

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.

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

Macroeconomic environment and financial system

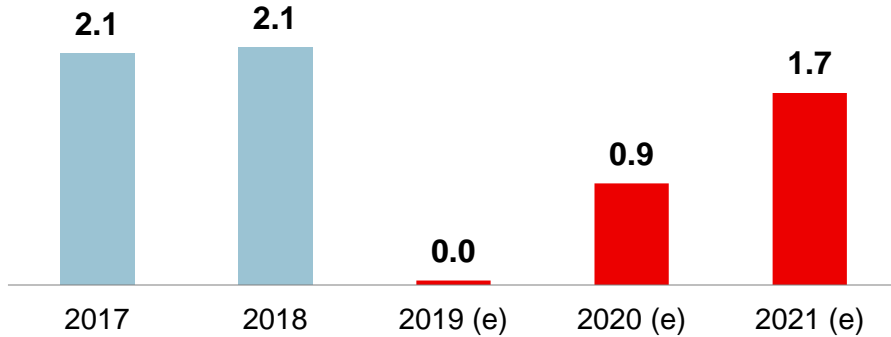


01

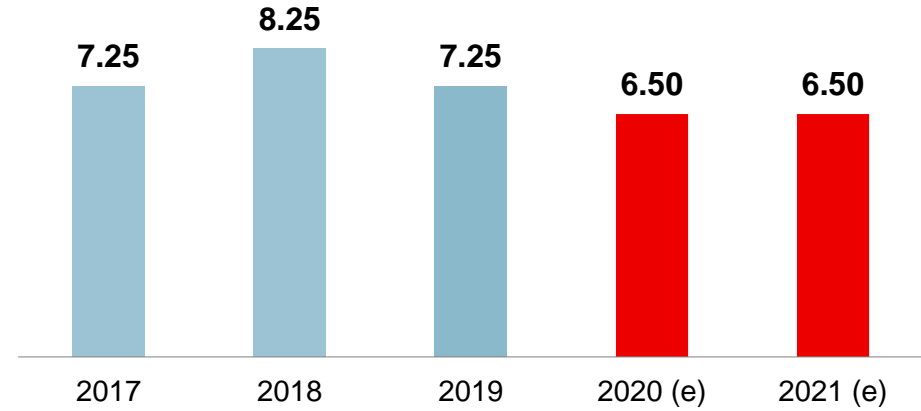


Gradual recovery of growth is expected, with lower benchmark rate

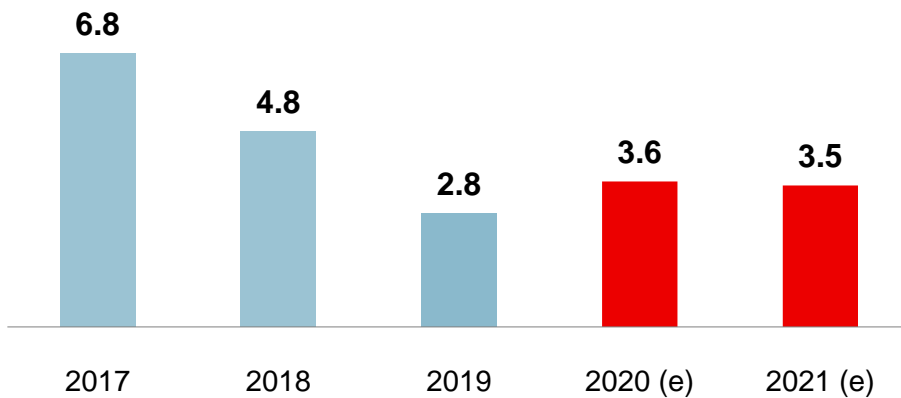
Annual GDP Growth (real, %)



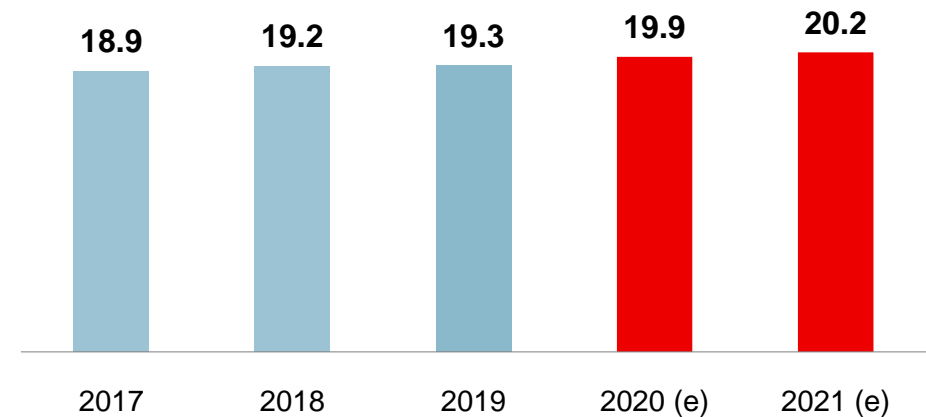
Central Bank Monetary Policy (year end, %)



Annual Inflation Rate (%)



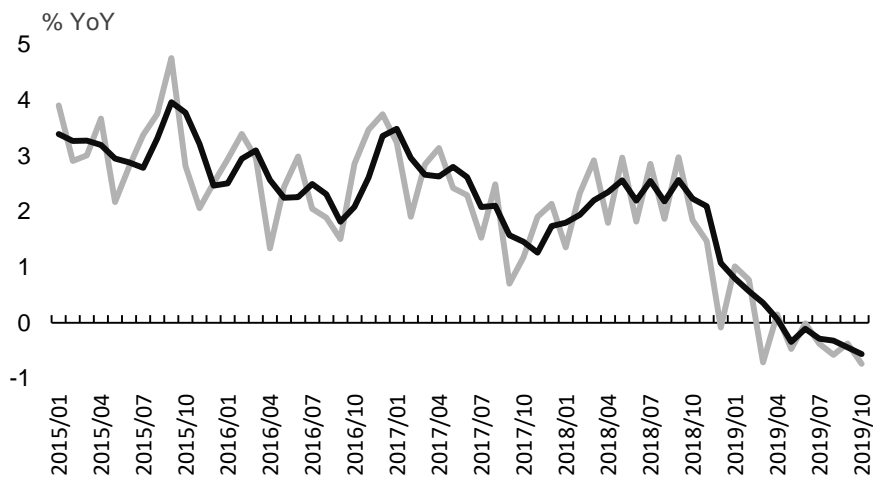
Average Exchange Rate
(MXN/USD)



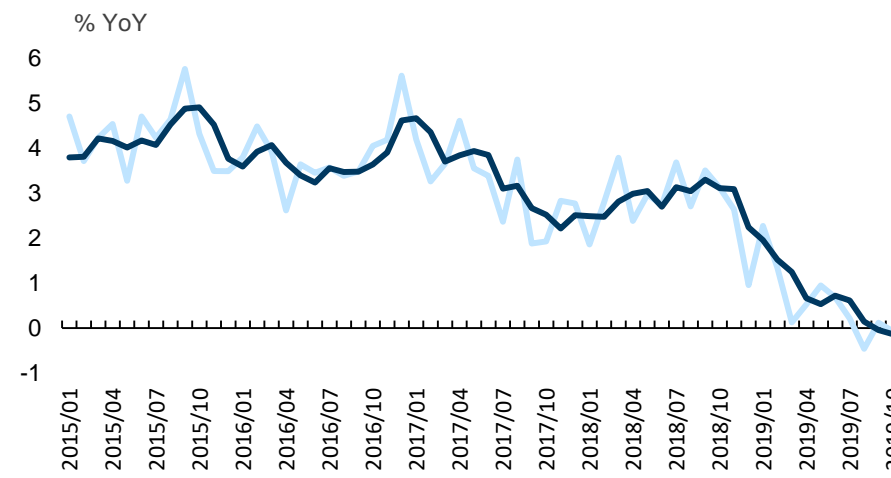


The slowdown of activity in 2019 was generalised across all sectors

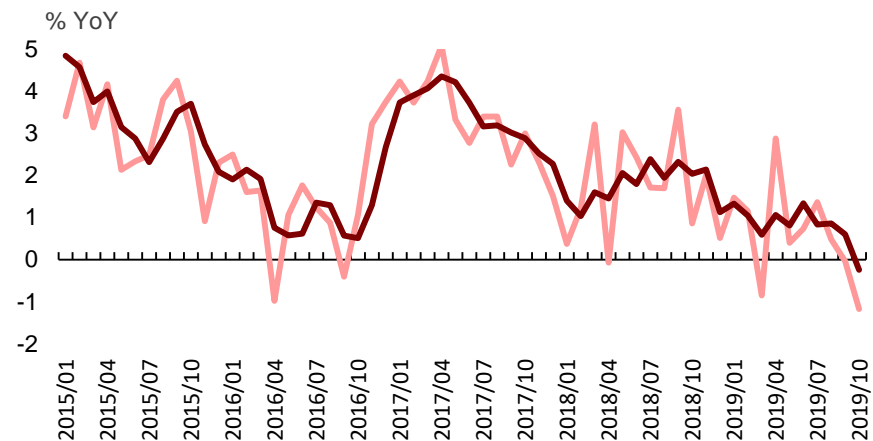
Total Production



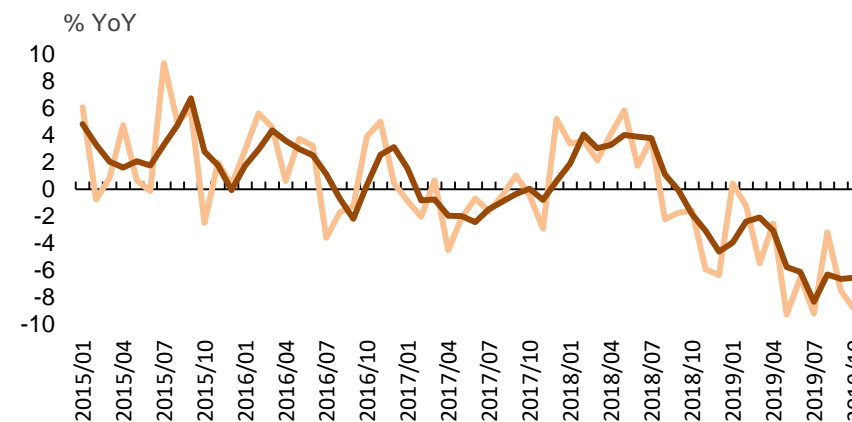
Services Production



Manufacturing Production



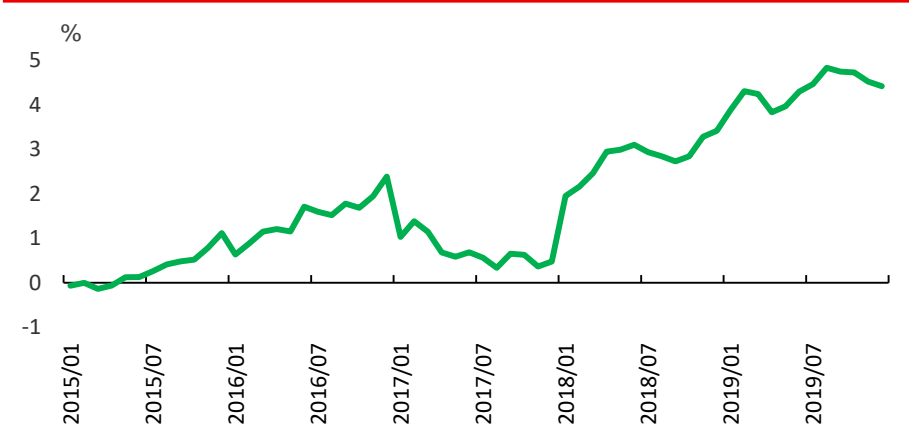
Construction Production



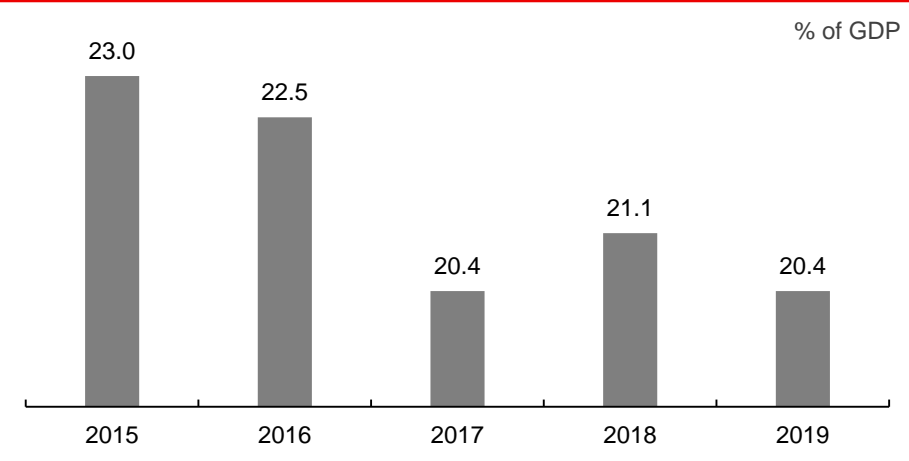


Macro policy still firmly focused on maintaining stability

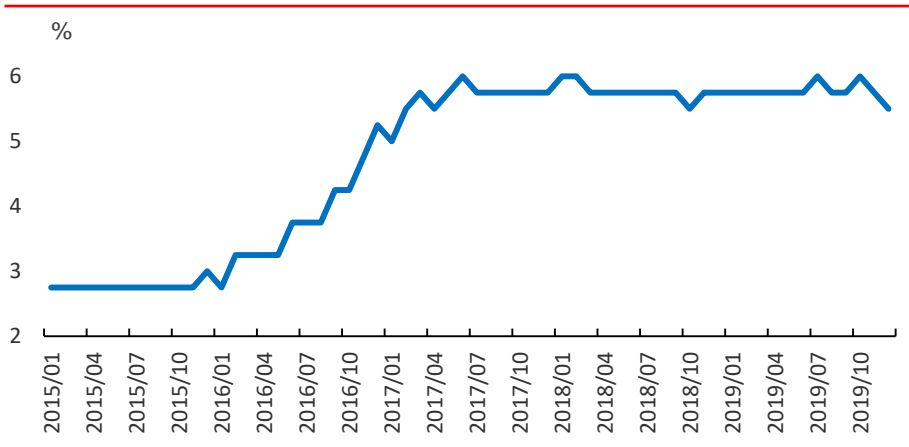
Real Policy Rate



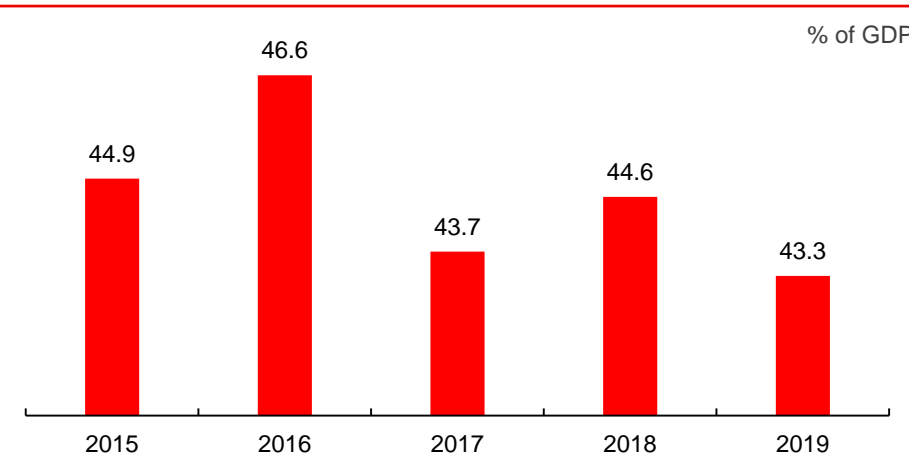
Public Expenditure Jan - Nov



Policy Rate Differential vs USA



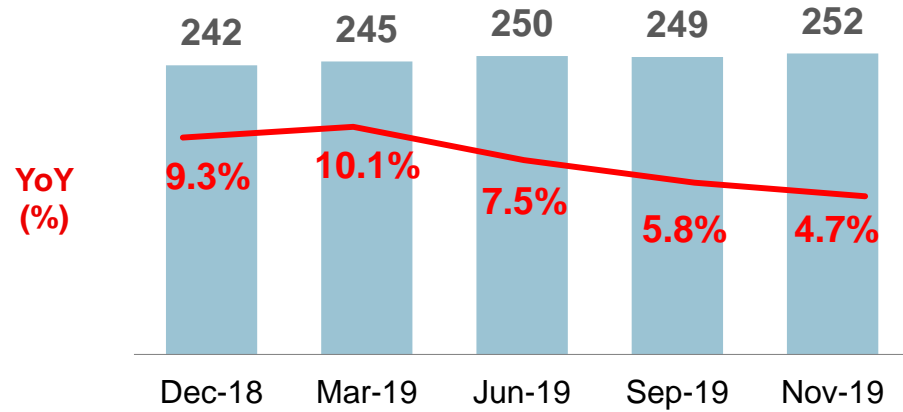
Public Debt Jan - Nov





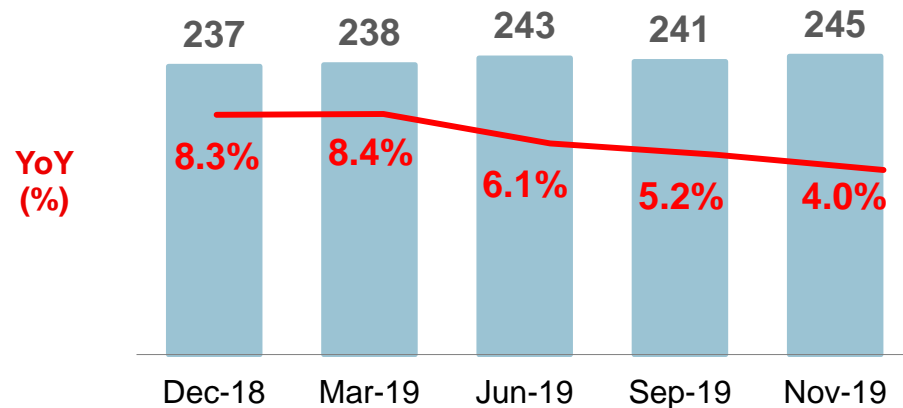
Soft system loan and deposit growth

Total loans (Constant EUR bn¹)



- ▶ Consumer loan growth remained stable around 6% among the lowest growth levels since 2015
- ▶ System commercial loans increased 5% year-on-year, while government loans decreased 4% as of November

Total deposits (Constant EUR bn¹)



- ▶ Slowdown in system deposit growth to 4% year-on-year from 5.2% in the prior quarter

Strategy and business



02

Santander México: one of the leading financial groups in the country



STRATEGIC PRIORITIES

- ▶ Boost payrolls & strengthen alliances & benefits of the *Santander Plus* offering to drive attraction & loyalty

- ▶ Consolidate our position in SMEs and recover leadership in mortgages

- ▶ Operational & IT transformation through digital platforms & investment plan

- ▶ Enhance customer service quality across the Bank

KEY DATA	2019	YoY Var. ⁴
Gross loans ¹	33,632	4.5%
Customer Funds ¹	43,907	0.6%
Underlying attributable profit ¹	950	19.4%
Underlying RoTE	20.6%	+37 bps
Efficiency ratio	41.8%	+15 bps
Loans market share ²	13.1%	-0.41 bps
Deposits market share ²	13.2%	-0.62 bps
Loyal customers ³	3,168	25.9%
Digital customers ³	4,170	44.8%
Branches	1,422	0.3%
Employees	20,494	3.2%



Driving innovation and attracting customers

Loyalty



Innovative programme focused on customer attraction, transactionality, loyalty and digitalisation

+7.2 mn customers since its launch in May 2016
53% of which are **new customers**

Distribution network transformation

Shift to an omni-channel banking experience to attract and retain customers

Transformed **541 branches**. New branch layout is more efficient, user friendly, promotes use of digital, self-services and P&L per branch



Mortgages



The only bank in Mexico to offer a tailored interest rate based on the customer's profile

Strong performance of *Hipoteca Plus*, accounted for close to **77%** of **mortgage originations** as of Dec-19. *Hipoteca Plus* rewards new loyal customers who keep their payrolls and other financial products with the lowest rate in the market 8.59%

Digitalisation



Upgrading online and mobile banking platforms to offer customers innovative and high quality services that satisfy their dynamic demands

- *Super Auto*, car & motorcycle loan financing supported by a digital origination platform
- Full digital onboarding for new payroll customers, reducing the time to open new accounts
- New functionalities for our *Supermóvil* and *Superwallet* mobile apps including cardless cash withdrawal, payroll portability, credit card activation, among others

Credit card customer attraction



Digital funnel to increase the placement of credit cards through santander.com.mx

Increased loyalty in payroll customers and existing customers

Corporate & Investment Banking

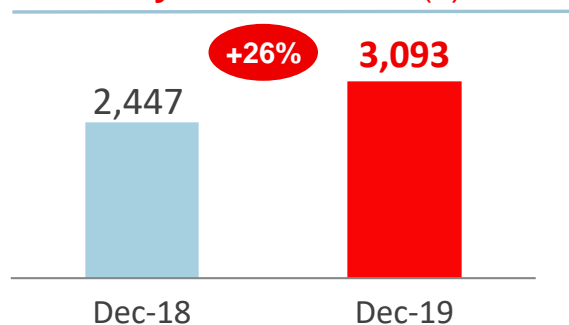


Continuing to position our Corporate Investment Banking business as one of the top three players in Mexico

Expanding loyal and digital customers further strengthening our retail franchise

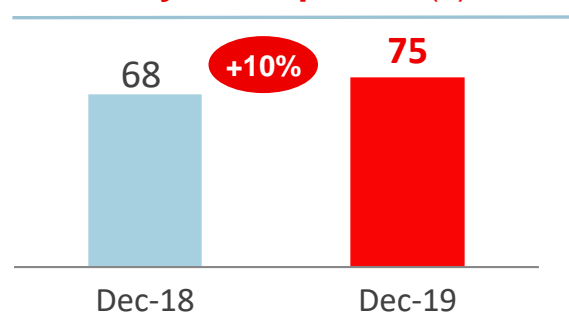


Loyal individuals (k)



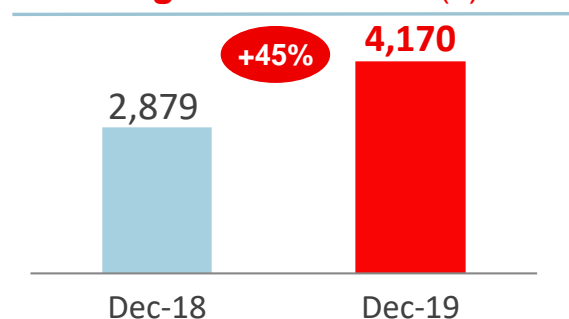
- ▶ Maintain strong focus on increasing loyalty, while attracting new customers through innovative products such as *Santander Plus* and *Hipoteca Plus*
- ▶ Loyal-to-active customer ratio reached 33% in 2019, expanding over 4 pp year-on-year

Loyal companies (k)



- ▶ Focus on increasing penetration
- ▶ CRM platform for SMEs and an online onboarding process that enhances the customer journey

Digital customers (k)

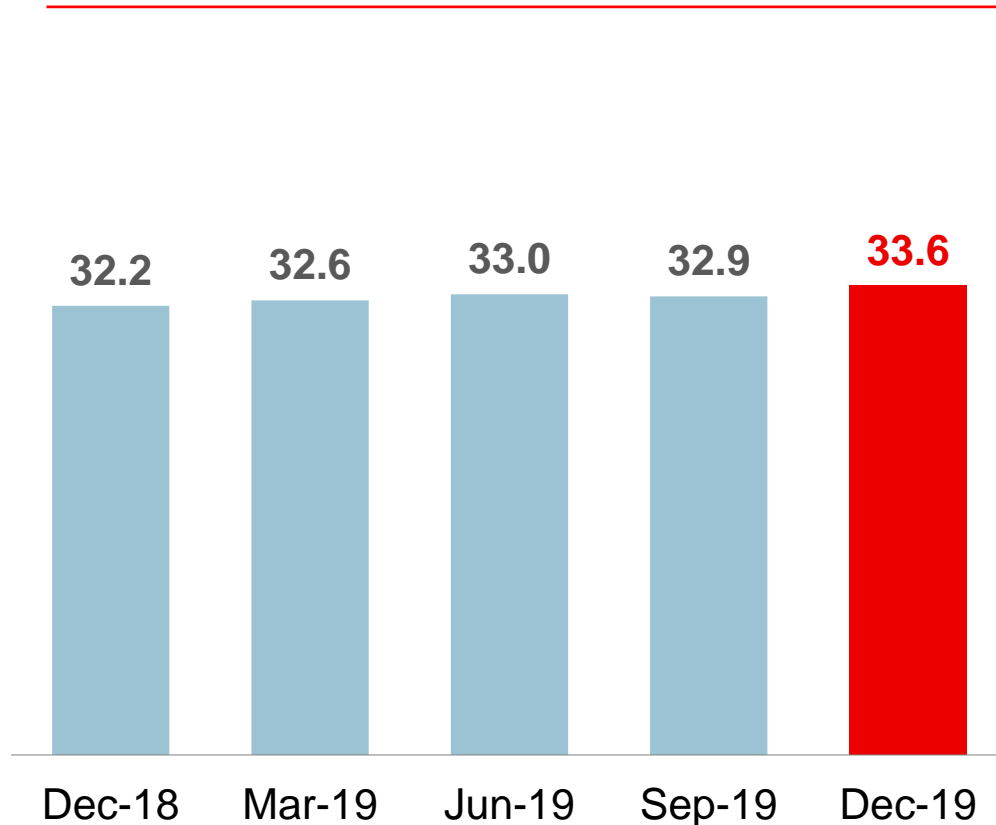


- ▶ Improving onboarding processes to new channels and adding new functionalities to the digital platform. Launch of *Santander Tap*, a fast and safe money transfer service at no charge through mobile messaging service
- ▶ Mobile customers up 58% YoY, with mobile accounting for 87% of digital monetary transactions



Santander México's loan portfolio growth particularly in retail segments

Total gross loans (Constant EUR bn¹)

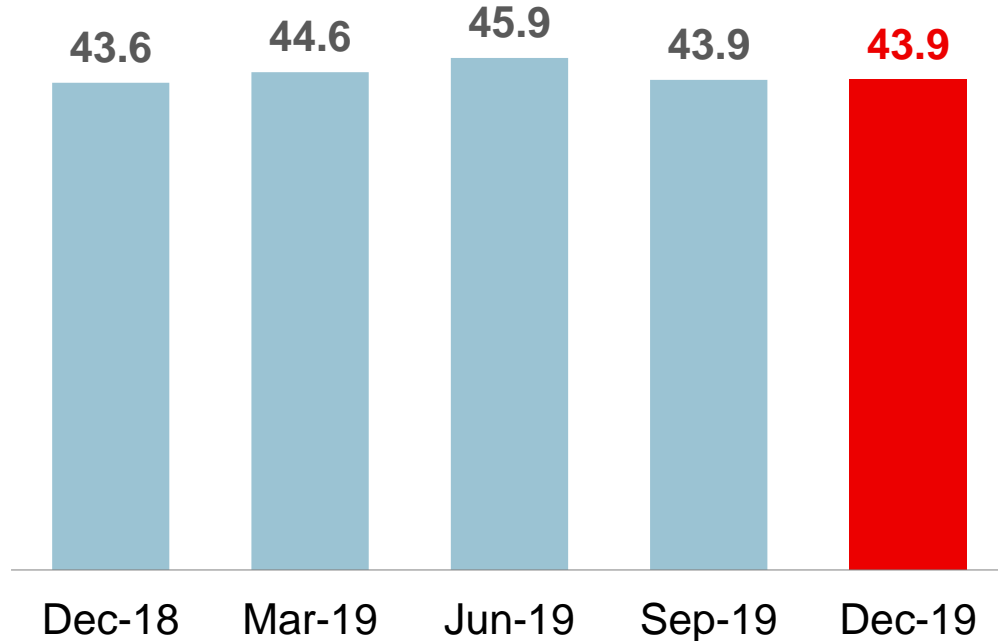


	Dec-19	YoY(%)	QoQ(%)
Individual Loans	12.7	6.6	1.4
Mortgage	7.2	7.3	2.1
Consumer credit	2.7	5.6	0.0
Credit Cards	2.8	5.8	0.9
Commercial Loans	20.9	3.3	2.9
SMEs ²	3.6	-0.7	-2.2
Middle Market & Inst.	10.9	6.6	0.0
Corporates	3.1	-13.5	7.5
Government	3.3	18.3	15.9
Total loans	33.6	4.5	2.3



Prioritising retail deposits over corporate as environment remains soft

Total customer funds (Constant EUR bn¹)



	Dec-19	YoY(%)	QoQ(%)
Demand	21.0	-2.5	1.4
Time	11.7	4.4	1.2
Total deposits	32.6	-0.2	1.3
Mutual funds distributed	11.3	3.0	-3.5
Total Customer funds	43.9	0.6	0.0

Results

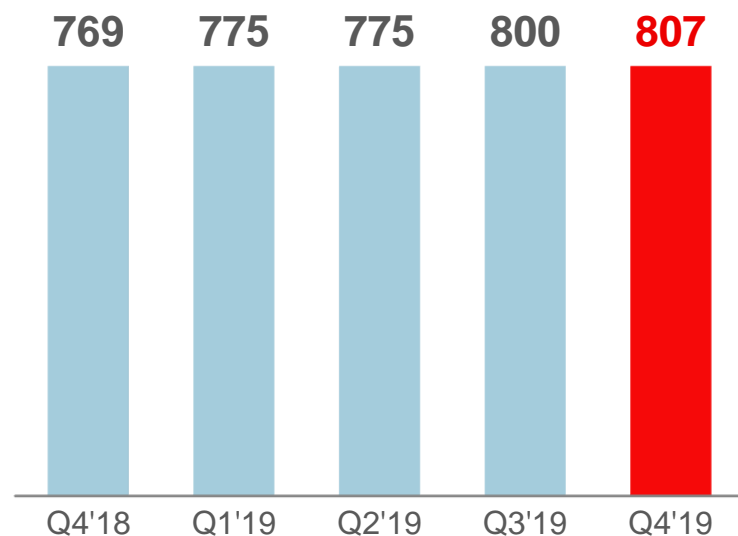


03

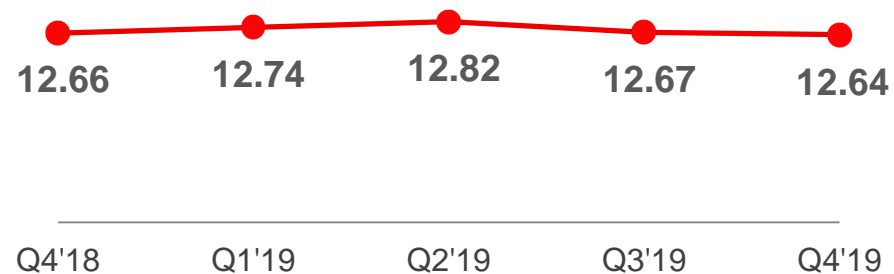
Growth in retail segment loans and higher average interest rates supported 9% NII growth YoY



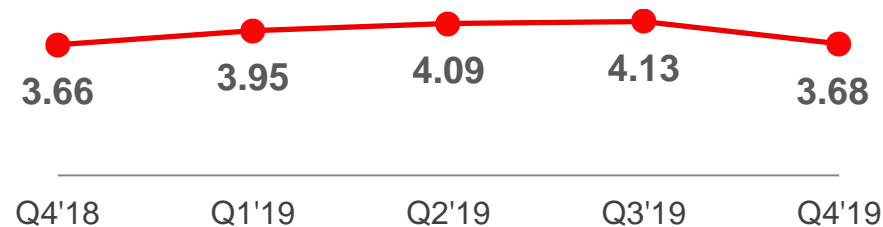
Net interest income (Constant EUR mn¹)



Yield on loans (%)



Cost of deposits (%)



NIM² (%)

4.39	4.50	4.59	4.66	4.42
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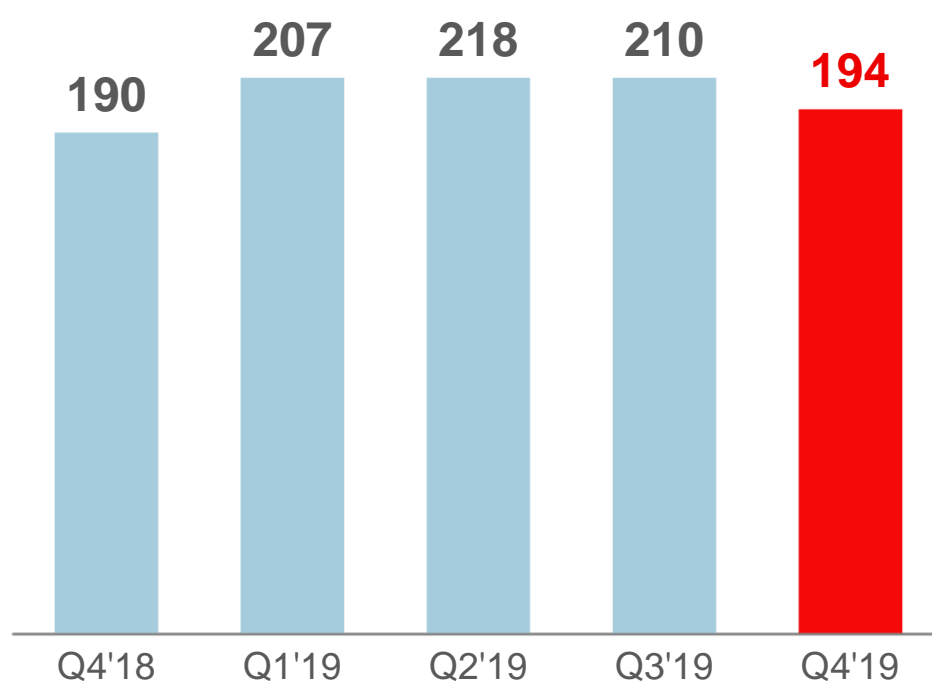
Official interest rate (TIIE)³ (%)

8.26	8.56	8.50	8.35	7.86
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Net fee income growth driven by credit cards and insurance

Net fee income (Constant EUR mn¹)

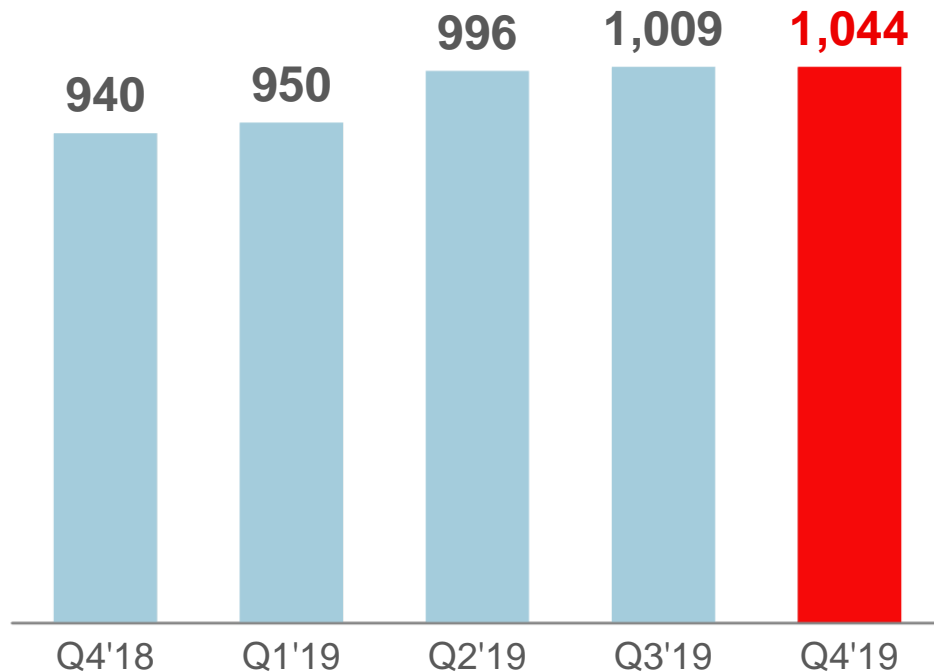


	2019	2018	YoY(%)	QoQ(%)
Insurance	228	207	10.0	5.5
Credit Cards	218	178	22.6	6.8
Cash Management	177	197	-9.8	-15.0
Mutual Funds	110	111	-0.5	0.6
Financial Advisory	57	58	-1.6	-69.6
Capital Markets & Securities	38	45	-15.2	-26.8
Total	829	796	4.2	-7.6



Gross income up due to growth in NII and net fee income

Gross income (Constant EUR mn¹)

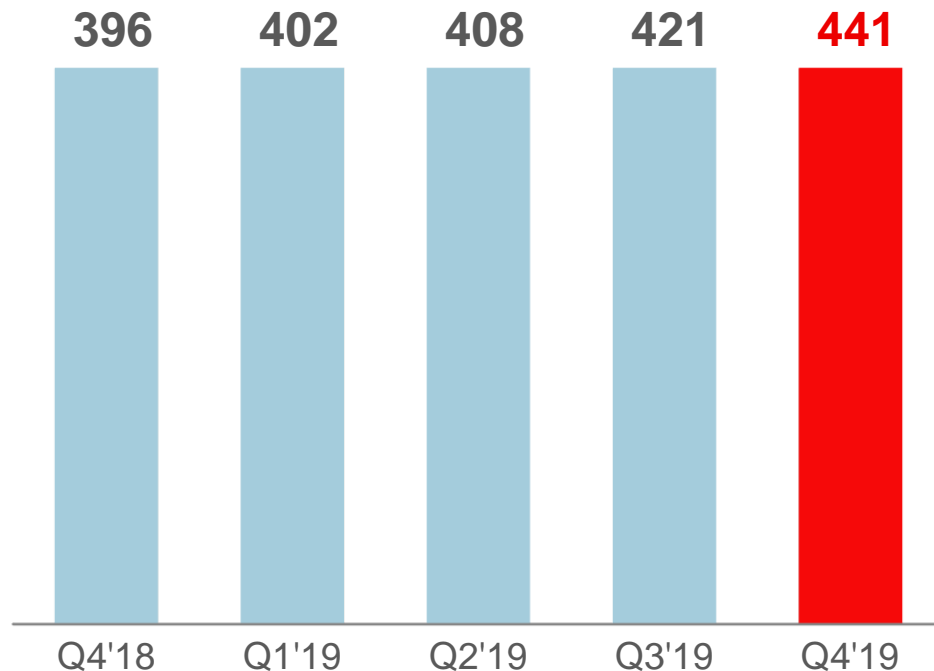


	2019	2018	YoY(%)	QoQ(%)
Net Interest Income	3,157	2,909	8.5	0.9
Net fee income	829	796	4.2	-7.6
Subtotal	3,986	3,705	7.6	-0.8
Other ²	13	8	56.2	—
Gross income	3,998	3,713	7.7	3.5

We completed our three year transformation plan which impacted our cost evolution and efficiency ratio



Operating expenses (Constant EUR mn¹)



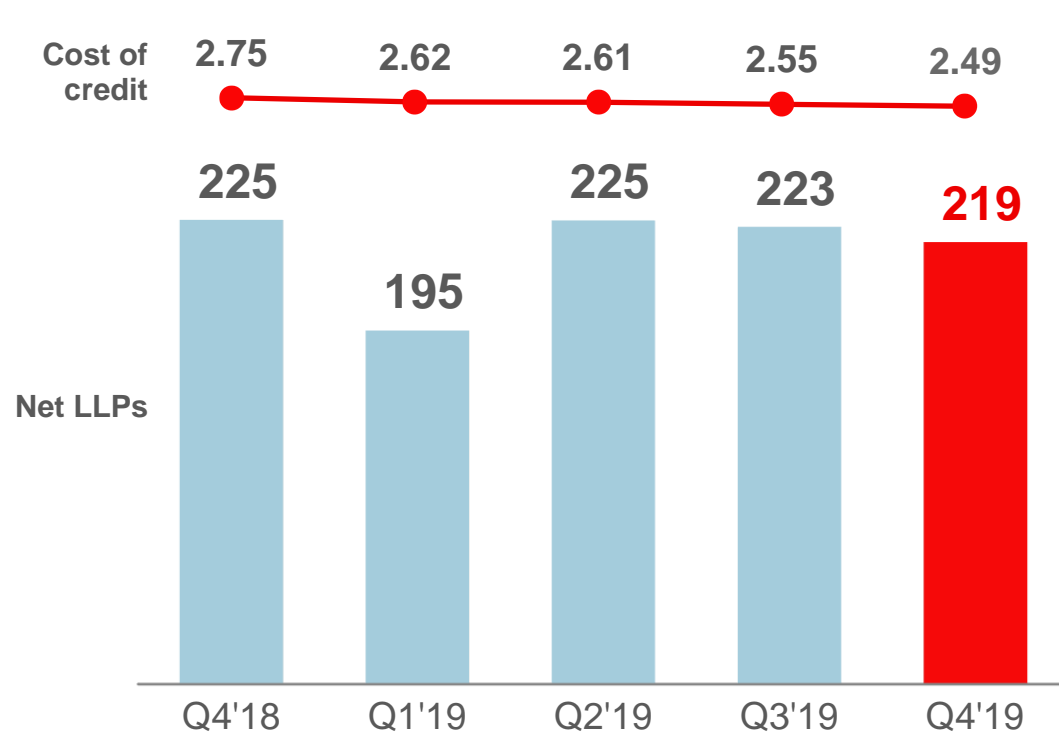
	2019	2018	YoY(%)	QoQ(%)
Operating expenses	1,671	1,547	8.1	4.7

Efficiency ratio	41.8%	41.7%
Branches (#)	1,422	1,418
Employees (#)	20,494	19,859

Healthy credit quality across metrics. Of note, was the significant improvement in the cost of credit



LLP and cost of credit (Constant EUR mn¹, %)

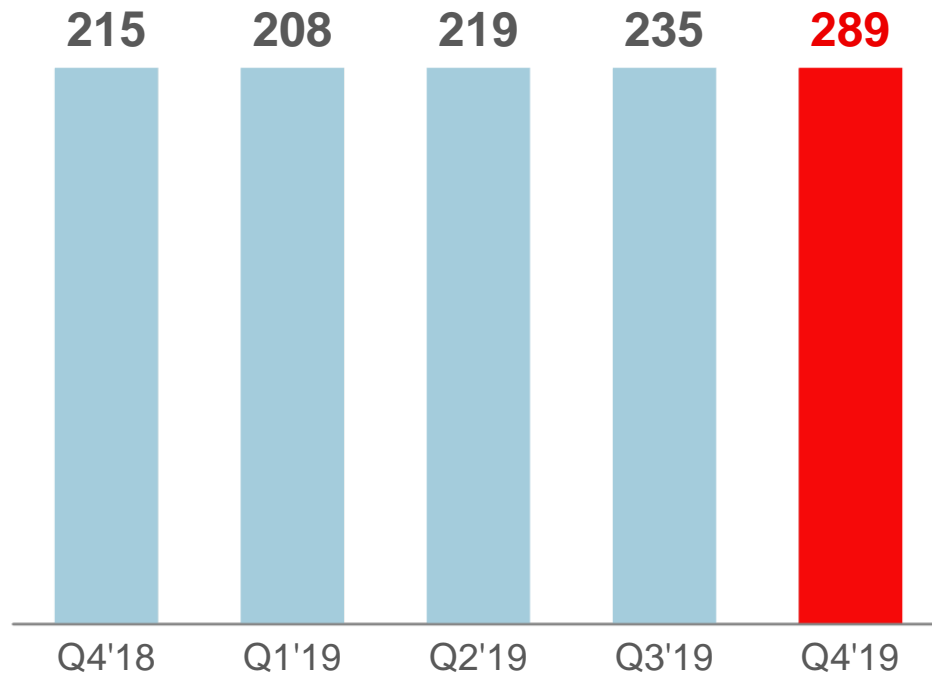


	2019	2018	YoY(%)	QoQ(%)
Net Operating Income	2,327	2,166	7.4	2.6
LLP	(863)	(874)	-1.3	-1.8
Net op. income after LLP	1,464	1,292	13.3	5.3
NPL ratio	2.19%	2.43%		
NPL Coverage ratio	128.3%	119.7%		

Underlying attributable profit grew at double digits (+19% YoY) driven by core earnings. Santander Group's stake in Santander México increased to 91.65%



Underlying attributable profit (Constant EUR mn¹)



	2019	2018	YoY(%)	QoQ(%)
Profit before tax	1,459	1,289	13.2	8.3
Tax on profit	(314)	(267)	17.6	8.3
Consolidated profit	1,145	1,022	12.1	8.3
Non-controlling interests	(196)	(227)	-13.7	-58.2
Underlying attrib. profit	950	795	19.4	22.9
Effective tax rate	21.5%	20.7%		

Our focus on improving our distribution and service model has resulted in double-digit customer and profit growth



Market Environment & Financial System

- ▶ **The slowdown of the economy in 2019 was generalised across** sectors and components of aggregate demand, in an environment of heightened uncertainty
- ▶ **Economic deceleration** experienced during 2019 is **expected to dissipate gradually** over the medium term, despite a complex environment at both local and global levels
- ▶ **Strong commitment to macro policy discipline remains**, for both monetary and fiscal policy. Although it dampens growth in short term, it has made the **Mexican economy more resilient to shocks**

Strategy & Business

- ▶ **Final year of our 3-year, MXN 15 billion investment plan to drive growth and innovation**, to become a more customer-centric bank and the most profitable in Mexico
- ▶ **Strengthening position in retail banking and consolidating leadership in key products and markets**, while realising the potential of our investment and corporate banking businesses
- ▶ **Improving technology and infrastructure, culture, talent, quality, processes and branding**
- ▶ **Maintaining strong focus on profitability**

Results

- ▶ **Loan portfolio growth, while maintaining focus on profitability**
- ▶ **Gross income up** due to growth in NII (+9%) and net fee income (+4%)
- ▶ **Healthy credit quality across metrics.** Of note, was the significant improvement in the cost of credit
- ▶ **Underlying attributable profit grew at double digits** (+19% YoY) driven by core earnings. Santander Group's stake in Santander México increased to 91.65%

Appendix



04

Balance sheet



Constant EUR million ¹	31-Dec-19	31-Dec-18	Variation	
			Amount	%
Loans and advances to customers	35,019	32,468	2,551	7.9
Cash, central banks and credit institutions	10,056	13,146	(3,091)	(23.5)
Debt instruments	17,069	14,989	2,079	13.9
Other financial assets	6,439	6,024	415	6.9
Other asset accounts	3,859	3,197	662	20.7
Total assets	72,441	69,825	2,616	3.7
Customer deposits	35,544	36,385	(841)	(2.3)
Central banks and credit institutions	13,816	10,113	3,703	36.6
Marketable debt securities	6,965	6,565	399	6.1
Other financial liabilities	7,617	8,777	(1,160)	(13.2)
Other liabilities accounts	2,144	2,298	(154)	(6.7)
Total liabilities	66,086	64,139	1,947	3.0
Total equity	6,355	5,686	669	11.8
Other managed customer funds	11,521	10,623	898	8.5
Mutual funds	11,179	10,520	660	6.3
Pension funds	97	103	(6)	(5.8)
Managed portfolios	244	—	244	—

Income statement



Constant EUR million ¹	2019	2018	Variation	
			Amount	%
Net interest income	3,157	2,909	248	8.5
Net fee income	829	796	33	4.2
Gains (losses) on financial transactions	99	107	(7)	(6.7)
Other operating income	(87)	(99)	12	(11.8)
Total income	3,998	3,713	286	7.7
Operating expenses	(1,671)	(1,547)	(125)	8.1
Net operating income	2,327	2,166	161	7.4
Net loan-loss provisions	(863)	(874)	11	(1.3)
Other gains (losses) and provisions	(5)	(4)	(2)	42.4
Underlying profit before tax	1,459	1,289	170	13.2
Tax on profit	(314)	(267)	(47)	17.6
Underlying profit from continuing operations	1,145	1,022	123	12.1
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	1,145	1,022	123	12.1
Non-controlling interests	(196)	(227)	31	(13.7)
Underlying attributable profit to the parent	950	795	154	19.4

Income statement

Constant EUR million¹

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Net interest income	694	700	746	769	775	775	800	807
Net fee income	200	202	204	190	207	218	210	194
Gains (losses) on financial transactions	19	58	27	2	(4)	27	28	49
Other operating income	(24)	(30)	(24)	(21)	(28)	(23)	(29)	(7)
Total income	888	931	953	940	950	996	1,009	1,044
Operating expenses	(365)	(391)	(395)	(396)	(402)	(408)	(421)	(441)
Net operating income	523	540	559	544	548	589	587	603
Net loan-loss provisions	(214)	(202)	(233)	(225)	(195)	(225)	(223)	(219)
Other gains (losses) and provisions	(3)	(13)	(5)	18	(6)	(5)	(3)	8
Underlying profit before tax	306	325	321	337	347	359	361	392
Tax on profit	(67)	(71)	(66)	(63)	(78)	(79)	(75)	(81)
Underlying profit from continuing operations	239	254	255	273	269	280	286	310
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Underlying consolidated profit	239	254	255	273	269	280	286	310
Non-controlling interests	(54)	(58)	(56)	(59)	(62)	(61)	(51)	(21)
Underlying attributable profit to the parent	185	196	199	215	208	219	235	289

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