

ADDRESS – 2018 GENERAL SHAREHOLDERS’ MEETING

ANA BOTÍN – GROUP EXECUTIVE CHAIRMAN

President of the Regional Government of Cantabria and other authorities with us today.

Valued shareholders.

Good morning and thank you for attending this Annual General Meeting.

Please allow me to begin today by looking to the future. How we are preparing ourselves to be a successful bank for our customers, our employees, you, our shareholders, and society as a whole.

I would like you to imagine for a moment what our environment was like a generation or two ago, what it is like today and how it will look in the future.

Not so long ago, shops were entirely physical. Mobile telephones were scarcely used and then only to make calls and send SMS messages. We used CDs and looked for work and information using printed documents which we sent by fax.

In the bank’s Annual Report of 40 years ago we reported that we had begun “the exchange of magnetic tapes for the daily reporting of transactions.” We were the first Spanish bank to do so.

Even then, we were reinventing ourselves, getting ahead of the curve.

Today, we shop on Amazon, chat on WhatsApp, look for work on LinkedIn and advertise on Facebook.

And we are still only at the beginning of the digital revolution.

One thing we are sure about is that to be successful in this new environment we must focus on one essential factor: loyalty.

People now have more information and more choice than ever before. We become much more demanding every day.

To be successful, meeting these expectations is not enough; we have to exceed them.

What makes us strong is knowing that our success lies in winning the loyalty of everyone. This is how we will achieve our aim of being the best retail and commercial bank.

Earning the loyalty of our teams ensures we have motivated people who take better care of our customers.

Our customers' loyalty drives our growth.

Last year we increased loyal customers to 17 million and digital customers to 25 million.

As a result, customer revenues rose to 46 billion euros.

We are one of the most profitable banks in the world, with an underlying RoTE of about 12%, and we are one of the most efficient with a cost-to-income ratio of 47%.

In 2017 we acquired Banco Popular, a transaction which, nine months later, I can confirm will be good for all of you, our shareholders, for our customers, for the Spanish and European banking sectors and for society in general.

Thank you very much for your support. In a few minutes I will provide more details.

Our customers now number 133 million. We can do even more to help them and their communities prosper.

To change even more quickly, we will continue to innovate, not just to be part of the digital revolution, but to lead it and address four great challenges.

The first and most important challenge is related to **ethics and conduct**. Though the financial crisis occurred a decade ago, its effects are still felt. Banks must still do more to gain and retain people's trust.

Gaining this trust means we must do things in a responsible way. It requires a strong culture, one that goes beyond complying with regulation and going "the extra mile" with those we work with, the customers we serve and the shareholders who invest in us.

We aim to help communities in which we operate prosper; and generate profits and return.

Simple, Personal and Fair. These three words sum up how we will help millions of people turn their dreams into reality.

These three words are the foundation of a responsible bank.

We have launched many programs to turn those words into reality.

We have changed how we evaluate and reward employees, giving more weight to ethical and responsible behaviours.

But we can always do more.

To enhance this commitment, I am announcing the creation of a new board committee, the Committee for Responsible and Sustainable Banking and Culture. Its purpose will be to ensure that we manage our business in a responsible way; and oversee how we are helping people and businesses prosper.

This strong culture and sense of purpose helps us to attract and retain the best talent, people who share our ambition.

We want a diverse team in terms of gender, nationality, age, expertise and skills. Diversity is key to get to know and understand the communities in which we operate.

A responsible bank has a strong team with the right values and behaviors and an unrelenting commitment to its purpose.

We are already, according to independent measures, one of the best banks to work for in five of our core markets.

We will continue to build on this and to foster talent and diversity in our teams. Thank you, to all our people, for giving your best to support our customers.

The second challenge we face is **digital transformation**.

Having talented, engaged teams is key to winning our customers' loyalty and leading the digital revolution.

Gandhi said, "If you want to change the world, start with yourself." And that is what we are doing at Santander.

Our customers want frictionless services, a huge range of products at better prices, through any channel, anytime, anyplace. To do that, we must build global, flexible platforms backed by the trust and strength of Santander.

Our banks in Spain and Brazil are examples of progress in this transformation.

Brazil now has 8.6 million digital customers. At a Group level, one in every three sales is done through a digital channel. In Spain, transactions by mobile grew by 330% in 2017 and in the United Kingdom by 58%.

At the same time, we are developing new global platforms, with light, agile structures that allow us to move quickly:

- SuperDigital: An online platform that doesn't require a bank account.

- Openbank: A fully digital bank which offers the full range of products.
- Santander One Pay FX: This will offer cheap, transparent international payments, based on blockchain.

These are just three examples of global, digital projects in which we invested in 2017.

We will continue to invest in global, digital platforms not just to be the best retail and commercial bank, but to be the best and most responsible open digital platform for financial services.

This means offering our products and services but also those of others, and being open to collaborate, safeguarding our role as the main point of contact with the customer.

A platform that connects consumers with businesses, businesses with one another, and that is able to offer customers what they want. A platform they can trust, just like a bank, but which operates at speed and innovates as fast as the most dynamic start-ups.

And we are going to do this while guaranteeing the security of all our digital channels and protection of our customers' data.

Thanks to our partnership with Apple, we were the first Spanish bank to offer in-store mobile payments.

In the UK, our collaboration with Kabbage enables us to provide pre-approved loans to SMEs in 14 minutes, something that used to take weeks.

The world needs banks that are secure, but able to innovate and be competitive.

The regulatory framework should guarantee that the same rules apply to everyone that carries out the same types of activities. To make a loan or a payment involves the same risk, whether it is done by a bank or another type of company. We need a framework that is digital, agile, flexible and fair.

Current regulations are more demanding of banks than they are of the big global platforms. This cannot continue and must change.

Our purpose is to help people and businesses prosper. Santander changes and grows with our customers and the communities where we work.

Our third challenge is **inclusive growth**, to help build stronger economies and more stable societies – which is good for everyone, including Santander.

To innovate and create wealth requires having large, medium and small companies that are strong. A diverse ecosystem. Large companies support small and medium companies, which in turn create innovation and dynamism. We are world leaders in supporting entrepreneurs with both finance and advice. For the second consecutive year, we were named the world's best bank for SMEs by Euromoney.

We also support the least advantaged in society by volunteering, supporting charities and helping people become more financially literate.

Between 2016 and the end of 2018, we will have helped five million people in our communities.

Investing in education is the best way we can contribute to achieving this inclusive growth.

Our agreements with 1,300 universities in 21 countries help young people access excellent education, providing them with the skills they require to get a job or create their own company.

To enhance this effort, we have launched Santander X, which will be the largest global ecosystem for university entrepreneurship and will open doors to talent to build a better world for everyone.

In this world, we all have a role to play in tackling climate change and the challenges posed by a growing population.

We want to work with all our stakeholders in the transition to a low-carbon economy and encourage sustainable consumption. This is our fourth challenge - **sustainable growth**. If we do not play our part, the consequences for our economies, for our prosperity, for our children, could be dire.

So what we are doing at Santander?

We will continue reviewing and enhancing the way we do things, to ensure that our activity is carried out in accordance with the highest standards in environmental protection and the fight against climate change.

In 2017, among other initiatives, the bank participated in renewable energy projects with a generation capacity equivalent to the consumption of 3.6 million households.

Why do I speak about the need to address these challenges? My answer is one word: loyalty.

By being simple, personal and fair in all we do; by fulfilling our purpose, and helping society tackle these challenges, we will build a team that is proud of working for Santander, and motivated to serve our customers.

That will build customer loyalty, and their loyalty will drive our growth. That growth will generate sustainable returns for you, our shareholders. And that growth will allow us to help more people and businesses prosper, generating even more loyalty among our team.

This is the virtuous circle of lasting growth. And the results from the last year show this approach is working.

Esteemed shareholders.

Santander continues to be one of the most profitable and efficient banks in the world.

In 2017 we again met all our commercial and financial targets and shareholder return metrics.

We can summarise this in three main blocks:

First, growth

In 2017 we increased our loyal and digital customers, which allowed us to increase customer revenues and underlying profit before tax, which is the best way to measure our performance, by 20%.

At the same time, we improved our customers' satisfaction with the bank, achieving a top 3 position in 7 of our 10 markets.

At Santander, we know well that if someone fails to look after their customers, someone else will. The transformation of our branches has helped to increase our customers' satisfaction.

From our SmartRed in Spain to the Work Cafés in Chile, we are transforming our branches with a clear objective: having customers visit the bank because they want to.

These new branches generate customer satisfaction of 96% and are 20% more productive.

Second, profitability.

Santander is one of the most profitable banks in the world and one of the most efficient.

In 2017 our cost-to-income ratio remained stable at 47%. Banks such as JP Morgan have ratios of around 60%.

And third, strength.

This profitability enables us to accumulate more capital while we fund business growth and increase cash dividend.

To achieve these three things at the same time is not easy.

Last year we increased profit per share and our capital ratio. All of this occurred while we increased share capital by 7 billion euros to support the Banco Popular acquisition.

Following the approval of the final dividend at this general shareholders' meeting, total remuneration to our 4 million shareholders will amount to 22 euro cents per share. 19 cents in cash.

We will have distributed almost 3 billion euros in cash to our shareholders, 21% more than the previous year.

At the same time, in the last three years, we have increased capital by a total 17.5 billion euros (including capital increases in January 2015 and for Popular), in addition to laying the foundations for higher profitability in the future.

In 2017, total shareholder return was 16.6%, above the 12.0% of the European banking index.

The board's intention is to propose to pay a total dividend from 2018 profit of 23 cents per share; to propose that, starting with the charges to 2019 results, dividends be paid twice a year (November and May); and to propose that the dividend charged against 2019 results will be paid entirely in cash.

This new payment structure will not imply a reduction in total shareholder remuneration compared with the previous payment structure.

Today I would also like to reiterate at this general shareholders' meeting the targets for this year, 2018, which you can see on screen. We are confident we will meet them all.

Our potential to grow organically is high.

First, because we have scale. We have 133 million customers and a presence in ten markets with a population of one billion.

No other financial group has a similar critical mass.

Secondly, we are in countries in Europe and the Americas, a combination that ensures predictable and profitable growth.

In the last 20 years our profits have grown and have been the least volatile among our peers, which means we need less capital.

Third, thanks to our ability to innovate and our culture of collaboration, we are efficient. By working together more, we grow faster and better.

The United Kingdom, Spain and Brazil are collaborating to implement a new technology model. They are sharing development costs and know-how.

The corporate centre shares best practices and fosters collaboration. It contributes high value at a low cost.

Scale, diversification and collaboration in innovation, driven by the corporate centre. These advantages set us apart and are the foundation for profitable and predictable growth in the years to come, improving our track record of the last decades.

To grow prudently and profitably over time, having a model of corporate governance that is an industry benchmark is essential.

The resolutions to be submitted for approval at this general shareholders' meeting include the ratification and appointment of two directors, Mr Ramiro Mato and Mr Álvaro de Sousa, whose experience and knowledge of the financial sector in Europe and Brazil will be of great value to the board.

I would like to thank Ms Isabel Tocino and Mr Matías Rodríguez Inciarte for their extraordinary contribution to making Santander Group what it is today.

Both left the Group's board of directors recently to take up new positions within the Group from which they will continue to contribute significant value to Santander.

The composition of our board of directors is aligned to international best practices and strikes the right balance, with nine independent directors out of a total of 15. It is diverse in terms of age, gender, nationality and professional experience.

This is key to ensuring the sustainability of our long-term business.

The chairmen of the board committees and the general secretary will provide details on further enhancements to our internal governance.

Looking forward organic growth continues to be our priority.

In the last 12 months we've grown. For example, we have increased the ROE of Brazil from 14% to 17% and 16% to 20% in Mexico.

But we also have to look into opportunities for external growth that arise in our markets which may strengthen our business, provided that they meet our strategic and financial criteria.

This is what we did in 2015 in Portugal with Banif, in 2016 in Argentina with Citibank and in 2017 with the purchase of Banco Popular in Spain, and Deutsche Bank's franchise in Poland.

They have a return on investment above the cost of capital and are accretive for our earnings per share within two years.

Banco Popular was the first case of a resolution carried out under the European Single Resolution Mechanism.

The acquisition led to a return to normal operations for Banco Popular following a significant outflow of deposits, without affecting the stability of the financial system and without public aid, while giving continuity of service to customers.

This is an excellent opportunity to strengthen our franchise in SMEs, retailers and self-employed workers. We have regained leadership in Spain in all segments and have become the largest private bank in Portugal.

I can confirm today that we expect a return on investment of 13%-14% in 2020, and a positive impact of at least 2% on earnings per share from 2019.

Our shareholders' trust in both the transaction and the management team was shown in the speed and results of the capital increase of 7.072 billion euros that were immediately injected into Popular. The transaction was eight times oversubscribed.

Since the acquisition, we have been able to stabilise Popular's business performance, conduct Spain's largest ever real estate risk reduction transaction, launch commercial offers to customers through the loyalty bond, and manage the integration of the two banks in a responsible manner.

We continue to work on the integration, which is progressing as expected. I would like to congratulate our teams for their excellent work and highlight that our goal is not to lose a single customer.

The acquisition of Banco Popular took place at a very positive point in Spain's economic cycle.

Today, Spain is in the vanguard of Europe's business activity, exports surge and recovery in consumption. In 2018, we expect Spain to grow 3% for a fourth consecutive year and unemployment to continue decreasing.

Now, Spain's priority should be to also lead in inclusive growth to ensure that Spaniards who have sacrificed the most during the crisis also benefit from the recovery.

An example of how Santander is supporting this goal is the 10% productivity-based salary increase we have implemented for 3,400 people who were in the lower end of the Group's compensation scale in Spain.

This is also a positive time for the world economy.

Growth is expected to be close to 4% in 2018, a six-year high. And, most importantly, the cycles are aligned: both developed and emerging countries are growing.

In fact, for a second year in a row, our ten countries are all growing.

The normalisation of monetary policy will shape market performance. I am sure the strength of our institutions will ensure that the transition is gradual and predictable.

To conclude, I would like to talk about our brand.

The Santander brand is one of the Bank's major strengths. It is recognised internationally for the trust and credibility it conveys. Year after year it remains one of the world's most valuable brands in the main international rankings.

I said earlier that we have to change and innovate. The brand must evolve too, to accompany our transformation, to be more visible and to convey our culture better.

And we have done just that.

Today I would like to unveil the new Santander brand.

It seems like a small change but it isn't.

This new brand is modern and digital, and it connects better with the new generations. The visibility of the brand improves around 20% in digital formats.

The name Santander, the colour red and "the flame" convey strength, soundness and trust. Which is why we are keeping them.

Our new sponsorship of the Champions League, the best football competition in the world, with the largest audience, will be a key factor in making sure the new brand reaches every corner of the planet.

Valued shareholders.

Once again this year, we have met here in Cantabria, in our city of Santander. The place where our company was born 161 years ago.

We work by looking to the future, while not losing sight of our history and our roots.

We will continue to work alongside companies and with this new wave of entrepreneurs, by increasing lending. We want every project that has potential to be able to find funding.

We look on with pride as Cantabria grows thanks to its enterprising spirit, its commitment to innovation and its capacity for work.

Our great scientist and innovator Leonardo Torres Quevedo, born in Santa Cruz de Iguña, exemplified this. At the beginning of the 20th century, he transformed the global aircraft industry and was a forefather of current technologies such as unmanned vehicles, robotics, cybernetics and electronic calculators.

His most famous project, from 1914, is the "Spanish aerocar," the aerial ferry of Niagara Falls, a totally Spanish project in its design and manufacture, which links the U.S. and Canada and continues to work perfectly today.

But Torres Quevedo could not realize his most ambitious project: the Hispania, which he patented and which, if it could have been carried out, would have meant that the first aerial crossing of the Atlantic would have been done with Spanish technology (it was done soon after, first with English technology and, somewhat later, German). He could not do it because he could not find financing.

I can assure you that, today, with Banco Santander, Hispania would have had financing and the ambition of this great entrepreneur would have become a reality, as happens today with so many projects of young entrepreneurs in Spain.

Cantabria has a great future and Banco Santander will continue to be here.

We want to share our successes with you.

Similarly, we would like to thank our employees, customers, shareholders and communities for their loyalty. And we are going to do this as we know best: by supporting them and helping them prosper, and by making their lives better.