

Santander earns €1,840 million in attributable profit for the first quarter of 2019

Profit before tax increased by 3% in constant euros to €3,684 million

Madrid, 30 April 2019 - PRESS RELEASE

- Attributable profit fell by 10% year-on-year after a net charge of €108 million relating to restructuring costs in UK and Poland, asset sales and disposals.
- Underlying business trends were solid in the quarter, with net interest income increasing by 3% to €8,682 million, and expenses falling by 2% in real terms. Lending and customer funds increased by 4% and 5% respectively year-on-year in constant euros (i.e. excluding the impact of FX).
- The number of customers using Santander as their primary bank continued to grow, with loyal customers increasing by 1.8 million year-on-year to 20.2 million. In total the Group now serves 144 million customers, more than any bank in Europe and the Americas.
- Digital adoption also continued to accelerate, with 33.9 million customers now using digital services (+6.5 million year-on-year). This has helped the bank maintain a top-three position for customer satisfaction in seven of its main countries.
- Credit quality improved further, with the non-performing loan ratio falling by 40 basis points (bps) to 3.62% year-on-year and loan-loss provisions reducing by 5% to €2,172 million. Cost of credit was seven basis points lower year-on-year at 0.97%, the lowest level since 2008.
- These positive trends were offset, however, by a fall in market related revenues; an adjustment for high inflation in Argentina; and the adoption of IFRS 16. As a result, underlying profit fell by 2% year-on-year in constant euros to €1,948 million.
- Strong organic capital generation in the quarter (+20 bps) partially offset the regulatory impacts, allowing the Group to maintain a CET1 capital ratio of 11.25%.
- The Group remains among the most profitable and efficient banks in its peer group, with a statutory return on tangible equity (RoTE) of 11.2%, and a cost-to-income ratio of 47.6%. Tangible net asset value per share increased by 3% during the quarter to €4.30.

Banco Santander Group Executive Chairman, Ana Botín, said:

“The number of loyal and digital customers increased by 1.8 million and 6.5 million respectively since Q1 2018, helping to increase customer revenues during the first quarter of this year, while credit quality and costs performed well.

“Underlying profit has increased in seven of our ten core markets, with the US our fastest growing market again, increasing attributable profit by 46% year-on-year, while Brazil and Mexico are maintaining the positive momentum established in recent years. This has been achieved despite a difficult operating environment, particularly in the UK and Europe.

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“The bottom line was impacted by restructuring charges and assets sales, however, we have continued to deliver strong organic capital generation while increasing shareholder value, growing TNAV per share by 3% in the quarter.

“Looking forward, we continue to invest in digital transformation, which together with our unique geographic footprint creates significant opportunities for profitable growth. We are confident we will achieve our medium-term targets, including a RoTE of 13-15%.”

Results Summary (Q119 v Q118)

	Q119 (m)	Q119 v Q118	Q119 v Q118 (EX FX)
Total income	€12,085	-1%	+2%
Operating expenses	-€5,758	0%	+2%
Net operating income	€6,327	-1%	+1%
Net loan-loss provisions	€2,172	-5%	-4%
Profit before tax	€3,684	0%	+3%
Tax	-€1,326	+4%	+7%
Underlying profit	€1,948	-5%	-2%
Net capital gains and provisions	-€108	-	-
Attributable Profit	€1,840	-10%	-8%

The Group’s achieved an attributable profit of €1,840 million during the first quarter of 2019, down 10% year-on-year (-8% in constant euros) after the Group incurred a net charge of €108 million relating to asset sales and restructuring. The charge reflected a €150 million gain from the sale of 51% of the Group’s stake in Prisma in Argentina, offset by a €180 million loss from the sale of a portfolio of residential properties in Spain and a €78 million charge relating to restructuring costs in the UK and Poland.

During the quarter the bank saw solid customer trends, with net interest income increasing by 3% year-on-year (+5% in constant euros) and lending and funds increasing by 4% and 5% respectively over the same period in constant euros. The number of loyal customers (customer using Santander as their primary bank) has increased by 1.8 million since Q1 2018, while total customers have increased by five million to 144 million over the same period.

These positive trends were offset, however, by a fall in market related revenues, an adjustment for high inflation in Argentina, and the impact of IFRS 16 (which changed the accounting treatment for sale and lease-backs), as well as a 7% increase in taxes in constant euros. As a result, underlying profit fell by 2% year-on-year in constant euros to €1,948 million, while profit before tax increased by 3%, also in constant euros.

Adoption of digital products and services continued to accelerate in the quarter, with the number of digital customers increasing by 24% year-on-year to 33.9 million. Openbank, the largest full service

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digital bank in Europe by assets, began testing in Germany during the quarter and plans to launch in the Netherlands and Portugal later this year.

The Group's ongoing investment in digital helped the bank maintain a top-three ranking for customer satisfaction in seven of its core countries, while also improving operational efficiency. Santander's cost-to-income ratio remained among the lowest of its peers at 47.6%, with operating expenses falling by 2% in real terms due to synergies from integrations.

The Group's geographic diversification remained one of its key strengths with the Americas contributing 52% of Group underlying profit and Europe 48%. Brazil remained the largest contributor with 29% of total Group attributable profit, followed by Spain with 16%, Santander Consumer Finance with 13% and the UK with 11%.

Credit quality improved further in the quarter, with the non-performing loan ratio falling by 40 bps to 3.62% year-on-year and loan-loss provisions reducing by 5% to €2,172 million. Cost of credit (the rate at which the bank needs to provision when lending money) was seven basis points lower than Q1 2018 at 0.97%, the lowest level since 2008.

Organic CET1 capital generation in the quarter was strong (+20 bps), offsetting in part the impact of various regulatory changes, including IFRS 16 (-19 bps), the phase in of IFRS 9 (-3 bps), changes to capital models in Spain (-2 bps) and the adoption of TRIM (-5 bps). As a result, the Group maintained a CET1 ratio of 11.25%, in line with its medium-term target of 11-12%.

Tangible net asset value per share, a key measure of shareholder value, increased by 3% during the quarter to €4.30, while the Group maintained one of the highest statutory return on tangible equity among its peers at 11.2%.

Country Summary (Q119 v Q118)

In Brazil, earnings continued to grow, with attributable profit increasing by 7% to €724 million (+15% in constant euros), as the bank remained focused on customer loyalty and satisfaction, while keeping costs under control. As a result, ROTE was 21% in the first quarter. Lending remained strong, with double digit growth in retail loans and consumer finance, while deposits were 14% higher year-on-year in constant euros. Santander Brazil continued to progress in its digital and commercial transformation, with the launch of Santander On, an app which helps customers in their financial decisions, and Pi, a digital investment platform. Digital customers grew 35% year on year and loyal clients increased by 15%.

In Spain, the migration of Popular to the Santander platform continued during the quarter, with the resulting synergies helping drive a reduction in expenses of 5.7% year-on-year. Attributable profit reduced by 11% year-on-year to €403 million after Q1 2018 benefited from debt sales and more favourable markets. A reduction in wholesale banking activity led to a fall in fee income of 8.7% year-on-year, despite good business trends overall.

New lending increased by 3% year-on-year driven by good growth in SMEs, business and retail, while our strategic focus on companies led to an increase in loyal business customers of 20% over the same period. Interest income was up 6%, with the cost of deposits falling to 0.12%. Deposits were up 5% year-on-year, while lending was down 3%, due to the deleveraging of large corporates and a drop in the stock of mortgages.

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Santander Consumer Finance, a leader in consumer finance in Europe, increased attributable profit by 1% during the period to €325 million (+1% in constant euros), driven by higher net interest income (+3% in constant euros), combined with strong cost control and historically low NPLs and cost of credit.

In Mexico attributable profit increased by 18% to €206 million (+12% in constant euros) as the bank increased loyal customers by 28% and digital customers by 57%. Strong growth in lending across all segments led to an increase in interest income of 12% year-on-year in constant euros. This, combined with strong credit quality, resulted in an increase in RoTE of 65 basis points to 20.2%. On April 12th, the Group announced its intention to acquire the 25% stake in Santander Mexico that it doesn't already control through an exchange offer.

In the UK attributable profit fell by 36% to €205 million (-37% in constant euros) following a €66 million charge for restructuring costs. Excluding the impact of this, underlying profit fell by 15% (16% in constant euros) as a highly competitive environment placed pressure on revenues, and costs increased due to higher investments in strategic, digital transformation and regulatory projects. Lending and customer funds both increased by 1%.

Santander US registered a very positive quarter, with attributable profit increasing by 46% to €182 million (+35% in constant euros) due to positive trends across all main lines. Total income increased by 6% in constant euros, supported by higher balances and yields at SBNA, and higher volumes and leasing activity in SCUSA, while the cost trend continued to improve due to the implantation of cost optimisation measures. Loan loss provisions fell by 2% in constant euros, while the cost of credit and NPL ratio also improved year-on-year.

In Argentina, attributable profit was €161 million, up 143% (377% in constant euros) following the sale in February of 51% of the bank's stake in payments company Prisma Medios de Pago, which generated a net capital gain of €150 million. Excluding this transaction, underlying profit was down 84% (68% in constant euros), to €11 million, as a result of the negative impact of high inflation adjustments and a challenging business environment

In Chile, attributable profit fell by 1% to €149 million (+1% in constant euros). Interest income fell by 8% in constant euros due to low inflation and an interest rate rise in the quarter, which affects short term spreads, but was offset by growth in business volumes in core products, cost control and improved credit quality. Lending and deposits increased by 8% and 4% respectively year-on-year in constant euros.

In Portugal, attributable profit increased by 7% to €135 million with income increasing by 5% and costs declining by 1%. Growth in new lending was strong, with market shares in new loans to companies and mortgages of around 20%, while the cost of credit fell to 0.03%.

In Poland, business volumes reflected the integration of Deutsche Bank Polska's retail and SMEs businesses, which was completed at the end of 2018, with lending growing by 29% and deposits by 32%, both in constant euros. Attributable profit fell by 21% (18% in constant euros), to €50 million, as the bank took a charge for restructuring costs of €12 million. Underlying profit fell by 2% (+1% in constant euros) due to an increased contribution to the Bank Guarantee Fund and Banking Tax.

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About Banco Santander

Banco Santander is the largest bank in the Eurozone with a market capitalisation of €67,292 million at 31 March 2019. It has a strong and focused presence in ten core markets across Europe and the Americas with more than 4 million shareholders and 200,000 employees serving 144 million customers.

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Key consolidated data (from Q1 2019 financial report)

BALANCE SHEET (EUR million)	Mar-19	Dec-18	%	Mar-18	%	Dec-18
Total assets	1,506,151	1,459,271	3.2	1,438,470	4.7	1,459,271
Loans and advances to customers	910,195	882,921	3.1	856,628	6.3	882,921
Customer deposits	808,361	780,496	3.6	767,340	5.3	780,496
Total funds	1,019,878	980,562	4.0	977,488	4.3	980,562
Total equity	110,365	107,361	2.8	105,466	4.6	107,361

Note: Total funds includes customer deposits, mutual funds, pension funds and managed portfolios.

INCOME STATEMENT (EUR million)	Q1'19	Q4'18	%	Q1'18	%	2018
Net interest income	8,682	9,061	(4.2)	8,454	2.7	34,341
Total income	12,085	12,542	(3.6)	12,151	(0.5)	48,424
Net operating income	6,327	6,606	(4.2)	6,387	(0.9)	25,645
Underlying profit before tax ⁽¹⁾	3,684	3,546	3.9	3,689	(0.1)	14,776
Underlying attributable profit to the parent ⁽¹⁾	1,948	2,022	(3.7)	2,054	(5.2)	8,064
Attributable profit to the parent	1,840	2,068	(11.0)	2,054	(10.4)	7,810

Variations in constant euros: Q1'19 / Q4'18: NII: -3.7%; Total income: -2.9%; Net operating income: -4.2%; Underlying attributable profit: -4.1%; Attributable profit: -11.4%
Q1'19 / Q1'18: NII: +4.5%; Total income: +1.6%; Net operating income: +1.4%; Underlying attributable profit: -2.2%; Attributable profit: -7.7%

EPS, PROFITABILITY AND EFFICIENCY (%)	Q1'19	Q4'18	%	Q1'18	%	2018
Underlying EPS (euros) ⁽¹⁾	0.111	0.116	(4.2)	0.120	(7.3)	0.465
EPS (euros)	0.104	0.119	(12.2)	0.120	(12.9)	0.449
RoE	7.85	8.46		8.67		8.21
Underlying RoTE ⁽¹⁾	11.31	11.93		12.42		12.08
RoTE	11.15	12.00		12.42		11.70
RoA	0.63	0.65		0.67		0.64
Underlying RoRWA ⁽¹⁾	1.56	1.60		1.59		1.59
RoRWA	1.54	1.60		1.59		1.55
Efficiency ratio	47.6	47.3		47.4		47.0

SOLVENCY AND NPL RATIOS (%)	Mar-19	Dec-18	%	Mar-18	%	Dec-18
CET1 ⁽²⁾	11.25	11.30		11.00		11.30
Fully-loaded total capital ratio ⁽²⁾	14.84	14.77		14.43		14.77
NPL ratio	3.62	3.73		4.02		3.73
Coverage ratio	68	67		70		67

MARKET CAPITALISATION AND SHARES	Mar-19	Dec-18	%	Mar-18	%	Dec-18
Shares (millions)	16,237	16,237	—	16,136	0.6	16,237
Share price (euros)	4.145	3.973	4.3	5.295	(21.7)	3.973
Market capitalisation (EUR million)	67,292	64,508	4.3	85,441	(21.2)	64,508
Tangible book value per share (euros)	4.30	4.19		4.12		4.19
Price / Tangible book value per share (X)	0.96	0.95		1.29		0.95
P/E ratio (X)	9.94	8.84		11.06		8.84

OTHER DATA	Mar-19	Dec-18	%	Mar-18	%	Dec-18
Number of shareholders	4,089,097	4,131,489	(1.0)	4,108,798	(0.5)	4,131,489
Number of employees	202,484	202,713	(0.1)	201,900	0.3	202,713
Number of branches	13,277	13,217	0.5	13,637	(2.6)	13,217

(1) In addition to IFRS measures, in this document we present certain financial measures that constitute alternative performance measures ("APMs") as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures ("Non-IFRS Measures"), including the figures related to "underlying" results, which exclude items outside the ordinary course performance of our business, as they are recorded in the separate line of "net capital gains and provisions", above the line of attributable profit to the parent. These underlying measures allow in our view a better period-on-period comparability. Further details on that line are provided in pages 13 and 14 of this report.

For further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see 2018 Annual Financial Report, published as Relevant Fact on 28 February 2019, as well as the section "Alternative performance measures" of the annex to this report. These documents are available on Santander's website (www.santander.com).

(2) 2019 and 2018 data applying the IFRS 9 transitional arrangements.

Note: The financial information in this report was approved by the Board of Directors, following a favourable report from the Audit Committee.

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IMPORTANT INFORMATION

Non-IFRS and alternative performance measures

In addition to the financial information prepared in accordance with International Financial Reporting Standards (“IFRS”), this press release contains certain financial measures that constitute alternative performance measures (“APMs”) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures (“Non-IFRS Measures”). The financial measures contained in this press release that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander Group but are not defined or detailed in the applicable financial reporting framework and have neither been audited nor reviewed by our auditors. We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, other companies, including companies in our industry, may calculate or use such measures differently, which reduces their usefulness as comparative measures. For further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see 2018 Annual Financial Report, published as Relevant Fact on 28 February 2019, as well as the section “Alternative performance measures” of the annex to the Santander 2019 1Q Financial Report, published as Relevant Fact on 30 April 2019. These documents are available on Santander’s website (www.santander.com).

The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries

Forward-looking statements

Santander cautions that this press release contains statements that constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as “expect”, “project”, “anticipate”, “should”, “intend”, “probability”, “risk”, “VaR”, “RoRAC”, “RoRWA”, “TNAV”, “target”, “goal”, “objective”, “estimate”, “future” and similar expressions. These forward-looking statements are found in various places throughout this press release and include, without limitation, statements concerning our future business development and economic performance and our shareholder remuneration policy. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. The following important factors, in addition to those discussed elsewhere in this press release and in our annual report on Form 20-F for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission, could affect our future results and could cause outcomes to differ materially from those anticipated in any forward-looking statement: (1) general economic or industry conditions in areas in which we have significant business activities or investments, including a worsening of the economic environment, increasing in the volatility of the capital markets, inflation or deflation, and changes in demographics, consumer spending, investment or saving habits; (2) exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices; (3) potential losses associated with prepayment of our loan and investment portfolio, declines in the value of collateral securing our loan portfolio, and counterparty risk; (4) political stability in Spain, the UK, other European countries, Latin America and the US (5) changes in laws, regulations or taxes, including changes in regulatory capital and liquidity requirements, including as a result of the UK exiting the European Union and increased regulation in light of the global financial crisis; (6) our ability to integrate successfully our acquisitions and the challenges inherent in diverting management’s focus and resources from other strategic opportunities and from operational matters while we integrate these acquisitions; and (7) changes in our ability to access liquidity and funding on acceptable terms, including as a result of changes in our credit spreads or a downgrade in our credit ratings or those of our more significant subsidiaries. Numerous factors could affect the future results of Santander and could result in those results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

Forward-looking statements speak only as of the date of this press release and are based on the knowledge, information available and views taken on such date; such knowledge, information and views may change at any time. Santander does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

No offer

The information contained in this press release is subject to, and must be read in conjunction with, all other publicly available information, including, where relevant any fuller disclosure document published by Santander. Any person at any time acquiring securities must do so only on the basis of such person’s own judgment as to the merits or the suitability of the securities for its purpose and only on such information as is contained in such public information having taken all such professional or other advice as it considers necessary or appropriate in the circumstances and not in reliance on the information contained in this press release. No investment activity should be undertaken on the basis of the information contained in this press release. In making this press release available Santander gives no advice and makes no recommendation to buy, sell or otherwise deal in shares in Santander or in any other securities or investments whatsoever.

Neither this press release nor any of the information contained therein constitutes an offer to sell or the solicitation of an offer to buy any securities. No offering of securities shall be made in the United States except pursuant to registration under the U.S. Securities Act of 1933, as amended, or an exemption therefrom. Nothing contained in this press release is intended to constitute an invitation or inducement to engage in investment activity for the purposes of the prohibition on financial promotion in the U.K. Financial Services and Markets Act 2000.

Historical performance is not indicative of future results

Statements as to historical performance or financial accretion are not intended to mean that future performance, share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior period. Nothing in this press release should be construed as a profit forecast.

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