Santander attributable profit up 4% in the first half of 2018 to €3,752 million, after €300 million integration charge

Excluding the €300 million charge, underlying profit increased by 25% in constant euros, to €4,052 million

Madrid, 25 July 2018 - PRESS RELEASE

- The focus on customer loyalty helped increase both net interest income and fee income by 10% and 13% year-on-year (YoY) in constant euros, while credit quality improved further during the quarter with the Group non-performing loan (NPL) ratio now at 3.92%, 145 basis points lower than June 2017.

- The bank has earned the loyalty of a further 3 million customers in the last twelve months, with lending and customer funds increasing by 2% and 6% respectively YoY in constant euros (i.e. excluding currency impact).

- The number of customers using digital services increased by 23% to 28.3 million YoY. 47% of active customers are now regularly using digital services.

- The Group remains one of the most profitable and efficient banks among its peers, with an underlying RoTE of 12.2%, and a cost-to-income ratio of 47.5%.

- The second quarter of 2018 was impacted by a charge of €300 million primarily relating to planned integration costs for Banco Popular. As a result attributable profit fell 3% YoY to €1,698 million. Underlying profit for the quarter (i.e. excluding the one-off item) was up 28% YoY in constant euros.

- Santander's CET1 ratio was 10.80% at 30 June 2018. The Group remains on track to meet its capital target and grow earnings per share by double digits in 2018.

Banco Santander Group Executive Chairman, **Ana Botín**, said:

"During the second quarter we have delivered strong growth in underlying revenue and improving credit quality, despite strong currency headwinds.

"Our results show that the commercial and digital transformation is accelerating and continues to deliver improvements in customer engagement and earnings quality. In the last year, we have earned the loyalty of a further 3 million customers, while playing a leading role in the sector in the development and application of new technology – including the launch of the first blockchain-based international payments service for retail customers.

"Our balanced presence across both Europe and the Americas remains a key strength for the Group – helping us deliver the most predictable results amongst our peers, as well as growing earnings. During the quarter we have seen particularly strong growth in Brazil, Spain, Mexico and the US and this has more than offset a more challenging environment in other markets.

"I remain confident that we will achieve our goals, not just for 2018 but for our 3-year plan."

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Results Summary

	H1'18 (m)	H1'18 v H1'17	H1'18 v H1'17 (EX FX)	Q2'18 (m)	Q2'18 v Q2'17	Q2'18 v Q2'17 (EX FX)
GROSS INCOME	€24,162	0%	+11%	€12,011	0%	+10%
OPERATING EXPENSES	-€11,482	+3%	+12%	-€5,718	+1%	+10%
NET OPERATING INCOME	€12,680	-2%	+10%	€6.293	-2%	+10%
NET LOAN-LOSS PROVISIONS	-€4,297	-8%	+4%	-€2,015	-12%	-1%
TAX	-€2,659	+18%	+30%	-€1,379	+22%	+35%
UNDERLYING PROFIT	**€4,052**	**+12%**	**+25%**	**€1.998**	**+14%**	**+28%**
NON-RECURRING	-€300	-	-	-€300	-	-
ATTRIBUTABLE PROFIT	€3,752	+4%	+16%	€1.698	-3%	+9%

Banco Santander, S.A. ("Santander") increased attributable profit in the first half of 2018 to €3,752 million, 4% higher than the same period of last year after a €300 million net charge primarily related to integration costs for Banco Popular. At the time of the Popular acquisition, on June 7th 2017, the Group said it expected to register €300 million in integration costs per year until 2019.

On an underlying basis (i.e. excluding the integration charge), profit increased by 25% YoY in constant euros to €4,052 million. This was driven by an increase in customer revenues (+10% in constant euros). The number of loyal customers (people who see Santander as their main bank) increased by 17% to 19 million. Lending and customer funds increased by 2% and 6% respectively in constant euros.

In the second quarter alone, Santander's attributable profit fell by 3% YoY as a result of the integration costs. Excluding non-recurrent items and currency movements, underlying profit in the second quarter was up 28% compared to the same period of last year, to €1,998 million.

In the first half of 2018, the number of customers using digital services increased by 23% YoY to 28.3 million, with the ongoing investment in technology driving an increase in digital service adoption. 47% of active customers are now using digital services at least once a month.

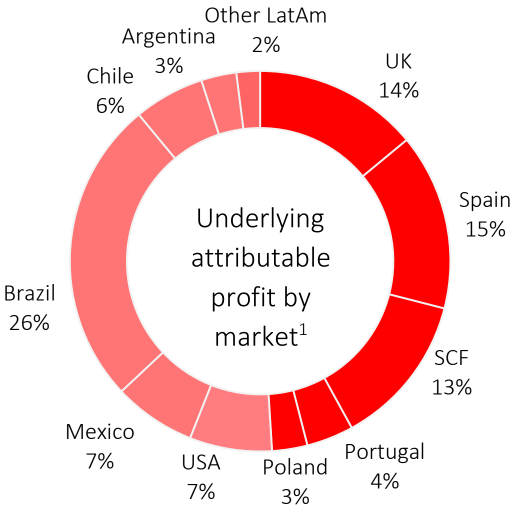
In April 2018, the bank launched Santander One Pay FX in Brazil, Poland, Spain and UK, the first international payments service to be launched across multiple markets using blockchain-based technology. One Pay FX makes it possible for customers to complete international transfers instantly in many cases or by the next day.

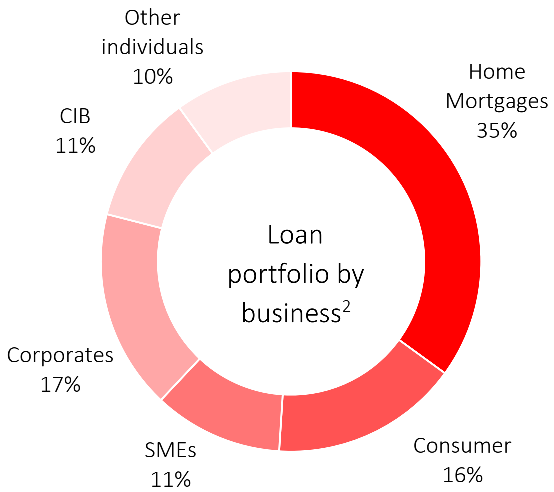
Ongoing investment in commercial transformation and digitalisation led to an increase in operating expenses of 3% (+12% in constant euros), however, the cost-to-income ratio, a key measure of efficiency, remained among the lowest of our peer group at 47.5% (compared to a peer average of over 65%).

Santander's CET1 capital ratio stood at 10.80% at June 2018. Santander generated 18 basis points of capital organically in the second quarter, offset by the elimination of excess capital from minority interests in SCUSA as announced in the first quarter (-18 basis points), and a 12 basis point reduction related to the valuation of the held-for-sell portfolio in the quarter. In the second half of 2018 Santander expects to register a positive impact on capital from the sale of WiZink (+0.09 point). The Group remains on track to meet its capital target for the year of 11%.

Credit quality improved during the quarter with the Group non-performing loan (NPL) ratio now 3.92%, down 145 basis points since the integration of Popular in June 2017. Cost of credit fell to 0.99%, down 18 basis points since H1 2017, the lowest level in many years.

A balanced presence across both mature and emerging markets remains one of Banco Santander's key strengths, with underlying attributable profit increasing in eight of the Group's ten core markets. During the first half of 2018, the Americas contributed 51% of Group profit and Europe, 49%. Brazil was the largest contributor to Group earnings, with 26%, followed by Spain, 15%, and the UK, with 14% of total profit. The lending book also remains well diversified across business segments and geographies.





1. Excluding corporate centre, and Spain real estate activities. 2. Loans excluding repos.

Over the last 12 months underlying return on tangible equity (ROTE), a key measure of profitability, has increased by 42 basis points to 12.2%. ROTE was 11.8% - among the best of the bank's peer group.

Tangible net asset value per share was four cents higher than H1 2017 at €4.10, increasing 6% excluding the FX impact.

Earnings per share (EPS) was €0.216, down €0.16, due to the impact of the Banco Popular integration costs. Underlying EPS increased by €0.235. The Group maintains its target of achieving double digit EPS growth in 2018.

At the AGM on 23 March 2018 the bank announced its intention to increase the dividend paid from 2018 profits by 4.5% to 23 cents per share, subject to approval by the Board and general shareholder meeting.

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In Brazil, attributable profit increased by 6% to €1,324 million (+28% in constant euros) due to strong growth in business volumes, with lending and customer funds increasing by double-digits year-on-year and faster than the market average. Improving customer experience and satisfaction continued to be the bank's top strategic priority, with the launch of new value-added products and services. As a result, loyal customers grew by 24% and digital clients increased by 30%, bolstering net interest income and fee income by 17%. Strong business performance was reflected in improved profitability, with RoTE increasing to 20%, from 16.4% in June 2017.

In Spain, attributable profit was down 20%, to €500 million, due to the net charge of 280 million registered for restructuring costs related to the Popular integration. Excluding the net charge, underlying profit was up 24.9%, to €780 million. Lending increased 1% compared to Q1, with strong growth in consumer lending, SMEs and private banking. Excluding the Blackstone transaction, loans fell 3% year-on-year. Costs increased following the incorporation of Popular, however, this was offset by positive trends in commercial revenues, with credit card turnover and insurance growing double digit.

In the UK, attributable profit fell by 16% to €692 million (-14% in constant euros) as a highly competitive environment placed pressure on revenues, and costs increased due to higher investments in strategic, digital transformation and regulatory projects. Loan loss provisions increased due to single name exposures which moved into non-performing in the second half of 2017. However, overall credit quality remained good, with the NPL ratio falling by 11 basis points to 1.12%. Compared to Q1, trends were favourable, with attributable profit increasing 16% (+15.5% in constant euros) in the second quarter compared to the first, thanks to growing fees and lower loan-loss provisions.

Santander Consumer Finance increased attributable profit by 5.5% in the first half, to €669 million (+7% in constant euros), with new lending increasing in most geographies. The Nordic countries were the key contributors to the unit's results, with €161 million. Profit growth was noteworthy in France (+27%), Spain (+9%) and Poland (+5% in constant euros).

In Mexico, attributable profit increased by 2.5% to €359 million (+13% in constant euros) as the bank added a further 400,000 loyal customers since H1 2017. The bank's commercial and digital transformation helped drive a 10% increase in loans and 9% increase in customer funds YoY, with strong growth in revenues (+7% YoY in constant euros) as a result. Credit quality remained strong with NPL ratio remaining stable at 2.58% and cost of credit falling by 23 basis points over the same period to 2.78%.

In the US, attributable profit increased by 37.5% YoY to €335 million (+54% in constant euros). Both Santander Bank (SB), the Group's US retail and commercial business, and Santander Consumer USA (SCUSA) delivered increasing profitability as SB strengthened its net interest margin further while also improving efficiency, while SCUSA saw a reduction in costs and lower loan loss provisions. In June Santander Holdings USA (SHUSA) passed the Fed stress tests with the regulator not objecting to an increase in dividend payments.

In Chile, attributable profit increased by 4% to €308 million (+8% in constant euros) as a focus on customer satisfaction, loyalty and digital initiatives, helped drive good growth in loans (+8% YoY) and customer funds (+4% YoY). Credit quality improved further with the NPL ratio reducing by 14 basis points since June 2017 to 4.86% while cost of credit reduced by 19 basis points to 1.18% over the same period.

In Portugal, attributable profit increased by 6% to €250 million with revenue growth outpacing growth in costs. The bank continues to focus on the integration of Popular, which is developing on schedule.

In Poland attributable profit increased by 9% to €156 million (+8% in constant euros) as customer revenues increased (+7% YoY in constant euros) and growth continued across all key products and segments. Customer funds increased by 11%.

In Argentina a weakened Peso led to a fall in attributable profit of 29% to €137 million. Excluding this currency impact, attributable profit increased by 8% as the underlying performance of the business remained solid, with increasing volumes driving good growth in revenue.

About Banco Santander

Banco Santander is the largest bank in the Eurozone with a market capitalisation of €74,097 million at 30 June 2018. It has a strong and focused presence in 10 core markets across Europe and the Americas with more than 4 million shareholders and 200,000 employees serving 140 million customers.

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Key Consolidated Data (from Financial Report)

BALANCE SHEET (EUR million)	Jun-18	Mar-18	%	Jun-18	Jun-17	%	Dec-17
Total assets	**1,433,833**	1,438,470	(0.3)	**1,433,833**	1,445,261	(0.8)	1,444,305
Loans and advances to customers	**862,092**	856,628	0.6	**862,092**	861,221	0.1	848,914
Customer deposits	**774,425**	767,340	0.9	**774,425**	764,336	1.3	777,730
Total customer funds	**981,363**	977,488	0.4	**981,363**	969,778	1.2	985,703
Total equity	**104,445**	105,466	(1.0)	**104,445**	100,956	3.5	106,832

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

INCOME STATEMENT (EUR million)	Q2'18	Q1'18	%	H1'18	H1'17	%	2017
Net interest income	**8,477**	8,454	0.3	**16,931**	17,008	(0.5)	34,296
Gross income	**12,011**	12,151	(1.2)	**24,162**	24,078	0.3	48,392
Net operating income	**6,293**	6,387	(1.5)	**12,680**	12,887	(1.6)	25,473
Underlying profit before tax (1)	**3,791**	3,689	2.8	**7,480**	6,585	13.6	13,550
Underlying attributable profit to the Group (1)	**1,998**	2,054	(2.7)	**4,052**	3,616	12.1	7,516
Attributable profit to the Group	**1,698**	2,054	(17.3)	**3,752**	3,616	3.8	6,619

Variations in constant euros: Q2'18 / Q1'18: NII: +2.2%; Gross income: +0.8%; Net operating income: +1.0%; Underlying attributable profit: -0.2%; Attributable profit: -15.0%
H1'18 / H1'17: NII: +9.6%; Gross income: +10.6%; Net operating income: +9.6%; Underlying attributable profit: +25.2%; Attributable profit: +15.9%

EPS, PROFITABILITY AND EFFICIENCY (%)	Q2'18	Q1'18	%	H1'18	H1'17	%	2017
Underlying EPS (euro) (1) (4)	**0.115**	0.120	(3.8)	**0.235**	0.232	1.2	0.463
EPS (euro) (4)	**0.096**	0.120	(19.4)	**0.216**	0.232	(6.8)	0.404
RoE	**8.13**	8.67		**8.24**	7.97		7.14
Underlying RoTE (1)	**12.06**	12.42		**12.24**	11.82		11.82
RoTE	**11.61**	12.42		**11.79**	11.82		10.41
RoA	**0.65**	0.67		**0.65**	0.64		0.58
Underlying RoRWA (1)	**1.60**	1.59		**1.60**	1.45		1.48
RoRWA	**1.55**	1.59		**1.55**	1.45		1.35
Efficiency ratio (with amortisations)	**47.6**	47.4		**47.5**	46.5		47.4

SOLVENCY AND NPL RATIOS (%)	Jun-18	Mar-18	%	Jun-18	Jun-17	%	Dec-17
Fully loaded CET1 (2) (3)	**10.80**	11.00		**10.80**	9.58		10.84
Phased-in CET1 (2) (3)	**10.98**	11.19		**10.98**	10.98		12.26
NPL ratio	**3.92**	4.02		**3.92**	5.37		4.08
Coverage ratio	**68.6**	70.0		**68.6**	67.7		65.2

MARKET CAPITALISATION AND SHARES	Jun-18	Mar-18	%	Jun-18	Jun-17	%	Dec-17
Shares (millions)	**16,136**	16,136	—	**16,136**	14,582	10.7	16,136
Share price (euros) (4)	**4.592**	5.295	(13.3)	**4.592**	5.697	(19.4)	5.479
Market capitalisation (EUR million)	**74,097**	85,441	(13.3)	**74,097**	84,461	(12.3)	88,410
Tangible book value per share (euro) (3) (4)	**4.10**	4.12		**4.10**	4.06		4.15
Price / Tangible book value per share (X)	**1.12**	1.29		**1.12**	1.40		1.32
P/E ratio (X)	**10.62**	11.06		**10.62**	12.49		13.56

OTHER DATA	Jun-18	Mar-18	%	Jun-18	Jun-17	%	Dec-17
Number of shareholders	**4,152,125**	4,108,798	1.1	**4,152,125**	4,019,706	3.3	4,029,630
Number of employees	**200,961**	201,900	(0.5)	**200,961**	201,596	(0.3)	202,251
Number of branches	**13,482**	13,637	(1.1)	**13,482**	13,825	(2.5)	13,697

(1) In this document we present the figures related to "underlying" results, which exclude non-recurring items, as they are recorded in the separate line of "net capital gains and provisions", above the line of "attributable profit to the Group". Further details on that line are provided in pages 10 and 11 as well as in the Alternative Performance Measures section as follows below.

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

(3) In June 2017, including the capital increase in July: fully-loaded CET1 of 10.72%, phased-in CET1 of 12.08% and tangible equity per share of EUR 4.18.

(4) June 2017 data adjusted for the capital increase in July, for like-on-like comparisons with 2018 and year end 2017 data.

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

In accordance with the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 5 October 2015 (Guidelines on Alternative Performance Measures, ESMA/2015/1415en), we are attaching herewith a glossary with the definitions and the conciliation with the items presented in the income statement of certain alternative performance measures used in this document. Please refer to "Alternative Performance Measures Glossary" on page 58.

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Important Information

In addition to the financial information prepared under International Financial Reporting Standards ("IFRS"), this press release includes certain alternative performance measures ("APMs") as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415es) as well as non-IFRS measures ("Non-IFRS Measures"). The APMs and Non-IFRS Measures are performance measures that have been calculated using the financial information from the Santander Group but that are not defined or detailed in the applicable financial information framework and therefore have neither been audited nor are capable of being completely audited. These APMs and Non-IFRS Measures are been used to allow for a better understanding of the financial performance of the Santander Group but should be considered only as additional information and in no case as a replacement of the financial information prepared under IFRS. Moreover, the way the Santander Group defines and calculates these APMs and Non-IFRS Measures may differ to the way these are calculated by other companies that use similar measures, and therefore they may not be comparable. For further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see 2018 2Q Financial Report, published as Relevant Fact on 25 July 2018, Section 26 of the Documento de Registro de Acciones for Banco Santander, S.A. ("Santander") filed with the Spanish Securities Exchange Commission (the "CNMV") on June 28, 2018 (the "Share Registration Document") and Item 3A of the Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission of the United States of America (the "SEC") on March 28, 2018 (the "Form 20-F"). These documents are available on Santander website (www.bancosantander.com).

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

Santander cautions that this press release contains statements that constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as "expect", "project", "anticipate", "should", "intend", "probability", "risk", "VaR", "RORAC", "RoRWA", "TNAV", "target", "goal", "objective", "estimate", "future" and similar expressions. These forward-looking statements are found in various places throughout this press release and include, without limitation, statements concerning our future business development and economic performance and our shareholder remuneration policy. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to: (1) general market, macro-economic, industry, governmental and regulatory trends; (2) movements in local and international securities markets, currency exchange rates and interest rates; (3) competitive pressures; (4) technological developments; and (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties. Numerous factors, including those reflected in the Form 20-F - under "Key Information-Risk Factors"- and in the Share Registration Document –under "Factores de Riesgo"- could affect the future results of Santander and could result in other results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

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

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

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

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