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# Jose García Cantera

Group Chief Financial Officer

**GROUP  
STRATEGY  
UPDATE**

LONDON, 30 SEPTEMBER

Simple | Personal | Fair



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# Content

**1** Delivering through disciplined execution

**2** Efficient and prudent balance sheet management

**3** Looking forward and key takeaways

# 1

## Delivering through disciplined execution

# Last 12 months have been about delivering growth, dividends, capital and profitability...

## Growing our business

- Focus on **profitable business growth**
- Leveraging our **footprint** and **commercial strategy**



## Increasing cash dividend

- Increasing **total and cash dividend per share**



## Accumulating Capital

- Already at **10.4% CET1 (+53bps since 1H'15)**
- Growing TNAV/share
- Improving capital discipline: RORWA **1.35%**



## Improving profitability

- Delivering top 3 RoTE vs. peers: **11.1%**<sup>1</sup>

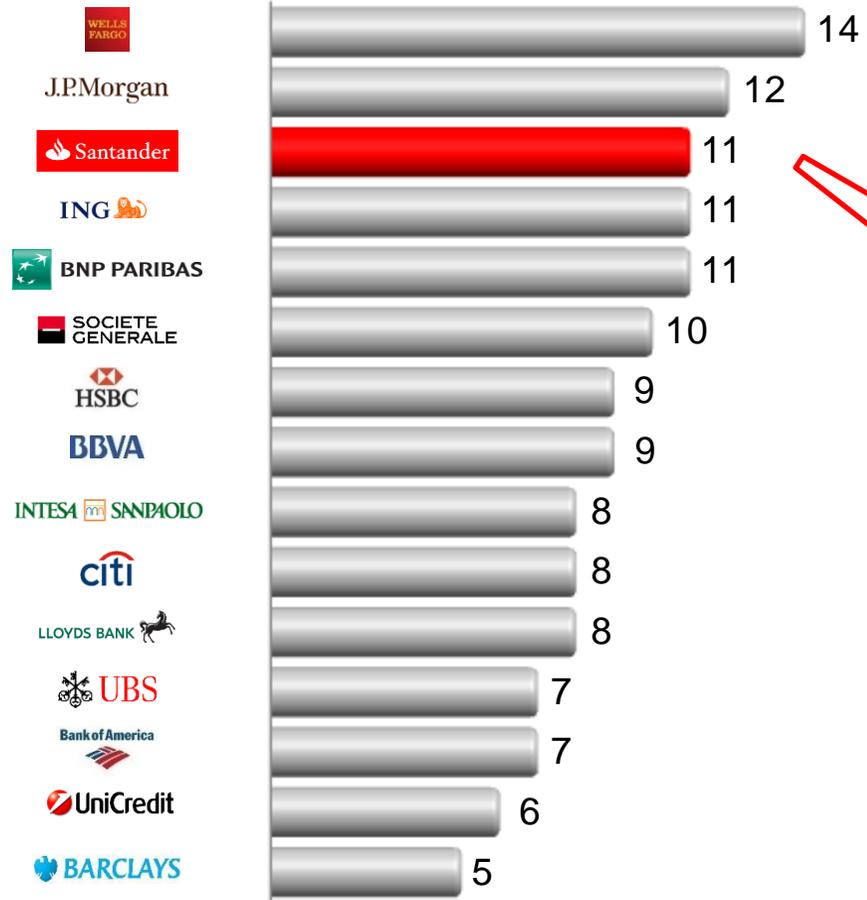


(1) Underlying



# Our business model allows us to fund profitable growth, increase cash dividend per share and accumulate capital

RoTE 1H'16<sup>1</sup> (%)

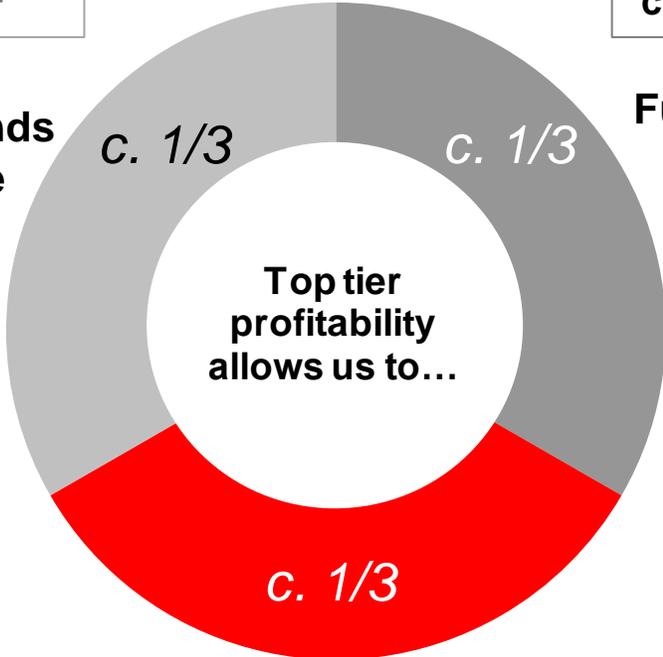


**+10%**  
cash DPS<sup>2</sup>

**Increase cash dividends per share**

**+4%**  
customer loans<sup>3</sup>

**Fund business growth**



**Accumulate capital**  
**+53bps**  
**FL CET1**

(1) Source: Based on public company data - Bloomberg. Santander Underlying. RoTCE for US Banks

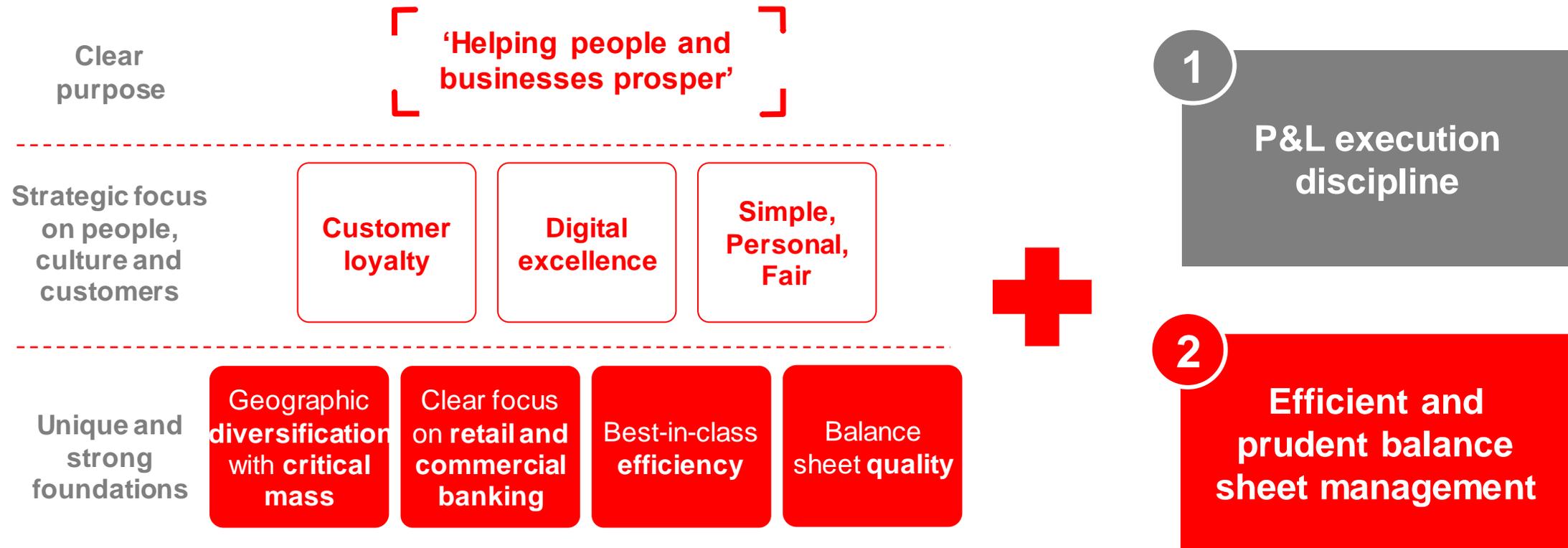
(2) 1<sup>st</sup> interim dividend charged to 2015-16 earnings

(3) Currency neutral

...due to the differential advantages of our model

## The Santander model...

...combined with



# 2

## Efficient and prudent balance sheet management

# Three levers to manage efficient and prudently our balance sheet

1

**Capital** accumulation and RoTE accretive growth

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2

Conservative, decentralised **liquidity and funding** model

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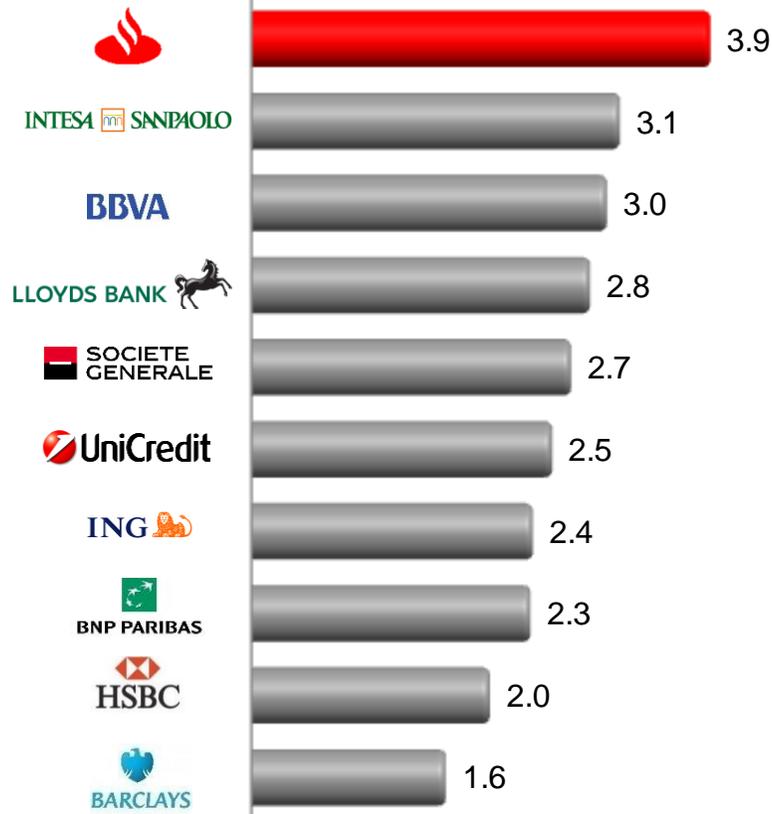
3

Management of interest rate and FX **hedging**

# 1 Business models matter: ample room to absorb losses...

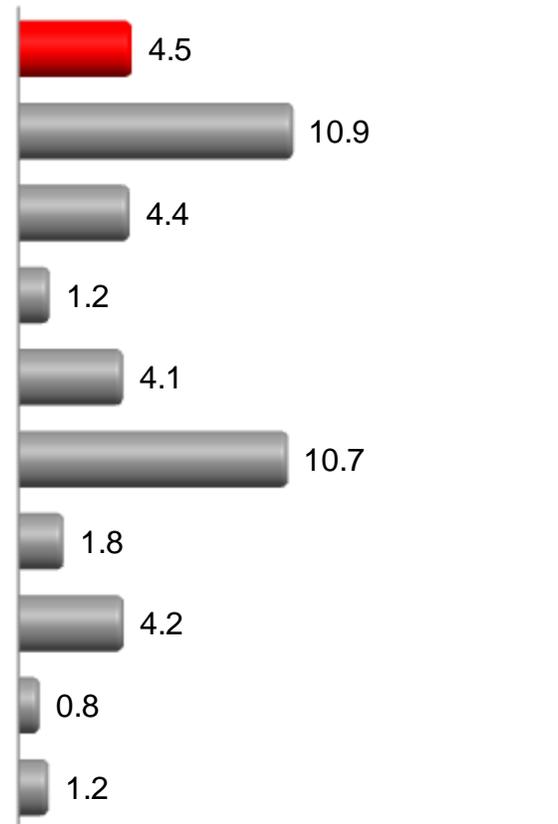
## Higher profitability...

Pre provision profit/ RWA (%)



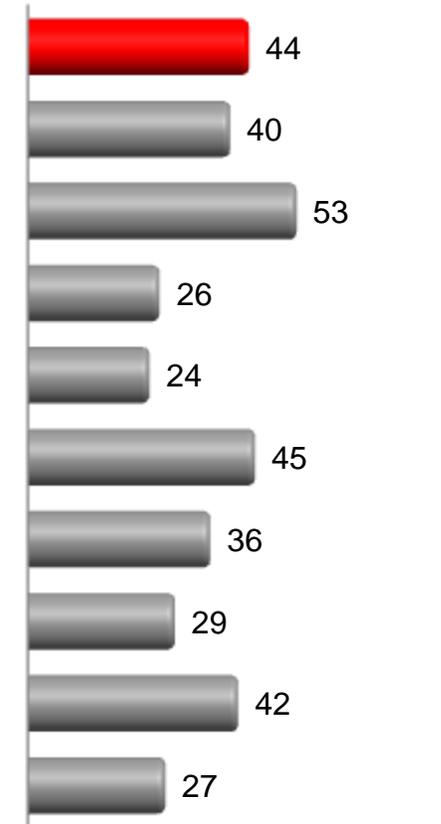
## ...with broad coverage...

Loan-loss allowances / RWA (%)



## ...over a conservative density

RWAs / Total assets (%)



Source: Based on public company data - Bloomberg. Data as of Jun'16

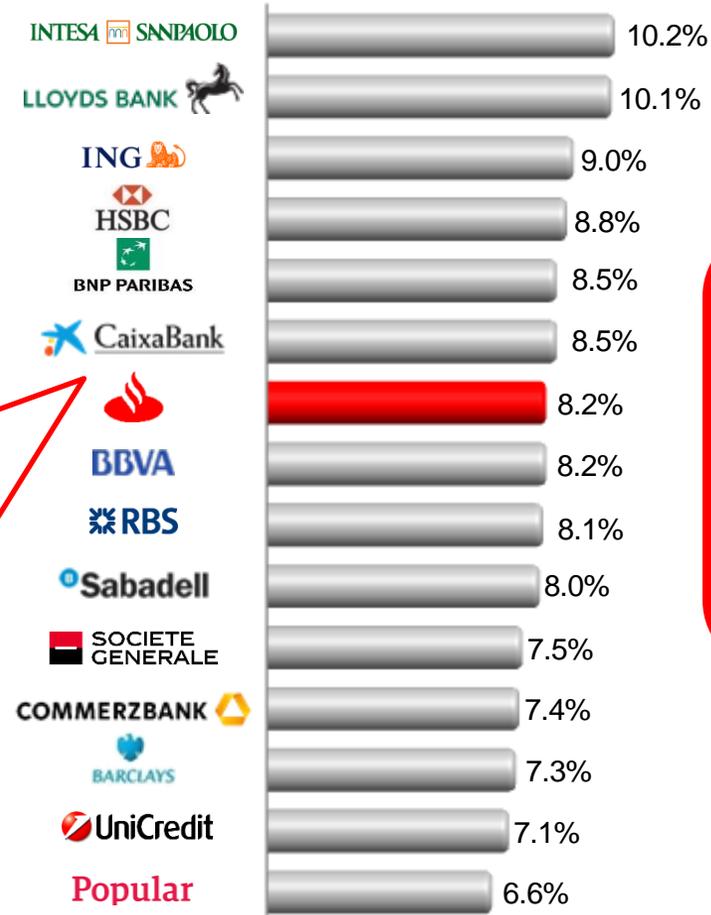
# 1

...allowing better capital preservation than peers

## FL CET1 2015



## FL CET1 2018 EBA Stress test<sup>1</sup>



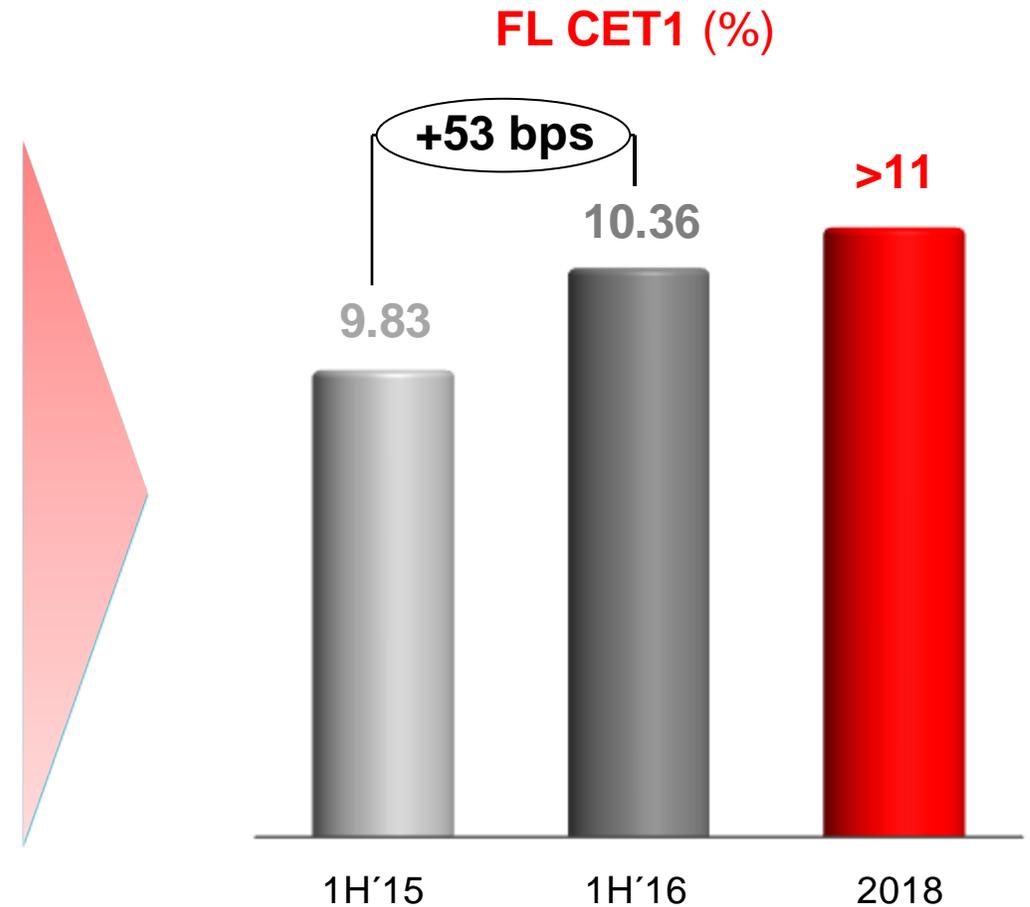
**Santander: a reliable model that requires less capital or capital at a lower cost**

(1) Adverse scenario

# 1

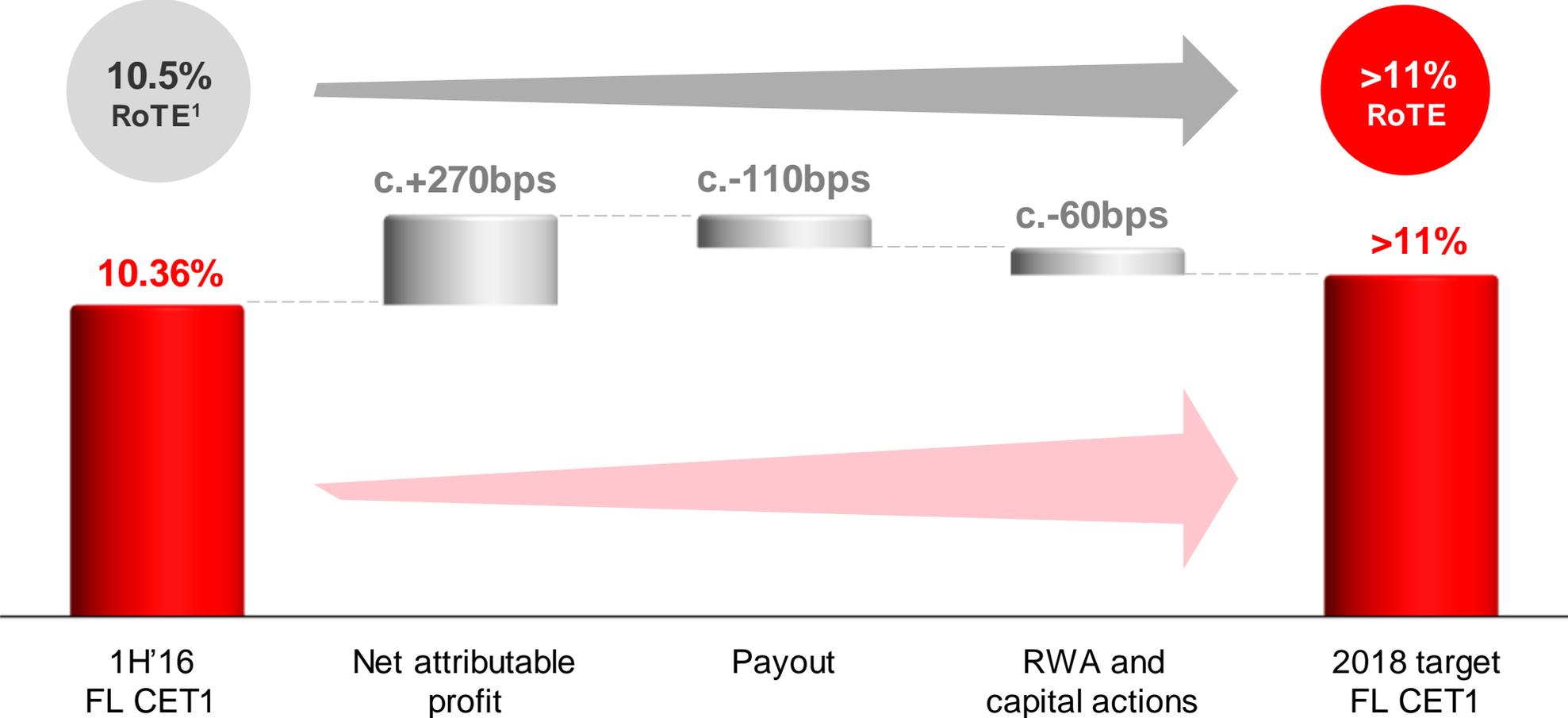
Funding profitable growth whilst paying growing dividends and accumulating capital organically

- 1 Committed to accumulate organically **10bps CET1 on average per quarter**
- 2 **RWA growth** below profit and lending growth
- 3 **Plans to better manage regulatory capital** at a bottom-up basis
- 4 **Capital and M&A discipline** across the Group



# 1

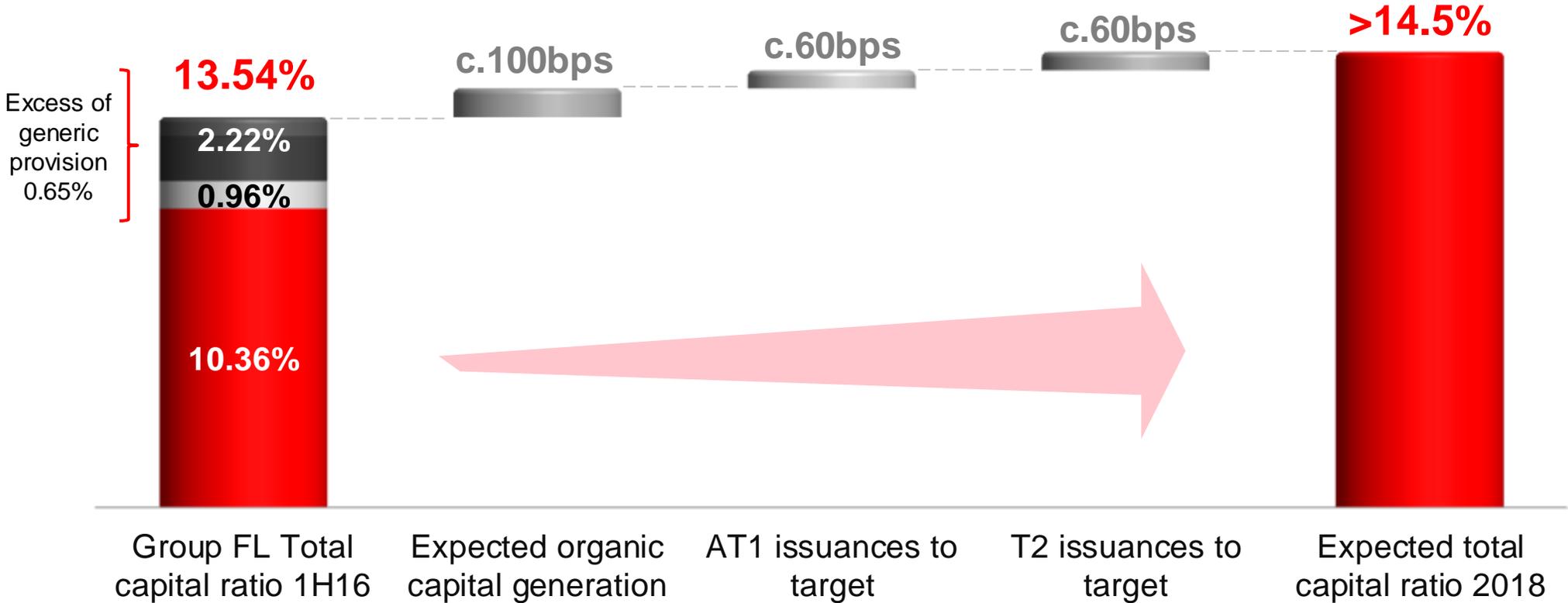
## Set to continue capital accumulation and RoTE accretive growth



(1) Statutory, otherwise 11%

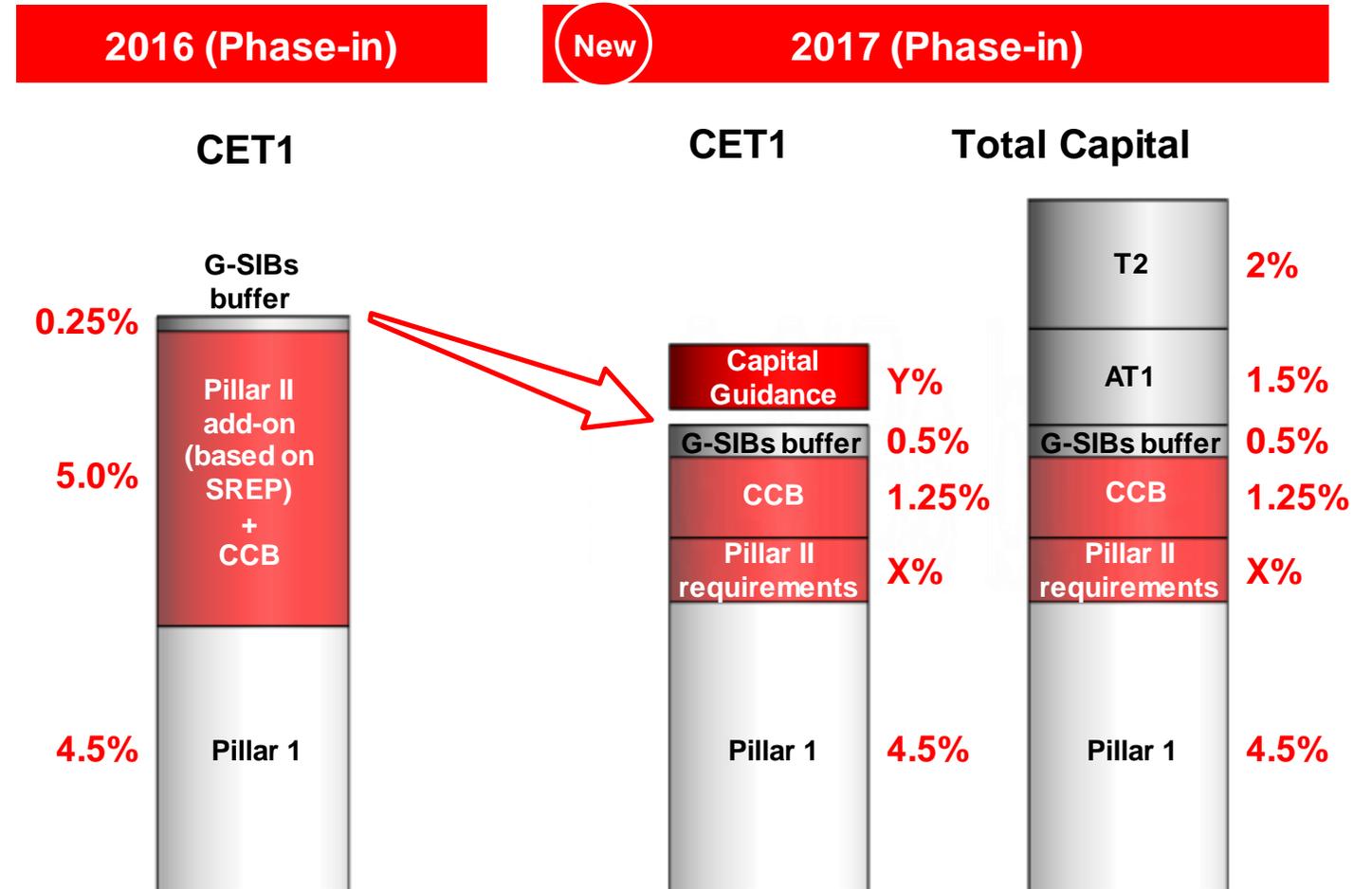
# 1

## Ongoing reinforcement of our total capital base



# 1 New Joint Supervisory Team's capital methodology

- Capital requirement defined in terms of Total Capital (CET1, AT1 & T2)
- Pillar II will be divided between:
  - **Capital Requirement:** will be public and it triggers MDA
  - **Capital Guidance:** will be confidential and won't trigger MDA
- The CCB will no longer be included on a fully-loaded basis
- The trigger for the MDA will go down

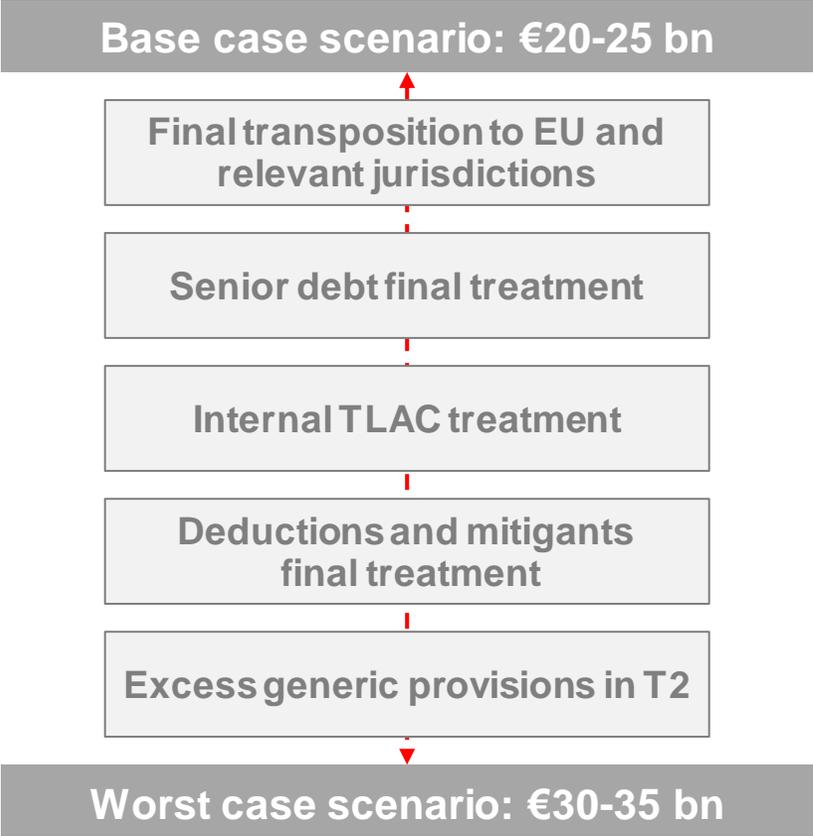


MDA: Maximum Distributable Amount  
CCB: Capital conservation buffer

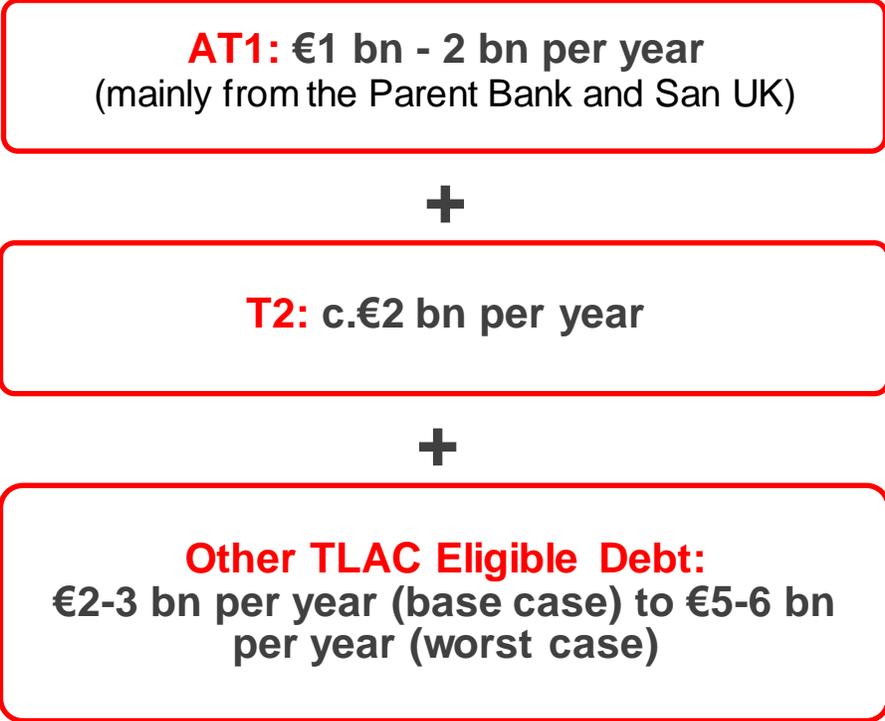
# 1

# Comfortably manageable TLAC issuance plan

## TLAC estimates<sup>1</sup>



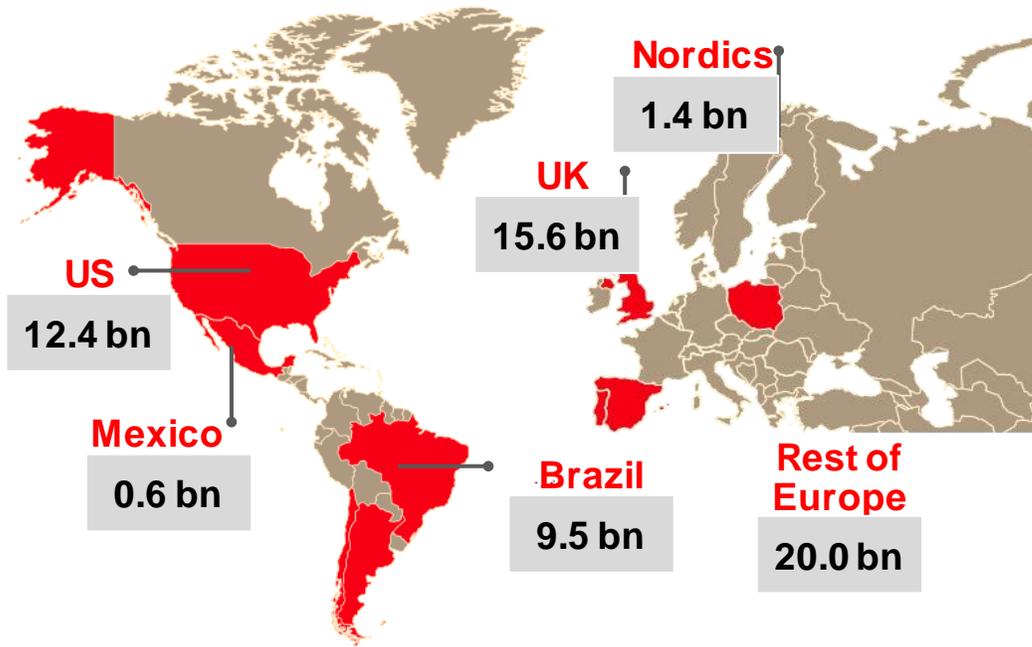
## 3-Year Santander plan



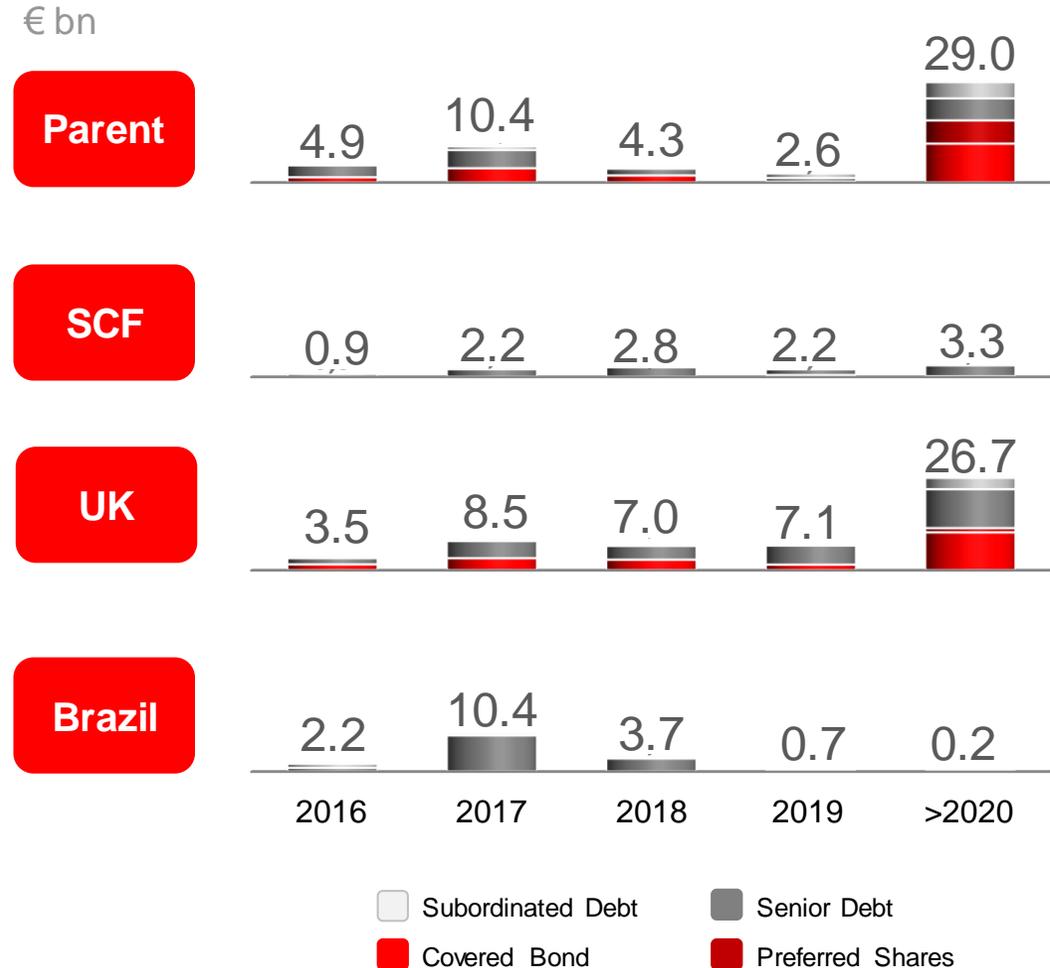
(1) The estimates of TLAC are based on our current interpretation of the FSB's Term Sheet. November 9<sup>th</sup>, 2015 (the "FSB TLAC Term Sheet")

# 2 Conservative and decentralised liquidity and funding model

€60 bn issued during 2015<sup>1</sup>



Very manageable maturity profile

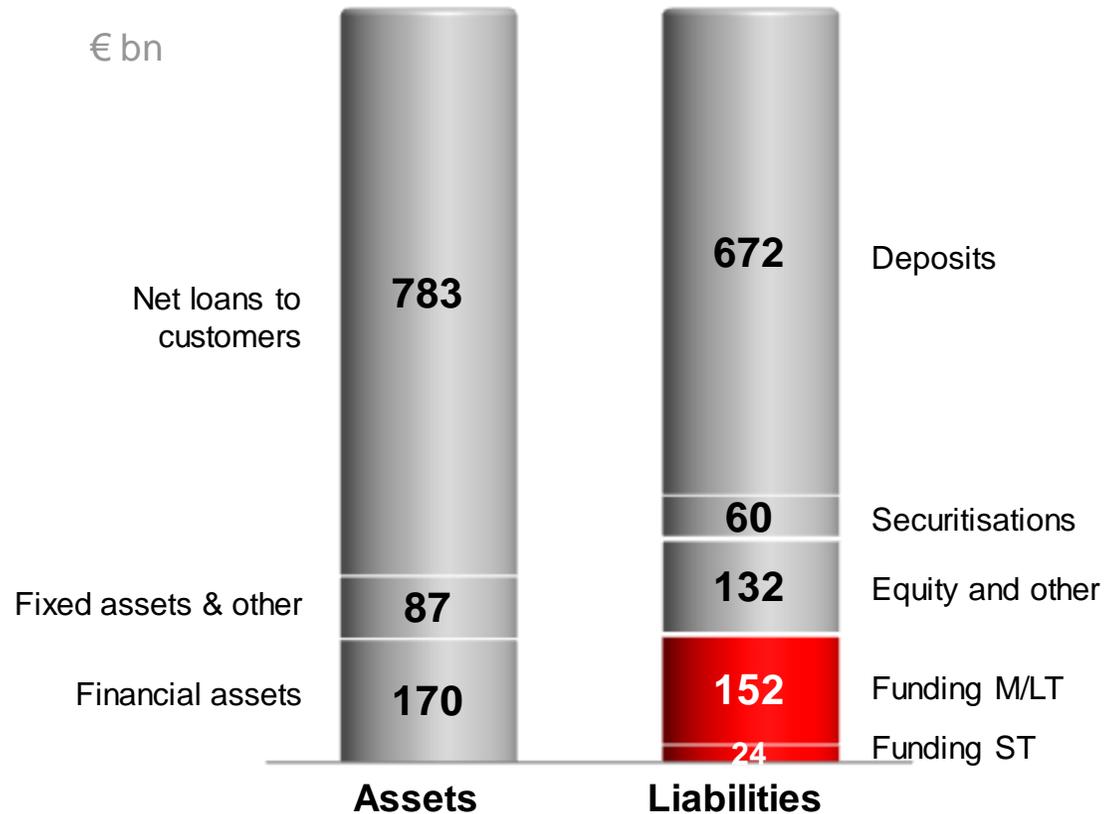


(1) Medium and long term debt (€). Figures include securitisations. Average issuance per year of €40-45 bn excluding securitisations

# 2

## Well-funded and highly liquid balance sheet

### Prudent balance sheet structure

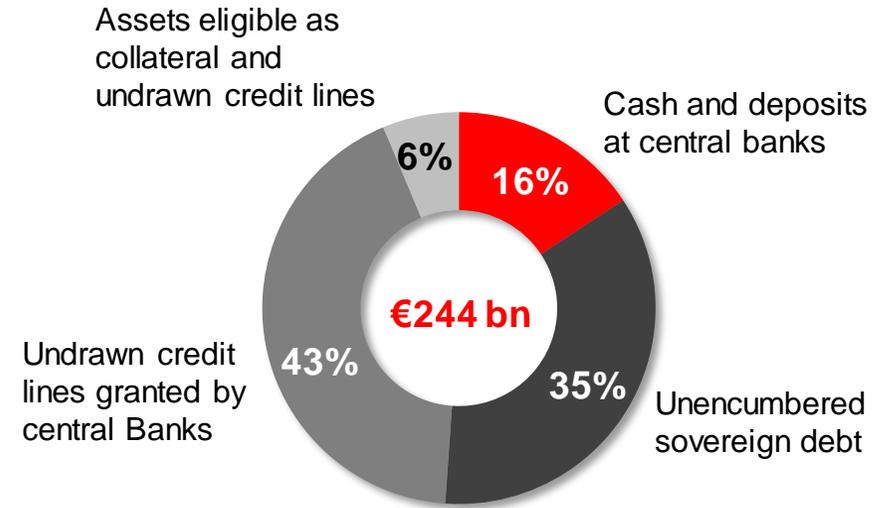


### Conservative liquidity metrics

#### Liquidity Coverage Ratio (LCR)



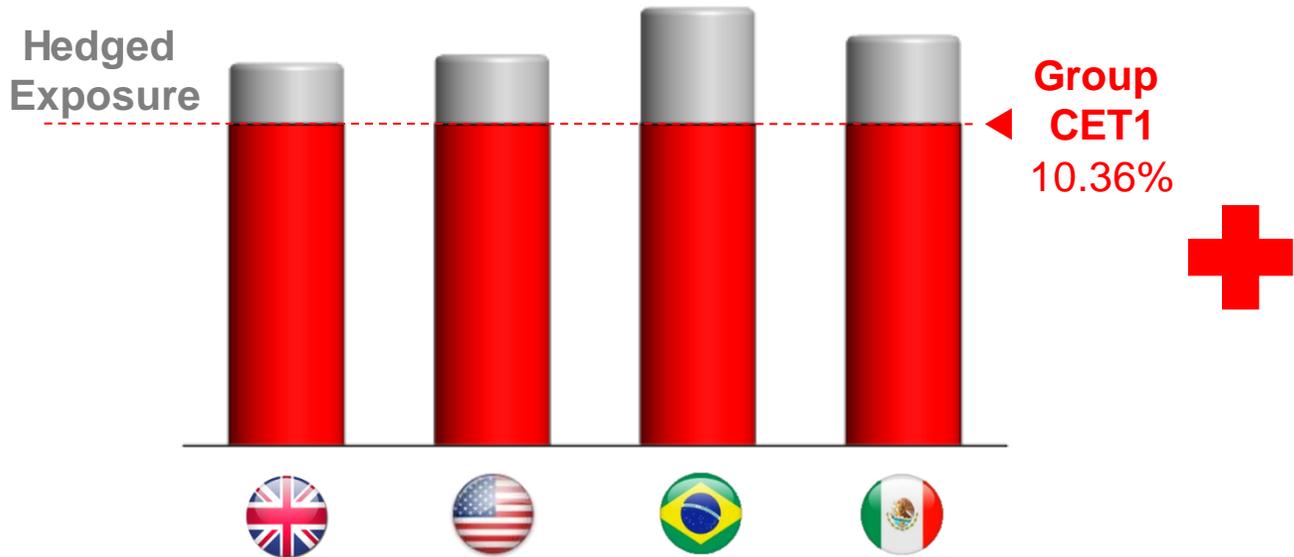
#### Liquidity reserve (net of haircuts)



Note: Liquidity balance sheet for management purposes (net of trading derivatives and interbank balances). Data as of Jun'16. Securitizations includes other collateralised MLT debt.

# 3 Cautious FX hedging policy on capital ratio and P&L...

## Stable capital ratio hedge



- Neutralises FX volatility in our FLB III ratio
- Based on Group regulatory capital and RWAs

## Tactical hedge on P&L

- Dynamic hedging of non-euro budgets
- Budget hedged on a yearly basis
- Reduced impact of FX volatility

**Corporate Centre assumes all hedging costs**

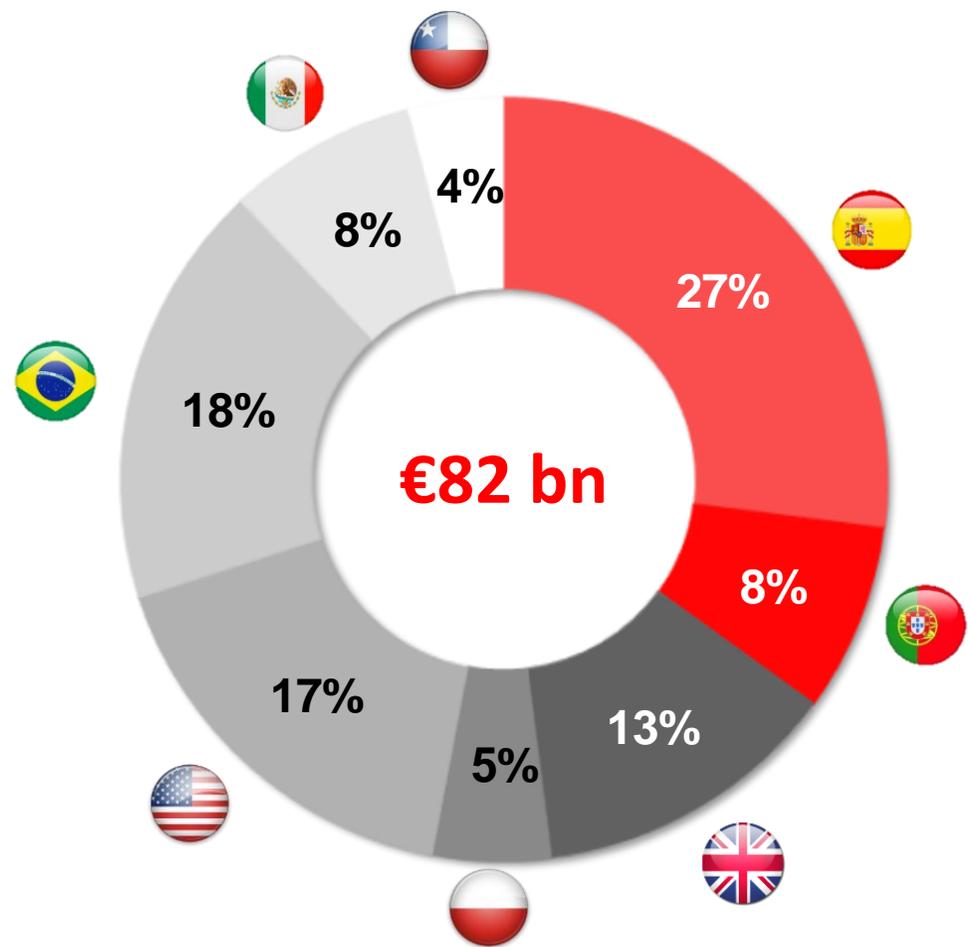
# 3 ...while managing rates risk to protect core deposits profitability

## Mostly positive interest rates sensitivity

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



## AFS portfolios reflect our geographical diversification



Data as of Jun'16

# 3

## Looking forward and key takeaways

# We are on plan to deliver our 2016 commitments

	2015	1H'2016	2016 commitments	
<b>FL CET1</b>	10.05%	10.36%	10.45%	✓
<b>Cost to income ratio</b>	47.6%	47.9%	Stable	✓
<b>Cost of risk</b>	1.25%	1.19%	Improve	✓
<b>DPS<sup>1</sup> (€)</b>	0.050	0.055	Increase	✓
<b>EPS (€)</b>	0.40	0.19 (1 <sup>st</sup> half)	Increase	✓

(1) 1<sup>st</sup> interim dividend charged to 2015-16 earnings

# 2018 Santander Group financial targets

	2015	1H'2016	2018
Cost to income ratio	47.6%	47.9%	45 - 47%
Cost of risk	1.25%	1.19%	1.2% <sup>2</sup>
RoTE <sup>1</sup>	11%	11.1%	>11%
FL CET1	10.05%	10.36%	>11%
Cash dividend Payout	38%	-	30%-40%

Increasing **EPS**, reaching **double digit growth by 2018**

(1) Underlying 2015 and 1H'16. RoTE 2018 target on a statutory basis (2) Average for 2015 – 2018

# Countries contributing to 2018 Group targets

		 Group				SCF						
<b>Growth</b> (loans CAGR)	2015	6%	5%	9%	-3%	21%	7%	19%	11%	52%	11%	26%
	1H'16	4%	3%	-2%	-2%	14%	4%	16%	8%	46%	12%	23%
	2018 Target	<b>Above peers</b>	<b>SD</b>	<b>SD</b>	<b>SD</b>	<b>SD</b>	<b>SD</b>	<b>DD</b>	<b>SD</b>	<b>DD</b>	<b>SD</b>	<b>SD</b>
<b>Operational excellence</b> (C/I ratio)	2015	48%	53%	40%	52%	45%	39%	41%	43%	56%	47%	49%
	1H'16	48%	53%	39%	53%	45%	40%	41%	42%	57%	44%	48%
	2018 Target	<b>45-47%</b>	<b>50-52%</b>	<b>37%</b>	<b>c.55%</b>	<b>c.42%</b>	<b>c.45%</b>	<b>37-39%</b>	<b>40-42%</b>	<b>48-49%</b>	<b>c.40%</b>	<b>c.45%</b>
<b>Risk management</b> (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%
	1H'16	4.3%	1.5%	6.1%	6.1%	3.0%	2.2%	3.0%	5.3%	1.4%	5.8%	10.5%
	2018 Target	<b>3%</b>	<b>&lt;2%</b>	<b>c.6%</b>	<b>&lt;4%</b>	<b>&lt;3.5%</b>	<b>&lt;2.5%</b>	<b>&lt;3%</b>	<b>&lt;5%</b>	<b>&lt;1.5%</b>	<b>&lt;5%</b>	<b>&lt;6%</b>
<b>Profitability</b> (RoTE)	2015	10.0%	12%	14%	10%	13%	7%	13%	16%	32%	13%	13%
	1H'16	10.5%	10%	14%	12%	15%	4%	14%	17%	32%	12%	15%
	2018 Target	<b>&gt;11%</b>	<b>8-10%</b>	<b>c.17%</b>	<b>c.13%</b>	<b>13-14%</b>	<b>c.4%</b>	<b>c.17%</b>	<b>c.17%</b>	<b>c.30%</b>	<b>c.14%</b>	<b>c.13%</b>

Note: Group criteria. Spain: management perimeter  
SD: Single Digit DD: Double Digit



Efficient and prudent **balance sheet management**: recurrent **capital** generation, conservative **liquidity and funding** model and **hedging** policies



A unique model that offers **best-in-class efficiency and RoTE** allowing us to **accumulate capital, pay growing dividends** and **finance profitable growth**



The differential advantages of our model, combined with execution as well as efficient and disciplined balance sheet management, support **predictable and sustainable shareholder value creation**





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