

José Antonio Álvarez,
Vice chairman and chief executive officer

"We are confident that our business model will allow us to continue to successfully navigate the global changes while seizing opportunities to create value for our stakeholders"

I'd like to begin by expressing my support and sympathy for all the families suffering as a result of this unprecedented pandemic.

The covid-19 pandemic has brought to the forefront something that was becoming evident, **the importance of digitalization in society**, in line with our customers' requirements. In Santander's case it has also highlighted the strength of our business model and its resilience and agility in adapting to change. As we look to the future, we are confident that our model will allow us to continue to successfully navigate the **changing global landscape** while seizing opportunities to create value for our stakeholders over the near and long term.

Our action plans respond to these two challenges, leaving us in a strong position to make further strides in our global strategy aimed at increasing profitability, prioritizing diversified growth (both by business and by region), improving efficiency and developing Environmental, Social and Governance (ESG) solutions. To do so, we must:

1) Develop our distribution model to boost growth

We have a three-pronged approach:

a) **Adapting channels** to new business trends under a hybrid model that prioritizes digital customer service, and combines it with the activity carried out by physical branches (especially in certain areas) which are well equipped to handle the more

complex operations and those that require greater advisory services from our professionals.

b) **Building a flexible workforce**, capable of adapting to new requirements, boosting talent and meritocracy. This involves training in new technologies, rotating teams between functions, embedding a flexible working culture and attracting young talent that identifies with new generations to make headway in the digital sphere.

c) **Reviewing and improving internal procedures** to make and execute decisions faster. We are automating low value-added processes and enhancing our teams' access to the resources they need to seamlessly connect outside of the office, as we have seen them do during the pandemic.

"We are adapting channels to new business trends, to make an execute decisions faster"

2) Simplify more products and services, tailored to each customer

We're further strengthening our relationship with customers by offering simpler products that meet their current and future needs. In 2020, we supported our individual and corporate customers boost their finances by providing liquidity, anticipating potential socio-economic changes and proactively recommending different investment and product strategies to better suit their risk and preferences amid the changing landscape.

What's more, we are ramping up our Corporate & Investment Banking and Wealth Management & Insurance businesses, where we have highly capital efficient growth opportunities, which will bolster our revenue streams and further improve customer service.

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3) Accelerate our technological transformation to contend with new competitors

The banking sector is highly competitive due to new entrants in the digital sphere (including the so-called Big Techs). We're certain that swift reactions and the implementation of our action plans will place us at the forefront of change.

a) Our **148 million customers** is a figure that sets us apart from our peers. We must offer customers better products than other tech competitors can to generate more stable, longer-lasting customer relationships. One great example that showcases the potential of our global scale is the combination of Openbank's platform and services with Santander Consumer Finance's (SCF) ability to capture customers.

b) We will continue to strengthen the **trust** of our stakeholders making use of our sectoral know-how and expertise, highlighting our contribution to society, particularly during this pandemic, in which banks have taken on a key role in providing households and businesses with liquidity and funding.

c) The Big Techs are mainly entering the sector in the **payments business**. We have not been left behind and we are transforming Santander Global Platform into PagoNxt, the company that will bring together our payments businesses to better compete with fintechs, large online platforms and other banks.

d) We are **investing** in growth opportunities that advance our **digitalization**, collaborating with or acquiring smaller, highly specialized fintechs. Our investments in Ebury and Mercury, coupled with the acquisition of technology-based assets from Wirecard, will fast track the growth of our world-class payment platform.

e) Finally, although strictly out of our scope, we will continue to advocate for **fairer regulation to level the regulatory playing field,** where the Big Techs are currently afforded more flexibility and fewer restrictions (such as data sharing regulations, which currently only force banks to let authorized third parties access customer data but does not allow the customer to benefit from the data stored by these other companies).

4) Aid the green transition and the fight against climate change

Grupo Santander has always had ambitious social responsibility plans. We believe in the importance of building a more responsible bank that responds to all our stakeholder's demands on ESG issues. We have set medium-term goals and commitments to fully embed inclusive and sustainable growth in services and management across our footprint.

One such initiative is our commitment to raise and mobilize EUR 220 billion by 2030 in green finance. To do this, we've created a team in Santander Corporate & Investment Banking that will focus on ESG propositions.

"We believe in the importance of building a more responsible bank that responds to all our stakeholder's demands on ESG sustainability issues"

In summary, we want to break new ground in banking and lead the transformation the sector needs. This will put us in a strong position to grow faster than our competitors but sustainably and profitably.

2020 strategy execution

Given the current difficult macroeconomic situation, only groups like Santander, that are highly diversified and capable of executing policies and strategies, have been able to successfully surmount the challenges it poses. **In 2020, we focused our efforts on six key areas**:

1) Business continuity.

Since the beginning of the pandemic we have, and will continue to, put our employees' health and safety first at all times, without taking an eye off our operations and quality of service.

Thanks to Grupo Santander's crisis management plans, we were able to swiftly activate procedures and protocols that were critical to ensuring our business continued to operate uninterrupted.

In February, we convened our top crisis committees to provide a global response in all geographies, with action plans to coordinate efforts. We involved all board chairpersons, country heads and global and local crisis committee members in these efforts.

"Every unit identified critical businesses and executed contingency plans"

Every unit identified critical businesses and executed contingency plans, segregating teams and technology infrastructure, and, among other initiatives, creating shift patterns for key employees and their stand-ins.

Our technology teams enhanced systems, while also providing the necessary equipment to accommodate remote working, which proved a great success.

We made sure our most strategically important suppliers had contingency plans in place as well.

2) Liquidity management.

Since the onset of the crisis, **we've carefully tracked** the parent and subsidiaries' **liquidity**, and we have taken measures to strengthen our buffers to respond to any potential hike in demand from our customers.

This helped us support our large corporate clients by extending over EUR 20 billion in credit in March, a time of colossal uncertainty. We also lent EUR 38 billion to individuals and businesses through state-backed programmes via 700,000 transactions.

We maintained high liquidity ratios throughout the year. In December, Grupo Santander's LCR ratio was 168%; the parent's was 175%; and it was above 120% at all our subsidiaries, all well above the minimum requirement.

3) Solvency management.

In 2020 we once again demonstrated our **ability to generate capital organically** (104 basis points), due to underlying profit and management of risk-weighted assets, which enabled us to end the year with CET1 ratio of 12.34%, above our 11-12% target.

Strength

CET 1 ratio
(Compared to 2019)
12.34% +69 bps

4) Revenue management.

We increased lending to counter the effects of the pandemic and very low interest rates – even lower this year – on economic activity and introduced initiatives to manage margins (especially funding costs), foreign exchange hedging and market volatility. This helped offset the drop in net fee income, due to reduced activity during lockdowns, and the payment holidays we gave to help our customers.

Revenue remained stable year-on-year (in constant euros), a sign of Grupo Santander's strength and geographic and business diversification.

5) Cost management.

Costs fell 2% in 2020, down in most units led by Spain, Poland, the UK and the US. Our cost saving measures in recent years, coupled with the steps we've taken since the outbreak of the pandemic, enabled us to reach the savings goals we set for Europe two years ago earlier than expected. Grupo Santander's efficiency ratio, at 47%, makes us one of the world's most efficient banks.

6) Risk management.

To mitigate the financial and economic impacts of the crisis, we called on teams to maintain our quality and strength, pinpointing the most vulnerable customers, groups and sectors. From there, we kept close watch on their situation and needs, analyzed scenarios to assess ramifications and bolstered our collections teams.

During the year, we supported our customers through 5 million payment holidays, of which more than 1.5 million operations were via of government programmes and over 3 million from Grupo Santander itself.

At year end, nearly 80% of payment holidays had expired, with strong credit risk performance.

2020 closed with our **cost of credit at 1.28%,** in line with the goal we announced in October. As a result, the credit loss allowance increased from EUR 20.4 billion in 2019 to EUR 24.3 billion at the end of 2020 (in constant euros). We believe the provisions we took in 2020 alongside our capacity to continue generating solid net operating income, stand us in good stead for what's to come in 2021.

By managing these areas, we generated underlying attributable profit of EUR 5,081 million for the year, a solid result in a challenging environment. While this represents a 38% drop against 2019 (or 29% in constant euros), it can be explained by the greater loan-loss provisions. Our revenue and cost management led to a 2% rise in net operating income year-on-year (in constant euros).

Results

(% var. vs 2019 on a constant currency basis)

Revenue
EUR 44,600 mn
+0.3%

Costs
EUR 20,967 mn
-2.0%

Net operating income
EUR 23,633 mn
+2.5%

"Underlying attributable profit of EUR 5,081 million for the year, a solid result in a challenging environment"

Profitability

2020 Underlying RoTE
(Compared to 2019)
7.44% -4.35 pp

We also revised the historical valuation of the goodwill ascribed to the group units (most notably the UK) by EUR 10.1 billion, as well as that of the deferred tax assets of the consolidated tax group in Spain, with a negative impact of EUR 2.5 billion.

Despite these substantial sums, there was no cash outlay or material impact on capital. These adjustments mirror the weaker macroeconomic outlook and the enduring, lower-than-expected interest rates. I must stress, however, that this does not alter the strategic importance of the markets in which we operate, and whose goodwill has been adjusted.

These revisions resulted in an accounting loss for 2020 of EUR 8,771 million.

To end the group summary with a nod to profitability, our underlying RoTE closed the year in 7.44%, up from the mid-year low of 5%. We have reiterated our medium-term underlying RoTE goal of 13-15%.

Progress in 2020 and goals for 2021

In **Europe** we continued to press on with our strategy to increase group-wide collaboration, supported by **One Santander**, which will initially focus on Europe, and is helping us to accelerate our business transformation in the region with streamlined products, operations and structures.

Underlying profit in Europe was EUR 2,656 million, clearly beset by the pandemic.

Starting in **Spain**, since the state of emergency came into effect, we have mobilized almost EUR 100 billion to households, sole traders and companies (EUR 31 billion backed by the Instituto Oficial de Crédito). Despite the complicated year, we still managed to improve slightly interest income and reduced operating costs by double-digit figures – the fruits of our updated distribution model in recent years –, and hope to continue the trend this year. We also reinforced our provisions levels anticipating potential NPL increases.

In the **UK**, despite the impact of the pandemic and the uncertainty associated with Brexit, we significantly increased lending volumes. New mortgages and business lending volumes were

strongly supported by government aid programmes. Results improved as the year went on, particularly underlying profit in Q3 and Q4, helped by the measures taken in relation to 1|2|3 account remuneration, volumes and the efficiencies achieved through transformation programmes.

In **Portugal**, we reinforced our leadership position in the country thanks to sustained business lending and mortgage growth. Nevertheless, as with the rest of our geographies, the crisis had a particular impact on provisions.

Things were a little tougher in **Poland,** where significant interest rate cuts and heightened regulatory pressures exacerbated an already challenging environment. Positive cost performance, successful implementation of our digital strategy and a strong increase in mobile transactions in the year offset some of these pressures.

Looking at **SCF**, it had an excellent year. We managed to gain significant market share given the 12% decline in new business due to lockdown measures were considerably better than the 24% slump in new vehicle registrations across Europe. Moreover, the second half of the year saw a return to pre-crisis new business levels in many countries.

To offset the dip in consumption, we launched revenue initiatives (focused on pricing and cost of funding) and maintained our disciplined cost and credit risk management. We achieved all this while helping our partners and customers to find immediate solutions to overcome the difficulties created by the general situation and strengthening their links with SCF.

In **2021**, our plan for **Europe** is to create a better bank that delivers sustainable shareholder value, working to leverage our global scale to open up growth opportunities and increase productivity.

Additionally, we are launching **Digital Consumer Bank** with the aim of creating a new global digital consumer finance business leveraging Santander Consumer Finance's strengths and Openbank's digital platform. In **2021**, we will focus on growth and transformation, through the simplification and redefinition of our distribution model, and IT optimization. We will work to strengthen our leadership position in the auto sector and consumer finance capabilities, and focus on executing the strategic deals struck in 2020 and accelerating the digitalization of the combined businesses.

Europe

(% var. vs 2019 on a constant currency basis)

Spain
Underlying profit
EUR 517 mn
-67.4%

United Kingdom
Underlying profit
EUR 530 mn
-50.2%

Portugal
Underlying profit
EUR 338 mn
-35.5%

Poland
Underlying profit
EUR 162 mn
-52.0%

SCF
Underlying profit
EUR 1,085 mn
-15.9%

North America

(% var. vs 2019 on a constant currency basis)

United States

Underlying profit

EUR 731 mn

+3.8%

Mexico

Underlying profit

EUR 762 mn

-9.3%

In **North America**, our joint initiatives are driving better coordination between units. In the US and Mexico, net operating income increased, with growth in loans and customer funds for combined earnings of EUR 1,492 million (down just 3% in constant euros).

In the **US**, the second half of the year witnessed a significant jump in underlying profit, thanks to strong net interest income, cost control, stable cost of credit and lower minority interests. Our auto, wholesale and private banking businesses performed particularly well in terms of customer revenue and are well positioned to benefit from the current market conjuncture. Underlying profit rose 4% in the year on a constant currency basis.

In **Mexico**, revenue was up 3%, with increases in all business lines despite the difficult backdrop. We continued to invest in technology to increase transactionality, multi-channel innovation and digital channels to add more weight to our products and services, leading to better loyalty and reaching 5 million digital customers. Furthermore, we posted a solid performance in terms of profitability, outperforming our peers' average.

In **2021**, we will step up execution of our strategy for **North America**, increase profitability and work towards achieving efficiency objectives by centralizing the technology function, removing duplication and optimizing costs.

In **South America**, our strategy was to seize business opportunities and boost regional growth via the sharing of positive experiences between units with a focus on revenue and cost synergies. This effort is reflected in increased activity and double-digit growth in lending and deposits.

The strong results in South America propelled the region as the main driver of Grupo Santander's top line, with higher revenue in all countries. In Brazil, this was spearheaded by greater volumes and revenue management; in Chile, by increased credit volumes and better funding costs; in Argentina, by net interest income; and in the Andean region, by new lending.

Also of note was the general boost to efficiency and improved net operating income (+5%). This positive performance and our ability to adapt to the new environment, enabled us to absorb the impact of covid-19 provisions and earn an underlying profit of EUR 2,927 million, down only 4% on 2019 in constant euros.

Brazil's economy performed better than expected despite the pandemic. Against this backdrop, Santander eclipsed its main competitors and maintained high profitability.

Retail lending in the second half of the year overtook pre-covid levels, leading to annual revenue growth and greater market shares in customer funds, loans to individuals and, in particular, to corporates. Moreover, we reached our best customer satisfaction levels, as measured by the Net Promoter Score (NPS).

In **Chile**, we held on to our position as the country's leading privately-owned bank in assets and customers. Our continued focus on online banking and better customer service resulted in record new account openings and the top spot in NPS.

In **Argentina**, we continued to develop an open financial services platform through Getnet, launched Consumer Finance and had Openbank's licence approved. We maintained a high liquidity ratio in dollars and pesos, as well as seeing better results on the back of robust revenue management and a boost in returns.

Uruguay, Peru and Colombia increased profits, thanks to the strong performance of their main revenue streams and significant growth in lending and improved efficiency, due to the digital transformation.

In **2021**, our plan for **South America** is to carry on projects that foster interaction across the region in pursuit of more profitable growth. We will export prosperous initiatives to other countries, like Brazil's consumer and vehicle financing platform; develop inclusive and sustainable businesses like Prospera, which landed in Peru and is already thriving in Brazil and Uruguay; and make ground in developing joint propositions between CIB and companies to enhance relationships with multinationals. Moreover, let's not forget our digital transformation and product and service innovation to improve customer service and drive continued strong growth in loyal customers.

South America

(% var. vs 2019 on a constant currency basis)

Brazil

Underlying profit

EUR 2,113 mn

-5.2%

Chile

Underlying profit

EUR 432 mn

-21.2%

Argentina

Underlying profit

EUR 179 mn

+91.1%

Global segments

(% var. vs 2019 on a constant currency basis)

CIB

Underlying profit

EUR 1,823 mn

+22.7%

WM&I

Underlying profit

EUR 868 mn

+2.3%

As for our global segments, **Corporate & Investment Banking** had a fantastic year generating double-digit revenue growth and a gain in market share in a year marked by the pandemic. We have focused on accompanying and maintaining support for our customers through tailor-made solutions during the difficult environment. We ensured prudent cost control and kept a lid on provisions which, despite the need to increase them in the pandemic, continued to have a minimal impact on revenue.

In **2021**, we will continue on our path to becoming our customers' strategic advisors, broadening our product and value-added service range and accelerating the digitalization of our business in a robust control environment. We will continue to develop a powerful platform for projects that meet ESG criteria, and accompany our customers as they transition to more sustainable business models. In Europe, we want to create a regional platform to become one of the leading wholesale banks in the region, while strengthening our leadership position in South America and accelerating growth in the US.

WM&I rounded off a stronger value proposition in Private Banking and Santander Asset Management. In Insurance, the focus was on expanding non-credit-related business, where fee income increased 9%, and distribution through digital channels. Despite current challenges, plus the downturn in the most turbulent months of the pandemic, we more or less matched 2019 results, and taking into account the total fees generated, WM&I's contribution to Grupo Santander's profit exceeded EUR 2 billion.

In **2021**, we will continue to develop our global synergistic model in Private Banking, driving digitalization and developing our **Private Wealth** business by focusing on product innovation and our alternative offerings of **Future Wealth** and **ESG**. Santander Asset Management is creating hubs in Latin America and Europe and developing new platforms such as Santander Go, which already manages more than EUR 2 billion of assets. In Insurance, we will continue to increase client penetration, gain business in vehicles and SMEs, and digitalize channels.

Lastly, we announced the creation of **PagoNxt**, where we will combine our payments businesses into an autonomous company, providing global technological solutions for our banks and new open market customers.

In **2021**, PagoNxt will develop its product offering and global platforms: **Getnet** will be rolled out into additional countries in Latin America and Europe; our **One Trade** platform will be further developed to serve additional customers covering our entire footprint; **Superdigital** will continue to promote financial inclusion and **PagoFX** will continue to improve its simple, low cost and secure international payment solution.

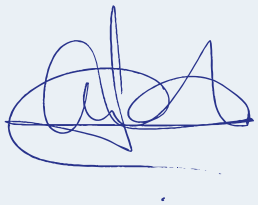
Close

When I sat down 12 months ago to write last year's letter, picturing the year ahead, I couldn't have begun to imagine how different and unforgettable 2020 would turn out to be. If, like others before it, this crisis has taught us anything, it is to always be prepared for contingencies, instability and change, given the unpredictability that the economy, markets and life throw at us (sometimes more often than we'd like).

I feel prouder than ever of our teams' efforts in these testing times. Therefore, I'd like to end this letter by dedicating a few words to each and every Santander employee: None of this would have been possible without your perseverance, hard work, flexibility and, above all, commitment to our customers and our communities. Thank you.

While there's still so much to do in 2021, **we know where we're heading and what we want get to achieve, which once again demonstrates our determination to safeguard the needs and interests of our shareholders, people, companies and institutions**.

Dearest shareholders, thank you for your trust, your support and for being a part of Grupo Santander.



José Antonio Álvarez,
Vice chairman and chief executive officer