2013

ANNUAL REVIEW

Santander
a bank for your ideas

ANNUAL REVIEW 2013

1

2

Banco Santander's **2013 Annual Report** has an online version. You can go straight to it on a smartphone or tablet by scanning the above QR code.
www.santanderannualreport.com/2013/en/

AWARD WINNER 2013 ir society BEST PRACTICE AWARDS

KEY FIGURES

BALANCE SHEET AND INCOME STATEMENT (Million euros)	2013	2012	% 2013/2012	2011
Total assets	**1,115,637**	1,269,598	(12.1)	1,251,008
Customer loans (net)	**668,856**	719,112	(7.0)	748,541
Customer deposits	**607,836**	626,639	(3.0)	632,533
Managed customer funds	**924,621**	968,987	(4.6)	984,353
Shareholders' funds[1]	**84,269**	80,921	4.1	80,379
Total managed funds	**1,240,806**	1,387,740	(10.6)	1,382,464
Net interest income[2]	**25,935**	29,923	(13.3)	28,883
Gross income[2]	**39,753**	43,406	(8.4)	42,466
Pre-provision profit (net operating income)[2]	**19,909**	23,422	(15.0)	23,055
Profit from continuing operations	**5,539**	2,993	85.1	6,103
Attributable profit to the Group[2]	**4,370**	2,295	90.5	5,330

RATIOS (%)	2013	2012		2011
Efficiency (with amortisation)	**49.9**	46.0		45.7
ROE	**5.42**	2.91		7.12
ROTE	**7.73**	4.28		10.77
ROA	**0.44**	0.25		0.50
RoRWA	**1.01**	0.56		1.05
Core capital (BIS II)	**11.71**	10.33		10.02
Loan-to-deposit ratio[3]	**109**	113		117
Non-performing loan (NPL) ratio	**5.64**	4.54		3.90
NPL coverage	**61.7**	72.4		61.0

THE SHARE AND CAPITALISATION	2013	2012	% 2013/2012	2011
Number of shares in circulation (millions)	**11,333**	10,321	9.8	8,909
Share price (euros)	**6.506**	6.100	6.7	5.870
Market capitalisation (million euros)	**73,735**	62,959	17.1	50,290
Shareholders' funds per share (euros)	**7.44**	7.88		8.59
Share price/shareholders' funds per share (times)	**0.88**	0.77		0.68
PER (share price/attributable profit per share) (times)	**16.13**	25.96		9.79
Attributable profit per share (euros)	**0.40**	0.23	71.7	0.60
Remuneration per share (euro)	**0.60**	0.60		0.60
Total shareholder remuneration (million euros)	**6,775**	6,128	10.6	5,260

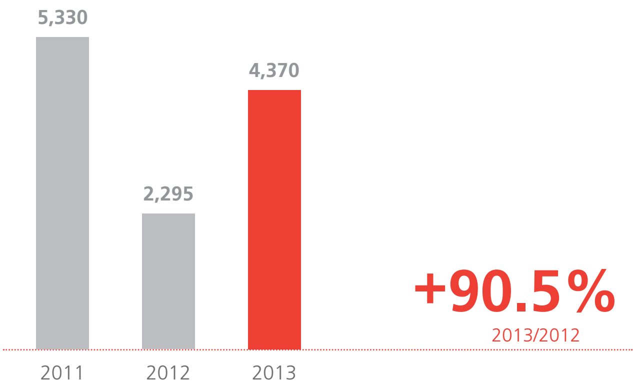
OTHER FIGURES	2013	2012	% 2013/2012	2011
Number of shareholders	**3,299,026**	3,296,270	0.1	3,293,537
Number of employees	**182,958**	186,763	(2.0)	189,766
Number of branches	**13,927**	14,392	(3.2)	14,756

INFORMATION ON ORDINARY PROFIT[4]	2013	2012	% 2013/2012	2011
Attributable profit to the Group[5]	**4,370**	5,341	(18.2)	7,000
Attributable profit per share (euros)	**0.40**	0.55	(26.3)	0.79
ROE	**5.42**	6.78		9.35
ROTE	**7.73**	9.97		14.14
ROA	**0.44**	0.48		0.63
RoRWA	**1.01**	1.10		1.34
PER (share price/attributable profit per share) (times)	**16.13**	11.15		7.46

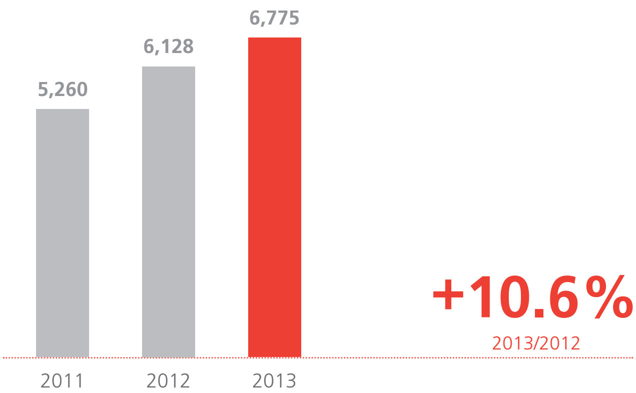
1. In 2013, estimated scrip dividend figure for May 2014.
2. Variations excluding the impact of exchange rates: net interest income -7.0%; gross income -2.2%; pre-provision profit-8.4%; attributable profit +136.8%.
3. Includes retail commercial paper.
4. Excluding the net of capital gains and provisions.
5. Variation excluding exchange rate differences: -10.7%.

In a difficult economic environment, Santander generated a profit of EUR 4,370 million, increased its capital ratios, improved its liquidity position and held its remuneration per share at EUR 0.60 for the fifth year running

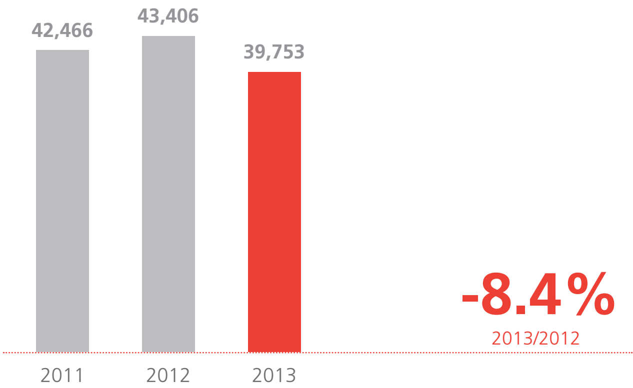
ATTRIBUTABLE PROFIT
Million euros



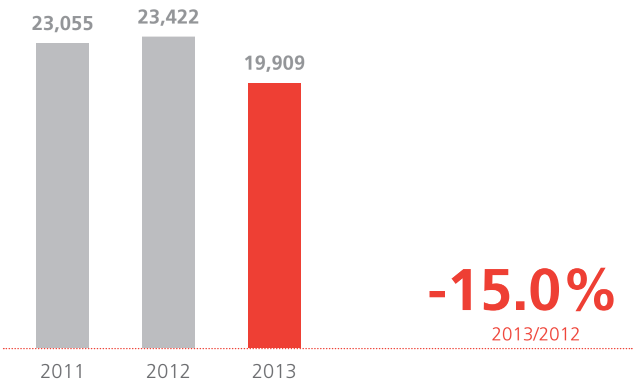
TOTAL DIVIDEND PAYOUT
Million euros



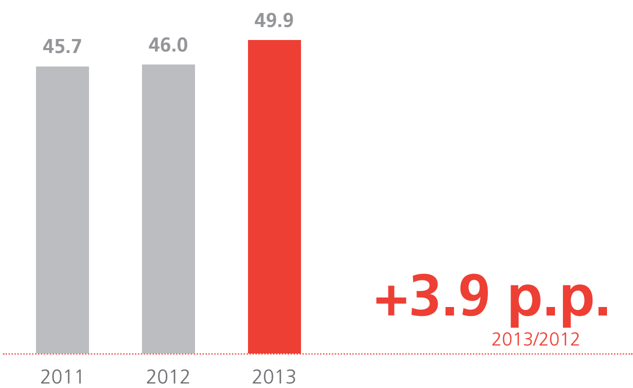
GROSS INCOME
Million euros



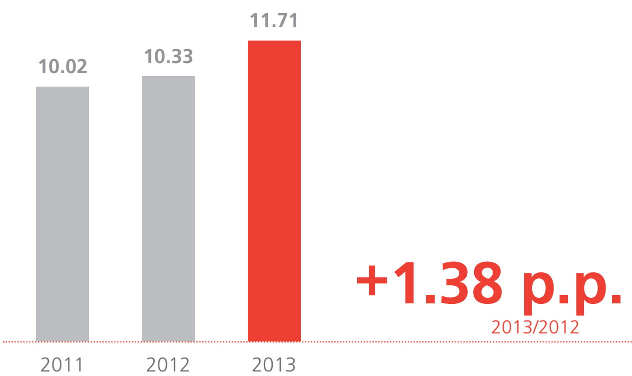
PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



EFFICIENCY
%



CORE CAPITAL
BIS II criteria %



LETTER FROM THE CHAIRMAN

Dear Shareholders

Banco Santander posted an attributable profit of EUR 4,370 million in 2013, 90.5% more than in 2012. **During the five-year international financial and economic crisis the Bank maintained a substantial degree of recurrence in revenue generation, while also continuing its main priority of strengthening the balance sheet.**

I would like to highlight the following results:

- Pre-provision profit was EUR 19,909 million, one of the highest among our competitors, despite a weak economic environment, interest rates at historic lows, the depreciation of some currencies, strong regulatory pressures and reduced demand for loans in mature markets.

- The effort made to cut costs, which were lower than in 2012 and enabled Banco Santander to remain one of the most efficient international banks.

- The reduction in provisions, which is a trend that will consolidate, as we have completed all the provisions for real estate exposure in Spain. Moreover, the cost of credit declined to 1.53%.

- Lastly, the remuneration per share was held at EUR 0.60 for the fifth year running.

Read the QR code
Access the chairman's letter online.

The Bank ended 2013 with a BIS II capital ratio of 11.71%, underscoring its substantial capacity to generate capital organically, and a loan-to-deposit ratio of 109%.

The NPL ratio was 5.64%. It rose in Spain and fell in other core markets such as Brazil, the United Kingdom and the United States.

The **mergers** underway in 2013 in Spain (Santander, Banesto and Banif) and in Poland (Bank Zachodni WBK and Kredyt Bank) have already begun to yield cost synergies, which will increase in the coming years, and bolster our competitive position in these markets.

Banco Santander ended 2013 with **strategic agreements** to spur the asset management business through the alliance with Warburg Pincus and General Atlantic, strengthen consumer finance in Spain with the acquisition of 51% of the finance company of El Corte Inglés and step up its presence in Asia with the purchase of 8% of Bank of Shanghai. The Bank also carried out operations in Brazil and Mexico, enabling it to optimise its capital structure.

In early 2014 the Bank finalised an agreement to sell Apollo Global Management 85% of Altamira Asset Management, which manages the recovery of contentious stage loans in Spain and the sale or rental of foreclosed real estate assets.

"The Bank ended 2013 with a BIS II capital ratio of 11.71%, underscoring its substantial capacity to generate capital organically"

LETTER FROM THE CHAIRMAN

SHAREHOLDER REMUNERATION

Shareholder remuneration continues to be a priority for Banco Santander. If the shareholders' meeting approves the board's proposal, the remuneration for 2013 will remain at EUR 0.60 per share, which represents a dividend yield of 10%, the highest among international banks. The total dividend payout will be EUR 6,775 million. In the last five years, Banco Santander's shareholders have received more than EUR 28,000 million in dividends.

The *Santander Dividendo Elección* (scrip dividend) programme was launched five years ago and enables 3.3 million shareholders to opt to receive their dividend in cash or in shares. In 2013, 87% of the capital opted to be paid in shares.

The improvement in investors' and analysts' perception of the Bank and the better economic prospects, as well as the easing of uncertainty surrounding Europe and Spain, helped the Santander share end the year up 6.7%. This rise, together with the dividend, **gave a total increase for shareholders of 16.7% in 2013.**

A SOLID BANKING MODEL

In the international economic and financial crisis of recent years, Banco Santander maintained a high degree of recurrence in revenues. It was one of three large international banks that did not suffer a single quarterly loss between 2007 and 2013. **The strong points that explain the Bank's solid performance and enable us to keep on growing in a stable and sustainable way and with excellent prospects are:**

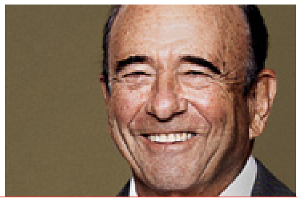
- **Geographic diversification.** Banco Santander operates in 10 main countries, with an appropriate balance between mature and emerging markets (contributing 47% and 53%, respectively, of the Group's profits). This geographic diversification reduces the volatility of earnings and enables the Bank to capitalise on its experience and best practices on a global scale.

- **Focus on retail banking.** Some 87% of our gross income comes from retail banking, which is a key factor for revenue stability.

- **Subsidiaries model.** The Group is made up of subsidiaries that are autonomous in capital and liquidity. This has clear strategic and regulatory advantages, as it limits the risk of contagion between the Group's units, imposes a double layer of global and local supervision and facilitates crisis management and resolution. The Group's goal is to list its main subsidiaries when market circumstances make it advisable.

" In the last five years, Banco Santander's shareholders have received more than EUR 28,000 million in dividends "

The Bank's strategic position is much better now than at the start of the international financial crisis



- **Prudence in risks.** The board attaches particular importance to risk management and sets risk appetite at a medium-low level every year. The Bank has a solid balance sheet, thanks to the retail nature of its business, and maintains a limited exposure to sovereign risk, which is mainly used for interest rate hedging.

- **Comfortable liquidity position.** The strength of its commercial franchise enables Santander to finance most of its lending with deposits, while maintaining comfortable access to wholesale funding via many markets and instruments.

- **Solid solvency position.** The Group has ample capacity to generate capital, both organically and through active management of its business portfolio (core capital increased by 138 basis points in 2013).

- **Corporate governance.** The board's composition maintains an adequate balance between non-executive (69%) and executive directors (31%) and constantly promotes compliance with the best international practices in this sphere. The Group also has corporate policies that are implemented in all its banks and global units that supervise and control the whole of it.

At a board meeting on 29 April 2013, Mr Alfredo Sáenz Abad, who had served as an excellent chief executive officer for 11 years, announced his voluntary resignation. At the same meeting, the board agreed to appoint Mr Javier Marín Romano as chief executive officer. He joined the Group in 1991 and had been a senior executive vice-president since 2007. He has held many senior posts, the most recent was head of the Private Banking, Asset Management and Insurance division.

There have been other changes to the board during the year. Mr Manuel Soto and Lord Burns have left the board. On its behalf and my own I would like to thank them for their excellent work. Mr Juan Miguel Villar Mir joined the board as did Ms Sheila Bair, former chair of the Federal Deposit Insurance Corporation (FDIC), and I am sure they will make a very positive contribution.

The Bank's strategic position is much better now than it was at the start of the international financial crisis, both in terms of geographic diversification and balance sheet strength. During this period, Grupo Santander:

- Boosted its presence in the UK and entered the retail banking business in Poland, Germany and the US, enhancing its international diversification.

- Set aside provisions totalling EUR 65,000 million, covering its real estate exposure in Spain completely.

- Captured EUR 191,000 million of deposits and reduced its liquidity gap by EUR 149,000 million. The loan-to-deposit ratio was 109% for the Group and 87% in Spain at the end of 2013.

Banco Santander is the only bank in the world whose debt is rated above that of its sovereign debt by the three main agencies (S&P, Moody's and Fitch).

And we have achieved all this **without the need for state aid in any of the countries where the Group operates.**

Today, after a phase in which we concentrated on strengthening the balance sheet, liquidity and strategic positioning, the Bank is ready to begin a new cycle of profitability and improving results.

LETTER FROM THE CHAIRMAN

THE NEW CYCLE OF PROFITABILITY

The latest economic indicators confirm the upturn in the global economy.

Europe, one of the regions that reacted the slowest to the crisis, is progressing solidly and irreversibly toward banking union. This will enable confidence in the financial sector to recover and benefit economic growth.

Banco Santander fully supports the establishment of a single supervisory mechanism. In November 2014, the European Central Bank will directly supervise the 130 largest banks in the euro zone, as well as the decisions adopted to achieve a single mechanism for resolving banking crises. Banking union will break the link between banking and sovereign risk and banks' valuations will depend more on their strength and the quality of their management than on their country of origin.

This improvement in the environment is already beginning to be perceived in the core countries where the Group operates, making us optimistic about the coming years.

- In **Brazil (23% of the Group's profits in 2013)**, non-performing loans have already begun to decline and the Bank is recovering its market share in lending. The country's medium-term outlook is excellent and Santander is very well placed to take advantage of this.

- In **Continental Europe (26%)**, business is picking up in Portugal and our banks are performing remarkably well in Poland and Germany.

- In **the United Kingdom (17%)**, there has been a change of trend in revenues and results have improved. Santander UK signed up 1.1 million new customers for the *1|2|3 World* product range in 2013, boosting current account balances. In corporate banking, we continued to support SMEs with 13% growth in lending.

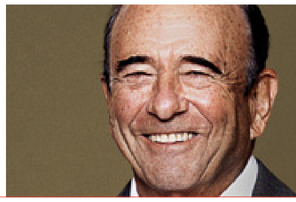
- In **Mexico (10%)**, Banco Santander consolidated its position as the leader in the SME segment, with growth of 26%. As a result of this and the acquisition of ING's mortgage business, the Bank will reinforce its position as the second largest player by market share in this business. The objective is to continue to grow with the country and strengthen our commercial franchise by expanding our branch network.

- In **the United States (10%)**, at the end of 2013 we changed the Sovereign brand to Santander and began the Bank's commercial relaunch. Furthermore, our auto finance unit continues to grow strongly, spurred in recent months by the agreement reached with Chrysler. The recent flotation of Santander Consumer USA, with a market value of USD 8,300 million, underscored the success of this project and its potential for the Group.

- **As for Spain (7% of the Group's profits in 2013),** I would like to highlight the perceived improvement in the economy. The reforms are beginning to bear fruit; the recession is over and the risk premium has fallen significantly. Growth in foreign investment in the last few months confirms the enhanced credibility and international confidence in the country. However, and although some

// The Bank is ready to begin a new cycle of profitability and higher earnings //

" In the next three years, we expect to regain our pre-crisis profit levels "



progress is beginning to be made, the objective must continue to be to reduce the high unemployment rate. By integrating the three commercial networks under the Santander brand, we are in a privileged position to keep on growing in Spain and generate value.

The chief executive officer will set out in greater detail the business performance and outlook in the core countries where the Group operates.

FUTURE VISION

Banco Santander is closely involved in building a more stable, solid and efficient financial sector, focused on financing sustainable economic growth. Our business model, based on lasting and profitable relations with customers, increasing their linkage with the Bank and maintaining prudence in risks and discipline in the financial and capital sphere, has been vindicated by the crisis and is very well regarded by regulators and rating agencies.

Banco Santander is in a unique position to face the new cycle of growth in the global economy. We have a potential market of 600 million people in our 10 core markets. Our challenge is to generate greater value by focusing on our customers and attracting those who are not yet clients. Meanwhile, we will continue to help social development in the countries where we do business via Santander Universities, a programme that has enabled us to create a unique alliance with more than 1,000 universities.

In the next three years, we expect to regain our pre-crisis profit levels, which would enable us to maintain an adequate remuneration for shareholders, while at the same time comfortably meeting the new regulations for capital and liquidity.

At the Bank's general shareholders' meeting on 28 March 2014, the board will propose continuing to pay four scrip dividends, under the *Santander Dividendo Elección* programme, well as **maintaining the 2014 dividend at EUR 0.60 per share for the sixth year running.**

I am sure that the ambitious business plans recently announced by the chief executive officer will be achieved successfully.

The board, the chief executive officer and I personally are fully committed to keep on managing the Bank in a way that rewards the confidence placed in it by its shareholders.

Thank you very much for your confidence.

EMILIO BOTÍN
Chairman

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholder,

Banco Santander made an attributable profit of EUR 4,370 million in 2013, 90.5% more than in 2012.

As the chairman explains in his letter to shareholders, profit growth in 2013 was based on stable gross income (net interest income and fee income), efficient cost management and lower provisions, all of it against a backdrop of a still very complicated economic environment in some of the countries where the Group operates.

Our results enabled us to maintain the remuneration per share at EUR 0.60 for yet another year.

At the same time, **Santander continued to intensify its focus on customers, improve efficiency and boost profitability**. In order to achieve this:

- The Retail & Commercial Banking division was created to develop, design and integrate the commercial models of the various countries, exchange best practices and reduce the time taken to develop business initiatives.
- The Human Resources, Organisation and Costs division was given a new focus, with a greater emphasis on management of customer-oriented talent and on identifying synergies within the Group.
- A global division for Recoveries and Asset Restructuring was created.

Our performance in 2013 reinforces the merits of our diversified business model, centred on retail banking activities and focused on ten core markets where we have a significant share. **Banco Santander's model brings a significant level of recurrence and stability to the Group's results.**

Read the QR code
Access the CEO's letter online.

INTERNATIONAL BANKING ENVIRONMENT

The forecasts for 2014 and 2015 point to an upswing in the international economic cycle, particularly in the markets hardest hit by the crisis.

However, **the economic recovery will not be sufficient for the banking sector to return to the pre-2008 levels of profitability.** The new regulations introduced as a result of the international financial crisis are having and will have a structural impact on banks' profitability. This is particularly the case with the higher capital requirements, new short- and long-term liquidity and leverage ratios, the higher cost of deposits as a result of the new bank resolution mechanisms, as well as the cost of compliance itself in the new regulatory environment.

Banco Santander comfortably meets all the new regulatory requirements:

- Its core capital ratio has risen by 413 b.p. since the start of the crisis and it has strengthened its balance sheet, which is well provisioned and has high levels of coverage.
- The loan-to-deposit ratio improved to 109%.
- It successfully passed the various stress tests conducted on European and Spanish banks and is very well prepared for the balance sheet analysis that the ECB will carry out as a prior step to setting up the Single Supervisory Mechanism.

Santander has completed a cycle whose objective was to bolster the balance sheet. Our management is now concentrating on attaining higher levels of profits, while bear-

LETTER FROM THE CHIEF EXECUTIVE OFFICER

ing in mind other important trends that will define the sector's future, such as:

- The expansion of the middle classes in emerging markets, while the affluent segment gains importance globally;
- The recovery in companies' productivity and profitability in a context of globalization that offers growing investment opportunities; and
- An increasingly demanding consumer with greater access to new technologies.

GRUPO SANTANDER'S MANAGEMENT DRIVERS

In the context I have described, and bearing in mind the structural impact of the new financial regulations on business profitability, Banco Santander's management drivers are:

1. Capital management
Banco Santander is analysing its markets and segments in order to ensure the correct allocation of capital to the businesses that are most profitable and have the highest growth potential, all with a clear long-term vision.

In order to guarantee that capital investment is in line with the levels of risk and expected profitability of each of our businesses, we are establishing common management metrics throughout the Group, based on the rate of return on risk-weighted assets (RoRWA).

2. Increasing the focus on the customer
Banco Santander will continue to develop its retail banking strategy, based on forging lasting and value-added relationships with customers.

Our priority is to know our customers better and adapt the service and value proposition we offer them because different customer segments require different solutions. This will enable us to continue to make progress in linking customers so that Santander is their main bank, which is undoubtedly a key element in recurrent revenue generation.

Consequently, we are striving to:

- Transform our commercial processes, which have to be simpler and more efficient and accessible for customers.
- Have the best business intelligence tools and better management of information.
- And establish a more agile risk management system and one with models tailored more to each customer segment, while maintaining our hallmark of prudence.

Our branch network will continue to be the main channel for high value relationships with customers. At the same time, as an increasing percentage of our clients are operating via online and mobile telephone banking and the contact centre, we are strengthening our multi-channel distribution model so as to provide a more integral, complete and accessible service.

3. Improve efficiency
Banco Santander is one of the world's most efficient banks: our objective is to continue enhancing our efficiency and productivity in order to put them at the service of our customers.

During 2013, **we designed a global plan to create synergies of up to 2016. This is already being implemented and will generate EUR 1,500 million of savings,** half of them in 2014. Our objective is not only to reduce costs, but also to manage our resources in a more efficient, agile and productive way.

4. Management of human resources
Banco Santander realises that the key to success lies in our professionals. We are developing our human resources management model in order to align it with the Bank's objective of intensifying our vocation to serve our customers.

In 2013, Santander continued to intensify its focus on customers, improve efficiency and boost profitability

We are reviewing the processes for selecting, training and rewarding our employees to align them with the specialised and differentiated management of our customers. The Bank attaches great importance to managing talent and developing professional careers.

Implementation of these management drivers is already underway, through various plans and projects, and is reinforced by Grupo Santander's global capacities, which enable it to identify, develop and share the best practices of international banking among its different markets. For example:

- On the basis of the good practices in Mexico and Argentina, we have established a new commercial model in Chile.
- Our Select clients will be able to use their cards free of charge in the Bank's cashpoints throughout the world.
- A project is underway which will enable the corporate clients of our retail networks to access wholesale banking products and services.

MANAGEMENT PRIORITIES FOR 2014 BY UNITS

The management priorities in our ten core markets are:

Brazil

We remain very positive about the medium- and long-term potential of the Brazilian economy. After a period of adjustment in 2013 and 2014, with growth rates of close to 2%, Brazil's solid macroeconomic, institutional and political fundamentals will create the right conditions for a new phase of expansion on a firmer footing.

In the last few years, the Brazilian economy has made decisive progress in key areas, becoming the world's seventh largest economy and creating a large middle class that includes 50% of the population and which represents an enormous potential for "bankarisation".

- In this environment, Santander Brazil starts from a solid situation in a well-capitalised financial market, where we have growth opportunities in segments such as high income, SMEs or agriculture. This will enable us to boost our market share at the same time as we reinforce customer linkage.
- We launched projects to increase commercial productivity, based on best practices identified in other Group units. We drew up efficiency improvement measures that will keep cost increases below the expected inflation rate and help profits grow in a decisive way.

United Kingdom

The UK's macroeconomic outlook is solid for 2014 and the financial market outlook is equally positive for all business segments.

During the crisis years, Santander consolidated itself as one of the leading banks. It is particularly worth noting the progress made in the SME market, while maintaining our leadership in mortgages and deposits.

We are re-defining our customer relationship model in order to make it simpler, more personal and balanced. This strategy includes the range of *1|2|3 World* products, which are already enjoyed by 2.4 million customers and have increased their linkage and satisfaction with the Bank.

- We will continue in 2014 to improve our customer segmentation and quality of service, and are strongly committed to developing segments such as companies, SMEs and high income, where we have a lot of potential.
- In the personal banking segment, we will remain focused on developing *1|2|3*. This attractive and differentiated range of products will enable us capture a larger number of customers at a time of greater market rotation.

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Mexico
Mexico's economic outlook is very good thanks to the structural reforms approved under the Mexico Plan and consolidation of the recovery in the US.

Santander Mexico continued to contribute to the country's growth in 2013, developing its branch network in the various business lines, both general and specialised, and completing the integration of ING's mortgage business, acquired in 2012.

In 2014, we expect to continue to gain market share in all segments and concentrate on companies, SMEs and medium and high incomes. We also expect loan-loss provisions to normalise, following the impact in 2013 of implementing the new provisioning criteria for loans to companies, as well as the provisions for homebuilders (*viviendera*s).

United States
The US economy will continue to strengthen in 2014 and the employment outlook is good. The US is a key market for Santander; its size gives us significant long-term growth opportunities.

The brand was changed in 2013 to Santander and our retail banking unit was re-launched with a very innovative product. This year we are focusing on developing a full franchise, with the capacity to grow in the most attractive segments.

Santander Consumer USA continues to grow at a brisk pace, the fruit of its agreements with major auto producers. Following its flotation at the beginning of 2014, we expect further strong growth.

Spain
It is highly likely that the Spanish economy will consolidate its recovery in 2014. This upturn is firmly anchored in competitiveness gains.

The structural reforms undertaken in the last few years have laid the foundations for more sustainable growth and contributed to reactivating the solvent demand for loans that is beginning to be seen in SMEs and companies.

The commercial networks of Santander, Banesto and Banif were successfully merged during 2013. The personal banking, companies and corporate banking businesses in the country were re-grouped under the new Santander Spain unit in June, enabling us to develop the business strategy and strengthen efficiency and productivity.

Our main priorities in the coming years are:

- Continue to gain profitable market share in attractive businesses such as companies, SMEs, high income and deposits, for which we will maintain a strategy of segmentation, differentiation and improvement in the quality of service. All this will improve customer linkage.

- Progress in generating synergies, both from the merger as well as from the enhanced efficiency.

- The gradual return to a "normal" level of loan loss provisions will have a positive impact on the income statement in 2014.

Chile
The economy continued to grow solidly in an environment of stable inflation and low unemployment.

Santander is market leader and, in 2014, its strategy will focus on boosting retail banking through greater customer linkage and specialization of the value offer, as well as raising efficiency and productivity.

Poland
After feeling the impact of the euro zone crisis, Poland will grow more robustly in 2014.

In 2013, our Polish subsidiary Bank Zachodni WBK completed the acquisition of Kredyt Bank, becoming the country's third-largest private sector bank, with a 10% market share, and generating higher-than-envisaged cost savings. We expect our profits in Poland to grow strongly in the medium term.

// I am very positive about our growth potential in the coming years //

Germany
Santander has more than 6 million customers in the country, is the consumer finance leader and also has retail banking businesses. We expect the contribution to Group profits to rise in the coming years, from EUR 424 million in 2013, underscoring the success of Santander Consumer's business model.

Argentina
In an environment of lower growth, Santander Río will focus on improving its efficiency and quality of customer service. The objective is to maintain high levels of profitability, based on leadership in a developed transaction business and on attracting new customers.

Portugal
Santander Totta, in a very complicated economic context, continues to be the country's most profitable bank. In 2014, the Bank is focusing on gaining profitable market share, improving costs and reducing non-performing loans.

As for **global businesses**, in the last few years Santander has signed alliances with strategic partners to develop the asset management, global wholesale banking, consumer finance and insurance businesses, among others, in a more global and efficient way.

CONCLUSIONS

I am very positive about our growth potential in the coming years.

- We start from a solid base of capital and liquidity and a unique geographic position.
- After a cycle of balance sheet strengthening, the Bank is now fully prepared to begin a new phase of profit growth. We have a well-defined strategy that is being implemented to achieve our goals.
- And we have the best team of professionals among international banks.

I am sure that all of these factors will support Santander's shares and consolidate the Group as one of the leaders of the international financial sector.

Thank you for your support.

JAVIER MARÍN
Chief executive officer

CORPORATE GOVERNANCE

Banco Santander corporate governance model

Balanced and committed board

- Of the 16 directors, 11 are non-executive and five executive.

Equality of shareholders' rights

- The principle of one share, one dividend, one vote.
- No anti-takeover measures in the corporate Bylaws.
- Encourage informed participation by shareholders in meetings.

Maximum transparency

- It is one of the fundamental principles governing the Bank's management in all its spheres and even beyond the legal requirements. This is vital for generating confidence and security in shareholders, customers, employees and society in general.

Recognised by socially responsible investment indices

- Santander has been in the FTSE4Good and DJSI indices since 2003 and 2000, respectively.

The board of directors

Banco Santander's board of directors is the top decision-making body, except for matters reserved for the general shareholders' meeting. It is responsible, among other things, for the Group's strategy. Its functioning and activities are regulated by the Bank's internal rules, which are based on principles of transparency, efficiency and defence of shareholders' interests. The board also oversees compliance with the best international practices in corporate governance and closely involves itself in the Group's taking of risks. In particular, the board, at the proposal of senior management, is the body responsible for establishing and monitoring the Group's risk appetite.

The board's composition is balanced between executive and non-executive directors. All members are recognised for their professional capacity, integrity and independence.

The board has 16 directors, five of whom are executive and 11 non-executive. Of the 11 non-executive directors, nine are independent, one proprietary and the other, in the board's view, neither proprietary nor independent.

The non-executive directors are noted for their financial experience. Among them are former chief executives of banks, a former governor of a central bank and professionals with deep knowledge of Latin America, the United States and the United Kingdom, markets where the Group has a substantial part of its businesses.

The board held 15 meetings in 2013 (one of them in Mexico) and devoted two of them to the Group's global strategy.

Remuneration policy

The remuneration policy for directors and the Bank's senior management is based on the following principles:

1. Remuneration must be consistent with rigorous risk management and must not foster inappropriate assumption of risks.

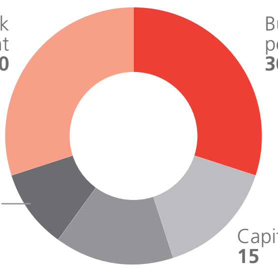
2. Anticipating and adapting to regulatory changes in remuneration matters.

3. Involvement of the board, as, at the proposal of the appointments and remuneration committee, it approves the remuneration policy report for directors and submits it to the general meeting of shareholders on a consultative basis and as a separate item on the agenda. The board approves the remuneration and contracts of the directors and other members of the senior management team and the remuneration of the rest of the supervised collective.

Grupo Santander City, Boadilla del Monte, Madrid, Spain

4. Transparent information on remuneration. In 2013, the board agreed a 13% reduction in executive directors' variable remuneration. Full details of the remuneration policy for directors in 2013 are set out in the report of the appointments and remuneration committee, which is part of Banco Santander's corporate documentation.

APPROXIMATE TIME SPENT BY THE BOARD ON EACH FUNCTION
%



CHANGES IN THE BOARD'S COMPOSITION

→ At the meeting on 29 April 2013, the following changes were made:

- **Mr Alfredo Sáenz Abad** announced his voluntary resignation as 2nd vice-chairman and chief executive officer, leaving the board on that date.
- The board agreed to name **Mr Javier Marín Romano,** until then senior executive vice-president and head of the Private Banking, Asset Management and Insurance division, as the new chief executive officer.
- The board also agreed the following:
  - Put on record the resignation of **Mr Manuel Soto Serrano** from his responsibilities as director.
  - Appoint **Mr Matías Rodríguez Inciarte** as 2nd vice-chairman.
  - Appoint **Mr Guillermo de la Dehesa Romero** as 3rd vice-chairman and chairman of the audit and compliance committee.
  - Appoint **Mr Juan Miguel Villar Mir** as an independent director.

→ On 31 December 2013, **Lord Burns** announced his voluntary resignation as a director.

→ The board agreed in January 2014 to appoint **Ms Sheila Bair** as an independent director to cover the vacancy left by Lord Burns.

BOARD OF DIRECTORS OF BANCO SANTANDER

Mr Ignacio Benjumea Cabeza de Vaca
General secretary and of the board
● ■ ▲ ● □ △

Mr Ángel Jado Becerro de Bengoa
Director

Ms Esther Giménez-Salinas
Director
□

Mr Abel Matutes Juan
Director
▲ □

Mr Fernando de Asúa Álvarez
1st vice-chairman
● ■ ▲ ● △

Mr Juan Rodríguez Inciarte
Director
■

Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
Director
● □ △

Mr Rodrigo Echenique Gordillo
Director
● ■ ▲ ● □

Mr Matías Rodríguez Inciarte
2nd vice-chairman
● ■

- ● Executive committee
- ■ Risk committee
- ▲ Audit and compliance committee
- ● Appointments and remuneration committee
- □ International committee
- △ Technology, productivity and quality committee

Read the QR code
Access the interactive photo of the board online.

Mr Javier Marín Romano
Chief executive officer
● □ △

Ms Isabel Tocino Biscarolasaga
Director
● ■ ●

Lord Burns* (Terence)
Director

Mr Vittorio Corbo Lioi
Director

El Faro, Grupo Santander City, Boadilla del Monte, Madrid, Spain. 21 October 2013.

Mr Emilio Botín-Sanz de Sautuola y García de los Ríos
Chairman
● □ △

Mr Guillermo de la Dehesa Romero
3rd vice-chairman
● ▲ ● □

Mr Juan Miguel Villar Mir
Director

Mr Javier Botín-Sanz de Sautuola y O'Shea
Director

* With effect from 31 December 2013, Lord Burns announced his voluntary resignation as a director.

Banco Santander's general shareholders' meeting, March 2013, Santander, Spain.

SANTANDER SHARES

Performance of Santander's shares

Santander continued to be the largest bank in the euro zone by market capitalisation and the 11th in the world in 2013, with a value of EUR 73,735 million at the end of the year. Santander's shares are also the most liquid in Europe.

In a weak economic environment but with clear signs of improvement, as a result of reduced uncertainty over the European and Spanish economies, Santander's shares ended 2013 at EUR 6.506, up 6.7% from a year earlier. This, combined with a dividend yield of 10%, represents an increase of 16.7%.

Shareholder remuneration

Banco Santander's total dividend payment charged to 2013 earnings will be EUR 6,775 million, 10.6% more than in 2012, if the general shareholders' meeting approves the board's proposal.

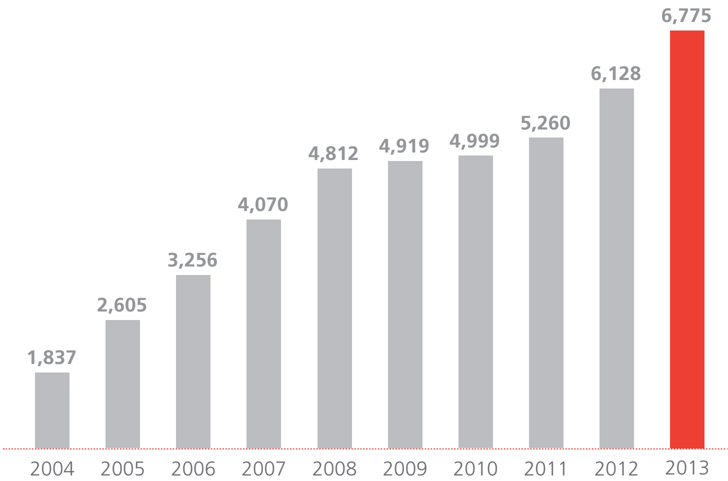
The *Santander Dividendo Elección* (scrip dividend) programme, which enables shareholders to receive the equivalent of the dividend in the form of cash or Santander shares, was applied on the dates when the three interim dividends (of approximately EUR 0.15 each) are traditionally paid in 2013, and it will be applied again for payment of the final dividend. The total dividend payment for 2013 will be EUR 0.60 per share for the fifth year running.

At the Bank's general shareholders' meeting on 28 March 2014, the board will propose the continuation of the four scrip dividends under the *Santander Dividendo Elección* programme, as well as maintaining the 2014 remuneration at EUR 0.60 per share for the sixth year running.

COMPARATIVE PERFORMANCE OF THE SANTANDER SHARE AND INDEXES DECEMBER 2012 VS DECEMBER 2013

TOTAL SHAREHOLDER REMUNERATION OVER THE PAST DECADE

Million euros



REMUNERATION PER SHARE

0.60 EUR

For the fifth year running

MARKET CAPITALISATION

EUR 73,735 million

Santander is the largest bank in the euro zone by market value

Santander has distributed more than EUR 28,000 million to shareholders over the last five years

THE SUCCESS OF *SANTANDER DIVIDENDO ELECCIÓN*

- With the *Santander Dividendo Elección* programme, which enables shareholders to receive the equivalent of the traditional dividend in the form of cash or Santander shares, the Bank offers flexible remuneration so that its shareholders can benefit from tax advantages.
- Since its launch five years ago, 83% of the Bank's capital has opted to receive shares. This percentage reached 87% in 2013.
- These figures underscore shareholder confidence in the Bank's performance, despite the volatility of financial markets and the impact of the crisis on household income, which increased the attractiveness of receiving the dividend in cash.

Shareholder base and capital

The number of Banco Santander shareholders was 3.3 million at the end of 2013, one of the highest among international banks.

At the end of the year, 1.67% of the capital was controlled by the board, 47.35% was held by individual shareholders and rest by institutional investors. Of the total share capital, 87.06% is located in Europe, 12.51% in the Americas and 0.43% in the rest of the world.

The number of Banco Santander shares at the end of 2013 stood at 11,333,420,488 following the capital increases carried out to cover the *Santander Dividendo Elección* programme (February, May, August and November). A total of 1,012,240,738 new shares were issued (8.9% of the capital).

Banco Santander continued to strengthen its shareholder information channels in Spain, the United Kingdom, the United States, Brazil, Argentina, Mexico, Portugal and Chile. These offices dealt with 251,812 phone consultations, 30,977 e-mails, 544,259 letters and sent 784,483 SMS. A total of 15,659 people attended 279 corporate events held in various countries.

Read the QR code
Access the shareholders' area in the corporate website.

European banking union is vital to break the vicious circle between sovereign and banking risk and reduce market fragmentation. This will benefit the strongest banks and boost lending to the private sector

Guillermo de la Dehesa
3rd vice-chairman
Non-executive director (independent)

REGULATORY CONTEXT

The regulatory response to the international financial crisis advanced during 2013. The new rules on capital and liquidity, known as Basel III and agreed internationally by the Basel Committee in December 2010, were transposed in the main jurisdictions where the Bank operates in 2013 and came into force on January 1, 2014. They will be gradually implemented over the next 10 years.

There was progress at global and European level in drawing up banking crisis management frameworks, which aim to make it possible to intervene, resolve and liquidate banks without affecting financial stability or resorting to state funds.

The euro zone made progress in creating a European Banking Union in 2013.

- The **European Banking Authority (EBA)** has been operating since January 2011 and is developing a series of technical standards to harmonise implementation of prudential rules in Europe.

- The **Single Supervisory Mechanism (SSM)**, whose regulations were approved in October, establishes that the European Central Bank (ECB) will assume direct supervision of the euro zone's main banks, including Banco Santander, as of October 30, 2014. As a preparatory step to taking on these functions, the ECB will carry out an exhaustive analysis of banks' balance sheets in order to enhance transparency, implement the necessary corrective measures and recover confidence in the European financial system. The results of this exercise will be published in October 2014.

- At the end of December, European Union economy ministers (Ecofin) finalized a political agreement that represents a commitment to mutualise the cost of resolving banking crises. This agreement will serve to break the vicious circle between banking and sovereign risk in Europe and includes:

    - The launch of a **Single Resolution Mechanism (SRM)** as of January 1, 2015, which will be applied to all banks participating in the SSM, and which, in its first year of operation, will deal with approving viability and resolution plans.

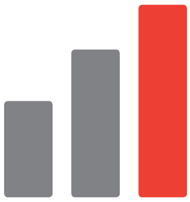
    - A **single resolution fund** that will come into force in 2016 and will be fully established in 2026.

Banco Santander has played a very active role in the debates and consultations on new regulations and comfortably meets the various regulatory requirements.

MANAGEMENT PRIORITIES

GRUPO SANTANDER MANAGEMENT PRIORITIES IN 2013

Strengthen the capital base
and improve the liquidity position



Organic generation of capital and active management of the Group's business portfolio enabled the Group to raise its core capital ratio by 138 b.p. in 2013.

Brazil and Mexico carried out operations to optimise their capital base by issuing debt instruments.

The Group's retail franchise strategy, together with deleveraging in mature markets, led to a **further improvement in the loan-to-deposit ratio to 109%.**

Progress in the
mergers
underway in Spain and Poland

Both mergers are ahead of schedule and are generating higher-than-expected cost synergies.

In Spain, the rebranding and absorption of the Banesto and Banif branches was practically completed by the end of 2013.

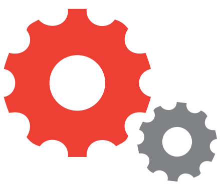
Signing of agreements, **strategic alliances** and acquisition of **new businesses**

Alliance with Warburg Pincus and General Atlantic to boost the asset management business, which generated a capital gain of EUR 669 million.

Investment of EUR 470 million in **Bank of Shanghai,** which involves the acquisition of an 8% stake in the Chinese bank.

Acquisition in Spain of 51% of Financiera El Corte Inglés, which bolsters the Group's leading position in the consumer finance business.

Internal
organisation



Creation of new corporate divisions and reorganisation of functions in order to increase the focus on customers, take better advantage of the Group's global scope and improve efficiency: Retail & Commercial Banking; Human Resources; Organisation and Costs; and Recoveries and Asset Restructuring.

Reinforcement of the internal governance framework, which regulates relations between the Group parent and its subsidiaries.

1

BANCO SANTANDER'S BUSINESS MODEL

Read the QR code
Access the business model online version.

Santander Select office, São Paulo, Brazil.

Highlights

- Banco Santander's business model produces substantial recurrence in revenues.
- Santander focuses on retail banking. It offers its 106.6 million customers innovative solutions, tailored to each segment and customer profile.
- Santander provides services to its customers through the largest international branch network and a full range of alternative channels.
- The Group operates in 10 core countries with high market shares and the right balance between mature and emerging markets.
- Santander has a medium-low level of risk and high credit quality.
- Santander's balance sheet strength is reflected in solid capital ratios and a comfortable liquidity position. It has not required state aid in any of the countries in which it operates.
- Santander's subsidiaries are autonomous in capital and liquidity, which encourages good local management, provides financial flexibility and limits the possibility of contagion between Group units.
- With a cost-to-income ratio of 49.9%, Santander is one of the most efficient banks among its competitors.
- Santander runs its business in a sustainable way, protecting the environment, supporting the community in the countries where it operates and investing in higher education.
- Santander has 182,958 employees, who are focused on the customer and on results.

BANCO SANTANDER'S COMMITMENT TO ITS CUSTOMERS

Customers are the focal point of Banco Santander's business model. Understanding their needs, responding with innovative solutions and building long-term relationships based on confidence are the foundations of Santander's commitment to its customers.

The Bank's corporate claim, ***Santander, a bank for your ideas,*** aims to transmit the idea that all the Bank's strength, leadership, capacity for innovation as well as its 183,000 professionals are at customers' service to help them carry out their projects.

This claim reflects a corporate and daily working culture that aims to ensure that the customer has a unique brand experience and perceives tangible benefits in all of its dealings with the Bank, through all channels and in all countries. This brand experience is based on the following principles:

- Meet customers' needs through a simple, transparent and easy-to-understand range of products and services.
- The customer-bank relationship has to provide a differential value for both the Bank and the client.
- Develop relationships based on confidence between the Bank and the customer that make customers proud to work with the Bank and increases their loyalty to the Santander brand.

The Group launched various initiatives in 2013 to improve the customer's brand experience:

- In the UK, *Simple, personal & fair* is a three-year programme that will transform systems, processes and products to make them simpler, personalized and fair for its customers.
- In Brazil, *Trabalhar bem* was put into effect at the end of the year. It involves all the Bank's employees working to improve customer satisfaction and efficiency.

Our customers

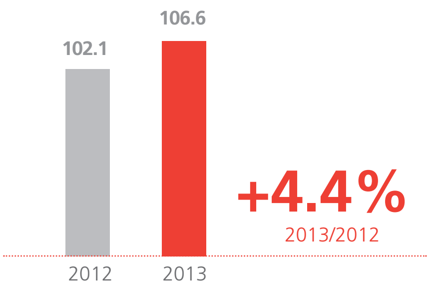
The Group has 106.6 million customers in the world who recognize Santander as an institution that is solid, solvent and strong to face the future. The three countries with the most customers are Brazil (28% of the total), the UK (24%) and Spain (15%).

In 2013, more than four million new customers decided to put their trust in Banco Santander. The increase in the number of customers was particularly significant in Brazil and Mexico, as a result of Santander's commitment to grow in these countries; in Poland, due to inclusion of Kredyt Bank's customers; and in Spain, because of the perception of Santander's financial soundness in an environment that posed difficulties for some of its competitors.

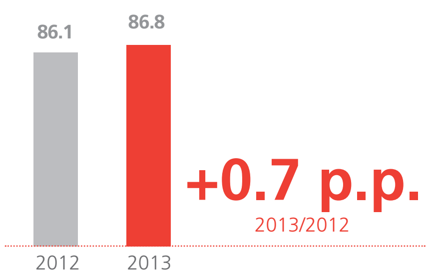
One of Banco Santander's main objectives is to improve customer satisfaction. The Bank's research shows that satisfied customers use the Bank's products more, have higher average savings balances and are significantly less likely to move their accounts to another bank than dissatisfied customers.

In 2013, 86.8% of Grupo Santander's active individual customers were satisfied (0.7 percentage points more than in 2012). Of note were the improvements in the UK, Spain, the US, Mexico and Chile.

CUSTOMERS
Million



CUSTOMER SATISFACTION
% of active individual customers who are satisfied



Banco Santander strives every day to be a better bank for our customers: through more specialised attention, more streamlined processes and by improving our channels of communication with clients. The Retail & Commercial Banking division, with global corporate scope, was created in 2013 in order to strengthen all of these elements

Javier Marín
Chief executive officer

COMMERCIAL FOCUS

Banco Santander's retail banking model focuses on satisfying the needs of all sorts of customers: individuals with different income levels, companies of all sizes in every sector and private and public corporations.

Retail banking, which includes individuals, companies and consumer finance, accounted for 87% of the Group's revenues in 2013.

Retail & Commercial Banking division

The Retail Banking division was created in 2013 to develop the Group's global strategy for retail banking, exploiting the opportunities generated by Grupo Santander's international positioning.

This new division aims to achieve a business model that revolves around customers, with a greater focus on business segments, more specialization, a customer vision of processes and systems, and a stronger and integrated multi-channel strategy. The objective of all this is to promote lasting relationships that strengthen customer linkage and loyalty. The division's global corporate nature enables it to have a broad view of business, foster the exchange of best practices and exploit synergies between the different countries where the Group operates.

Specialisation by segments

The Bank is deepening its knowledge of customers in order to adapt the way it serves them and the solutions it offers to their demands. It is measuring progress in this area with homogeneous group-wide management metrics, perfecting its commercial tools to manage customers' needs in a more efficient and specialized way and improving operational processes. The objective is to offer every single customer the products and services that are best for them, through suitable channels, and provide a satisfactory customer experience.

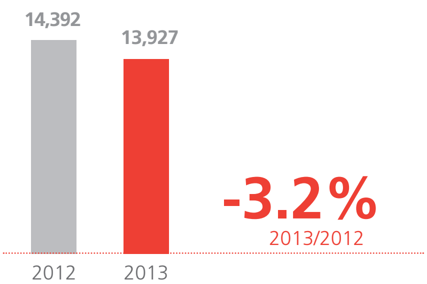
The Bank attaches particular importance to having a differentiated offer in two strategic high profitability segments (affluent and company banking).

- **Strengthen the affluent segment. Santander Select** is Grupo Santander's differentiated value proposition for high-income customers and it involves creating a specialized attention model, with products and services specifically designed for this segment. The Group is able to take advantage of its international franchise, to make global offers to these customers such as a credit card that enables them to make commission-free cash withdrawals at any of the Bank's ATMs around the world. Santander Select was first set up in Spain and is now being established in Mexico, Chile and, recently, Brazil. New countries will be added in the coming months.

GROUP CUSTOMERS
Million

Spain	14.1
Portugal	2.0
UK	25.5
Poland	4.2
Santander Consumer Finance	12.1
Rest Europe	0.1
Total Europe	**58.0**
Brazil	29.5
Mexico	10.5
Chile	3.5
Argentina	2.5
Uruguay	0.5
Puerto Rico	0.4
Total Latin America	**46.9**
United States	**1.7**
Total customers	**106.6**

BRANCHES
Number



Santander branch, Madrid, Spain.

- **Support for SMEs.** In order to increase its market share in this key segment, the Bank has put in place various initiatives in different countries. These include an agreement signed by Banco Santander and the European Investment Bank (EIB) to launch a EUR 400 million fund for the securitisation of the assets of SMEs and the self-employed to finance long-term investments and cover the working capital needs of SMEs and mid-cap companies. There is also the *Breakthrough* programme in the UK, to identify the best small firms and help them achieve their full potential; the *10,000 Plan* in Spain, which, against a backdrop of low demand for loans, made EUR 10,000 million of financing available to SMEs; and the *Santander Pymes* programmes in Latin America, particularly in Mexico, where Banco Santander received a recognition from the Mexican government for supporting SMEs.

Solutions for customers

Santander continues to innovate and develop new products and financial services that create value for its customers and respond to the specific needs and circumstances of different countries. Of note in 2013 were:

- The launch of *Santander Trade*, a unique portal in the financial system that helps companies win international business by bringing opportunities closer to the business community.

- The launch in the US, coinciding with the rebranding, of the *Extra20 checking account,* which credits customers with $20 every month if they have $1,500 of income domiciled in their account and have two or more direct debits via Santander's online bank.

- The success of the *1|2|3* range of products in the UK, which won 1.1 million new customers in 2013 to reach a total of 2.4 million people closely linked to the Bank. The *1|2|3* current account reimburses in cash part of household bills and rewards larger balances with higher interest rates. Similar products were launched in Spain and Poland.

Multi-channel offer

Santander is developing a more efficient multi-channel distribution model that is better adapted to customers' needs and offers segmented and specialised management, tailored to their demands.

The branch network is Santander's main channel for creating and maintaining long-term relationships with customers. The Group has 13,927 branches, the largest network of any international bank. The branch reduction since 2012 is mainly due to the integration of Banesto and Banif under the Santander brand in Spain, which has given rise to a more balanced network in the country, while in other countries, such as Mexico, Argentina and Poland, the number of branches increased.

At the same time, in the knowledge that not all contact with customers requires a branch, Santander continues to strengthen its range of services via online and mobile telephone banking and the contact centre. Santander has 11.6 million online banking customers, 2.6 million mobile banking customers and its telephone banking services tend to 30 million calls a month.

The financial crisis represented a great challenge to banks' solvency. Banco Santander stands out for having a solid core capital ratio, which is well aligned with its business model, its balance sheet structure and its risk profile, and it comfortably meets all the regulatory requirements

Fernando de Asúa
1st vice-chairman
Non-executive director (independent)

DISCIPLINED USE OF CAPITAL AND FINANCIAL STRENGTH

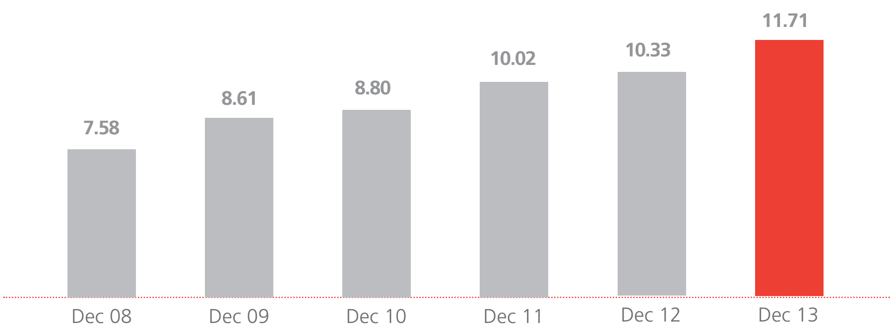
Capital

Banco Santander has a solid core capital ratio that suits its business model, balance sheet structure, Group risk profile and regulatory requirements. In 2013, it continued to improve its solvency ratios and increased its core capital by 138 b.p. to 11.71% (under Basel II criteria).

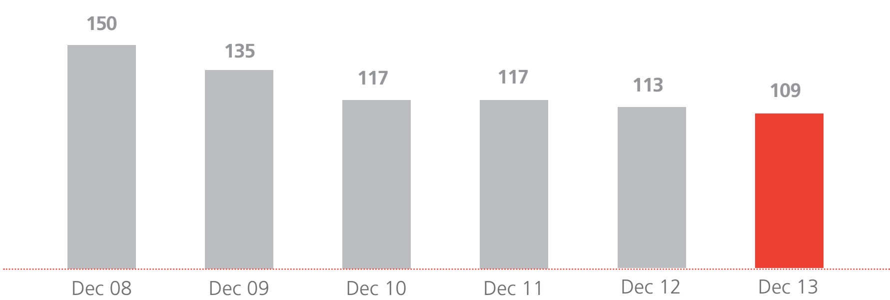
Since the start of the international financial crisis, the Group has generated 413 b.p. of core capital. This increase was achieved largely thanks to the Bank's substantial capacity to generate capital organically and active management of the Group's portfolio of businesses. It was achieved in spite of Santander having a much higher ratio of transforming assets into risk-weighted assets than the average for its competitors. Banco Santander maintained a remuneration per share of EUR 0.60 and did not receive state aid in any of the countries in which it operates.

As proof of its solvency, Santander is the only bank in the world to be rated higher than its home country's sovereign debt by the four main rating agencies (S&P, Fitch, Moody's and DRBS).

CORE CAPITAL RATIO (BIS II)
%



LOAN-TO-DEPOSIT RATIO
%



Liquidity

Santander funds most of its lending with customer deposits (loan-to-deposit ratio of 109%), maintains comfortable access to wholesale funding and has a wide range of instruments and markets through which to obtain liquidity.

The Group's liquidity management principles are[1]: high contribution and stability of deposits, thanks to the retail nature of its business; a decentralized liquidity model; medium- and long-term liquidity needs must be financed by medium- and long-term instruments; high diversification of funding sources by instruments, investors, markets, currencies and maturities; limited recourse to short-term funding; and availability of a comfortable reserve of liquidity, including discounting capacity at central banks.

1. The section on liquidity risk and funding in the annual report's risk management report sets out in greater detail Grupo Santander's strategy, principles and liquidity management indicators.

Banco Santander's risk is very diversified and based on a retail banking model that is predictable and not over complex. The board sets the risk appetite and continuously controls risk management

Matías Rodríguez Inciarte
2nd vice-chairman
Executive director

PRUDENT RISK MANAGEMENT

Prudence in risk management has been a hallmark of Banco Santander for more than 150 years. **The Group has a medium-low risk profile** and its policy is based on the following corporate principles:

- The risk function is independent of the business areas. Matías Rodríguez Inciarte, head of the Group's Risk division and chairman of the board's risk committee, reports directly to the executive committee and to the board.
- Board members and senior management are involved in taking decisions.
- Collegiate decision-making through committees.
- Global/local risk model with scope for all risks, countries and businesses.

The board is responsible for setting and updating the annual risk appetite and for monitoring the risk profile to ensure consistency between the two. The risk appetite is established for the Group as a whole as well as for its main units, in accordance with a corporate methodology that is adapted locally to each market, and includes quantitative as well as qualitative elements[2].

Balance sheet soundness

The Group's risk profile has three main characteristics:

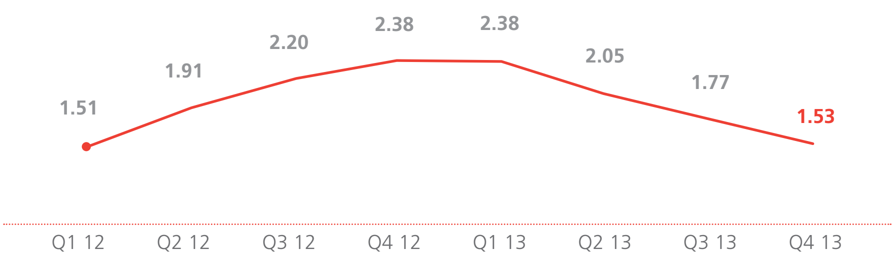
- **Retail banking:** more than 80% of Grupo Santander's credit risk comes from retail banking.
- **Diversification:** the Group has a high degree of risk diversification and limits concentration in terms of customers, business groups, sectors, products and countries.
- **Guarantees:** 64% of the Group's portfolio of loans has real guarantees.

The result of all this is a high loan quality.

The Group's non-performing loan (NPL) ratio was 5.64% in 2013. The fall in NPLs in Brazil, the U.K. and the U.S. partially offset the rise in Spain, where the NPL ratio was 7.49% (below the sector average). The Group's coverage ratio was 62%.

The cost of credit began to return to normal, dropping from 2.38% to 1.53%.

COST OF CREDIT*
%



* Cost of credit = 12 months' loan-loss provisions/average lending.

2. Banco Santander's corporate principles of risk management and risk appetite are set out on pages 168 to 173 of the annual report's risk management report.

SUBSIDIARIES MODEL

Flotation of Santander Consumer USA, Wall Street, New York.

Grupo Santander's international expansion has been achieved through subsidiaries that are autonomous in capital and liquidity:

- **Capital:** local units have the capital required to carry out their business and comply with regulatory requirements.

- **Liquidity:** each subsidiary draws up its financial plans and liquidity forecasts and calculates its funding needs, without relying on funds or guarantees from the parent bank. The Group's liquidity position is coordinated in asset and liability committees (ALCOs).

In line with this model, each subsidiary's exposure to credit risk is concentrated in the country where it develops its business and in local currency. As a result, the Group's cross-border credit risk exposure is very limited.

The Group's policy is to list some of its main subsidiaries, ensuring their control by maintaining a stake of around 70%. The following are subsidiaries are currently listed: Santander Brazil, Chile and Mexico, Bank Zachodni WBK in Poland, and since January 2014, Santander Consumer USA, which was valued at $8,300 million when it was floated. The value of Banco Santander's stakes in these subsidiaries is EUR 38,000 million.

Strategic and regulatory advantages

→ The listed subsidiaries :

1. Allow quick access to capital, while being subject to market discipline.
2. Facilitate the funding of acquisitions in local markets and are an alternative to investing capital.
3. Guarantee a high level of transparency and corporate governance and strengthen the brand in the various countries.

→ Subsidiaries are subject to double supervision and internal control: local and global.

→ In times of crisis the autonomy of subsidiaries limits contagion between the Group's different units and reduces systemic risk.

→ This model facilitates management and resolution of crises while generating incentives for good local management.

Santander has an internal governance framework in line with the regulatory requirements of the EBA, BIS and Bank of Spain. This establishes the principles that govern relations between the parent bank and its subsidiaries.

Banco Santander combines the financial autonomy of its subsidiaries with the Group's synergies and has corporate systems and policies in areas such as risks, financial, compliance, human resources, technology, costs, retail banking, communication and marketing and internal auditing, which are implemented in all the Group's units and enable it to:

- **Strengthen the Santander culture,** with particular importance attached to global management of risks and to control of business units.

- **Foster the exchange** of best practices between countries.

- **Greater efficiency in its investments**, through sharing IT systems and operations on a global basis.

- **Attain cost and revenue synergies**, by developing the Santander commercial banking model through global strategies.

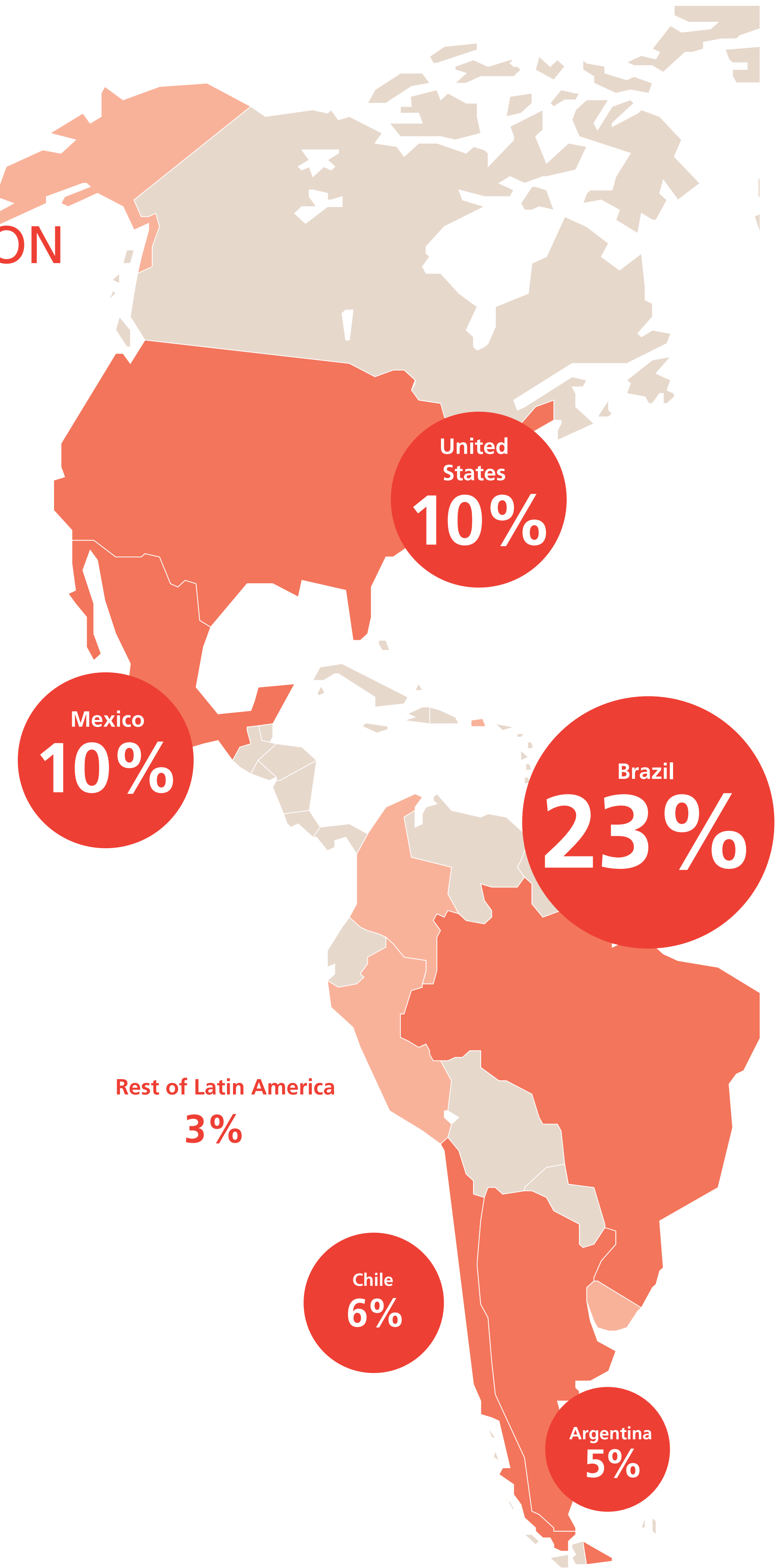
All this enables the Group to obtain better results than those that would come from the sum of each of the local banks.

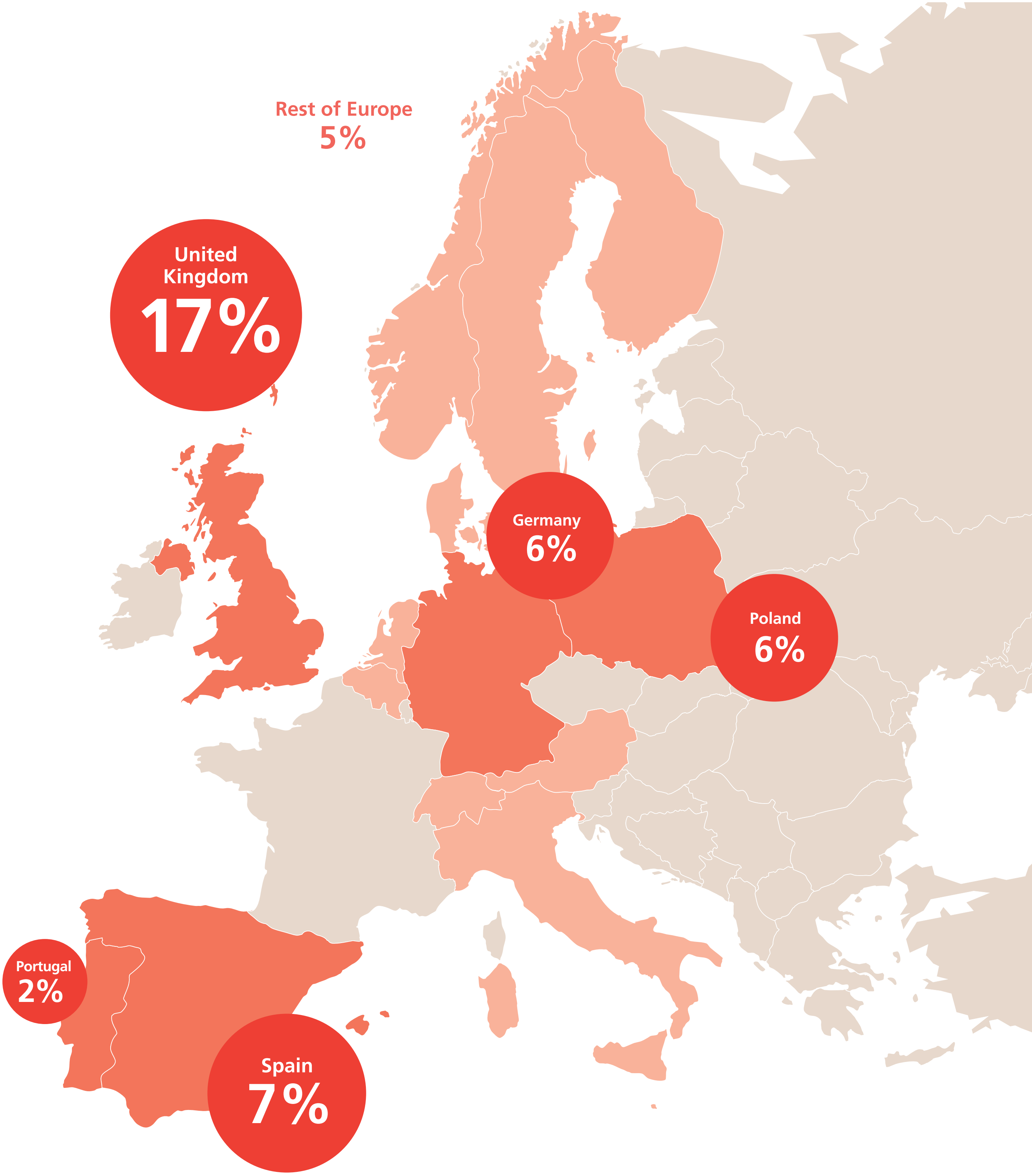
GEOGRAPHIC DIVERSIFICATION

Grupo Santander's geographic diversification is balanced between mature and emerging markets, which contributed 47% and 53% of profit, respectively, in 2013.

The Bank focuses on 10 core markets: Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has significant market shares in Uruguay and Puerto Rico, consumer finance businesses in other European countries and a presence in China through wholesale banking and consumer finance.

The global business areas develop products that are distributed in the Group's retail networks and provide services to clients globally.



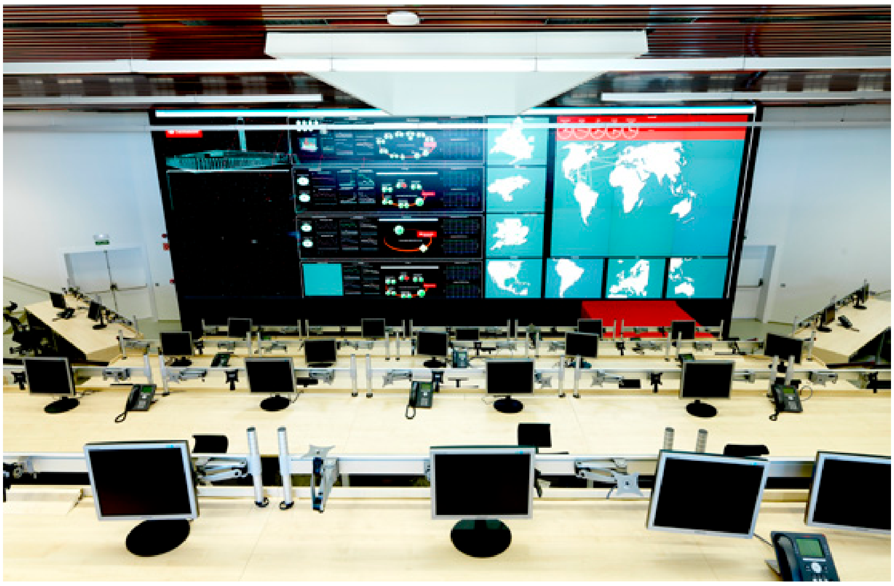


DISTRIBUTION OF ATTRIBUTABLE PROFIT BY GEOGRAPHIC OPERATING AREA

- Main countries
- Other countries where Banco Santander conducts retail and commercial banking businesses: Peru, Puerto Rico, Uruguay, Colombia, Norway, Sweden, Finland, Denmark, the Netherlands, Belgium, Austria, Switzerland and Italy.

Read the QR code
Access the interactive map online.

EFFICIENCY



Data processing centre, Cantabria, Spain.

Santander has a technology and operations platform that provides it with a complete view of customers' financial needs and a high degree of commercial productivity.

Improvements in efficiency translate into value for clients, such as the zero commissions offered in the *We want to be your bank* plan in Spain, the reimbursements and discounts for purchases and direct debits in the *1|2|3* current account in Santander UK, Spain and Poland; and the discounts of the new *extra20 checking* in the United States.

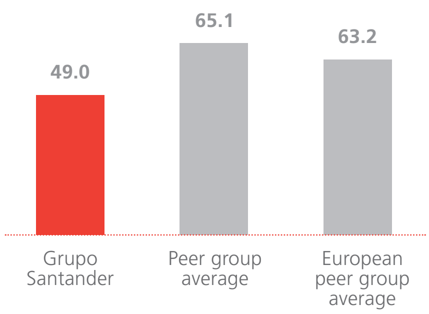
Santander is one of the world's most efficient banks, thanks to strict cost control and the high degree of recurrence in revenue generation. Its cost-to-income ratio was 49.9% in 2013.

The technology and operations model is organised around corporate factories that are subsidiaries of the Group and are responsible for developing software and hardware, operations, maintenance of Internet and intranet and management of purchases and buildings. These factories have a global strategy and local teams in each country. Developing these services as specialised and homogenized units helps to reduce the Group's operational risk.

More progress than expected was made in 2013 in integrating Banesto and Banif into the Santander network in Spain and merging Bank Zachodni WBK and Kredyt Bank in Poland. **The synergies from these mergers, combined with other measures, will enable the Group to achieve EUR 1,500 million of cost savings by 2016 (half of them in 2014).**

COST-TO-INCOME EFFICIENCY RATIO[1] VERSUS COMPETITORS

September 2013



1. Costs/revenues

Competitors: Banco Itaú, Bank of America, Barclays, BBVA, BNP Paribas, HSBC, ING Group, Intesa Sanpaolo, JP Morgan, Mitsubishi, Nordea, Royal Bank of Canada, Societe Generale, UBS, Unicredito and Wells Fargo.

COST SAVINGS UNTIL 2016

EUR 1,500 million

Left: Rear spoiler of the Ferrari car.
Right: Mr Emilio Botín, chairman, and Mr Michael Bloomberg, at the time mayor of New York, at Santander's brand change ceremony in the United States.

Read the QR code
Access a helicopter video of the Ferrari racing car.

THE SANTANDER BRAND

The Santander brand centralises the Group's identity and values and expresses a unique international positioning that is consistent and coherent throughout the world.

This positioning is reflected in the corporate slogan ***Santander, a bank for your ideas.*** This slogan transmits that Santander is a bank with:

- A clear retail vocation.
- Customer focus: it listens to clients in order to understand their needs and has the capacity, resources and experience to offer them the right solutions.
- It values ideas, as the engine of society, and people who have goals, challenges and dreams.

Santander brand experience

Santander's objective is to offer its stakeholders a brand experience that is homogeneous, different from others, significant, memorable and aligned with the Bank's corporate values, in all its countries, businesses, channels and communications.

The idea is that everyone who has contact with Santander feels that it is a bank that not only offers the best products and services, but also has a simple and personal way of doing banking, is a trustworthy institution and one that bases its success on helping its customers achieve their goals and projects.

Centralised management of corporate marketing

The committee of corporate marketing and brand, chaired by the Bank's chief executive officer, approves the marketing plans for countries and global businesses; validates their budgets; and monitors the image of the brand and customer satisfaction. It also oversees the positioning of the single brand and ensures that all the Group's advertising and marketing activities are consistent and create value.

This strategic brand management has yielded significant results and global recognition, as shown by Santander's position in the brand rankings of the world's main consultancies, such as Interbrand, Millward Brown and Brand Finance.

In 2013, the Bank made progress in unifying the brand in key markets:

- In the United States, Sovereign changed its brand to Santander.
- In Spain, Banif completed the change of its brand to Santander Private Banking and the switch from Banesto to Santander is almost done.
- In Poland, Bank Zachodni WBK began its transition to Santander.

Banco Santander maintained its international advertising strategy, which contributes to the Bank being perceived as strong, solid and close to its customers.

Santander has registered its brand in the main markets in which it operates worldwide and attaches great importance to the distinctive sign Santander® and its symbol ®. The Group has set up adequate procedures to ensure the legal protection and custody of its institutional and commercial brands during their life cycle. It manages centrally its more than 5,000 registered brands and 5,700 domain names.

Corporate sponsorship

Corporate sponsorship is a key element to bring the business closer to the customer, making the brand better known and consolidating Santander's international position.

- In 2013, Santander marked its fourth year of alliance with the Formula 1 Ferrari team, an agreement that will be extended until at least 2017.
- In Latin America, Santander consolidated is positioning as the 'football bank' by sponsoring the region's main international championships, both for clubs and national teams.

THE SANTANDER TEAM

Santander has 180,000 employees who share the same corporate values and know that keeping customers satisfied and linked with the Bank is the best way of ensuring sustainable and profitable growth for the Group

Isabel Tocino
Non-executive director (independent)

The Human Resources division continued to work with the whole organisation in 2013 in order to improve employees' satisfaction, strengthen their commitment to the brand and enhance their focus on the customer, via all the policies, processes and managing people tools at its disposal.

Talent and leadership

The main task of Banco Santander's Human Resources division is to attract and win the commitment of the best professionals to ensure the Group's leadership in each market. The external initiative, *Santander could be you*, transmits the Bank's value offer to the best candidates from universities, business schools and professional networks worldwide. This communication is strengthened by media, including social networks such as Linkedin, where it has a global profile with 157,300 followers.

Santander has corporate policies and processes to identify high potential employees, using tools such as development and mobility committees, upward assessment of managers and performance management for employees.

In order to foster the personal growth and development of its employees, Santander launched an international vacancies tool in 2013, which increases transparency for the posts available in the Group's other countries. It was first established in Spain with the idea of extending it gradually to the other countries.

Excellence in knowledge

The Group is committed to training its professionals and providing them with a wide range of training programmes based on academic excellence and support for the business. Santander invested EUR 111 million in 2013 for 98,4% of the employees to receive an average of 52 hours of training.

Knowledge excellence at Santander was underscored by CLIP certification (Corporate Learning Improvement Process) granted by the European Foundation for Management Development (EFMD).

Six corporate Human Resources projects to make Santander the best bank

International mobility

The objective is to further strengthen international mobility as a means of disseminating values and the business model, as well as for exchanging knowledge and best practices.

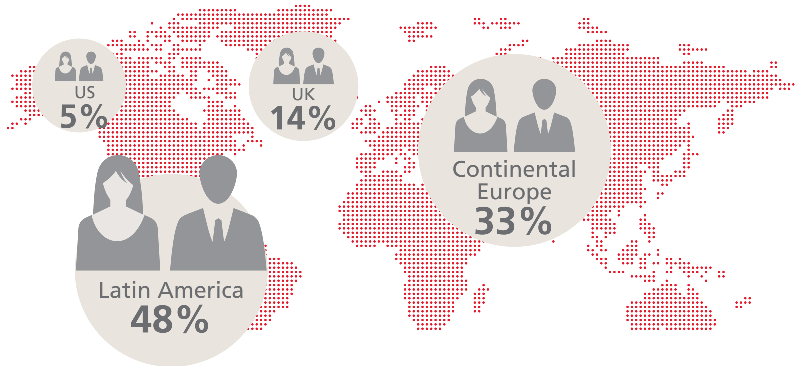
Businesses 2015

Establish common practices in human resources policy for the international business, Select and SME segments in all countries.

Talent map

The Bank is enhancing its corporate framework in order to identify and develop the talent needed to guarantee the success of its business.

GEOGRAPHIC DISTRIBUTION OF PROFESSIONALS



OTHER KEY FIGURES

	Women	Men
	55%	45%
AVERAGE NUMBER OF YEARS WITH SANTANDER	9	11
GRADUATES	55%	45%
AVERAGE AGE (YEARS)	37	39

TOTAL PROFESSIONALS 182,958

Continental Europe	UK	US	Latin America
60,780	25,368	9,741	87,069

Santander is you

The Group's employees share a culture of values, which forms the base of the strength and cohesion that characterise Santander. The *Santander is you* campaign involved many initiatives in 2013 to continue to make Santander one of the best companies to work for, foster pride in belonging to it, promote the integration of all its employees and disseminate its corporate values to all the countries in which the Group operates.

The sixth *Santander is you week,* a global event that aims to foster team work, cooperation and pride in belonging to the Group, was held in June.

The fifth *Santander is you race* was held in September in Portugal, when 57 employees from 17 countries ran from Oporto to Lisbon and participated in corporate volunteer and team activities.

Santander also has an active committed volunteers programme in Spain, in which more than 8,600 people have taken part in two years.

Prizes

- *Alliance for Work-Life Progress* (AWLP) awarded the Santander Group City its *Work-Life Innovative Excellence Award 2013* for fostering the work-life balance.
- Santander Totta was chosen by the magazine *Exame* and the consultancy Accenture as the best company to work for in the financial and insurance sector in Portugal in 2013.
- Named best bank to work for in Spain in 2013 by MercoPersonas and Randstad Awards.
- Santander Brazil was chosen as one of the best companies with which to begin a professional career in 2013, according to the survey conducted by the publishing house Abril in cooperation with Cia de Talentos and the Fundación Instituto de Administración (FIA).
- Best company to work for in the financial sector for Spanish university students, according to *Universum 2013.*
- Santander Río, best company to work for in 2013 in Argentina, according to *Great Place to Work.*

for its customers and employees

Leadership

Analyse the current leadership style, identifying elements for improvement in order to draw up an action plan and establish measurement and continuous assessment mechanisms.

Employee value proposition

Review the advantages of working at Santander, adapting them to local conditions, with a strategy of implementation and corporate and global communication, common to all countries.

Commitment culture

Based on the level of commitment of employees in each country, this project aims to identify areas of improvement and establish a group-wide system of measurement.

SANTANDER, A SUSTAINABLE BANK

For Banco Santander, being sustainable implies doing business and, at the same time, contributing to the economic and social progress of the communities where it is present, taking into account its environmental impact while fostering stable relationships with its main stakeholders.

Read the QR code
See more information in the sustainability section of the corporate website.

Sustainable business model

Santander has a sustainable business model, which is **customer-focused** and centred on generating recurrent revenues and includes not only economic criteria but also long-term ethical, social and environmental values. This model has enabled Santander to remain a **benchmark among international banks**, anticipating challenges and exploiting the opportunities of the current changing environment.

Commitment to stakeholders

Santander has stable and lasting relations with all its stakeholders, in order to understand their expectations, respond to their demands with innovative solutions and build lasting relationships based on trust.

The best corporate governance

Principles of transparency, effectiveness and defence of shareholders' interests guide **Banco Santander's corporate governance strategy.**

The sustainability committee, chaired by the chief executive officer, is responsible for integrating sustainability into the Group's business model.

Contribute to social and economic progress

Santander fosters 'bankarisation' and financial inclusion, as it knows that access to financial services improves the quality of life and contributes to the social and economic development of the communities in which the Bank operates.

Banco Santander's commitment to higher education is one of the keys to social and economic development in the countries in which it operates. The third international meeting of Universia's rectors, which will be held in Rio de Janeiro in July 2014, provides a great opportunity to reflect on, strengthen and transform the university system, in accordance with the training and professional needs of today's young people

Esther Giménez-Salinas
Non-executive director (independent)

Santander Universities

Higher education is the main recipient of the Bank's investment in corporate social responsibility. Santander is convinced that this is the best way to contribute to the economic and social development of the countries in which it does business.

The global Santander Universities division manages Banco Santander's commitment to higher education. Over the past 17 years, it has forged a long-term strategic alliance with universities that is unique in the world. Banco Santander contributed EUR 142 million to university cooperation projects in 2013.

These included launching projects to improve education, the internationalisation and modernisation of universities, the mobility of students and teachers, innovation and projects to foster job creation for students and an entrepreneurial culture in universities.

This cooperation is carried out through agreements; support for international cooperation agreements between universities; promoting cooperation with international academic networks and backing global projects.

Santander Universities in 2013

- Ninety-five cooperation agreements were signed, with a particular focus on the United States, Poland and Germany.
- Launch of the third edition of the work experience in SMEs programme in Spain (5,000 grants) and the first edition in Argentina, the United Kingdom and Puerto Rico.
- Consolidation of the Santander Latin America scholarships programme, first presented at the Second Meeting of University Rectors in Guadalajara, Mexico, in 2010.
- The plan for supporting US and UK universities was presented, with the assistance of rectors and chairmen of the main universities.
- The ninth series of Santander Universities prizes for innovation and entrepreneurship were awarded in Brazil, where 16,130 projects were presented, and prizes were also given in Mexico, Argentina, Chile and Puerto Rico.
- Prize of the decade for the best social commitment programme in Argentina. The Stanford Prize for Innovation in Research Libraries (SPIRL) went to the Miguel de Cervantes Virtual Library.
- Roadshow of the Financial Culture and Education Programme in various Spanish cities.
- Universia published a total of 2,935,904 job offers in 2013 and registered 15,179,017 employment requests through its labour market portals.

142
million
euros for universities

1,115
cooperation
agreements with universities in 20 countries on four continents

22,422
scholarships
and grants for studies in 2013

Universia
1,262
universities
form part of Universia

2

2013 RESULTS

Read the QR code
Full information on the 2013 results is available at the corporate website.

Headquarters of Santander UK, London, UK.

■ Highlights

- → Grupo Santander carried out its business in 2013 in an environment of low economic growth, historically low interest rates, strong regulatory pressure in some of its markets and depreciation against the euro of the main currencies in which it operates.
- → Grupo Santander posted attributable profit of EUR 4,370 million, 90% more than in 2012.
- → The Group continued to generate around EUR 10,000 million of revenues each quarter (at constant exchange rates).
- → Costs have been flat for the last two years.
- → The capital and liquidity ratios are at very comfortable levels with core capital of 11.71% and a loan-to-deposit ratio of 109%.

GRUPO SANTANDER RESULTS

Santander made a profit of EUR 4,370 million in 2013. Lower provisions, once those for real estate exposure in Spain were completed, led to a surge in profit compared with 2012.

Economic environment

The economic backdrop for Banco Santander's business remained weak in 2013. As the year advanced, the gradual upturn in the global economy became more widespread. Developed economies, in particular, began to show a broadly better tone in their growth and inflation remained low, which helped keep interest rates at exceptionally low levels across the yield curve. At the same time, the foundations were laid for a recovery in lending, although, with the exception of the US economy, this will not show up in the actual numbers until this year.

The euro zone emerged from recession and took significant steps towards integration, particularly in banking union. Spain also achieved positive growth in the fourth quarter of 2013, which helped it recover market confidence, as shown by the fall in the risk premium, the rise of the stock market and the inflows of foreign investment.

The positive surprise was in the UK, which ended the year with more dynamic growth rates. The US, which is further advanced in the cycle, had another year of good GDP growth, in spite of its fiscal problems. The pace of growth meant that, at the end of the year, the Federal Reserve was able to announce it would taper its quantitative easing programme.

Emerging economies began 2013 with more modest growth rates than in previous years but this picked up in the second half of the year, albeit unevenly. Mexico clearly improved in the second half and the new government launched a series of far-reaching and ambitious reforms, ranging from taxation to the energy sector.

In Brazil, the need to curb inflation led to interest rate hikes that weighed on economic growth. Overall, Latin America was affected by less favourable financial conditions and lower raw material prices than in previous years, which reduced the region's growth.

Highlights 2013

BRANCHES
13,927

CUSTOMERS (MILLION)
106.6

LOANS*
668,856

DEPOSITS*
607,836

ATTRIBUTABLE PROFIT*
4,370 (+90.5%)

*million euros

Headquarters of Santander UK, London.

Commercial activity and revenues

The Group's customer lending declined 2% as growth in emerging countries (+14%) was insufficient to offset lower demand for loans in mature countries (-6%), in spite of the effort made to support SMEs in Spain and the UK. The Group's deposits grew 0.1%, with significant market share gains in Spain in the last two years.

Despite the still difficult environment, the Group was able to generate around EUR 10,000 million of revenues every quarter (excluding the impact of exchange rates) and EUR 39,753 million for the whole of 2013.

Costs were practically flat at around EUR 5,000 million a quarter, with a downward trend in mature countries and increases in emerging ones because of the continued expansion of the retail network. The Group's cost-to-income ratio (49.9%) continued to place Santander among the most efficient international banks. Synergies from the mergers underway in Spain and Poland are beginning to yield results and should have a greater impact in 2014 and 2015.

The pre-provision profit (net operating income) figure of EUR 19,909 million was among the highest of the world's major banks.

Credit quality

The Group's non-performing loan (NPL) ratio rose to 5.64%, with an uneven performance by country: in Brazil the ratio dropped sharply to 5.64%; in the UK it fell to below 2% and in Spain it increased to 7.49%, affected by the decline in lending and the re-classification of substandard loans. The Group's NPL coverage ratio was 62%.

Net loan-loss provisions declined to EUR 10,863 million (-14.1%), helped by the positive trend in Brazil. As a result, the cost of credit (provisions/total lending) fell to 1.53% from 2.38% at the end of 2012.

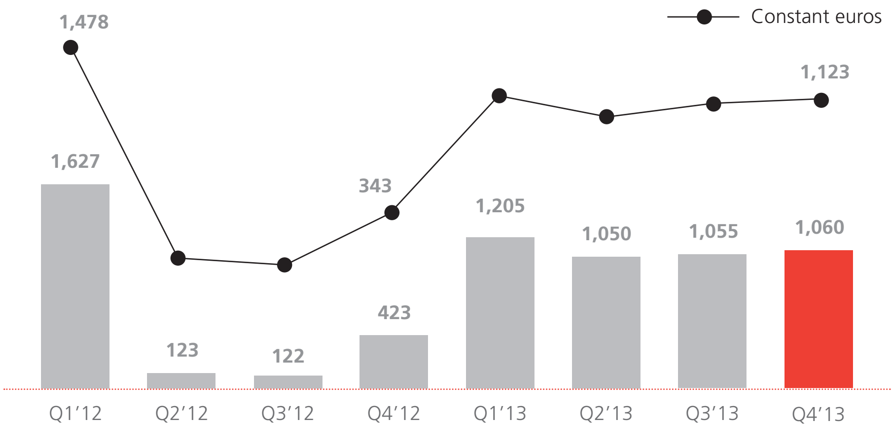
Attributable profit

These trends in revenues, costs and provisions, along with lower real estate write downs, resulted in a 90.5% jump in profits to EUR 4,370 million.

Net profit remained highly diversified in geographic terms: Brazil accounted for 23%, the UK 17%, Mexico and the US 10% each, Spain 7%, Chile, Germany and Poland 6% each, Argentina 5%, Portugal 2%, the rest of Latin America 3% and the rest of Europe 5%.

Santander Select branch in São Paulo, Brazil.

GROUP ATTRIBUTABLE PROFIT
Million euros



Balance sheet strength

In 2013, Grupo Santander continued to reinforce its main capital and liquidity ratios, in response to the difficult economic and financial environment and the new regulatory requirements.

The core capital ratio increased by 138 b.p. to 11.71% (BIS II criteria), highlighting the Group's significant capacity to generate capital organically. The composition of its capital puts Banco Santander in a very comfortable position to comply with the Basel III ratios, whose regulations came into force on January 1, 2014.

Weak demand for loans, together with the Group's capacity to capture deposits through its retail network, enabled Santander to continue to improve its liquidity position in 2013. The commercial gap (the difference between loans and deposits) shrank by EUR 23,000 million and the loan-to-deposit ratio was 109% (113% at the end of 2012).

RESULTS BY COUNTRIES AND BUSINESSES

SPAIN

Santander made a profit of EUR 478 million in Spain in 2013. It has a market share of 13.0% in loans and 15.6% in deposits. It has retail and wholesale banking businesses and online banking (OpenBank).

Santander branch, Madrid, Spain.

2013 highlights

→ In a complicated economic and financial environment, Santander's strategy focused on:
- Reducing the cost of deposits. The cost of new time deposits dropped by 170 basis points.
- Attracting and retaining customer funds. In the last two years the Bank has gained two percentage points of market share.
- Selective growth in lending in sectors such as SMEs and exporters, with a special credit line of EUR 10,000 million that has been taken up by 99,828 customers.
- The improvement in liquidity. The loan-to-deposit ratio improved to 87%.

→ Gross income declined 8.6%, mainly due to lower loan volumes and the re-pricing of mortgages, and operating costs fell 1.4%. The non-performing loan ratio increased to 7.49%, although it was still below the sector average.

→ Santander granted 295,466 loans totalling EUR 25,430 million and gained 40 b.p. of market share.

→ In 2013, it captured 606,663 new customers. The *We want to be your Bank plan,* which exempts linked customers from service charges, was extended to include 804,025 customers from Banesto.

Integration of Santander, Banesto and Banif

The merger is proceeding ahead of schedule. All the retail branches have already been incorporated technologically, bringing forward cost synergies that are expected to reach EUR 436 million in the third year (2015).

The integration makes the branch network better balanced, strengthens company and private banking and expands the range of products and services available.

Contribution to Group profit

7%

BRANCHES
4,067

CUSTOMERS (MILLION)
14.1

LOANS*
159,752

DEPOSITS*
181,117

ATTRIBUTABLE PROFIT*
478 (-44.6%)

*million euros

Read the QR code
Access the Santander Spain commercial website.

POLAND

Bank Zachodni WBK made an attributable profit of EUR 334 million and progressed in its merger with Kredyt Bank.

Read the QR code
Access the Bank Zachodni WBK commercial website.

Bank Zachodni WBK branch in Poland.

2013 highlights

- The merger of Bank Zachodni WBK and Kredyt Bank in January 2013 positions Santander as the third biggest bank in Poland by market share, with 7.4% of loans and 8.4% of deposits.

- Bank Zachodni WBK's business model centres on retail banking and strong support for SMEs, which is complemented by a significant presence in asset management, stockbroking, leasing and wholesale banking specialising in large Polish companies and international customers.

- Loans and deposits rose 1% (constant perimeter) in 2013, which provides the Bank with a solid financial base (it has a loan-to-deposit ratio of 88%). Revenues were stable and costs fell 6%, helped by the first synergies resulting from the merger. Loan quality remains high.

- The Bank continues to offer customers innovative products, such as *An Account Worth Recommending, the Contactless Card,* funds managed by BZ WBK TFI, factoring products and online and mobile banking services.

- The Bank signed an agreement with Aviva in 2013 renewing its strategic cooperation in bankassurance.

Contribution to Group profit
6%

BRANCHES
830

CUSTOMERS (MILLION)
4.2

LOANS*
16,214

DEPOSITS*
18,503

ATTRIBUTABLE PROFIT**
334 (+3.9%)

* million euros
**million euros, variation in local currency and on a like-for-like basis

PORTUGAL

Santander is the third largest private sector bank by assets in Portugal and the leader in terms of attributable profit generated, which in 2013 amounted to EUR 114 million.

Read the QR code
Access the Santander Totta commercial website.

Santander Totta branch in Lisbon.

2013 highlights

- Santander Totta focuses on commercial banking (individuals and SMEs). It has a market share of 10% in loans and in deposits.

- Its strategy is based on increasing linkage and improving the transaction levels of customers, managing spreads on loans and deposits and lifting market share in company lending (*PME Investe* and *PME Crecimiento* lines, factoring and confirming).

- The Bank supports Portuguese companies through initiatives such as the *Plano Activação* and *Top Exporta.* It signed an agreement with the European Investment Bank to provide EUR 200 million of loans to SMEs.

- In a very difficult economic environment, Santander Totta generated positive results, maintained solid capital ratios, kept its non-performing loan ratio under control, reduced the balance of real estate loans and kept them well covered.

- Lending declined 5% and deposits 4%, as a result of which gross income dropped 12%. Costs continued to decline (-2.2%).

- In 2013, Santander Totta was named Best Bank in Portugal by *Euromoney* and *Global Finance* and Bank of the Year by *The Banker.*

Contribution to Group profit
2%

BRANCHES
640

CUSTOMERS (MILLION)
2.0

LOANS*
24,482

DEPOSITS*
24,191

ATTRIBUTABLE PROFIT*
114 (-6.3%)

*million euros

SANTANDER CONSUMER FINANCE

Santander Consumer Finance (SCF) made an attributable profit of EUR 794 million (+9.6%) in Continental Europe, a notable performance in an environment of weak consumption and lower car sales.

Headquarters of Santander Consumer Bank in Mönchengladbach, Germany.

Read the QR code
Access the SCF website.

SCF is one of the European leaders in consumer finance. It specializes in auto finance and also offers products such as personal loans, durable goods financing and credit cards. Its business model is based on providing financial solutions through more than 122,500 associated points-of-sale (vehicle dealers and shops). **In the past five years it has signed 60 auto finance agreements with car and motorbike manufacturers in Europe.**

SCF has adapted well to the weak environment, achieving solid results and increasing its market share of profitable business, thanks to its geographic diversification and its critical mass in key products, strict spread management, a risk control and loan loss recovery system common to all the countries in which it operates and higher efficiency than that of its competitors.

2013 highlights (Continental Europe)

→ SCF's solid results are based on practically stable revenues, a slight rise in costs and, above all, lower loan-loss provisions (-25%). Of note are the results of the Nordic countries, Spain and Germany. The non-performing loan ratio remained low at around 4% and coverage was 105%.

→ Gross lending was steady at EUR 58,500 million, with growth in central and northern Europe and declines in southern Europe.

→ SCF has attained a level of net self-financing. The volume of customer deposits reached EUR 30,878 million and SCF is Europe's largest issuer of auto finance securities, at more than EUR 4,200, and it issued almost EUR 2,000 million of senior debt during 2013.

→ SCF signed a strategic agreement in Spain with El Corte Inglés to acquire 51% of its consumer finance business, the country's leader in financing consumer goods.

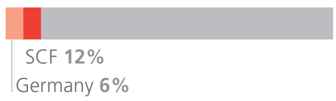
Germany

Santander has 253 branches and 6.4 million customers in Germany, where it is number one in consumer finance and also has a retail banking businesses. Germany accounted for 53% of SCF's profits and 6% of the Group total.

Continued high lending (almost EUR 11,000 million) and the high level of deposits (more than EUR 27,000 million) reflect the consolidation of Santander's business model in the German market.

Contribution to Group profit

12%



BRANCHES
613

CUSTOMERS (MILLION)
12.1

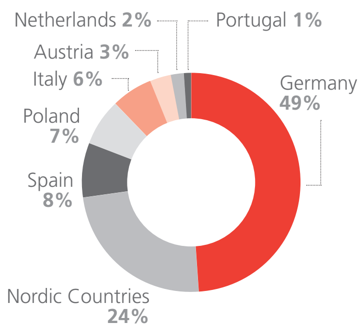
LOANS*
56,024

DEPOSITS*
30,878

ATTRIBUTABLE PROFIT*
794 (+9.6%)

*million euros

NEW LENDING BY COUNTRIES



UNITED KINGDOM

Santander UK posted an attributable profit of EUR 1,149 million in 2013.

Santander branch in London, UK.

The Bank's goal is to support individual customers and companies through simple, personal and fair banking. Its strategy focuses on three objectives: increase the number of loyal and satisfied retail customers, become the first choice bank of companies and seek a consistent profit and a strong balance sheet.

It has a growing weight in current accounts, thanks to the innovative *1|2|3* current account and is continuing to grow its presence in corporate banking and SMEs, which already account for 12% of customer loans.

2013 highlights

→ Santander UK's attributable profit was £976 million, 16.4% more than in 2012. Net interest income rose (+8.3%), while costs remained broadly flat, absorbing the investments in businesses. Provisions fell 24.6%, due to the improved quality in retail and corporate businesses. The non-performing loan (NPL) ratio was reduced to 1.98%.

→ In personal banking, *1|2|3 World* products attracted more than 1.1 million new customers in 2013 to a total of 2.4 million. Thanks to the *1|2|3* current account, which attracts high quality primary banking clients, current account balances grew by £12,000 million (+75%). In addition Santander UK was the first choice for customers switching their current account provider in 2013, with a net gain of 11% of accounts transferred. New mortgage loans amounted to £18,483 million, 27% more than in 2012.

→ Lending to SMEs and large companies increased 13% in 2013, the fourth straight year of double-digit growth. Commercial banking is carried out via a network of dedicated corporate business centres, of which there were 50 at the end of the year. Santander UK also introduced a new advanced online banking service for corporate customers.

→ Santander UK is one of the strongest and best capitalised banks in the UK. Its capital position improved in 2013, with a Common Equity Tier 1 Capital ratio of 11.6% under CDR IV. The loan-to-deposit ratio reached 123%.

Contribution to Group profit

17%

BRANCHES
1,157

CUSTOMERS* (MILLION)
25.5

LOANS**
231,046

DEPOSITS**
187,467

ATTRIBUTABLE PROFIT***
1,149 (+16.4%)

* Santander UK has 14 million active customers
** million euros
***million euros, variation in local currency

Read the QR code
Access the Santander UK commercial website.

BRAZIL

Santander Brazil is the country's third largest private sector bank by assets. It posted a profit of EUR 1,577 million.

Santander branch in São Paulo, Brazil.

2013 highlights

→ Lending grew 7%, mainly due to mortgages (+32%) and large companies (+17%), and customer funds increased 9%. These increases, however, did not feed through to gross income (-6%) due to the narrowing of interest rate spreads throughout the banking sector.

→ Costs rose by a moderate 4%, below the inflation rate. Provisions declined 9% and the NPL ratio fell sharply to 5.64%, below the average of competitors.

→ Santander Brazil's objective is to grow in an efficient, profitable and customer-focused way. It continued to progress in 2013 in developing its four-pronged strategy:

1. **Customer satisfaction:** launch of the *Trabalhar Bem* plan, which seeks to identify and resolve the problems that generate complaints and dissatisfaction.

2. **Efficiency:** improve internal processes in order to become a simple bank for customers.

3. **Commercial model:** measures to increase customer linkage.

    - Launch of *Cuentas Combinadas*, services that offer a current account and credit card designed to meet the needs of four main individual customer profiles.

    - Launch of the Santander Select specialized attention model for high-income customers.

    - Signing of the agreement with the multinational iZettle, which means companies can accept customer transactions via smartphones or tablet.

4. **Disciplined use of capital:** on September 26 the Bank announced it was optimising its capital structure by replacing BRL 6,000 million of core Tier 1 capital with newly issued instruments of an equivalent value eligible as regulatory capital, which would be offered to the Bank's shareholders. The operation improves the Bank's profitability, rewards shareholders and does not involve reducing the Group investment in the country.

→ *Bloomberg Markets* magazine named Santander Brazil in 2013 as the most solid bank in South America.

Contribution to Group profit

23%

BRANCHES
3,566

CUSTOMERS (MILLION)
29.5

LOANS*
66,446

DEPOSITS*
61,490

ATTRIBUTABLE PROFIT**
1,577 (-17.8%)

* million euros
** million euros, variation in local currency.

Read the QR code
Access the Santander Brazil commercial website.

MEXICO

Santander Mexico's attributable profit amounted to EUR 713 million in 2013.

Santander branch in Mexico.

Santander is the country's fourth largest financial group by business volume, with a market share of 13.9% in loans and 15.1% in deposits.

2013 highlights

- In 2013, in a context of slower growth, lending increased 12% and deposits 4%, and Santander outperformed the rest of the market in its strategic businesses:
  - Mortgages: growth of 28% consolidated the Bank as the country's second largest mortgage provider, thanks to the acquisition of ING Hipotecaria.
  - SMEs: the Bank secured its leadership, increasing its lending by 26%, which earned it the recognition of the Mexican economy minister as the leader in financing SMEs.

- Gross income continued to rise notably (+8%), with a positive trend in its main components. Fee income (+8.1%) and net interest income (+5.9%) stood out.

- Costs increased 10%, mainly due to the growth in the retail network. As part of its strategic plan to accompany the expansion of the country's economy, Santander Mexico opened 88 new branches. Its efficiency ratio of 40.7% makes it one of Mexico's most efficient banking franchises.

- Loan-loss provisions rose 72%, largely because of those set aside for homebuilders *(viviendera)* in the second quarter.

- In order to boost linkage, campaigns were conducted to improve the interest rates on loans granted to linked customers, and differentiated customer service models have been set up, supported by a solid multi-channel distribution platform. Santander Mexico also launched the *Firma Vocal*, enabling customers to identify themselves for telephone banking by their voice instead of with passwords.

- Santander Mexico optimized its capital in order to make it more efficient and improve profitability so as to carry out its business plan. It issued USD 1,300 million of subordinated debt, which counts as supplementary capital under Basel III rules. This was the first such issue by a Mexican bank.

- *Euromoney* and *LatinFinance* recognized Santander Mexico in 2013 as the Best Bank in Mexico.

Contribution to Group profit

10%

BRANCHES
1,258

CUSTOMERS (MILLION)
10.5

LOANS*
22,269

DEPOSITS*
24,663

ATTRIBUTABLE PROFIT**
713 (-12.2%)

* million euros
** million euros, variation before minority interests in local currency

Read the QR code
Access the Santander Mexico commercial website.

CHILE

Santander Chile is the country's largest bank in terms of assets and customers. Attributable profit in 2013 amounted to EUR 435 million.

Read the QR code
Access the Santander Chile commercial website.

Santander branch in Chile.

2013 highlights

→ Santander Chile has a market share of 19.1% in loans and 16.8% in deposits.

→ Lending increased 11% in 2013 (+16% in high income and +14% in SMEs) and deposits grew 8%. Gross income increased 3.0% in local currency.

→ The Bank continued to develop its strategic plan for 2015, whose main pillars are: focus on retail business with individual customers and SMEs, improving service quality; conservative risk management; and strict cost control.

→ Customer segmentation and the range of products were simplified, improving service quality and post-sale support. The Select brand was launched for the high-income segment and progress was made in defining the new value proposition for medium income clients. The roll-out of the new customer relationship management (CRM) system was completed, the new commercial system was installed and alternative channels (Internet, call centre and cashpoints) were strengthened.

→ *Global Finance* magazine recognized Santander Chile as the Best Bank in Chile and the Best Internet Bank.

Contribution to Group profit

6%

BRANCHES
493

CUSTOMERS (MILLION)
3.5

LOANS*
28,783

DEPOSITS*
20,988

ATTRIBUTABLE PROFIT**
435 (-6.6%)

* million euros
** million euros, variation in local currency

ARGENTINA

Santander Río is the country's leading private sector bank by assets and earnings. Its attributable profit was EUR 333 million in 2013.

Read the QR code
Access the Santander Río commercial website.

Santander Río branch in Argentina.

2013 highlights

→ Santander Río has a market share of 9.1% in loans and 9.6% in deposits. In an environment of lower growth, the Bank's business was dynamic, with loans growing 35% and savings 30%. Gross income increased 30.7% in local currency.

→ The commercial strategy centred on attracting and linking customers, particularly high income ones and SMEs, through a multi-channel network focused on quality of service and customer satisfaction. The number of traditional branches increased 2% and new Select spaces were created for affluent clients.

→ Santander Río was named as the Best Bank in Argentina in 2013 by *Euromoney* and *The Banker* magazines and the Best Company to Work For by the *Great Place to Work* consultancy.

→ In the medium and long term, Santander Río will focus on improving its efficiency and the quality of customer service by investing in technology and cost management. It aims, thus, to maintain its high level of profitability, based on its leadership position in transaction banking and growth in lending and savings.

Contribution to Group profit

5%

BRANCHES
377

CUSTOMERS (MILLION)
2.5

LOANS*
5,095

DEPOSITS*
5,873

ATTRIBUTABLE PROFIT**
333 (+26.3%)

* million euros
** million euros, variation in local currency.

UNITED STATES

Santander US made an attributable profit of EUR 724 million. The Bank does retail banking under the Santander brand and consumer finance through Santander Consumer USA.

The rebranding of Santander in the US in October.

The Bank's business model is centred on 1.7 million retail customers and companies in nine states in the US north-east, where it has significant market share. Santander Consumer USA (SCUSA) provides loans to buy new and used cars via 14,000 auto dealerships across the country.

2013 highlights

→ Sovereign Bank became Santander Bank in October 2013. The Bank is now preparing for a new stage of building a retail franchise centred on offering customers a new value proposition and satisfying their needs while exploiting the Group's international scope.

→ Santander US announced a three-year USD 200 million investment plan to improve customer service, which will involve remodelling branches, installing new cashpoints, products and channels and includes the new website www.santanderbank.com and more applications for mobile phone banking.

→ Coinciding with the change of brand, Santander US launched the *Extra20 checking* account, which rewards customers with USD 20 a month if they have USD 1,500 of income domiciled in their account and have two or more direct debits via online banking.

→ Santander US made an attributable profit of USD 961 million, 7% lower than in 2012. This was the result of sales of the loan portfolio, revenues continuing to be affected by market conditions and the cost of investments to develop the franchise.

→ SCUSA contributed USD 413 million of profit. The agreement in February with Chrysler and the positive trends in the auto finance market continued to boost its business.

→ At the beginning of January 2014, SCUSA was successfully listed, with a market value of USD 8,300 million and capital gains for Grupo Santander of EUR 740 million.

Contribution to Group profit
10%

BRANCHES
706

CUSTOMERS (MILLION)
1.7

LOANS*
37,682

DEPOSITS*
35,537

ATTRIBUTABLE PROFIT**
724 (-7.1%)

* million euros
** million euros, variation in local currency

Note: The figures for customers and business do not include SCUSA as it consolidates by the equity accounted method.

Read the QR code
Access the Santander Bank commercial website.

GLOBAL BANKING & MARKETS

Santander Global Banking & Markets' attributable profit was EUR 1,503 million, 22% of the total for the Group's operating areas.

Treasury room, Santander Group City, Boadilla del Monte, Madrid, Spain.

Santander Global Banking & Markets (SGBM) is the global business unit for corporate clients and institutions that, because of their size, complexity or sophistication, require specially-tailored services or value-added wholesale products.

2013 highlights

→ SGBM continued to reinforce its business model, which rests on three pillars: a focus on the customer, strong global product capacities and interconnection with its local units. Active management of risk, capital and liquidity are part of its strategy, which has required it to adapt its range of products to the new market conditions.

→ Revenues generated by customer business accounted for 87% of total gross income. The generation of recurrent revenues and strict management of costs enabled SGBM to maintain its efficiency ratio at 33.7%, which is still a reference for the sector.

→ In 2013, SGBM followed the Group's footsteps in its international development in Poland and continued to increase its coverage of corporate clients in the US north-east and in the UK.

Major transactions in 2013

→ SGBM led the advisory, execution and syndication phases of a EUR 42,000 million swap contract for Sareb[3], the largest interest rate hedging contract in the euro's history.

→ In the project bonds market, it led operations such as the USD 1,700 million issue by Brazil's Odebrecht in the US market and a MXN 7,500 million bond for Red de Carreteras de Occidente in Mexico.

→ It participated in Verizon's USD 49,000 million bond issue to finance the acquisition of Vodafone's 49% stake in Verizon Wireless, the largest corporate issue ever.

→ It is major advisor for foreign investors in Spain. In 2013, it advised Beijing Enterprises' on its acquisition of Veolia Environment; British Columbia Investment Management Corporation on its purchase of 5% of CLH from Galp; and Branch Management (Mexico) on its acquisition of 253 branches from Banco Sabadell.

→ SGBM was Telefónica's sole advisor in the sale of 40% of its assets in Guatemala, El Salvador, Nicaragua and Panama.

3. Sareb: Company for the Management of Assets proceeding from the Restructuring of the Banking System.

LOANS*
77,511

CUSTOMER DEPOSITS*
58,366

ATTRIBUTABLE PROFIT*
1,503 (-21.4%)

EFFICIENCY RATIO %
33.7

* million euros

Read the QR code
Access the SGBM website.

ASSET MANAGEMENT

Santander has a wide range of savings and investment products covering different customer needs, which are distributed globally by its retail networks.

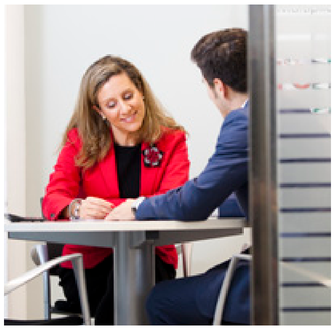
This activity revolves around three business areas: Santander Asset Management (SAM), for mutual and pension funds, companies and discretional portfolios; Santander Real Estate, specialized in managing property investments; and Santander Private Equity for venture capital. Santander Asset Management continued in 2013 to develop a global business model supported by local fund managers' market strength and knowledge.

2013 highlights

→ Santander reached a strategic agreement with Warburg Pincus and General Atlantic to strengthen its global asset management business. Warburg Pincus and General Atlantic will jointly hold a 50% stake in a holding company that will group SAM's 11 asset management companies, mainly in Europe and Latin America. This agreement will improve SAM's ability to compete with the leading international asset managers, while leveraging on its knowledge and experience in the markets where it operates.

→ New profiled funds were launched in Mexico and Chile for Select clients. Brazil, Portugal and Poland will also offer these products in 2014.

→ New local institutional mandates were awarded to manage various types of assets, such as fixed income, multi-strategy, structured products and equities in Brazil, Spain and Mexico.



ASSETS UNDER MANAGEMENT*
156,352

GROSS INCOME*
340

ATTRIBUTABLE PROFIT*
80

EFFICIENCY RATIO
57.7%

* million euros

PRIVATE BANKING

Private banking includes the units that specialise in providing advice and overall asset management for the Group's high net worth customers.

Santander Private Banking units operate in Spain, Italy, Portugal, Brazil, Mexico and Chile, where they provide domestic private banking services, and in the US and Switzerland, where they provide services for international clients.

2013 highlights

→ Assets under management rose 11%, thanks to generating new business and winning new customers. Attributable profit was EUR 154 million.

→ The integration of Santander, Banesto and Banif in Spain under the Santander Private Banking brand gave a boost to business and strengthened Santander's leadership in the Spanish private banking market.

→ With the establishment of the specialized advice model in Portugal, Brazil, Chile and Mexico, the process was completed in all the markets where the Santander Private Banking brand operates. This model combines knowledge of markets at local level with the global view that professional investment management requires. The objective is to watch over and protect customers' investments, while constantly respecting their individual preferences in terms of portfolio risk, concentration of products, liquidity and financial culture.

→ *The Banker* and *Private Banker International* magazines named Santander Private Banking as the Best Private Bank in Latin America. *Euromoney* magazine recognized the units in Spain, Chile and Portugal as the Best Private Banks.

ASSETS UNDER MANAGEMENT*
110,911

GROSS INCOME*
688

ATTRIBUTABLE PROFIT*
154

EFFICIENCY RATIO
51.5%

* million euros

INSURANCE

Santander Insurance develops products for household protection and savings, with a segmented offer and multi-channel distribution to more than 17 million customers in 20 countries.

2013 highlights

→ In 2013 Santander Insurance concentrated on developing a sustainable business model centred on:
- Completing and segmenting the range of products, with the focus on Select and SMEs.
- Reinforcing the multi-channel strategy.
- Strengthening bancassurance thanks to strategic alliances with Aegon in Spain (transaction closed in 2013 with a capital gain for the Group of EUR 385 million) and with Zurich in Brazil, Mexico, Chile, Argentina and Uruguay. An agreement was also signed in 2013 between Bank Zachodni WBK and Aviva to bolster insurance distribution through the branch network in Poland.

→ In Europe, the division continued to develop the insurance business independently of lending, with significant growth in all networks (Spain, Portugal, the UK and Poland), while the savings business also stood out.

→ The premium income of the insurers created in Ireland, to sell personal protection products distributed via Santander Consumer Finance, amounted to EUR 580 million.

→ In Latin America, progress was made in creating recurrent insurance business, which is less dependent on the credit cycle, with continuous investment to ensure the quality of customer service. Autocompara consolidated itself as an insurance comparison service for the whole region.

→ Santander adhered to the United Nations Principles for Sustainable Insurance in January 2014, underscoring its commitment to the societies in which it does its business.

TOTAL REVENUES*
2,641

GROSS INCOME*
423

ATTRIBUTABLE PROFIT*
233

* million euros

MEANS OF PAYMENT

Santander Cards provides credit and debit cards for individuals and companies and services to help retailers capture customers and process payments. It manages 110 million cards in 16 countries and contributed 11% of Group gross income in 2013.

This unit uses a global methodology, a common technology platform, a standardised risks model and global management tools.

2013 highlights

→ Launch of the *Débito Global Select,* which will be the symbol of this segment at global level, with a common image in all countries. It represents the first tangible offer of global value for customers in that they can withdraw cash from any Santander cashpoint with no charge. Two cards were also launched for this segment in Chile: *World Elite* and *Titanio*.

→ Santander continued its commitment to innovation:
- It took a stake in iZettle, the pioneering company for card payment acceptance through smartphone or tablet in Europe. Clients of Santander in Brazil, Spain, Mexico and the UK now have this tool.
- The *Contactless* card, which can be used without contact with a point-of-sale terminal, was introduced in the UK and Poland. There were pilot e-commerce wallet initiatives in Spain and the UK. In Chile cards migrated to chip technology, enhancing security.

→ Santander Cards launched the *123* card in Spain, where there are more than 100,000 units in the market, and in Poland. Since 2010, more than 560,000 Ferrari cards were issued in seven countries. The alliance with the airline Iberia was also strengthened with the launch of the *Iberia* card in Mexico.

TOTAL NUMBER OF CREDIT CARDS (MILLION)
30

TOTAL NUMBER OF DEBIT CARDS (MILLION)
80

LENDING*/**
14,691

GROSS INCOME*
4,541

* million euros
** not including Santander Consumer Finance

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 la Pereda, numbers 9 to 12, Santander.

Operational headquarters

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain

General information

Telephone: 902 11 22 11
Telephone: 91 289 00 00

www.santander.com

Shareholders' Office

Santander Group City
Edificio Marisma, Planta Baja
Avenida de Cantabria, s/n.
28660 Boadilla del Monte
Madrid
Spain
Telephones: 902 11 17 11 and +34 91 276 92 90

Relations with investors y analysts

Santander Group City
Edificio Pereda, 1ª planta
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain
Telephone: +34 91 259 65 14

Customer attention department

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain
Telephone: 91 257 30 80
Fax: 91 254 10 38
atenclie@gruposantander.com

Ombudsman

Mr José Luis Gómez-Dégano,
Apartado de Correos 14019
28080 Madrid
Spain

This report was printed on ecologically friendly paper and has been produced using environmentally friendly processes.

Photographs:
Miguel Sánchez Moñita, Lucía M. Diz, Javier Vázquez, Ángel Baltanás, Íñigo Plaza, Cris Ryan.

Production:
MRM Worldwide

Printing:
www.LITOFINTER.com

Legal deposit:
M-6946-2014

At Banco Santander, we take advantage of new communications technologies and the social networks to improve dialogue with our stakeholders.

Read the QR code
Access our social network profiles via the corporate website.

Santander

Santander

a bank for your ideas

www.santander.com