

Annual
Review
2017



#Connected

In 2017 we obtained excellent results the right way: through profitable growth



Ana Botín,
Group executive
chairman of
Banco Santander



Our success in 2017 shows that our way of doing business, and our focus on building loyalty, is creating a virtuous circle that delivers growth, profitability and strength

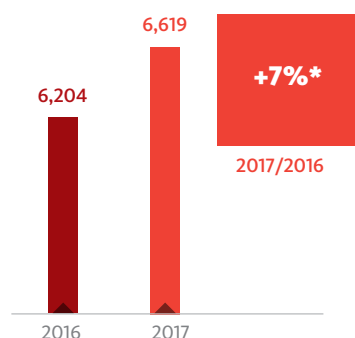


We are one of the most profitable and efficient banks in the world, allowing us to lend more to customers, increase the per share dividend and organically generate capital



■ ATTRIBUTABLE PROFIT

(Millions of euros)



* +7.4% in constant euros

Return on tangible
equity (underlying)

11.8%

Fully loaded
CET1 capital ratio

10.84%

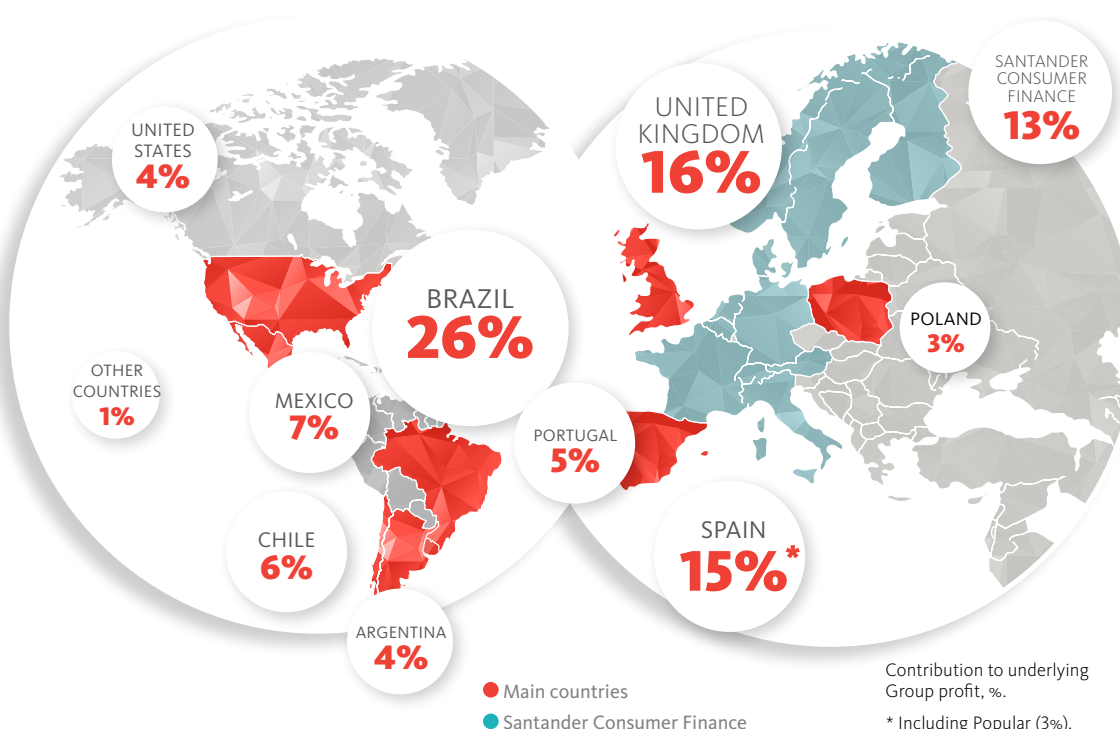
Efficiency
(cost-to-income)

47.4%

NPL ratio

4.08%

Balanced geographic diversification is key to our stable and predictable growth



and a strong balance sheet, while helping people and businesses prosper

“

Our leading positions in 10 core markets, with a total population of a billion people, provide us stability and new opportunities

”

“

Our scale, our diversification and the predictability of our business give us strong foundations on which to innovate

”



81%

employees believe that their colleagues behave in ways that are more simple, personal and fair



77%

of employees are engaged



17.3 (+13%)

million loyal customers



25.4 (+21%)

million digital customers



People

202,251

Employees who are more motivated and committed...

...make our customers more satisfied and loyal...



Customers

133
million



Communities

2.1

million people helped in 2017

...which results in more investment in communities.

...which drives profitability and sustainable growth...



Shareholders

4.0

million



44,862

scholarships granted in 2017



1,295

agreements with universities and academic institutions in 21 countries



16.6%

total shareholder return



+11%

cash dividend per share growth

Figures excluding Banco Popular, except number of employees and data on shareholders.

Simple | Personal | Fair




Our purpose is to help people and businesses prosper




Our contribution to society

Santander contributes to the economic and social progress of the communities in which it is present


People

€12,047 million Personnel expenses ¹	€98 million invested in employee training, with an average of 39.6 hours of training per employee	97% of employees have permanent contracts	
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Customers

€848,914 million Loans outstanding (net)	8/10 Lending grew in eight out of the Group's ten core markets, particularly household and business lending	>250,000 microentrepreneurs supported in Brazil and other countries	
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Shareholders

€3,540 million² Total shareholder remuneration	€88,410 million stock market value at year-end 2017, largest in the euro zone	€0.22 dividend per share, +7% ³	
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Communities

€183 million Social investment	€54 million allocated to programmes and projects to support communities	€129 million allocated to universities	
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Suppliers

€7,770 million Payments to suppliers	9,104 suppliers in the Bank's network	95% 95% of the Group's suppliers are local	
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Tax contribution

€7,972 million Taxes paid	€4,137 million corporate income tax	€3,835 million social security payments and other payroll taxes made by the Group, non-recoverable VAT and other taxes	
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1. From Group audited accounts.

2. Subject to the approval of the fourth dividend against the 2017 results by the board of directors and the shareholders' meeting.

3. Adjusted for the July 2017 capital increase.

A responsible bank that helps address major global challenges: financial inclusion, job creation and sustainable growth



The best company to work for

Santander is one of the three best banks to work for in the majority of its core markets. In 2017 it launched a new performance management model which places importance on the corporate culture and behaviours (40%) as well as on business objectives (60%).

See more on pages 40-41 of this report



A trusted partner for SMEs

SMEs are the main driver of job creation. Santander has a comprehensive offering to help SMEs as they grow, which goes well beyond just a financial offering. In 2017 it was named by *Euromoney* magazine for the second consecutive year as the Best Bank in the World for SMEs.

See more on page 43 of this report

Transparency

For Santander, transparency goes beyond meeting legal or regulatory disclosure requirements. It means maintaining an open and fluid dialogue with all its stakeholders. This dialogue and the stable, lasting relationships it engenders allows us to be more responsive to relevant issues that can arise and to our stakeholders' expectations.

See more on page 48-51 of this report



Committed to higher education

Santander invests more in supporting higher education than any other private company in the world (according to the Varkey Foundation in cooperation with Unesco). The main areas of focus are access to education, job skills, fostering university student entrepreneurs and the modernization of universities.

See more on page 49 of this report



Inclusive, sustainable growth

Santander promotes financial inclusion in order to support social and economic progress in the countries where it operates. The Bank promotes microfinance programmes in countries such as Brazil, Mexico and Argentina.

See more on pages 50 of this report

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Santander is one of the ten most highly ranked banks in the world in the Dow Jones Sustainability Index

Highlights in 2017

160
YEARS

Santander celebrates its 160th anniversary

Banco Santander celebrated its 160th anniversary on 15 May 2017. The Bank was founded in the city of Santander, Cantabria (in the north of Spain) to finance the growing trade between the port of Santander and the Americas.



Increased target for profitability

During the *Group Strategy Update* held in New York in October, Santander raised its target for return on tangible equity (RoTE) for 2018 from 11.0% to 11.5%. The increase reflected the improved economic outlook in some of the Group's core countries.

+0.5 pp
increase in
RoTE target



Banco Santander to sponsor of the UEFA Champions League

The Bank announced in November that it will be the official sponsor of the UEFA *Champions League* for three seasons starting in 2018. The *Champions League* is the world's most prestigious football club competition, with mass audiences in Santander's core markets in Europe and the Americas. The Champions League final is watched live by more than 160 million people.



Creation of Santander X, a unique ecosystem for universities and entrepreneurs

Banco Santander and 40 universities launched in October Santander X, which aims to be the largest platform in the world for promoting university entrepreneurship. This is a network in which universities and entrepreneurs from all over the world will be able to collaborate, share ideas and knowledge, and attract investment.

See more on pages 24-25 of this report

60
universities
engaged



Openbank becomes the first fully digital Spanish bank

The new Openbank uses an IT infrastructure hosted in the cloud. This enables it to offer a fully digital proposition with innovative features and meet the highest security standards.

See more on pages 32-33 of this report

Openbank
Grupo Santander

FULLY
digital bank



Santander Río integrates the Citibank N.A.'s retail business in Argentina

Santander Río in April integrated the retail business acquired from Citibank N.A.'s Argentine unit into its network. As a result, it now has 482 branches, over 3.34 million individual customers, 288,000 SMEs and 1,300 corporates

482
branches



3.6
million
customers



Santander acquires business from Deutsche Bank in Poland

The Santander Group reached an agreement to acquire the commercial and private banking business of Deutsche Bank in Poland. This transaction reinforces Bank Zachodni WBK (the local subsidiary of the Santander Group) as the third bank in Poland. The acquisition is expected to generate a 15% return on investment in 2021 and be accretive to Santander's earnings per share.

11.7%
combined market
share in lending



Santander Brazil launches Superdigital, a digital payment platform

In April, Santander Brazil launched Superdigital, an online and mobile platform that enables users to make and receive payments with no need for a bank account. By the end of the year, Superdigital had over 1 million users.

See more on pages 16-17 of this report

OVER 1
million users





Santander Group Awards in 2017



The Banker

- ▶ Global Bank of the Year
- ▶ Bank of the Year in Latin America
- ▶ Bank of the Year in Brazil, Spain, Chile and Portugal



Euromoney

- ▶ Best Bank in the World for SMEs
- ▶ Best Bank in Latin America
- ▶ Best Bank in Brazil, Poland, Chile, Puerto Rico and Portugal

Santander acquires Banco Popular, strengthening its leadership in Spain and Portugal



On 7 June 2017, Banco Santander acquired Banco Popular following its resolution by European and Spanish authorities. This transaction is underpinned by a good strategic and business fit for the Santander Group and will add value for customers and Banco Santander shareholders.

The acquisition provided financial stability to Banco Popular, enabling it to return to operational normality after a strong outflow of deposits in the preceding months, maintaining systemic stability and without drawing on public funds.

Strengthening of the franchise

Expected return on investment of
13-14%
in year three

Banco Santander + Banco Popular



Largest BANK in Spain
19% market share in lending



Portugal's leading private bank
~17% market share in lending

Key figures and milestones of this acquisition:

- ▶ **A capital increase** of Banco Santander of €7,072 million to support the transaction. The issue was eight times oversubscribed.
- ▶ **The sale of 51% of Banco Popular's property assets**, with a nominal value of €30,000 million.
- ▶ **The launch of a voluntary commercial action** aimed at retail customers affected by the resolution of Banco Popular, with an acceptance rate of 78%.
- ▶ **The appointments** of new members to the board of directors and its committees:
Chairman of Banco Popular: Mr Rodrigo Echenique.
Chief executive officer: Mr Rami Aboukhair.
- ▶ **The sale of Totalbank** of Miami, Florida, to Chile's Banco de Crédito e Inversiones for US\$ 528 million.



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Message from Ana Botín

Simple, Personal and Fair – these three words are the bedrock of a responsible bank, and of a digital bank

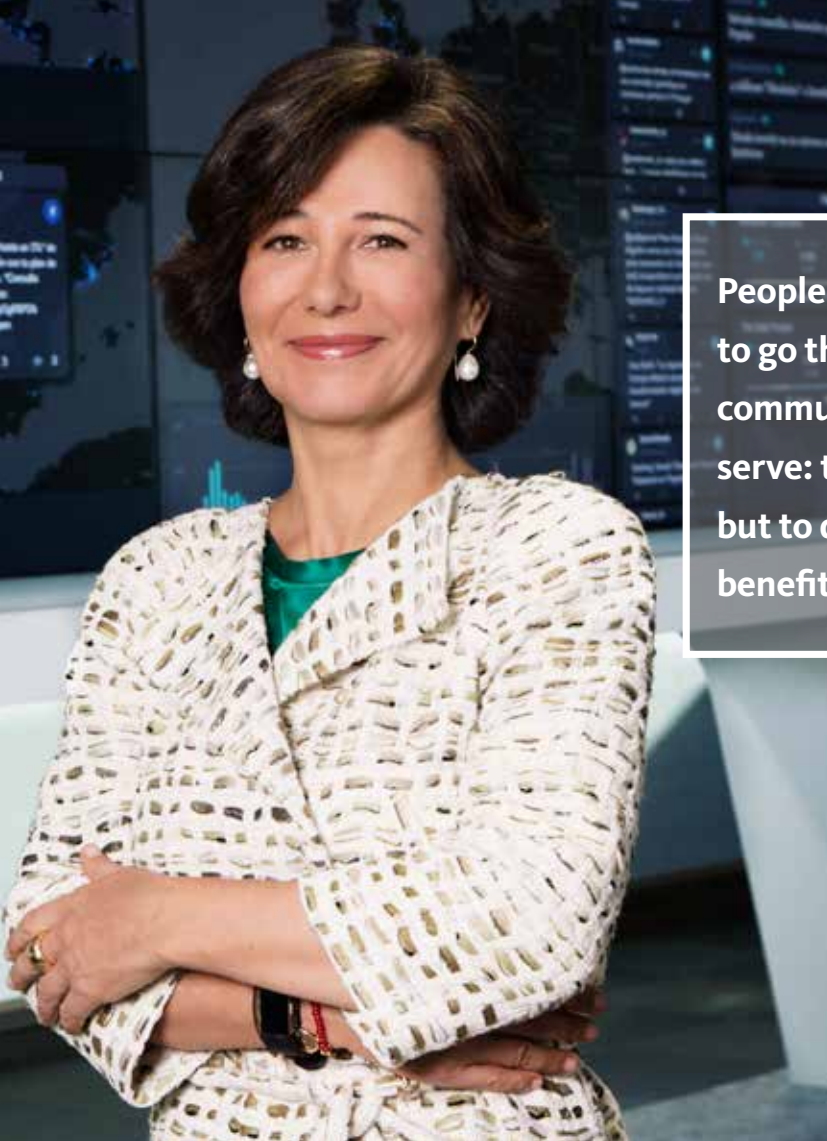
We are living in an age of unprecedented change. An economic revolution, powered by digital technology, which is creating new challenges and opportunities at a pace we have never seen before. That change is having an impact on politics and society on every continent. And for Santander, it has an impact on how we do business.

To succeed in this revolution, **a business needs one thing more than anything else: loyalty.**

Why? Because people have more choice and information than ever before. Consequently, the expectations people have of businesses are higher than ever before. People don't just expect to be treated personally, quickly and fairly – as an employee or a customer. They expect businesses to go the extra mile in the communities they serve: to make a profit, yes, but to do so in a way that benefits society overall.

Get this right and a business can prosper from the virtuous circle of loyalty. Research shows that employees are more likely to be motivated if they work for a company with a strong social purpose. Their motivation means better customer service, building customer loyalty. That loyalty delivers sustainable returns. And those returns build loyalty among shareholders, and enables the business to invest and do more in the communities it serves, fulfilling its purpose.

All of this is reflected in Santander's approach to business. **Our purpose is clear: to help people and businesses prosper.** Our aim is to be the best retail and commercial bank, by earning the lasting loyalty of our people, customers, shareholders and the communities we serve. How do we achieve this? By being Simple, Personal and Fair in all we do. These three words are the bedrock of a responsible



People expect businesses to go the extra mile in the communities they serve: to make a profit, but to do so in a way that benefits society overall

bank. They are also the hallmarks of a digital bank. Digital banking is simple. A digital bank uses data to personalise its service. And a digital bank – like any good business – treats those it serves, and those who work for it, fairly.

I am confident that we can deliver this aspiration by applying the wisdom and experience we have built up over generations to innovate and reinvent banking, while maintaining the strengths that have made us successful. We can do so because

- our growth, profitability and strength show **our strategy is working**
- our scale, diversification and predictability give us **strong foundations to innovate**
- our culture – our relentless focus on being a **responsible bank** – will strengthen people's loyalty in our brand.

Let me take each of those in turn.

■ Our strategy is working

Our success in 2017 shows that our way of doing business, and our focus on building loyalty, are creating a virtuous circle that delivers growth, profitability and strength. The Group again delivered very strong results for the year, ahead of plan on all our targets – growing underlying profit before taxes by 20% and earning the loyalty of a further 2 million customers. We have endeavoured to create value for our customers, by lending more to them (our loans book is up 2% compared to last year excluding Popular), and by improving our value proposition (customer funds are up 8%).

Here's the detail.

Growth: Last year, I said we would increase our number of loyal customers by a further 1.8 million to 17 million, and invest in technology to raise the number of digital customers to 25 million. We have achieved these targets, with loyal customer growth of 13% compared to last year to 17.3 million, and digital customer growth of 21% to 25.4 million. This had positive impacts on our revenues – in particular the net fees line grew by 14% to €11.6 billion.

Growth

Loyal Customers

17.3 million
(+13%)

Digital Customers

25.4 million
(+21%)

Customer revenues

€45,892 million (+11%)



**We have strong foundations.
We have scale. We are
diversified. Our business
is predictable**



Profitability

Cost to income ratio

47.4%
(-70 bps)

RoTE

10.4%
(+3 bps)

Strength

Attributable Profit

€6,619
million (+7%)

FL CET1

10.84%
(+29 bps)

Profitability: Santander is one of the most profitable banks in the world (10.4% RoTE) and, as I set out last year, we maintained a broadly stable cost to income ratio making Santander one of the most efficient banks in the world (47% cost to income ratio). This allows us to lend more to customers; increase dividends (11% cash dividend per share increase) and generate capital through organic growth (53 bps increase) all at the same time.

Strength: I said that in 2017 our aim was to increase our earnings and dividend per share; and that we would do this while continuing to grow our capital towards our target of reaching more than 11% Fully Loaded Common Equity Tier 1 by 2018. How have we done? We have grown our attributable profit per share by 1% compared to last year, and we have increased our FL CET1 by 29 basis points to 10.84%, on track to achieve our 2018 target.

As a result of our growth, profitability and strength, we were able to acquire Banco Popular when it ran into difficulties. We executed the transaction without government assistance, acting fairly with respect to Popular's teams and customers and in the best interests of our shareholders. I would like to congratulate our team who worked tirelessly to put in place the €7 billion capital increase to support the deal within weeks, and thank our shareholders for their confidence in us.

It was followed by the largest sale of real estate assets in Spanish history and a responsible approach to dealing with depositors, with the aim of ensuring their business remained within the Santander Group.

This has obviously been a highlight of the year, but it should not overshadow what has happened elsewhere. We will expand in Poland after reaching an agreement to buy part of Deutsche Bank's business. In the United Kingdom, as our business prepares for the challenge of Brexit, we have seen sustained strong performance. In

Brazil, despite political and economic uncertainty we grew our revenues by 18% compared to last year, the strongest growth among all banks, while narrowing the gap in profitability compared to our peers. In the United States, 2017 was a pivotal year for Santander US with significant progress on regulatory and business issues: we passed Federal Reserve's qualitative capital stress test, made the first dividend payment to Group since 2011, and grew underlying profit by 5%.

Strong foundations to innovate

This performance matters as we implement our plans for digital growth, as behind these dry statistics lie some key points.

First, we have **scale** – and scale gives us insight. We don't simply have 133 million customers: we know those customers – and in the case of our 17 million loyal customers, we know them very well. In my mind, it's much better to have a deep understanding of many customers in 10 core markets, than it is to have a shallow understanding of the same number of customers in dozens of markets. In the digital age, that depth of insight combined with our scale is invaluable, and those relationships are priceless.

Second, we are **diversified**. Our business is mostly focused on retail banking, serving a diverse range of customers, and is balanced between developed economies and emerging economies and between Europe and the Americas, where growth is expected to be strong in 2018. The US will see its ninth year of economic expansion – the longest upward cycle since 1850 – which will help propel growth elsewhere. In the Eurozone, we expect to see strong growth of 2.3%. Looking at our major markets, Spain is forecast to see its fourth consecutive year of growth of around 3%; while the UK's economic growth, although expected to be subdued due to uncertainty caused by Brexit, is forecast to be 1.4%. Meanwhile the Brazilian economy, having returned to growth in 2017, is expected to grow by 3.2%, supported



We aim to redefine banking in a way that serves the distinct needs of all our customers, through common, efficient and flexible global platforms



by historically low interest rates: business confidence is at the highest levels of the last years. And in Mexico, while the economy is still overcoming the uncertainty regarding the renegotiation of NAFTA and the impact of the September earthquake, it is expected to benefit from structural reforms.

Our leading position in 10 core markets, with an aggregate population of a billion people, gives us stability and presents us with new opportunities. In these markets, digital technology is making it easier to win new customers – especially the 160 million people in Latin America who are “unbanked.” And thanks to our global network, I see great potential in developing relationships to serve our customers better along natural corridors of economic opportunity – such as between Brazil and Argentina, or the United States and Mexico.

Third, our business delivers **predictable results throughout the economic cycle**. This is because we are diversified, and thanks to our leading market shares in nine of our 10 markets, which allows us to sustain consistent and predictable results. Compared with our peers, for the last twenty years Santander has had the lowest volatility in earnings. This enables us to pay dividends, grow our business, invest in new technology, and as in last years to organically generate capital.

And this brings me to **our approach to innovation**. Our sector, like all sectors, faces the challenge of the digital revolution. We aim to redefine banking in a way that serves the distinct needs of all our customers, through common, efficient and flexible global platforms, which can support our local businesses. Our customers want services that are frictionless anytime, anyhow and anywhere. To provide that we need platforms that are resilient and flexible.

To achieve this, we describe our approach to innovation as reliable “supertankers” and agile “speedboats”. The supertankers are our

established businesses, carrying the bulk of our revenues and our growth. The speedboats are our new opportunities, with the flexibility to race ahead of our competitors. Each shares their experiences and all perform better as a result.

In 2017 we showed what this means in practice. In Spain, we relaunched Openbank with its own, new IT structure and new team. It now serves 1 million customers, offering a full range of services – from stocks to mortgages, but only has one branch and just 70 fulltime employees, some of whom have never worked for a bank before. In Brazil, SuperDigital – which allows customers to carry out transactions on their phones without the need for a bank account – is growing at around half a million customers a year.

Meanwhile, we’ve been investing and innovating in new payment systems. Santander is likely to be one of the first global banks to roll out in the next few months our distributed ledger technology to retail customers across Europe and the Americas, bringing real benefits by reducing the speed of international payments from 2-4 days to end of day/overnight. We have completed live pilots in the UK and Spain, with over 1,500 payments made for a value of €2 million. Leveraging this technology and other state of the art solutions, Santander Pay aims to become the definitive crossborder payment solution for our customers worldwide.

As the digital world of financial services continues to grow, much of today’s regulation remains rooted in the analogue age. Many insurgent market entrants do not always face the same rigorous regulation as banks like Santander. Over time, the regulation of these businesses must and, I believe, will develop, guaranteeing a level playing field promoting innovation for banks as well as for new entrants. I am certain that reliable, responsible businesses with loyal customers, led by Santander, will emerge as the winners.



Shareholders

Cash Dividend per share

€0.19/ share
(+11%)

Tangible Net Asset Value per share

€4.15/ share
(+6% excluding exchange rate impact)

Attributable Profit per share

€0.40/ share
(+1%)

Total Shareholders' return 2017

16.6%
(vs. 12% European banks)



Responsible bank

- ▶ More than 250,000 microentrepreneurs supported
- ▶ Financial inclusion programmes to more than 300,000 people
- ▶ €129 million invested in education in 2017



Putting our purpose at the heart of our business is critical if we are to be a truly responsible bank. Our actions need to match our words



■ A responsible bank

This brings me to the theme of responsibility. There are many hallmarks of a responsible bank, but here I would like to single out a few: a strong team that lives by clear values and behaviours; good governance; and a strong sense of purpose that drives the business.

Let me start with the team. To thrive in today's world, we obviously need to attract and retain the best talent. But we also need to attract a diverse team (women now make up 36% of our board), so that we are better able to understand and serve our customers. If we are to build this team, we need offer people great opportunities. But today, people want more than that. As I mentioned above, people want to work for a company that lives by its values, has a strong sense of purpose, and gives them the chance to make transformational change that benefits millions of people.

Building this team will enable us to implement change at pace – which requires us to work with agility and focus. This year, we've shown how we can work better, together, across all markets where we operate. Example of this active collaboration are the four speedboats launched, which are global businesses with key executives from various countries.

But there is more to do. A strategic target for us this year is to focus on developing our businesses by fostering greater collaboration. Each of our businesses has local management and is locally responsive, but I want to see them extract full value from being part of a group, so we continue to create the best possible products for our customers. And, wherever our businesses operate, we want to ensure that everything they do is Simple, Personal and Fair.

To turn these three words into reality, we are embedding our common culture in the day to day of all our teams, encouraging them to live by eight key behaviours. Starting in 2017, under our newly created performance management system, *MyContribution*, 40% of variable remuneration is linked to how well employees live our behaviours. This applies to our leadership as well. Across all markets, we have undertaken a series of initiatives (such as *KISS – Keep It Simple Santander* in the UK) to change processes

so they are Simple, Personal and Fair. Alongside this, we have also made changes to our governance, to ensure that we have easy to understand policies and procedures, and clear lines of accountability so everyone knows who is responsible for what; transparent processes, so we, our regulators and, where appropriate, the public can see how decisions are made; and clear metrics, so we can assess our performance.

I also want to take the opportunity again to thank Matías Rodríguez Inciarte and Isabel Tocino Biscarolasaga for their great contribution in our Board. Matías, in particular, has been a key senior executive, a board member for more than three decades and an important part of Santander's history. And I would like to welcome Ramiro Mato García-Ansorena, who I am certain will add much value thanks to his broad financial and international banking experience.

Above all, we need to be sure that we are managing risks in a prudent, responsible way. This year, for instance, we upgraded all of our credit risk models across the group to reinforce the sustainability of our business, and we have increased our investment in Cyber Security to stay at the forefront of technological advances in the field. We have also dramatically reduced our exposure to real estate in Spain, which will reach nonmaterial levels by the end of 2018.

More than that, though, I want to ensure that we are fulfilling our purpose – to help people and businesses prosper. Putting that purpose at the heart of our business is critical if we are to be a truly responsible bank. Our actions need to match our words. For example, I was immensely proud of how our teams in Puerto Rico and Mexico responded to the crises caused by both Hurricane Maria and the earthquake, donating time and money to help those in need. Our scale and strength gives us the ability not just to help in these circumstances, but to support inclusive and sustainable growth wherever we operate. In doing so, we need to tackle three major challenges.

The **first challenge**: Two billion people still have no access to the financial system. But once they have a mobile phone and can get online, they can gain access to a bank. They don't need to travel to deposit money or take out a loan or get insurance. The bank is there in their hands. This is empowering millions of



The challenge we face is nothing less than the reinvention of banking. Our results, our targets, and above all our approach, show that Santander is rising to that challenge – and winning



people – especially women. Between 2011 and 2014, 700 million people became account holders at banks or other financial institutions for the first time, reducing the number of “unbanked” adults by 20 percent. As I mentioned above, our services and products are already bringing the unbanked into the financial system, enabling them to share the benefits of growth. In 2017, we supported more than 250,000 entrepreneurs with microcredits, mainly in Brazil, and our financial inclusion programmes have reached more than 300,000 people. Our aim is to up the pace, and do even more.

The **second challenge**: 600 million jobs need to be created over the next 15 years to match the growth in the global workforce. Many of these jobs will be created by small businesses, which are the engine of economic growth. And those jobs will largely go to people with skills needed in the digital age. To help these businesses grow, we will use technology to provide a personalised service, giving them online advice and helping them to export to foreign markets. We’ve created a global online network so we can put a small business in Warsaw or Oporto in touch with potential customers in São Paulo or Mexico City.

And these new businesses need to be sustainable businesses – which is the **third challenge**: the need for sustainable growth. Banks need to help businesses act in a socially responsible way. That means a number of things, such as supporting businesses as they cut carbon emissions and make the transition to the green economy; financing innovation in green technology; encouraging businesses to operate in a way that supports local communities, respect human rights and encourages inclusive growth. Thanks to Santander’s footprint and scale, we are in a good position to support businesses that do this.

By supporting inclusive and sustainable growth in this way, we shall do even more to help people and businesses prosper. And our efforts will be supported by the unique multinational network of 1,300 universities that Santander has created over several decades. Santander is the largest corporate contributor to education in the world, investing 129 million euros in 2017 alone. Our task now is to work with this network – the research, innovation and skill of these universities – to create a formidable partnership to tackle these global challenges.

Looking ahead

As I look to the future, there will be many challenges to address: the supervisory and regulatory regime, especially in Europe and in the UK; emerging risks related to the normalization of interest rates, exchange rate headwinds from a strong euro; and continuing geopolitical volatility. However, my team and I look ahead with confidence. Strong growth, digital innovation, meeting the global challenges – all this is why I believe Santander’s best days lie ahead. As the world changes, so will we.

We will provide more details on how we are transforming ourselves to be prepared for future challenges at our Investor Day in October 2018. For this year, I would like to remind you of our strategic targets:

Growth: We aim to have 18.6 million loyal customers (an 8% increase) and 30 million digital customers (an 18% increase).

Profitability: We are targeting a RoTE of more than 11.5%.

Strength: We are aiming for FL CET1 above 11%.

And for our shareholders, we reiterate our targets of reaching double digit growth in earnings per share and growing our cash dividend per share in 2018.

So let me end where I began. We are living through an economic revolution. The challenge we face is nothing less than the reinvention of banking. Our results, our targets, and above all our approach, show that Santander is rising to that challenge – and winning.

Your continued support is key, and I would like to thank you for your trust.

Ana Botín
Executive Chairman



Main targets for 2018

18.6

million loyal customers (+8%)

30

million digital customers (+18%)

RoTE more than

11.5%

Fully loaded CET1 above

11%

EPS

Double digit growth

Cash DPS

Growth

Superdigital Banking without a bank

Superdigital is a mobile platform for making deposits, withdrawals and payments even if you do not have a bank account. Santander Brazil launched Superdigital using its own tools and technology. Developed as a mobile-first solution, Superdigital is simple and easy-to-use. For many customers, it has become their main financial services channel. Superdigital will soon offer its customers microcredits as well.

Luiz Fortunato, centre, law student and Superdigital customer, with his friends in the Praça Pôr do Sol of Sao Paulo.



Financial services available to everyone

"I use Superdigital to buy directly online, without paying charges to any bank because I hardly use the services they offer me," explains Rafael De Menezes, a Brazilian university coordinator, aged 32. "The app is designed to be used by young people. It is very intuitive," he added.

"We needed to reach customers who consumed and thought differently.

Superdigital is an incredible tool for this market because it is a live, democratic product. It is for everyone," explains Ezequiel Archiprete, CEO of Superdigital.

Superdigital is a digital payment platform that is defined as simple and young. It was relaunched with an eye on the new generations. "When we discussed the product concept, we knew we had to do things differently," explains Renata Canin, Superdigital's head of marketing. To achieve this when they developed the app, they took into account the opinions of nine influencers with millions of followers in Brazil.

"Superdigital provides people with a totally different experience from the one on offer in the traditional financial market," explains Fernando Oliveira, the software development manager. One of the most interesting features is being able to chat among users, just like a messaging app. "In December alone, 600,000 messages were exchanged using Superdigital," notes Mr Oliveira.

Another Superdigital functionality is splitting expenses among groups ("vaquinhas"). What Rita Siqueira, a 22-year-old university student and

call centre supervisor, likes most about Superdigital is how easy it is to buy bus tickets in

São Paulo. "It's very simple. Superdigital saves me a lot of time," explains Ms Siqueira.

But Superdigital targets not only young people. In Brazil, 32% of over-15s do not have a bank account. "We have agreements in place in less usual segments for the Bank, such as agribusiness and temporary employment agencies," explains Ezequiel Archiprete.

At the end of 2017, Superdigital had more than a million customers. Of these, 350,000 belong to segments classified as "of little interest" for the traditional financial services system.

"This is crucial for Santander Group as a whole," adds Sergio Rial, CEO of Santander Brazil. "It enables us to broaden our possibilities of banking the unbanked."

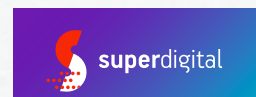
"We are reaching different profiles and new types of customer. It makes us more inclusive in Brazilian society and is the perfect complement to our portfolio," concludes Mr Rial.



Rita Siqueira

**"THE APP IS
DESIGNED FOR
YOUNG PEOPLE. IT IS
VERY INTUITIVE"**

**"SUPERDIGITAL
MAKES US INCLUSIVE
IN BRAZILIAN
SOCIETY"**





Message from José Antonio Álvarez

Grupo Santander carried out its business in 2017 in a more favourable environment, one of the most positive in recent years. The global economy and, in particular, the economies of the countries where the Bank operates, secured the upswing seen in the second half of 2016. The low interest rates in mature economies continued to be the most unfavourable factor for banking activity.

In this environment, Grupo Santander results again underscored the soundness of our business model. Underlying profit grew at double-digit rates at Group level and in most countries, the RoTE was one of the sector's highest and our capital ratios increased further.

I would like to thank our more than 200,000 professionals, as the results achieved in 2017 would not have been possible without the contribution of each one of them.

Our objective is to consolidate our position as the best retail and commercial bank for our employees, customers, shareholders and society in general. To this end, we must continue to strengthen the pillars of our corporate culture, being Simple, Personal and Fair in all we do. We are convinced this is the best way to lay the foundations for progress and improve not only the quality of the income statement, but also the company's value and the share price.



Grupo Santander
results again
underscored the
soundness of our
business model

■ The Group's performance in 2017

Our **priorities** were to:

1. **Continue our commercial transformation,** both in the traditional banks as well as via new units that work independently under a start-up model. Their objective is to create agile and innovative platforms, focused on creating synergies for the Group. In 2017 we invested around €1 billion in global and digitalisation projects, and we have similar plans for the coming years.
2. **Strengthen our position in the markets in which we operate.** As well as organic growth in most of our countries (mainly in developing markets), 2017 presented us with new acquisition opportunities. The most notable transaction was the purchase of Banco Popular, which enabled us to reinforce our leadership in Spain and Portugal, with the clear aim of generating shareholder value. We also improved our position in retail banking in Argentina, increased stake in Santander Consumer USA and reached an agreement to

acquire the retail and commercial business of Deutsche Bank in Poland.

3. **Exit non-core businesses in order to improve the Bank's profitability.** Of note were the sales of 51% of Banco Popular's real estate business to Blackstone and TotalBank in the United States.

We posted an **attributable profit** of €6,619 million, 7% more than in 2016. These results were hit by some **non-recurring impacts** amounting to a net negative €897 million, mainly to do with amortisation of goodwill and ongoing optimisation plans.

Profit before extraordinary results was 14% higher at €7,516 million. Nine of the core units increased their earnings, seven of them at double-digit rates.

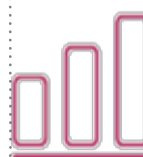
Gross income rose 10% to a record €48,392 million, driven by **double-digit growth in net interest income and fee income** which together generated 95% of revenues. This enabled us to grow consistently and recurrently.

Attributable profit

€6,619
million
+7%

Gross income

€48,392
million
+10%



- Record gross income
- Double-digit growth in net interest income and fee income



Operating expenses stable in real terms and on a like-for-like basis

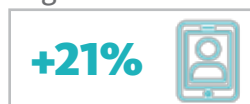


Cost of credit improvement and proactive risk management

Loyal customers



Digital customers



The number of digital **customers** grew 21% and loyal clients 13%. Their increase was important for securing quality growth in the income statement.

Operating expenses remained stable in real terms and on a like-for-like basis, despite higher regulatory costs and investments in transformation. **The focus on operational excellence and digitalisation has enabled us to continue to be the reference in efficiency terms**, while our units in seven of our core countries are among the top three in customer satisfaction.

The 4% decline in **loan-loss provisions** and the continued improvement in the cost of credit (to 1.07%) reflect a proactive risk management that has enabled us to keep on enhancing the quality of the portfolio and reduce the NPL ratio to 4.08%.

We are conscious of the importance of strengthening the **risk culture** of all the Group's employees, bolstering, among others, processes in cyber security, prevention of money laundering and operational and reputational risk.

The balance sheet:

- **Lending**, which rose 12%, was balanced between individual customers, consumer credit, SMEs and corporates. Customer **funds**, increased 17%. Both loans and funds were driven by strong growth in developing countries and by the integration of Banco Popular. Excluding Popular, growth would have been 2% and 8%, respectively. All figures are stated at constant exchange rates.
- The Bank's **liquidity** position is very comfortable, as is that of all its units. The

liquidity ratios easily meet the minimum requirements.

- We have generated **capital** quarter after quarter. In fully loaded terms, we reached a CET1 ratio of 10.84%, while comfortably meeting the legal requirements.

We ended 2017 with an **underlying RoTE** of 11.8%, one of the highest among international banks, and an **underlying RoRWA** of 1.5%, which we expect to keep on improving in 2018, as we take measures to more efficiently manage risk weighted assets and consumption of capital.

The market positively assessed our strategy and its impact on business. **The total shareholder return (TSR)** was 16.6% in 2017.

■ Performance of the units in 2017

There are two aspects of business that I consider particularly important.

The first is the **excellent geographic diversification** of our results between mature and developing markets, which gives us stability, recurrence and growth greater than that of our competitors.

The second is that we see a **consistent improvement in countries' profits as well as in their main metrics**: customers, cost of credit, efficiency and profitability.

Spain excluding Popular

We combined the acquisition of Banco Popular and the first steps of its integration with the execution of our strategy in Santander and a very positive business performance.



We ended 2017 with an underlying RoTE of 11.8%, one of the highest among international banks, and an underlying RoRWA of 1.5%, which we expect to keep on improving in 2018



The *1213* account helped us to add close to 600,000 loyal customers (+42%) in 2017 and the number of digital customers rose 15%, spurred by the launch of *Digilosofia*. The new means of payment strategy led to record sales of cards and we are the mobile payments leader in Spain. This growth produced market share gains in the main products.

Of note in results were the increase in fee income, lower operating expenses and the decline in loan-loss provisions, due to the better credit quality, all of which offset the pressure on net interest income and boosted profits.

Popular

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

We began to integrate Banco Popular, a process that is expected to be completed in the next two years. We have been very careful to ensure this process is done in the most reasonable way in order to attain the efficiency levels promised to the market, but also looking after those affected and treating them appropriately.

A commercial action was also taken for customers of Santander and Popular who were shareholders of Banco Popular. This was successfully completed, with 78% acceptance of the loyalty bonds subscription offer.

Lastly, I would like to point out that we see a recovery of business momentum, reflected in growth in deposits and a slower decline in loans, which were stable in the fourth quarter.

United Kingdom

Business was carried out in an environment of lower growth and uncertainty over Brexit. Customer loyalty remains our priority, aided by *1213 World*, the commercial transformation and operational excellence.

Activity evolved very positively. The current account balances of individuals, mortgages and corporate loans and deposits all increased. The results in the upper part of the income statement were robust, although specific provisions and amortisation of intangibles dented profit.

Santander Consumer Finance

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

Profit grew for the eighth year running, spurred by a positive trend in revenues, larger volumes and high geographic diversification. The efficiency ratio and cost of credit were also at historically low levels. RoTE increased to 16%.

United States

Santander US passed the Federal Reserve's stress tests in 2017, both quantitative and qualitative. This will enable us to focus on improving the profitability of retail and commercial banking, reducing duplications in costs and optimising the structure of capital, as Santander Holding USA begins to normalise its policy of paying dividends to the Group.

Underlying profit rose 5%. The final profit was hit by impacts stemming from the hurricanes, increased stake in Santander Consumer USA and the tax reform.

Spain exc. Popular

Profit
€1,180 (+46%)
million

Popular

Profit
-€37
million

United Kingdom

Profit
€1,498 (-3%*)
million

Santander Consumer Finance

Profit
€1,168 (+4%*)
million

United States

Profit
€332 (-7%*)
million

* Excluding fx impact



Banco Santander's solid position in 10 core markets puts us in a privileged position to seize the opportunities that arise



* Excluding fx impact

Portugal

The acquisitions of Banif and Popular bolstered Santander Totta's position as the largest private sector bank in Portugal, gaining market share in new lending to companies as well as in mortgages and positioning it as the country's most profitable bank.

In addition, the good performance of the *1/2/3 World* programme facilitated organic growth in loyal and digital customers, increased volumes and boosted profit by 10%.

Brazil

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

Profit was 34% higher, growth that was well above the sector, underpinned by a significant increase in net interest income and fee income, the fruit of the commercial strategy and greater customer loyalty. These growth rates, together with a lower cost of credit, pushed up RoTE to 17%, higher than in 2016.

The strength of our franchise, combined with better macroeconomic prospects, make us optimistic about recurring results in the future.

Mexico

We are strengthening the distribution model and investing in systems and infrastructure that focus on multichannel innovation, digitalisation and the launch of new business initiatives.

Attributable profit rose 16%. Of note was the 13% increase in net interest income. The RoTE reached more than 19%.

Chile

We continued to consolidate our commercial transformation, launching *digital onboarding*, the first fully digital system, and opening

more *WorkCafé* branches. Penetration of high income, SME and large company segments remained a priority, and we began to recover growth in the mass consumer market.

Profit was 12% higher, thanks to a moderate rise in gross income, control of operating expenses and a lower cost of credit.

Argentina

Our bank has a leading position in a country with a high growth potential of the banking system. A greater financial stability environment should enable us to capture this growth and translate it into profits.

Attributable profit was 14% higher than in 2016, driven by gross income growth.

Poland

At the end of 2017 we announced the agreement to acquire Deutsche Bank's commercial and private banking business in Poland, which will strengthen our position (market share of 12% in loans and 11% in deposits). Our aim is to continue to lead in digital channels and innovation.

Profit was in line with 2016 when it benefited from capital gains. Excluding this impact, profit was 8% higher thanks to growth in gross income, control of costs and lower provisions.

The units in **Uruguay** and **Peru** increased their profits 19% and 7%, respectively. Uruguay's were driven by net interest income and fee income. Peru maintained activity, despite the economic downturn, and the cost of credit dropped.

Global Segments

Global Corporate Banking, our wholesale banking business, gained market share in high value-added businesses, under a strategy that places particular importance on efficient use of capital. Santander is securing its leadership

and market position in Spain, Portugal and Latin America. Also noteworthy was the significant growth in our cash management platform for multinationals and a continuous improvement in the services for retail clients. GCB is establishing itself as one of the most profitable units in RoRWA terms.

Lastly, we created the **Wealth Management Division**, which will integrate the private banking businesses and asset management. The creation of this division means focusing efforts on a segment that is efficient in terms of capital consumption and which boosts fee income.

■ 2018 Objectives

The **estimates for 2018** point to GDP growth of around 2% in both mature economies as well as in Latin America.

Banco Santander's solid position in its 10 core markets puts us in a privileged position to seize the opportunities that arise. Our focus in mature markets will be on improving profitability, adapting the business models in order to increase customer satisfaction and gain market share. In developing countries, we will try to use the good conditions to gain market share and improve, even more, our operational efficiency.

We attained our goals in 2017 and begin 2018 in a good position to reach those for this year announced at the Group Strategy Update.

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

- **Improve the quality of the income statement** in an environment with significant pressure on spreads.
- **Gain market share on a sustained basis**, as our growth opportunities are in those markets in which we already operate.
- **Continue the commercial and digital transformation** without affecting the efficiency ratio. Offset the investment plan with measures to optimise costs.
- **Improve the main risk metrics.** Manage the higher loan-loss provisions derived from greater lending and the impact of the new accounting regulation on recognition of provisions (IFRS9).

I would like to end by thanking our more than four million shareholders for their confidence in Banco Santander. We are working to give them personalised attention, listening to their concerns and informing the market continuously and transparently on our daily activities.

Our priority is to increase the profitability of their investment in a sustainable way and to this end we are dedicating our best efforts.



José Antonio Álvarez
Chief executive officer

2018 financial objectives announced at the Group Strategy Update

RoTE

> 11.5%

Earnings per share

Double-digit growth

Cash dividend per share

Increase

Fee income

Average growth 2015-2018 **10%**

Efficiency ratio

45%-47%

Cost of credit

Average cost 2015-2018 **1.2%**

Fully-loaded CET1

> 11%

A man with a beard, wearing a light blue button-down shirt, is sitting on a desk in a dimly lit room. He is looking towards the camera. On the desk in front of him is a laptop with a green logo, and various electronic components and wires are visible. A single, bright, circular pendant light hangs directly above him, casting a warm glow. The background is dark and out of focus, showing some architectural details and a window.

Santander X Opening doors to university entrepreneurs

Santander X is an innovative platform that is bringing together all the programmes to support university entrepreneurs that Banco Santander has been carrying out for more than 20 years through Santander Universities. Santander X aims to be a meeting place entrepreneurs. It will be the largest global ecosystem for university entrepreneurship, a shared space for international collaboration among universities, businesses and entrepreneurs who want to make their projects a reality and open up to the world.

Jader Stefanello and Fernando Ferreira, students at the Universidade Federal de Santa Maria in Brasil and winners of the Empreenda Santander 2K17 award for their Lunix Project, which deploys sensors for intelligent management of urban lighting networks.

Connection is the key

José Cárdenas had an idea. After talking with various specialists, the Chilean medical student came up with the idea of creating a device for performing health checks on pregnant women remotely, so that patients would not have to visit a clinic. Although Mr Cárdenas had a clear idea of how to develop the device, it would have to be produced on a large scale to reach the market. In other words, he would need to set up a company.

Patricia Aymá lives in Spain, thousands of kilometres away from Mr Cárdenas but she has several things in common with him. As a student of Biotechnology and Environmental Engineering in Barcelona, during her investigation work, she discovered the potential of bacteria for creating bioplastics.



Patricia Aymá

“Producing bioplastics is expensive. So, we designed an alternative method, using bacteria that produce bioplastics from waste, in a simple and robust manner,” explains Ms Aymá. When she saw that the technology could be developed on a large scale, the opportunity appeared, but so did the problem.

“I had a science background, so the most difficult part for me was setting up a company. I had no idea,”

confesses Ms Aymá. So she signed up to the Santander Explorer programme, while Mr Cárdenas joined Brain Chile: two initiatives by Banco Santander to encourage university entrepreneurship.

**“WE CREATED A
CONNECTED, OPEN,
GLOBAL ECOSYSTEM
FOR BUILDING A
BETTER FUTURE”**

For more than two decades, Santander has been supporting training and development for university students and entrepreneurs with initiatives such as these, and now it has taken a further step forward by creating Santander X.

“With Santander X we want to go one step further by building, together with our more than 1,000 partner universities, the world's largest ecosystem for university entrepreneurship,” states Javier Roglá, global director of Santander Universities and Universia. “We created a connected, open, global ecosystem for building a better future for everyone,” he adds.

**WITH SANTANDER'S
SUPPORT, THE IDEAS
THAT JOSÉ CÁRDENAS
AND PATRICIA AYMÁ
CAME UP WITH HAVE
BECOME REALITY**

Connection is key: Santander X will connect university entrepreneurs and universities worldwide to share knowledge, experience, and best practices. So far, more than 60 universities have signed up for the project and many more are expected.

With Santander's support, the ideas that José Cárdenas and Patricia Aymá came up with have become reality. Mr Cárdenas founded HubbyMed and Ms Aymá created Venvirotech. HubbyMed is set to launch the device in early 2018 and Venvirotech is currently developing its business and strategic plan.



Powered by  **Santander**

Corporate governance

A responsible bank has clear, robust governance, in which accountabilities are well-defined; risks and opportunities are prudently managed; and long-term strategy is designed to safeguard the interests of all stakeholders and society at large.



Balanced board composition

- Of 14 directors, 11 are non-executive and three are executive. 36% are women.
- More than half of the directors are independent.
- The board is diverse in terms of expertise, gender and international experience.



Respect for shareholders' rights

- The principle of one share, one vote, one dividend.
- The Bylaws do not include anti-takeover clauses.
- Encouragement of informed participation at shareholders' meetings.



Maximum transparency in remuneration

- This is essential for generating shareholder and investor confidence.
- Remuneration policy for executive directors and senior management is aligned with our Simple, Personal and Fair culture.



At the forefront of best practices and long-term vision

- A strong lead director to foster proactive communications with stakeholders.
- Effective corporate and internal governance system for the supervision and oversight of the Group and its subsidiaries.

Carlos Fernández
González

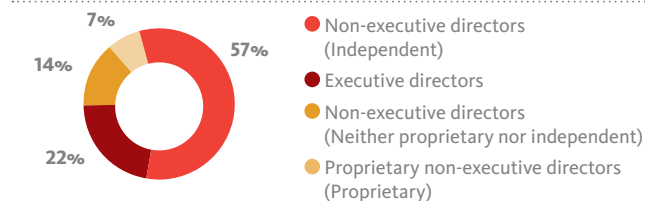


Belén Romana García and Juan Miguel Villar Mir



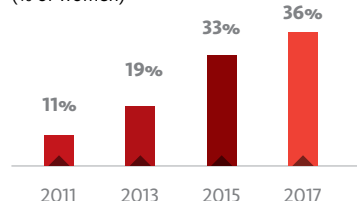
José Antonio Álvarez and Bruce Carnegie-Brown

COMPOSITION OF THE BOARD

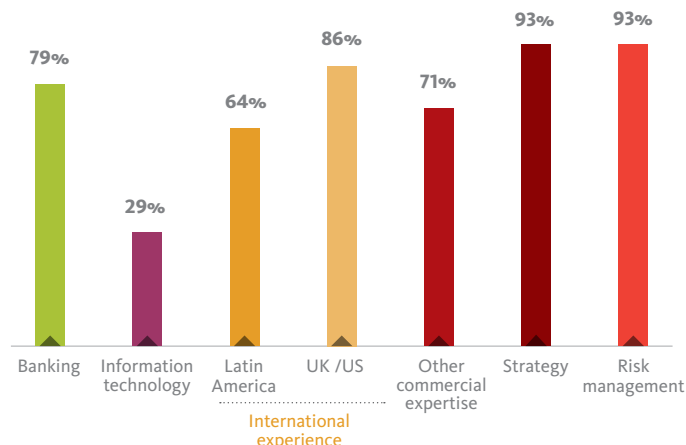


BOARD DIVERSITY

(% of women)



RELEVANT EXPERTISE OF BOARD MEMBERS (% OF MEMBERS)



Board of Directors

The board of directors is the Group's highest decision-making body, except for matters reserved for the Annual General Meeting of shareholders. The main assets of Santander's highly-qualified board are the experience, knowledge, dedication and diversity of its members.

In line with the Bank's aim and purpose, and as part of its general oversight function, the board takes the lead on decisions regarding the Group's main policies, long-term strategy and corporate culture, the definition of the Group's structure and on fostering the most appropriate corporate social responsibility policies. The board also promotes a prudent risk culture by establishing a solid framework for management, taking into account the regulatory and competitive environment and the Group's long-term interests, and ensuring that the "three lines of defence" model is respected.

The board of directors is also responsible for ensuring that the Group complies with the relevant legislation, respects best practices in the sectors and countries in which it operates, and observes the principles of social responsibility to which it has voluntarily adhered.

All board members are recognised for their professional capacity, integrity and independence. Together, their skills and experience provide the outlook and understanding required to define Santander's long-term strategy.

The annual self-assessment carried out by the board of directors and its committees ensures continuous improvement in the quality and efficiency of the board's operation and composition.

The board defines the Bank's long-term strategy, taking into account the interests of all its stakeholders

The three lines of defence

- 1ST** Business and support units
- 2ND** Risk management and compliance
- 3RD** Internal audit

Meetings of the board of directors held in 2017

15



Meetings of the board committees

96





Sol Daurella Comadrán



Javier Botín-Sanz de Sautuola and Rodrigo Echenique

Changes in the composition of the board and its committees

- ▶ In June 2017, Ms Homaira Akbari and Ms Esther Giménez-Salinas were appointed members of the audit committee and the risk, regulation and compliance oversight committee, respectively, replacing Mr Juan Miguel Villar Mir.
- ▶ In November, Mr Ramiro Mato García-Ansorena was designated independent director when Ms Isabel Tocino left the board on her appointment as non-executive (independent) vice chairman of Santander Spain. Mr Mato was the chief executive of BNP Paribas in Spain and Portugal for 20 years.
- ▶ Mr Matías Rodríguez Inciarte left the board in November and was appointed non-executive chairman of Santander Universities.
- ▶ In November, Mr Carlos Fernández was appointed to the remuneration committee and ceased to hold office as a member of the risk, regulation and compliance oversight committee.
- ▶ In December, Ms Belén Romana was appointed as a member of the innovation and technology committee.

Remuneration policy

The Group's remuneration policy is based on the following principles:

1. Remuneration must be aligned with shareholders' interests.
2. Fixed remuneration must account for a significant part of total remuneration.
3. The variable component must reward performance based on the achievement of agreed targets, reflecting the employee's role and responsibilities, in a framework of prudent risk management.
4. Similarly, appropriate corporate benefits to support employees and their families must be provided.
5. The total remuneration package and its structure must be competitive in order to help attract and retain employees.
6. When decisions on remuneration are taken, conflicts of interest must always be avoided.
7. There must be no discrimination in remuneration decisions.
8. The remuneration structure and amount in each country must comply with local practices and regulations.

To reinforce its culture, in 2017 the Group made a fundamental change in the way it appraises employees and sets their variable remuneration:

60%
what we do
(business objectives)



40%
how we do things
(SPF behaviours)

Board remuneration
as a percentage of
attributable profit

0.42%



For more information on corporate governance see pages 72 to 109 of Banco Santander's 2017 Annual Report.



Jaime Pérez Renovales,
Homaira Akbari and Esther
Giménez-Salinas i Colomer



Ramiro Mato García-
Ansorena (left),
Guillermo de la Dehesa
Romero and Ignacio
Benjumea Cabeza de Vaca

Internal governance

Santander is structured around subsidiaries, of which the parent is Banco Santander, S.A. and which are autonomous in capital and liquidity. Its system of internal governance consists of a governance model and corporate frameworks, which are approved by Banco Santander and are adopted by the subsidiaries while taking their local needs into account.

The main features of the governance model are:

- Presence of Group representatives on the subsidiaries' respective boards of directors.
- Reporting lines of the local CEOs / *country heads* to the Group CEO.
- Interaction between the Group and the subsidiaries' oversight, management and business functions, including the Group's participation in the appointment, target-setting and assessment of results of the subsidiaries' key positions.

Meanwhile, the corporate frameworks establish the common principles in matters that have a significant impact on the Group's risk profile. These include risks, compliance, technology, cybersecurity, audit, financial accounting and control, financial management, strategy, human resources, communication, sustainability and branding.

International advisory board

The international advisory board, comprising eight non-executive members, provides the Group with strategic advice, focusing particularly on innovation, digital transformation, cybersecurity and new technologies. It also offers its views on the trends it sees in capital markets, corporate governance, brand and reputation, regulation and compliance, and in global financial services with a focus on customers.

Chairman

Mr Larry Summers
*Former US Treasury Secretary and President
Emeritus of Harvard University*

Members

Ms Sheila Bair
*Former Chair
of the Federal
Deposit Insurance
Corporation
and President of
Washington College*

Mr George Kurtz
*CEO
and co-founder
of CrowdStrike*

Ms Marjorie Scardino
*Former CEO
of Pearson and
director of Twitter*

Mr Francisco D'Souza
*CEO of Cognizant
and director of
General Electric*

Ms Blythe Masters
*CEO of Digital
Asset Holdings*

Mr Mike Rhodin
*Senior Vice President
of IBM Watson*

Mr James Whitehurst
CEO of Red Hat

Secretary

Mr Jaime Pérez Renovales

Board of directors of Banco Santander



**Ms Ana Botín-Sanz
de Sautuola y O'Shea**
Group executive chairman and
executive director



Mr José Antonio Álvarez Álvarez
Chief executive officer and
executive director



Mr Bruce Carnegie-Brown
Vice chairman and lead
non-executive director
(Independent)



Ms Homaira Akbari
Non-executive director
(Independent)



Mr Carlos Fernández González
Non-executive director
(Independent)



**Mr Ignacio Benjumea Cabeza
de Vaca**
Non-executive director



Mr Juan Miguel Villar Mir
Non-executive director
(Independent)

- Executive committee
- ▲ Audit committee
- Appointments committee
- Remuneration committee

- Risk, regulation and compliance oversight committee
- ▲ Innovation and technology committee



Mr Rodrigo Echenique Gordillo
Vice chairman and executive director



Mr Guillermo de la Dehesa Romero
Vice chairman and non-executive director



Ms Belén Romana García
Non-executive director (Independent)



Mr Ramiro Mato García-Ansorena
Non-executive director (Independent)



Ms Sol Daurella Comadrán
Non-executive director (Independent)



Ms Esther Giménez-Salinas i Colomer
Non-executive director (Independent)



Mr Javier Botín-Sanz de Sautuola y O'Shea
Non-executive director (Proprietary)



Mr Jaime Pérez Renovales
General secretary and secretary of the board



Openbank

The digital bank that makes your life easier

Openbank is the first fully digital Spanish bank. All its commercial activity is based on machine learning and *artificial intelligence*, enabling greater knowledge of customers, better analysis of risks and a more personalised selection of products and services offered via a completely revamped website and mobile app.

Sara Pérez, head of cybersecurity at Openbank: "I had been hacking systems legally for eight years when Openbank called me."

“Openbank gives me what I’m looking for”

If you ask Miguel Montañez about his daily routine, he responds with three words: “Work, work, work”. “I have a very demanding work life,” he acknowledges. “I can work several 12-hour days in a row, working under a lot of pressure and travelling a lot,” he explains. “I spend more than 100 days a year outside Spain,” he adds.

María José Talavera has a similar situation. Her schedule is very hectic. “I can only ever go to two types of office,” says Ms Talavera: “to that of my customers or to mine. Never to a bank branch.”

María José Talavera and Miguel Montañez are customers of Openbank, as is David Stocks, a US citizen living in Spain. “I don’t like banks,”



David Stocks

confesses Mr Stocks bluntly. “But Openbank gives me what I’m looking for, it helps me with what I need. It doesn’t bother me.”

Openbank was relaunched in 2017 with the aim of becoming one of the world’s leading digital banks. “Being a digital bank isn’t just about having a cute app,” notes Ezequiel Szafr, CEO of Openbank. “Being a digital bank means having the right technology and talent.”

“Many companies talk of digital transformation, but few of them really do anything about it,” explains Javier Ros, Cloud Technical Architecture Manager of Openbank, who formerly worked for Amazon. “If you want to keep pace with your customers, you need to work completely in the cloud. Openbank is genuinely committed to changing digital banking,” says Mr Ros.

The case of Sara Pérez, Openbank’s Head of Cybersecurity, is similar. “I had been hacking systems legally for eight years when Openbank called me,” she recalls. “I was very much attracted to working on this project’s cybersecurity,” she affirms. Cybersecurity is Openbank’s top priority,

together with the customer, of course. “Machine learning and artificial intelligence enable us to offer our customers personalised products,” explains Daniel Villatoro, Head of Data Science.

“We are the only bank that takes risk decisions based on artificial intelligence,” says Mr Szafr. “For example, in an ordinary bank, around

70 per cent of customers have credit cards. We grant a higher percentage of our customers cards because our intelligent algorithm takes into account many more variables.”

To improve customer satisfaction, Openbank has developed a new website and a new app, the main points of contact

between the customer and the bank. The aim is for the customer service to be personalised and to fully meet the customers’ needs. “I have an adviser at my disposal, with a name and a face,” explains Miguel Montañez. “It’s not a virtual entity. And whenever I need anything it’s within my reach, via my mobile phone,” he adds.

Montañez highlights Openbank’s investments platform as the app’s strong point. “I can view my investments, in a simple manner, at any time and anywhere,” he explains.

This has allowed him to manage his portfolio independently, with great results.

“We have the technology that Santander Group as a whole will need over the next five years,” confirms Szafr. “Openbank is already what every bank will have to be in the near future. We are ready.”

“BEING A DIGITAL BANK ISN’T JUST ABOUT HAVING A CUTE APP”

“WHENEVER I NEED ANYTHING IT’S WITHIN MY REACH”

Openbank 
Grupo Santander

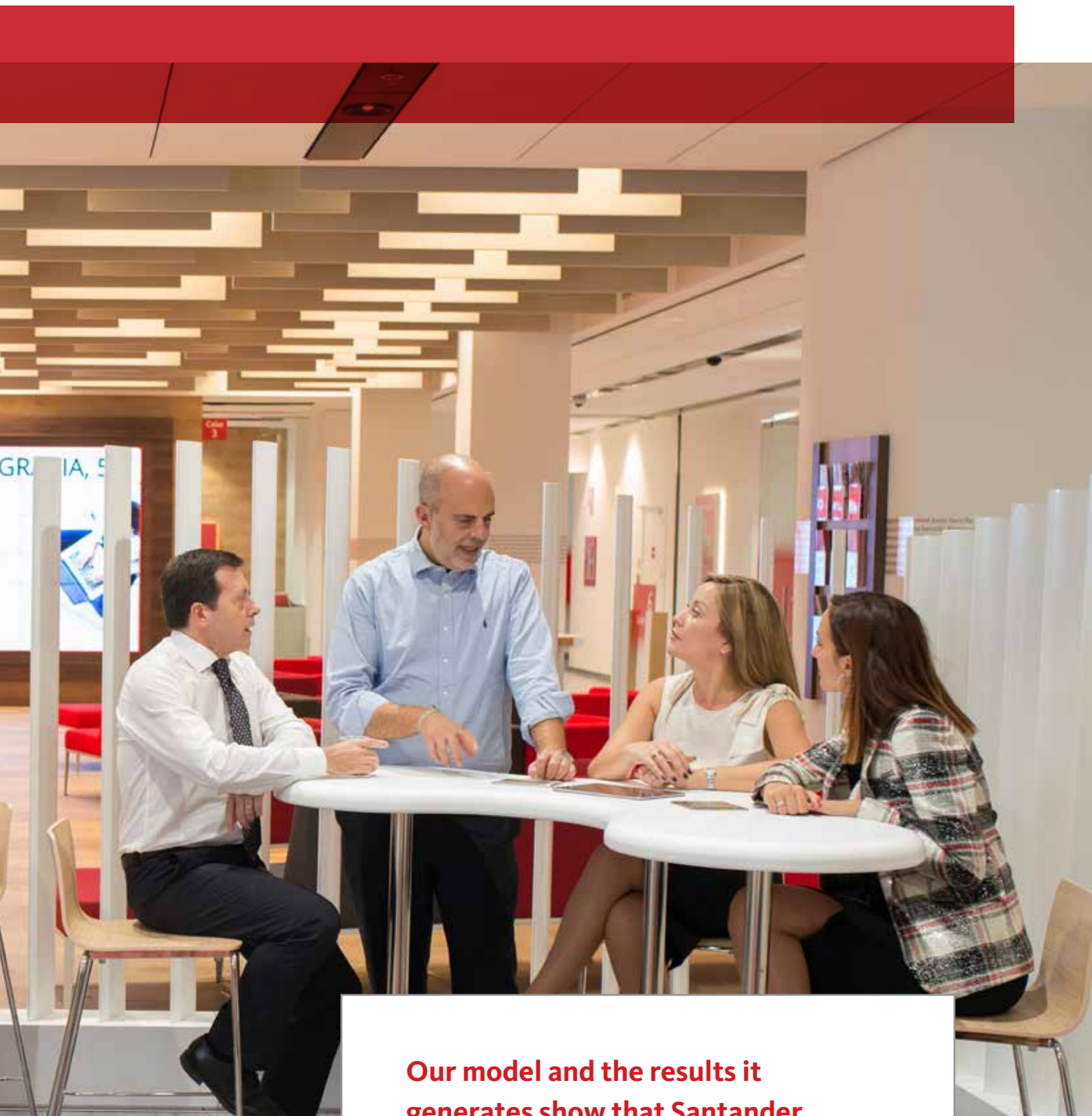
1

A MODEL FOR SUSTAINABLE, PREDICTABLE GROWTH

- ▶ **36** The Santander vision
- ▶ **38** Creating value
 - 40** Employees
 - 42** Customers
 - 46** Shareholders
 - 48** Communities



A Santander branch in Barcelona



Our model and the results it generates show that Santander is on the right track

The Santander vision

We are committed to generating growth in a sustainable, predictable and responsible manner.



Our purpose

To help **people** and
businesses prosper



Our aim

To be the
best retail and commercial bank,
earning the lasting loyalty
of our people, customers,
shareholders and communities



A bank that is...

Simple | **Personal** | **Fair**

Our strengths

1

We have
SCALE and the
potential to grow
organically

- ▶ We are the leader in market share in five of our core markets. We are also in the top three in seven of those markets in terms of customer satisfaction.
- ▶ We have 133 million customers in markets with a total population of more than one billion.
- ▶ We have more than 17 million loyal customers and 25 million digital customers. This implies huge potential for organic growth through increased loyalty and digitalisation.

Our critical mass gives us efficiency, sources of growth and new business opportunities

POSITION OF BANCO SANTANDER IN MARKET SHARE IN LOANS

#1 SPAIN ARGENTINA ¹ PORTUGAL ¹ CHILE SCF	#3 BRAZIL ¹ MEXICO POLAND
	#5 UK ² US ³

1. Only including private sector banks.

2. Mortgages, consumer and commercial loans.

3. Santander Bank market share in the States in which the Group operates.

to continue growing

2

PREDICTABLE GROWTH:
diversification by country and business, which contributes higher profits in a more stable manner

- Our diversification by country and business allows us to maximise results throughout the cycle and it is the key to our positive performance.
- Geographically, we have a balanced distribution between mature markets (which provide stability), and developing markets (which fuel growth in revenue).
- By business, there is a good revenue mix between products for individuals, consumer finance, SMEs, companies and other products.

Our unique business model allows us to deliver better results with less volatility and higher growth

Distribution of underlying profit



and to be successful in the long term

3

Focus on INNOVATION
to increase customer loyalty and operational excellence

- Our technological transformation contributes to increasing the number of loyal and digital customers.
- The digitalisation of our commercial business allows us to offer our customers products and services that are more simple, personalised and modern. This increases customer satisfaction and loyalty.
- We have launched a wide array of initiatives at the bank, focusing on four main areas: *blockchain*, data, payments and services.

Our digital transformation is paying off: we have more digital customers and more digital transactions and sales

Percentage of transactions and sales in digital channels



Creating value

We aim to be our customers' bank of choice. Through innovation, we are transforming our business to become a more profitable and sustainable bank.

We are meeting our targets earlier than expected...

	Strategic priorities	Key metrics
 People	<ul style="list-style-type: none"> ■ Be the best bank to work for and have a strong internal culture 	<ul style="list-style-type: none"> ▶ Number of core markets where the Bank is among the three leading banks to work for (according to the <i>local</i> rankings)
 Customers¹	<ul style="list-style-type: none"> ■ Earn the lasting loyalty of our individual and corporate customers: improve our franchise 	<ul style="list-style-type: none"> ▶ Loyal individual customers (millions) ▶ Loyal corporate customers (thousands) ▶ Growth in customer loans (%)⁶
 Shareholders	<ul style="list-style-type: none"> ■ Operational excellence and digital transformation ■ Capital strength and risk management 	<ul style="list-style-type: none"> ▶ Number of countries where the Bank is among the top 3 of its competitors in customer satisfaction ▶ Number of digital customers (millions) ▶ Growth in fee income (%)⁶ ▶ Fully loaded CET1 capital ratio (%) ▶ Cost of credit (%)
 Communities	<ul style="list-style-type: none"> ■ Improve profitability ■ Santander Universities ■ Support people in the local communities where the Bank operates 	<ul style="list-style-type: none"> ▶ Cost-to-income ratio (%) ▶ Growth in earnings per share (%) ▶ RoTE (return on tangible equity, %)⁵ ▶ Cash dividend as a percentage of attributable profit ▶ Number of grants (thousands) ▶ Number of people helped by the Bank's social investment programmes (millions)

1. Excluding Popular.

2. 2015-2018 average.

3. Except in the United States, where it will be close to our competitors.

4. Total amount 2016-2018.

5. 2016 and 2017 are calculated using underlying profit. RoTE on attributable profit was 10.4% in both years.

6. Constant euros.



...with a clear strategy and a strong culture

	2016	2017	Targets 2018	Further info
	4	5	Most countries	Pages 40-41
	13.9	15.8	17	Pages 42-45
	1,356	1,494	1,646	Pages 42-45
	2%	2%	> competitors	Page 58
	8	7	All ³	Page 45
	20.9	25.4	30	Pages 42
	8.1%	10.6%	c. 10% ²	Page 59
	10.55%	10.84%	>11%	Page 59
	1.18%	1.07%	1.2% ²	Page 59
	48.1%	47.4%	45-47%	Page 59
	1.0%	1.0%	double digit	Page 60
	11.1%	11.8%	>11.5%	Page 59
	40%	40%	30-40%	Pages 46-47
	37	45	130 ⁴	Page 49
	1.7	2.1	5 ⁴	Pages 48-51

Simple | Personal | Fair

Just as important as what we do is how we do it: Simple, Personal and Fair. This culture is based on our corporate behaviours.



I show respect



I truly listen



I talk straight



I keep promises



I actively encourage cooperation



I bring passion



I support people



I embrace change

The Santander brand

In 2017 we defined a strategy to evolve towards a brand which is more customer-focused, modern and digital, sustainable and committed to communities. Our brand positioning revolves around the idea that prosperity is created day by day. The evolution of global sport sponsorship responds to this strategy: we are entering a new phase in the UEFA Champions League.

The flame, which has been part of our logo since 1986, reflects our commitment to progress and is inspired by fire and what its discovery meant to human progress.



Risk culture: *risk pro*

Santander has a solid risk culture, called *risk pro*, which defines the way in which we understand and manage risks in our day-to-day activities. It is based on making all employees responsible for the risks they generate and on other principles that understood and assimilated into the way of working throughout the Group.

risk pro

All the Santander team engaged in risk

>94%

of employees recognise and are responsible for the risks in their daily work



An engaged, motivated team

To better help people and businesses prosper, our transformation begins with our employees. We aim to be one of the best banks to work for to be able to attract and retain the best global talent.



A Santander branch in Spain

Our people management strategy focuses on six key areas:

Talent management

Identify the best professionals worldwide and help them to grow both personally and professionally, respecting and fostering diversity.

Knowledge and development

Offer continuous training and development to enhance our employees' skills and capabilities in a changing digital environment.

Culture

Ensure that the entire Group shares a common culture based on the corporate behaviours and focused on the purpose and aim, and on doing things in a Simple, Personal and Fair way.

Remuneration and benefits

Set clear targets and reward not only results but how they were attained.

Employee experience

Foster teams' engagement and motivation with measures that encourage listening, a more efficient and collaborative way of working which enhances the work-life balance, recognition and a healthy environment.

Systems

Use the benefits of digitalisation to manage people better.

Our goal is to be
the **best** Bank
to work for

OUR TEAM

55%
women



202,251
employees



45%
men



45%
with university
degrees



38 years
average
age



10 years
average length
of service

Initiatives carried out by Human Resources in 2017

Talent

- **MyContribution:** A new corporate performance management model that strengthens the culture as a driver of transformation. To continue creating that culture, we are introducing a new way to assess our employees' performance and decide their variable remuneration:



- **Succession planning for leaders:** The Group made progress in succession planning for key roles.
- **Talent Assessment Committees:** With the participation of senior management, over 2,500 executives have been analysed.
- **Diversity and inclusion:** The Santander Group recognises and supports all types of diversity: gender, race, age, disability, professional and life experience, religion, values and beliefs, sexual orientation and personality. A global executive Diversity and Inclusion task force was created in 2017, together with a global network of diversity experts.
- The Bank is developing a new strategy to position itself as an **employer of choice** for employees and external candidates, with a particular focus on digital talent.

Knowledge and development

- A new strategy for knowledge and overall development to stimulate continuous learning by all employees, with the slogan **Never stop learning**.
- The **Global Knowledge Campus** has been launched; it is a new training space in which to share knowledge and best practices, which will help the Group's employees to contribute to cultural change and improve their performance.
- **Leading by example** is now under way. This is a training programme that helps leaders to identify the role that they should play to implement the Simple, Personal and Fair culture and carry out the transformation.

In this regard, the United States has launched two programmes to accelerate the cultural transformation in its leaders: **Managing the Santander Way** and **Accelerated Development Program**.



84%
participation

77%
of employees are engaged, above the averages of peers and the sector's best performers

81%
of employees believe that their colleagues behave in a more Simple, Personal and Fair way

92%
of employees know what they have to do to build a bank that is more Simple, Personal and Fair

Important progress made in SPF* behaviours and new ways of working

International mobility

- **Global job posting:** corporate platform offering all staff the chance to learn about and apply for vacant positions in other countries, companies or divisions. Since its launch in 2014, over **3,000 jobs have been posted**.
- **Mundo Santander:** A corporate development programme in which, for three months, the Bank's professionals work on a project in another country, promoting the exchange of best practices and broadening their global vision. Since its launch, **1,726 employees in 30 countries** have taken part.
- The first two training modules of the **Talent in Motion (TiM)** programme, aimed at fast-track development of talented young people, have been held. This promotes mobility and provides participants with the opportunity to broaden their vision of the Group and to gain international experience.

Employee experience

- **We are Santander Week:** The 10th edition of this global initiative, which conveys the Santander culture to employees and to promote their pride in belonging, was held in June. This year it focused on the corporate behaviours.
- A culture of recognition is being promoted through initiatives such as **StarmeUp**, the first global recognition network to promote collaboration and to recognise those individuals who practise the corporate behaviours.
- The Group continued to implement its global health and well-being programme, **BeHealthy**, an example of its commitment to the health of its employees and to helping them to acquire healthy habits.
- Under the **New Ways to Work** programme, Argentina and the corporate centre in Spain remodeled work spaces, eliminating offices and creating open areas for teamwork, using new technologies to facilitate teamwork and collaboration. *Flexiworking* continued to improve work-life balance. Other initiatives in *New Ways to Work* include *Keep It Simple Santander (KISS)* for branches and call centres in the UK and the **Inconsistencias** programme in Chile to identify processes to be improved.

* Simple, Personal and Fair



Customers

We work for the prosperity of our 133 million customers

Our goal is to have more customers, who are increasingly more loyal and digital. We want to be the bank of choice for our customers.

Innovative, simple, personalised solutions

1|2|3 World and other engagement strategies

Our value proposition for individual customers

With this relationship model, customers earn interest on their account balances and money back on spending, among other advantages.

- ▲ In Spain in 2017, the 1|2|3 model was extended to new segments, such as the fully digital 1|2|3 Smart Account, aimed at the 18-31 age group. A new credit card was also launched, offering 1, 2 or 3 euros for each goal scored by the football teams in Spain's top two divisions, LaLiga Santander and LaLiga 1|2|3.
- ▲ In Mexico, Santander Plus, the local version of 1|2|3, celebrated its first anniversary. Since its launch, the Santander Plus programme has attracted over 3.0 million customers, 52% of whom are new.
- ▲ In Portugal, activity continues to be strongly supported by 1|2|3 World, with very positive trends in the numbers of accounts, credit cards and protection insurance policies.
- ▲ Poland launched its As I Want it Account, which enables customers to decide what they need and how to pay for the products and services offered.

Santander Wealth Management

Asset management and private banking

Santander created a new global division bringing together its private banking and asset management businesses, to build the best specialist wealth management unit in Europe and the Americas.

- ▲ Following the repurchase of Santander Asset Management's business in 2017, and the integration with Private Banking, the new division will enable us to generate significant synergies and exploit the competitive advantage of our presence and positioning in Europe and the Americas, allowing us to drive the growth of the asset management business in our core countries.
- ▲ Our customers, who are always at the core of our strategy, will benefit from the strength of the new division and from an approach based on personalised service, boosted by a global value proposition, leveraging the connectivity between the franchises and the development of new digital capabilities.
- ▲ Lastly, to create the most powerful and winning value proposition for our customers in Europe and the Americas.



Santander
PRIVATE BANKING



Santander
ASSET MANAGEMENT

Loyal customers

17.3
million



Digital customers

25.4
million



1|2|3 customers

2.6
million



5.4
million



Santander Plus customers

3.0
million



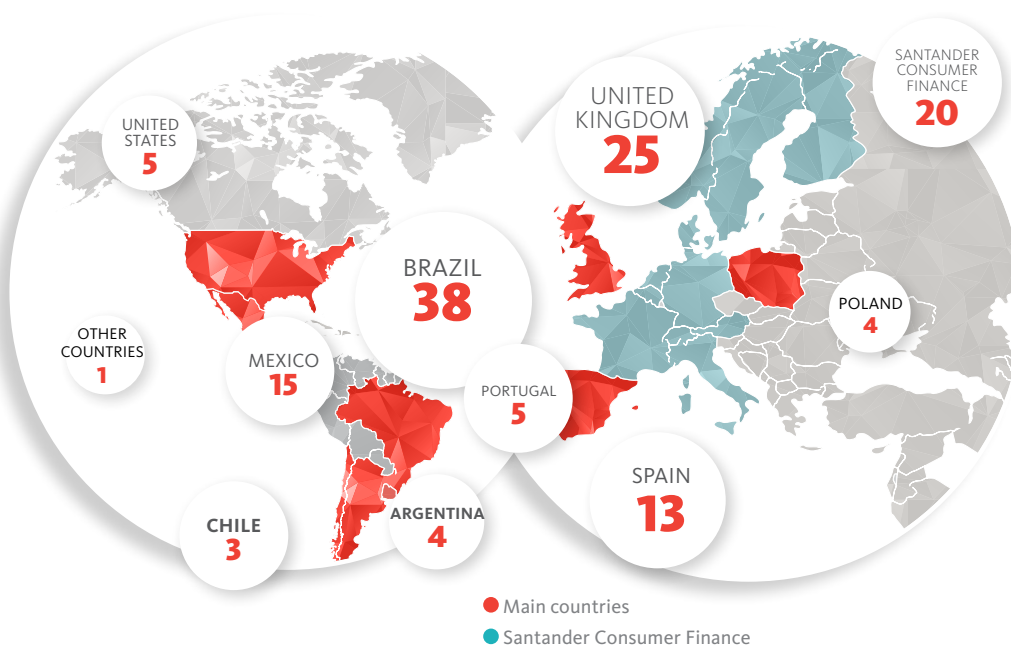
Assets managed by
Santander Wealth
Management

€333,000
million

Specialised service
for clients in

14
countries

■ BREAKDOWN OF GROUP CUSTOMERS (MILLIONS)*



Santander SMEs

A global solution making us partners in SMEs' growth

SMEs are the main driver of job creation. We aim to help companies grow in the new digital economy and become more international by leveraging the Group's innovation capabilities and geographic diversification. This means both offering traditional bank products and services and innovating to meet the financial needs of companies that have new business models and help entrepreneurs make their plans reality.

▲ Santander's strategy with SMEs is a global initiative adapted, in the local environment, to the characteristics of each market in which we are present. This model, which operates throughout the Group, provides a strong financial offering and other solutions to spur internationalisation, training, employment and digitalisation of SMEs, so that we can become their bank of choice.

▲ Santander is committed to the long-term growth of SMEs. Its aim with this strategy is to benefit 45,000 SMEs in Latin America and a total of 90,000 SMEs worldwide.



Euromoney named Santander the Best Bank in the World for small and medium-sized enterprises, for the second consecutive year

* Excluding Popular.

New digital solutions

Local banks are pushing forward with their digital transformation while the Group invests in infrastructure and creates agile, global platforms. All teams work in collaboration. As a result, we can offer our customers better products, services and channels.

Openbank

The fully digital bank

- ▲ The Santander Group launched the new Openbank, Spain's first fully digital bank. It offers its customers a complete portfolio of products and services through a totally redesigned website and mobile app.
- ▲ Openbank has the experience, the expertise and the support of the Santander Group. It is one of the first banks in the world to have its software, application programming interfaces (API) and all its customer activity hosted in the cloud. All with the maximum security and replicated at various European sites. Openbank's technology model is based on machine learning.

Superdigital Brazil

A digital mobile-first payment solution

- ▲ Santander Brazil launched Superdigital, an independent digital payment platform, built and developed in Brazil. With proprietary tools and technology, this mobile-first solution allows customers to open a new payment account in a matter of minutes. They can also pay, deposit and withdraw money with no need to have a bank account.
- ▲ Superdigital enables the Santander Group to broaden its possibilities of helping individuals to join the banking system for the first time, through either Superdigital or Banco Santander, irrespective of their customers' socio-economic profile.

Financial inclusion

More than
1,000,000
Superdigital
customers

Of these, more than
350,000
belonged to sectors
with low rates of
access to banking
services

Santander Cash Nexus

An agile cash management platform

- ▲ A services platform that allows customers to manage their treasuries, combining the Bank's global services offer with a wide range of local services in each country.
- ▲ Customers may digitalise, in a simple and competitive way, liquidity management, the collection and payment of transactions, and direct debits, and centralise the information through electronic channels.

Machine learning

Global platform to know our customers better

- ▲ Our global machine learning platform is producing very positive results in various countries.
- ▲ It enables us to know our customers better, offer them a personalised proposition, and assess the related operational and credit risks faster and better.
- ▲ Actual results: up to 60% less customer attrition and a 30% increase in loyalty.
- ▲ Continuous learning thanks to the one billion transactions that the Bank manages in its core markets each year.

Four focuses of digital innovation

- ▲ Blockchain
- ▲ Data
- ▲ Payments
- ▲ APIs and services

DIGITAL INITIATIVES



UNITED KINGDOM

Santander UK launches a new digital account opening process. Santander Investment Hub, an online platform for customers to manage their portfolios without advisory services, is being enhanced.



SPAIN

Fresh progress in the digital transformation, with the new *app* and the launch of *Digilosofia*, which has enabled the Bank to multiply by seven the weekly acquisition of digital customers. Spain consolidates its leadership in mobile payments through *Apple Pay* and *Samsung Pay*.



BRAZIL

Santander ONE, a new online bank for individual customers. *Consignado*, fully digital, signed up to by mobile phone. *WebCasas*, a digital platform for taking out property loans.



MEXICO

In mobile payments, *Súper Wallet* is a tool that enables customers to manage all their cards in one place. *Select Me* is launched to support women by providing solutions to make their daily lives easier and to assist in their professional development.



CHILE

Launch of the country's first full digital *On Boarding* process.

Operational excellence

Maximise the bank's efficiency and customer service quality.

Throughout the Group, initiatives are under way to transform and enhance the customer experience.



MEXICO

Automatic service by bots. Santander has implemented three automated reply systems for customers using robots: on the website, Facebook and Twitter. It is the only bank with this triple automated system in Mexico.



POLAND

Bank Zachodni WBK introduced a biometric voice solution aimed at large companies, together with electronic guarantees incorporating an electronic signature option.



PORTUGAL

The Bank made progress with its mobile app, increasing its sales through digital channels. At year-end, the digital channels accounted for 28% of the Bank's total sales of products.



UK

Santander UK expanded the information content on its fund platform (Investment Hub) to help customers understand and meet their needs in relation to investments, as well as online mortgage loans and increased its mobile banking capacity (*Android Pay*).



BRAZIL

A new, more efficient, model centred on operational excellence was implemented, with an end-to-end vision of the process experienced by customers using products and services.

New, redesigned branches are transforming customer experience

With initiatives such as WorkCafé in Chile, Smart Red in Spain and the digital branch in Argentina, our new branches are transforming customer experience in nearly 1,000 locations.

The new branches:

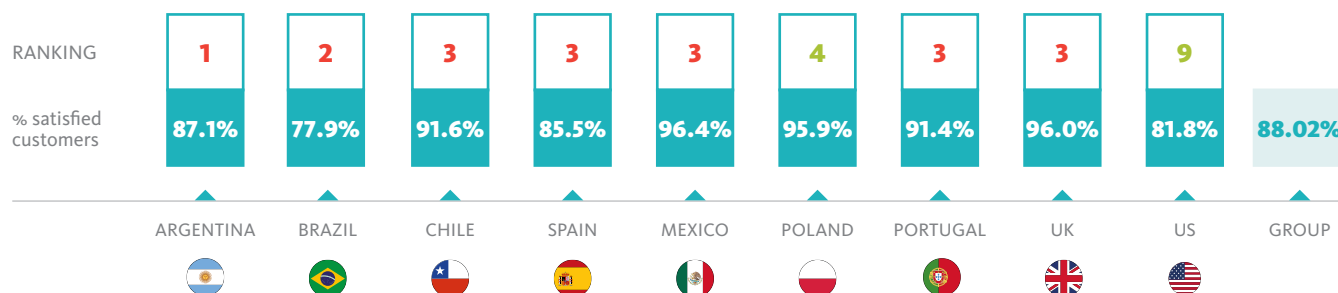
- Are **20%** more productive
- Generate **96%** customer satisfaction
- Increase brand visibility and engagement with communities



WorkCafé in Chile

CUSTOMER SATISFACTION

Santander is ranked in the top three banks in seven countries that account for more than 77% of our customers



* Corporate benchmark of active individual customers' experience and satisfaction. Data at 2017 year-end.



We provide sustainable growth and predictable profits for our shareholders

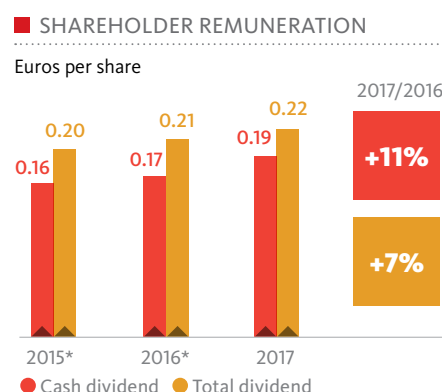
In 2017, the Bank made significant progress in its strategic priorities and met its business and financial targets while remaining one of the most profitable and efficient banks in the world. Our shareholders' trust is key to achieving sustainable growth over the long term.

Shareholder remuneration

Shareholder remuneration increased in 2017, maintaining the payment of the four dividends

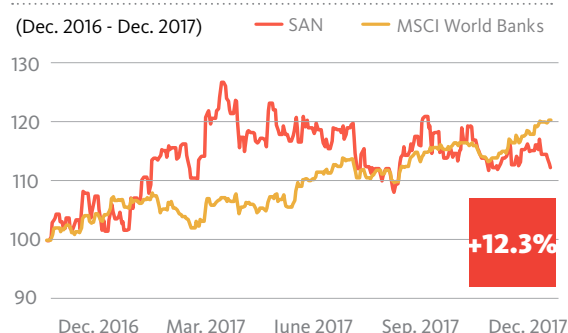
- ▲ Total remuneration from 2017 profit: €0.22 per share, with an increase of 7% in the total dividend per share and 11% in the cash dividend, compared to 2016.*
- ▲ 16.6% total shareholder return in 2017, compared with 11.3% on the IBEX 35, 12% on the Stoxx Banks Index and 24.8% on the MSCI World Banks Index.
- ▲ The total Santander shareholder return is higher than the average of European banks.

▲ Three of the four dividends have already been paid: two in cash of €0.06 per share and one via the scrip dividend of €0.04 per share. The fourth and final dividend is scheduled for May 2018 following approval at the annual general meeting.



The Santander share in 2017

■ COMPARATIVE SHARE PRICE PERFORMANCE



- ▲ Markets performed well in 2017 in an environment of greater optimism due to positive macroeconomic data.
- ▲ The Santander share price ended 2017 at €5.48, an increase of 12.3% during the year. The main Spanish index, the IBEX 35 rose 7.4% and the European bank index 8.1%.

▲ Banco Santander was the largest bank in the eurozone by stock market value at year-end, with capitalisation of €88,410 million.

*Figures are adjusted to reflect the July 2017 capital increase.

Shareholder base

- ▲ In the year, the following capital transactions were carried out:
 - July 2017: a capital increase of €7,072 million to support the acquisition of Banco Popular (the issue was eight times oversubscribed). A total of 1,458,232,745 new shares were issued.
 - November 2017: 95,580,136 shares issued as part of the Santander Scrip Dividend programme.

16,136
million
shares at 31
December
2017

■ DISTRIBUTION OF THE SHAREHOLDER BASE

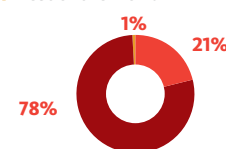
By type of shareholder

- Institutional investors
- Board
- Retail shareholders



By geographic distribution

- Americas
- Europe
- Rest of the world





Meeting our commitments

RoTE (Underlying)

11.8%
Increase



Dividend per share

€0.22
Increase



Earnings per share

€0.40
Increase



Fully loaded
CET1 RATIO

10.84%
+40 bps in
organic generation



* Data at 2017 year-end vs target set for the year.

Commitment to shareholders

The activity of the Shareholder and Investor Relations area in 2017 was aligned with the following priorities:

Maintain continuous, fluid communication with retail shareholders, institutional investors, analysts and rating agencies

- In October, for the second consecutive year, the *Group Strategy Update* was held to update the market on the fulfilment of the commitments made at the 2015 *Investor Day*. Over 250 investors and analysts attended.
- 175 roadshows, 19 conferences and 1,560 meetings with fixed income and equity investors.
- Meetings with almost 12,517 retail shareholders at 241 corporate events.

Enhance personalised service to shareholders and seek their opinions

- 178,353 enquiries answered (by email and telephone).
- Over 300,000 shareholders consulted in quality studies and surveys.
- Shareholders offered possibility of rating their degree of interest in the communications received by email. 70% of the replies scored the information as quite interesting or very interesting.

260
analysts and
investors at the
Group Strategy Update

241
events for
shareholders

>1,000
communications sent
to shareholders

64%
record
participation at
the AGM

Facilitate the participation of shareholders

- Record participation in the general shareholders' meeting. 64% of the Bank's share capital (over 800,000 shareholders) voted in person or by proxy on the board of directors' proposals.
- Santander was the first European bank to receive the Aenor certification of its annual general meeting as a sustainable event.

Drive the digital transformation

- New corporate website for shareholders and investors; launch of *WhatsApp* as a new channel for serving shareholders and new functionalities in the specific app for them.

Offer exclusive products and benefits

Through the yosoyaccionista.santander.com website.



Our commitment is sustainable and responsible

We carry out our business responsibly, by contributing to the economic and social progress of the communities in which we are present. We manage our environmental impact and we foster stable relationships with our main stakeholders.

Companies have a responsibility to create value by taking into account the positive and negative effects of their decisions on their environment. Acting responsibly is more important now than ever before. Society is facing major challenges, both social (achieving inclusive growth for everyone) and environmental (addressing climate change). Businesses must play a central role in meeting these challenges.

Banco Santander's view is that acting responsibly is the best way for its activity to be profitable and sustainable in the long term, and to help people, businesses and communities prosper.

Santander helps communities prosper through its social investments as well as its ordinary banking activities.

Support for higher education is part of the Group's identity. Access to education, employability, driving university entrepreneurship and modernising universities are its main areas of action.

It also carried out numerous local community support programmes, in many of which participation by the Group's professionals was encouraged as a way of promoting solidarity, motivation and pride in belonging. These programmes included:

- **Local initiatives to support pre-school education**, particularly in Latin America where the Bank co-operates in projects that support each country's education programmes. *Projeto Escola* (in Brazil) and *Becalos* (in Mexico) are two examples.
- **Financial education programmes that convey to children the importance of saving**, prepare young people for an independent life and help families to take basic financial decisions.
- **Programmes to combat social exclusion and tackle poverty**, vulnerability and marginalisation, such as the social projects in Spain and Discovery Grants in the UK.

Strategic targets

To help five million people between 2016 and 2018

5 million



People helped in 2017

2.1 million



Community investment





Santander Universities and Universia

Banco Santander, which is unique among banks for its firm support of higher education, invests more in supporting education than any other private company in the world, according to the first global study published by the Varkey Foundation in cooperation with Unesco.

Support for university progress

- **Grants and social impact:** over 290,000 grants have been awarded since 2005 under various grant programmes in 21 countries promoting excellence, international mobility, equity and university access, research and initial contact with the labour market. Because education is synonymous with progress and with fairer and more competitive societies.

- **Digitalisation and modernisation of universities:** Santander Universities' digital strategy aims to encourage the modernisation of universities and to foster and boost their programmes and initiatives in social networks. This strategy includes the development of software to enhance services and meet the new demands of the university community in digital environments; such as AppCrue in Spain, which registered 51,426 downloads at 11 universities in 2017, and offers a wide range of services, such as consulting academic grades, timetables, accesses and library catalogues.

Fostering entrepreneurship with Santander X

Santander Universities devotes over €13 million a year to programmes that support and promote the university entrepreneurial spirit. This key priority is what drives the Santander X project which, in partnership with universities, aims to become the world's largest ecosystem for entrepreneurs.

See more on page 24-25 of this report

Furthermore, the new global entrepreneurship community, Santander X, based on a digital platform which is currently being developed and is evolving, already has its first 8,000 followers in its related social networks, such as JointheX. The various channels of Universia and Santander Universities had 3,041,796 followers worldwide at year-end 2017.

- **Employability:** Training, achievement and excellence should be the basis of personal and professional progress, the instruments that help young people to be more employable and competitive in professional environments that are increasingly variable, digital and dynamic. This is why Santander Universities and Universia carry out initiatives that help young people join the labour market, develop their skills, know where to find new job opportunities and develop their talents. This also includes the promotion of equity and inclusion through the opportunities offered by the Universia Foundation.



uni>ersia

Total scholarships and grants awarded

44,862



39,069

university grants and scholarships

5,793

grants for e-learning

Agreements with universities and other academic institutions in 21 countries through Santander Universities and Universia

1,295



Further information is available in the sustainability section of our corporate website, the 2017 sustainability report and the thematic reports available at www.santander.com.

We support and promote financial inclusion

Contributing to the social and economic progress of the countries in which we operate.

Santander supports and promotes financial inclusion as a way of contributing to the well-being of the countries in which it operates. To this end, the Bank promotes major microfinance programmes in countries such as Brazil, Mexico and Argentina. These programmes help the most underprivileged groups to access credit in order to improve their

social and financial inclusion and the quality of their lives and environment. In its relationships with the university community, the Bank develops specific products and services so that students may access a wide range of basic financial services.

Financial inclusion



€150 million
outstanding
microfinance loans

micro-entrepreneurs
supported
>250,000

“ We want to serve 280,000 microenterprises over the next four years in order to increase financial inclusion in Mexico, by offering them a broad range of competitive financial products and services. ”

Ana Botín,
at the presentation of “Tuiio” in Mexico
City, October 2017.



Tuiio, a new financial inclusion initiative in Santander Mexico. Launched in October 2017, *Tuiio* is a financial inclusion programme for people with low incomes which aims to have a measurable social impact through a broad and expanding range of interconnected products (from microcredits to microinsurance, remittances, payments

and other services, etc.) supported by its own branches, agents, ATMs, point of sale terminals and use of electronic banking. The initiative includes a programme of training and financial education for its customers, with the aim of maximising their skills, developing their potential and optimising their use of resources.

Prospera in Brazil for microenterprises

prospera
Santander Microcrédito

► Through the *Prospera* programme in Brazil, Santander encourages small businesses to grow and therefore helps the underprivileged and those with a lower standard of living to escape from poverty. Loans are mainly granted to informal microenterprises that have no access to credit.

- 70% of microcredits are granted to female breadwinners.
- They are granted to solidarity groups of three or four people.
- The average amount is EUR 300, with no need for additional guarantees.
- The average term is eight months.
- Active portfolio of over 170,000 customers.
- 30 branches and 300 employees serve 700 municipalities.

Firm commitment to the environment

Banco Santander is firmly committed to the environment and the fight against climate change, which is reflected in various lines of action, such as the analysis of social and environmental risks in funding transactions, the development of products and services with a positive environmental impact and the measurement of its internal environmental footprint.

The Bank continued to reduce its consumption, waste and emissions, **meeting its targets for reduction set in the 2016-2018 Efficiency Plan**. The rapid progress in meeting the energy reduction and emissions goals is a result of the immediate impact of more than 200 initiatives under the plan, advances in technology and greater environmental awareness.

The Bank continued to implement its policies for sensitive sectors such as energy, soft commodities and defense, and in 2017 approved a new policy on mining and metallurgy. An extract of these policies was published on the Bank's website, thus enhancing transparency.

In 2017 the Bank subscribed to the banking sector's main initiative for implementing the reporting recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board, under the auspices of the United Nations Environment Programme.

These recommendations will represent a major step forward in the reporting of risks and opportunities associated with climate change.

In 2017 the Bank approved its policy for the mining and metallurgy sector, which was added to the policies on energy, defence and soft commodities.

€300 million

New lines of financing signed with **multilateral institutions** for renewable and efficient energy projects in Spain and Poland

€136 million

The Bank issued its **first green bond in Poland** through a bilateral accord between Bank Zachodni WBK and the International Finance Corp. covering energy efficiency, renewable energy and water and waste management

Project finance to support renewable energies

- ▶ As a contribution to the transition to a low-carbon economy, the Bank participated in 2017 in the financing of new renewable energy projects such as photovoltaic plants and windfarms with a installed capacity of 3,390 megawatts (MW).



3,390 MW

Total installed capacity of solar and wind generation supported by the Bank in 2017

Presence in sustainability indices

Banco Santander has been included in the Dow Jones Sustainability Index (DJSI) since 2000. In 2017, the Bank received a score of 89 out of 100, well above the average for the financial services sector. The Bank's place on the DJSI is a result of its commitment to sustainability and transparency.

This score again places Santander as one of the world's leading banks and the leader in Spain for its sustainable management, among the top ten banks in the world on the Dow Jones Sustainability Index and the first among the 17 financial institutions in its benchmark peer group*.

Santander improved its scores on other renowned sustainability rating indices such as Sustainalytics, MSCI, Oekom and Vigeo, and continues to form part of the FTSE4Good index, in which its results also improved.

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM



*The benchmark group comprises the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

2

THE GROUP'S RESULTS IN 2017

- 54 Economic, banking and regulatory environment
- 58 Santander Group results
- 61 Results by countries and businesses



A Santander branch in Lisbon



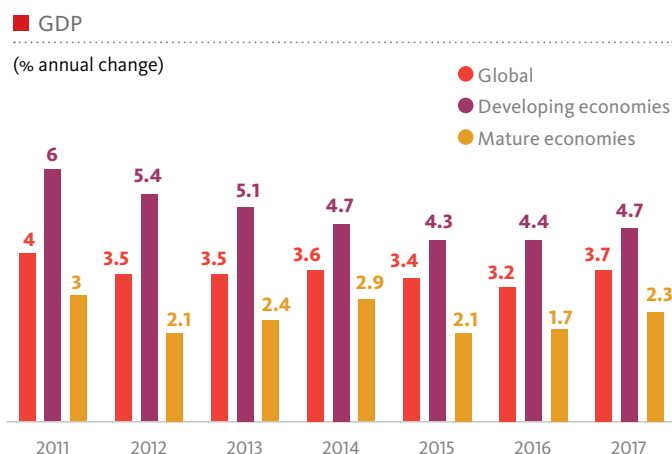
We are meeting our financial objectives earlier than expected and in a responsible manner, with growth, profitability and a strong balance sheet

An improved global economy

World economic growth rose in 2017 in an environment of improved global confidence which was reflected in international markets. In the regulatory field, the Basel III review was completed in 2017 and the debate on the impact of digital transformation on banking regulation and supervision advanced.

Advanced and emerging economies revitalised

In 2017, the world economy recorded higher growth than the previous year (3.7% vs 3.2%), in an environment of improved global confidence arising from the decline in political uncertainty, especially in Europe, favourable financial conditions and increased dynamism in international trade. Both advanced and emerging economies benefited from this renewed buoyancy.

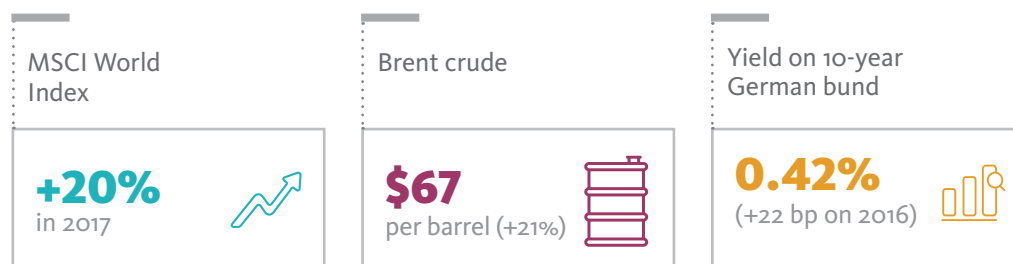


Source: IMF, *World Economic Outlook*, January 2018.

ECONOMIC PERFORMANCE BY COUNTRY

		% CHANGE IN GDP		
		2016	2017	
	United States	1.5	2.3	Acceleration in economic growth in the eighth year of the longest upward cycle since 1850, with underlying inflation moderating to 1.5%. The unemployment rate fell to 4.1%, justifying the 75 bp increase in the Fed Funds interest rate to a range of 1.25%-1.5%. It is expected to continue with gradual increases.
	United Kingdom	1.9	1.7	The economy held up well in the face of Brexit uncertainty, but with some slowing of growth. The unemployment rate remains at full employment levels and inflation, at around 3%, has exceeded the 2% target. The official rate was raised by 25 bp to 0.5% at year-end, reversing the cut that followed the referendum.
	Eurozone	1.8	2.4	Notable economic revival in 2017, broadly based by component (domestic demand and exports) and by country. The unemployment rate declined to 8.8%, still above pre-crisis levels. Inflation remained low at 1.5%, with the result that the European Central bank (ECB) held its rates unchanged.
	Spain	3.3	3.1	GDP growth exceeded 3% for the third consecutive year. The healthy creation of employment enabled the unemployment rate to fall to 16.6%. Growth was balanced, with no sign of inflationary pressure.
	Portugal	1.5	2.6	Notable acceleration of growth in 2017, driven by domestic demand. Employment rose by over 3% and unemployment declined strongly to 8.5%. Inflation remained moderate. Private sector borrowing continued to fall and the budget deficit ended the year at 1.5% of GDP.
	Poland	2.9	4.6	Strong growth in 2017 driven by private consumption and the external sector. Unemployment rate at historic lows (4.7%) and inflation at 2.5%. The central bank kept its official rate stable at 1.5%.
	Brazil	-3.6	1.0	Gradual economic recovery during 2017, driven by consumption and investment. Inflation moderated to less than 3%. The central bank continued to reduce the <i>Selic</i> rate to 7% at year-end. The real depreciated slightly against the dollar (by 1.5%) and by almost 15% against the euro.
	Mexico	2.3	2.1	The economy slowed due to lower growth in domestic demand. Inflation picked up to 6.8%, but is still expected to moderate in 2018. The central bank raised its official rate by 150 bp to 7.25%, while the peso appreciated by 5.2% against the dollar and fell 8.1% against the euro.
	Chile	1.6	1.5	The economy began to recover from the middle of the year. Inflation ended the year at 2.3%, below the target of 3%, and the central bank cut the official rate by 100 bp to 2.5%. The peso rose by 8.1% against the dollar during the year and fell by 4.5% against the euro.
	Argentina	-2.2	3.0	The economic recovery consolidated throughout the year, due to the strength of investment and private consumption. Inflation stabilised at around 2.0% a month and the central bank raised its official interest rate by 400 bp to 28.75%, enhancing its commitment to price stability.

For the first time in a decade, all the economies in which the Group has a presence grew



■ Confidence in the financial markets

Financial markets were benign throughout the year. The absence of major upheavals increased investors' appetite for risk, which supported the rise in stock markets, increases in commodity prices and improved funding conditions in the corporate debt market.

In the United States, attention focused mainly on the ability of the new administration to implement its economic agenda. The S&P scaled new highs, supported by the strength of the economy and expectations of a more expansive fiscal stance.

The Federal Reserve raised interest rates on three occasions and in October began reducing its balance sheet; a process likely to take various years to complete. The market reacted well to these initial cautious steps. Long-term debt rates remained stable, below the levels they reached after Donald Trump's victory.

In the euro zone, political risk weighed heavily on the markets in early 2017, mainly due to fears of the far-right making further progress in France. This caused the risk premiums of public debt to rise, even in the traditionally stable countries. **However, political risk declined after Emmanuel Macron's victory in the French elections, which led to a normalisation of risk premiums.** The rating upgrades of Portugal and Italy caused risk premiums in these countries to decline further.

The ECB revealed it would not raise interest rates until the end of the bond buying programme, which will continue at least through September 2018. Nevertheless, unexpectedly strong growth and the reduction in political risk led to an appreciation of the euro against the dollar.

In the United Kingdom, sterling remained weak amid the slow progress of the Brexit negotiations. The Bank of England raised rates in November, the first increase in over a decade. This reversed the cut that followed the Brexit referendum.

The performance of Latin American currencies was uneven during the year. In the first half, they tended to appreciate, reflecting expectations of a recovery in the region's main economies. Recent months have seen reversals in the face of the uncertainty regarding the effects on these economies of the normalisation of the Federal Reserve's monetary policy.



The absence of major upheavals encouraged risk-taking in 2017; this sustained the rise in stock markets, higher commodity prices and improved corporate debt financing conditions

The Tenth Santander International Banking Conference, 8 November 2017, at the Santander Group headquarters in Boadilla del Monte, Spain



Regulatory milestones in 2017

The regulatory agenda in 2017 was marked:

- ▶ On an international scale, by completion of the Basel III agreement and launch of the fintech *debate*.
- ▶ The European Commission's proposed reforms to the capital requirements and resolution framework and measures to advance the integration of the European retail market.
- ▶ In many countries, by measures related to consumer and investor protection.

■ A stronger banking sector

The international banking sector continued to improve the health of its balance sheet by bolstering capital adequacy and liquidity, and reducing impaired assets. A more benign economic environment also allowed banks to improve their profit margins. These factors were translated into a generalised rise in financial share prices on the stock markets.

However, in developed countries and especially Europe, banks are still facing major challenges when it comes to increasing their profitability. Although monetary policy has begun to normalise in some areas, interest rates remain low, as do business volumes. In addition, competitive pressures continue to rise in most markets, both between banks and from new entrants and new ways of funding.

In emerging countries, with interest rates and margins above those in advanced countries, banks' profits remain consistently higher, even when the macroeconomic conditions are less favourable. This is due to the strong increase in financial inclusion. Thus, the proportion of the population with current accounts increased by 12 percentage points in only three years, although it still remains far below the ratios found in developed countries (51% vs 94%).

The vast majority of banks are now adapting to the digital revolution, which is changing the way they deal with customers while also improving quality and process efficiency, expanding the range of services on offer.

Banks are also facing diverging socio-demographic trends, with an ageing population across developed economies and a rise in the middle classes in emerging economies. These differences will require strategies tailored for each market.

■ Regulatory developments

In 2017, the Basel III review was completed after almost three years of negotiations. Discussions advanced on the impact of technology on the financial sector and its regulation and supervision. In Europe, progress continued in negotiations on revising capital and resolution frameworks.

Basel III revision completed

The Group of Central Bank Governors and Heads of Supervision (GHOS) approved the final framework for Basel III on 7 December. The revision seeks to reduce unjustified differences in the risk weighting of banking assets.

The final agreement will come into effect from 1 January 2022, but the capital floors to be established to limit the capital saved by the use of internal models will be implemented gradually until 2027.

In addition, the Basel Committee announced that the implementation of the new market risk framework (FRTB), initially planned for 2019, will be delayed to 1 January 2022.

The final framework makes a number of significant improvements on the proposals initially raised. According to an analysis conducted by the Basel Committee and the EBA, the final Basel III framework will have only a limited impact overall.

The completion of Basel III provides certainty on the regulatory requirements for the banking system and contributes to the credibility of the banks' asset valuation models.

The Basel Committee also published a consultative document opening a debate on the review of the capital treatment of sovereign debt and the additional information requirements regarding banks' exposure to this debt.



Santander believes regulation should:

- ▲ Be agile and flexible, fostering innovation and digital transformation.
- ▲ Cover new realities: cybersecurity, the cloud, distributed ledger technology, and artificial intelligence, as well as the use and access to data.
- ▲ Ensure a level playing field: the same activity and the same risks should require the same regulation and supervision.
- ▲ Complete the European Banking Union with a European deposit guarantee fund and a fiscal backstop for crisis management.

The fintech debate takes off

The Basel Committee released a set of recommendations in 2017 to control and supervise the activities of fintechs, focusing on the risks these companies pose for banks, as well as the opportunities that their developments may offer for the economy.

These recommendations add to those already issued by other international bodies, such as the International Monetary Fund and the Financial Stability Board (FSB), and European organisations such as the European Banking Authority.

The aim of the authorities is to understand and monitor developments in digital transformation to assess the effects they might have on banking business models, financial stability, consumer protection and risks such as cybersecurity and terrorism financing.

Cooperation between the authorities and an intense dialogue with the industry is essential if this analysis is to be carried out quickly and efficiently.

Sustainable economy

In June 2017, the Task Force on Climate-related Financial Disclosures of the Financial Stability Board (FSB) released its recommendations on how best to prepare financial information in such a way as to present most efficiently the risks relating to climate change. This task force has set up a working group, of which Banco Santander is a member, to facilitate the implementation of these recommendations.

Meanwhile, in January 2018, the European Commission's High-Level Expert Group on Sustainable Finance (HLEG) published its definitive recommendations on global strategy in the field of sustainable finance in the EU, integrating social, environmental and corporate governance aspects. Based on these, the European Commission will present an action plan in three main areas:

- Integrate sustainability factors into investment criteria.
- Create a common vocabulary and classification to let investors know what is green and sustainable.
- Encourage banks to play a role in financing the sustainable economy.

Banco Santander shares the aim of building a financial system that supports sustainable economic growth.

The Banking Union

In October 2017, the European Commission published a communication in a bid to further negotiations on completing the Banking Union.

The measures include the need to progress with the revision of the capital and resolution framework, the single European deposit guarantee fund, a backstop for the European resolution fund and the treatment of sovereign debt.

Review of the capital and bank resolution frameworks in Europe

In November 2016, the European Commission published a proposal to reform the capital and bank resolution frameworks with several aims:

- Reducing risk in the banking sector.
- Introducing the new Basel III standards on market risk, leverage ratios and interest rate and counterparty risk.
- Integrating the loss absorbing capacity requirement (TLAC: *Total Loss Absorbing Capacity*) requirement, set at international level by the FSB in the European framework.

In addition, it proposes reviewing other aspects of the current resolution framework, which was applied in practice for the first time with the resolution of Banco Popuilar.

In 2017 Santander grew its profit, increased shareholder return



Our recurring profitability enables us to lend more to our customers and increase dividends and generate capital

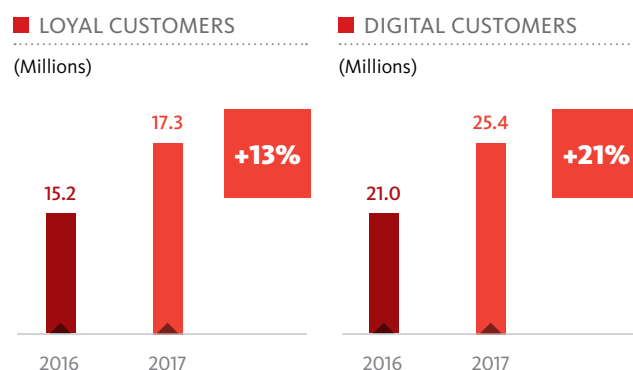


Ana Botín,
2017 Earnings presentation
Santander Group City, January 2018

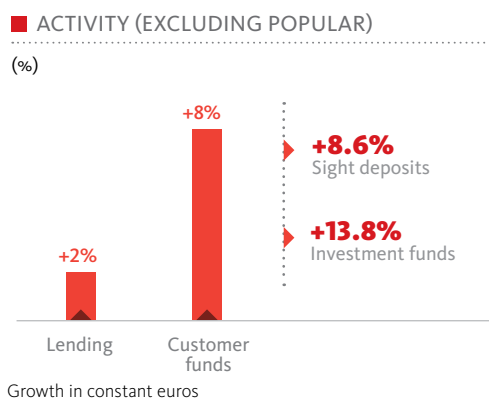
Growth

In 2017, Santander grew in all its main metrics and met its targets earlier than expected, with double-digit growth in revenue and in underlying profit before taxes

Santander's strategy focuses on customer loyalty in all its markets and on growth in digital customers. The continued improvement in the multichannel offering with new digital apps, innovative products and sound business strategies led to a significant increase in the number of loyal and digital customers in 2017.



Santander grew responsibly, in line with its purpose: to help people and businesses prosper. The Group recorded growth in **lending** in the main segments in eight of the ten core units. In **customer funds**, the focus was on demand deposits and investment funds, which grew in eight of the ten core units. The 109% **loan-to-deposit ratio** (114% at year-end 2016) reflects the robust funding and liquidity structure.

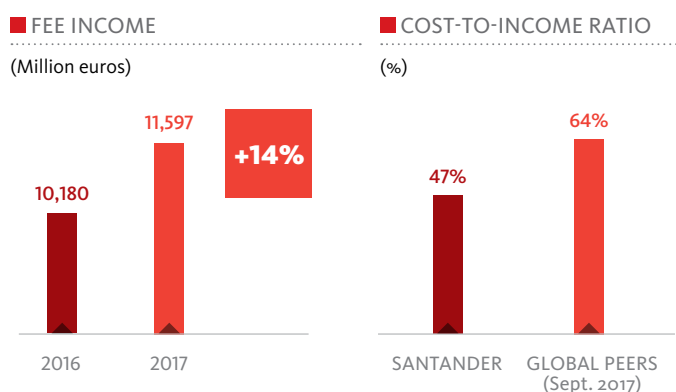


and strengthened its balance sheet, all in a responsible manner

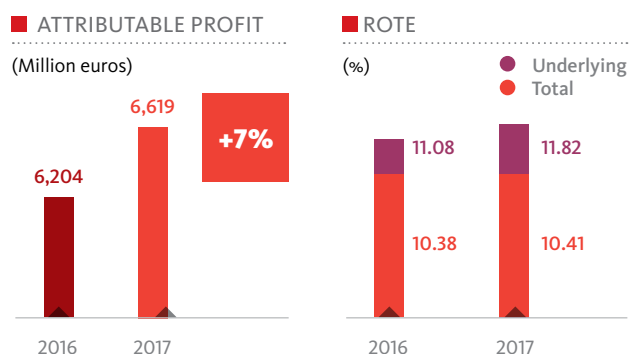
Profitability

Santander is one of the most predictable, profitable and efficient banks in the world. This enables it to increase both customer lending and dividend payments while organically generating capital

Improved customer loyalty drove strong growth in fee income, while digitalisation and operational excellence helped revenue to grow faster than costs, leading to an improvement in the cost-to-income ratio to 47%. Santander is among the three leading banks for customer satisfaction in seven of its nine core countries.



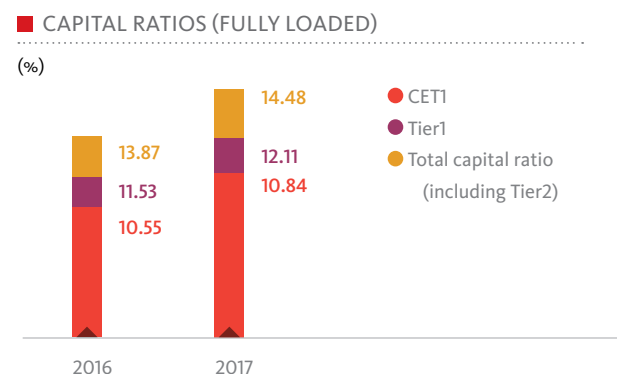
As a result of the growth in revenue, control of costs and the trend in provisions, underlying profit before taxes rose by 20% (in constant euros) and increased in eight of the Group's ten core units. Santander obtained one of the highest underlying RoTE rates among European banks. Santander's subsidiaries are among the leaders in terms of profitability in their respective markets.



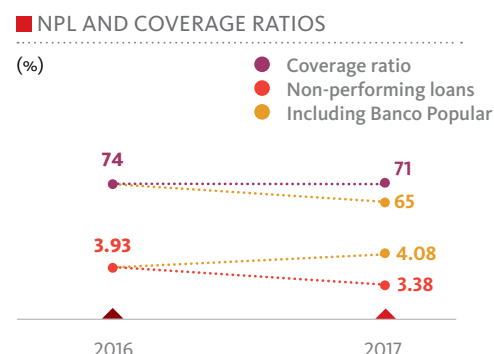
Strength

Santander strengthened its balance sheet thanks to a unique business model focused on ten core markets and ended 2017 with more capital and a lower NPL ratio (excluding Banco Popular)

The organic generation of capital and the issuance of €7,072 million relating to the Banco Popular transaction **helped strengthen the Group**. The **fully loaded CET1** ratio reached 10.84%, 29 basis points more than at year-end 2016. The fully loaded **leverage** ratio is 5.0% and the **capital tangible book value** stands at €4.15.



Non-performing loans (excluding Banco Popular) fell 16% in 2017, a reflection of Santander's traditional prudence in risk management, while the coverage ratio rose to 71%. At 1.07%, the **cost of credit** (excluding Banco Popular) is already below the target maximum value established at the Investor Day. **Including Banco Popular**, the NPL ratio stands at 4.08%, after the sale of real estate assets to Blackstone.



Santander Group key data

Including Banco Popular

■ BALANCE SHEET (million euros)	2017	2016	%2017/2016	2015
Total assets	1,444,305	1,339,125	7.9	1,340,260
Net customer loans	848,914	790,470	7.4	790,848
Customer deposits	777,730	691,112	12.5	683,142
Total customer funds	985,703	873,618	12.8	849,403
Equity	106,832	102,699	4.0	98,753
■ INCOME STATEMENT* (million euros)	2017	2016	%2017/2016	2015
Net interest income	34,296	31,089	10.3	32,189
Gross income	48,392	43,853	10.3	45,272
Net operating income	25,473	22,766	11.9	23,702
Underlying profit before taxes**	13,550	11,288	20.0	10,939
Underlying profit attributable to the Group**	7,516	6,621	13.5	6,566
Profit attributable to the Group	6,619	6,204	6.7	5,966
■ EPS***, PROFITABILITY AND EFFICIENCY (%)	2017	2016	%2017/2016	2015
Underlying attributable profit per share (euros)	0.463	0.429	7.8	0.438
Underlying EPS (euros)**	0.404	0.401	0.9	0.397
RoE	7.14	6.99		6.57
Underlying RoTE**	11.82	11.08		10.99
RoTE	10.41	10.38		9.99
RoA	0.58	0.56		0.54
Underlying RoRWA**	1.48	1.36		1.30
RoRWA	1.35	1.29		1.20
Cost-to-income ratio (including depreciation and amortisation)	47.4	48.1		47.6
■ SOLVENCY AND NPL RATIO (%)	2017	2016	%2017/2016	2015
Fully-loaded CET1	10.84	10.55		10.05
Phased-in CET1	12.26	12.53		12.55
NPL ratio	4.08	3.93		4.36
Coverage ratio	65.2	73.8		73.1
■ MARKET CAPITALISATION AND SHARES	2017	2016	%2017/2016	2015
Number of shares (millions)	16,136	14,582	10.7	14,434
Share price (euros)***	5,479	4,877	12.3	4,483
Market capitalisation (millions of euros)	88,410	72,314	22.3	65,792
Tangible book value (euros)***	4.15	4.15		4.00
Price / tangible book value***	1.32x	1.15x		1.12x
P/E ratio***	13.56x	12.18x		11.30x
■ OTHER DATA	2017	2016	%2017/2016	2015
Number of shareholders	4,029,630	3,928,950	2.6	3,573,277
Number of employees	202,251	188,492	7.3	193,863
Number of branches	13,697	12,235	11.9	13,030

(*) Variations w/o exchange rate: 2017/2016: NII: +10.2%; Gross income: +10.2%; Net operating income: +11.4%; Underlying attributable profit: +14.3%; Attributable profit: +7.4%

(**) Excluding net capital gains and provisions.

(***) Data adjusted to capital increase of July 2017.

For more information about the results of the Group and its main units see 110-194 of Banco Santander's 2017 Annual Report.

Results by countries and businesses

Spain*

Banco Santander became the leading bank in Spain following the acquisition of Banco Popular. Santander Spain's loyalty-centred strategy is producing good results while the Bank is making progress in its digital transformation.



A Santander branch in Spain

+42%

loyal customers

+15%

digital customers

Strategic priorities

Seamlessly integrate Banco Popular

Profitable, loyalty-based growth

Bank of choice for corporates

Digital transformation to improve the customer experience

2017 Highlights

- Since the acquisition of Banco Popular in June, the priority for Santander Spain has been to carry out an exemplary integration, without losing a single customer and maintaining the same excellence in service.
- Income from fees grew in double digits. Leadership in Global Corporate Markets, private and personal banking were maintained, while market share grew in SMEs and large companies corporate.
- The commercial strategy is focused on increasing **customer loyalty** and improving the **customer experience**.
- The **11213 strategy** was a key factor in increasing individual customer loyalty by 54%. Progress was made in completing the value proposition with the Smart 11213 account for millennials and the Zero account, a fully digital, zero-fee account.
- With the **new positioning in corporates**, aimed at making Santander their bank of choice, loyalty rose by 6%. There was notable growth in value-added products, such as international business (up 16%).
- In **wholesale banking**, Santander consolidated its leadership in the main rankings, such as those for fixed income and syndicated lending.
- Sales of cards reached a record 1.4 million in the year while new lending through cards increased by more than 50%.
- Household lending growth outperformed the market, particularly mortgages, with new lending increasing by 33% during the year.
- The **digital transformation** progressed with the launch of **Digilosofia**, Santander's new digital philosophy. Santander is the leading bank for mobile payments in Spain, with 60% of the market. The digital ecosystem was renewed with a new website and app for individual and corporate customers, together with other launches such as *App Renting Bansacar*, *Confirming Santander* and *Mi Comercio* (My Business).
- Santander **helped people and businesses prosper** by providing over 12,000 grants and support to more than 1,200 entrepreneurs.
- Santander Spain was certified as a **Top Employer**, demonstrating its commitment to the *Simple Personal and Fair* (SPF) culture and to the Organisation.
- Santander Spain received *The Banker's award* as **Bank of the Year** in Spain and **Best Private Bank**.

*Figures excluding Banco Popular.

Key data

People

22,916 (-0,4%)



Customers (millions)

12,675 (-1.2%)



Loans^{1,2}

148,585 (-1,6%)



Attributable profit¹

1,180 (+46,4%)



Contribution to Group profit³

15%

1. Millions of euros.
2. Gross lending, changes without repos.
3. Including Popular.

Santander Consumer Finance

SCF is the consumer finance leader in Europe. It specialises in auto finance and in loans for durable goods, personal finance and credit cards.

It is present in 15 European countries: Germany, Austria, Belgium, Denmark, Spain, Finland, France, Netherlands, Italy, Norway, Poland, Portugal, United Kingdom, Sweden and Switzerland.



Santander Consumer Finance head office in Austria

>130K

agreements with associated points of sale

>100

agreements with 16 car and motorcycle manufacturers

Strategic priorities

Support the transformation of manufacturers and dealers

Develop innovative products and digitalise the customer cycle processes

Implement open e-commerce platforms in the businesses and sign new agreements with distributors

Develop channels, business intelligence and digital value-added propositions

2017 Highlights

▲ **Ordinary profit of €1,254 million**, 15% more than the previous year. Attributable profit of €1,168 million, including a charge of €85 million in Germany.

▲ **The agreements with Banque PSA Finance**, finalised in prior quarters, advanced and includes joint ventures in 11 countries.

▲ **Increased income**, due mainly to net interest income (up 5%).

▲ Advances were made in digitalisation of channels and procurement and lending procedures.

▲ **The cost-to-income ratio** stands at 44%, an improvement of 0.6 percentage point.

▲ **The NPL ratio** fell to 2.5%, while coverage is 101%.

▲ **By geographies**, the main contributors to underlying profit were Germany (€364 million), the Nordic countries (€318 million) and Spain (€241 million).

▲ **New production** rose in the main countries, especially in the automotive sector (+11%) and the consumer business, notably cards (+9%).

Key data

People

15,131 (+1.4%)



Customers (millions)

19.9 (+11%)



Loans^{1,2}

92,431 (+6.2%)



Attributable profit¹

1,168 (+4.4%)



Contribution to Group profit

13%

1. Millions of euros, with changes in constant currencies. 2. Gross lending, changes without repos.

Poland

Bank Zachodni WBK consolidates its position as the third bank in the country following the agreement to acquire the retail and private banking activities of Deutsche Bank in Poland.



2017 Highlights

- ▲ The Bank presented its new brand promise and claim: "Bank As You Want It". The new Account As I Want It, allowing users to adapt banking services to their needs flexibly, was launched and at year-end had 335,000 customers.
- ▲ Nearly 3.4 million customers have access to mobile and online banking services through BZWbK24. The proportion of credit facilities sold through remote channels (mobile, internet or contact centre) rose to 38%.



Bank Zachodni WBK branch in Poland

- ▲ The Bank issued nearly **120,000** smart cards: electronic student cards with a payment function.
- ▲ Bank Zachodni WBK introduced a biometric voice solution aimed at large companies, together with electronic guarantees incorporating a qualified electronic signature option and biometric facial recognition for individuals.
- ▲ Euromoney awarded Bank Zachodni WBK the prizes for **Best Bank in Poland** and **Best Bank in Poland for SMEs**.



Key data

People

11,572 (-3.6%)



Customers (millions)

4.4 (+1%)



Loans^{1,2}

22,974 (+5.1%)



Attributable profit¹

300 (-2.8%)



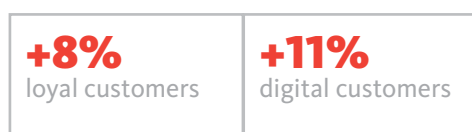
Contribution to Group profit



1. Millions of euros, with changes in constant currencies.
2. Gross lending, changes without repos.

Portugal*

Santander Totta is Portugal's most profitable bank, with market shares of around 15.5% in loans and 13.2% in deposits (November 2017).



2017 Highlights

- ▲ With the acquisition of Banco Popular, Santander Totta became the country's largest private bank, in terms of domestic assets and lending.
- ▲ Market share in new lending to companies was 17% and in new mortgage lending above 20%.
- ▲ The Bank made progress with its mobile app, increasing its sales through innovative products in digital channels. At year-end, digital channels



Santander Totta branch in Portugal

accounted for 28% of the Bank's total sales of products.

- ▲ In 2017, Santander Totta was recognised as **Best Bank in Portugal** by *Euromoney* and *Global Finance* and as **Bank of the Year** by *The Banker*.



Key data

People

5,895 (-6.5%)



Customers (millions)

4.7 (+18%)



Loans^{1,2}

31,296 (+7.8%)



Attributable profit¹

440 (+10.2%)



Contribution to Group profit³



1. Millions of euros.
2. Gross lending, changes without repos.
3. Including Popular.

*Figures excluding Banco Popular.

United Kingdom

Santander is one of the leading banks in the country, with an innovative value offering for retail customers and small businesses. In 2017, it remained focused on improving customer loyalty and customer experience through digitalisation and simpler products.



Santander branch in the United Kingdom

+5%
loyal
customers

+10%
digital
customers

Strategic
priorities

Increase customer
loyalty and
market share

Provide
operational and
digital excellence

Achieve profitability
growth and a strong
balance sheet

Support communities
through expertise,
knowledge and innovation

2017 Highlights

- ▲ Santander UK's principal businesses recorded good results, with **growth in net interest income, an improved cost-to-income ratio and high credit quality**.
- ▲ Santander UK is continuing with its 1|2|3 World strategy, which has transformed its business and accounts for 5.4 million customers, up 275,000 on December 2016.
- ▲ Digital customers continued growing to 5 million, while users of mobile apps reached 1.9 million.
- ▲ Santander UK continued to develop its digital offering by expanding the information on the fund platform Investment Hub, which helps its 220,000 registered users to better understand and meet their investment needs.
- ▲ Santander UK launched in June a programme that allows customers to apply for a mortgage online or via videoconference with a financial advisor. The bank also expanded the features of its mobile offering through Android Pay.
- ▲ Outstanding residential mortgages grew by GBP 600 million this year, reflecting the price adjustments required in a competitive market, with an emphasis on customer service and retention.
- ▲ Santander UK rolled out the NeoCRM customer relationship management tool, used by 14,000 branch and call centre employees, which provides better customer knowledge enabling improved communication with customers.
- ▲ Despite inflationary pressure, operational efficiency continued to benefit from the growth of the business and improvements in digital channels, leading to a cost-to-income ratio of 50%.



Key data

People

25,971 (+1.1%)



Customers (millions)

25.4 (+0%)



Loans^{1,2}

235,783 (+0.8%)



Attributable profit¹

1,498 (-2.7%)



Contribution to
Group profit



1. Millions of euros, with changes in constant currencies. 2. Gross lending, changes without repos.

Brazil

Santander is Brazil's third largest private bank and largest foreign bank. In 2017 it met its profitability target thanks to its customer-centred business model, the commitment of its 47,000 employees and a strategy focused on profitable growth.



A Santander branch in Brazil

+14%
loyal
customers

+34%
digital
customers

Strategic
priorities

Income growth

Gain market share in
acquiring, consumer
and SMEs

Digital
transformation

Risk management
and recoveries

2017 Highlights

Balance sheet growth, credit quality and appropriate control of costs drove a significant increase in Santander Brazil's net profit.

Deposits grew by 37% during the year and lending by 7%. The cost-to-income ratio improved by 3.9 percentage points to 35.6%, while the NPL ratio declined from 5.90% to 5.29%.

Solutions to optimise the customer experience: **Superdigital**, the mobile platform that provides transaction services without a bank account, reached more than a million customers and brought innovations such as transfers by chat and online shopping. The **Santander Way** app, which simplifies credit card transaction, continues to garner high ratings from users, with 4.8 stars in the Apple Store and 4.6 in Google Play.

New products and services: **Santander One**, the new digital financial advice channel focused on investment, registered over 8 million views. **Consignado Digital**, which enables customers to manage their payroll deposit, helped increase market share in this segment by 214 basis points to 12.9%. **Santander Corretora** also has a new app that enables customers to ask questions, receive recommendations and invest more quickly and easily.

Santander Brazil also created **Santander Auto**, a fully digital insurer resulting from a joint venture with HDI Seguros.

New operations model: with the aim of improving customer satisfaction, a new, more efficient model, centred on operational excellence, was implemented, with an end-to-end vision of the process experienced by customers when using products and services.

Strengthening of businesses: A 70% stake in Ipanema Credit Management, a company that manages impaired loan portfolios, was acquired. It will contribute more experience and expertise in loan recoveries. In ECM (Equity Capital Markets), Santander Brazil was the country's leading operator, according to Dealogic.

Most prestigious awards received in 2017: Santander Brazil was named **Bank of the Year** in Brazil for the first time by *The Banker* and **Best Bank in Brazil** by *Euromoney*. In addition, for the second consecutive year it was named as one of the best companies to work for by *Great Place to Work*.

Key data

People

47,135 (+0.9%)



Customers (millions)

38.1 (+11%)



Loans^{1,2}

74,341 (+7.2%)



Attributable profit¹

2,544 (+33.7%)



Contribution to
Group profit



1. Millions of euros, with changes in constant currencies. 2. Gross lending, changes without repos.

Mexico

Santander is the second largest bank in Mexico in terms of mortgages and loans to companies, and the third largest in credit cards.



A Santander branch in Mexico

+24%

loyal
customers

+52%

digital
customers

**Strategic
priorities**

**Increase direct
deposits by payroll
and strengthen the
Santander Plus offer
to encourage loyalty**

**Consolidate
positioning in SMEs
and strengthen
leadership in
mortgages**

**Operational and
technological
transformation through
digital platforms and
customer management**

**Improve customer
service in all
channels throughout
the Bank**

2017 Highlights

- ▲ Santander Mexico advanced with its 15,000 million-peso, three-year investment plan, focused on strategic initiatives such as the modernisation of channels, systems and infrastructure.
- ▲ Since its launch, the **Santander Plus** programme has attracted over 3.0 million customers, of whom 52% are new.
- ▲ The Bank increased its digital customer base by over 52% compared to 2016, reaching 1.9 million active customers.
- ▲ **Launches:**
 - **Santander Connect**, a new remote banking model, personalised and fully digital, in which customers interact with their relationship managers by video call.
 - **Spotlight**, Santander Mexico's digital factory, has 120 people dedicated to the development of digital solutions based on flexible, collaborative workstreams.

- **Tuio** aims to foster mass market financial inclusion with a measurable social impact by means of a broad competitive offering with its own operations, infrastructure and brands.
- **Campus Pay**, a pioneering application for Mexico that boosts the use of bank services by university students and enables them to make payments in their educational establishments using their smartphones.
- **The Santander Me** programme is designed to help women in their empowerment.
- **Service by bots.** Santander has implemented three automated reply systems for customers using robots: on the website, Facebook and Twitter. It is the only bank with this triple automated system in Mexico.
- ▲ **Euromoney** recognised Santander Mexico as **Best Investment Bank in Mexico** and **International Finance Magazine (IFM)** named it **Most Socially Responsible Bank in Mexico**, for the second consecutive year.



Key data

People

18,557 (+5.4%)



Customers (millions)

15.1 (+12%)



Loans^{1,2}

26,962 (+4.6%)



Attributable profit¹

710 (+16.5%)



Contribution to
Group profit



1. Millions of euros, with changes in constant currencies. 2. Gross lending, changes without repos.

Chile

Santander is the country's leading private sector bank in terms of assets and customers.



2017 Highlights

- ▲ In 2017, Santander Chile introduced *On-boarding Digital*, the first fully digital platform for non-customers to become customers. *Touch-ID* (fingerprint) enables customers to buy banking products in seconds on their mobile phones. These initiatives have enabled the Bank to recruit a million digital customers, of whom 450,000 have downloaded the app and 300,000 are active customers, the highest figures of any local bank.
- ▲ **Launch of Santander Life**, the new generation of products for individual customers sold in a fully digital format, which enables them to accumulate *Méritos*



WorkCafé in Chile

Life (exchangeable points). The better the customer's payment behaviour, the more benefits they obtain.

- ▲ **The WorkCafé model was consolidated**, with over 20 new sites. *WorkCafé* has been recognised, not only for its attractive format, but also for its commercial process, based on advanced digital technology.
- ▲ Santander Chile was named **Best Bank in Chile** by *The Banker*, *Euromoney* and *Latin Finance*. In addition, it is considered the second best large company to work for in Chile, according to *Great Place To Work*.

Key data

People

11,675 (-2.7%)



Customers (millions)

3.5 (-3.3%)



Loans^{1,2}

38,249 (+2.7%)



Attributable profit¹

586 (+11.7%)



Contribution to Group profit



1. Millions of euros, with changes in constant currencies.

2. Gross lending, changes without repos.

Argentina

Santander Río is Argentina's leading private bank in business market share, following the integration of the retail business acquired from Citibank N.A.'s unit in Argentina and through organic growth.



2017 Highlights

- ▲ **Santander Río integrated 500,000 individual customers and a network of 70 branches** following the acquisition of the retail business of Citibank N.A.'s Argentine unit.
- ▲ **Market share** stands at **10% in lending and 11% in deposits**.
- ▲ Alliance with American Airlines and its frequent flyer *AAdvantage®*, which will allow Santander Río customers to accumulate air miles when they use their cards to make purchases.



Santander Río branch in Argentina

- ▲ The branch transformation plan continues, with 276 already converted and two digital branches.
- ▲ Launch of UVA inflation-linked mortgage loans.
- ▲ **Santander Río** achieved fourth place in the **Great Place to Work** ranking. In addition, it was named Best Digital Bank and Best Mobile Bank in Latin America by *Global Finance* magazine and Best Bank in Argentina by *LatinFinance* magazine.

Key data

People

9,277 (+17%)



Customers (millions)

3.6 (+23%)



Loans^{1,2}

7,608 (+44%)



Attributable profit¹

359 (+14%)



Contribution to Group profit



1. Millions of euros, with changes in constant currencies.

2. Gross lending, changes without repos.

United States

Santander's US franchise consists of a retail and commercial bank in the Northeast, a nationwide vehicle financing business based in Dallas, an international private banking business in Miami providing services to non-US residents, a broker-dealer in New York and a retail bank in Puerto Rico.



Santander branch in the United States

+8%
loyal
customers

+5%
digital
customers

Strategic
priorities

Improve customer
experience
and loyalty

Provide auto
financing to all
customer segments

Improve
profitability

Continue to comply
with regulatory
expectations

2017 Highlights

- ▲ **Santander US** achieved two key regulatory milestones in 2017, passing the Federal Reserve's capital stress test and closing its 2014 Written Agreement with the Federal Reserve. As a result, Santander US has now returned to a normal capital approval cycle and paid dividends to the Group for the first time since 2011. Underlying profit rose by 5% in 2017.
- ▲ **Santander Bank** has 670 branches in the Northeast of the United States. The net interest margin improved substantially during the year, reaching the same level as its peers. The Bank continued to improve customer experience, expanding its digital range and its commitment to communities. Santander Bank announced a \$11 billion five-year plan to invest in the communities it serves.
- ▲ **Global Corporate Banking (GCB) and Retail and Commercial Banking** continued to demonstrate the value of Santander US to the Group. The US-Mexico and US-UK collaboration projects are well underway, with a considerable number of transactions signed and an ample portfolio of new ones in the pipeline. US-Mexico collaboration increased cross-border income by 64% in the 2015-2017 period, while US-UK

collaboration increased it by around 30% over the same period.

- ▲ **Santander Consumer USA**, one of the leading automotive financial institutions in the US, continued to optimise its customer mix, and consolidated its strategic relationship with Chrysler Capital, maintaining its leadership position in the ABS market and strengthening its risk management, compliance and consumer practice programmes.
- ▲ **Banco Santander International** in Miami achieved double-digit growth in profits in 2017, boosted by the inflow of new customers.
- ▲ **Banco Santander Puerto Rico** was named Best Bank in Puerto Rico by Euromoney magazine for a fourth consecutive year. It quickly reopened its branches after the destruction wrought by hurricane Maria, and it continues to support the recovery efforts.

Key data

People

17,560 (+0.3%)



Customers (millions)

5.0 (-3%)



Loans¹

75,389 (-4.3%)



Attributable profit¹

332 (-6.7%)



Contribution to
Group profit



1. Millions of euros, with changes in constant currencies. 2. Gross lending, changes without repos.

Santander Global Corporate Banking (SGCB)

SGCB is a global division that supports corporate and institutional clients, offering tailored services and value-added wholesale products suited to their complexity and sophistication. SGCB's main aim is to be the best bank for its clients in Latin American and Europe, with solid business hubs in the US and Asia.



Santander Global Corporate Banking (SGCB)

Strategic priorities

Capture international business flows between the countries in which the Group is present

Offer value-added products for specialised customers of the retail and commercial banking network

Evolve towards a low capital consumption business

Deepen customer relationships within the franchise

2017 Highlights

▲ SGCB's strengths are based on Santander's strong, extensive local network, with the best franchise in Latin America and the Iberian peninsula in debt capital markets, project finance, equity capital markets and Export Credit Agency (ECA) financing.

▲ The *cash management* business grew faster than the market in 2017, with very significant mandates through the **Santander Cash Nexus** solution. The number of transactions and the active customer base both doubled, both in SGCB and in retail and commercial banking.

▲ **Export and agency finance:** leadership positions in the ECA global business rankings (No. 1 in Dealogic global league tables, excluding aircraft and shipping). The focus continues to be on origination, in both established and new emerging markets.

▲ **Trade and working capital solutions:** significant growth in *supply chain finance* products, both *receivables* and international *reverse factoring* solutions, especially in Latin America.

▲ **Debt capital markets:** Santander maintains its leadership in Latin America, with an increase in origination and execution of cross-border transactions in dollars, sterling, euros and local currencies. Notable participation in the main debt issues in Europe and the Americas.

▲ **Syndicated corporate loans:** the Bank took part in the main transactions in the year in its core markets.

▲ Santander maintains its leadership position in **structured finance** in Latin America, Spain and the UK.

▲ In **market activity**, strong income growth in Spain, the UK and Asia. Increased contribution in book management, notably in the UK, Spain, Portugal and Mexico.

▲ **Corporate finance:** SGCB had a historic year in share placement, taking part in the main transactions in both continental Europe and Latin America.

Key data

Loans^{1,2}

87,015 (-5%)



Attributable profit³

1,821 (+1%)



Contribution to Group profit



1. Millones of euros, with changes in constant currencies. 2. Gross lending, changes without repos.

3. This global unit's results are included in countries' profit figures.

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-390000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de Pereda, numbers 9 to 12, Santander.

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All customers, shareholders and the general public can use Santander's official social network channels in all the countries in which the Bank operates.



