Speech by Mr. José Antonio Álvarez, the Chief Executive Officer

Shareholders, ladies and gentlemen,

Good morning and many thanks for following us at this Annual General Meeting.

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

I would also like to thank our **shareholders** for their trust in Santander, especially in a year marked by such a challenging environment. In this context, the strength of our balance sheet, our diversification and the execution of our strategy enabled us to meet customers' needs, increase net operating income by 2% (in constant euros) and improve our solvency and liquidity positions.

None of this would have been possible without the perseverance of the **professionals** who work for Grupo Santander. Their commitment and hard work have been key to maintaining customer relationships as well as high levels of customer service.

I will focus my comments on:

1) The execution of our strategy in 2020 and
2) our performance by region, country and global business.
3) Our response to the global challenges ahead and management priorities for 2021.

1. Execution of our strategy_2020

We were able to successfully surmount the challenges posed in 2020 by **focusing our efforts on six key areas**:

1) First, **business continuity**. Since the beginning of the **pandemic we have put our employees' health and safety first**, without taking an eye off our operations and quality of service.

   Thanks to our **crisis management protocols**, we were able to swiftly activate **procedures** back in in February 2020 that enabled our business to operate uninterrupted.

   We convened our **top crisis committees** to provide a global response in all geographies, every unit **identified critical businesses** and our technology teams **enhanced systems**, while also providing the necessary equipment to accommodate remote working.

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

2) The second key area was **liquidity management**. Since the onset of the crisis, we have taken measures to **strengthen our liquidity position**, 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 continued to support individuals and businesses through the usual funding procedures and channelled more than EUR 38 billion through state-backed programmes.

   We maintained **liquidity ratios** well above the minimum requirement (100%); the Group's **LCR** was around **170%** and it was above 120% at all our subsidiaries.

3) **With regards to 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. This enabled us to end the year with a CET1 ratio of 12.34%, above our 11-12% target.

4) **Revenue management** was also one of our key priorities. **The initiatives we introduced to manage margins**, together with **broad-based lending and deposit growth** enabled us to offset reduced activity during lockdowns, the impact of lower interest rates and the drop in net fee income from regulatory impacts and the support measures set up to help our customers.

   As a result, **revenue remained stable year-on-year** (in constant euros). But given the nature of the year's events, our revenue performance was not linear. The first six months of the year saw a sharp decline, followed by **a strong rebound in the second half of the year**. Thus, in the fourth quarter revenue was the highest of the last two years (in constant euros), driven by Spain, the UK and South America.

5) Moving to **costs**, they **fell 2%** in 2020, down in most units. 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.

6) Lastly, with regards to **risk management**, **we called on teams** to maintain our quality and strength, pinpointing the most vulnerable customers and sectors. From there, we kept close watch on their situation and needs and carried out payment holidays programmes in all countries, whose outcome was already explained by the Chairman.

   We recorded higher provisions this year, primarily to cover expected credit losses arising from the crisis. **Underlying credit quality remained solid** in the year:

   a. We closed 2020 with **our cost of credit** at 1.28%, higher than 2019, but lower than expected at the beginning of the crisis.
   b. Our **credit loss allowance** increased EUR 4 billion in the year in constant euros to more than EUR 24 billion.
   c. As a result, our **coverage ratio** rose from 68% to 76%.

   We believe the provisions we took in 2020, most of which remained in the credit loss allowance by year-end, alongside our capacity to continue generating solid net operating income, **position us well** for what's to come in 2021 and will enable us to decrease the cost of risk in the year, although we do not expect it to reach normalized levels until 2022.

By managing these areas, we generated **underlying attributable profit of more than EUR 5,000 million** for the year, a solid result in an extreme environment.

Additionally, as a result of the weaker macroeconomic outlook and the enduring, lower-than-expected interest rates, we revised the historical **valuation** of **goodwill** ascribed to the group units as well as that of **deferred tax assets** in Spain, which led to a total negative impact of EUR 12.6 billion.

Importantly, there was **no cash outlay and these revisions had no material impact on capital**.

This resulted in an **accounting loss for 2020 of EUR 8,771 million**.

To end the group summary, our **underlying RoTE closed the year at 7.44%**, up from the mid-year low of 5%. We have reiterated our **medium-term underlying RoTE goal of 13-15%.**

2. Performance by region, country and global business in 2020

Our business and geographic **diversification** allowed us to partly lessen and slow down the negative impacts arising from the pandemic, by leveraging early learnings and sharing best practices across countries.

In **Europe**, underlying **attributable profit** was **EUR 2,656 million**.

Starting in **Spain**, we focused on providing liquidity to households, sole traders and companies, while managing to slightly improve interest income, and reduce operating costs by 10% – the fruits of our updated distribution model and improved efficiency in recent years. 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 on the back of new mortgages and business lending volumes.

Results improved as the year went on, particularly in Q3 and Q4, helped by liability repricing measures, higher volumes and the efficiencies achieved through transformation programmes.

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

Things were a little tougher in **Poland**, where 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 as, for example, the 12% decline in our new business levels (due to lockdown measures) was considerably better compared to 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 pricing and cost of funding initiatives and maintained our disciplined cost and credit risk management.

North America's **underlying profit**, reached **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. 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. This, together with cost control, stable cost of credit and lower minority interests enabled us to increase underlying profit by 4% in the year in constant euros.

In **Mexico**, of note was the positive performance in revenue, with increases in all business lines. We continued to invest in technology and digital channels, leading to better loyalty and reaching 5 million digital customers. Furthermore, we posted solid performance in terms of profitability, outperforming our peers' average.

Moving to **South America**, its strong results propelled the region as the main driver of Grupo Santander's top line, with 5% growth in revenue and net operating income, which enabled us to earn an **underlying profit of almost EUR 3 billion**, down 4% on 2019 in constant euros.

Brazil's economy performed better than expected. Against this backdrop, retail lending in the second half of the year overtook pre-covid levels, leading to greater market share and higher revenue. Moreover, Santander eclipsed its main competitors and maintained high profitability, as profit amounted to EUR 2,113 million.

In **Chile**, we held on to our position as the country's leading privately-owned bank in assets and customers and focused on improving customer service, which resulted in record new account openings and the top spot in NPS.

In **Argentina**, we launched Gtnet, Consumer Finance and received approval for Openbank's licence. We maintained a high liquidity ratio in dollars and pesos, as well as delivered significantly better results on the back of robust revenue management.

Lastly, **Uruguay, Peru and Colombia's** combined earnings amounted to EUR 206 million, after increasing 8%, 19% and 40% respectively, thanks to the strong performance of revenue as well as improved efficiency.

As for our **global businesses**:

Corporate & Investment Banking had a fantastic year, increasing underlying profit 23% and gaining market share. In 2020, we supported our customers through tailor-made solutions, while ensuring prudent cost control and keeping a lid on provisions, which had a minimal impact on revenue.

WM&I also improved 2019 results in constant euros, and its contribution to Grupo Santander's profit, including fees ceded, exceeded EUR 2 billion.

We are ramping up both businesses, where we have growth opportunities with very attractive returns.

3. Our response to the current global challenges and 2021 management priorities

The covid-19 pandemic has accelerated **digitalization in society** and triggered a **changing global landscape** not only in the banking sector and business more broadly, but in our daily lives as well, transforming the way we communicate, our consumption habits and how we move around.

As we look to the future, our **action plans** respond to these **trends**, leaving us in a strong position to make further strides in our global strategy aimed at generating sustained growth, improving efficiency, increasing profitability, and developing Environmental, Social and Governance (ESG) solutions.

In order to achieve our strategic objectives, we must**:**

First, 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, which are well equipped to handle operations that require greater advisory services from our professionals.

   For example, in **Spain**, we are going to reorganize our network in a smaller number of branches to drive efficiency and progress in the implementation of new larger branches with greater functionalities. We will also continue serving our customers through our network of c.1,000 agents and delivering financial services throughout Spain in more than 4,500 post offices thanks to our agreement with Correos, mainly in the country's rural areas.

b. <u>Second,</u> boosting talent, meritocracy and a **flexible workforce**, capable of adapting to new requirements. We believe it is essential to attract young talent, for which we are onboarding new professional profiles that will enable us to progress in our digital transformation.

c. <u>Third</u>**, reviewing and improving internal procedures** to make and execute decisions faster and improve efficiency. In line with this strategy, one of our medium-term goals is to substantially **reduce transactions costs**.

Second, continue to strengthen our relationship with customers

Improve customer experience is a priority. To do so, our main differentiating element is to offer simpler products and services that meet their current and future needs.

That's why we seek to be leaders in service quality in all our markets, which will lead to deeper and longer-lasting relationships.

As a result, we will not only **improve customer service,** but also **bolster our revenue streams.**

Third, accelerate our technological transformation.

The banking sector is highly competitive due to **new entrants in the digital sphere**. We're certain that **swift reactions and the implementation of our action plans** will place us at the forefront of change.

a. We are **leveraging our strengths**: our **broad customer base** gives us a greater growth potential regarding our peers.

b. We are **strengthening our** position in the **payments business** with **PagoNxt**, and we are investing in growth opportunities by **collaborating with or acquiring fintechs** that will allow us to make faster progress in our digitalization.

c. Finally, we will continue to advocate for fairer regulation **to level the regulatory playing field** for banks and BigTech.

Lastly, we will continue to aid the green transition and the fight against climate change.

In order to meet our commitment to be a more responsible bank and help society address global challenges, we are incorporating social and environmental surrounding decision making criteria in our day-to-day management. We have set **medium-term goals and commitments**¸ which the Chairman has already mentioned.

We want to break new ground in banking with these measures and lead the transformation the sector needs and grow faster than our competitors, sustainably and profitably.

4. 2021 outlook and trends

To close, I would like to **briefly comment** on how we plan to **execute our management priorities for 2021** in each **region and business**:

In **Europe** we are accelerating the transformation of our operating model to deliver sustainable shareholder value through new growth paths and increased productivity. We have concrete plans to develop regional products around three areas: **Homes** (housing-related products and services), **Cards & Unsecured Personal Loans** (for the consumer finance business) and **Everyday Banking** (which includes day-to-day core services and accounts).

We are also developing common digital initiatives across the region. For example, our app in Spain will be launched in Portugal and Poland in 2021.

As a result, our goal is to grow digital customers by around 10% in the year, increase revenue, continue to reduce costs and improve efficiency to close to 50%.

By country: in **Spain**, we expect higher profit backed by revenue growth, an additional 5% or more reduction in costs and, despite lingering uncertainties, cost of risk improvement.

We aim to continue to improve customer margins in **the UK**, which should drive revenue growth between 5%-10%. We also expect a cost reduction similar to 2020 and lower provisions, which will lead to significant profit growth in the year.

Additionally, we are launching **Digital Consumer Bank**. The chairman has already explained our medium-term goals. In 2021, we will work to strengthen our leadership position in the auto sector and add more weight to the consumer finance business. To this end, our goal is to increase new lending by 10%-20% in the year, leveraging Openbank's technological capabilities.

In **North America**, we will progress on our regional collaboration, both in revenue (via the development of the USMX trade corridor) and costs, consolidating regional IT under a single leadership and further reducing duplications in the operating model.

We are strengthening Getnet in **Mexico**, where our goal is to increase digital at double digit rates. We also expect higher volumes and a positive trend in cost of credit, which should allow us to maintain one of the best RoTEs of the Group.

In **the US**, we expect between 5% and 10% growth in volumes, underpinned by the stimulus plan recently passed by Congress. In addition, we are strengthening our digital strategy in order to notably increase the number of digital customers and the digital sales as a percentage of total sales. As a result, we expect to increase revenue and improve efficiency and the cost of credit.

Our plan for **South America** is to focus on projects and prosperous initiatives that foster interaction across the region. This includes:

- Brazil's consumer and vehicle financing platform,
- Businesses that promote financial inclusion like Prospera, which landed in Peru and is already thriving in Brazil and Uruguay,
- Developing joint propositions between CIB and companies to enhance relationships with multinationals.

Brazil will continue to be the main driver of customer and volume growth, for which we aim to continue to gain market share as we have been doing in recent years, ad improve efficiency.

As for our **global segments**;

In **CIB,** following a very positive year, we still have high potential to improve our position in relevant markets such as Continental Europe, the UK and the US, based on our leadership across Iberia and Latin America.

To this end, our goal is to become our customers' strategic advisors, while we guide them in their transition to more sustainable business models, for which we draw on the experience and expertise of the best team of bankers.

In **WM&I**:

In **Private Banking,** we will continue to develop our Private Wealth business and our alternative offerings platform, Future Wealth.

In **Asset Management** we will continue to boost the institutional business and our alternative product offering. Our goal in this segment is to increase average assets at double digit rates.

In **Insurance**, a business with high value creation potential, we will digitalize channels, increase client penetration and gain business in vehicles and SMEs with the aim of increasing its total contribution to the Group's profit around 5%-10%.

Lastly, regarding **PagoNxt**, we will combine our payments businesses to better compete with fintechs, large online platforms and other banks, through its product offering and global platforms. We expect significant customer, transaction and revenue growth in the coming quarters.

As the Chairman has already commented, these priorities **have already delivered positive results** in the first quarter. **We know our way forward to meet our 2021 goals and progress toward our medium-term targets.**

5. Close

There's still so much to do in 2021, as we want to demonstrate, once again, our **determination to safeguard the needs and interests of our shareholders, people, companies and institutions**.

I feel prouder than ever of our teams' efforts in these testing times. Therefore, I'd like to end where I started, 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.

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