2022 annual general meeting

José Antonio Álvarez speech, CEO

Shareholders, ladies and gentlemen,

Good morning and many thanks for attending this Annual General Meeting.

I am going to focus on three points:

1. First, I will briefly discuss the Group's performance and the execution of our management priorities in 2021.
2. I will then review the progress of our three strategic initiatives: One Santander, Digital Consumer Bank and PagoNxt, and our global businesses.
3. Lastly, I will take a few minutes to comment on Santander's management priorities for 2022 and the impact that the current geopolitical environment might have on our business. I will explain the support measures that we are implementing within the Group to help Ukrainian citizens later.In this regard, I would like to express my shock at the events that are taking place in Ukraine and my solidarity with all those who are affected by the war.

Before beginning, I would like to **express my appreciation to you, our shareholders,** for placing your confidence in Banco Santander. Our goal is to continue working to generate value for you, consolidating a long-term relationship with each and every shareholder.

And I also want to **thank the nearly 200,000 professionals who work for the Group**. All of them play a key role in delivering on our goals and, thanks to their commitment and dedication, we continue to improve every day.

(1) Execution of our 2021 management priorities

2021 was characterized by a strong economic rebound, albeit uneven across countries and sectors, and with several risks and uncertainties arising from the pandemic, which have grown more acute in recent weeks amid the conflict in Ukraine.

In this environment, the banking sector has played a major role in the economic and business recovery. This is not only because of the financial support and liquidity banks have provided to businesses and households, but also because of their ability to efficiently channel financial aid granted across many of the countries where we operate, reaching most sectors and segments of society.

In 2021, our priorities were focused on supporting our customers' needs and recovering growth and profitability to pre-pandemic levels, while managing risk and maintaining balance sheet strength.

To this end, we have been implementing a major transformation process throughout the Group, aimed at improving the productivity of our banks in Europe, North America and South America by leveraging our unique asset composition by region and business. We maintained high market shares across our footprint and continued to provide an outstanding customer service experience.

We have also been increasing the weight of our global private banking, asset management, insurance and wholesale banking businesses and integrating payments into a single shared platform with the capabilities to serve different countries and operate in multiple currencies. In addition, we have a globally recognized auto finance franchise.

The execution of our strategy, enabled us to grow revenue above the industry average, remain one of the most efficient banks in the world and generate a profitability ratio above the average of the major European banks.

Shareholders, ladies and gentlemen, our **priorities in 2021** were:

First, to increase our customer base and digital activity

In 2021, our efforts to improve customer experience and satisfaction resulted in an increase in customers and in the number of countries where we rank in the top 3 in service quality in terms of NPS (Net Promoter Score).

We are focused on offering our customers the utmost flexibility through a combination of online banking, traditional branches as well as online and telephone services, which allows us to serve our customers' needs 24 hours a day and offer specialized services.

Second, to recover activity levels

The increase in customers resulted in significant growth in new lending, notably to individuals. We also saw widespread growth in customer funds, mainly demand deposits and mutual funds, while improving our cost of funding. Digital transactions increased 44%, which already account for 76% of the Group's total transactions.

Third, revenue growth

These strong commercial dynamics resulted in a combined 7% increase in net interest income and net fee income in constant euros.

Net interest income grew, underpinned by higher volumes, lower funding costs, wider credit spreads in some Latin American markets, and the positive impact from the ECB's liquidity injections. In the coming quarters, we expect margins to more clearly show the positive impact of recent interest rate hikes in some Latin American countries, the UK, and Poland.

Increased commercial and financial activity was also reflected in higher net fee income, which rose at double-digit rates in corporates, wholesale banking, asset management and insurance.

Fourth, to improve productivity and efficiency

We continued with our rigorous expense management initiative in an environment of accelerating inflation. In real terms (excluding inflation), costs fell 2%, primarily driven by Europe. The Group's efficiency ratio improved to 46%, and net operating income rose 9% in constant euros to EUR 25 billion.

Fifth, risk control

Active risk management enabled us to improve our cost of credit to 77 basis points. In 2021, we released part of the additional covid-19 related provisions taken in 2020, which were not required thanks to the better-than-expected performance of the loan portfolio.

Sixth, capital management

In 2021, the high rate of organic capital generation continued, enabling us to achieve a fully-loaded CET1 capital ratio of 12%. This is an appropriate ratio for our business model and represents a buffer of over 300 basis points above our regulatory capital requirement.

Additionally, I am pleased to report that in the latest stress tests coordinated by the European Banking Association, of the large banks, Santander destroyed the least capital and generated the most profit in the adverse scenario among its peers. This has been the case in all previous exercises in recent years, showing the Bank's strength.

And, lastly, to boost inclusive and sustainable growth

For many years, Santander has been committed to the environment and supporting sustainable and inclusive growth, for which we have set clear goals, supporting our clients in their transition to a low-carbon economy.

We are further embedding climate and environmental criteria in our risk management processes. At the same time, we are developing increasingly simple and innovative digital platforms, and are proud to be recognized for our efforts with Santander being named most innovative entity in digital banking by *The Banker* in 2021 for our financial inclusion initiatives.

To conclude this first part of my speech, I would like to remind you that **we set three major goals at the beginning of 2021**: to lower our efficiency ratio to under 47%, to bring the cost of credit below 1.28% and to generate profitability, measured in terms of underlying RoTE, of 9-10%.

The execution of all these priorities enabled us to **significantly exceed our forecasts**: our efficiency ratio was 46%, our cost of credit improved to 77 basis points, and underlying RoTE was 12.7%.

As a result, underlying profit amounted to EUR 8,654 million, 70% higher than in 2020 and attributable profit was EUR 8,124 million, the highest in the last decade.

(2) Performance of our three strategic initiatives: One Santander, Digital Consumer Bank and PagoNxt, and our global businesses.

Next, I will briefly outline our performance by region, country and global business in 2021.

Beginning with One Santander, **Europe** is pioneering the transformation project, which requires a number of structural changes to develop a more digital and integrated operating model across markets.

This was reflected in a significant improvement in service quality and positive commercial dynamics. In constant euros, loans increased by EUR 16 billion (mainly to mortgages and large corporates), customer funds by EUR 26 billion and mutual funds by EUR 15 billion, driving total revenue up by 11%. We also improved the efficiency ratio and the cost of credit. This resulted in the region's profit doubling to roughly EUR 3 billion.

Looking at the detail by country,

- In **Spain**, revenue surged backed by strong mortgage and consumer lending, productivity improved and we booked lower provisions than in 2020. Profit was up 85% versus 2020.

- In the **United Kingdom**, the strong demand for mortgages and the careful management of liability costs helped drive a 22% increase in net interest income, well above our competitors. In addition, we further implemented our transformation programme and benefitted from the release of loan-loss provisions. All in all, we recorded a fourfold increase in profit compared to 2020.
- In **Portugal**, profit was 42% higher on the back of market share gains in mortgages and corporates, higher net fee income, which mitigated interest rate pressures, the continuous improvement in productivity and lower provisions.
- In **Poland**, we increased our digital presence, achieved record mortgage loan sales, and continued to be the market leader in wholesale banking. This led to 11% revenue growth in constant euros and a 43% increase in net operating income after provisions. However, this positive result was not fully reflected in profit due to a charge related to the Swiss franc mortgage portfolio, an issue common to all banks in the country.

In **North America**, our priorities were to accelerate profitable growth and improve competitiveness in our core businesses. In addition, we are developing initiatives to improve connectivity and customer interaction through a more defined segmentation, and to consolidate and integrate the IT function in the region

As for results, solid revenue performance together with significant reductions in loan-loss provisions and the fact that used vehicles retained their price well thanks to tight supply, resulted in a profit over EUR 3 billion.

- In the **United States**, we are focused on the consumer finance segment and our branch network allows us to maintain a large deposit base that plays a critical role in the funding of this business. In 2021, new auto lending climbed 13% and demand deposits were 12% higher, which enabled us to further reduce our funding costs. And in our wholesale banking business, we developed new capabilities that leverage our global scale. As a result, profit increased three-fold.
- The financial environment in **Mexico** was very challenging as a result of interest rate cuts in 2020 and weak performance in volumes. We were, however, able to leverage our digitalization investments to quickly adapt to the situation while launching disruptive products such as Like-U, a digital credit card. Our performance in the second half of the year was shaped by loan and deposit growth and higher revenue. This resulted in profit increasing by 8% in 2021.

In **South America,** we continued to expand our franchise, sharing best practices across units and successfully capturing new business opportunities to consolidate our profitable growth model.

In terms of service quality, we ranked first in Brazil and Chile. The total number of customers rose 10%, digital customers 17% and we gained market share in volumes. Customer revenue grew at double-digits, efficiency improved and the cost of credit fell in all countries. As a result, attributable profit exceeded EUR 3,300 million (+24% in constant euros).

- **Brazil** had another excellent year, with record highs in customer acquisition and new lending growing at double digits in consumer, agro and SMEs, which resulted in a 10% increase in revenue. In addition, the efficiency ratio was below 30%, becoming a global reference. The cost of credit improved substantially, driving profit growth (+21% in constant euros) and RoTE exceeded 20%.

- In **Chile**, we remained focus on customer attraction and loyalty and on improving customer satisfaction. We also progressed in our key commercial propositions, such as Santander Life, which doubled its customers, and launched Getnet, a payments solution. Profit was 47% higher in constant euros.

- In **Argentina**, we improved our customer care model, introduced Superdigital and made headways in our digital transformation through our new businesses, such as Getnet, which ended the year with more than 60,000 active merchants. Profit was 73% higher in constant euros.

- In **Uruguay, Peru and Colombia**, we recorded double-digit volume growth, maintaining profitability close to 20% in all countries.

Turning to consumer finance, **Digital Consumer Bank** consolidated its leadership in Europe, particularly in auto lending.

We leveraged our strong market position to increase new lending by 10%. We increased our new auto market share in an environment dampened by the microchip shortage, which boosted used vehicle sales, a segment that offers a high return on invested capital.

We also saw good dynamics at Openbank, which achieved the highest NPS among Spanish banks, while continuing to expand internationally and growing loans and customer funds by more than 20% in the year.

All of the above, together with an excellent cost of credit, increased Digital Consumer Bank's profit by 16% year-on-year in constant euros to EUR 1,332 million.

PagoNxt, our payments business, generated EUR 495 million in revenue, 47% higher year-on-year, meeting the milestones set out in our strategy of its Merchant Acquiring, International Trade and Consumer businesses.

Finally, turning to our **global businesses** and starting with **Corporate & Investment Banking (CIB)**, we recorded another excellent year, earning a record profit and recording a 26% increase.

The transformation we started a few years ago to become our clients' strategic advisors of choice, with tailored solutions and value-added services, is paying off.

We will continue to increase diversification, advising and supporting our customers in their green and digital transition.

Looking ahead, we want to build a regional platform in Europe to become one of the top wholesale banks in the region, while strengthening our leadership in South America and accelerating growth in the US.

In **Private Banking**, **Asset Management & Insurance** we streamlined and rounded off our value proposition. We continued to innovate our product proposition and increased digital sales.

Total assets under management increased driven by both the positive performance in Private Banking and Asset Management. In Private Banking, we are very proud to rank as one of the top three global private banks according to Euromoney for the first time, and we would like to thank all our clients for this. In Insurance, we increased the volume of premiums, notably in the protection business (+12%).

As a result, profit grew 12% in constant euros, including profit and ceded fee income.

In addition, I would like to highlight our efforts to improve our global **card** services. We are working to globally manage the 90 million cards throughout the Group, reaching nearly EUR 3 billion in revenue and turnover growth of more than 20%.

(3) Management priorities for 2022 and potential impacts of the current geopolitical situation on our business

Let me now shift the focus to 2022 management priorities.

2022 began with some remaining uncertainties arising from the pandemic, aggravated by the war in Ukraine.

In this environment, we are extremely mindful of the importance of credit risk and will focus on improving operational efficiency and cost control, while ensuring that our balance sheet remains well positioned to benefit from interest rate hikes.

In 2022, we will work on the following **priorities**:

First.- Continue to grow our customer base through increasingly personalized customer solutions. We expect, once again, to close the year ranking top 3 in service quality in most countries, and number one in some.

To this end, we are investing in technological capabilities to increase our speed to market new functionalities for our customers. We are also focused on attracting and retaining talent. We have invested in technology training programmes in which over 60,000 employees have participated. 63% of our tech employees are now integrated in the business areas and 80% of the technology teams work under Agile methodology.

Second.- Continue to increase revenue above the average of our main peers by leveraging our customer attraction capacity, a better business mix and diligent margin management in an environment of rising interest rates.

In addition, with One Santander, we will further improve our digital offering and high value-added products to diversify our revenue sources and continue to grow net interest income and net fee income.

Third.- Keep cost growth below the rate of inflation, as we have done in recent years. Our intention is to continue to improve our efficiency ratio through the implementation of our transformation plans across regions.

The fourth and last, to maintain the cost of credit at or below the average of the cycle leveraging our market and customer knowledge. Spain will be key, as we expect to reduce the cost of credit there to around 50 basis points, offsetting some anticipated normalization in the US and the UK and moderate growth in emerging markets.

As a result, our aim is to increase profit and generate a return on underlying tangible equity in excess of 13%, well above our cost of capital.

In addition, we plan to maintain a fully-loaded CET1 solvency ratio at 12% and continue to improve our tangible book value per share. This will give us the flexibility to continue to grow strongly in the most profitable parts of our business while providing attractive returns to our shareholders.

However, **the implications for our business performance and results arising from the current geopolitical situation are highly uncertain**, as we don't know the extent or duration of the conflict.

What I can assure you is that our starting point is very solid. We have excellent liquidity and capital positions. Our direct exposure to Russia and Ukraine is negligible and we are strengthening controls against potential operational threats, including cybersecurity and money laundering.

We are strictly complying with international sanctions and we have also announced that we will not engage in any new business with Russian companies.

Since the beginning of the conflict, we swiftly implemented measures to facilitate financial transactions for Ukrainians leaving the country and for residents in the countries where we operate, including:

- Removing fees on all permitted transfers to Ukraine from Europe.
- Suspending account and card fees for Ukrainian customers in Poland and providing free use of ATMs and access to cash in branches and via ATMs.
- In addition, we are collaborating with the Red Cross and UNHCR through donations and support in assisting Ukrainian refugees.

Based on what we know today, we expect limited impact on the Group, although it will be uneven by region:

- In theory, Europe is likely be the most affected area, due to lower-than-expected economic growth, which may impact activity and credit quality. However, the potential interest rate hikes, together with the ongoing transformation and operational improvement processes, could be reflected in greater profitability in the region.
- In North America, we expect further economic growth, which will boost new consumer lending in the US and reactivate lending activity in Mexico.
- In South America, this new environment will have a neutral or positive impact. The increase in the export of raw materials at higher prices, along with the resulting currency appreciation, should be reflected in our results.

I believe that our geographic and business diversification to some extent makes us more resilient under potential adverse circumstances and should enable us to maintain strong and recurring results and to continue to improve profitability. This was reflected in the positive performance in volumes and revenue in the first quarter, with the latter increasing by around 7% year-on-year in euros.

This, together with our ongoing cost and risk management, boosts our confidence that we will meet our targets for the year, as the chairman has already explained.

I would like to end my speech by reminding you that the entire Santander team will continue to work tirelessly to earn your trust, offer attractive returns and ensure that we serve the best interests of our customers, our shareholders and society. We believe this is the right thing to do, and even more so in exceptional situations such as those we have had to live through in recent times.

Dearest shareholders, I would like once again to express my gratitude for your support and for being a part of Grupo Santander.