

29 January 2020

 **Poland**

2019 Earnings Presentation



 **Santander**

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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).

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

Macroeconomic environment and financial system

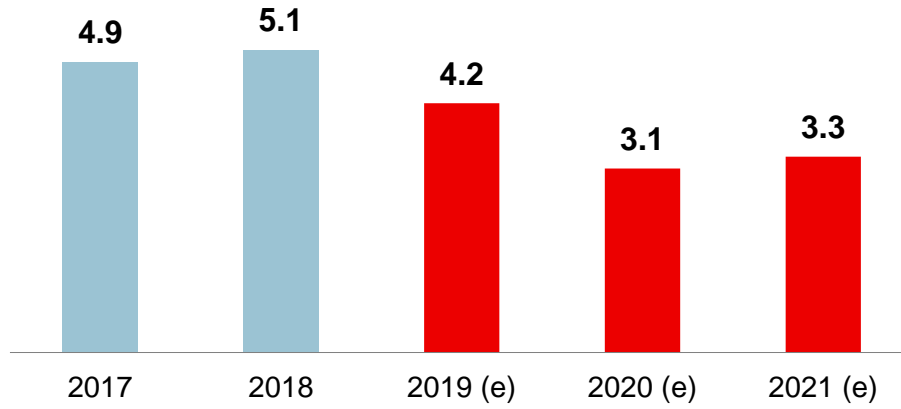


01

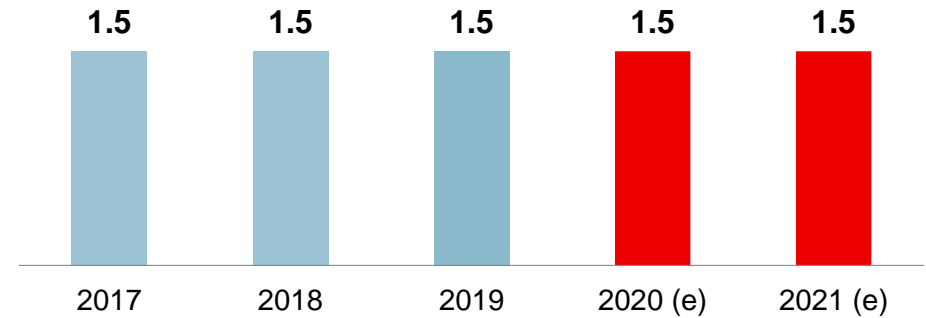


GDP growth gently slowing, CPI above the Central Bank target

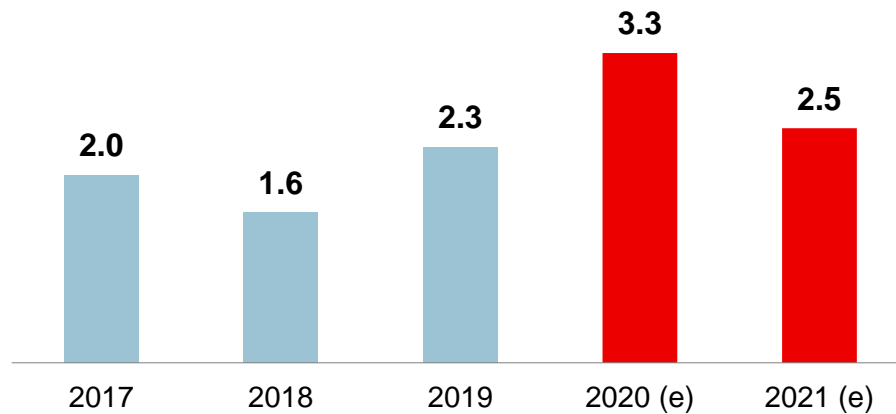
Annual GDP Growth (real, %)



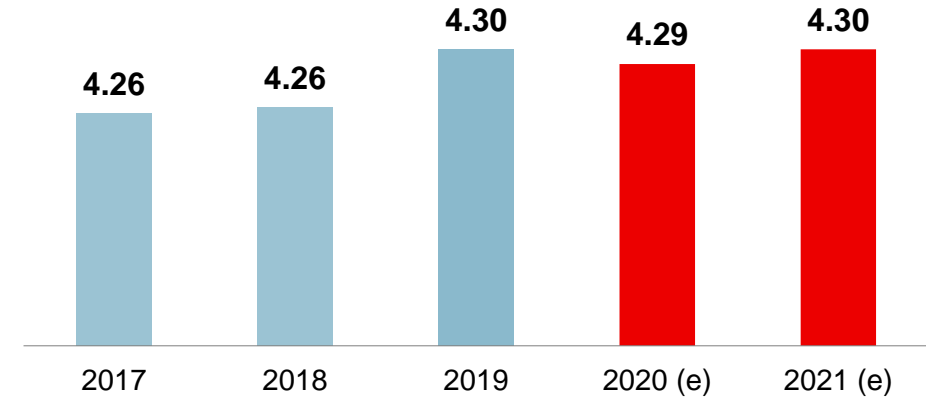
Central Bank Monetary Policy (year end, %)



Annual inflation rate (average, %)



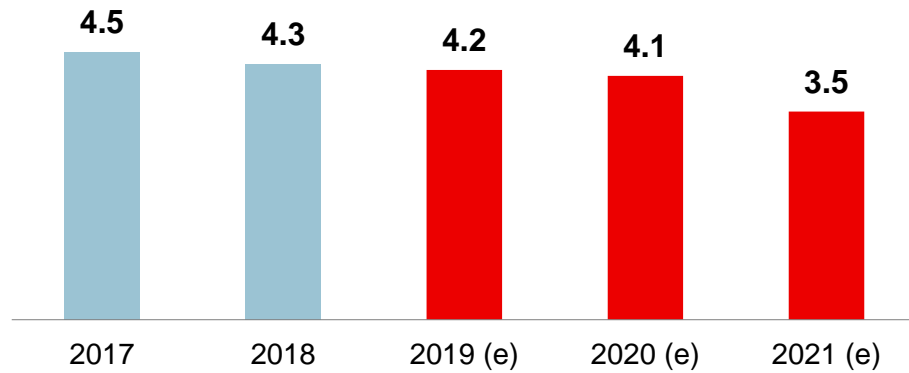
Average exchange rate (EUR / PLN)



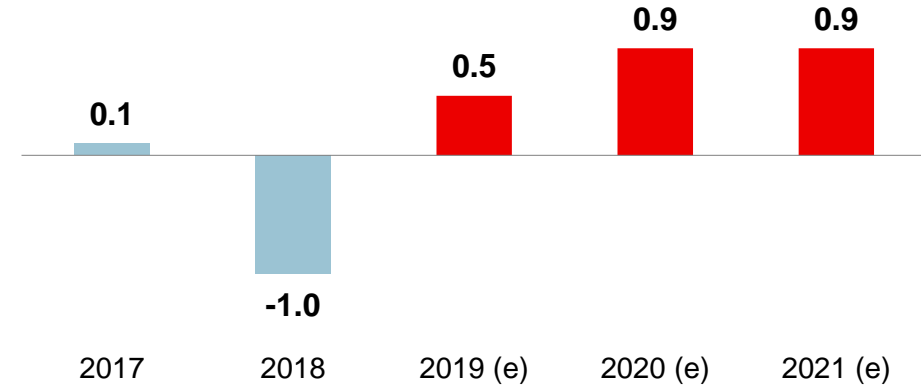


Consumption to stay strong and record low unemployment, though investment slowing

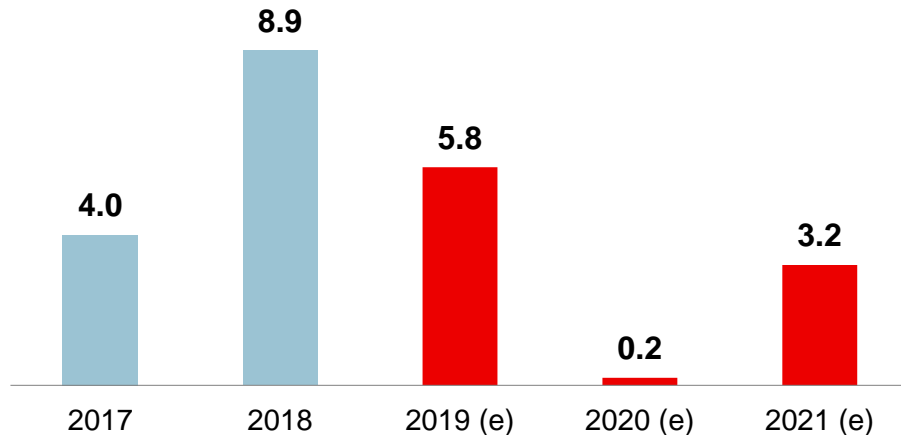
Private Consumption Growth (real, %)



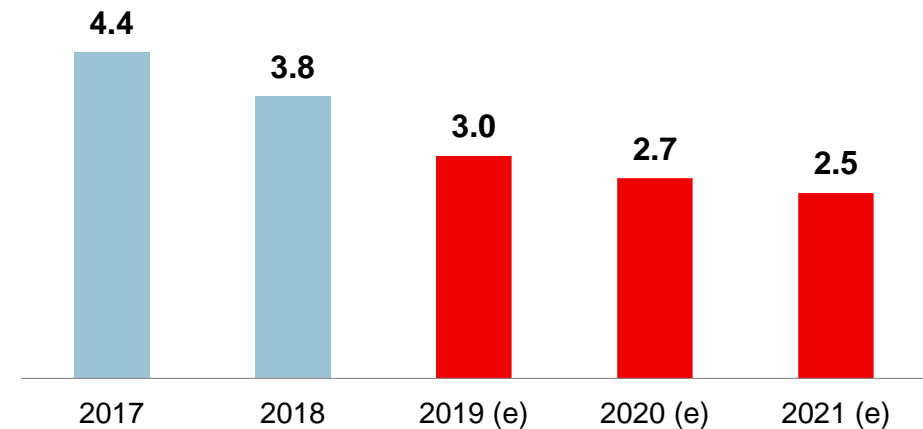
Current Account Balance (year end, % GDP)



Annual Investment Growth (real, %)



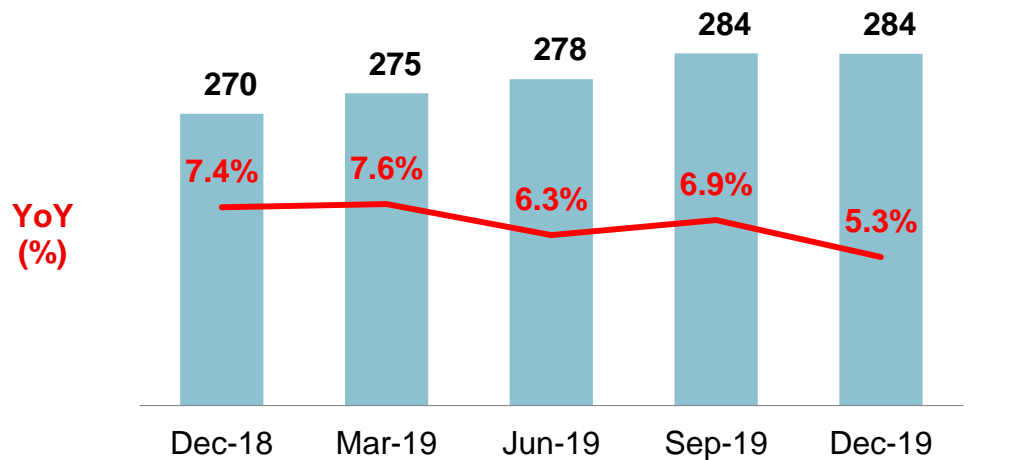
Unemployment (year-end, %)





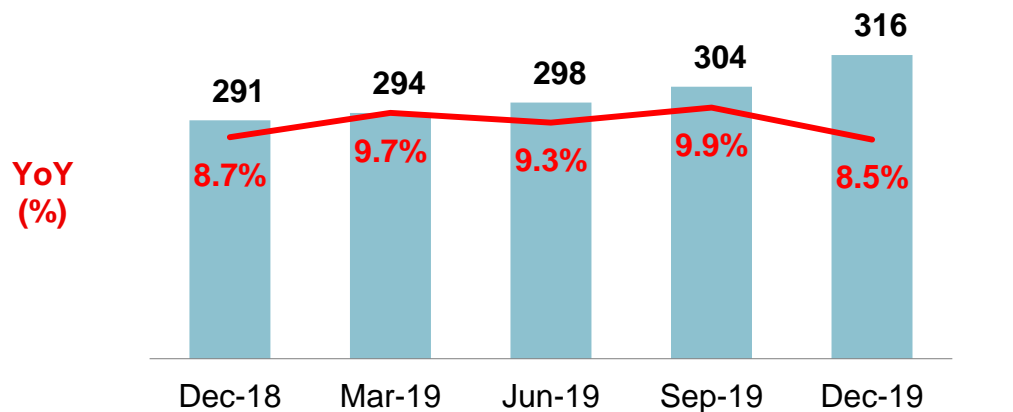
Continued solid growth of loans and deposits

Total loans (Constant EUR bn¹)



- ▶ Total loan growth slowing towards 5% YoY after correcting for exchange rate movements.
- ▶ Consumer loans grew by 8.1% YoY in December 2019, with the growth rate more or less unchanged versus the previous months. PLN-denominated mortgage loan growth remained high, exceeding 12.0% YoY in December 2019.
- ▶ In the corporate sector, the loan growth (after FX adjustment) was at 3.3% YoY.

Total customer deposits (Constant EUR bn¹)



- ▶ Deposit growth at 8.5% YoY in December, with demand deposits rising by 15.0% YoY and term deposits declining 3.3% YoY
- ▶ Deposits from individuals increased 9.3% YoY, while business deposits were up 7.4% YoY.

Strategy and business



02



Santander Bank Polska S.A. – 2nd largest bank in Poland



STRATEGIC PRIORITIES

- ▶ Become a more agile organisation in order to increase customer loyalty and retention

- ▶ Remain the leader in digital channels in Poland

- ▶ Strengthen the Santander brand

- ▶ Enhance our position in Private Banking and Wealth Management



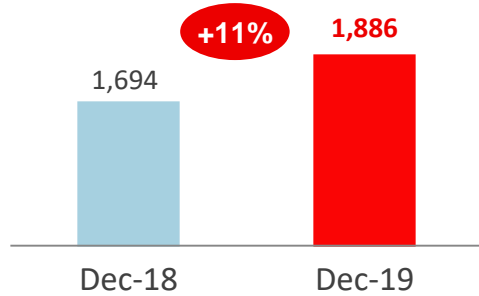
- (1) EUR mn
- (2) As of September-19
- (3) Thousands
- (4) Constant euros

KEY DATA	2019	YoY Var. ⁴
Gross loans ¹	30,925	5.4%
Deposits ¹	33,485	5.1%
Underlying attributable profit ¹	349	18.9%
Underlying RoTE	11.2%	+100 bps
Efficiency ratio	40.4%	-261 bps
Loans market share ²	11.8%	142 bps
Deposits market share ²	11.7%	108 bps
Loyal customers ³	2,010	11.6%
Digital customers ³	2,510	13.9%
Branches	515	-15.7%
Employees	11,049	-11.7%



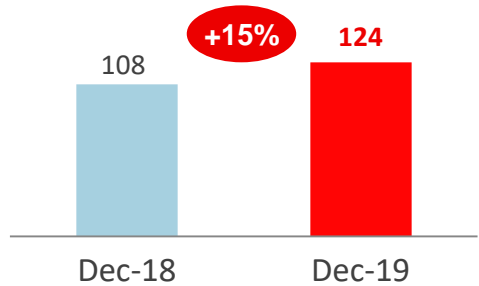
Good growth in loyal customers across all segments

Loyal individuals (k)



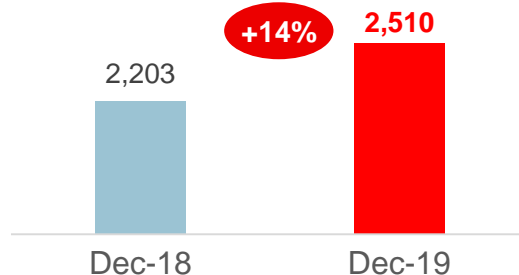
- ▶ Significant increase in loyal customers YoY
- ▶ Strategy to increase income from loyal customers and to build long term relationships

Loyal companies (k)



- ▶ Significant increase in loyal companies numbers YoY
- ▶ Enhance value proposition and non-risk based revenue
- ▶ Service excellence and continuous quality improvement

Digital customers (k)



- ▶ Consistent increase in digital customer numbers
- ▶ Digital channels as the personalisation tool for the *As I Want it Account*
- ▶ Increase in product sales and transactionality via internet and mobile channels

2019 Summary



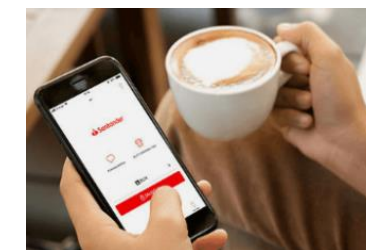
Good key products performance

- ▶ More than **1.78 mn Accounts As I Want** opened.
- ▶ Record **Cash loan** sales levels after unification of Santander and exDB offer, policy, pricing and processes - 2019 sales volume **+73% YoY**. Market share in new sales growth up to **12.5% (+4.4pp)**.
- ▶ Increased **Bancassurance** sales - 2019 premiums **+43% YoY**. Market share growth up to **12.7% (+2.8pp)**.
- ▶ Improving net sales in challenging **investments funds** market - Santander TFI market share growth up to **10.8% (+0.7pp)**.
- ▶ Strong growth of **SME Installment loans +60% YoY**.



Digital channels development

- ▶ Dynamic growth in digital channels:
 - **2.5 mn digital customers (+14% YoY)**
 - **1.6 mn active mobile users (+17% YoY)**
 - **74.5 mn mobile transactions (+80% YoY)**
- ▶ Growth of digital channels share in products sales: **Personal accounts** sales more than 2 times higher, **SME accounts** – 9 times, **Cash loans** – close to 3 times
- ▶ Improved functionality of mobile and internet banking



Improve customer satisfaction

- ▶ Santander Bank Polska awarded:
 - **#1** in Newsweek's Friendly Bank ranking in the Traditional Banking and **#2** in the Internet Banking
 - **Golden Banker** award for Best Multichannel service quality, Best Personal account, Best Cash loan
 - Mobile Trends Awards: Santander Mobile app **#1** in the customers vote; **#3** for eAccounting module for SMEs
 - **#2** in Forbes Best Business Bank ranking
 - **Five stars** for Private Banking in Forbes ranking
- ▶ Constantly improved offering



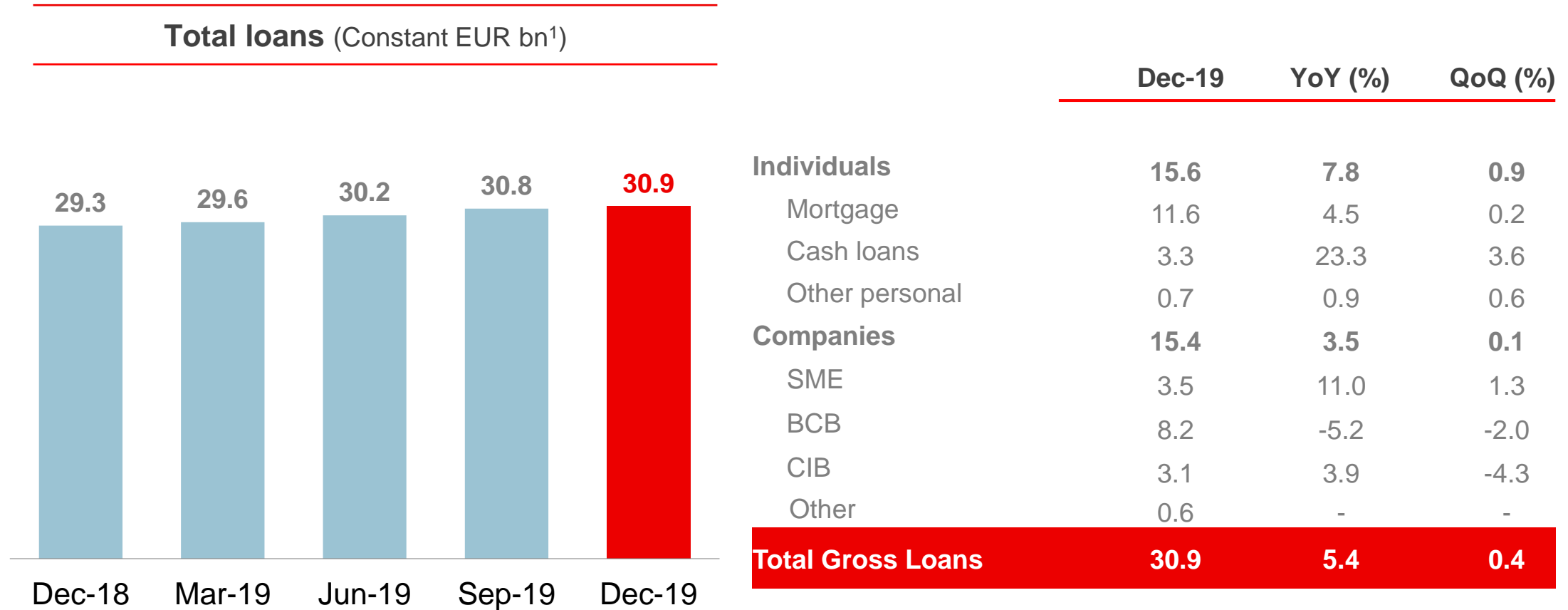
Business transformation

- ▶ Successful integration of post Deutsche Bank Polska sales network and migration of Santander Securities (ex-DB) customers to Santander Brokerage House
- ▶ Optimisation of the retail distribution: **16%** reduction of own branch network in 2019
- ▶ Santander Universidades network extension: **12th** branch opened
- ▶ The first in Poland **Work Café** opening in Warsaw - combination of branch, café and co-working area

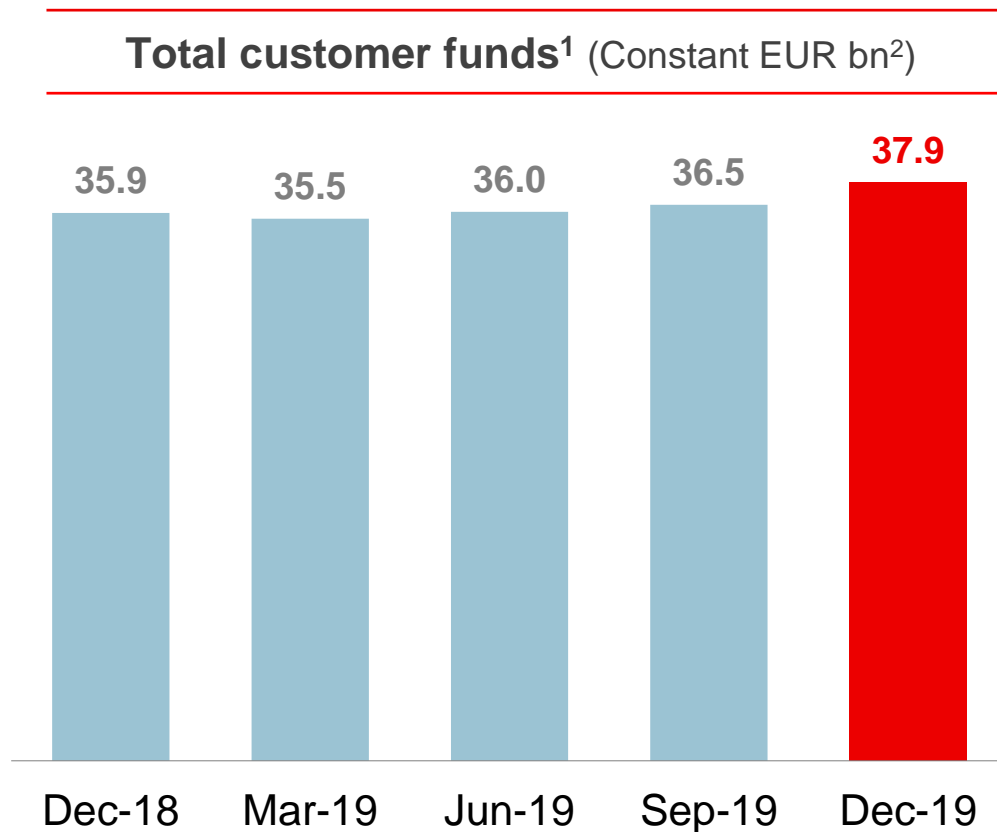




Loan growth YoY supported by most strategic segments. Good quarterly growth in cash loans and SMEs



Solid growth of customer funds YoY and QoQ. Focus on optimisation of deposit base and costs



	Dec-19	YoY (%)	QoQ (%)
Demand deposits	23.8	14.8	9.1
Time deposits	9.7	-13.0	-6.4
Customer deposits	33.5	5.1	4.1
Mutual Funds	4.4	9.6	3.4
Total Customer funds	37.9	5.6	4.0

Results

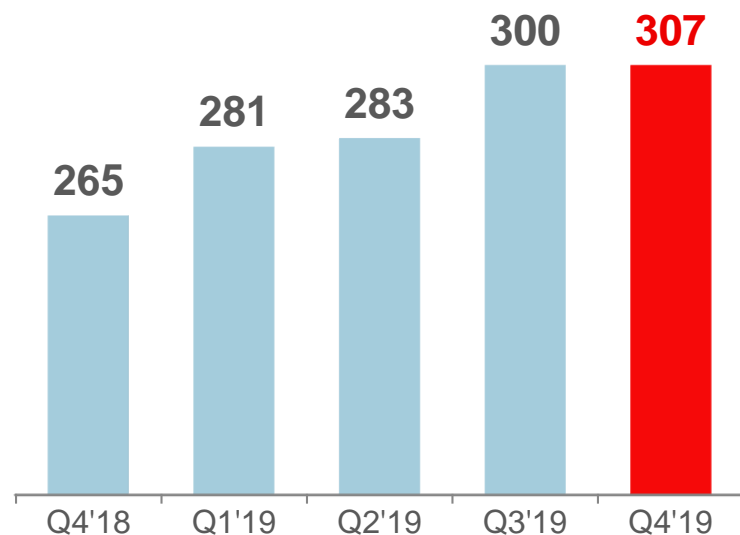


03



NII up 18.6% YoY. NIM impacted by the change affecting early repayment of consumer loans. Significant reduction in the cost of deposits in the H2 2019

Net interest income (Constant EUR mn¹)



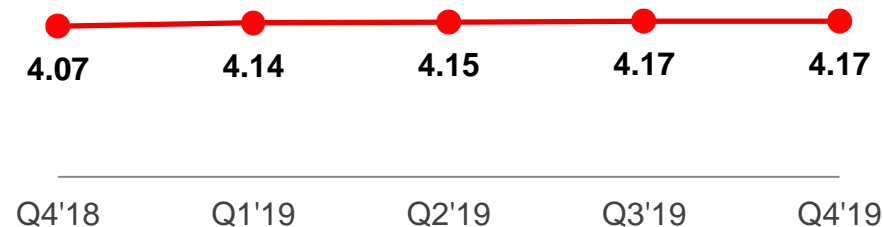
NIM² (%)

2.73% 2.72% 2.94% 2.94% 3.01%

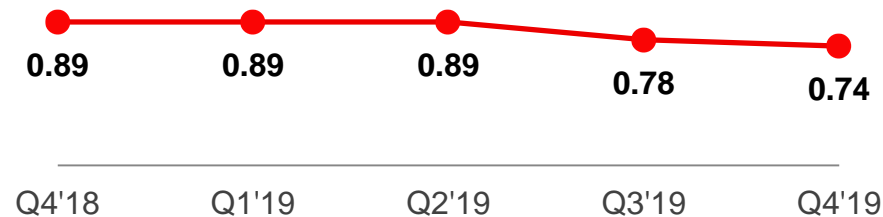
Official interest rate³ (%)

1.5% 1.5% 1.5% 1.5% 1.5%

Yield on loans (%)



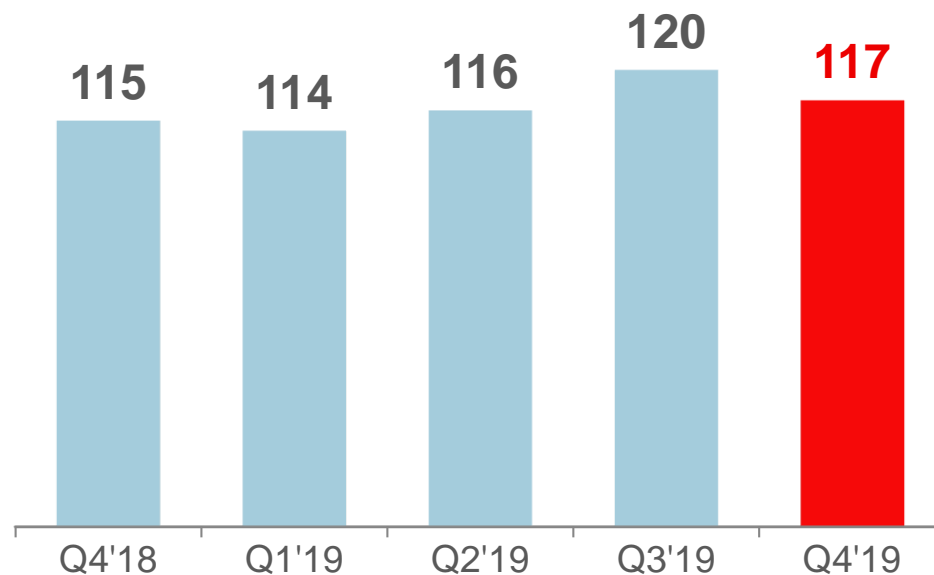
Cost of deposits (%)





Fee income growth +4% YoY. Good performance in loans and FX fees. Capital market fees impacted by market environment in 2019, but improved in Q4

Net fee income (Constant EUR mn¹)

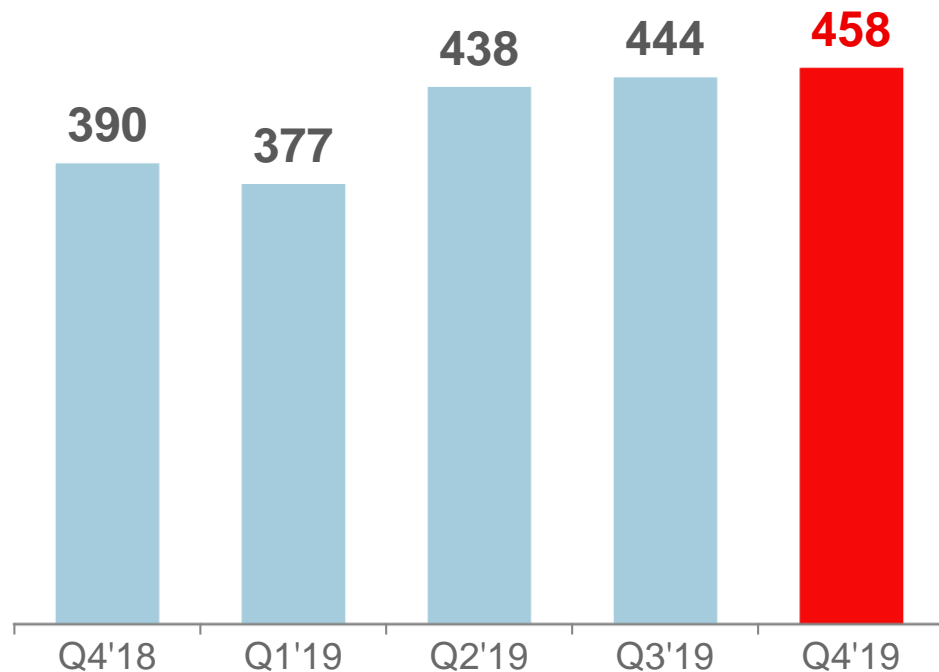


	2019	2018	YoY(%)	QoQ(%)
Cards	66	65	0.5	-3.3
Customer	210	199	5.6	-6.3
Loan + Insurance	107	94	13.7	0.1
Capital market fees	79	82	-3.7	8.9
Other	6	9	-36.5	-30.0
Total net fee income	467	449	4.0	-2.1

Strong growth YoY in total income from core revenue and supported by gains on financial transactions



Total income (Constant EUR mn¹)

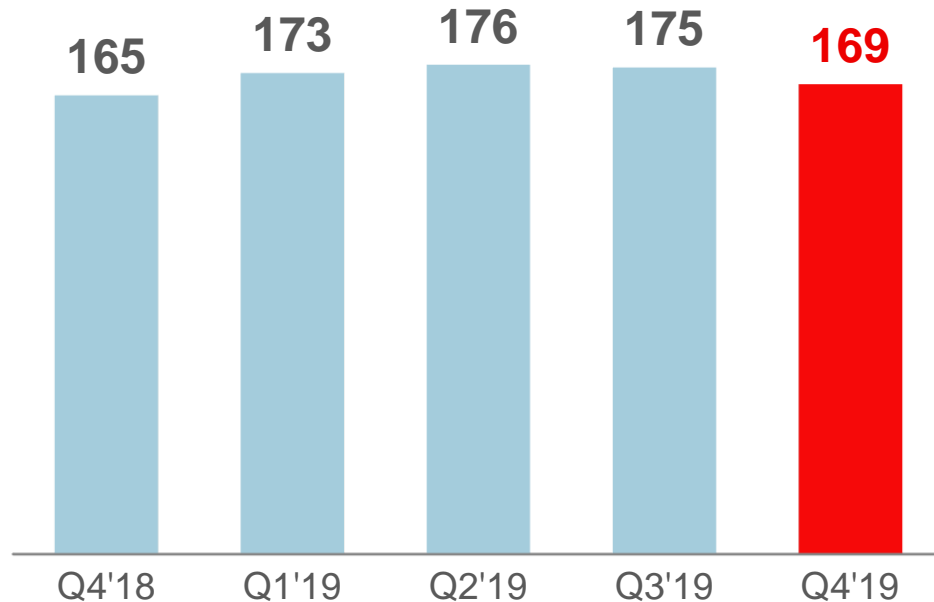


	2019	2018	YoY(%)	QoQ(%)
Net Interest Income	1,171	987	18.6	2.3
Net Fee Income	467	449	4.0	-2.1
Subtotal	1,637	1,436	14.0	1.0
Other ²	80	39	103.8	41.6
Total Income	1,717	1,475	16.4	3.2



Operating expenses under control YoY, despite higher costs for strategic projects, investments and salary pressures. Good performance in the last quarter

Operating expenses (Constant EUR mn¹)

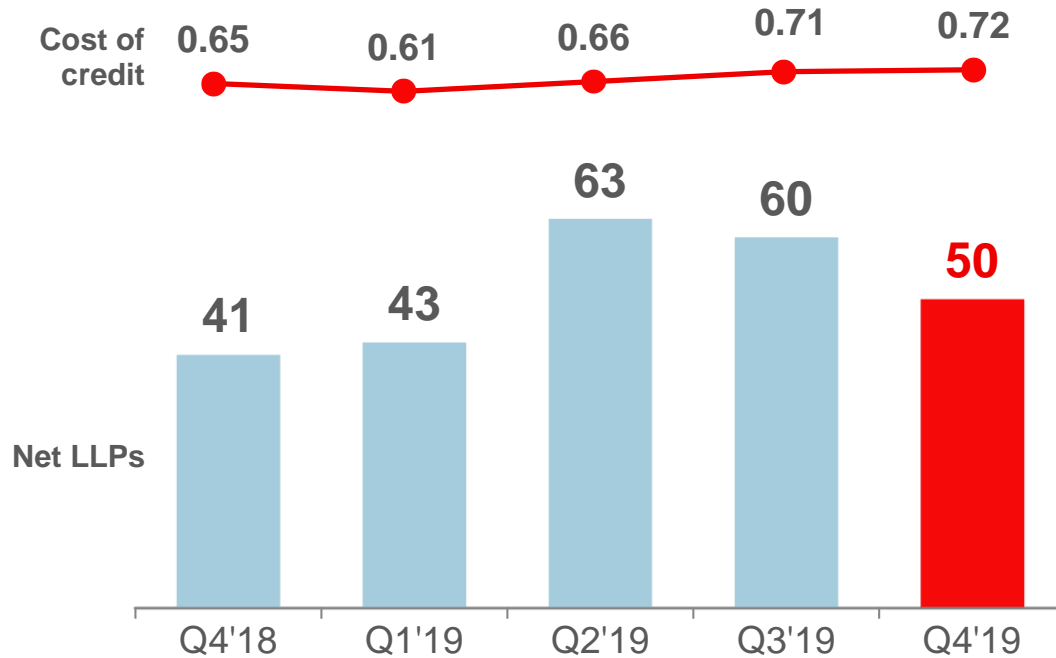


	2019	2018	YoY(%)	QoQ(%)
Operating expenses	(693)	(634)	9.3	-3.7
Efficiency ratio	40.4%	43.0%		
Branches (#)	515	611		
Employees (#)	11,049	12,515		



Larger loan portfolio following the acquisition of Core DB Polska. Portfolios are behaving in line with expectations

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

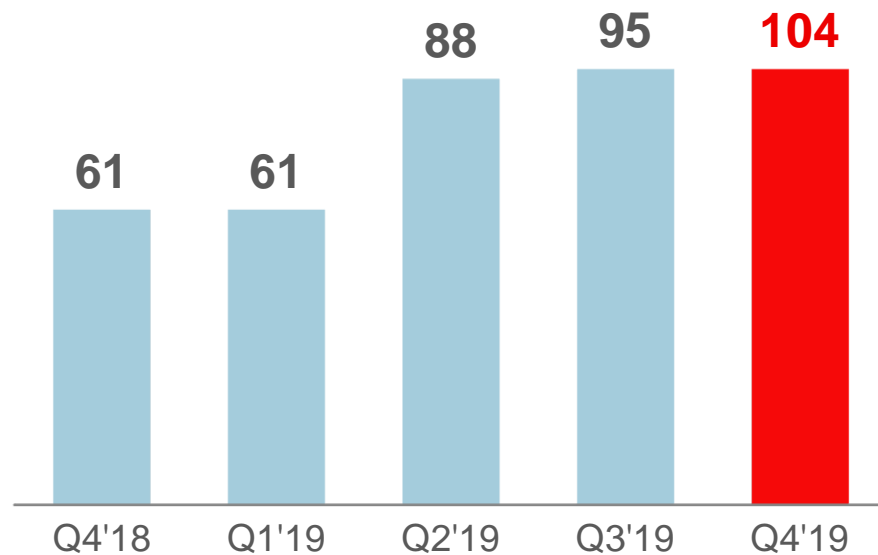


	2019	2018	YoY(%)	QoQ(%)
Net Operating Income	1,024	841	21.7	7.8
LLPs	(217)	(160)	35.6	-15.3
Net operating income after LLPs	807	681	18.5	14.4
NPL ratio	4.31%	4.28%		
Coverage ratio	67%	67%		



Underlying attributable profit +18.9% YoY despite the significant impact of increased regulatory charges (BFG and Banking Tax) in 2019

Underlying Attributable profit (Constant EUR mn¹)



	2019	2018	YoY(%)	QoQ(%)
Profit before tax	681	547	24.3	11.1
Tax on profit	(170)	(129)	31.2	17.2
Consolidated profit	511	418	22.2	9.1
Underlying attributable profit	349	293	18.9	9.2
Effective tax rate	25%	24%		

Final remarks



Market Environment & Financial System

- ▶ GDP growth strong yet decelerating in 2019, with private consumption remaining strong, fuelled by a robust labour market, high consumer confidence and welfare spending. Growth rate of investments started at high level but then decelerated quickly. Weakening global economic environment affected the Polish economy negatively.
- ▶ CPI inflation rose above the Central Bank target (2.5%) due to rising core inflation and shocks in energy and food prices.
- ▶ Main interest rates to stay unchanged at 1.5% over the next few years.
- ▶ Total loan growth after FX adjustment close to 6% YoY. Coming quarters may see a stabilisation or even slight deceleration, amid lower nominal GDP growth.

Strategy & Business

- ▶ Our business strategy continues to be focused on gathering new customers through the development of our multi-channel approach and increasing loans and related fee income from the Consumer, SME, Leasing, Factoring, BCB and CIB segments.
- ▶ Growing loyal and digital customers through new products, more activity and related income.
- ▶ Strategy focused on end-to-end digital transformation.
- ▶ Realisation of strategic projects: agile implementation and mortgage bank.

Results

- ▶ Dynamic growth in Net Interest Income: +19% YoY due to DB acquisition and organic growth.
- ▶ Strong growth in Total income: +16% YoY due to core revenue increase and gains on financial transactions.
- ▶ Operating expenses under tight control, however impacted by strategic projects and wage pressures.
- ▶ Cost of credit in line with expectations.
- ▶ Underlying attributable profit of EUR 349 million in 2019 +18.9% YoY, however impacted by higher regulatory charges (BFG and Banking Tax).

Appendix



04

Balance sheet



Constant EUR million ¹	31-Dec-19	31-Dec-18	Variation	
			Amount	%
Loans and advances to customers	30,034	28,459	1,576	5.5
Cash, central banks and credit institutions	3,398	3,295	103	3.1
Debt instruments	9,285	10,681	(1,395)	(13.1)
Other financial assets	630	540	90	16.7
Other asset accounts	1,341	1,152	188	16.4
Total assets	44,688	44,126	562	1.3
Customer deposits	33,485	33,767	(281)	(0.8)
Central banks and credit institutions	2,319	2,188	130	6.0
Marketable debt securities	2,171	1,808	363	20.1
Other financial liabilities	762	564	198	35.1
Other liabilities accounts	923	818	105	12.9
Total liabilities	39,659	39,144	515	1.3
Total equity	5,029	4,982	47	0.9
Other managed customer funds	4,762	4,430	332	7.5
Mutual funds	4,444	4,054	390	9.6
Pension funds	—	—	—	—
Managed portfolios	318	376	(58)	(15.5)

Income statement



Constant EUR million¹

	2019	2018	Variation	
			Amount	%
Net interest income	1,171	987	184	18.6
Net fee income	467	449	18	4.0
Gains (losses) on financial transactions	93	43	50	114.7
Other operating income	(13)	(4)	(9)	221.6
Total income	1,717	1,475	242	16.4
Operating expenses	(693)	(634)	(59)	9.3
Net operating income	1,024	841	183	21.7
Net loan-loss provisions	(217)	(160)	(57)	35.6
Other gains (losses) and provisions	(127)	(134)	7	(5.4)
Underlying profit before tax	681	547	133	24.3
Tax on profit	(170)	(129)	(40)	31.2
Underlying profit from continuing operations	511	418	93	22.2
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	511	418	93	22.2
Non-controlling interests	(162)	(125)	(37)	29.9
Underlying attributable profit to the parent	349	293	55	18.9

Income statement



Constant EUR million¹

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Net interest income	240	238	244	265	281	283	300	307
Net fee income	109	113	111	115	114	116	120	117
Gains (losses) on financial transactions	4	15	15	9	19	21	24	30
Other operating income	(29)	27	(2)	0	(36)	18	0	5
Total income	324	394	368	390	377	438	444	458
Operating expenses	(150)	(161)	(157)	(165)	(173)	(176)	(175)	(169)
Net operating income	173	233	210	224	204	263	268	289
Net loan-loss provisions	(45)	(41)	(33)	(41)	(43)	(63)	(60)	(50)
Other gains (losses) and provisions	(13)	(34)	(26)	(61)	(34)	(34)	(25)	(34)
Underlying profit before tax	116	158	151	122	127	165	184	204
Tax on profit	(30)	(29)	(37)	(34)	(37)	(36)	(44)	(52)
Underlying profit from continuing operations	86	130	114	88	90	129	140	152
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Underlying consolidated profit	86	130	114	88	90	129	140	152
Non-controlling interests	(25)	(39)	(34)	(27)	(28)	(41)	(44)	(49)
Underlying attributable profit to the parent	61	91	80	61	61	88	95	104

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