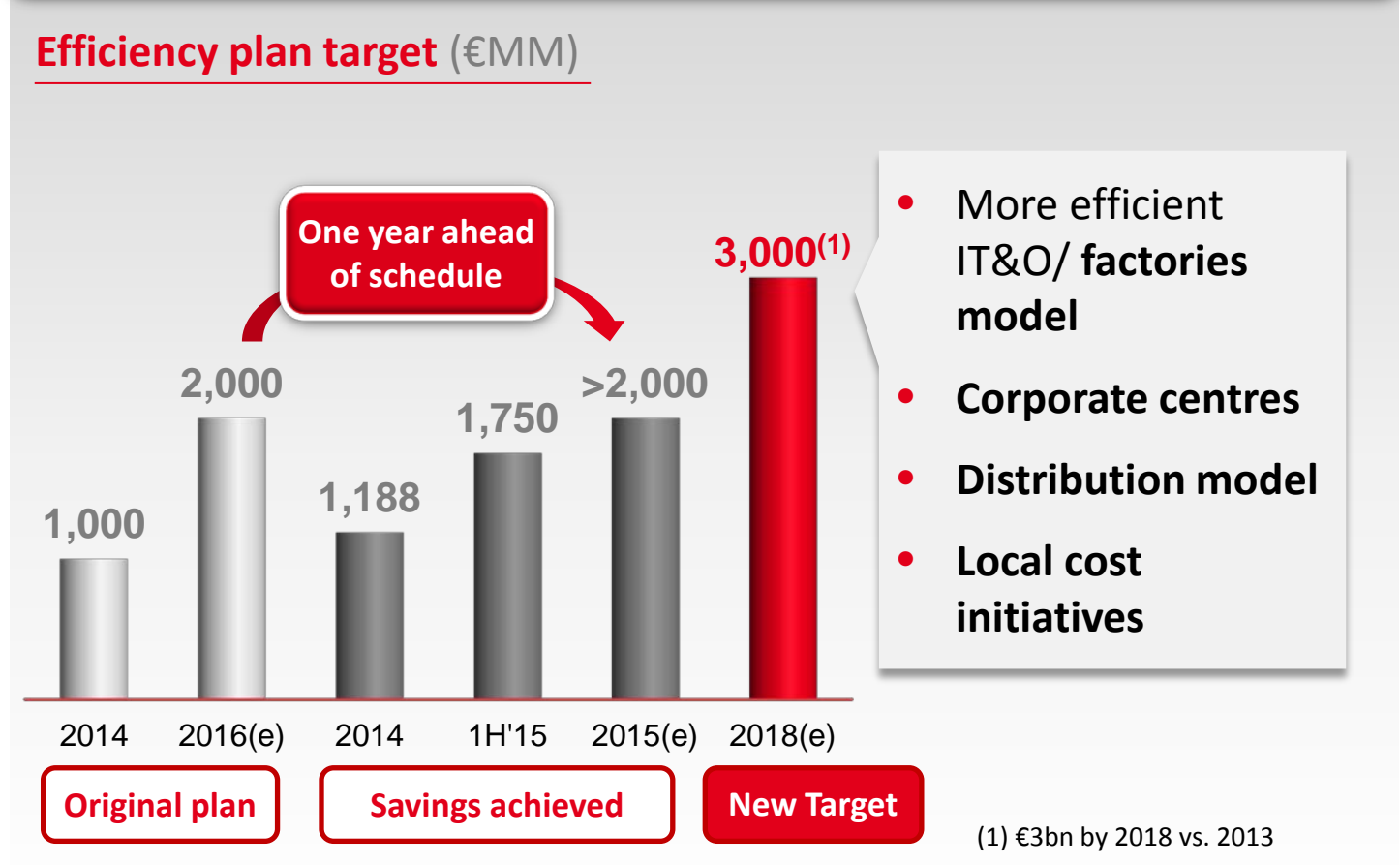
**D.**  
...with the support  
of our corporate  
centre

# A Operational excellence: delivering a better service at a lower cost, adding value to our customers

## Cost frugality is a need in the industry

- We aim at a **C/I ratio below 45%**
- **Positive jaws**
- Digital, infrastructure and regulatory **investments financed by BAU savings**
  - Saving in **distribution network**
  - **Corporate centres / factories / IT**
  - **Aim: Costs at around inflation**

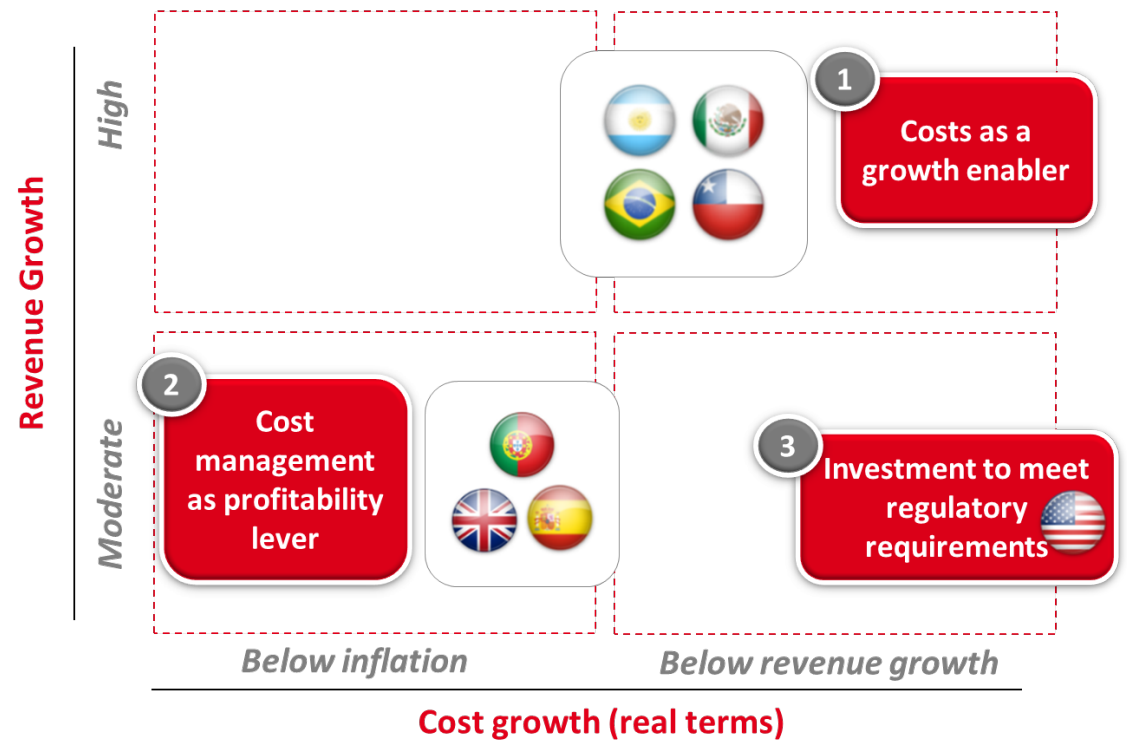
## Control cost



**A** Our goal is a cost to income ratio of less than 45% by 2018

**Costs**

**Cost control is ever more important due to current low growth environment**



**C/I % (2018)**

	Spain	c.50%
	Portugal	<45%
	UK	<50%
	SCF	c.42%
	USA	c.37%
	Poland	<40%
	Brazil	37%
	Mexico	<37%
	Chile	<42%
	Argentina	50%
	<b>Group</b>	<b>&lt;45%</b>

**POSITIVE JAWS**

# B Our Advanced Risk Management model will enhance our low-to-medium risk profile

In a low-rate environment cost of risk has to be managed as any other cost

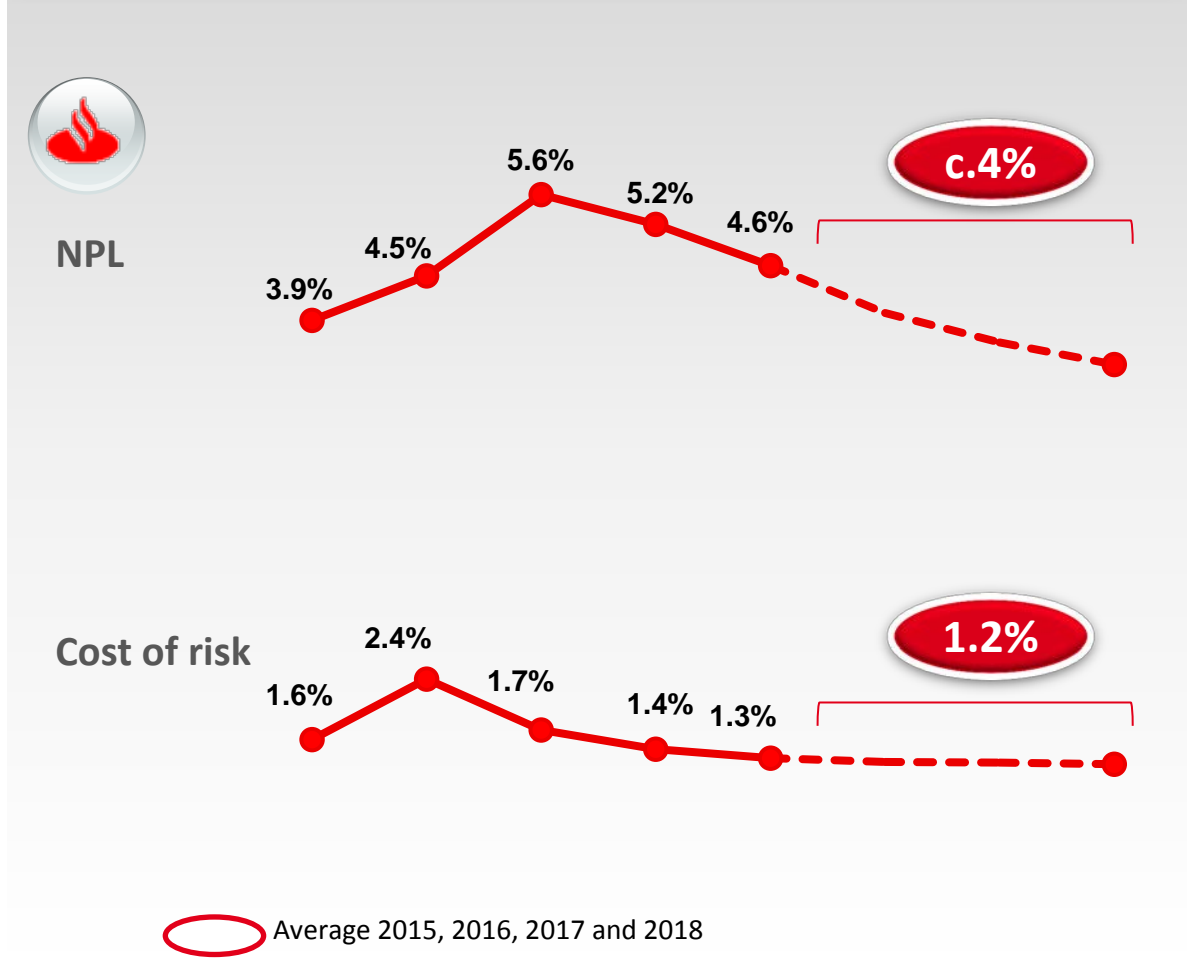
FROM a solid risk management model...

**TO ADVANCED RISK MANAGEMENT (ARM)**

- Forward looking approach: risk adjusted pricing
- Dynamic risk approach
- Holistic approach to risk

ARM aims to a lower cost of risk across the cycle incorporating new sources of risk

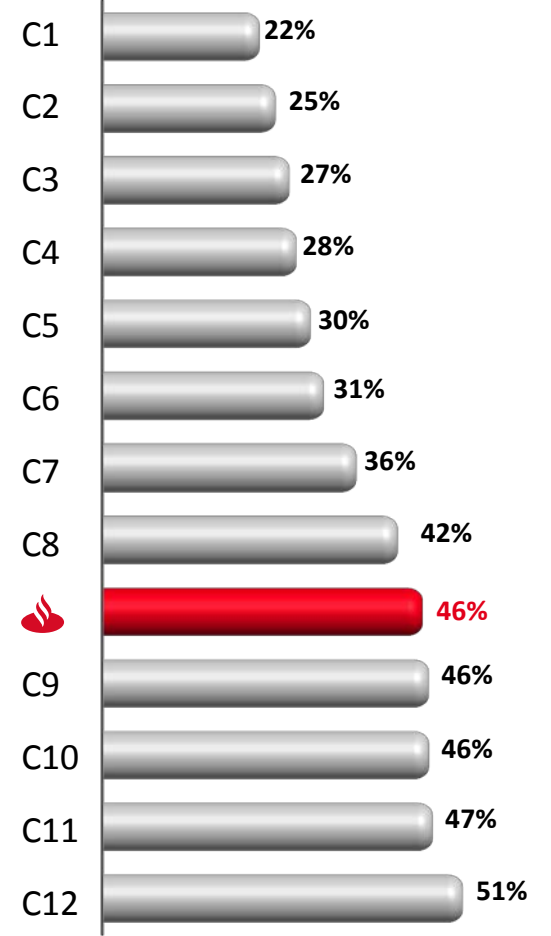
We will expect to improve our risk quality over the next years



**C** We have a simple, low risk and highly diversified model that is well capitalised

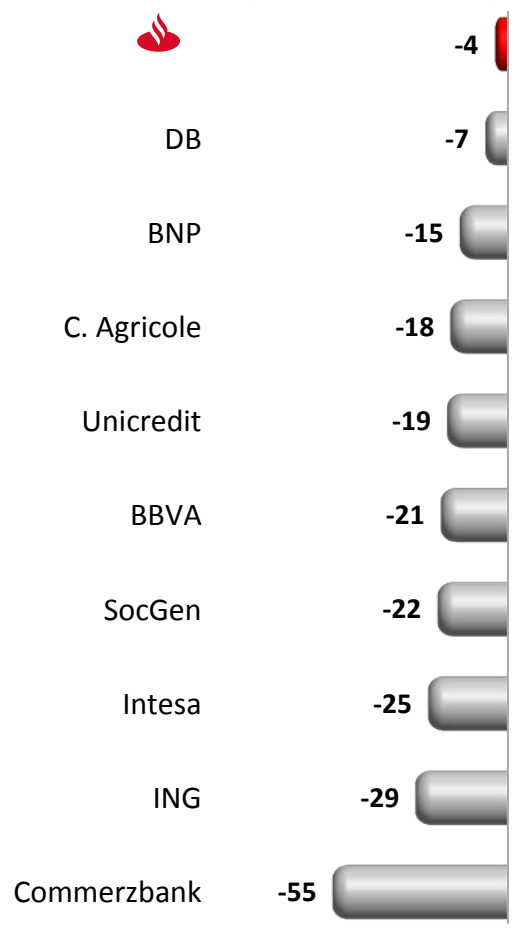
**RWA / Total assets (%)**

SAN: Conservative RWAs calculation

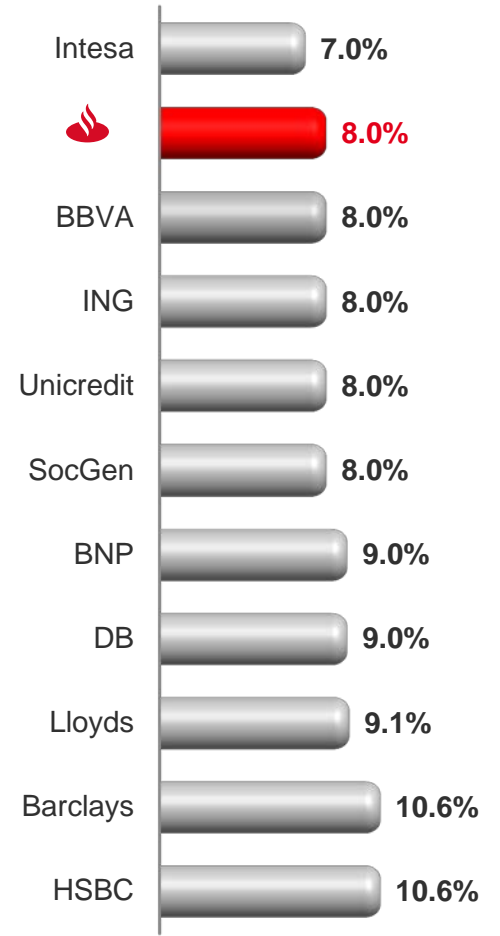


**AQR impact on CET1 (b.p.)**

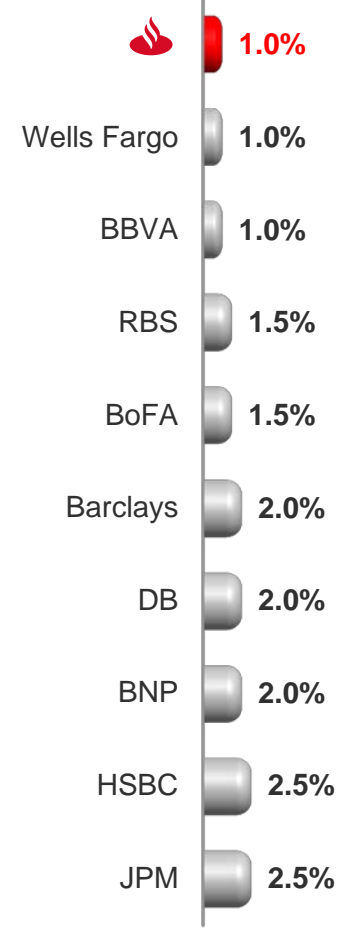
SAN: Lowest adjustment among peers



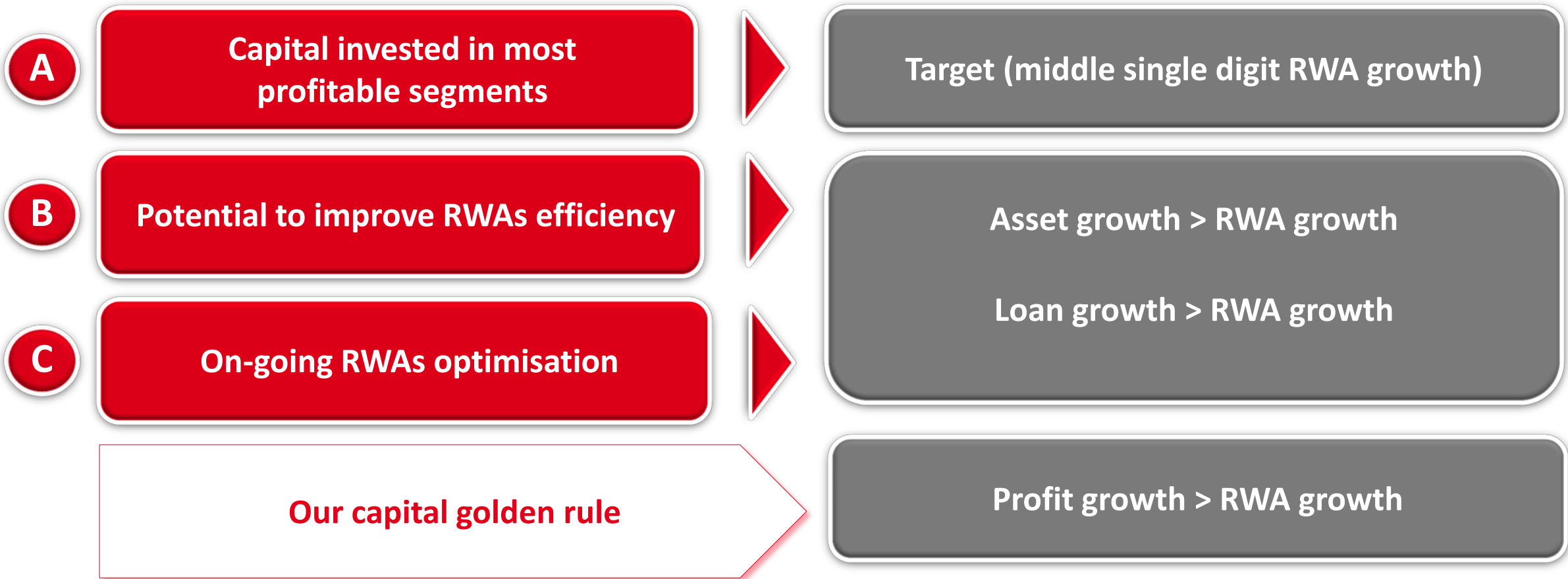
**Lower minimum capital ratio requirement...**



**...and lower G-SIBS surcharge than peers**



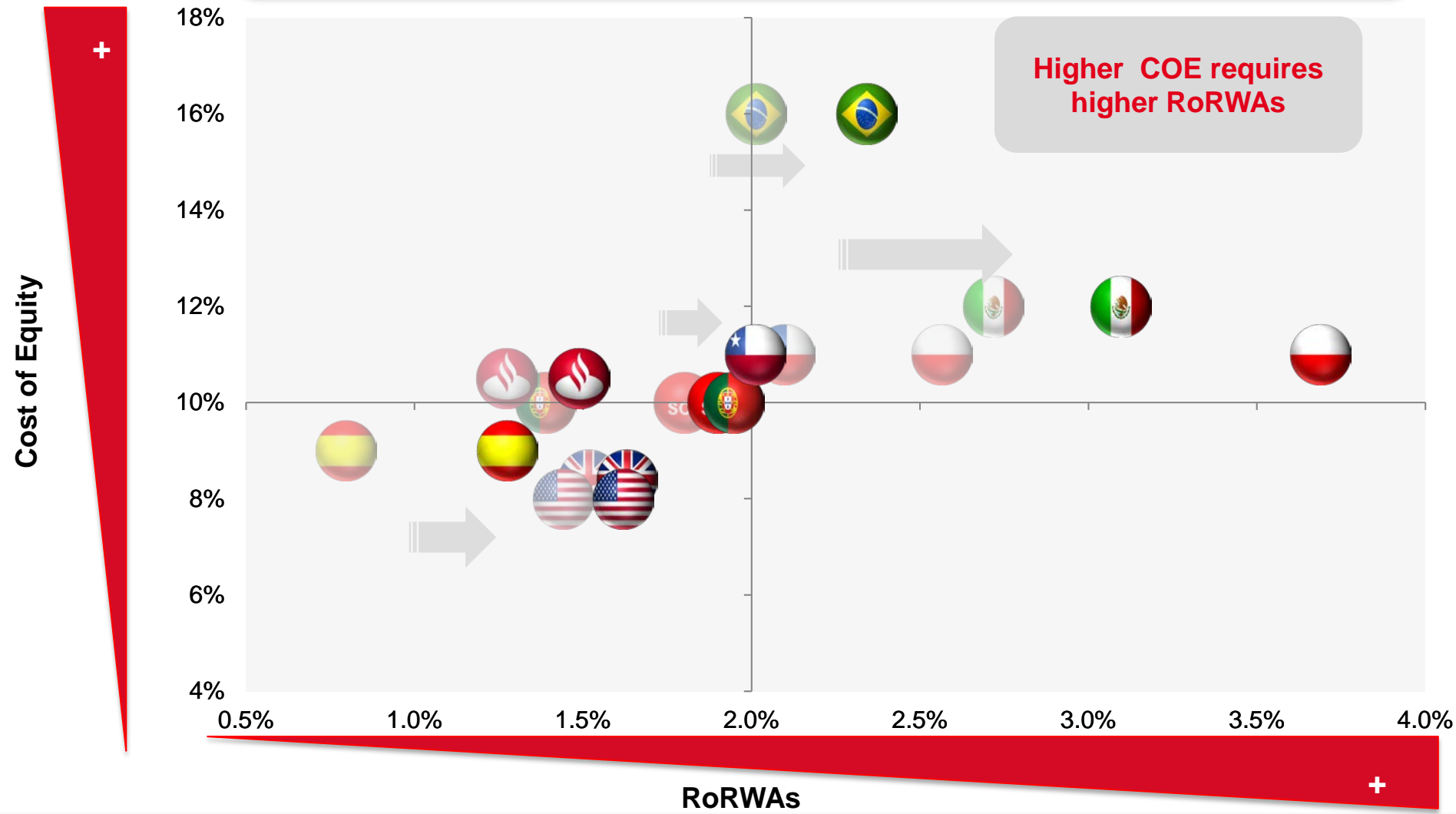
**C** Capital needs to be allocated more efficiently than pre-crisis: focus on a capital light model



**We are transforming our “capital model” so as to ensure that we accumulate capital, grow our dividend and support our business growth**

# c Our countries are focused on improving RoRWAs

## 2015(e) vs 2018(e) RoRWAs



# D Finally, a leaner corporate centre structure to improve accountability and transparency: Focus on adding value to our subsidiaries

Corporate centre

The value of our corporate centre

Our adding value corporate centre leverages the group's 47% C/I ratio



...The group is worth more than just the sum of its parts

- ### COSTS
- Strong global brand
  - Global economies of scale
  - Best cost practices
  - Global factories and IT&O
  - Group-wide digital transformation

- ### REVENUES
- Strong global brand
  - Best commercial practices
  - Global connectivity
  - Best talent & international team
  - Global commercial initiatives
  - Group-wide digital transformation

- ### GOVERNANCE
- Global control framework
    - Risk, Capital, Liquidity, Compliance, Auditing...
  - Central control / monitoring
  - Strategic decision-making
  - Shared corporate infrastructure
  - Corporate culture



# D The corporate centre adds value in multiple ways

The value of our corporate centre



## COSTS

- *A centralised purchasing platform*
- €4.5bn purchases centrally managed
- Average cost saving of c.10% per year

### *Global scale economics*

- Negotiation with big brands
  - e.g. payments
  - e.g. suppliers
- *Global factories & IT systems*
- Cheaper systems
- Cheaper digitalisation costs

## REVENUES

*Corporate centre's divisions generate business to our subsidiaries*

- Global Corporate Banking network
- Commercial Banking division / connectivity



- An internal cyber security reference model

### *Best practices*

- NeoCRM in Chile, Select in Spain, SMEs in UK, 11213 world

# As a result of these initiatives we have a set of **Commercial targets**

	<b>1H'15</b>	<b>2016</b>	<b>2018 Target</b>
Total loyal customers	13MM	15MM	<b>18.5MM</b>
Retail loyal customers	12MM	14MM	<b>17MM</b>
SMEs & corporate loyal customers	1.0MM	1.2MM	<b>1.6MM</b>
Digital customers	15MM	20MM	<b>30MM</b>
# geographies in top 3 customer service	3	5	<b>8<sup>1</sup></b>

**... while increasing profitable market share in all our markets**

(1) Spain, Portugal, UK, Poland, Brazil, Mexico, Chile and Argentina. The U.S.:approaching peers

# Macro environment / Financial targets

## A dual macro- financial environment

### DMs



Developed markets recovery is established

- Europe periphery recovers fast
- Cost of risk coming down across the board



Emerging markets are facing some cyclical adjustment

- Though keeping structural L-T growth
- Currencies are a source of P&L volatility

### EMs



Global growth continues to be below pre crisis level (and below potential?)

- ...and as a result interest rates might stay lower for longer



**In summary, short-term market uncertainty with long-term potential**

1H'15

2018 Target

• C/I Ratio	47%	< 45%
• Cost of risk	1.3%	1.2% <sup>(1)</sup>
• RoTE	11.5%	c. 13%
• FL CET1	9.8%	>11%
• Cash Dividend Payout	30%	30%-40%
• Increasing <b>EPS</b> , reaching <b>double digit growth by 2018</b>		

(1) Average for 2015 – 2018

# 3

## Closing Remarks

# Our business model has worked well but needs adapting to the new environment to reach our 2018 targets

**OUR PRIORITY IS REVENUE GROWTH:** We are upgrading our commercial model

1

## REVERSE REVENUE TREND

- More loyal customers
  - Digital banking
  - Customer satisfaction
  - Focus on highly profitable segments
- +
- Higher fee business
  - Gain market share

2

## MAINTAINING DISCIPLINE

- **COST:** Lower costs & better service
- **RISK:** A cost of risk structurally lower
- **CAPITAL:** A less capital intensive model

## IMPROVE PROFITABILITY

RoTE

c. 13%

FL CET1

>11%

=

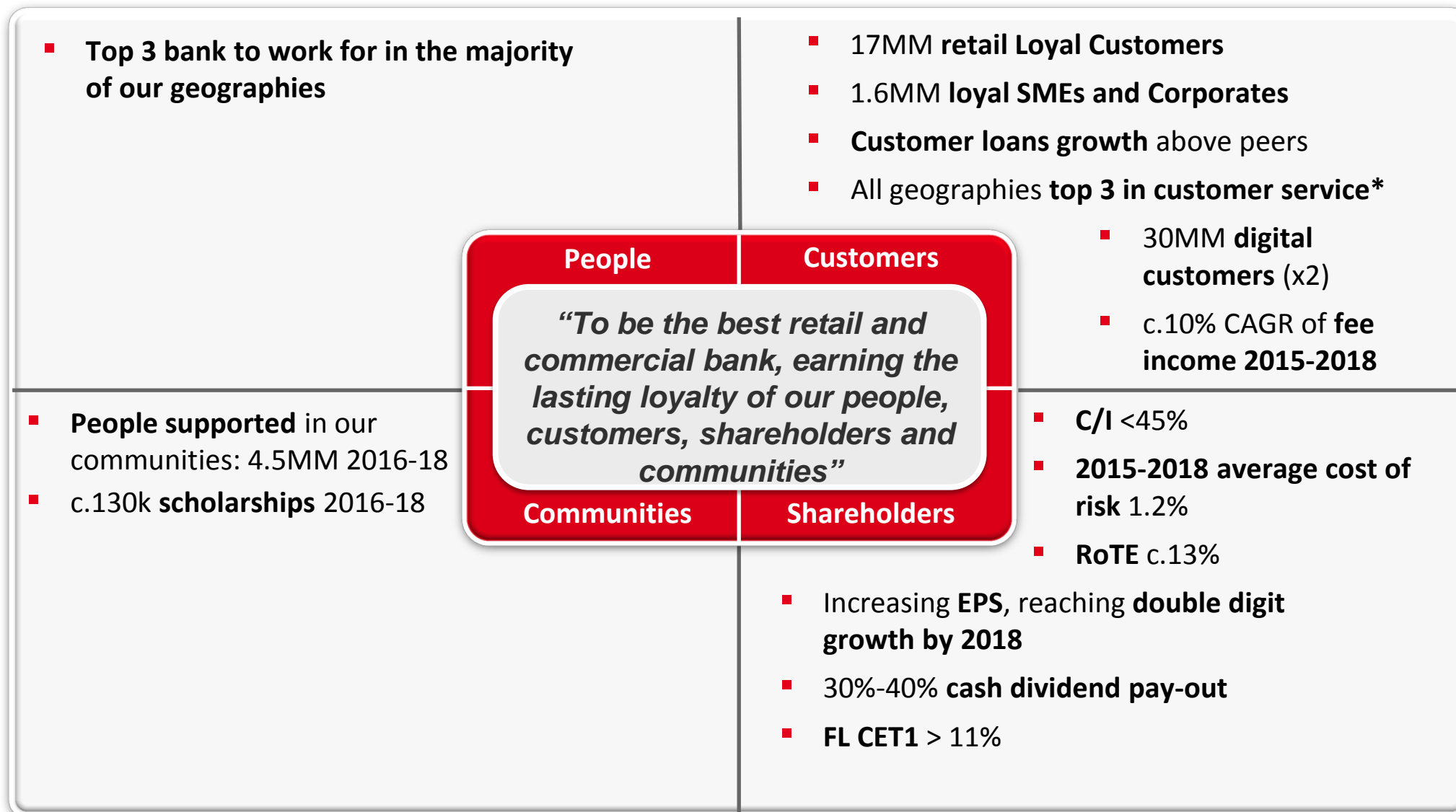
Cash dividend pay-out

30-40%

Increasing EPS

double digit growth by 2018

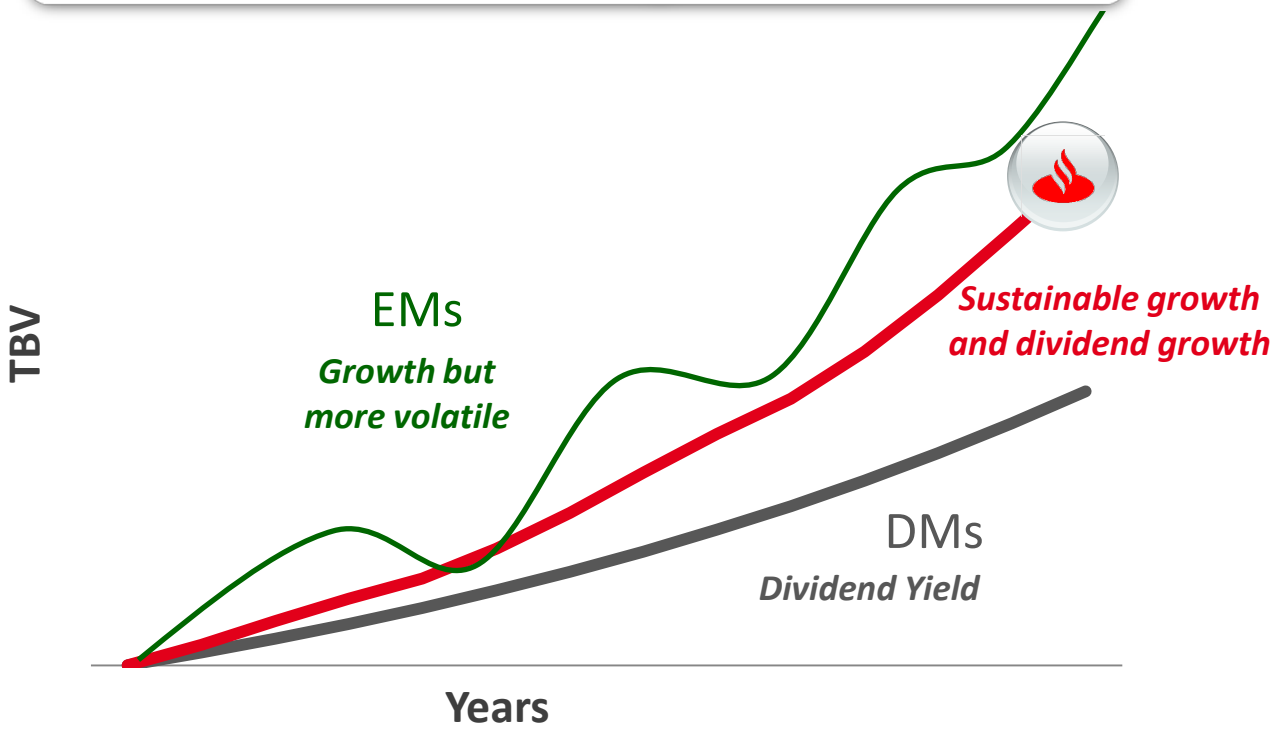
# Our 2018 targets



\* Except for the US – approaching peers

The transformation of our commercial model and a diversified and growth portfolio should allow us to grow our business and TBV more than peers and in a more sustainable way

**EPS growth, capital accumulation and dividend growth**



**Banking sector will have an interest rate dividend when rates go up**

	Growth bank	Utility bank	Emerging bank
RoTE	13%	9-10%	15%
RWA growth	5-6%	1-2%	10%
Dividend	4-5%	5%	3%
Retained Capital	+3%	3%	2%
	TBV growth +8-9%	TBV growth +4-5%	TBV growth +12%

**Sustainable profit and dividend growth**

# Key takeaways of our Investor Day



**Revenue growth is our priority:** We are updating our commercial model around customer loyalty (Revenue growth sets winners apart from the rest in a low growth environment)



**We cannot forget traditional cost, risk and capital discipline:** This is a necessary condition to compete



**Emerging Markets have a L-T structural advantage...** despite volatility on the way



We feel confident that beyond S-T uncertainties, **we can deliver on the targets**





Simple | Personal | Fair