

ADRESS 2018 GENERAL SHAREHOLDERS' MEETING

JOSE ANTONIO ÁLVAREZ-CEO

Mr. President of the Government of Cantabria.

Distinguished authorities.

Shareholders of Banco Santander, ladies and gentlemen,

Good morning and thank you for attending this AGM.

Today, I will focus on three points:

- 1) First, I will briefly examine the economic environment during 2017
- 2) I will then share with you our main management priorities for the year and the units' performance
- 3) Lastly, I will dedicate a few minutes to our vision for the year ahead

Before beginning, I would like to thank our **more than four million shareholders** for their confidence in Grupo Santander. You are key for making our growth sustainable in the long term.

And I also want to congratulate our **more than 200,000 professionals that work in the Group**, as the results achieved in 2017, which I will now set out, would not have been possible without the commitment and contribution of each and every one of them.

Economic environment

I will begin with a few points on the economic environment in 2017, which was clearly the most positive of the last few years.

The global economy and, in particular, the economies of the countries where the Bank operates, secured the upswing that we began to see in the second half of 2016.

The consolidation of growth was compatible with moderate inflation, the continuation of expansive monetary policies and improved confidence. In short, a positive scenario, mirrored in the evolution of financial markets.

This context, however, was not so beneficial for banking activity, which suffered the impact of very low interest rates in mature economies.

The Group's and units' performance in 2017

In this environment, our **priorities** in 2017 were as follows:

1. First, as the Chairman has commented in detail, **we continued our commercial transformation**, both in the traditional banks, as well as in the development of new platforms that work independently under a

start-up model. Over the coming years, we will keep on investing in digitalisation in order to continue building a bank aligned with the challenges of the future.

2. At the same time, **we strengthened our position in the markets in which we operate**. As well as organic growth, particularly in developing economies, 2017 presented us with new acquisition opportunities. The most notable transaction was the incorporation of Banco Popular, which enabled us to bolster our leadership in Spain and Portugal. We also improved our position in retail banking in Argentina, we increased our stake in Santander Consumer USA, we reached agreement to acquire the retail business of Deutsche Bank in Poland and we repurchased 50% of Santander Asset Management.
3. Moreover, in order to improve the Bank's profitability, **we exited some of Popular's businesses which were not considered strategic**. The most noteworthy sale was 51% of Banco Popular's real estate business and TotalBank in the United States.
4. Lastly, our **proactive risk management** resulted in a fall in loan-loss provisions and an improvement in the cost of credit. But we do not only focus on improving credit risk. We are conscious of the importance of strengthening the **Group's risk culture** and involving all employees in it. With this in mind, we strengthened processes in cyber security, anti-money laundering and operational and reputational risk. Reducing these impacts as much as possible is one of the main pillars of our risk management strategy.

Ladies and Gentlemen,

- In 2017, our **attributable profit rose 7% to €6,619 million**, including **non-recurring** impacts largely related to goodwill amortisation and optimisation plans launched, which amounted to a negative net **€897 million**.
- **Profit before tax** (excluding one-offs) **amounted to more than €13.5 billion, a 20% increase** and driven by record revenue, increased volumes, an efficiency rate among the sector's highest and a rigorous risk policy, which enabled us to lower our NPL ratio for the fourth straight year (excluding Popular).
- All this resulted in high profitability and continuous quarter-on-quarter generation of capital. In fully loaded terms, we reached a CET1 ratio of 10.84% and as such we are well positioned to reach our 2018 target.

These results were underscored by an **excellent geographic diversification** between mature and developing markets, which gives us stability, recurrence and growth higher than that of our competitors.

We see a **consistent and widespread improvement across countries, not only in profit but also in our main management metrics**: customers, cost of credit, efficiency and profitability.

Beginning with the **mature markets** in which the Bank operates.

It was not an easy year in **Spain**, but we managed to combine the acquisition of Banco Popular and the first steps of its integration with the development of our strategy at Santander Spain, which showed a very positive business evolution.

The 1|2|3 account helped us to add close to 600,000 loyal customers in 2017, a 42% increase, and the launch of *Digilosofía* undoubtedly contributed to the 15% growth in digital clients. The new payment systems strategy achieved record card sales and made us leaders in mobile payments in Spain.

Attributable profit was €1,180 million, thanks to a significant rise in fee income, lower costs and enhanced credit quality, which offset the pressure on net interest income resulting from tough competition and low interest rates. This produced double-digit growth in profit.

The strategy for 2018 is to secure our leadership, strengthen our competitive advantage in the most attractive segments (companies, SMEs, private banking, consumer credit) and progress in our digital transformation, while maintaining sustainable profitability.

Banco Popular's incorporation produced a **loss of €37 million**, due to extraordinary charges made for integration costs. Excluding these costs, **underlying attributable profit was €263 million**.

The Chairman has already commented on the main measures taken during 2017. They enabled Popular's financial stabilisation from the start, significant steps to be achieved in the bank's management and recovery of the franchise's commercial momentum.

Today, we can say that Popular is in good condition to keep on advancing in its **integration, which we have already begun with the central services**.

We are ensuring that the levels of efficiency promised to the market, and better treatment for those employees affected, including measures to help them relocate (as done in previous processes).

In the last part of this year we will be ready to tackle Popular's operational integration into Banco Santander's systems. This should enable us to strengthen the value proposition and increase customer satisfaction and loyalty. We will also focus on optimising Popular's structure, analysing the best alternatives for joint ventures and the non-strategic assets that remain on the balance sheet.

In the United Kingdom we have one of the main banks in the country, with an innovative value proposition for individual customers and small companies. The uncertainty over Brexit was reflected in lower growth in 2017 and we believe this will continue to be the case this year.

Despite the less favourable environment, **attributable profit was €1,498 million** and the **RoTE 10%, clearly higher than that of our main competitors**. These are robust results, strongly backed by the upper part of the income statement (i.e. revenues from our ordinary activity).

In 2018 we will continue to develop wholesale and corporate banking and a higher value-added offering to our individual customers in order to diversify our sources of revenue. We also want to advance in our commercial transformation in order to keep on improving efficiency and operational excellence.

In addition, I would like to remind you that in the UK we are continuing to make progress in the ring-fencing of our commercial and retail banking business and investment banking, as required by legislation that will come into force on 1 January 2019.

Santander Consumer Finance is Europe's consumer finance leader. The unit continued to advance in its strategy of striking brand agreements with European car manufacturers and distributors.

Attributable profit grew for the eighth year running to €1,168 million, spurred by high geographic diversification and growth in volumes in an environment of ever tighter spreads. The efficiency ratio and cost of credit were at historically low levels, enabling the **RoTE to increase to 16%**.

In 2018, we foresee the economic context continuing to support consumer business, some regulatory pressure and the normalisation of provisions.

The restructuring of business in Germany under the same brand will help us to improve customer service, while continuing to improve efficiency levels. We will continue the digitalisation process via collaboration with fintechs and signing agreements with the main retailers.

Attributable profit in the United States was 7% lower (in local currency) **at €332 million**, hit by the impact of some one-offs: hurricanes, the increased stake in Santander Consumer USA and the tax reform, as well as the change of business mix in Santander Consumer USA toward lower risk assets. **Underlying profit was up 5%**.

We made great progress in 2017 in regulatory issues and passed the Federal Reserve's stress tests, both in quantitative and qualitative terms. This enables us to focus on improving the profitability of retail and commercial banking and reduce duplications in costs. We can also optimise the structure of capital as Santander Holding USA begins to normalise its policy of paying dividends to the Group.

As regards the priorities for 2018, Santander Bank will continue to optimise its balance sheet in order to grow in volumes and improve credit yields. SCUSA will focus on maintaining an appropriate risk-return in the non-prime sector, and increase prime business, boosting volumes.

I am optimistic about Santander's evolution in the United States. We are reducing the gap with our competitors in critical aspects: return on assets, cost of deposits and efficiency. There is still room for improvement in generating additional revenues in wholesale and corporate banking. Consequently, we expect significant growth in profits and in profitability in the coming years.

In Portugal the acquisitions of Banif and Popular bolstered Santander Totta's position in the country as the reference in terms of profitability and balance sheet quality. Also, the strong performance of the 1|2|3 World programme spurred growth in loyal and digital customers, enabling **attributable profit to grow 10% to €440 million**.

Our priority in 2018 is to carry-out an exemplary integration of Popular, as we have already done with Banif, and reinforce our position as the largest private sector bank in Portugal.

Moving on to developing countries, the general situation can be summed up in four main points: sustained growth in lending, interest rates higher than in mature markets, banking penetration levels remain low and a more favourable demographic evolution. This environment favours profitable growth.

Starting with Brazil, 2017 was an excellent year for our franchise. We gained market share and the profit evolution reflected the profitable, sustainable and customer-focused business model, coupled with solid organic growth.

Attributable profit was 34% higher (in local currency) **at €2,544 million, well above the sector**, underpinned by a significant increase in net interest income and fee income, thanks to greater volumes

and growth in loyal customers. These increases and the lower cost of credit pushed up the **RoTE to 17%, much higher than in 2016.**

In 2018, the strength of our franchise and the better economic outlook make us optimistic about the recurrence of our results. We believe we can maintain growth in volumes, boost revenues and improve the cost of credit. In short, high quality results and growing on a sustained basis.

In **Mexico** attributable profit rose 16% (in local currency) to more than **€700 million**, mainly due to the excellent performance of net interest income resulting from the commercial policy. This is reflected in higher customer loyalty from the capturing of payrolls and the *Santander Plus* offer. RoTE rose significantly, to more than 19%.

In a country that offers considerable growth possibilities, we are strengthening our distribution capacity, investing in systems and infrastructure and focusing on multi-channel innovation, digitalisation and launching new commercial initiatives. All of this should produce favourable dynamics and revenues, which I am sure we will be capable of materialising into growth and high quality results.

In **Chile**, we continued to consolidate our commercial transformation, launching digital on-boarding, the first fully digital system, and opening more *WorkCafé* offices. High income, SME and large company segments remained a priority, while we recovered growth in the mass consumer market, which we expect to grow briskly in 2018.

Attributable profit rose 12% (in local currency) to **€586 million.**

Our strategy this year focuses on driving business with medium-income customers via *Santander Life* and on growing more than our competitors in loans and savings. Based on the better economic outlook, we believe our strategy should be reflected in higher volumes and profits.

In **Argentina** our bank has a leading position in a country with a high growth potential after the integration of the business acquired from Citibank.

Attributable profit was up 14% (in local currency) at **€359 million**, spurred by gross income growth.

Our leadership position, reinforced with the mentioned acquisition, will enable us to take advantage of the growth that we are convinced the country will register in the coming years.

Poland had a good year, though not fully reflected in the **attributable profit of €300 million**, because of some impacts related to regulation and the positive extraordinary results that year. Excluding these impacts, **profit before tax was 12% higher** (in local currency) thanks to higher gross income, cost control and lower provisions.

As I stated earlier, at the end of the year we announced the agreement to acquire Deutsche Bank's commercial and private banking business in Poland, which will strengthen our position (market shares of more than 10%). Our goal in 2018 is also to remain the reference in digital channels and the leader in innovation.

Lastly, **Uruguay and Peru** increased their profits 19% and 7% (in local currency), respectively. Uruguay's were driven by commercial revenues. Peru maintained a good pace of business, despite the economic slowdown.

I will finish with some brief comments on our **global business**

Global Corporate Banking gained market share in high value-added businesses. This helped us secure our leadership in Spain, Portugal and Latin America. Also noteworthy was the significant growth in our cash management platform for handling the treasuries of multinational clients and improving the services offered to retail customers. GCB is consolidating itself as one of the most profitable units of its sector, having obtained a profit of €1,821 million.

An important development in 2017 was the creation in September of the **Wealth Management** division, which integrates the private banking and asset management businesses. This division will take better advantage of the strong growth we envisage in these activities, which are also very efficient in terms of capital consumption.

It is important to do it well but also that others perceive this. In 2017, the market recognised and positively assessed our strategy and its reflection in the accounts: the Santander share price rose 12.3% and the **total shareholder return** was 16.6%.

2018 Vision

We believe we can be optimistic about this year.

Together with economic growth, there are several **factors that will work in our favour:**

- The **expansion of the global economy** is based on a very wide range of countries and is occurring without generating any notable imbalances.
- **Inflation seems contained** and central banks are playing an important role in keeping it under control, but without penalising growth. This suggests that interest rate rises will be gradual but with an upward sloping yield curve, which would be very good news for banking business.
- The **regulatory uncertainty** of the last few years will **diminish** as important topics are being resolved.

The main **points of instability**, and the ones which we will pay the most attention to, are the exiting by central banks of expansive monetary policies and the entry of new companies from the digital world to the banking industry. We will also be monitoring more short-term matters such as the evolution of Brexit and Latin America's spate of elections.

All things considered, we believe the **balance between risks and opportunities** is more positive than in previous years. And Grupo Santander has great strengths that put us in a privileged position to take advantage of the opportunities offered in this environment.

We attained our **financial objectives** in 2017 and began 2018 in a good position to achieve those announced at the Group Strategy Update for this year and which the Chairman has reminded us of.

In order to achieve these objectives, we have set the following management priorities:

- **Continue the commercial and digital transformation plan**, maintaining a high level of efficiency. Offset the investment plan with measures to optimise costs.
- **Gain market share on a sustained basis**, as our growth opportunities are in those markets in which we already operate.
- **Improve the quality of the income statement** in an environment with significant pressure on spreads.
- **And improve the main risk metrics** by managing the higher loan-loss provisions derived from greater lending on the one hand, and, on the other, the impact of the new accounting regulation on recognition of provisions (IFRS 9).

I would like to end by returning to my first words and once again thank all our shareholders. We will continue to work to foster the progress of people and companies. Achieving success in this task will be the best guarantee that we will continue to increase the return on your investment in a sustained way.