

29 January 2020



2019 Earnings Presentation



Important Information

Non-IFRS and alternative performance measures

In addition to the financial information prepared in accordance with International Financial Reporting Standards (“IFRS”) and derived from our financial statements, this presentation contains certain financial measures that constitute alternative performance measures (“APMs”) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures (“Non-IFRS Measures”). The financial measures contained in this presentation that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander Group but are not defined or detailed in the applicable financial reporting framework and have neither been audited nor reviewed by our auditors. We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, other companies, including companies in our industry, may calculate or use such measures differently, which reduces their usefulness as comparative measures. For further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see the 2018 Annual Financial Report, filed with the Comisión Nacional del Mercado de Valores of Spain (CNMV) on 28 February 2019, as well as the section “Alternative performance measures” of the annex to the Banco Santander, S.A. (“Santander”) 2019 4Q Financial Report, published as Relevant Fact on 29 January 2020. These documents are available on Santander’s website (www.santander.com).

The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries

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Santander cautions that this presentation contains statements that constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as “expect”, “project”, “anticipate”, “should”, “intend”, “probability”, “risk”, “VaR”, “RoRAC”, “RoRWA”, “TNAV”, “target”, “goal”, “objective”, “estimate”, “future” and similar expressions. These forward-looking statements are found in various places throughout this presentation and include, without limitation, statements concerning our future business development and economic performance and our shareholder remuneration policy. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. The following important factors, in addition to those discussed elsewhere in this presentation, could affect our future results and could cause outcomes to differ materially from those anticipated in any forward-looking statement: (1) general economic or industry conditions in areas in which we have significant business activities or investments, including a worsening of the economic environment, increasing in the volatility of the capital markets, inflation or deflation, and changes in demographics, consumer spending, investment or saving habits; (2) exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices; (3) potential losses associated with prepayment of our loan and investment portfolio, declines in the value of collateral securing our loan portfolio, and counterparty risk; (4) political stability in Spain, the UK, other European countries, Latin America and the US (5) changes in laws, regulations or taxes, including changes in regulatory capital and liquidity requirements, including as a result of the UK exiting the European Union and increased regulation in light of the global financial crisis; (6) our ability to integrate successfully our acquisitions and the challenges inherent in diverting management’s focus and resources from other strategic opportunities and from operational matters while we integrate these acquisitions; and (7) changes in our ability to access liquidity and funding on acceptable terms, including as a result of changes in our credit spreads or a downgrade in our credit ratings or those of our more significant subsidiaries. Numerous factors could affect the future results of Santander and could result in those results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

Important Information

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- 1. Macroeconomic environment and financial system**
- 2. Strategy and business**
- 3. Results**
- 4. Appendix**

Macroeconomic environment and financial system

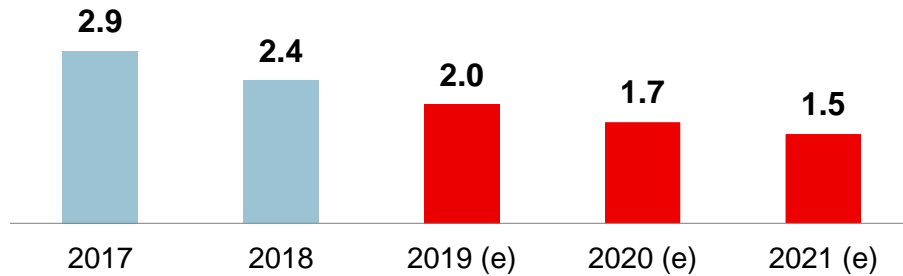


01



The expansionary cycle in the Spanish economy is expected to continue, but at slower pace in a very low interest rate environment...

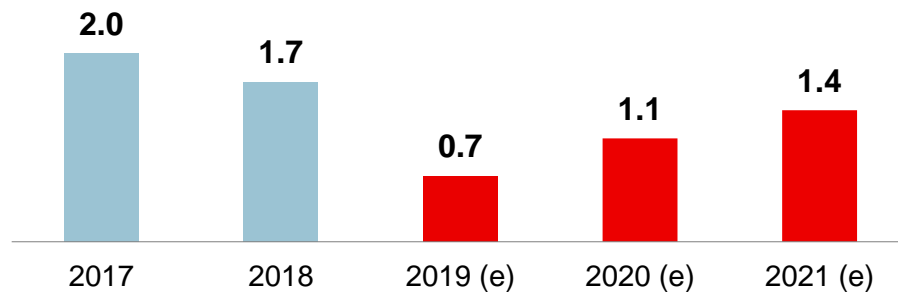
Annual GDP Growth (real, %)



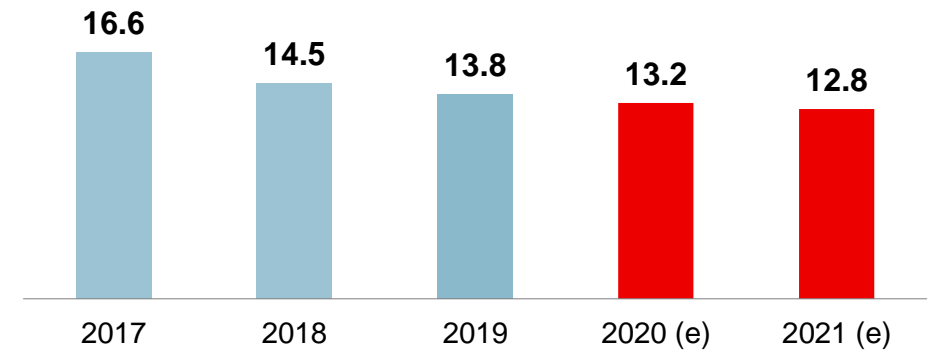
Interest rates (official rate, %)



Annual inflation rate (%)



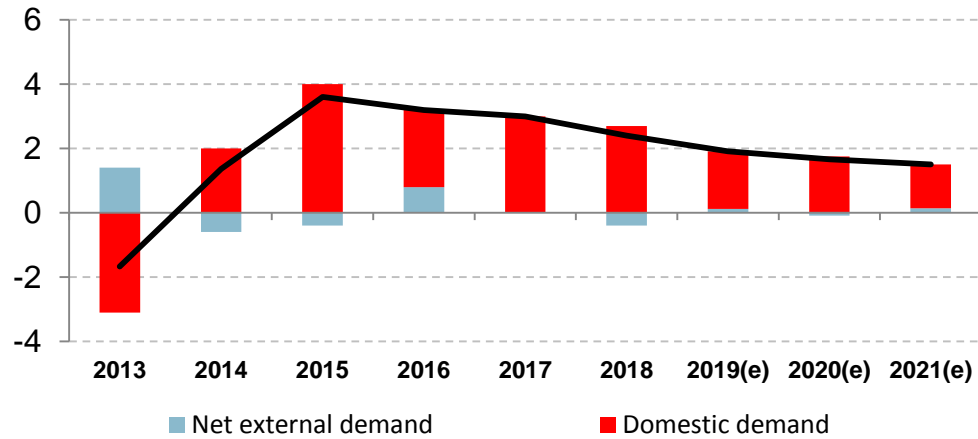
Unemployment rate¹ (%)



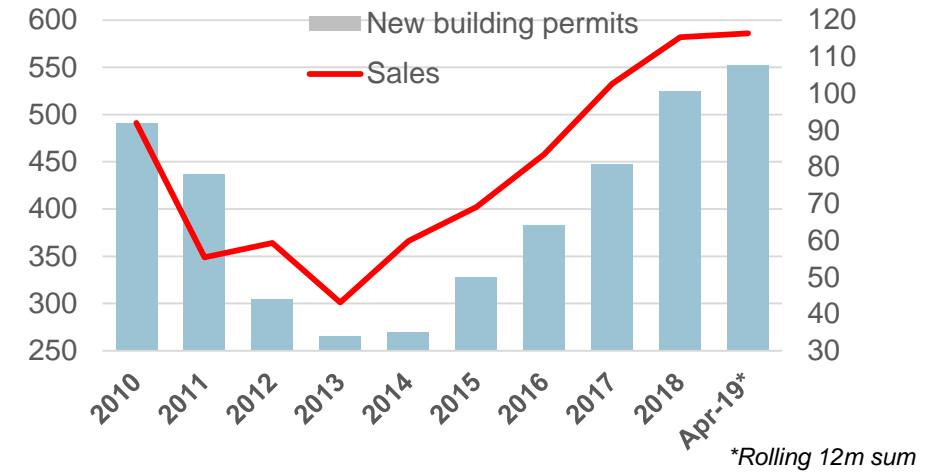


...backed by job creation, higher consumption and real estate recovery

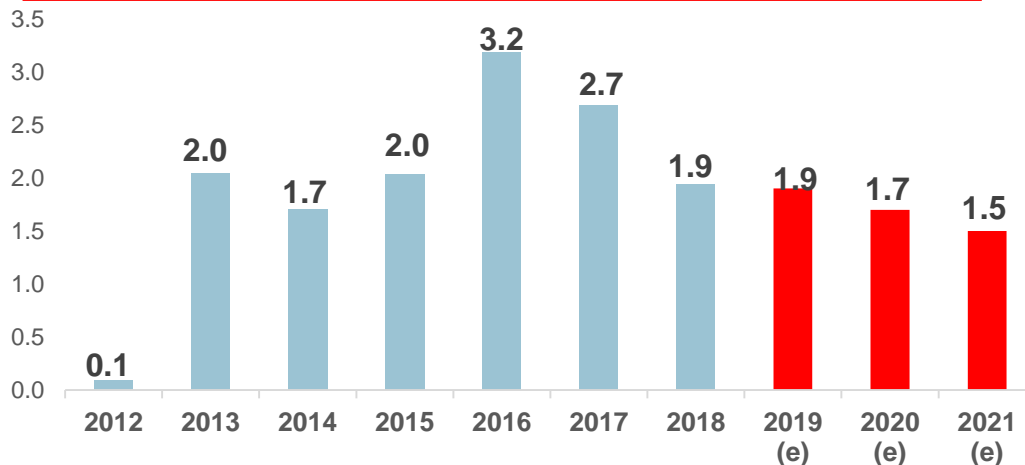
Contribution to GDP growth (% YoY)



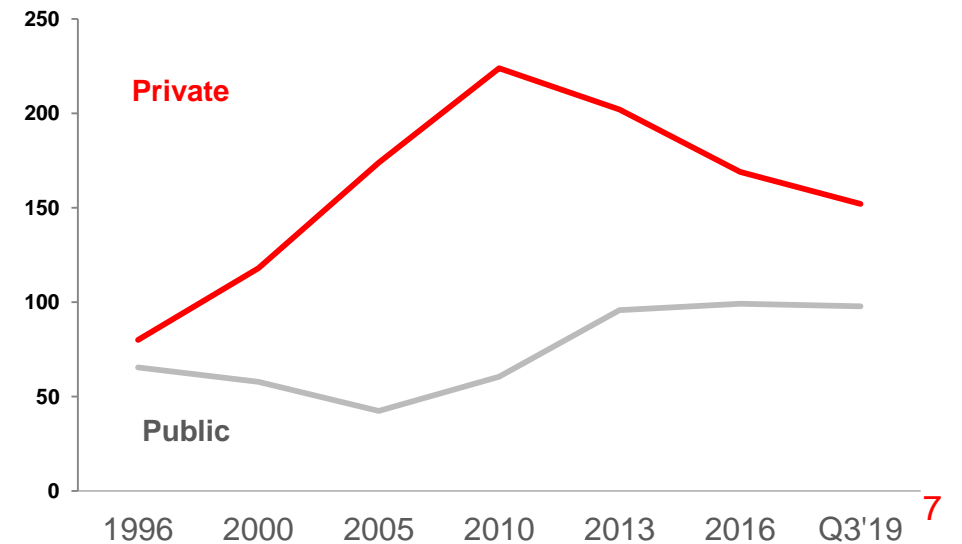
Housing: sales and permits (k)



Current account balance (% GDP)



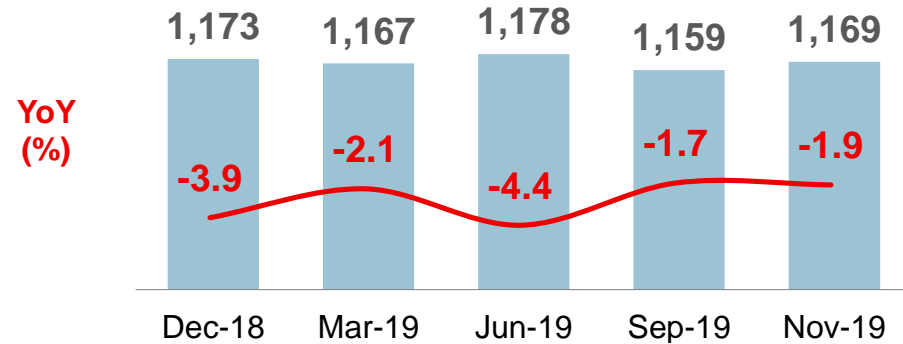
Indebtedness (% GDP)



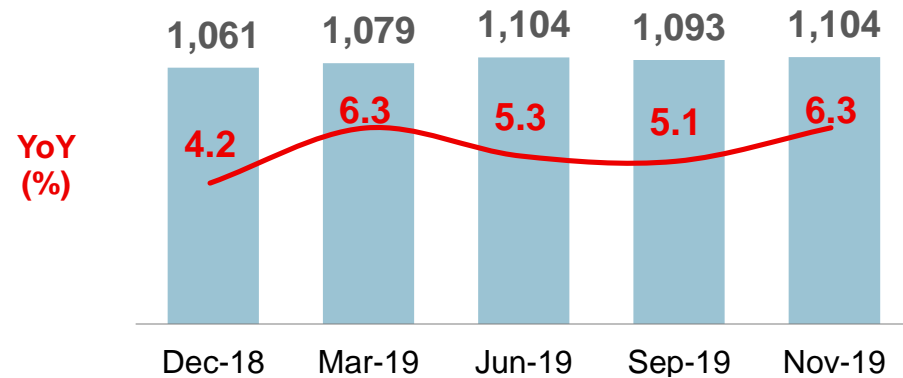


Deleveraging continues, reducing the stock of loans

Total loans (EUR bn)



Total deposits (EUR bn)



- ▶ Demand for **housing** loans declined in Q4'19. The factors that explain this decline are, mainly, lower consumer confidence and the worsening outlook in the housing market, and also, to a lesser extent, higher funding by own funds and greater use of loans from other institutions.
- ▶ Demand for **consumer credit** declined slightly due to a decrease in consumer confidence, lower spending on consumer durables, and a higher use of loans from other entities and own funds. Demand for funds from **companies** declined in the fourth quarter, in both SMEs and corporates.
- ▶ In **savings**, slight increase in volumes with varied performance by product: migration from time to demand deposits, both in households & non-financial entities.

Strategy and business



02

Santander in Spain remains committed to maintaining its leadership while accomplishing a best-in-class integration of Banco Popular



STRATEGIC PRIORITIES

- ▶ Largest bank⁴ in Spain and completed Banco Popular integration
- ▶ Accelerate the Bank's digital transformation towards a data driven company
- ▶ Keep on growing SMEs and corporate segments backed by Banco Popular's capabilities
- ▶ Increase customer revenue and obtain cost synergies related to Banco Popular's integration
- ▶ Continue to reduce doubtful assets and leverage our capital efficient model

KEY DATA	2019	YoY Var.
Gross loans ¹	191,280	-6%
Customer funds ¹	308,747	+3%
Underlying att. profit ¹	1,585	+2%
Underlying RoTE	10.5%	+6 bps
Efficiency ratio	53.6%	-340 bps
Loans market share ²	17.6	-16 bps
Deposits market share ²	18.9	-7 bps
Loyal customers ³	2.5	+5%
Digital customers ³	4.7	+10%
Branches	3,235	-26%
Employees	27,630	-12%



Having completed the integration of Popular, we are moving forward in our strategy focused on digital transformation, SMEs and improved value-added offering

Popular Integration

Successfully **completed integration** of Banco Popular including:

- **Technological migration** of all branches and customers to Santander
- Executed **branch concentration** and **efficiency plan** in 2019
- Delivering in the **synergy commitments** announced upon Popular acquisition

Digital Banking

Overperforming on **digital transformation** and customer engagement



- **+440k** new digital customers YoY
- **>1 billion** accesses to digital channels
- **60%** of digital customers, reaching **29% of digital sales** (+7pp YoY)

SMEs and Corporates

Strengthening our commitment to SMEs

- **Startups The Call**, focused on entrepreneurs to develop innovative digital solutions for SMEs



- **Collaboration revenues**⁽¹⁾, ~EUR 600 mn in 2019, continuous +10% annual growth in 3 years

Commercial dynamism

Great success in **Black Friday campaigns**, with excellent performance in:



- **UPLs, +EUR 400 mn** in 8 days
- **Mortgages, +27%** growth in November
- **Business, +14%** in Credits&Loans

Best bank of the year in Spain



Specific target segments

Financial and non-financial comprehensive offer for **Seniors** to cover finance, health and lifestyle needs

Tele-assistance (SOS button)



24h Home-help service



Dependency insurance



Full insurance portfolio



Private Banking and Funds

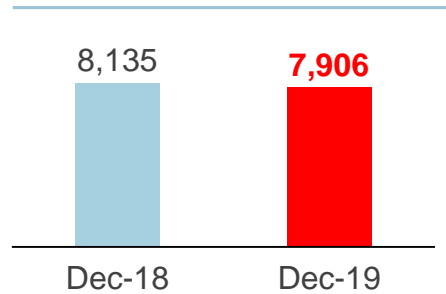
- Strengthening our leadership in **Private Banking**:
 - +14% new customers
 - + EUR 405 mn asset growth
- Overperformance in **Funds**:
 - Growth +EUR 5.5 bn in AUM + 35 bps in market share
 - **MiCartera**, offering discretionary management to all customers





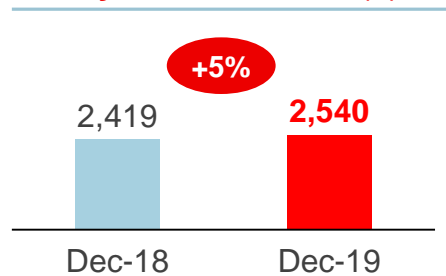
Continued progress in customer digitalisation and loyalty

Active customers (k)



- ▶ **Sustained commercial dynamism**, especially in UPLs +24% YoY, driven by pre-approved loans and digital capabilities
- ▶ **Continuous improvement in customer spread** (+22 bps vs. Q1'18) due to lower liability costs (+21 bp impact) and the improvement in asset profitability (+1 bp)

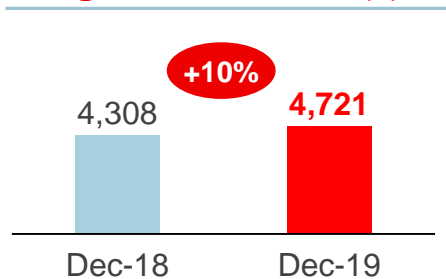
Loyal customers (k)



Continuous growth in loyalty levers, increasing transactionality

- ▶ New insurance premiums +11%, consolidating insurance as a strategic lever with the Aegon's and Mapfre's JVs
- ▶ +35 bps in investment funds market share, increasing our AUM EUR 5.5 bn
- ▶ Turnover +8% YoY in PoS and +4% YoY in card turnover following an average annual growth of 22% in the last two years

Digital customers (k)



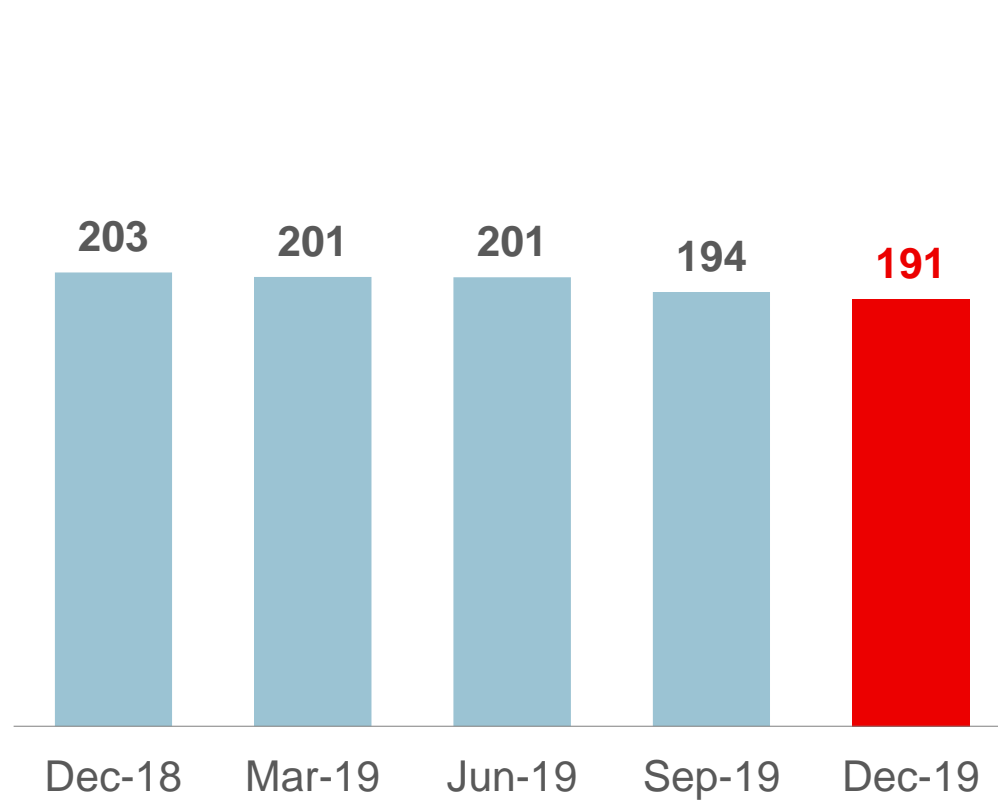
Sustained growth in customer digitalisation, while preserving customer loyalty and experience

- ▶ Bizum reached 680k customers
- ▶ Best-in class Contact Centre for two consecutive years
- ▶ Boosting new customer relationship models (Santander Personal) driving increased loyalty and NPS level

Loans affected by deleveraging in CIB and Institutions and the move towards a capital efficient model



Total gross loans (EUR bn¹)

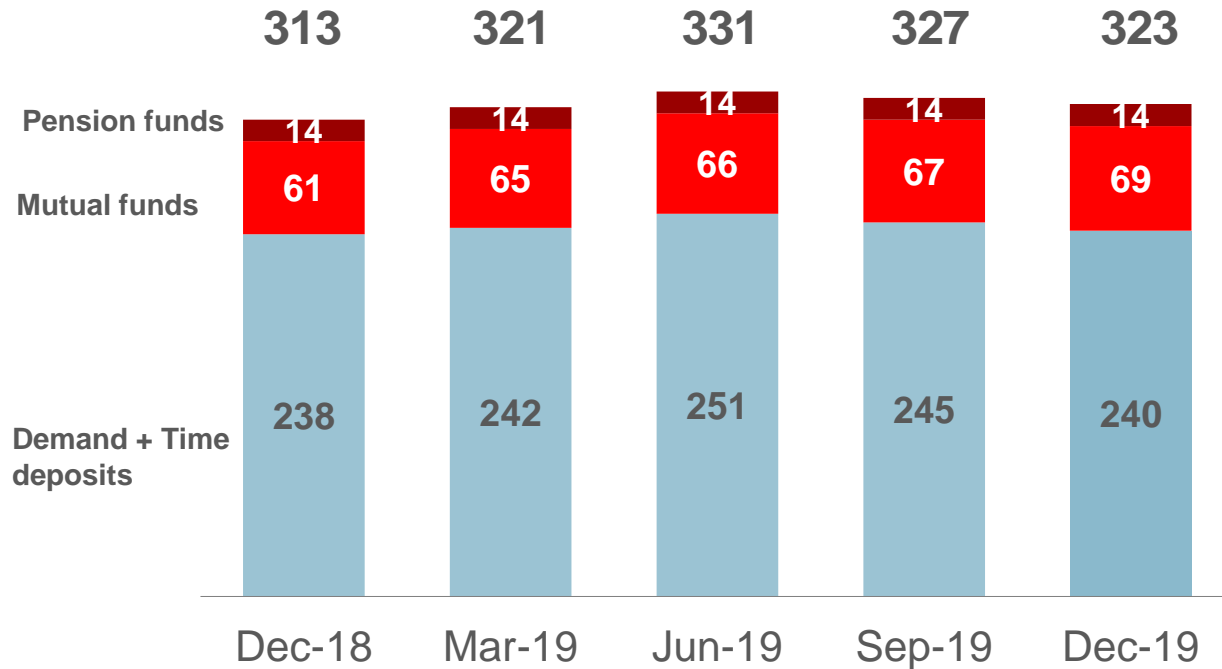


	Dec-19	YoY(%)	QoQ(%)
Institutions	12	-26.3	-2.9
Individual customers of which:	74	-1.5	0.1
- Housing mortgages	58	-4.1	-0.4
Companies	82	-2.8	-1.5
CIB	21	-15.3	-3.5
Real Estate & Other	2	-22.0	-31.2
Total Loans	191	-5.9	-1.6



Growth in customer funds, with demand deposits increasing 4% and mutual funds +12%, partly offset by lower volumes in time deposits

Total customer funds (EUR bn)



	<u>Dec-19</u>	<u>YoY(%)</u>	<u>QoQ(%)</u>
Demand deposits	204	3.7	-1.5
Time deposits	36	-12.2	-5.8
Total deposits	240	1.0	-2.2
Mutual funds	69	12.4	1.8
Customer funds	309	3.3	-1.3
Pension funds	14	2.0	0.6
Total customer funds	323	3.2	-1.2

Results

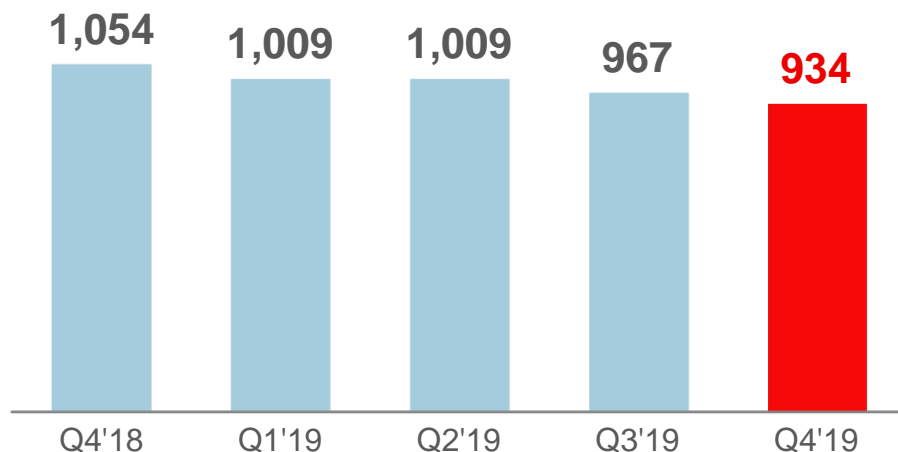


03

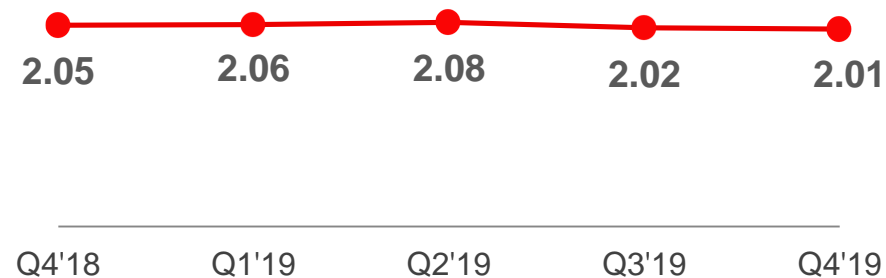
NII fell 4% YoY due to decreased volumes and lower interest rates, partially offset by the improvement in spreads. Excluding IFRS 16 impact, -2% YoY



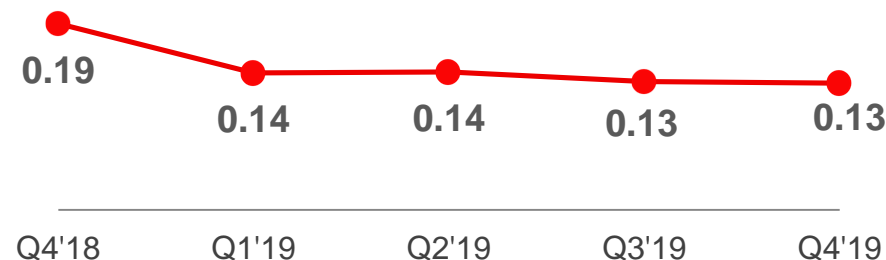
Net interest income (EUR mn)



Yield on loans (%)



Cost of deposits (%)

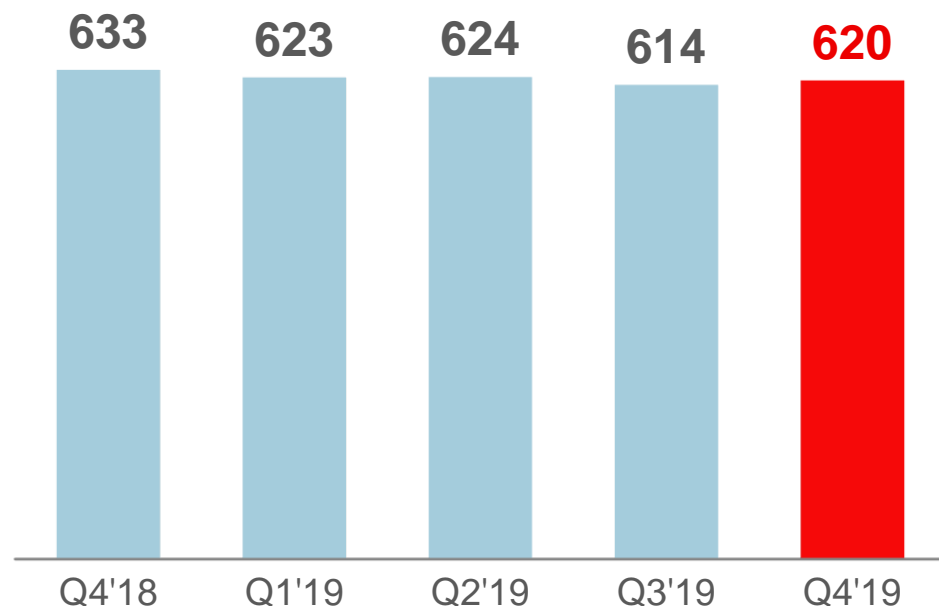


<u>NIM¹ (%)</u>				
1.18	1.18	1.18	1.15	1.13
<u>Official interest rate² (%)</u>				
0.00	0.00	0.00	0.00	0.00

Net fee income fell 5% YoY, due to lower activity at CIB and lower other fees. On the other hand, higher insurance fees



Net fee income (EUR mn)

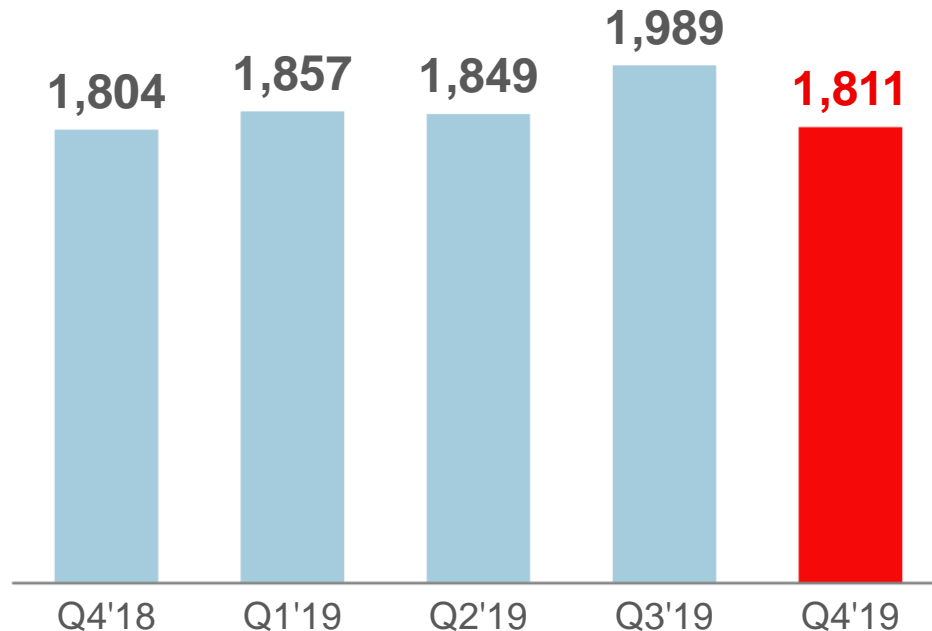


	2019	2018	YoY(%)	QoQ(%)
Accounts	532	555	-4.1	7.5
Mutual & Pension funds and securities	805	800	0.6	8.0
Insurance	265	259	2.2	4.8
Retail other fees	550	601	-8.6	-12.0
Total retail fees	2,152	2,215	-2.9	2.1
SCIB¹	329	409	-19.5	-6.5
Total	2,481	2,624	-5.5	0.9

Slight decrease in gross income YoY: higher gains on financial transactions due to portfolio sales not enough to offset lower income from the other lines



Gross income (EUR mn)

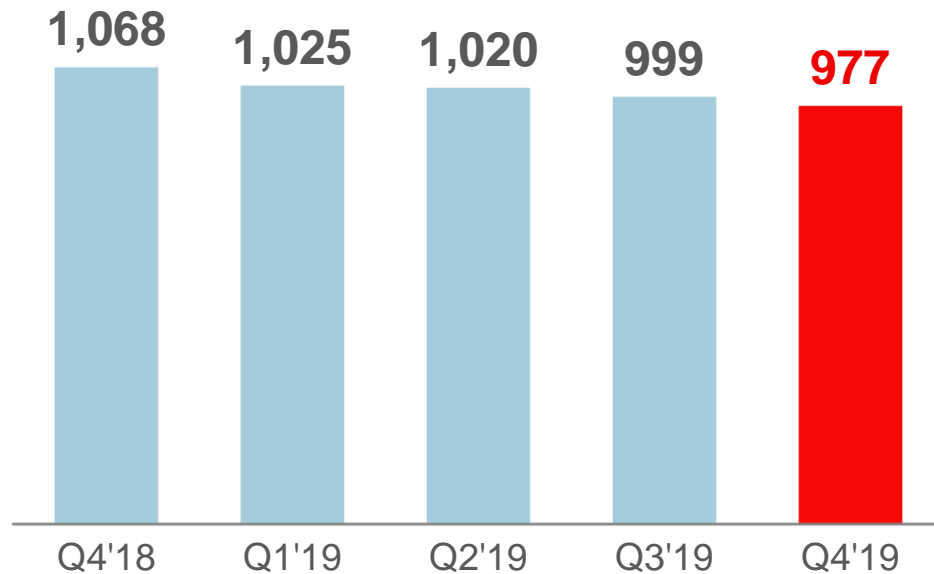


	2019	2018	YoY(%)	QoQ(%)
Net interest income	3,919	4,093	-4.3	-3.4
Net fees	2,481	2,624	-5.5	0.9
Subtotal	6,399	6,717	-4.7	-1.7
Other ¹	1,107	898	23.3	-36.8
Gross income	7,506	7,615	-1.4	-8.9

Sustained reduction in costs (-8% excluding inflation) achieving committed efficiencies following Popular acquisition. Costs favourably impacted by IFRS 16



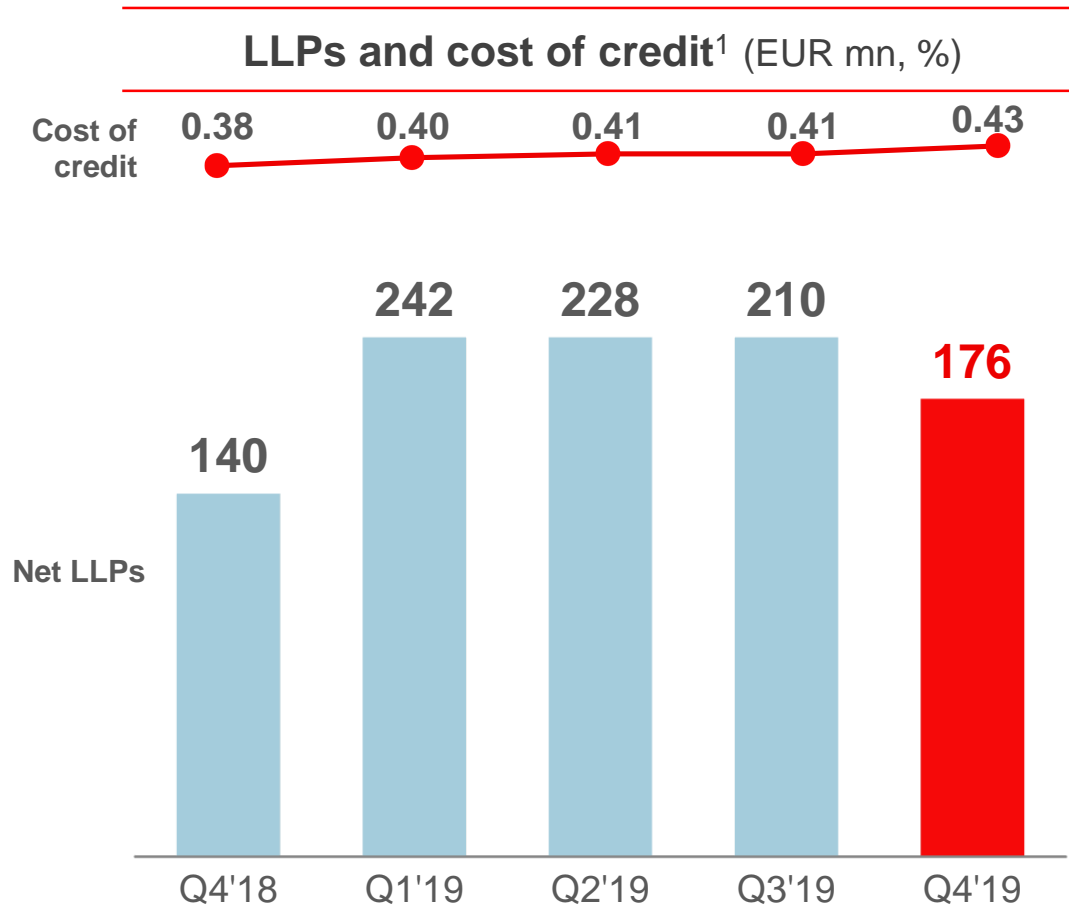
Operating expenses (EUR mn)



	2019	2018	YoY(%)	QoQ(%)
Total expenses	4,021	4,338	-7.3	-2.1
Efficiency ratio	53.6%	57.0%		
Branches	3,235	4,365		
Employees	27,630	31,229		



The NPL ratio improved 38 bps YoY. Further decline in the stock of non-performing loans (-11% YoY) and stable cost of credit



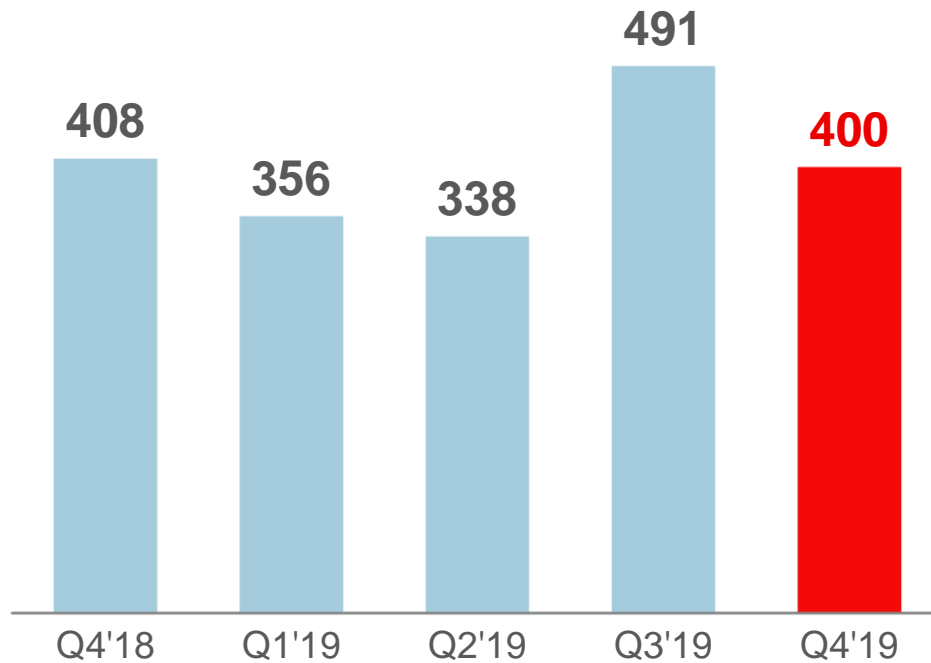
	2019	2018	YoY(%)	QoQ(%)
Net operating income	3,485	3,277	6.4	-15.8
Loan-loss provisions	(856)	(789)	8.5	-15.9
Net operat. income after LLPs	2,629	2,488	5.7	-15.8

Coverage ratio	41%	44%
NPL ratio	6.94%	7.32%



Underlying profit was 2% higher YoY mainly due to lower costs

Underlying attributable profit (EUR mn)



	2019	2018	YoY(%)	QoQ(%)
PBT	2,174	2,063	5.4	-18.1
Tax on profit	(589)	(508)	15.9	-17.5
Consolidated profit	1,585	1,555	1.9	-18.4
Underlying att. profit	1,585	1,554	2.0	-18.5
Effective tax rate	27.1%	24.6%		



Growth in new business volumes, boosted by SMEs and consumer credit

Market Environment & Financial System

- ▶ The economy is forecasted to grow by around 1.7% in 2020, higher than that envisaged for the Eurozone, and inflation will remain low.
- ▶ New lending continues at a weak pace.

Strategy & Business

- ▶ We successfully completed the integration of Banco Popular, with the migration of all branches and customers to Santander, and the execution of the branch network optimisation process, obtaining more costs synergies than expected.
- ▶ Of note by product was consumer credit (+24% year-on-year), spurred by pre-approvals and digital of loans, and by loans to companies. International business grew 15%.
- ▶ The main drivers of loyalty continued to grow, increasing customer transactions. YoY growth in card turnover and PoS terminals was 4% and 8%, respectively.

Results

- ▶ NII fell 4% YoY due to decreased volumes and lower interest rates, partially offset by the improvement in spreads. Excluding IFRS 16 impact, -2% YoY.
- ▶ Sustained reduction in costs (-8% excluding inflation) achieving committed efficiencies following Popular acquisition. Also costs favourably impacted by IFRS 16.
- ▶ Underlying profit was 2% higher YoY mainly due to lower costs.

Appendix



04

Balance sheet



EUR million	31-Dec-19	31-Dec-18	Change	
			Amount	%
Customer loans	185,179	196,101	(10,922)	(5.6)
Cash, central banks and credit institutions	78,334	79,100	(766)	(1.0)
Debt securities	34,288	48,849	(14,561)	(29.8)
<i>o/w: available for sale</i>	33,850	40,404	(6,555)	(16.2)
Other financial assets	1,393	2,515	(1,123)	(44.6)
Other assets	23,908	22,436	1,472	6.6
Total assets	323,102	349,001	(25,899)	(7.4)
Customer deposits	240,427	238,372	2,055	0.9
Central banks and credit institutions	25,231	56,062	(30,830)	(55.0)
Debt securities issued	26,855	24,628	2,227	9.0
Other financial liabilities	8,971	6,216	2,755	44.3
Other liabilities	5,222	8,916	(3,694)	(41.4)
Total liabilities	306,706	334,193	(27,487)	(8.2)
Total equity	16,396	14,807	1,588	10.7
Other managed and marketed customer funds	95,383	85,606	9,777	11.4
Mutual funds	68,621	61,039	7,582	12.4
Pension funds	14,424	14,142	282	2.0
Managed portfolios	12,338	10,425	1,912	18.3

Income statement



EUR million	2019	2018	Change	
			Amount	%
Net interest income	3,919	4,093	(175)	(4.3)
Net fees	2,481	2,624	(143)	(5.5)
Gains (losses) on financial transactions	1,046	703	343	48.8
Other operating income	61	195	(134)	(68.9)
Gross income	7,506	7,615	(109)	(1.4)
Operating expenses	(4,021)	(4,338)	317	(7.3)
Net operating income	3,485	3,277	208	6.4
Net loan-loss provisions	(856)	(789)	(67)	8.5
Other income	(455)	(425)	(30)	7.1
Underlying profit before taxes	2,174	2,063	111	5.4
Tax on profit	(589)	(508)	(81)	15.9
Underlying profit from continuing operations	1,585	1,555	30	1.9
Net profit from discontinued operations	—	—	—	-
Underlying consolidated profit	1,585	1,555	30	1.9
Minority interests	(0)	(1)	1	(89.7)
Underlying attributable profit to the Group	1,585	1,554	31	2.0

Income statement



EUR million	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Net interest income	969	1,026	1,044	1,054	1,009	1,009	967	934
Net fees	669	671	651	633	623	624	614	620
Gains (losses) on financial transactions	120	151	259	173	119	214	326	387
Other operating income	127	12	111	(56)	105	2	83	(129)
Gross income	1,885	1,860	2,065	1,804	1,857	1,849	1,989	1,811
Operating expenses	(1,112)	(1,093)	(1,065)	(1,068)	(1,025)	(1,020)	(999)	(977)
Net operating income	773	767	1,000	737	832	829	990	834
Net loan-loss provisions	(217)	(220)	(213)	(140)	(242)	(228)	(210)	(176)
Other income	(131)	(102)	(132)	(60)	(112)	(143)	(100)	(100)
Underlying profit before taxes	425	446	655	537	478	458	681	557
Tax on profit	(99)	(111)	(169)	(129)	(122)	(120)	(190)	(157)
Underlying profit from continuing operations	326	335	486	408	356	338	491	400
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Underlying consolidated profit	326	335	486	408	356	338	491	400
Minority interests	(0)	(0)	(0)	(0)	0	0	(0)	(0)
Underlying attributable profit to the Group	326	335	486	408	356	338	491	400

Thank you.

Our purpose is to help people
and business prosper.

Our culture is based on believing
that everything we do should be:

Simple Personal Fair



MEMBER OF
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM



FTSE4Good