

ANNUAL GENERAL MEETING - EXECUTIVE CHAIRMAN SPEECH

1. WELCOME

2. ACHIEVEMENT OF 3-YEAR PLAN AND KEY MESSAGES FOR OUR SHAREHOLDERS

3. CORPORATE GOVERNANCE

4. RESPONSIBLE BANKING

5. FUTURE PLAN

6. SPAIN AND EUROPE

7. CLOSING

1. WELCOME

President of the Government of Cantabria, Mayor, other distinguished guests.

Shareholders.

Good morning and thank you very much for joining us today in this Annual General Meeting.

2. ACHIEVEMENT OF 3-YEAR PLAN AND KEY MESSAGES FOR OUR SHAREHOLDERS

2018 has been a great year, in which we have successfully completed the plan which we started in 2015. We announced then our strategy based on customer loyalty and digital transformation.

We have worked with a clear vision: to strengthen the trust and loyalty of our people, customers, shareholders and the communities where we operate, and with an aim to help people and businesses prosper.

During this period, including last year, we have grown to become one of the most profitable and efficient banks in the world, and our balance sheet is even stronger. All

of this we achieved in a competitive environment for our industry, which is more challenging than expected.

We are one of the few banks in Europe that has grown **revenues** since 2015. Customer revenues **increased 24% in constant euros** to almost 46 billion euros.

And we have achieved this in a sustainable way: **increasing** the number of loyal customers by 44%, to close to 20 million and almost doubling the total number of digital customers, **to 32 million**.

We are also more **profitable**. Our attributable profit increased from 6 billion euros in 2015 to 7.8 billion in 2018, reaching a RoTE of 11.7%, with an efficiency ratio of 47%, the best among our comparable peers.

And today we are even **stronger**. We have exceeded our capital target for 2018, reaching 11.3% of Core Tier One Capital (CET1), compared to 8.27% in 2014, before the capital increase.

In summary, in addition to strengthening our capital base by 18 billion euros, we have grown our business and its profitability while delivering increased cash dividends per share paid to our shareholders, an accomplishment few of our competitors can claim in this period.

Our strategy has produced tangible results, with our motivated teams gaining the trust of more customers, in turn creating greater value for our shareholders, and allowing us to continue supporting the communities in which we operate.

Today the Santander team has a common culture, based on the shared goal of always striving to do things in a simple, personal and fair way. This creates a strong team, and is changing the way we work.

We are now among the top three banks-to-work-for in seven of our main markets, four more than in 2015.

All this would not be possible without the great work of our team. The 100.000 that are in contact with our customers and the other 100.000 that make everything work from your support roles. All of you are important. All of you make a difference. Thanks for your commitment. Our success is based mainly on you.

We are nurturing talent by developing initiatives, which identify and reward the members of our team who best represent our culture and age diversity. Our Young Leaders program is a great example of this and through this programme we are developing 280 young people in our organisation. Some of them are with us today.

We have made great progress in diversity where we want to be best practice. 55% of our workforce are women, occupying 20% of the Group's management positions. Here, in Santander Spain, there's a majority of women among our Regional Directors (7 out of 13).

We rank at the top of the Bloomberg gender equality index, but we know there is still much to be done.

Our goal is that, in the medium term, the number of women in management positions in the Group should be at least 30%, and any evidence of a gender pay gap is eliminated.

We want to be the best bank for our **customers** and create lasting relationships with them. **We want Santander to be their primary banking relationship.** Today we have 144 million customers, 23 million more than in 2015.

Delivering for our more than four million **shareholders** means ensuring that the money they have invested in us increase its value.

Since September 2015, when we announced our strategy, total return to our shareholders is 15%, significantly better than the European Bank index which has fallen by 7%.

With the approval of the fourth dividend in this meeting, we will pay shareholders a total dividend of 23 cents per share from our 2018 earnings, which represents an annual increase of 4.5% of the total dividend and 9% in the cash dividend.

Since we launched our Strategic Plan in 2015, our shareholders have received 0.80 euros per share in dividends, which represents, in cumulative terms including 2018, a return on investment of 18% via total dividends.

The difference with the second largest bank in market capitalisation in Eurozone is 30%, 26 percentage points more than when we presented our plan in September 2015 and many experts agree that it is below its fair value.

These results allow us to further support the **communities** in which we operate.

In 2018 we helped more than 270,000 entrepreneurs in developing countries, and we dedicate more resources to supporting higher education than any other private company in the world.

It is, of course, critical to ensure that what we do today does not compromise society's prosperity in the future. That is why we support the transition to a low carbon economy and the fight against climate change.

We are proud to be the leading bank in project finance for renewable energy projects, and according to the independent Dow Jones Sustainability Index, being one of the top three banks in the world and the leading bank in Europe in terms of sustainability.

Today we are making two new commitments:

Firstly, eliminate all single-use plastics in all Santander's buildings, everywhere in the world, by 2021.

Also by 2021, we aim to ensure that 60% of the electricity we consume will be from renewable sources, and 100% in 2025 in all those countries where it is possible to certify the energy origin.

3. CORPORATE GOVERNANCE

Throughout 2018 we have continued to strengthen our internal governance.

We have created the Responsible Banking, Sustainability and Culture Board Committee, whose Chairman and majority of members are independent.

We have also strengthened the independence of the Audit Committee, demanding this independence to all its members; and we have strengthened the role of the Nomination Committee with regards to corporate governance, that previously was responsibility of other committee, in line with the new guidelines approved by the *"Comisión Nacional del Mercado de Valores"*.

Our Executive Committee has a majority of external directors, three of whom are independent. This creates the right balance between its day-to-day functions, and the recommendation that the composition should be similar to that of the Board.

As you know, the Banco Santander Board agreed in January not to continue with the appointment of Andrea Orcel as CEO of the Group.

The board considered that it would be unacceptable for a retail and commercial bank like Santander, taking into account our values and responsibilities to all our stakeholders, to bear such a high cost of hiring one person, even one of Mr. Orcel's talent.

José Antonio Álvarez will continue in his role as Chief Executive Officer, as well as Vice Chairman of the Board. We will continue working together and delivering positive results as we have done during the last years.

To accelerate the execution of our strategy, we have simplified our organizational structure. The main objectives are to increase collaboration and accelerate decision-making to generate more and more value as a Group.

Our management focus will continue to be based in our 10 main markets, grouped in the three geographies in which we operate: Europe, South America and North America; which will be led by Gerry Byrne, Sergio Rial and Hector Grisi and Scott Powell.

Finally, we are proposing today that Mr. Henrique de Castro is appointed as a Director. Henrique will support our digital transformation thanks to his experience in senior management positions in technology companies, and his knowledge of the digital world and customer. Benvindo.

We want to ensure that the composition of the board is balanced and diverse. We have a good balance between executive and external directors, most of whom are independent.

33% of the members of the Board come from outside of Spain, compared with 7% of the Board prior to my appointment. Also 33% are women, but we want to go one-step further and have set the goal that by 2021 the Board has between 40% and 60% of each gender.

4. RESPONSIBLE BANKING

We have achieved our 3-year plan, improving the bank for our customers, while also building a more responsible bank in all areas.

The Bank of the 21st century has to be responsible.

To earn trust, the first step is to have a meaningful purpose, which, in our case, is to help people and businesses prosper.

This commitment as a responsible bank demands addressing two major challenges.

The first challenge is the new business environment. The transformation of society and the economy is unprecedented. The competitive environment for companies is changing and we all must assume greater responsibility.

How are we doing this?

Strengthening even further our culture and the capabilities of our teams; building a more effective organization and best-in-class corporate governance, to ensure that we address the changes that society as a whole expects.

The second challenge is to support inclusive and sustainable growth. We want everyone to have access to financial services, and this problem is particularly acute in Latin America, where there are more than 300 million people who are not fully integrated into the system. We have set ourselves the ambition of financially empowering 10 million people by 2025.

Investing in financial inclusion and empowering people is not only profitable but also the right thing to do.

We generate results in a responsible way while fulfilling our purpose as a bank.

5. FUTURE PLAN

Further elaborating on the strategy we have followed during the last years is our best option looking forward.

We want to accelerate our transformation and we will do it leveraging our main strengths as we have done up to now:

Our global scale derives from the leading position we have at a local level in our main markets. This allows us to face the challenges of the future with confidence.

This scale, together with our geographic diversification and our retail-oriented business model, allows us to achieve more predictable results than our peers, while also growing.

For the next few years we have set ambitious targets, with the objective of growing earnings and tangible net asset value per share:

- We want to be more profitable, and reach a RoTE of 13 to 15%.
- We will become even more efficient, and improve our cost-to-income ratio to between 42 and 45%.
- This work will drive us to generate more capital, to reach our target of 11-12% for fully loaded CET1 capital and, at the same time, to increase to 40-50% our dividend pay-out ratio.

We have a three pillar plan:

First, improving our operational performance.

In **Europe** we operate in the region's most attractive banking markets.

In the medium term, we want to become the leading European bank in customer experience and profitability, leveraging even more shared services and technology across the Group.

As a result, we expect to raise our European business' RoTE from 11%, to 12-14% in the medium-term.

Brexit continues to cause uncertainty. We have done all we can to prepare for the UK's withdrawal, whether that happens with or without a deal. Whatever happens, we will be help to support our customers.

The integration of Banco Popular is well. We have already completed the integration of the headquarters, and the objective is to complete the full branch network integration in July 2019. The business shows good growth in both SMEs and consumer loans.

The **United States** represents one-third of the global financial market and has strong links with both Europe and Latin America, where we are the leading bank.

During the last three years, we have made excellent progress in resolving legacy regulatory issues, while also strengthening the foundations for growth.

Today we count with the base to generate profitable growth over the next few years and build a successful franchise, leveraging our scale and the strong links between the United States and the other geographies and businesses of the Group.

In 2018, US attributable profit after tax rose by 74% (in constant euros). Again, in first quarter of 2019 it will be the geography with highest profit growth, more than doubling profits obtained during last quarter of 2018.

Our target is to raise Santander US RoTE from the current 8% to 11-13% in the medium term, adjusted to a normalized capital level.

In **Latin America**, which is a highly attractive region, we are the leading private bank. Our objective is to continue supporting the economic and demographic growth in the region and, as a result, further improve the Group's growth and profitability there.

We aim to raise combined RoTE of the region from 19% today to 20-22% in the medium-term.

First quarter of 2019 is a good starting point to reach these goals. Despite 31bps of negative regulatory impacts, we will close 1Q of 2019 with a higher than 11,20% CET1 according to preliminary data.

The environment in which we operate continues to be complicated, but we are growing credits and deposits, increasing the number of digital clients and reducing delinquency rates. The CEO will further develop on this.

Today we are announcing our intention to repurchase the minority shareholders' stakes in Santander México. We believe in Mexico, in the potential of its financial sector, and in Santander Mexico which is today one of the leading banks in the country.

If all the minority shareholders participate in the operation, the acquisition of 25% of Santander Mexico will mean investing almost 2,500 million of euros, that we will pay

issuing new shares of Banco Santander. This transaction will have a positive impact on Group's capital.

For our shareholders, this transaction meets our strategic and financial criteria, offers an attractive return on invested capital and allows us to increase both net profit and organic capital generation.

For the minority shareholders of Santander México, it is an opportunity to monetize their shares at an attractive premium of 14%, gaining exposure to a diversified, global bank with growing and more predictable results than those of comparable peers.

The second pillar of our plan is **digital transformation**. In the digital era, earning the trust of customers requires us to offer the best experience at any time, through any channel, at competitive prices.

We want to be the best global and open financial services platform, and we are working on two parallel and coordinated workstreams to help us achieve that goal:

Firstly, we are transforming our Core banks (our "Supertankers") by digitising and automating all our processes and integrating new technologies. We can leverage our global scale and share the benefits of our investments to increase collaboration.

Investing in digital transformation in a global way has already delivered efficiencies of 680 million euros in 2018.

In the medium term, our objective is to generate additional recurrent efficiencies of nearly 1.2 billion euros. Out of these savings, a billion euros will be generated in Europe and are net efficiencies compared to 2018 year end: 250 million euros will come from Popular and the remaining amount will be through the optimization of our technology resources and operations across Europe.

To generate even more value as a Group, we have launched **Santander Global Payments Businesses**, a new global business unit that will manage the payments businesses of Santander Group: Global Trade Services and Global Merchant Services.

Payments are the basis of our loyalty strategy and this is a market expected to grow 9% annually.

Today we already have more than 80 million active credit cards worldwide and manage €500 billion transfers and payments per year. Even more importantly, however, we already have 4 million SMEs and 1.2 million merchants as customers.

At the same time, we continue developing new businesses with high potential, (our “Speedboats”) which share their experiences with the large ‘supertanker’ banks in the Group, while also competing in new markets.

Openbank, our 100% digital bank, was re-launched in Spain in 2017. Today it has almost 1.2 million customers, and 38% of its active customer base are loyal customers.

In the medium term, we expect Openbank to expand to a total of 10 countries.

Another successful ‘speedboat’ is Superdigital, the financial solution for the millions of people in Latin America without access to traditional bank accounts. This business already has 500.000 active customers in Brazil, Mexico and Chile and allows us to serve this segment in a profitable way.

We aim to reach 5 million customers in Latin America in the medium term.

The third pillar of our plan is to continue improving our capital allocation, to drive further improvement in profitability.

To achieve that goal we have established more ambitious profitability targets by segment increasing the thresholds of required profitability and we have linked the variable remuneration of our management with the new capital and profitability medium term goals.

6. SPAIN AND EUROPE

A little over a week ago, we announced our new strategic plan, which I have just summarized.

Although we have to execute against a backdrop of increasing uncertainty, from geopolitical to technological, I am fully confident that we will achieve this plan.

In Spain, the electoral campaign begins today. Like most of our citizens, I am proud of the country that I call home, a country that has come a long way in the last 25 years. Spain today has great strengths, above all, Spanish people, in addition to some of the best public services in the world, and a great potential for future.

But to safeguard our prosperity in the future, we need world-class education. I always say that education is not everything, but it is almost everything, and it has to be the priority. Whoever wins, whoever governs, we need a permanent commitment to education.

To invest more in education, we need an economy that generates the resources to fund leading public services. A strong economy is “the goose that lays the golden egg”.

We all want social justice and equal opportunities, but to get there, we must generate economic growth. The purpose is not just to grow, but to ensure that the benefits of economic growth reach everyone.

On economic policy, we all know what works [and, above all, we know what does not work]. What works is:

- Budget sustainability.
- Sufficient pensions for workers to have a decent life, but that, in turn, are sustainable.
- And, if we want to attract national and foreign investment, which Spain needs, institutional stability and strength are critical, as well as
- A favourable environment for entrepreneurs and investors who create jobs

We are - according to 2018 The Economist data – one of the 20 full democracies in the world.

So if we want a Spain that works for all, we need an economic policy that works for all. This is why I would like to ask politicians to talk straight. There is no growth without inclusion.

After the elections, we need to flee from short-term measures and promote a reformist agenda with a long-term vision, inclusive growth and social cohesion, which is only possible if business owners invest and create jobs.

If recent polls are accurate, this will not be the task of a single party. We need an alliance for inclusive growth – it will be necessary to reach agreements between the different political forces. This requires a strong sense of responsibility and maturity. We know how to do it; we have proven it in the past.

Spain must also regain prominence in the European construction. Working for greater integration and participating in the decisions is also our job. Building Europe has to do with national politics.

Spain is a European country and we know well that Europe is the solution rather than the problem.

Globalisation, the digital revolution, the impact of the financial crisis – all of this has created a surge in support for policies and politicians who are questioning, and sometimes wish to undermine, the liberal-economic order on which peace and prosperity in Europe have been built over the last few decades.

Brexit is the “canary in the mine”, warning us of the danger of ignoring these trends, or dismissing the concerns that many millions of people have about their jobs, their prosperity and their future.

Europe is not perfect but it is the best model of proven democracy, a model based on an open and inclusive society and a market economy.

Let us be proactive and share ideas to build an even-better Europe.

This will not be possible without a strong and profitable financial sector.

In Europe 90% of SME loans granted by the private sector come from banks, which are essential to ensure that Europe continues to be an area of prosperity and sustainable growth.

So that European banks can continue playing our role:

Completing the European Banking union, breaking the link between sovereign risk and the financial sector, ensuring we have regulation that successfully balances the need for caution with the need to ensure that companies have access to credit to invest in the future; and not permanently questioning the legal and regulatory framework are some of the pending tasks.

Growing sustainably also demands tackling the digital challenge from a European perspective. We have the economic and human capital to not miss this train. Today we are behind China and United States. There is no higher priority for the new European Commission.

The aim should be to put technology at the service of citizens, not the other way around, and we need a fair competition framework for the digital era to get there.

Same activities, same rules. In data processing, in taxation, in payments, in transport...; in all sectors of the economy.

7. CLOSING

Shareholders,

We are a company that aims to endure. To do this, it is essential to have a vision and deliver results, but also to do that in a responsible way, with a purpose that creates value that benefits us all.

And while we strive to do all this, we do not forget Santander, our headquarters and our home city. A city that was reborn after the devastating fire of 1941. Thousands of homes and businesses burned down, thousands of people were left homeless and lost their jobs.

Banco Santander supported the victims, helping the city and its inhabitants to rebuild their prosperity.

It donated money and was one of the main institutions that financed the reconstruction of the city.

The fire that devastated Santander was a few meters from our headquarters in Paseo Pereda, which was saved from the flames.

And to ensure that this building - which dates from the beginning of the 20th century - continues to be one of Santander's symbols, contributing to the world's knowledge of its culture, customs and people, we have begun its transformation.

Soon we will present plans for a complete renovation of the Pereda building to the Mayor's office. This will be a gift from the Bank to the city and the region of Cantabria, a region that connected us in the past, and will continue to do so in the future.

The new Pereda will be open to the public and will be devoted to culture and technology. It will offer the best restaurant and leisure options. It will be the meeting point for both inhabitants of Santander and tourists.

An iconic and protected building that will result in a space where the past and the future meet and will be shown in an interactive way.

It will be a contemporary venue, and an experience that represents the principles of our Bank and what we seek to offer our customers.

I would like to thank Mayor Gema Igual and her team for their involvement in taking this important project forward.

I would also like to thank President Revilla and his team for their support.

Both the Pereda and "Banco Mercantil" project are symbols of our commitment to Cantabria and the city of Santander, at a time of transformation and challenges for everyone.

Our work is worthwhile when we see this impact.

When we say that our purpose is to help people and businesses prosper, we mean it.

And our commitment to this city and to Cantabria is an example of how we turn these words into reality.

Thank you.