

Ana Botín announces plans to create a global native digital consumer bank with the combination of Openbank and Santander Consumer Finance

- Shareholders approve a capital increase to distribute new shares equivalent to €0.10 per share, with total compensation against 2019 amounting to EUR 0.20 per share. They also authorised a cash payment in 2021 of EUR 0.10 per share charged against the share premium reserve, pending recommendations and approvals from regulators, among other requirements.
- Banco Santander chairman points out that “although the trading environment has been tough, we ended September with revenues (€33,605 million) at levels similar to a year ago, after having grown by 27% over the last 5 years (excluding FX)”.
- Ana Botín highlights the “exceptional” third quarter results with EUR 1,750 million in underlying profit, up 18% from the second quarter.
- The group's executive chairman highlights that strong growth in profit in Q3 (+34% versus Q2) in North America was driven by higher customer revenue and the improvement in cost of credit. “The ongoing collaboration between both countries also led to an increase of the US-Mexico trade corridor revenue in Corporate & Investment Banking (+29%) and commercial (+30%)”, Botin said.
- Her speech to shareholders announces the new “One Santander” operating and business model that will simplify products and services to improve customer experience, in addition to a new single, autonomous company that will offer disruptive payment solutions to compete with large payment platforms.
- According to Botín, by the end of 2020, Santander will have reached 1 billion euros in net savings in Europe, which it will further reduce by 1 billion over the next two years.
- Botín said that the group has reduced the cost of risk guidance for year-end to 1.3% and predicts that, based on the current outlook, it will remain stable or trend downwards next year.
- Santander's group executive chairman believes banks are key in “mobilising the resources needed to get the country up and running as soon as possible ‘channelling liquidity to projects with a multiplier effect and helping shape the digital, sustainable economy”.

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Banco Santander's group executive chairman, Ana Botín, announced plans today to create a global native digital consumer bank with the combination of Openbank and Santander Consumer Finance. This is one of Santander's the three initiatives to become the best open financial services platform.

Botín outlined these plans in her speech to shareholders at the Group's annual general meeting, where shareholders approved the capital increase to distribute new shares equivalent to 0.10 euros per share as additional compensation for 2019, to be paid this year. This would bring total shareholder compensation for the year to 0.20 euros per share.

Banco Santander shareholders also gave the green light to a pay-out of 0.10 euros per share in cash against the share premium reserve in 2021. As mentioned in the meeting announcement, payment will depend on the European Central Bank's (ECB) recommendations and approval regarding dividend payments. It will also be subject to two further conditions: the group's CET1 capital ratio must be within or above its 11-12% target once it is issued, and the pay-out ratio must not be higher than 50% of consolidated underlying profit in 2020.

The first initiative the group's executive chairman revealed aims to implement a common operating and business model across all markets, under the name of "One Santander", a process which is already under way at its four banks in Europe. Botín pointed out that, with this new model, "we will simplify products and services to improve the customer experience; we will also boost innovation, taking advantage our digital capabilities to redesign our distribution, and automate our processes on a common platform".

The second initiative will create a global native digital consumer lending business that builds on Santander Consumer Finance's scale and presence in Europe as well as the Openbank digital platform. "SCF and Openbank are two businesses with excellent potential for growth. SCF, Europe's consumer finance leader, serves over 20 million customers in 15 markets. Openbank is outperforming – and outgrowing – European digital banks in deposits, with a full-fledged retail product suite marketed on an innovative, scalable and efficient banking platform, a software built by us", Botín said.

These two initiatives will add to the savings the group had already promised at last year's Investor Day. Botín asserted that, by the end of 2020, the group will have reached the target it had announced in April 2019 of 1 billion euros in mid-term net savings in Europe, at a much faster pace than previously expected. According to the Santander chairman, "we are now committing to an additional 1-billion-euro net savings reduction in the next 2 years on the same perimeter".

The third initiative aims to create payment solutions to compete with large payment platforms. Santander will combine its most disruptive payments businesses into a single, autonomous and wholly-owned company, which "with the scale, the right talent, processes and governance, [...] will form a powerful ecosystem of payment solutions". The goal, according to Botín, is to "offer [solutions] first to Santander's banks and, then, to new customers and third parties".

In her opinion, "payments are central to our loyalty strategy, and we have a reputation to uphold as one of the best global payment providers". This new company will perform in three areas: merchant solutions, building on the Getnet platform; solutions for SMEs that trade internationally via Ebury; and digital products and services for retail consumers, based on the successful Superdigital, the financial inclusion platform for unbanked consumers in Latin America that is already available in five markets.

"This represents a global market opportunity of 500 billion euros in revenues" she said.

Lower cost of risk and higher solvency

Even though the crisis has dealt a blow to the global economy, Banco Santander's chairman pointed out that "thanks to the quality and diversification of our balance sheet, the measures we took and action from our governments and other authorities, we have reduced our cost of risk guidance for for year-end to c.1.3% from 1.4-1.5% in April".

She also expressed optimism about this indicator in the coming year: "Despite the uncertainty of the 'second wave', today we have better visibility than we did back in April, and our internal models, based on expected portfolio losses as well as IMF and OECD current forecasts, indicate that our cost of risk will stabilise or even trend downwards next year.

In regard to payment holidays, she noted that 66% have expired, which is strong indicator of how customers are behaving: 92% are exhibiting pre-crisis behaviour. "Of the 34% non-expired, we expect a further 17% to expire by year end with similar credit quality", she estimated. She also explained that "62% of outstanding moratoria are mortgages and 67% are concentrated in Europe with a good risk profile".

Botín also outlined how Santander grew capital organically in the first three quarters of the year, improving its balance sheet and bringing its CET1 capital ratio to 11.98% by the end of the third quarter, all while having provisioned 19 basis points of capital to pay a cash dividend in 2021 if the circumstances allow. "The closer we move toward the upper end of our target, the more flexibility we have to allocate capital and compensate our shareholders, including cash dividends or share buybacks", she insisted.

Botín reminded shareholders that "the strength of our balance sheet has always been a priority and the numbers show we have delivered". The group's capital position has risen well above regulatory requirements, with the highest credit rating (A-level) some agencies deem to be in line with, or above, Spanish sovereign debt rating. Furthermore, its CDS spread remains under pre-crisis levels and is one of the lowest among its peers.

"All of this should put us in a position to pay dividends", said Botín, who also mentioned that sharing profits is "the best example of financial discipline, and its recurrence gives investors confidence".

"We are intent on implementing a 100% cash dividend policy for shareholder remuneration starting in 2020". Against this backdrop, she reaffirmed that "the proposed scrip dividend must therefore be understood as an extraordinary step we've taken to fulfil our fiduciary obligation to our shareholders, especially our retail investors in light of current circumstances".

Future outlook

Botín defended the group's ability to keep growing in its core markets. She reminded shareholders that the consensus now is that recovery will be gradual in all countries: "As we have seen this year, Santander's geographic and business diversification will continue to power growth in the face of uncertainty and volatility".

"Few banks in the world have both our capacity to invest in digitalisation, with a commitment to invest 20 billion euros over 4 years and our in-market and global scale, which serves as a basis for further organic and profitable growth".

"On top of this, we have a culture that combines caution and agility, and a team able to execute and deliver results in the right way", she affirmed.

Thanks to this, "we expect our cost of risk to remain stable or even trend downwards in 2021, before normalising in 2022", Botín said, though she admitted "the scenario is still very uncertain". "We also forecast reaching, by 2021, an underlying return on tangible equity in line with our cost of capital", she explained.

After going over the group's outlook for each region comprising its footprint, Botín homed in on the chance to create Europe's best bank, with a common business model that maximises the potential of its scale and digital prowess. "While we witnessed some domestic consolidation in Europe, we are comfortable with our scale and our capacity to invest and are not contemplating participating in consolidation", she proclaimed.

Turning to North America, the group's executive chairman highlighted that profit rose strongly in Q3 (+34% versus Q2) driven by higher customer revenue and the improvement in cost of credit. "The ongoing collaboration between both countries also led to an increase of the US-Mexico trade corridor revenue in Corporate & Investment Banking (+29%) and commercial (+30%)", Botín said. In the United States, Santander continued to see double-digit growth and sound cost control while, in Mexico, lending climbed 7% year on year with significant gains in digital customers (24%).

In relation to South America, she pointed out that it brings in 41% of the group's earnings while accounting for 13% of new lending. "The Americas, and especially Latin America, remain markets of high structural growth".

Such diversification, she claimed, was key to these "exceptional results" in the third quarter of 2020 despite the adversity, underscoring Santander's strengths. "Despite the high level of uncertainty, we are confident we will close 2020 with a recurring profit of around 5 billion euros", she believed.

In her speech, she shared with shareholders some key takeaways from the quarter, including growth of loyal and digital customers (22 million and 41.4 million, respectively), the return to pre-coronavirus business levels and the cost savings that are driving the efficiency plan faster than expected. She also gave prominence to the group's robust loan book (with a NPL ratio of 3.15%) as well as its ability to grow capital organically.

'Banks have a critical role to play'

This annual general meeting, which was held in Boadilla del Monte, Madrid and livestreamed due to the exceptional circumstances of covid, was also a moment to honour everyone working to help those most vulnerable and ill. "During these troubled times, we have seen society at its best", exclaimed Botín, who voiced her appreciation for the work of scientists and healthcare professionals, "as well as those essential service workers including our colleagues in the financial sector, who have continued to work non-stop".

Botín explained how the crisis has re-shaped our lives, as "most of our daily routines, from work to school to shopping, have gone online. The virus has fast-forwarded the digital revolution". She also stressed that "businesses, civil society and governments need each other. It must be a common effort".

She is convinced that "Spain must seize this unique opportunity to drive the transformation of its economy and improve its competitiveness. There will not be another opportunity like this to make the leap that Spain needs".

"Banks have a critical role to play. We are part of the solution", she added, going on to underline how banks can contribute to "mobilising the resources needed to get the country up and running as soon as possible,

channelling liquidity to projects which create jobs, and helping shape the digital, sustainable economy. At Santander, we will continue to play our part”.

Botín expressed conviction that the company will come away from this crisis stronger: “We are determined to help businesses and communities across the world, to build back better – and use this as an opportunity to address global challenges such as inequality and climate change. This is the right thing to do – the responsible thing to do – and the path to generate value for our shareholders”, she concluded.

Meeting resolutions

Besides the capital increase as additional compensation for 2019 and the payment of 0.10 euros against the share premium reserve in 2021, the shareholders also agreed on the number of board members and the appointment of Ramón Martín Chávez Márquez.

The 2020 Annual General Meeting was the first one certified by AENOR for “Event protocols against covid 19”. The AGM successfully passed a review of its documentation as well as an on-site inspection during the event. Auditors at the event verified the correct application of all measures, which include training on covid prevention protocols for all employees involved in organizing the event, making protective measures easy to follow for all attendees and executing a specific cleaning and disinfection plan.

Banco Santander now has two certifications from AENOR for the AGM. In addition to the certification for event protocols against covid 19, the event has also been granted the Sustainable Event certification according to the ISO 20121, which confirms that all processes involved in the event follow sustainable criteria that reduce its impact and create economic, social and environmental benefits for the community.

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 document 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 document 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") Q3 2020 Financial Report, published as Inside Information on 27 October 2020. These documents are available on Santander's website (www.santander.com). Underlying measures, which are included in this document, 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

Forward-looking statements

Santander cautions that this document 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 document 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 document, 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, changes in demographics, consumer spending, investment or saving habits, and the effects of the COVID-19 pandemic in the global economy; (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.

Forward-looking statements speak only as of the date of this document and are based on the knowledge, information available and views taken on such date; such knowledge, information and views may change at any time. Santander does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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