English

AGM – EXECUTIVE CHAIR'S SPEECH

1. WELCOME AND INTRODUCTION

Shareholders, good afternoon and thank you for attending this general meeting.

We are meeting at our headquarters in Boadilla del Monte to minimize the health risks associated with the movement of our teams and our shareholders to Cantabria. We hope we can all return to Santander soon.

I would like to begin by saying that we stand with the Ukrainian people in this horrific humanitarian tragedy, and by remembering all those who have suffered the loss of friends and family, and all those who have had to leave their homes.

Now is the time to help. Once again, as we have done during the last two years of the health crisis, Santander and our teams, whom I want to thank for their continued commitment and hard work, are supporting people and businesses in the most difficult of times. I am especially proud of the Poland-Spain refugee corridor we have organized, in collaboration with the Spanish government, that has allowed 180 people to safely reach Spain, and the provision of the Solaruco Building in our Boadilla headquarters to temporarily accommodate Ukrainian children suffering from cancer-related diseases and their families.

2. UKRAINE AND ITS IMPACT

We are seeing Europe at its best, as we did during the pandemic. Once again, we see that when Europe acts together it works better. With a common purpose, policies are approved quickly and have a decisive impact. We have gone from words to deeds in Europe and citizens can see it.

The response to the Ukrainian crisis is a strong example of this unity and agility.

Let me set out the impact of this invasion on Santander, and the wider impact it may have on the markets in which we operate. But let me preface this by saying our analysis assumes there is no further escalation, and that the invasion is contained within Ukraine.

Santander has a negligible direct credit exposure (and there are no other direct risks) to Russia and Ukraine of 80 million euros. We have taken the necessary steps to comply with all the financial restrictions and sanctions imposed on Russia by the European Union, the United Kingdom, and the United States; and we will continue to observe these requisites as the situation develops.

However, we have already seen some of the indirect impact that the invasion can have: higher inflation, lower economic growth, especially in Europe, and impacts that go beyond the rise in energy prices. So, to reduce EU's dependence on Russian oil and gas, among other initiatives, financial institutions must be able to finance the energy transition, and to this end, the authorities must define as soon as possible what lending is deemed consistent with our net zero goals.

First, the pandemic and most recently the invasion of Ukraine, have made us realise the importance of reducing EU and Spain´s dependence in strategic sectors.

Russia is also a major producer of aluminium, nickel and palladium. Supply disruptions could have a considerable negative impact on the auto and the energy crisis in the medium term.

Also, Russia and Ukraine are major agriculture and fertilizer exporters - so, the war will be felt across food markets and result in higher agricultural commodity prices.

A significant rise in inflation will affect all economies. Central Banks are having to factor in higher inflation when setting their monetary policies, while responding to the risk of lower economic growth.

This is definitely not an easy task, and it is one in which fiscal policies will be even more important if we are to control of the imbalances created by the crisis.

The medium-term scenario will depend on the length of the invasion, its depth and the policies adopted to mitigate the impact. However, our central scenario is one of growth, although at a slower rate than was expected at the beginning of the year. The economic consensus would imply lower growth than previously expected in Europe (of some 1-1.5p.p less in GDP growth), a smaller impact in US Growth (with GDP growing 0.25-0.5p.p less) and a neutral to positive impact in Latin American economies.

The different impact of the crisis on our markets is important to stress.

- In Europe, the most affected region, public policy should focus not only on mitigating the negative effects on families and companies, but also relentlessly on sustainable growth and competitiveness. We must make as soon as possible the most of the European funds and promote investment and finance companies' growth through a stronger and deeper European capital market and a genuinely integrated European banking system.
- In Spain, it is essential to protect companies and families, especially SMEs and the most vulnerable, from the impact of this invasion and generate confidence to boost private investment, a key driver of growth and job creation, with the support of European funds.
- The US economy will be less affected by the war and is expected to grow above trend in the next few years despite a less accommodating monetary policy. The US will continue to be the largest financial services market in the world, with very attractive risk-adjusted returns compared to other developed economies.
- Our key Latin American markets are well positioned for upward cycles in the price of raw materials, energy, and food. And these markets have demonstrated to be resilient enough to weather international policy changes: Latin America external accounts and reserves are better positioned than in the past. In Brazil, less than 2% of the trade flow comes from Russia and Ukraine, and exports of energy and food will result in a significant trade surplus.

This highlights once again that our business model, based on customer focus, scale and especially diversification, makes us more resilient in times of crisis compared to our peers.

Diversification has proved to be a key competitive advantage during the 2008 financial crisis, the 2011 sovereign debt crisis, and the impact of the COVID pandemic, and explains why Santander has always performed among the best banks in Europe in the ECB stress tests. Diversification increases the resilience of our earnings relative to our peers. Furthermore, our earning per share (EPS) has had the lowest volatility compared to our peers in the last 20 years.

3. OPERATIONAL PERFORMANCE: 2021 AND PROGRESS TOWARDS OUR 2022 TARGETS

So, we are well positioned to face these challenges ahead – especially in view of our work over the last seven years, during which we have strengthened the bank's foundations, enabling us to achieve great results in 2021.

Since 2014 we have increased our number of customers by 31% to 153 million at the end of 2021, with 5 million new customers added last year. That growth was well balanced across regions and businesses and reflects the strong demand we have generated for our products and services.

Since 2014 revenues have increased 35% (in constant EUR), our return on tangible equity (RoTE) has improved from 10.95% to 12.7%.

In December 2021, our fully loaded CET1 capital ratio was 12.12%. That is an increase of more than 380 basis points (bps) since 2014. In absolute terms, we have increased our total capital by €34.7 billion over the period.

Our consistent growth and profitability improvements resulted in 2021 earnings per share (EPS) Year-on-Year growth of 79%; and tangible net asset value (TNAV) per share and cash dividend per share (DPS) growth of 11%. Going forward, these financial metrics will continue to be our priority.

In the first quarter of 2022, the commercial activity has remained strong with revenues in line with the last quarter and new lending returning to pre-pandemic levels, increasing by an estimated 8% year-on-year. Furthermore, efficiency and cost of credit remained in line with the plan, and with our underlying RoTE above 13% and fully loaded CET 1 at 12% in the first quarter, in line with our annual targets.

Going forward, our focus will be on WHERE and HOW we can deliver Growth, Profitability and financial Strength. Our strong capital discipline will remain key to continue growing revenues, improving profitability and creating shareholder value.

Our team, business model and unique diversification provide a resilient foundation for growth.

As a result, based on current economic consensus, we are confident of achieving the 2022 financial targets we announced in February, maintaining high profitability in the Americas, while seeing improved profitability in Europe.

- Grow total revenue by mid-single digit.
- Improve our cost-to-income ratio by one percentage point to 45%.
- Deliver a RoTE above 13%.
- Having achieved a 12% CET1 FL capital ratio, we intend to maintain 12% throughout 2022.
- We expect to generate EPS, TNAV and dividend per share growth, leading to shareholder distributions of 40% of underlying profit, with share buybacks continuing to be part of our shareholder remuneration.

In the medium-term, we aim to deliver a RoTE of approximately 15% and an efficiency ratio of around 40%, while maintaining a CET1 fully loaded capital ratio of 12%.

4. OUR STRATEGY

As we look ahead, our strategy is clear:

- We aim to be the best open financial services platform, by acting responsibly and earning the lasting loyalty of our people, customers, shareholders, and communities.
- Our purpose is to help people and businesses prosper.
- We strive to make everything we do Simple, Personal, and Fair.

At the heart of our strategy lies the Customer. That customer focus, combined with our scale and geographic and business diversification, are the foundations for generating value for our shareholders.

As I mentioned before, one of the Group's advantages is its diversification, thanks to which our EPS has had the lowest volatility compared to our peers in the last 20 years.

We aim to create value for our shareholders by focusing on efficient and profitable growth through a dynamic capital allocation discipline, maintaining a rock-solid balance sheet underpinned by a CET1 fully-loaded ratio of 12% and prudent risk management across all our businesses.

Given this strategy, as we look to the Santander of the future, one can see significant potential for further growth. We are one of the largest banks in the world in terms of the numbers of customers we serve, and this creates opportunities that only a few banks can replicate.

The questions now are: How do we leverage our scale and scope to continue with this profitable growth? Can we work together in our markets to better serve customers, and more efficiently? And can we use the Group’s technology to build common platforms, especially for individuals and SME’s, in high growth market areas such as payments, that not only serve our own businesses, but also third parties?

The answer to these questions is "Yes", and the reason is the three strategic initiatives we launched in 2020: One Santander, PagoNxt and Digital Consumer Bank. Together, they drive results today, and will generate future profitability and growth.

One Santander will increase connectivity within our group by building common platforms and shared services, such as our Latin America consumer finance business, our European operating hubs supporting our 46 million customers, and our global businesses. Connectivity will also be possible through PagoNxt´s payments technology, which will be backbone of all of our banks. This will result in an improved customer experience as we simplify products and services, as well as greater efficiency and productivity and, therefore, greater profitability.

In North America, we are refocusing our US retail business on our market leading consumer finance franchise both in consumers and auto finance, leveraging OEM's relationship and Group technology assets, we will continue to grow in businesses that can also benefit from the Group´s connectivity or have a distinct competitive advantage primarily our Commercial, Corporate and Investment Banking and private banking activities.

In South America, we have become the most profitable bank in Brazil and continued to gain profitable market share. We have maintained our leadership positions in Argentina, Chile, and Uruguay. Stronger local currencies will translate in even higher value creation in euros.

PagoNxt, our global payments business, is a critical component of our strategy, as payments are at the heart of our customers' banking relationships, especially in the digital world. PagoNxt is the common tech backbone that will unite the payments for all Santander customers and open market. It combines Payments Hub, where we expect to have over 30% of all Group payments and serve several customers in the open market in 2022/2023, besides the merchant acquiring, and the international trade businesses. In 2022, we expect to grow PagoNxt revenues by 50% and, over time will generate significant returns. We expect PagoNxt to be profitable this year.

Digital Consumer Bank combines our auto and consumer businesses, and leverages Openbank's technology to accelerate the technological transformation of our Auto and Consumer Finance business bringing both to the next level in customer service, growth, and profitability.

Our auto business has global scale, making us one of the largest in the world. This allows us to offer coordinated relationships and agreements with global manufacturers (OEMs), providing a financing model and technology integration points in over 30 countries, and the benefits of global customer data information for risk management and competitive lending.

For 2022, we expect to grow our customer base at double digit.

In summary, core to our strategy is the digital transformation we are undertaking through One Santander, PagoNxt, and DCB. In 2021 we invested €2 billion to transform the business, of which €1.4 billion in the tech transformation of One Santander, and €600 million in PagoNxt and Digital Consumer Bank’s systems.

The return on these investments have produced evident returns: cost to income of 46%, one of the best in the industry, and digital transactions have risen from 55% to 76% in two years. These investments have also delivered significant benefits in terms accelerated time-to-market.

5. DELIVERING PROFITABLE GROWTH IN A RESPONSIBLE WAY

As a responsible bank, our approach to ESG issues is central to our strategy. Ramiro Mato will give more detail shortly but here are some highlights.

The invasion of Ukraine has underlined the need to change energy policies around the world and clarify appropriate timelines for the transition of business and sectors, and to accelerate investments in renewables, so we can help people to go green and businesses to make the necessary transition. This transition will be more challenging for emerging economies, SMEs and vulnerable groups. Incentives will be necessary, therefore, to support a fair, and orderly transition. In 2021 we committed to be net zero carbon by 2050. We have originated 66 billion euros in green finance since 2019 and we are the preeminent global bank in renewable energy. Since 2020 we are already carbon neutral in our own operations.

Turning to the S, our support for Society – we have made progress on our goal to financially empower 10 million individuals by 2025 reaching more than 7 million people since 2019, as well as allocating over 550 million euros to microfinance last year. In 2021, we were recognised as Best Bank in the world for Financial Inclusion by Euromoney.

Finally, robust Governance is key to ensuring we do things the right way.

The continued improvements to our corporate governance this year have focused on consolidating the strategy, accelerating the digital transformation, and improving operational execution through increased connectivity across the Group. With this in mind, the roles of our key executives, including my own and the CEO's, have been better documented and clarified, while reviewing the checks and balances and preserving the full independence of control functions.

In order to contribute to these objectives and to improve the functioning of our governing bodies while adapting them to recent legislative developments, certain amendments to the by-laws and the Shareholders Meeting Regulation are proposed to this AGM and have also been introduced into the Rules and Regulations of the Board of Directors, as the General Secretary will explain.

The ongoing process improvement of governance also encompasses the Board composition. We have an outstanding Board, both in terms of independence - two thirds of directors are independent - and in terms of diversity, with 40% of the board being women, and our directors coming from multiple geographies and professions. This composition, which allows the Group to address the transformation necessary to meet the challenges we face, will be reinforced by the addition of Germán de la Fuente, who will replace Álvaro de Souza. I would like to thank Álvaro for his great contribution to Santander as both the Group Director and the Chairman of Santander Brazil.

At the heart of our success as a company is our team. This is why I am extremely proud that Santander is the only bank among the world's top 25 best workplaces, according to Great Place to Work. Our number 1 ranking among Global Banks and number 2 among Global companies in Bloomberg's Gender Equality Index, is a great testament to our commitment to diversity and inclusion.

It is also a well-deserved recognition of the team's efforts that the Dow Jones Sustainability Index (DJSI) once again ranked the company as one of the world's most sustainable banks in 2021, while our ranking has improved in other indices, notably the MSCI and Carbon Disclosure Project (CDP).

6. SHAREHOLDER REMUNERATION

Going forward, while focusing on our three strategic initiatives as the key drivers of growth and profitability improvement, we will take an even more demanding approach to capital management.

We are committed to investing in growth opportunities when there is a clear path to meet returns that exceed our cost of equity through the cycle and to freeing up capital from areas that do not meet our return targets. We aim to reduce the proportion of portfolios that do not meet the cost of capital by a third in 2022.

This intense focus on capital management discipline will ensure that we continue improving our profitability.

As in 2021, shareholder remuneration will remain at the forefront of our objectives, aiming to grow TNAV per share and dividend per share above our cost of capital.

2021 was the first time we have undertaken a share buyback, a form of shareholder remuneration by which the company buys its own shares which are then cancelled, reducing the total number of shares outstanding. As the number of outstanding shares decreases, the economic rights of each share increases, thereby increasing the value of each share, as it represents a bigger portion of Santander, of its profits, dividends and assets.

When we buy our shares at prices below tangible book value, as was the case, we are investing our capital well above our cost of equity. We are convinced that investing in Santander shares at current prices is one of the best investment opportunities that we have.

Within our 4 million shareholders, we have a large and diverse group of investors, who have different preferences in terms of shareholder remuneration, and to respond to all of them, we have decided to combine both cash dividends and share buybacks.

In line with the 2021 remuneration policy, today we submit for your approval a cash dividend of 5.15-euro cents per share, payable from 2 May 2022 as part of a final distribution from 2021 earnings. This is complemented with a second share buyback, already initiated, worth €865 million.

In the fourth quarter of 2021, Santander paid an initial cash dividend against 2021 results of 4.85-euro cents per share and completed a buyback of approximately €841million. Accordingly, the total capital distributed to shareholders against 2021 results would be approximately €3.4 billion, representing an equivalent yield of 7%.

In 2022, we expect to remunerate our shareholders with a payout of 40% of underlying profit, with share buybacks representing around half of this amount.

Beyond 2022, we aim to increase total shareholder remuneration above 40%, of which around half will be through share buybacks and a growing cash dividend, while maintaining CET1 fully loaded at 12%.

7. CLOSING

For over 150 years, customers around the world have made Santander their bank of choice, and Santander, through many periods of disruption and uncertainty has been there for its customers, for ALL its customers.

Today, a new generation is looking for a different way to manage their finances. Once again, Santander will be there for them.

Santander is investing heavily for the future: building the right culture that will continue to attract a talented, committed and even more diverse team, whilst using all its experience of many years to ensure we remain at the cutting edge of the new financial services world.

As our results show, we are successfully launching new products and services, playing an important role for good in our communities and growing our customer base. Our shareholders will directly benefit from our success.

That success is, in the end, delivered by our great team. My appreciation and thanks go to our Board Directors for their continuing support, advice, and guidance. A big thank you to each member of the Santander team worldwide for all they have done and continue to do and for going the extra mile to help people and businesses prosper, each and every day, especially in these difficult times.

Our success strengthens my conviction and confidence about what we can do together in the future.

And, as I look ahead, I sincerely hope that peace in Ukraine can be restored, and democracy and freedom can continue to flourish in Europe. From this tragedy, a stronger, more united, and more prosperous Europe will emerge.

As I do every year, I want to thank you once again for your trust in Banco Santander.

Thank you.