

30 October 2019



## 9M'19 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 3Q Financial Report, published as Relevant Fact on 30 October 2019. These documents are available on Santander’s website ([www.santander.com](http://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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# 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

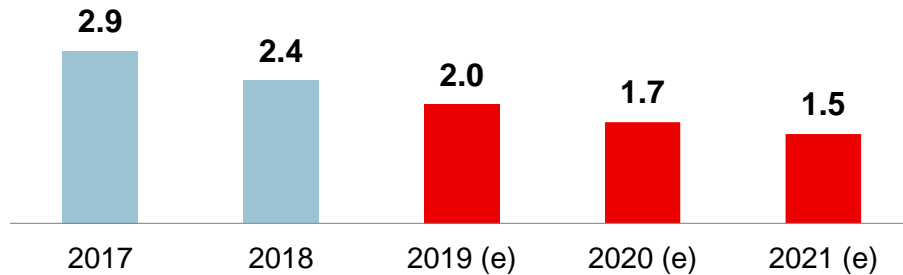


01



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

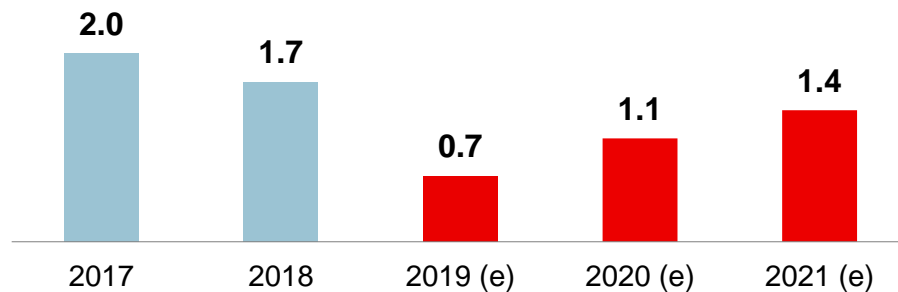
**Annual GDP Growth** (real, %)



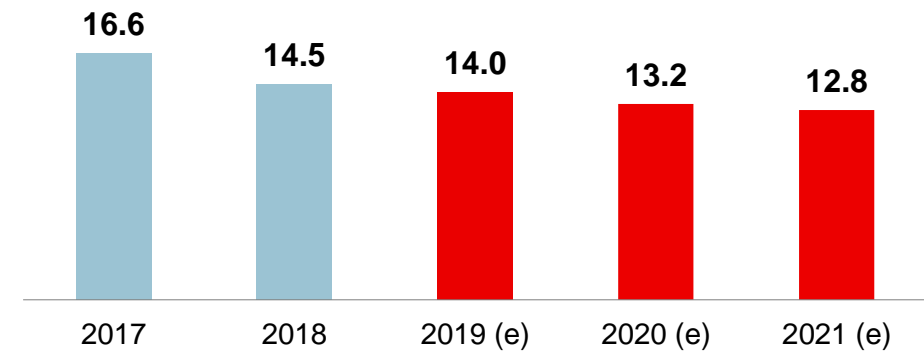
**Interest rates** (official rate, %)



**Annual inflation rate** (%)



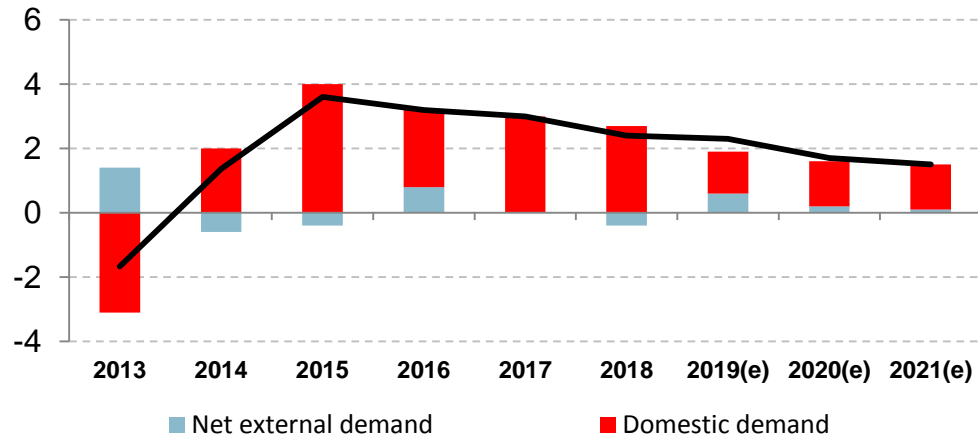
**Unemployment rate<sup>1</sup>** (%)



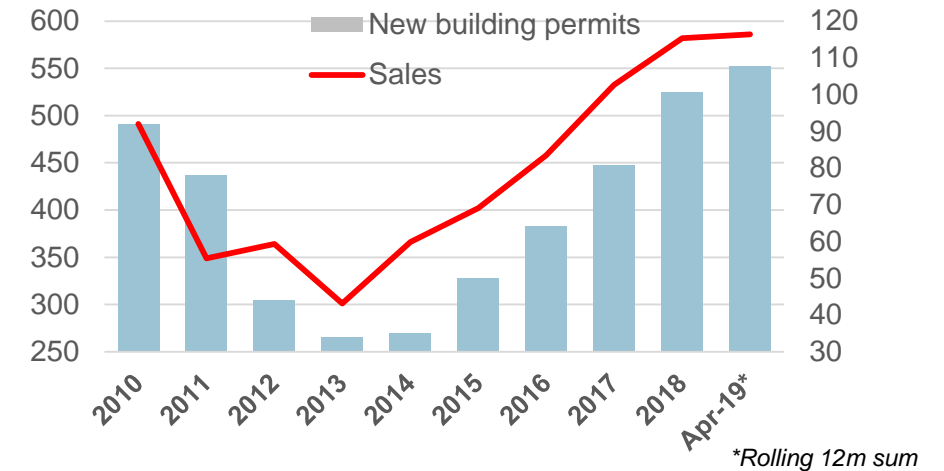


# ...backed by job creation, higher consumption and real estate recovery

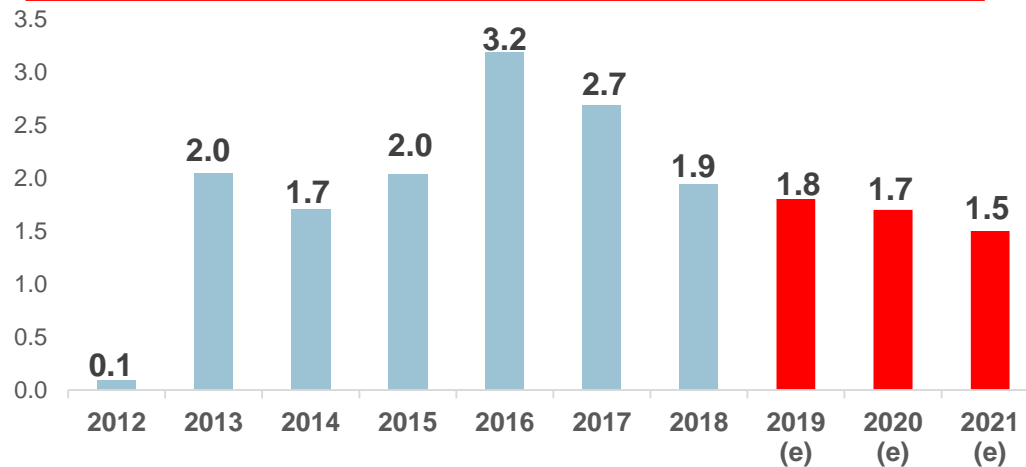
## Contribution to GDP growth (% YoY)



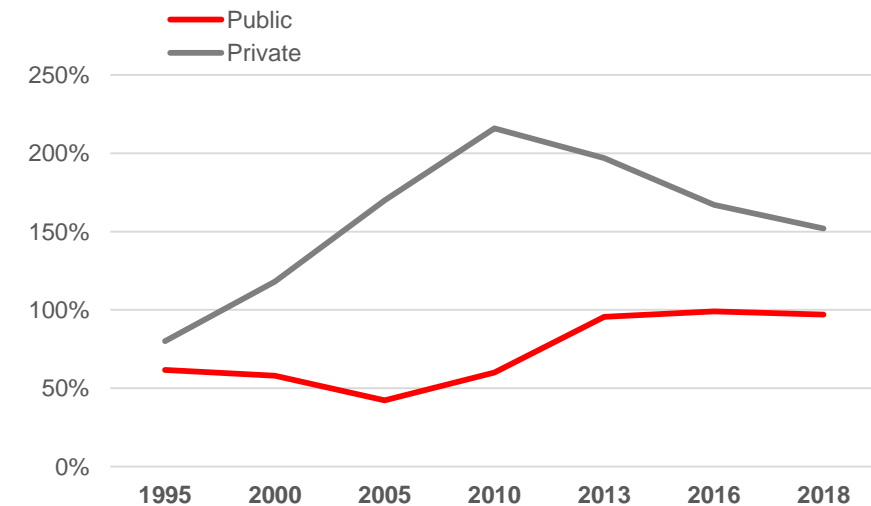
## Housing: sales and permits (k)



## Current account balance (% GDP)



## Indebtedness (% GDP)

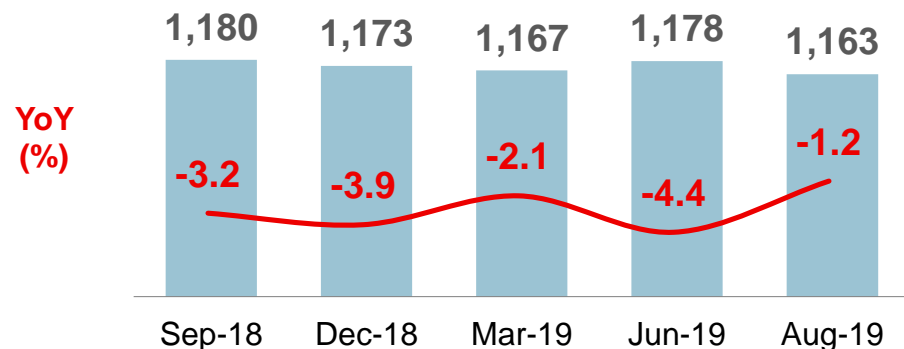




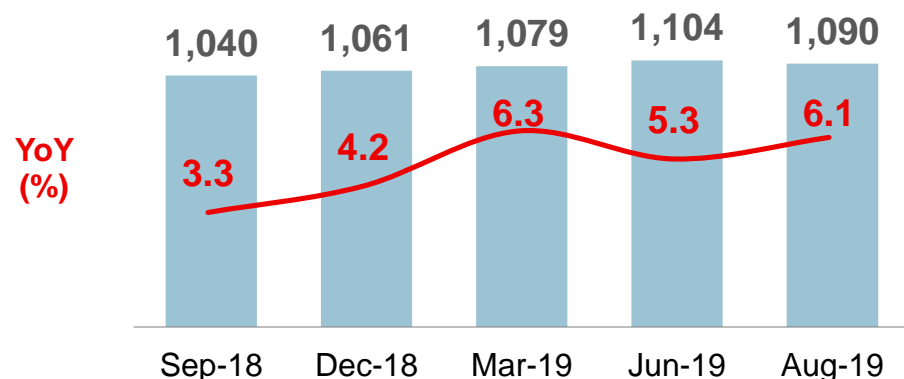


## Deleveraging continues, reducing stock of loans

Total loans (EUR bn)



Total deposits (EUR bn)



- ▶ Demand for **housing** loans declined in Q3'19. The factors that explain this decline are, mainly, less consumer confidence and regulatory changes. Also, lower to a lesser extent, the worsening outlook in the housing market, higher funding by own funds and greater use of loans from other institutions.
- ▶ Demand for **consumer credit** and others declined slightly due to a decrease in consumer confidence, lower spending on consumer durables and a higher use of loans from other entities. Demand for funds from **companies** declined between July and September 2019, in both SMEs and corporates.
- ▶ In **savings**, slight decrease 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 bank<sup>4</sup> 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	9M'19	YoY Var.
	Gross loans <sup>1</sup>	194,485	-6%
	Customer funds <sup>1</sup>	312,918	+3%
	Underlying att. profit <sup>1</sup>	1,185	+3%
	Underlying RoTE	10.6%	+43 bps
	Efficiency ratio	53.4%	-284 bps
	Loans market share <sup>2</sup>	17.4	-21 bps
	Deposits market share <sup>2</sup>	18.9	-14 bps
	Loyal customers <sup>3</sup>	2.5	+6%
	Digital customers <sup>3</sup>	4.7	+20%
	Branches	3,852	-12%
	Employees	29,713	-5%



# Moving forward in our strategy with a special focus on SMEs and Corporates, Digital transformation and improved value-added offering

## Popular integration

- Completing **full technological migration of all branches and customers to Santander platform**
- Improved **customer experience and satisfaction**
- Delivering in the **synergies commitments** announced upon Popular Acquisition
- Branch concentration plan (**1,150 branches**) currently being executed

## Loyalty through transactionality

Making progress on the defined road map for **PoS merchant services**



**+12% YTD** New activated customers

**+11% YTD** Customer Stock

**+10% YoY** Turnover

## SMEs

Supporting our customers in their **growth and international expansion**

- Focus on **value added products** leveraging on Santander capabilities:

**+11% growth** in international business



## Insurance

Transforming the business model by **increasing our product offering: health and accident insurance**

Seguro Santander Aegon Salud  
Dale like a tu salud  
Elige qué profesionales quieres que cuiden de tu salud y de los tuyos. Elige tu cobertura por día.  
Contrata ahora y disfruta de 4 cuotas gratis en tus dos primeros años.



**+5% YoY** in insurance premiums:

- +25% YoY** in health and funeral expenses
- +9% YoY** in temporary disability

## Digital Banking

Continued focus on **digital transformation** and customer engagement

- 59%** of active customers are **digital customers** reaching **27% of digital sales** (+6 bps)
- Best-in class Contact Center 1st** in the total ranking for two consecutive years

## Investment Funds

Keeping a positive evolution and **offering value** to customers

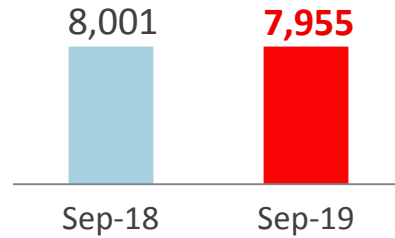


- +EUR 4.1 bn YTD** growth in balance
- Market share gain since December



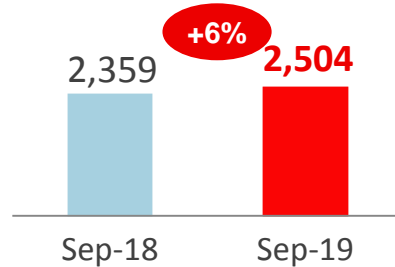
# Sustained growth in customer digitalisation, while preserving customer loyalty and transactionality

## Active customers (k)



- ▶ **Sustained commercial dynamism**, specially in UPLs +24% YoY, driven by pre-concession and digital capabilities
- ▶ **Continuous improvement in customer spread** (+23 bps vs. Q1'18) due to the effect of lower liability costs (+20 bps) and the improvement in asset profitability (+3 bps)

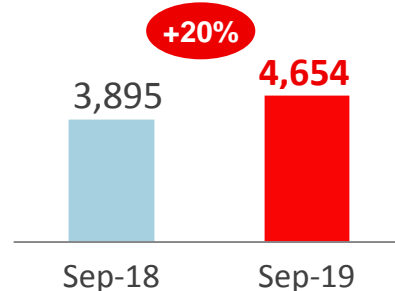
## Loyal customers (k)



### Continuous growth in loyalty levers, increasing transactionality

- ▶ PoS +14% YoY growth in transactions and +9% in turnover
- ▶ New insurance premiums +5%, consolidating insurance as a strategic lever with the Aegon's and Mapfre's JVs<sup>1</sup>
- ▶ Double-digit growth in debit card billing +13% YoY

## Digital customers (k)



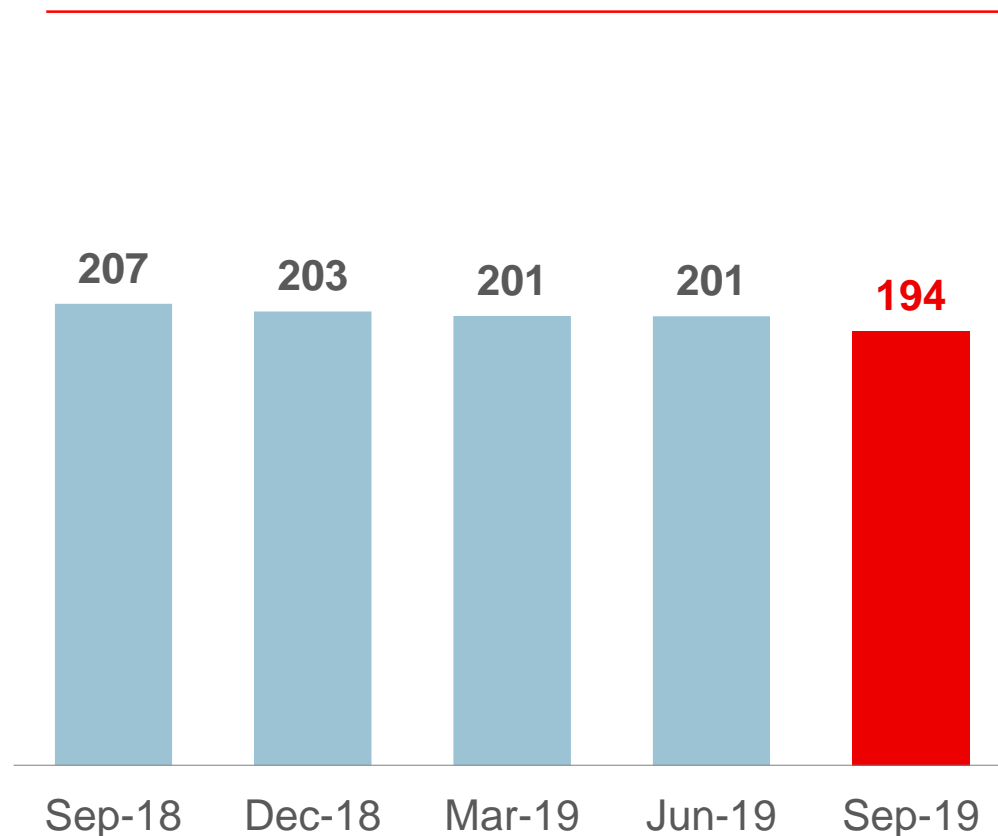
### Sustained growth in customer digitalisation, while preserving customer loyalty and experience

- ▶ 59% of active customers are digital customers achieving a total volume of 4.7 mn customers (+20% YoY)
- ▶ Digital sales account for 27% of the total sales (+6 bps YoY)

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



**Total gross loans (EUR bn<sup>1</sup>)**



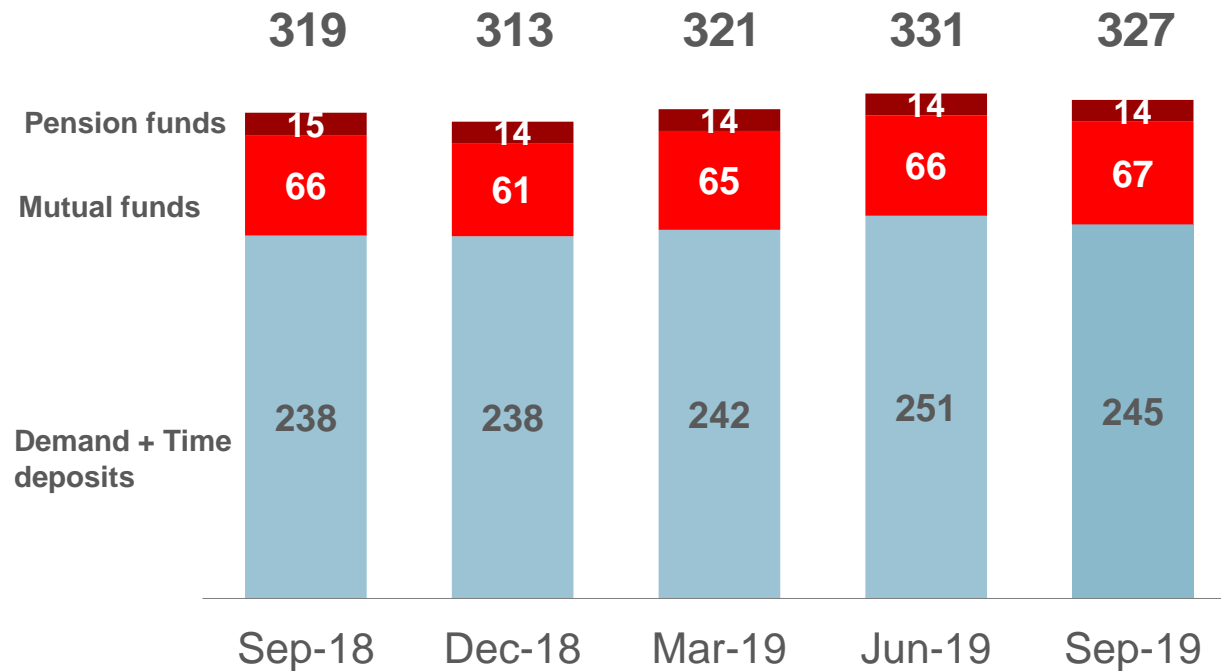
	Sep-19	YoY(%)	QoQ(%)
<b>Institutions</b>	12	-29.1	-26.1
<b>Individual customers</b>	74	-1.1	-1.9
<i>of which:</i>			
<i>- Housing mortgages</i>	58	-4.7	-3.2
<b>Companies</b>	84	-2.0	-0.7
<b>CIB</b>	22	-12.2	-0.7
<b>Real Estate</b>	1	-39.1	-14.4
<b>Other</b>	2	-36.9	2.7
<b>Total Loans</b>	194	-5.9	-3.3
<b>Provisions</b>	(6)	-17.7	-3.8
<b>Net loans</b>	188	-5.4	-3.3





Growth in customer funds with demand deposits increasing 7% and mutual funds (+2%), partly offset by lower volumes in time deposits and pension funds

### Total customer funds (EUR bn)



	Sep-19	YoY(%)	QoQ(%)
Demand deposits	207	6.6	-2.4
Time deposits	38	-12.3	-1.7
<b>Total deposits</b>	<b>245</b>	<b>3.1</b>	<b>-2.3</b>
Mutual funds	67	2.2	2.2
<b>Customer funds</b>	<b>313</b>	<b>2.9</b>	<b>-1.3</b>
Pension funds	14	-2.2	0.0
<b>Total customer funds</b>	<b>327</b>	<b>2.7</b>	<b>-1.3</b>

# Results

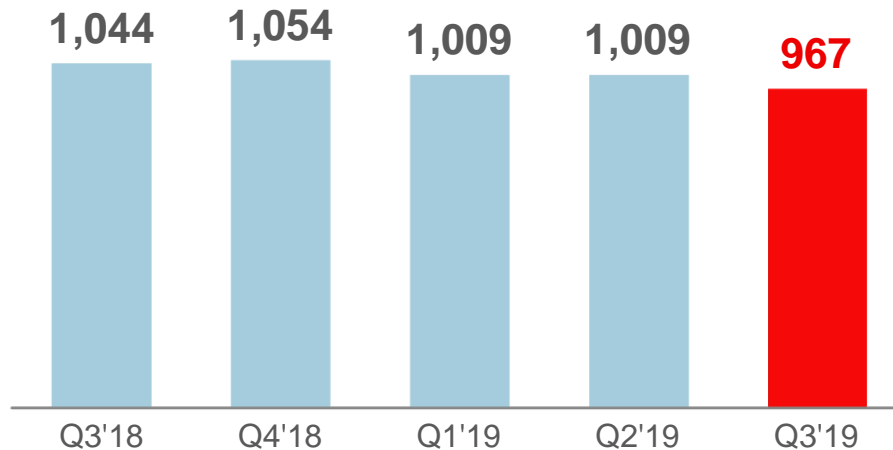


# 03

**NII fell 2% YoY due to decreased volumes and lower interest rates, partially offset by the improvement in spreads. Excluding IFRS 16 impact, +1% YoY**



**Net interest income (EUR mn)**



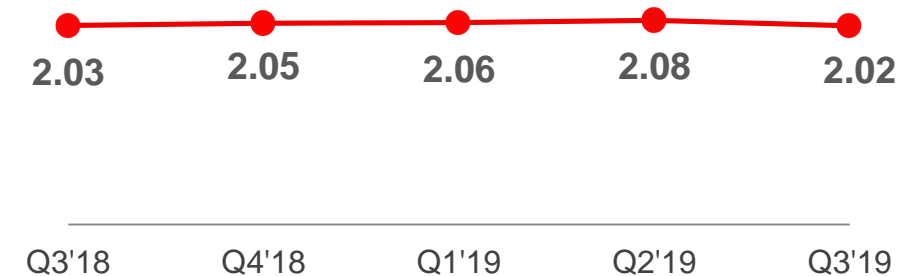
**NIM<sup>1</sup> (%)**

1.10	1.18	1.18	1.18	1.15
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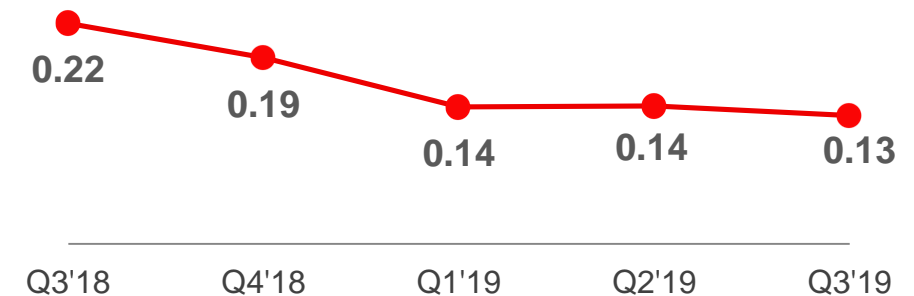
**Official interest rate<sup>2</sup> (%)**

0.00	0.00	0.00	0.00	0.00
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**Yield on loans (%)**



**Cost of deposits (%)**

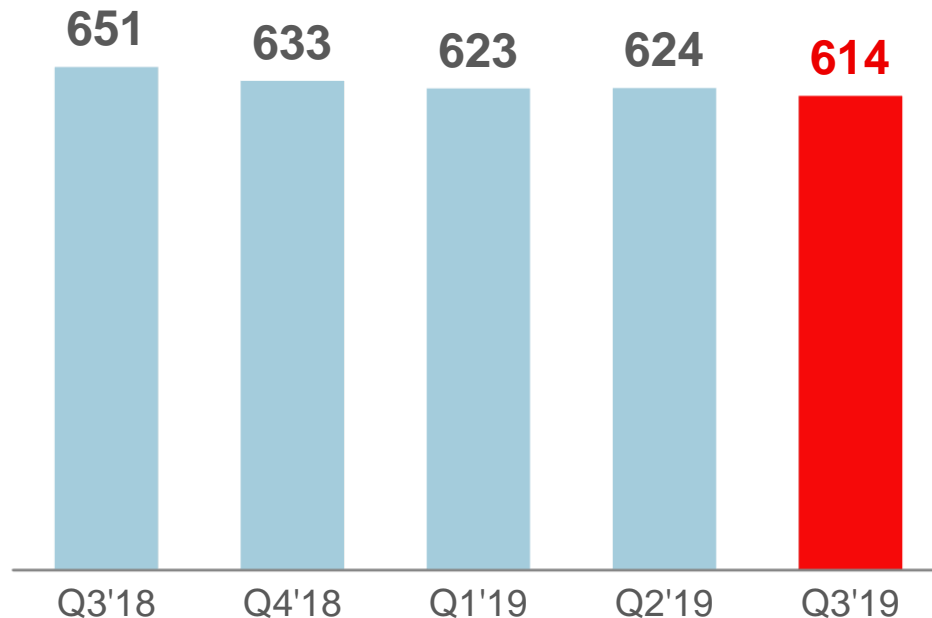






Net fee income fell 7% YoY, due to lower activity at SCIB and the change towards more conservative funds. On the other hand, higher insurance fees

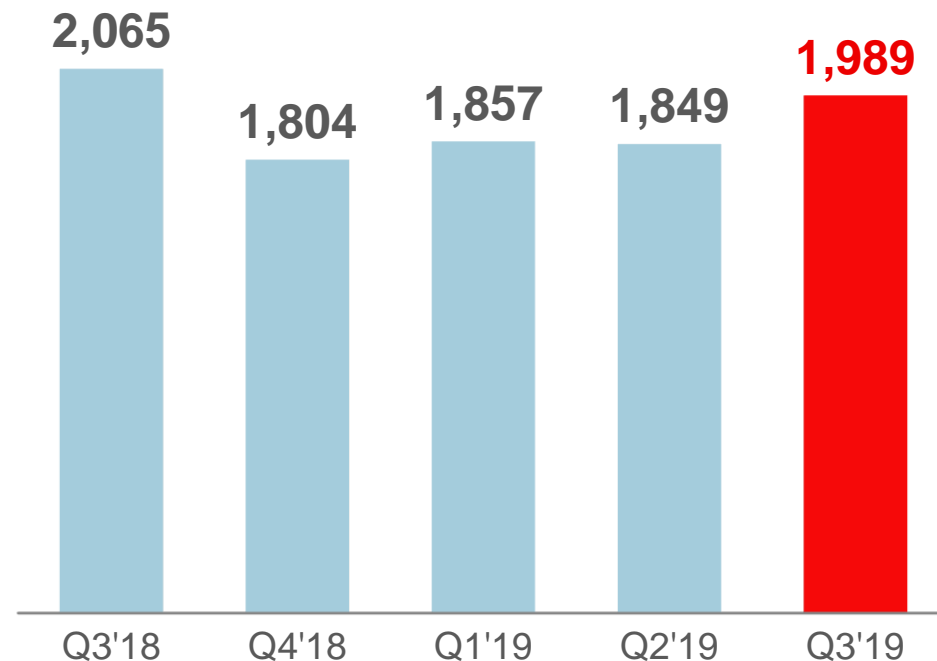
### Net fee income (EUR mn)



	9M'19	9M'18	YoY(%)	QoQ(%)
Accounts	392	414	-5.1	-0.3
Mutual & Pension funds and securities	591	603	-2.0	-1.4
Insurance	204	194	4.8	-14.4
Retail other fees	424	447	-5.1	0.0
<b>Total retail fees</b>	<b>1,612</b>	<b>1,658</b>	<b>-2.8</b>	<b>-2.4</b>
<b>SCIB<sup>1</sup></b>	<b>249</b>	<b>332</b>	<b>-25.0</b>	<b>3.6</b>
<b>Total</b>	<b>1,861</b>	<b>1,991</b>	<b>-6.5</b>	<b>-1.6</b>

Decrease in gross income YoY: higher gains on financial transactions due to portfolio sales not enough to offset lower NII and fee income 

### Gross income (EUR mn)



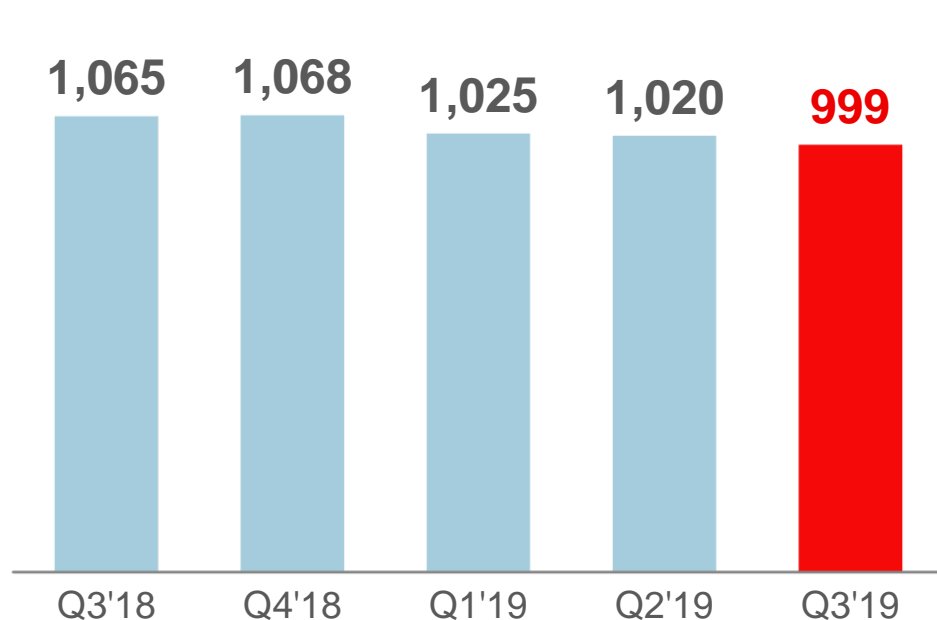
	9M'19	9M'18	YoY(%)	QoQ(%)
Net interest income	2,985	3,040	-1.8	-4.2
Net fees	1,861	1,991	-6.5	-1.6
<b>Subtotal</b>	<b>4,846</b>	<b>5,030</b>	<b>-3.7</b>	<b>-3.2</b>
Other <sup>1</sup>	849	781	8.7	88.8
<b>Gross income</b>	<b>5,695</b>	<b>5,811</b>	<b>-2.0</b>	<b>+7.6</b>



Sustained reduction in costs (-8% excluding inflation) achieving committed efficiencies following Popular acquisition. Costs favourably impacted by IFRS 16<sup>1</sup>



### Operating expenses (EUR mn)

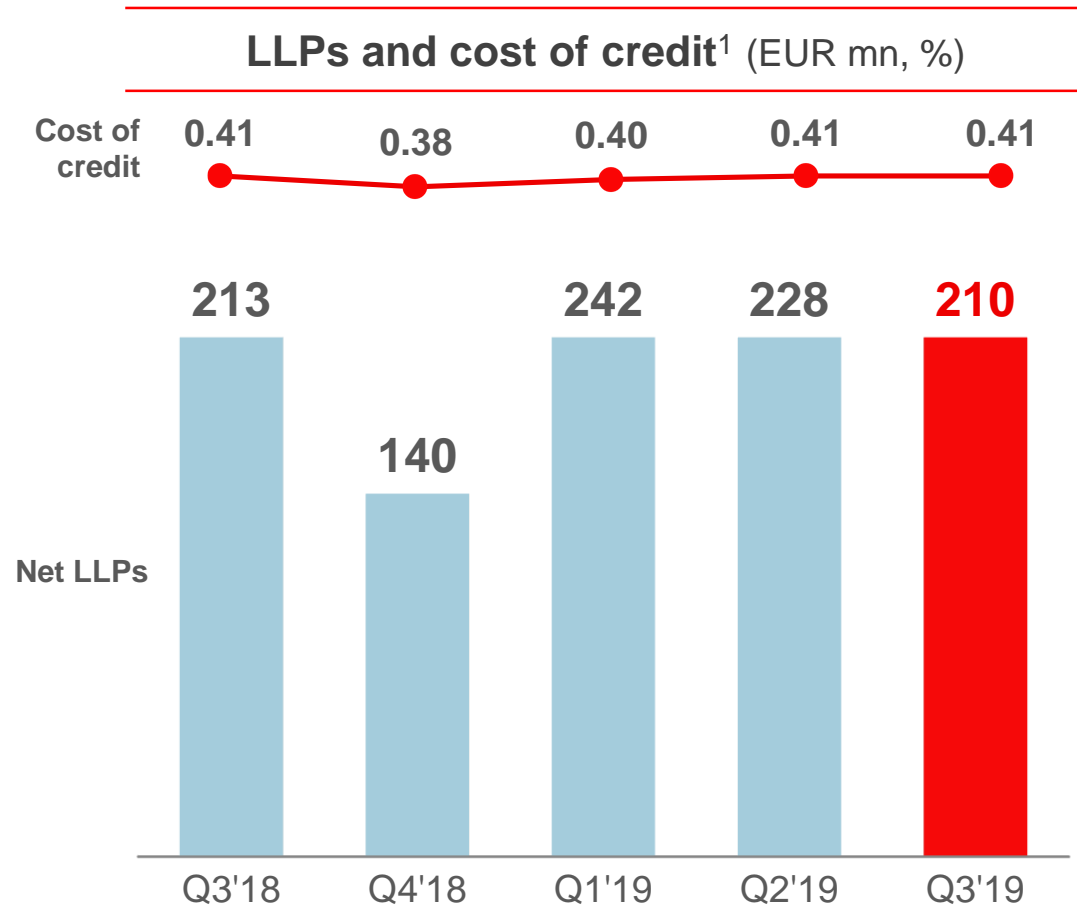


	9M'19	9M'18	YoY(%)	QoQ(%)
<b>Total expenses</b>	<b>3,043</b>	<b>3,271</b>	<b>-7.0</b>	<b>-2.1</b>

Efficiency ratio	53.4%	56.3%
Branches	3,852	4,397
Employees	29,713	31,361



The NPL ratio improved 32 bps YoY. Further decline in the stock of non-performing loans (-9% YoY) and stable cost of credit



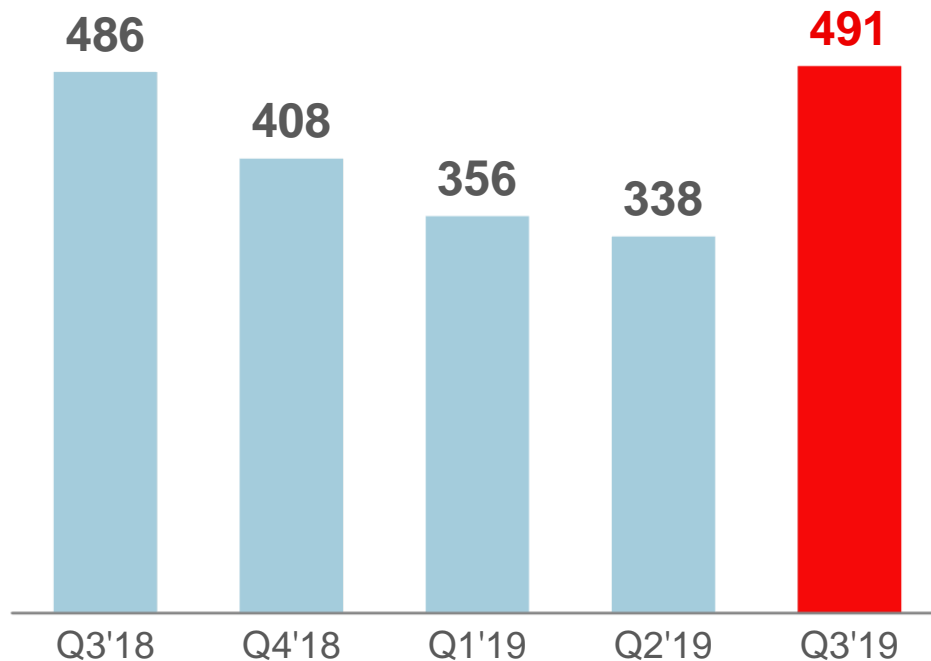
	9M'19	9M'18	YoY(%)	QoQ(%)
Net operating income	2,652	2,540	4.4	19.4
Loan-loss provisions	(680)	(649)	4.8	-8.0
<b>Net operat. income after LLPs</b>	<b>1,972</b>	<b>1,891</b>	<b>4.3</b>	<b>29.8</b>

Coverage ratio	40.6%	46.4%
NPL ratio	7.23%	7.55%



## 9M'19 underlying profit was 3% higher YoY mainly due to lower costs

### Underlying attributable profit (EUR mn)



	9M'19	9M'18	YoY(%)	QoQ(%)
PBT	1,617	1,526	5.9	48.7
Tax on profit	(432)	(379)	14.0	57.9
<b>Consolidated profit</b>	<b>1,184</b>	<b>1,147</b>	<b>3.3</b>	<b>45.4</b>
<b>Underlying att. profit</b>	<b>1,185</b>	<b>1,146</b>	<b>3.3</b>	<b>45.3</b>
Effective tax rate	26.7%	24.8%		



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

## Market Environment & Financial System

- ▶ The economy is forecasted to grow by around 2.0% in 2019, higher than that envisaged for the Eurozone, and inflation will remain low.
- ▶ New lending continues at a weak pace.

## Strategy & Business

- ▶ After the successful integration of Banco Popular with the migration of all offices and customers to the Santander platform, we are focusing on optimising the commercial network.
- ▶ Of note by products was consumer credit (+24% year-on-year), spurred by pre-approval and digital contraction of loans, and by loans to companies. International business grew 11%.
- ▶ The main drivers of loyalty continued to grow, increasing customer transactions. YoY growth in cards turnover and PoS terminals was 13% and 9%, respectively, and 5% in new insurance premium income, once this business was reorganised with the new JVs of Aegon and Mapfre<sup>1</sup>.

## Results

- ▶ NII fell 2% YoY due to decreased volumes and lower interest rates, partially offset by the improvement in spreads. Excluding IFRS 16 impact, +1% YoY.
- ▶ Sustained reduction in costs (-8% excluding inflation) achieving committed efficiencies following Popular acquisition. Also costs favorably impacted by IFRS 16<sup>2</sup>.
- ▶ The NPL ratio improved 32 bps YoY. Further decline in the stock of non-performing loans (-9% YoY) and stable cost of credit.



(1) Transaction regarding the Mapfre Agreement is pending regulatory authorisation and other customary conditions.

(2) Excluding IFRS 16 impact, costs -6% YoY



# Appendix



04



# Balance sheet



EUR million	30-Sep-19	30-Sep-18	Change	
			Amount	%
Customer loans	188,095	197,144	(9,048)	(4.6)
Cash, central banks and credit institutions	81,273	78,961	2,312	2.9
Debt securities	35,906	49,947	(14,041)	(28.1)
<i>o/w: available for sale</i>	29,116	41,324	(12,207)	(29.5)
Other financial assets	1,495	2,724	(1,229)	(45.1)
Other assets	22,806	27,198	(4,392)	(16.1)
<b>Total assets</b>	<b>329,576</b>	<b>355,974</b>	<b>(26,398)</b>	<b>(7.4)</b>
Customer deposits	246,017	238,607	7,409	3.1
Central banks and credit institutions	28,188	61,076	(32,888)	(53.8)
Debt securities issued	26,281	23,527	2,754	11.7
Other financial liabilities	9,649	9,236	413	4.5
Other liabilities	4,306	8,940	(4,634)	(51.8)
<b>Total liabilities</b>	<b>314,441</b>	<b>341,387</b>	<b>(26,945)</b>	<b>(7.9)</b>
<b>Total equity</b>	<b>15,135</b>	<b>14,587</b>	<b>547</b>	<b>3.8</b>
<b>Other managed and marketed customer funds</b>	<b>92,676</b>	<b>91,722</b>	<b>954</b>	<b>1.0</b>
Mutual funds	67,434	65,990	1,445	2.2
Pension funds	14,333	14,652	(319)	(2.2)
Managed portfolios	10,909	11,081	(172)	(1.5)

# Income statement



EUR million	9M'19	9M'18	Change	
			Amount	%
Net interest income	2,985	3,040	(55)	(1.8)
Net fees	1,861	1,991	(130)	(6.5)
Gains (losses) on financial transactions	659	530	129	24.3
Other operating income	190	251	(61)	(24.2)
<b>Gross income</b>	<b>5,695</b>	<b>5,811</b>	<b>(116)</b>	<b>(2.0)</b>
Operating expenses	(3,043)	(3,271)	227	(7.0)
<b>Net operating income</b>	<b>2,652</b>	<b>2,540</b>	<b>111</b>	<b>4.4</b>
Net loan-loss provisions	(680)	(649)	(31)	4.8
Other income	(355)	(365)	10	(2.7)
<b>Underlying profit before taxes</b>	<b>1,617</b>	<b>1,526</b>	<b>90</b>	<b>5.9</b>
Tax on profit	(432)	(379)	(53)	14.0
<b>Underlying profit from continuing operations</b>	<b>1,184</b>	<b>1,147</b>	<b>37</b>	<b>3.3</b>
Net profit from discontinued operations	—	—	—	-
<b>Underlying consolidated profit</b>	<b>1,184</b>	<b>1,147</b>	<b>37</b>	<b>3.3</b>
Minority interests	0	(1)	1	-
<b>Underlying attributable profit to the Group</b>	<b>1,185</b>	<b>1,146</b>	<b>38</b>	<b>3.3</b>

# Income statement



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

# 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  
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