Message from Ana Botín

Dear shareholder,

During 2018, we have once again been relentless in focusing on earning the lasting loyalty of our people, customers, shareholders and communities. We have made more of what we do Simple, Personal and Fair. And we have done all we can to fulfil our purpose – to help people and businesses prosper.

I want to start by thanking every single one of the Santander team for once again doing their very best, and our Board for all their support and guidance.

1.- Successful execution of our strategy delivers Growth, Profitability and Strength

The benefits of our strategy are now clear: we have successfully delivered on the targets we set in 2015, generating growth, profitability and financial strength.

First, growth. Very few European banks have been able to grow their revenues in the last three years, but Santander has delivered a +7% CAGR in revenues since year-end 2015, excluding the impact of currency depreciation. Customer revenues have reached 46 billion euros in 2018, up from 37 billion euros in 2015 on a constant currency basis and net fees have grown at a 10% CAGR over the last three years.

We have done this in a sustainable way, increasing our loyal individual customer base by 43% to 18.1 million over the period; and increasing our loyal SMEs and corporates customer base by 66% to 1.7 million. This has been driven in large part by our digital and commercial transformation. We now have 32 million digital customers, up from less than 17 million in 2015.

This strong Group performance is thanks to the turnaround led by our new teams over the plan period. For example, in Brazil and Mexico, our focus on earning customer loyalty has improved the RoTE from below 15% to 20%. We are now applying the same approach in the US, where we have spent the last three years laying the right foundations for future growth.

Our global businesses, which allow our local banks to leverage the Group’s scale, have also powered our progress. Santander Corporate and Investment Banking can combine the strengths, expertise and relationship of our local banks with our Group’s global presence, achieving an improved cost-to-income ratio close to 40% and a RoRWA of 1.8%. Our new Wealth Management division has grown underlying attributable profit by 17% and reached a RoTE of 77% (excluding excess capital) in its first year of operations as a global unit, demonstrating the value we are able to generate when working together. Combined, these two global platforms represent around 22% of our profit.

Next, profitability. The Group remains one of the most profitable and efficient banks among its global peers. Our attributable profit has
grown from 6.0 billion euros in 2015 to 7.8 billion euros in 2018. We have an underlying RoTE of 12.1%, an improvement of +110 basis points compared to 2015, and a best-in-class cost-to-income ratio of 47.0%.

Finally, strength. Thanks to this performance, we have become stronger. Santander has strengthened its capital significantly – adding about 18 billion euros to its Common Equity Tier 1 (CET1) ratio fully loaded since 2015, taking it from 10.1% to 11.3%, exceeding our revised target of being above 11%.

We have done all this while rewarding our shareholders’ loyalty, with clear targets since 2015 of improving per share metrics. Total dividends from 2018 profit is expected to be 23 euro cents per share. Since 2015, cash dividend per share has increased by 31% (up to 0.20 euros per share), and total dividend per share has increased by 17%. When you look at the big picture, we have created significant shareholder value during the period, increasing tangible book value per share plus cumulative cash dividend per share by +27% (+8% CAGR) for the last three years, taking into account the scrip dividend impact. On a constant currency basis, the increase was +41% (+12% CAGR) for the same period.

Santander’s market valuation is among the best of our European peers – and we have consistently been in the top quartile in terms of Total Shareholder Return over the plan period.

2.- Strengthening our foundations

At the same time, we have implemented fundamental change across our organization, which has underpinned this performance. We have strengthened and reinvigorated our teams, both at headquarters and in the countries. We have also refreshed our governance and embedded a new culture, all of which bolstered the Group’s solid foundations.

We have made our teams and our Board, at Group and in our main markets, more diverse and international. We have reinforced our leadership teams at Group level with high-calibre new hires for key roles in Digital or Technology and Operations, equipping our senior management with more broadly based global perspectives and expertise. Since 2015, we have built a top-class team leading our local banks, with new Country Heads for our top five markets.

Although Banco Santander leads the Bloomberg Gender-Equality Index, last year we issued guidelines to ensure that building a diversified workforce is a priority across the Group. Our aim is to have women in 30% of leadership positions by 2025. In addition, the Board recognises the important benefits of having an appropriately balanced board composition. It has therefore adopted the aim of achieving an increased female representation on the Board between the range of 40% to 60%.

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While doing this, over the last three years, we have embedded a new culture. We want everything to be done in a Simple, Personal and Fair way, and we now measure our performance at doing this. The remuneration of our senior team is now based on how they achieve their goals, not simply what they achieve. Underpinning this, we have embedded eight corporate behaviours that we expect everyone to follow; a strong common approach to risk (RiskPro); and several programmes to ensure that people have the confidence to raise issues or concerns.

These improvements build on the Group’s strong foundations. We have scale. We now serve 144 million customers worldwide (up from 121 million in 2015), representing a wide range of income groups in developed and emerging economies. Our markets have a combined population of one billion people – 200 million of whom in Latin America are “unbanked”. We are one of the top three banks in nine core countries in Europe and the Americas.

In addition, we are diversified. In 2018, 52% of our underlying attributable profit came from European markets and 48% from the Americas, where the potential for profitable growth is significantly higher. Out of our 874 billion euros gross loans at end of 2018, 19% was in Latin America, 10% in US and 71% in Europe.

This diversification, together with our scale and business model, makes us more predictable: we deliver consistent results throughout the economic cycle, generating superior value for our shareholders. Compared with our peers, who are some of the best banks in the world, Santander has had the lowest volatility in earnings per share over the last 20 years, as well as over the past four years, while we have continued to increase our profitability.

This performance is also based on prudent risk management. Our long-standing approach to risk is now bolstered by our use of the latest technology. Santander Analytics has hired around 200 scientists from key technical fields (mathematics, statistics, engineering, data science), who collaborate with global experts in data analytics. We are introducing cutting-edge techniques based on artificial intelligence and machine learning to support advanced risk management.

All of this has helped to improve our risk profile: the credit quality of our portfolios has shown a positive
trend for over five years, both in terms of non-performing loans and cost of credit (now at pre-crisis levels). We have also proven our resilience in the 2018 ECB/EBA stress test exercise, where Santander was the bank with the strongest capital generation among its peers in the baseline scenario, and had the least capital depletion in the stress scenario.

3.- Our focus on improving returns

This brings me to the issue of capital. Over the last three years, we have taken a number of actions to bolster capital levels and improve capital allocation to enhance profitability as the European banking sector continued to face heightened capital requirements.

In 2015, only 40% of our capital was invested above the cost of equity returns. Today about 90% is yielding returns above that level. In particular, the increase in our profitability in Brazil, Mexico and Spain has led to a significantly improved RoTE at a Group level. Additionally, we have made great strides improving our overall business in the US and today most of our businesses there are delivering returns above the cost of equity, we have plans to continue improving. The US as a country delivered 7.6% RoTE in 2018 (with normalized 11.3% capital level) and increased underlying profits by 42% year on year (+74% attributable profit).

Over the last three years, we have focused on building the foundations for growth at SBNA – making leadership changes, fixing regulatory issues, and enhancing technology. These efforts are starting to bear fruits in terms of margin improvement and cost containment, and we are confident we will be able to generate value from our US franchise, which will accrue to the Group over the next few years.

This improvement in our capital allocation and profitability has been combined with a very disciplined approach to inorganic growth over the last three years – like the acquisition of the Deutsche Bank retail franchise in Poland or BANIF in Portugal – or on the buyback of strategic businesses like Santander Asset Management. We have also had the discipline to divest non-core assets such as the Allfunds platform, Totalbank in the US, Private Banking in Italy, and a reduction of our real estate exposure in Spain by over 70% in 2018. The acquisition of Banco Popular was the largest transaction we undertook in the last three years, making us Spain’s biggest bank and strengthening our position in the strategic SMEs segment of the market. This acquisition was supplemented by the quick disposal of 51% Popular’s real estate assets. It will deliver the 13% - 14% return on investment we identified at the time of the transaction.

“Over the last three years, we have taken a number of actions to bolster capital levels and improve capital allocation to enhance profitability”

RoTE 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>RoTE</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>20%</td>
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<tr>
<td>Spain</td>
<td>11%</td>
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<tr>
<td>UK</td>
<td>9%</td>
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<td>SCF</td>
<td>16%</td>
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<tr>
<td>Mexico</td>
<td>20%</td>
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<td>Chile</td>
<td>18%</td>
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<td>US1</td>
<td>8%</td>
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<tr>
<td>SBNA1,2</td>
<td>7%</td>
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<tr>
<td>SC USA1</td>
<td>21%</td>
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<tr>
<td>Portugal</td>
<td>12%</td>
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<tr>
<td>Poland</td>
<td>10%</td>
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<tr>
<td>Argentina</td>
<td>12%</td>
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</tbody>
</table>

1. Adjusted RoTE for 11.30% CET1, otherwise Santander US 4%, SC USA 13.3%
2. SBNA excluding US HoldCo

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“This improvement in our capital allocation and profitability has been combined with a very disciplined approach to inorganic growth over the last 3 years”

Adjusted TNAVps+cash DPS (Jan15-Dec18)

+33% (CAGR 7%)

Adjusted TNAVps+cash DPS Excluding FX (Jan15-Dec18)

+47% (CAGR 10%)

On top of this approach to acquisitions and disposals, we have improved, and will continue improving, our internal capital allocation in the following ways.

First, we have established a target minimum threshold return per client in our CIB business as well as limiting the investment period.

As a result, we have improved our RoRWA in this business from 1.5% to 1.8% in 2018. We are now implementing this methodology for the next segment, middle market corporates, in all our core countries, combining financial discipline with providing the best service to our loyal customers.

Second, profitability and capital allocation have greater weighting in senior managers’ remuneration, as we have increased the weight of the RoTE for the bonus pool calculation.

And finally, we continually examine our balance sheet to identify non-core assets for disposal, such as real estate (including our own), equity stakes we hold in companies, or non-core IT assets.

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By improving our core profitability to generate a RoTE between 13-15% in the next few years (depending on where interest rates end up) and using capital more efficiently, we will be able to generate more capital that can be used to re-invest in high growth profitable businesses, pay more dividends and, if necessary, increase capital buffers.

4.- A digital Santander

To continue growing in a sustainable and profitable way and to accelerate execution, we will remain focused on our digital transformation.

First, the transformation of our core banks (“supertankers”). Every product and service we offer today to our customers can, and should be delivered digitally. And, in parallel, we must deliver a more efficient and better service.

The digitisation of our core banks is already delivering revenue growth and continuous improvement of our cost-to-income ratio. The acceleration of our transformation will power the virtuous circle of success – as offering a better service to our customers should increase their engagement with us, thereby increasing their loyalty, consequently growing our revenue.

Second, we are changing our organization to increase speed of execution and bring the benefits of the Group to a broader set of customers – small and medium sized companies and merchants.

During the first quarter of 2019, we are launching two new global platforms, Global Trade Services and Global Merchant Services, which will report to our Brazil and Mexican CEOs and will be supported by Group teams. This will further leverage our scale across the Group – just as we have successfully done with our CIB and Wealth Management businesses. These new digital platforms
are flexible, offering Santander customers – and non-customers – an ecosystem of services, and an improved customer experience at a lower price. We will give further details on them at our Investor Day.

While we future-proof our “supertankers” and build Group-wide platforms, we are also creating “speedboats”. These new ventures can compete in – and disrupt – markets that our “supertankers” cannot easily enter; they can service customers in our core banks; and they can also grow faster as autonomous businesses.

Openbank is a good example. Based in Spain, it is now the single largest fully digital bank in Europe in terms of balance sheet and deposits, and one of the few to provide the full array of banking products to individuals. With around 8.3 billion euros in customer deposits (up 1.3 billion euros since last year), it has grown its mortgages 370% in the last year and primary – loyal – customers by 51% in just two years. Openbank is also the testing ground for our future technology platform, as well as other ideas and initiatives which are shared across the Group.

Then there’s OnePay FX, one of the first applications of blockchain-based technology to operate at scale anywhere in the world. It allows customers in the UK, Spain, Brazil and Poland to transfer funds more quickly and transparently than ever before. Meanwhile, in Latin American there’s Superdigital. Providing basic banking services, it is focused mainly on the unbanked population as a low-cost alternative to traditional banking. Its active customer base has grown 70% since 2016 and it has already reached breakeven with 1 million euros in EBITDA.

Building global digital platforms is critical if we want our customers to see Santander as “my bank”, a bank that understands their individual needs and offers them the products and services they want, whenever and wherever they want them. The goal is not only to serve our current customers better and attract new ones, but also to attract third parties to Santander’s platforms, to build a network, boosting innovation and making it quicker to bring new products and services to the market. Better still, thanks to our shared services and common infrastructure across the world, we can change the rules of the game in markets where we were previously sub-scale, such as the US.

We are developing a culture of experimentation. We are willing to try promising ideas, accepting that some might not work; and we are ensuring that when they don’t, we stop investing. Importantly, “speedboats” and “supertankers” work independently, but far from “cannibalizing” each other, by sharing their knowledge and capabilities are accelerating our transformation, boosting our growth.

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“Doing the basics brilliantly is essential – but it is no longer enough. We need to show how our business is delivering profit with a purpose”

5.- A more responsible Santander

Digital technology has given customers more power and choice than ever before. They don’t just expect us to deliver a great service at a great price, but want us to use our role and position in the market to help address wider challenges that society faces. Santander has always strived to do this, but now it is even more important that we are responsible in all we do. Doing the basics brilliantly is essential – but it is no longer enough. We need to show how our business is delivering profit with a purpose. All our stakeholders – our people, customers, shareholders and communities – expect no less.

To achieve this, we have begun to embed new governance across the Group, including during 2018 the creation of the new Responsible Banking, Sustainability and Culture Committee of the Board, to ensure that wherever we operate, our senior management is focused on the need to be responsible in all we do and on the challenges we face.

First, there is the challenge of the new business environment. Regulators, governments and society as a whole are placing increasing demands on how businesses are run, beyond compliance. So we must ensure we have the right culture, skills, governance and business practices. The second challenge is to support inclusive and sustainable growth – especially in a world where there is a rising sense of inequality, and a growing recognition of the urgent need to tackle climate change. We can address these challenges in a number of ways – such as our Universities programme, our financial empowerment initiatives or the financing we provide to renewables, which are just some examples of what we are doing.

The strength of our performance overall is born out by Santander being ranked third in the world among banks – and number one in Europe – in the Dow Jones Sustainability Index. Behind that achievement are stories of how, each day, we are helping to improve people’s lives.

Let me take you to Santiago Tianguistenco in Mexico. There, I met some women who told me that, in the past, banks had told them their businesses were too small for them to open an account. Now, thanks to Santander’s Tuiio financial empowerment programme, they can grow their family businesses. The micro-loans we offer are small, and the default rate is extremely low. The loan is provided to a group of women, to finance their various businesses. One woman told me she now saves four hours every day, as she no longer has to go to Mexico City to collect payments from customers. She showed me her Santander credit card, her first ever, which she proudly displayed as a sign of her entrepreneurial status. These women – many are women – were grateful that a bank had taken an interest in them.

Now let’s go south, to São Mateus just outside of São Paulo, Brazil,
where I visited the Santander branch on Avenida Mateo Bei. Through Santander Prospera we offer microcredit and other financial services to those on very low incomes. Half of our clients are below the poverty line and our subsidized low-interest rates loans can be for as little R$100 up to R$13,000 (around 20 to 3,000 euros).

Digital technology is allowing us to help more people. For example, via Prospera, one year ago it took us 10 days to approve a loan: now it only takes us 10 seconds. In one year, we have helped 100,000 customers – the same as we have helped in the previous 10 years. As we help transform people’s lives, we are building a new business with tremendous potential. The scale of the unbanked and underserved population in markets such as Brazil or Mexico will contribute to our growth, delivering shareholder value by creating profit while fulfilling our purpose as a bank.

Alongside this, we obviously bank large multinationals and corporates. As a leader in project finance, our loans help these businesses benefit society by, for example, building the largest solar power plant in Latin America. We have been recognized as the leading bank in the world by number of renewable energy projects financed.

This is responsible banking in action – helping people to realise their dreams and to create new jobs and new opportunities, sharing the benefits of economic growth. While we’re proud of what we have achieved, we’re certainly not complacent. We have plans to do more in the years ahead to deliver profit with a purpose: supporting more small businesses to create jobs; helping more people access finance; providing more finance for the low carbon economy; widening access to education, and fostering sustainable consumption.

6.- Looking ahead

Like all businesses, we operate in a volatile global economy. In many of our markets there is increasing political uncertainty. And all this is against a backdrop of tough supervisory and regulatory requirements, especially in Europe.

While the global economic expansion is weakening as a result of the resurgence of trade tensions, the growth prospects for the world economy in 2019 continue to be reasonably positive, particularly in the main markets in which we operate. Specifically, the IMF forecasts that Spain, at 2.2%, will continue to exhibit the highest growth rate of the major European Union economies; that the United Kingdom, despite Brexit, will maintain a growth rate of 1.5%; that Brazil’s growth will accelerate from last year to 2.5%; and that Mexico will grow at 2.1%.

Against this backdrop, banking activity should grow thanks to changing demography, and more people using more financial services.

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“Santander’s aim as a bank is to be the best open financial services platform by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities. We shall achieve this by being Simple, Personal and Fair in all we do.”

Countries’ GDP grows faster when the proportion of people who are in their late 20s and early 30s expands rapidly – as people in these age segments are in their most productive years, both in terms of earning and spending. This happened in the US with the “baby boomers”, and in Spain over the last 30 years. We are now seeing this trend in Latin America where the median age is the late 20s and early 30s – and there are 400 million people living in the markets in which we operate.

As a result, Brazil – where we are one of the top three privately owned banks, with 42.1 million customers – is projected by PwC to become the 5th largest economy in the world by 2050. Mexico, where we are also one of the top three banks, will become the world’s 7th largest economy. Argentina, despite its current economic difficulties, is expected to grow into a $2.4 trillion economy. In the medium term, we expect the Latin America economy to grow between 3-4% as per its GDP potential. On top of this, the growth in digital will spread banking in Latin America, with more digital customers who are more loyal, use more products and services, contributing to our revenue growth.

As mentioned, we anticipate growth this year will not be as strong in more mature economies. Santander can counterbalance this thanks to recent acquisitions in Spain, Portugal and Poland – a country with 38 million people and high growth potential – and the continuing commercial turnaround of our businesses in the US. In the UK, where we have weathered uncertainties in the past, we are confident we are ready to do so once again. Finally, elsewhere in Europe, Santander Consumer Finance will maintain its solid progress and best in class profitability. And the United States remains the largest and most attractive banking market in the world, with attractive margins, scale and growth.

All this should allow us to keep delivering on our plans as we have done for the last strategic cycle (2015-2018), growing our revenues and our earnings per share while achieving our medium term targets of a RoTE of 13% - 15% and a CET1 Fully Loaded of 11% - 12%.

I am confident we can do this because we have scale, 144 million customers in 10 large markets, local leadership positions, and a proven business model that creates unique and deep personal relationships with our customers. And because, coupled with our diversification across developed and developing markets and Europe and the Americas, these deliver more predictable and profitable growth.

In April we will set out our plan for the next few years. The basics of the strategy will not change – we will continue to follow the same approach that has delivered success over the past three years: a relentless focus on loyalty.

Our medium term targets

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<th>Metric</th>
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<tbody>
<tr>
<td>RoTE</td>
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<tr>
<td>CET1</td>
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But as we look to the future, we need to reflect our approach to responsible banking and digital technology in our bank’s global aim. Therefore, from now on, Santander’s aim as a bank is to be the best open financial services platform by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities. We shall achieve this by being Simple, Personal and Fair in all we do. By doing this, we will fulfill our purpose.

I would like to end as I started: by thanking the Santander team for the commitment, energy and dedication everyone has shown over the last few years. We have shown we can rise to the challenges we face by going the extra mile for our customers, and that we have what is required for Santander to succeed in the future. Again, thank you also to our outstanding Board of Directors for their support and counsel.

I am confident that together we will continue to progress and we will achieve our goals for the next years. Our success since 2015 shows we have all we need to help more people and businesses prosper.

Ana Botín
Group Executive Chairman