2018 Annual Report

Strategic overview
Our success is based on a clear purpose, aim and approach to business. We are building a more responsible bank.

**Our purpose**
To help people and businesses prosper.

**Our aim as a bank**
To be the best open financial services **platform**, by acting **responsibly** and earning the lasting **loyalty** of our people, customers, shareholders and communities.

**Our how**
Everything we do should be **Simple, Personal and Fair**.
We want to help people and businesses prosper in a Simple, Personal and Fair way, to earn the lasting loyalty of our people, customers, shareholders and communities.

In our day-to-day business, we do not simply meet our legal and regulatory requirements, but we aspire to exceed people’s expectations by being Simple, Personal and Fair in all we do.

We focus on areas where, as a Group, our activity can have a major impact by helping more people and businesses prosper in an inclusive and sustainable way.
By focusing on loyalty, we have met the financial targets we set in 2015. We have consistently delivered growth, profitability and balance sheet strength.

<table>
<thead>
<tr>
<th>Growth</th>
<th>2015</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyal customers</td>
<td>19.9 mn (+44%)</td>
<td>19.9 mn (+44%)</td>
</tr>
<tr>
<td>Customer revenues</td>
<td>EUR 45.8 bn (+24%)</td>
<td>EUR 45.8 bn (+24%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profitability</th>
<th>2015</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoTE</td>
<td>11.7% (+171 bps)</td>
<td>11.7% (+171 bps)</td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>47% (-61 bps)</td>
<td>47% (-61 bps)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strength</th>
<th>2015</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully loaded CET1</td>
<td>11.30% (+125 bps)</td>
<td>11.30% (+125 bps)</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>3.73% (-63 bps)</td>
<td>3.73% (-63 bps)</td>
</tr>
</tbody>
</table>

1. Constant euros.
2. % change (constant euros), 2018 figure relates to 2015-2018 CAGR.
4. Total dividend charged to 2018 earnings is subject to approval by the 2019 AGM.
5. 2018 data applying the IFRS9 transitional arrangements.
6. Underlying 2015 RoTE: 11.0%. Underlying 2018 RoTE 12.1%.
7. Refers to cumulative activity in 2016-2018. The Bank has devised a corporate methodology reviewed by an external auditor to consistently keep track of people who have benefited from our social programmes, services and products.

Note: 2015 metrics have been re-stated to reflect the capital increase of July 2017.
By building loyalty, and acting responsibly, we generate value for all our stakeholders

People
202,713 employees
more motivated and engaged employees...

Customers
144 million
make our customers more satisfied and loyal...

Communities
6.3 million people supported
resulting in higher investment in the community...

Shareholders
4.1 million
driving profitability and sustainable growth...
People | 202,713 employees

We want to be among the top three banks to work for in most of our core markets and we have already achieved this in seven of them

A strong corporate culture is key to having professionals who are engaged and motivated.
Team engagement

- 82% Proud to work for Santander
- 86% Motivated to go beyond their formal job responsibilities

Simple, Personal, Fair

- 83% Of employees feel motivated to contribute to building a bank that is Simple, Personal and Fair

Diversity

- 55% Of the total workforce are women

Evaluation and remuneration

- 60% what we do
- 40% how we do it

Rewarding people for doing things in a Simple, Personal and Fair way

1. 2015 vs. 2018.
Customers 144 million

We want to be the best retail and commercial bank for our customers

The number of loyal and digital customers has grown, along with customer satisfaction, generating more revenue.
More loyal customers

- Growth in loyal customers (mn)
  - 2015: 13.8
  - 2018: 19.9
  - +44%

- Loyal customers generate:
  - Higher returns
    Revenue per customer (EUR)$^1$ x3.4
  - Lower churn
    Attrition rate -66%

More digital customers

- Growth in digital customers (mn)
  - 2015: 16.6
  - 2018: 32.0
  - x2

- Digital sales as % of total sales
  - 2015: 15
  - 2018: 32
  - x2

More satisfaction and revenues

- Top 3 bank
  in 7 core countries for customer satisfaction$^2$

- Fee income
  EUR 11.5 bn
  +31%
  In constant EUR (2015-2018)

- Customer revenues$^3$
  EUR 45.8 bn
  +24%
  In constant EUR (2015-2018)

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1. Individuals and SMEs in retail franchises.
2. Source: customer satisfaction study (customers and non-customers) audited by Stiga / Conento.
3. Net interest income + fee income.
Shareholders | 4.1 million

We want to remain leaders in profitability and efficiency

We have delivered higher shareholder returns while strengthening our capital base.
More profitable and efficient

RoTE\(^1\) (%)

+171 bps

\[
\begin{array}{cc}
10.0 & 11.7 \\
2015 & 2018
\end{array}
\]

RoRWA (%)

+35 bps

\[
\begin{array}{cc}
1.20 & 1.55 \\
2015 & 2018
\end{array}
\]

Best-in-class efficiency

(47% vs. ~65% peer average)

One of the most profitable banks in Europe

(RoTE 186 bps above peer average)

Higher returns for our shareholders

Growing TNAVPS + Cash DPS by 27\(^2\) in 2015-2018 period

Statutory earnings per share (EPS)

\[
\begin{array}{ccc}
\text{(EUR)} & 2015 & 2018 \\
4.00 & 0.15 & 4.19 & 0.20\(^3\)
\end{array}
\]

Increase in fully loaded CET1 capital ratio (%)

\[
\begin{array}{cc}
10.05 & 11.30\(^4\) \\
2015 & 2018
\end{array}
\]

1. Underlying 2015 RoTE: 11.0%. Underlying 2018 RoTE 12.1%.
2. Considering the impact of the scrip dividend shares.
3. Total dividend charged to 2018 earnings is subject to approval by the 2019 AGM.
4. 2018 data applying the IFRS9 transitional arrangements.
Note: 2015 metrics have been re-stated to reflect the capital increase of July 2017.
Communities | 6.3 million people supported\(^1\)

We want to help more people and businesses prosper in the communities where we operate

We are the company that provides most support to higher education worldwide\(^2\). We have more than 1,200 agreements with universities and other academic institutions in 33 countries.
We are supporting higher education

**EUR 406 mn**
investment in universities¹

155,000 university scholarships and grants awarded¹

We launched the new scholarship website (www.santander-grants.com) offering study, mobility and research opportunities to students for their academic and professional development.

We are promoting financial inclusion and entrepreneurship

**EUR 160 mn**
in microfinance loans

273,000 microentrepreneurs supported

We are supporting sustainable growth

Leading Global Bank
in the financing of renewable energy projects³

6,689 megawatts (MW) financed. A generation capacity equivalent to the consumption of 5.7 million households.

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2. The Fortune 500 Change the World report.
3. #1 position based on number of operations; #2 position based on volume; Source: Dealogic.
Our progress and core strengths mean we can now accelerate our transformation

Scale + business model + diversification = predictable and profitable growth.

- Our scale benefits our leading local banks
- Unique personal relationships strengthen customer loyalty
- Our business model and geographical diversification have made us more resilient than our peers
- Resulting in more predictable and profitable earnings
Top bank
in 6 out of our 10 Markets\(^1\)

144 million customers in markets with a total population of >1bn people

100,000 people talking to our customers everyday

Over 13,000 branches across all our geographies

Diversification\(^2\)

52% Europe

48% The Americas

Resilient
Best performer under stress

Capital depletion under EBA adverse scenario (-141 bps vs. -403 bps peer average)\(^3\)

More predictable and profitable earnings

Earnings have increased x4 over the last 20 years, with low volatility

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1. Leadership position by market share in lending. Top bank in Spain, Poland, Argentina, Portugal, Chile and SCF. Only private sector banks in the case of Poland, Argentina and Portugal. 2. 2018 underlying attributable profit. Excluding Corporate Centre and Spain Real Estate Activity. 3. Source: EBA stress test 2018.
Our progress is powered by digital transformation, which is a key to success in the new economic environment.
The digital transformation of our core banks is focused on two customer priorities in order to continue to deliver the best customer service:

- Offer all our products and services through end to end digital channels
- Deliver all products and services in a fast and efficient way

We are transforming our core banks in five ways:

- Transforming the FRONT
  Making all products and services available in digital channels (end-to-end)

- Transforming the BACK
  Re-engineering, digitising and automating all our processes

- Evolving our IT architecture and systems
  Our core banking system is a structural advantage

- Onboarding new technologies
  Rapid integration of new technologies into our day-to-day operations

- Becoming an agile data-driven organisation
Our digital transformation is already delivering results

We have more digital customers...

- x2
digital customers
(32 mn in 2018 vs. 16.6 mn in 2015)

- 48%
digital customers as %
of active customers
(30% in 2015)

...who are more engaged...

- 18
monthly accesses per customer
to the digital channels
(14 in 2015)

- 68%
of digital customers access us
via mobile apps
...complete more transactions...

x2
more transactions in digital channels since 2015

38%
of digital transactions through mobile apps

...and increase sales

32%
digital sales as % of total
(15% in 2015)

15%
digital sales through mobile apps
We have launched new digital businesses, which complement our banks and compete in the market.
Openbank

One of the largest fully digital banks by balance sheet with a full suite of products and services

+370% mortgages\(^1\) (front book)

c.90% asset growth\(^1\)

+19% deposit growth\(^1\)

One Pay FX

1\(^{st}\) Blockchain-based retail payments solution

Launched in 4 geographies simultaneously

230% growth in the monthly volumes of One Pay FX transactions from May to December 2018

superdigital

Financial solutions for the unbanked

\(\text{c.70\% active customer growth vs. 2016 (c.400 thousand)}\)

130% revenue growth vs. 2016

Breakeven with EUR 1 mn EBITDA

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1. YoY growth; digital mortgages were launched in 2017.
Our 10 core markets are ready to lead in the future by working together better, and faster

By successfully completing our three-year plan, we have strengthened the Group so we can continue to grow.
Spain

We have undergone a significant transformation since 2015, resulting in stronger profitability and a strengthened balance sheet. This is thanks to customer loyalty, which has doubled, as a result of the 1l2l3 strategy; strong business growth in high-added value products (the SMEs loan book has grown by EUR 24 bn); and accelerated digital transformation. Our operations have been strengthened further by the Banco Popular acquisition.
Ignacio ‘Pincho’ Ortega

Ignacio has been playing basketball for the last 10 years and he is a core member of the Spanish senior team and also of the Under-22s, on which he is a standout. Last summer, at age 18, he received the Most Valuable Player award in the European Under-22 Championship.

He has also received the first Sports Scholarship for students with disabilities from Fundación Universia.

This will allow Ignacio to pursue his athletic career while studying International Relations at the University of Alabama, in the United States, an elite centre for wheelchair basketball.
**Santander Consumer Finance**

A leading consumer business in Europe, its auto finance and consumer businesses have grown by strengthening its digital channels.

<table>
<thead>
<tr>
<th>Active customers</th>
<th>19.4 million</th>
<th>+2.7mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countries</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Underlying RoTE</td>
<td>15.9%</td>
<td>+3.23pp</td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>43.1%</td>
<td>-1.6pp</td>
</tr>
</tbody>
</table>

2015 vs. 2018.

Breakdown by geographies
Poland

Customer loans and deposits up by around 50%\(^1\) since 2015 – strong organic growth and market position reinforced by the agreement to acquire the retail and private banking business of Deutsche Bank Polska. Strong focus on efficiency (C/I down to below 43%) has been achieved while growing the number of digital customers by 17% since 2015.

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyal customers</td>
<td>1.8 million</td>
<td>+38%</td>
</tr>
<tr>
<td>Digital customers</td>
<td>2.2 million</td>
<td>+17%</td>
</tr>
<tr>
<td>Underlying RoTE</td>
<td>10.3%</td>
<td>-2.60pp</td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>42.8%</td>
<td>-3.7pp</td>
</tr>
</tbody>
</table>

\(^1\) In constant euros. 2015 vs. 2018.
United Kingdom

We continued to deliver shareholder value despite facing an uncertain and challenging operating environment in the UK (9% RoTE). We are well positioned to succeed, with improved customer satisfaction (Top 3) and growth in digital customers (+50% since 2015), while remaining strongly capitalised (CET1 13.2%, up 160 bps).
4.4 million Loyal customers +12%
5.5 million Digital customers +50%
9.3% Underlying RoTE -2.51pp
55.2% Cost-to-income +2.6pp

Jenny Evans
Entrepreneurship Awards UK

Jenny Evans was a winner of the 2017 Santander Universities Entrepreneurship Awards and was awarded £25,000 in seed funding, as well as two fully funded internships. She also receives mentoring from our UK CEO, Nathan Bostock.

“At Jenny Kate we create beautiful textile prints inspired by nature to bring the outdoors into your life and home. Winning the Post-Revenue category was an incredible experience and has completely revolutionised my business. I’ve built a huge new network of people to work with and get advice from, gained an accountability partner, new business collaborations, had an incredible week of working on my business with CEOs and industry experts and I also gained an advisory board member – all before I won!”
Brazil

Santander Brasil is the country’s third-largest privately owned bank and the largest foreign bank in the country. It is the leader in customer satisfaction. Since 2015, it has experienced strong growth in loyal customers and digital customers. Over the same period, its underlying attributable profit rose (+88%)\(^1\) as did its profitability (RoTE +19.8%), reflecting its higher productivity and improved efficiency in recent years.

\(^1\) In constant euros.
Bernadete Fentrin

Creating jobs

After Bernadete lost her job she rented a small shop, took the 2 sewing machines that her family had, and began to make and sell clothes.

She has been a customer of Prospera for 13 years, and she now has her own house, a shop and employs 4 people. Thanks to the microcredit, she has been able to buy machinery to grow the business. Bernadete has also been part of the "Parceiros em Ação" financial training program.

In October 2018, supported by Santander, she went to the Sao Paulo Fashion Week for the first time.
Portugal

In 2018 we became the leading privately owned bank, particularly in terms of total credit and profitability, while substantially growing the number of digital customers. In October, we completed the operational and technological integration of Banco Popular Portugal.

<table>
<thead>
<tr>
<th></th>
<th>752 thousand</th>
<th>734 thousand</th>
<th>12.1%</th>
<th>47.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyal customers</td>
<td>+42%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digital customers</td>
<td>+93%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying RoTE</td>
<td>-0.47pp</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>-0.9pp</td>
<td></td>
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</tbody>
</table>

2015 vs. 2018.

Breakdown by geographies
Chile

We lead in loans, customer deposits and online banking. *WorkCafé*, Santander Life and Digital Onboarding have helped us become leaders in innovation and digital banking in Chile. Our RoTE has reached 18%.

<table>
<thead>
<tr>
<th></th>
<th>668 thousand</th>
<th>1.1 million</th>
<th>18.4%</th>
<th>41.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyal customers</td>
<td>+19%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digital customers</td>
<td>+18%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying RoTE</td>
<td>+2.88pp</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>-1.8pp</td>
<td></td>
<td></td>
<td></td>
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</table>

2015 vs. 2018.
Mexico

Our focus on loyalty and digital transformation has seen the number of loyal and digital customers grow, by 81% and x3.3 respectively, since 2015. The RoTE has expanded by more than 700 bps during the same period, reaching 20% in 2018.
Juana Edith Esparza Briones

Mobility Scholarship

Juana was born in the municipality of El Llano, to a very poor family. Her parents had not had the opportunity to go to school. With much effort, by both her and her family, Juana was admitted to the university, where she received a Santander Scholarship to study in the United States for four months. This opportunity changed her life and allowed her to travel abroad for the first time.

“The support I received from Santander meant a lot because it changed my life.”

Juana discovered that there are no barriers, and that to get ahead all she needed was the support of someone who believed in her.
Argentina

Santander Rio remains the leading private bank based on four pillars: profitable growth, customer centricity, efficiency and risk control. In 2018, 71% of our active customers used digital channels, and 40% are now exclusively mobile customers.

<table>
<thead>
<tr>
<th></th>
<th>2015 vs. 2018.</th>
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<tbody>
<tr>
<td>Loyal customers</td>
<td>+35%</td>
</tr>
<tr>
<td>Digital customers</td>
<td>+66%</td>
</tr>
<tr>
<td>Underlying RoTE</td>
<td>-20.45pp</td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>+6.3pp</td>
</tr>
</tbody>
</table>

- 1.4 million Loyal customers
- 2.1 million Digital customers
- 11.8% Underlying RoTE
- 61.9% Cost-to-income
United States

Santander US underlying attributable profit grew by 42% in 2018 vs. 2017. Auto loan originations at Santander Consumer USA, Santander US’s biggest business, grew by 43% to $28.8 bn. Santander US made significant progress closing legacy regulatory issues in 2018.

339\(^1\) thousand  894\(^1\) thousand  7.6\(^2\)  43.4%
Loyal customers  Digital customers  RoTE  Cost-to-income
+28%  +45%  -0.8pp\(^3\)  +4.6pp

1. Only SBNA
2. Underlying RoTE adjusted for 11.3% CET1. Otherwise Santander US 4% and SC USA 13.3%.
3. Underlying adjusted RoTE.
Corporate & Investment Banking

Corporate & Investment Banking is Santander’s global division that supports corporate and institutional clients, offering tailored services and value-added wholesale products suited to their complexity and sophistication.

<table>
<thead>
<tr>
<th>1.8%</th>
<th>EUR 1,418 million</th>
<th>EUR 5,807 million</th>
<th>EUR 1,705 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoRWA</td>
<td>Revenue synergies¹</td>
<td>Revenues</td>
<td>Attributable profit</td>
</tr>
<tr>
<td></td>
<td>+21%²</td>
<td>+2%²</td>
<td>+8%²</td>
</tr>
</tbody>
</table>

¹ Revenue synergies from leveraging SCIB value proposition to corporates and SMEs.
² In constant euros.

2017 vs. 2018.
Wealth Management

Operating in all our markets, Santander Private Banking and Santander Asset Management have strengthened our customer offering by improving collaboration between our banks, driving profitability (attributable profit EUR 528 million) and growth (+17%¹ YoY).

<table>
<thead>
<tr>
<th>EUR 329 billion</th>
<th>174 thousand</th>
<th>12.1%</th>
<th>EUR 1,015 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets under management</td>
<td>Private Banking Customers</td>
<td>RoRWA</td>
<td>Profit contribution³</td>
</tr>
<tr>
<td>-2%²</td>
<td>+2%</td>
<td>+0.2pp</td>
<td>13%</td>
</tr>
</tbody>
</table>

1. Underlying profit.
2. In constant euros.
3. Including net profit and total fee income generated by this business.

2017 vs. 2018.