

Mexico



H1'20

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, as these measures exclude items outside the ordinary course performance of our business, which are grouped in the “management adjustment” line and are further detailed in Section 3.2 of the Economic and Financial Review in our Directors’ Report included in our Annual Report on Form 20-F for the year ended 31 December 2019. 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 2019 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission on 6 March 2020, as well as the section “Alternative performance measures” of the annex to the Banco Santander, S.A. (“Santander”) Q2 2020 Financial Report, published as Inside Information on 29 July 2020. These documents are available on Santander’s website ([www.santander.com](http://www.santander.com)). Underlying measures, which are included in this presentation, are non-IFRS measures.

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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# Index



**Financial  
system**



**Strategy and  
business**



**Results**



**Concluding  
remarks**



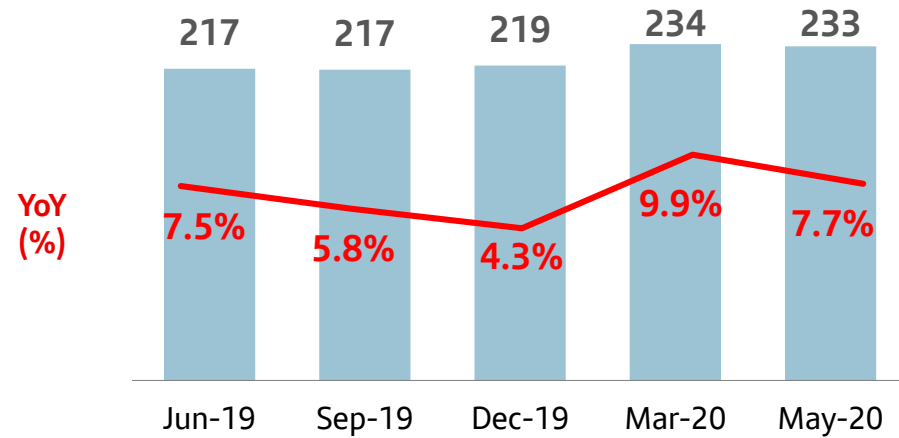
**Appendix**





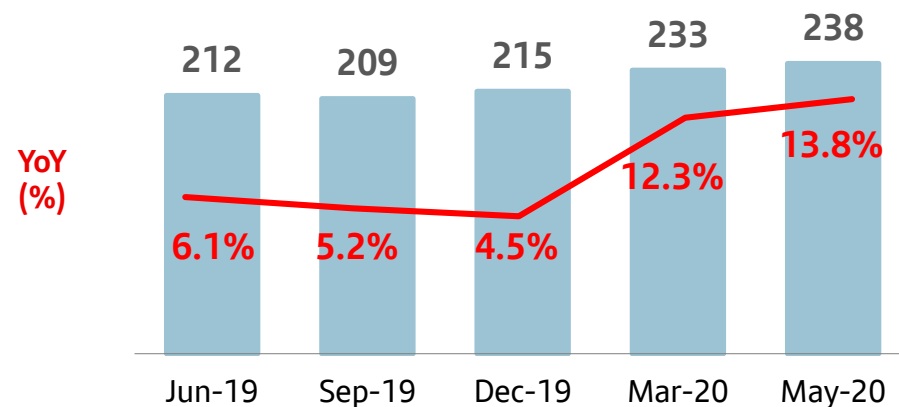
## Slower system loan growth while deposits maintain strong growth

### Total loans (Constant EUR bn<sup>1</sup>)



- ▶ System loan growth was mainly supported by corporate and mortgages loans
- ▶ Consumer loans continue to slowdown due mainly by contractions in credit cards and personal loans

### Total deposits (Constant EUR bn<sup>1</sup>)



- ▶ Low rates environment drove strong growth in demand deposits while term deposits maintain a softer growth
- ▶ All in all, total deposits grew 13.8% year-on-year, +150bps higher than in March-20

# Index



Financial  
system



**Strategy and  
business**



Results














Concluding  
remarks



Appendix



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

KEY DATA	H1'20	YoY Var. <sup>4</sup>
 Customer loans <sup>1</sup>	EUR 30.3 bn	+8.6%
 Customer funds <sup>2</sup>	EUR 38.1 bn	+9.0%
 Underlying att. Profit	EUR 406 mn	+4.2%
 Underlying RoTE	15.5%	-5.0 pp
 Efficiency ratio	39.5%	-206 bps
 Loans market share <sup>3</sup>	13.4%	+27 bps
 Deposits market share <sup>3</sup>	14.1%	+37 bps
 Loyal customers	3.3 mn	+15.1%
 Digital customers	4.6 mn	+31.5%
 Branches	1,429	+0.9%
 Employees	20,817	+6.6%



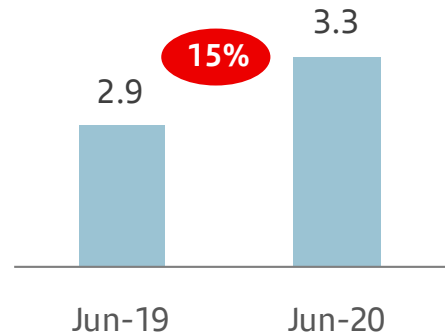
## STRATEGIC PRIORITIES

- ▶ Improve customer experience by leveraging both the new tools and methodologies as well as improving operating processes
- ▶ Maintain strong growth rates in loyal customers (through initiatives to attract payrolls and collectives) and digital customers (by promoting new platforms, channels and customer care models, as well as our new payment platforms)
- ▶ Strengthen our corporate businesses to continue to be the reference in the market in value-added products
- ▶ Increase revenue through greater volumes and lower cost of deposits
- ▶ Enhance customer service quality across the Bank



# Expanding loyal and digital customers further strengthening our retail franchise

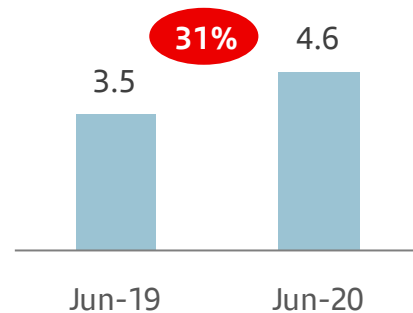
## Loyal (mn)



Loyal / Active: 35% (+4 pp YoY)

- ▶ Maintain strong focus on increasing loyalty, while attracting new customers through innovative products such as Santander Plus and Hipoteca Plus
- ▶ Loyal individuals: +15% YoY leveraging number of products opportunities
- ▶ CRM platform for SMEs and an online onboarding process that enhances the customer journey

## Digital customers (mn)



Digital sales / total<sup>1</sup>: 36% (+11 pp YoY)

- ▶ Improving onboarding processes to new channels and adding new functionalities to the digital platform
- ▶ Mobile customers up 38% YoY with mobile accounting for 73% of digital monetary transactions in H1'20
- ▶ Digital sales reached 44% of total sales in Q2'20





# Driving innovation and attracting customers

## Loyalty



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

**+7.1 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 **566 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 **59%** of **mortgage new lending** as of June-20. *Hipoteca Plus* rewards new loyal customers who keep their payrolls and other financial products with the lowest rate in the market 7.75%

## Digitalisation



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

- New functionalities for our *Supermóvil* and *Superwallet* mobile apps including cardless cash withdrawal, payroll portability, activation of credit and debit cards quickly and safely, payments with rewards points, among others
- Full digital onboarding for new payroll customers, reducing the time to open new accounts

## Credit card customer attraction



First bank in Mexico to offer the card without numbers to its customers. This innovation is complemented by the digital card with dynamic CVX (Dynamic Security Code)

## Corporate & Investment Banking



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



# Doing business in a responsible way

## Continue embedding our Culture in all Stakeholders...

- Adhesion to **Pride Connection** Mexico network
- **LGBT+ actions:**
  - 205 allies of the initiative and Academia sprint in LGBT+ topics
  - Director included in **41+1** Most Influential Executives (Expansion)
- **New Normal actions:**
  - Loan deferrals for employees
  - Behealthy (webinars, exercise classes, nutrition talks, etc.)
  - COVID-19 daily newsletter
  - Medical assistance programme



## ... supporting our customers in their transition to a low carbon economy...

- Issuance of **1 Green Bond** and **1 Sustainable Bond** in 2020
- **Purchase Power Agreement (wind power)** to reach 24% of renewable energy in 2020 and 30% in 2021
- Reduction in business travels in approximately **97%**



## ... and investing in the communities while continue supporting higher education

- **>MXN 48 million** invested in COVID-19 community programmes in alliance with Zurich Santander
- Members of the new **S&P/BMV Total Mexico ESG Index** (Mexican Stock Exchange)



## ... promoting financial inclusion and empowerment ...

Tuiio:

- **72,210** microcredits loaned in 2020
- 24,428 new customers in 2020
- 134,363 cumulative customers since beginning of operations in 2017
- **Santander has distributed more than 136 k of the 333 k total loans** to support small family businesses as part of a Mexican Government Programme in the context of COVID-19
- **10,087** people benefited through **financial education** online courses in our financial education site





# Implemented mitigation measures for COVID-19 pandemic



## Business continuity

- Established work-from-home protocols with **over 90% of our personnel working remotely since mid-March**
  - Critical personnel works remotely or split into teams on alternative schedules or work sites
- **Branch employees** are split into teams with **55% working at the branch** and the rest works remotely
  - In branch sanitisation standards and protection kits
  - Performing recoveries functions
- Additional IT resources channeled into **remote operating tools** and cybersecurity
- **Medical assistance and special support line** for confidential counseling
- **Zero layoffs and full salaries** to all employees



## Customers

- **Operational readiness** for servicing customers' needs through all digital channels and contact centers
  - 77% of our branches remain open
  - Higher increase in digital transactions vs in branch transactions
  - Digital sales share doubled
- **Debtor relief programme** for Individuals and SMEs
- **Restructuring support** for Corporates and Middle-market
- Bank's health insurance products offer **coverage for COVID-19 pandemic**



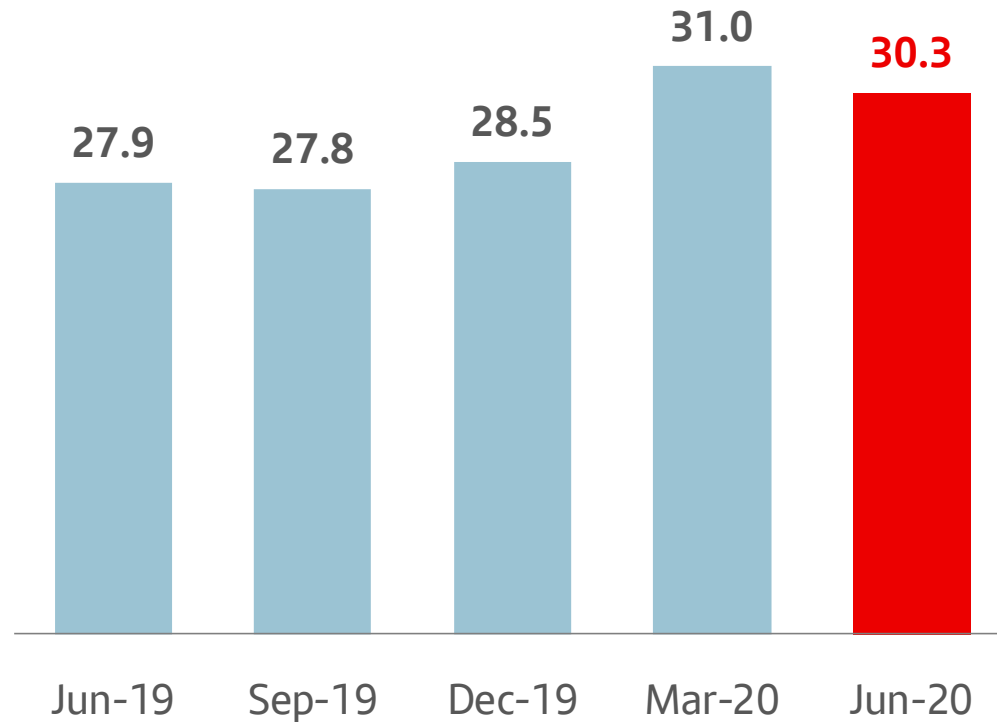
## Community

- **Donation of the COVID-19 CDMX App** to the authorities
- **MXN 4 million** donated to TecSalud
- **5,350 pantries and hygiene kits** delivered to vulnerable families
- **MXN 15 million** donated in **medical and protection equipment** to the National Institute of Respiratory Diseases
- **125,000 meals** delivered to medical personnel at COVID hospitals
- **20,000 out of 70,000 protection equipment** donated to doctors and nurses



# Strong loan portfolio growth driven by corporates, CIB and mortgages

## Total customer loans (Constant EUR bn)<sup>1</sup>

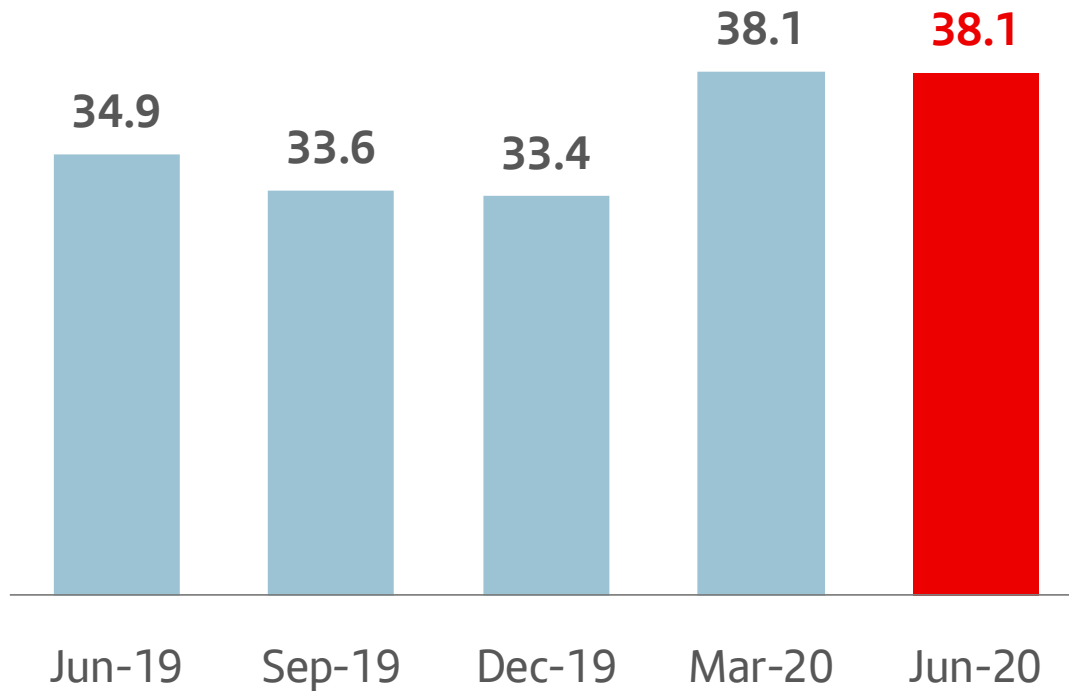


	Jun-20	Jun-19	YoY (%)	QoQ (%)
<b>Individuals<sup>2</sup></b>	<b>10.7</b>	<b>10.4</b>	<b>3.4</b>	<b>0.2</b>
o/w Mortgages	6.0	5.4	12.0	0.9
o/w Consumer credit	2.1	2.2	1.5	-3.6
o/w Cards	2.1	2.2	-1.4	-6.0
<b>SMEs</b>	<b>2.8</b>	<b>3.1</b>	<b>-9.0</b>	<b>-3.1</b>
<b>Corporates &amp; Institutions</b>	<b>10.1</b>	<b>8.7</b>	<b>16.5</b>	<b>-0.3</b>
<b>CIB</b>	<b>6.4</b>	<b>5.5</b>	<b>16.9</b>	<b>-7.8</b>
<b>Other</b>	<b>0.3</b>	<b>0.3</b>	<b>-14.3</b>	<b>-15.5</b>
<b>Total customer loans*</b>	<b>30.3</b>	<b>27.9</b>	<b>8.6</b>	<b>-2.2</b>
* o/w Government <sup>3</sup>	2.9	2.4	21.1	-2.4



# Customer funds increase was boosted by time and demand deposits

## Total customer funds (Constant EUR bn)<sup>1</sup>



	Jun-20	Jun-19	YoY (%)	QoQ (%)
Demand	18.4	16.6	11.4	-4.3
Time	10.1	8.7	15.6	6.4
<b>Total deposits</b>	<b>28.5</b>	<b>25.3</b>	<b>12.9</b>	<b>-0.8</b>
Mutual Funds	9.6	9.7	-1.1	1.8
<b>Total customer funds</b>	<b>38.1</b>	<b>34.9</b>	<b>9.0</b>	<b>-0.2</b>

# Index



Financial system



Strategy and business



**Results**



Concluding remarks



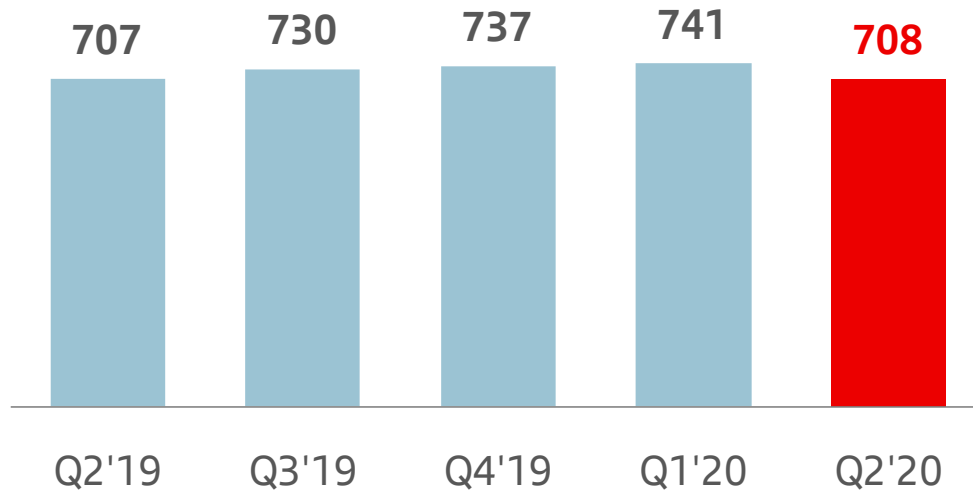
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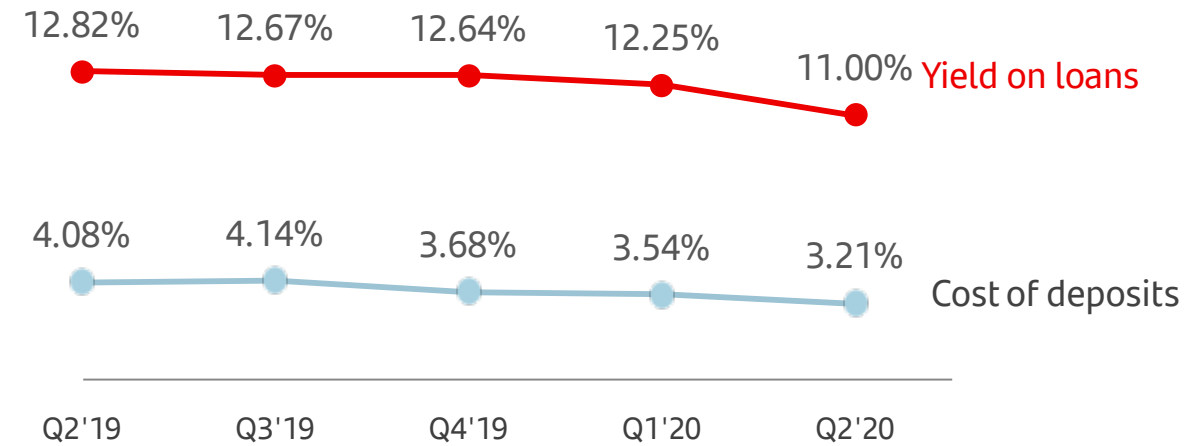


## NII evolution YoY underpinned by higher volumes

Net interest income (Constant EUR mn)<sup>1</sup>



Yields and Costs (%)



NIM<sup>2</sup>

4.59%	4.66%	4.42%	4.27%	3.31%
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Official interest rate (TIIE)<sup>3</sup>

8.50%	8.35%	7.86%	7.34%	6.05%
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Differential

8.7 pp	8.5 pp	9.0 pp	8.7 pp	7.8 pp
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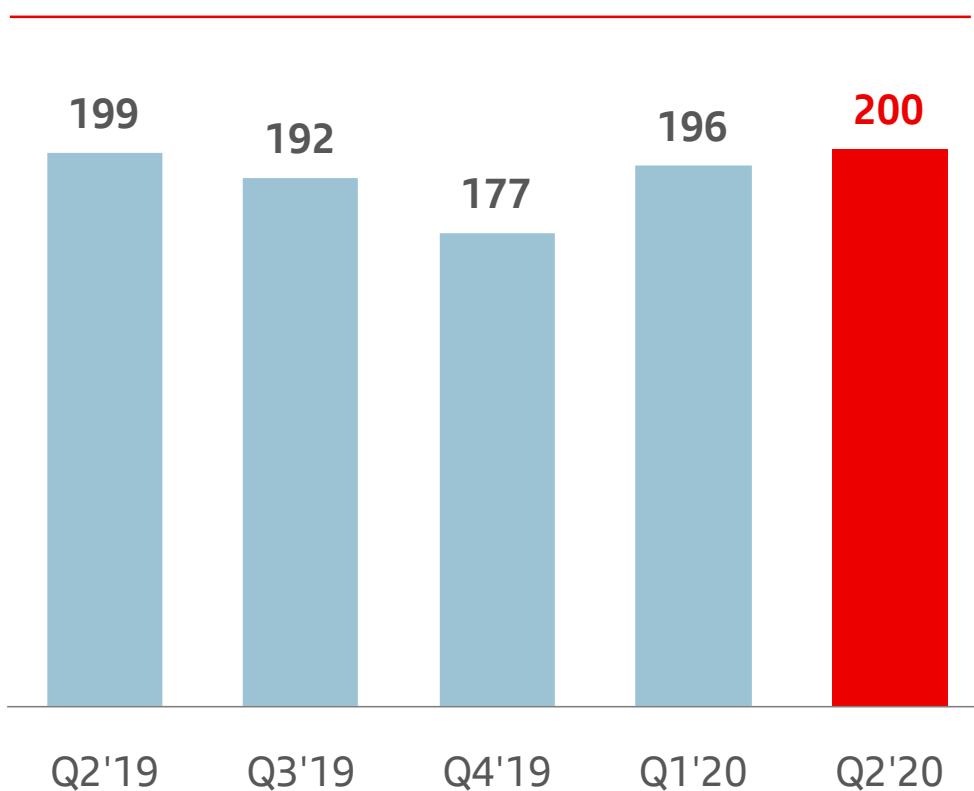


- (1) Average exchange rate as at H1'20.
- (2) Group criteria.
- (3) Quarterly average.



## Net fee income growth mainly driven by transactional banking

Net fee income (Constant EUR mn)<sup>1</sup>



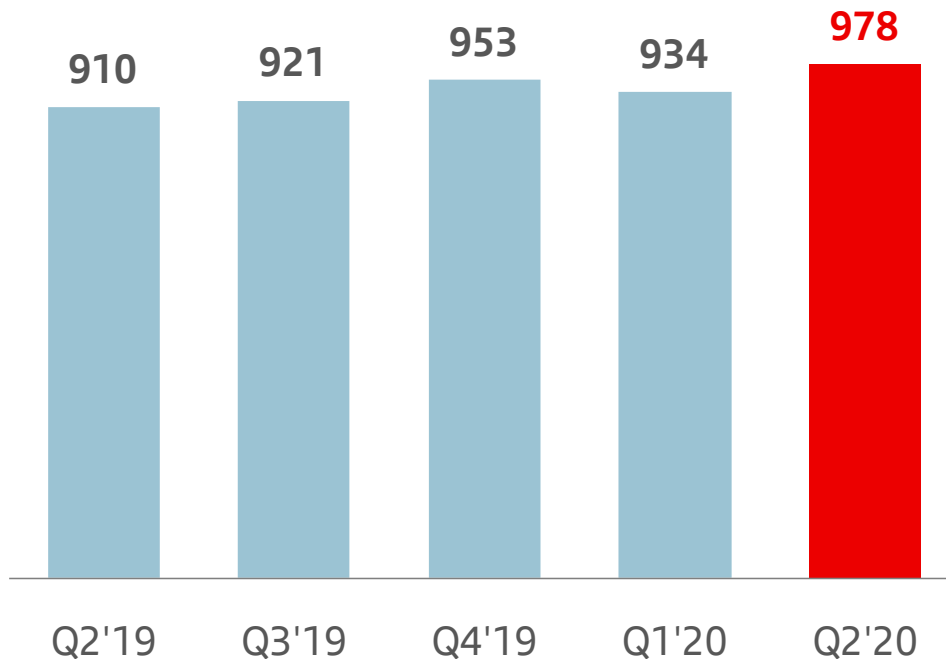
	H1'20	H1'19	YoY (%)	QoQ (%)
<b>Transactional fees</b>	<b>209</b>	<b>198</b>	<b>5.5</b>	<b>-2.2</b>
Payment methods	97	96	1.4	2.6
Transfers, drafts, cheques and other orders	42	39	7.1	-16.1
Account admin + Packs plans	54	49	10.1	-1.0
Other transactional	16	14	12.4	5.2
<b>Investment and pension funds</b>	<b>50</b>	<b>50</b>	<b>0.8</b>	<b>0.6</b>
<b>Insurance</b>	<b>108</b>	<b>106</b>	<b>1.8</b>	<b>11.7</b>
<b>Securities and custody services</b>	<b>18</b>	<b>15</b>	<b>22.9</b>	<b>8.2</b>
<b>Other</b>	<b>11</b>	<b>19</b>	<b>-44.4</b>	<b>-2.4</b>
<b>Total net fee income</b>	<b>396</b>	<b>388</b>	<b>2.0</b>	<b>2.2</b>





## Total income up YoY boosted by NII and gains on financial transactions

### Total income (Constant EUR mn)<sup>1</sup>

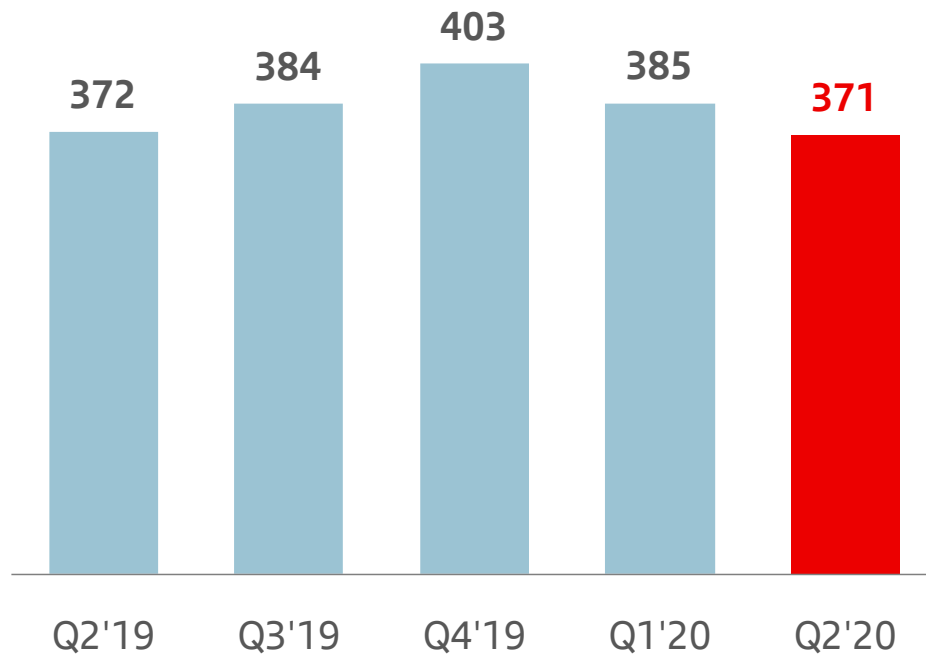


	H1'20	H1'19	YoY (%)	QoQ (%)
Net interest income	1,448	1,415	2.4	-4.5
Net fee income	396	388	2.0	2.2
<b>Customer revenue</b>	<b>1,844</b>	<b>1,803</b>	<b>2.3</b>	<b>-3.1</b>
Other <sup>2</sup>	68	(26)	-	-
<b>Total income</b>	<b>1,912</b>	<b>1,777</b>	<b>7.6</b>	<b>4.7</b>



# Operating expenses trend improvement

## Operating expenses (Constant EUR mn)<sup>1</sup>

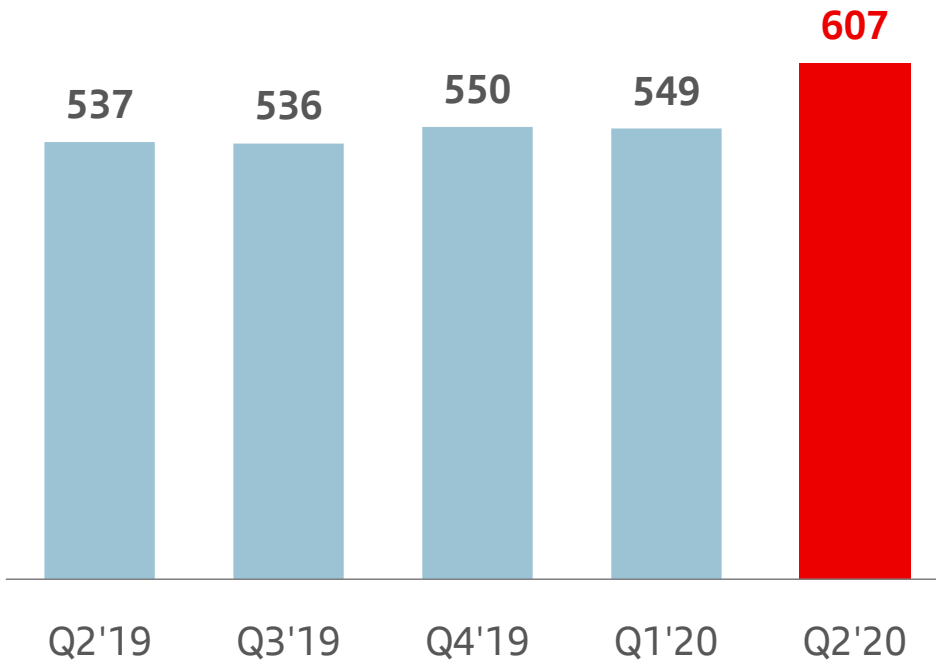


	H1'20	H1'19	YoY (%)	QoQ (%)
<b>Operating Expenses</b>	<b>756</b>	<b>739</b>	<b>2.3</b>	<b>-3.7</b>
Branches (#)	1,429	1,416	0.9	0.0
Employees (#)	20,817	19,536	6.6	3.5



# Net operating income strong growth, with improved efficiency ratio

## Net operating income (Constant EUR mn)<sup>1</sup>

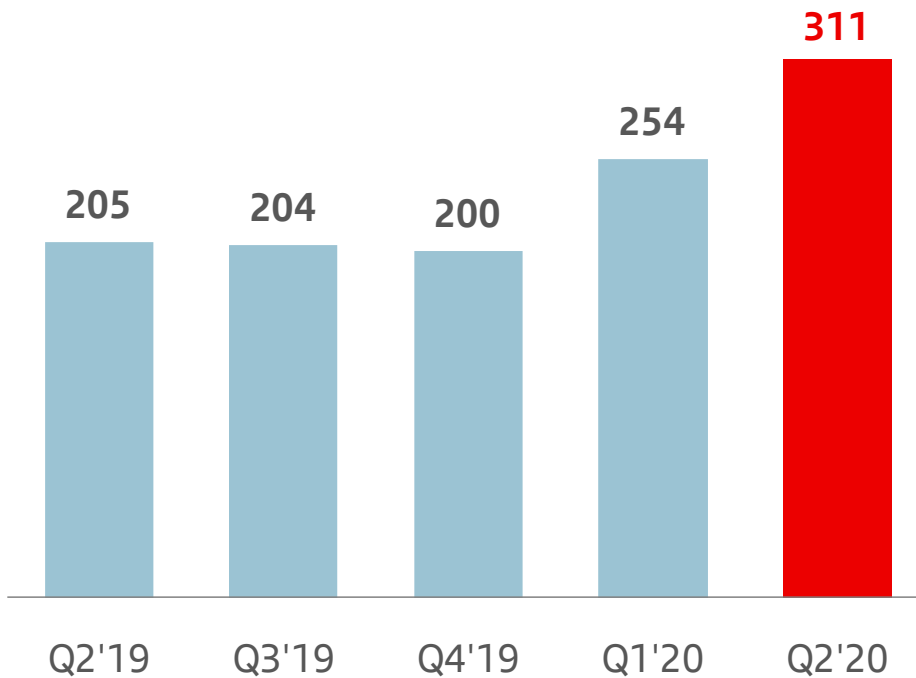


	H1'20	H1'19	YoY (%)	QoQ (%)
Total income	1,912	1,777	7.6	4.7
Operating Expenses	(756)	(739)	2.3	-3.7
<b>Net operating income</b>	<b>1,156</b>	<b>1,038</b>	<b>11.4</b>	<b>10.6</b>
Efficiency ratio	39.5%	41.6%	-206 bps	



# Loan-loss provisions surged 47% due to COVID-19 related provisions recorded in the first half of the year

Net LLPs (Constant EUR mn)<sup>1</sup>



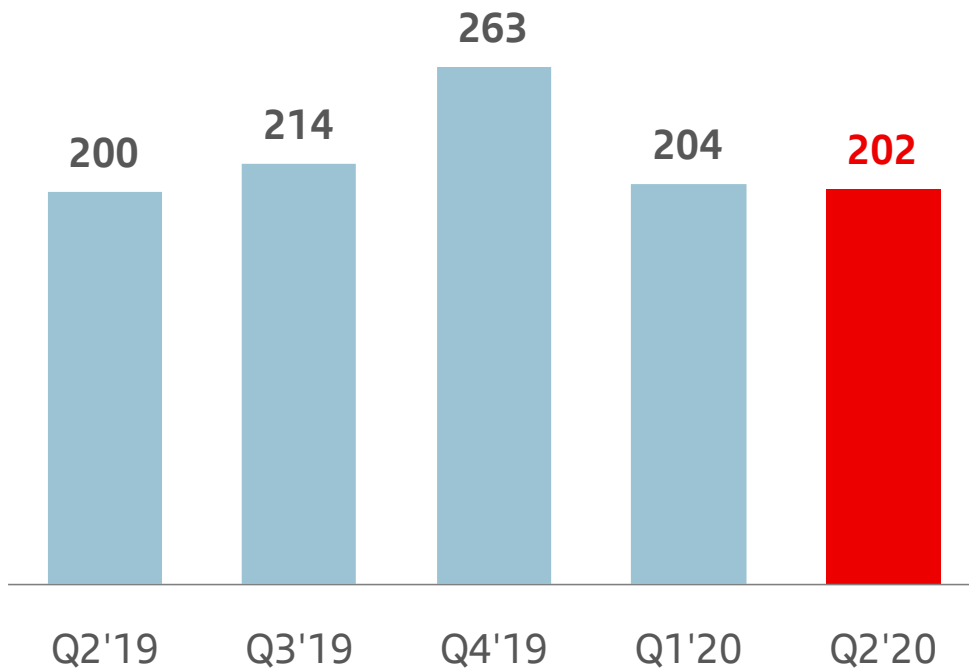
	H1'20	H1'19	YoY (%)	QoQ (%)
Net operating income	1,156	1,038	11.4	10.6
Loan-loss provisions	(564)	(384)	47.0	22.6
<b>Net operating income after provisions</b>	<b>592</b>	<b>654</b>	<b>-9.5</b>	<b>0.3</b>

NPL ratio	2.50%	2.21%	29 bps	43 bps
Cost of credit <sup>1</sup>	2.95%	2.61%	34 bps	26 bps
Coverage ratio	115%	127%	-12.0 pp	-19.0 pp



## Underlying profit YoY increase backed by the sound performance of net interest income, gains on financial transactions and reduced non-controlling interests

### Underlying Attributable Profit (Constant EUR mn)<sup>1</sup>



	H1'20	H1'19	YoY (%)	QoQ (%)
PBT	578	645	-10.3	0.3
Tax on profit	(140)	(143)	-2.4	4.0
<b>Consolidated profit</b>	<b>438</b>	<b>501</b>	<b>-12.6</b>	<b>-0.8</b>
Minority interests	(32)	(112)	-71.1	2.7
<b>Underlying attributable profit</b>	<b>406</b>	<b>389</b>	<b>4.2</b>	<b>-1.1</b>

Effective tax rate	24.2%	22.2%	2.0 pp	0.9 pp
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# Index



Financial  
system



Strategy and  
business



Results



Concluding  
remarks



Appendix





# Despite lockdown impact on the business, the Bank remains solid in terms of capital and liquidity

## Financial System

- ▶ Slowdown in credit growth among the largest banking institutions across all segments
- ▶ Consumer loans slowdown while mortgage growth remained solid
- ▶ Asset quality deteriorated slightly despite the debt relief programmes
- ▶ Deposits increased pace of growth

## Strategy & Business

- ▶ Focus on asset quality under the challenging environment, while activating all protocols and specific measures
- ▶ Launching new measures to mitigate COVID-19's impact and support our customers, shareholders, employees and communities
- ▶ Keep driving innovation to become a more digital and customer-centric bank

## Results

- ▶ Strong loan portfolio growth driven by corporates, CIB and mortgages. Customer funds boosted by demand and time deposits
- ▶ Total income up YoY boosted by NII and gains on financial transactions
- ▶ Net operating income grew 11%, with improved efficiency ratio
- ▶ Loan-loss provisions surged 47% due to COVID-19 related provisions recorded in the first half of the year
- ▶ Underlying attributable profit rose 4% year-on-year, backed by the sound performance of net interest income, gains on financial transactions and reduced non-controlling interests, which offset higher provisions

# Index



Financial  
system



Strategy and  
business



Results



Concluding  
remarks



**Appendix**





# Balance sheet



Constant EUR million <sup>1</sup>	Variation			
	Jun-20	Jun-19	Amount	%
Loans and advances to customers	30,573	28,028	2,545	9.1
Cash, central banks and credit institutions	11,714	9,719	1,995	20.5
Debt instruments	21,363	10,835	10,528	97.2
Other financial assets	13,733	4,682	9,051	193.3
Other asset accounts	3,094	2,995	99	3.3
<b>Total assets</b>	<b>80,476</b>	<b>56,259</b>	<b>24,218</b>	<b>43.0</b>
Customer deposits	35,518	28,570	6,948	24.3
Central banks and credit institutions	14,502	8,890	5,612	63.1
Marketable debt securities	7,305	5,518	1,787	32.4
Other financial liabilities	14,811	6,418	8,393	130.8
Other liabilities accounts	2,648	1,817	831	45.7
<b>Total liabilities</b>	<b>74,784</b>	<b>51,212</b>	<b>23,572</b>	<b>46.0</b>
<b>Total equity</b>	<b>5,693</b>	<b>5,047</b>	<b>646</b>	<b>12.8</b>
<b>Other managed customer funds</b>	<b>9,863</b>	<b>9,975</b>	<b>(112)</b>	<b>(1.1)</b>
Mutual funds	9,570	9,678	(109)	(1.1)
Pension funds	81	79	2	2.7
Managed portfolios	213	218	(5)	(2.3)



# Income statement

Constant EUR million <sup>1</sup>	H1'20	H1'19	Variation	
			Amount	%
Net interest income	1,448	1,415	34	2.4
Net fee income	396	388	8	2.0
Gains (losses) on financial transactions	110	21	89	427.3
Other operating income	(42)	(47)	4	(9.4)
<b>Total income</b>	<b>1,912</b>	<b>1,777</b>	<b>135</b>	<b>7.6</b>
Operating expenses	(756)	(739)	(17)	2.3
<b>Net operating income</b>	<b>1,156</b>	<b>1,038</b>	<b>118</b>	<b>11.4</b>
Net loan-loss provisions	(564)	(384)	(180)	47.0
Other gains (losses) and provisions	(14)	(10)	(5)	47.7
<b>Underlying profit before tax</b>	<b>578</b>	<b>645</b>	<b>(67)</b>	<b>(10.3)</b>
Tax on profit	(140)	(143)	3	(2.4)
<b>Underlying profit from continuing operations</b>	<b>438</b>	<b>501</b>	<b>(63)</b>	<b>(12.6)</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>438</b>	<b>501</b>	<b>(63)</b>	<b>(12.6)</b>
Non-controlling interests	(32)	(112)	80	(71.1)
<b>Underlying attributable profit to the parent</b>	<b>406</b>	<b>389</b>	<b>17</b>	<b>4.2</b>



# Quarterly income statement

Constant EUR million<sup>1</sup>

	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Net interest income	708	707	730	737	741	708
Net fee income	189	199	192	177	196	200
Gains (losses) on financial transactions	(3)	24	25	45	20	90
Other operating income	(26)	(21)	(26)	(6)	(22)	(20)
<b>Total income</b>	<b>867</b>	<b>910</b>	<b>921</b>	<b>953</b>	<b>934</b>	<b>978</b>
Operating expenses	(367)	(372)	(384)	(403)	(385)	(371)
<b>Net operating income</b>	<b>501</b>	<b>537</b>	<b>536</b>	<b>550</b>	<b>549</b>	<b>607</b>
Net loan-loss provisions	(178)	(205)	(204)	(200)	(254)	(311)
Other gains (losses) and provisions	(5)	(4)	(2)	7	(7)	(7)
<b>Underlying profit before tax</b>	<b>317</b>	<b>327</b>	<b>330</b>	<b>357</b>	<b>289</b>	<b>289</b>
Tax on profit	(71)	(72)	(69)	(74)	(69)	(71)
<b>Underlying profit from continuing operations</b>	<b>246</b>	<b>255</b>	<b>261</b>	<b>283</b>	<b>220</b>	<b>218</b>
Net profit from discontinued operations	—	—	—	—	—	—
<b>Underlying consolidated profit</b>	<b>246</b>	<b>255</b>	<b>261</b>	<b>283</b>	<b>220</b>	<b>218</b>
Non-controlling interests	(56)	(56)	(47)	(20)	(16)	(16)
<b>Underlying attributable profit to the parent</b>	<b>189</b>	<b>200</b>	<b>214</b>	<b>263</b>	<b>204</b>	<b>202</b>

# Thank You.

Our purpose is to help people and businesses prosper.

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

**Simple Personal Fair**

