

We want to help people and businesses prosper



2014

Annual
review

Annual review 2014



6 MESSAGE FROM ANA BOTÍN, GROUP EXECUTIVE CHAIRMAN

"Our foundations give us a unique opportunity to further improve our culture, to build better and more lasting relationships with our customers."



24 BUSINESS MODEL AND STRATEGY

Santander's business model is customer-focused, enabling it to compete successfully in the international banking panorama.



50 2014 RESULTS

Santander posted an attributable profit of €5,816 million in 2014 (+39.3%).

1

- 4 Santander in 2014
- 6 Message from Ana Botín, Group executive chairman
- 12 Message from José Antonio Álvarez, chief executive officer
- 18 Corporate governance

- 24 Business model and strategy
- 26 Purpose and business model
- 28 Aim and value creation
- 30 Employees
- 34 Customers
- 38 Shareholders
- 42 Communities
- 46 Risk management

2

- 50 2014 results
- 52 Economic, banking and regulatory environment
- 56 Highlights
- 58 Markets
- 66 Global businesses
- 68 Historical data
- 70 General information



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Santander in 2014



«Santander's purpose is to help people and businesses prosper. We want to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.»

Ana Botín

Group executive chairman

Employees



185,405

employees

Customers



117

million customers

Shareholders



3.2

million shareholders

Communities



12

million students and teachers benefit from cooperation agreements between universities and the Bank

Gender



45%



55%

International network



12,951

branches



€0.479

EPS in 2014

Agreements with universities



1,175

cooperation agreements in 21 countries



97%

employees received training in 2014



734,711

million euros

Customer loans (net)



#1

largest market capitalisation in the euro zone

Positioning



146

million euros for universities

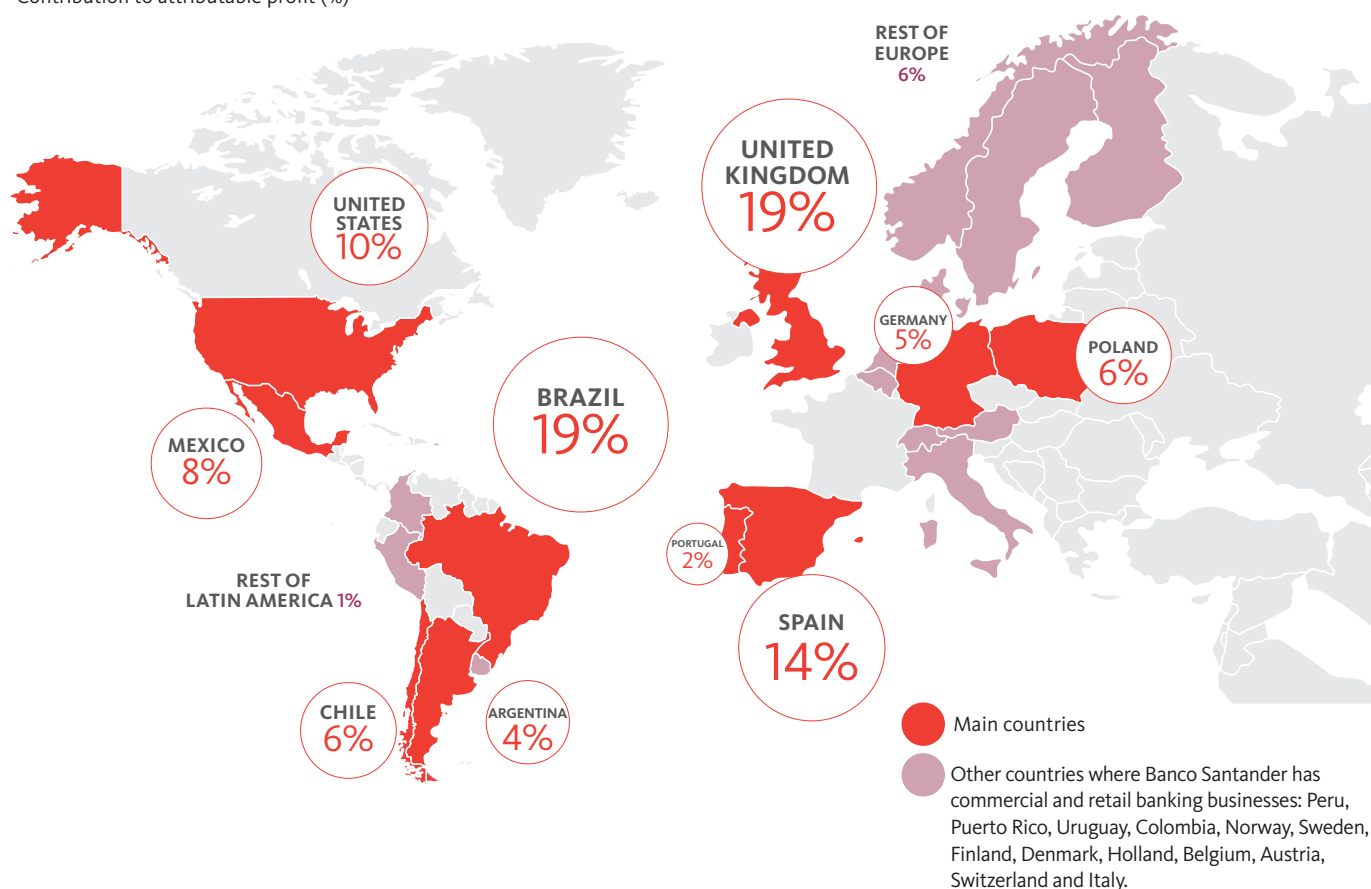
Contribution to higher education

Recognitions



Geographic diversification

Contribution to attributable profit (%)



Financial indicators

Total on-balance sheet assets

1,266,296

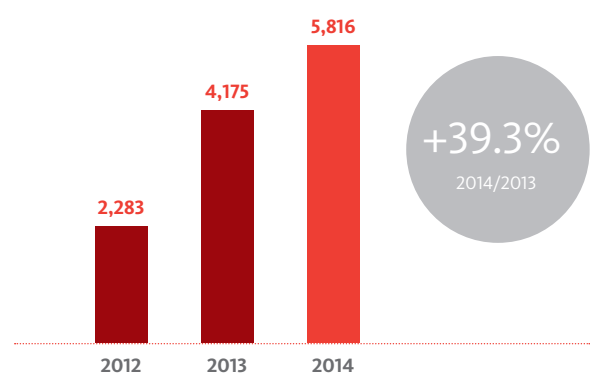
Million euros

CET1 fully loaded

9.7%

Group attributable profit

Million euros



Balance sheet and results (Million euros)

	2014	2013
Customer loans (net)	734,711	684,690
Customer deposits	647,628	607,836
Shareholders' funds	80,806	70,326
Gross income	42,612	41,920
Pre-provision profit (net operating income)	22,574	21,762
Attributable profit to the Group	5,816	4,175

Ratios (%)

	2014	2013
Earnings per share (euros)	0.479	0.385
RoE*	7.0	5.8
RoTE*	11.0	9.6
Efficiency (with amortisation)	47.0	48.1
Non-performing loan (NPL) ratio	5.2	5.6
Loan-to-deposit ratio	113	112

* Proforma figure in 2014 that includes the January 2015 capital increase of €7,500 million.

Message from Ana Botín



Ana Botín, Group executive chairman.

▼ I became Group executive chairman of Santander Group last September. As you will know, since then we have made some significant changes to the board and governance and to the management team. We have also focused on reviewing our capital position and our dividend policy. This done, I now want to focus on how Santander is to grow in the years ahead. To do that, we have reviewed the markets in which we do business, our strategy and how we operate.

I now want to set out why I am so confident about Santander's future – the fantastic opportunities for growth that lie before us, and how we are going to take advantage of them.

Santander today

Santander is a retail and commercial bank listed in Madrid and on the NYSE, among others, with a market capitalization of ~€90bn, total assets of €1.2 trillion and a capital base of ~€88bn. In 2014 the Bank achieved a net attributable profit of €5.8bn in 2013 and remunerated shareholders with €0.60 per share.

The bank has a unique model and franchise to compete in the global retail banking landscape. This model has been developed over the last 158 years, especially under the inspiring leadership of my father Emilio Botín. At its core lies:

- **A diversified presence.** Our well-balanced emerging-mature markets mix is delivering growth above our peers. Average GDP growth in our markets is forecast to be close to 3% in 2016.
- **Strong retail and commercial operations.** We are or aim to be one of the top 3 banks in our core 10 markets, which give us access to one billion customers.
- **Autonomous subsidiaries in liquidity and capital.** This creates incentives for good local management and enhances our stability and flexibility.
- **International talent management, a common culture and a top global brand.** We are able to attract and retain world class talent. We have a shared approach as to how we want to operate and behave. And we have created a powerful, global brand: according to Brand Finance, we are number 10 in the world.
- **Prudent risk management and balance sheet strength, underpinned by our Group's solid control framework.** We have delivered a dividend every year for more than 50 years, including during the financial crisis.
- **Investment in innovation, driving digital transformation, and sharing best practice.** Our global scale enables the Group to add value to our subsidiaries around the world.



Market
capitalization
88
bn euros



Total assets
1.2
trillion euros



Capital base
88
bn euros

Our virtuous circle



At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair

Santander's purpose, aim and culture

These strong foundations give us a unique opportunity to grow. We can only do this with **a team that fulfills Santander's purpose, understands its aim and lives by its values.**

Santander's purpose is to help people and businesses prosper.

Back in 1857, the founders of Santander wanted to finance trade between Spain and Latin America that generated jobs and prosperity in both continents. Today, our role is obviously broader but the outcome of our efforts is the same.

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

I am convinced that the only way to achieve such aim is by having the best possible relationships with our team, our customers, our shareholders and the communities that we serve. And the most precious asset in these relationships is loyalty:

- A loyal team is one that feels motivated, engaged and rewarded to go the extra mile for customers.
- When our customers get excellent service and can see we are addressing their personal needs, their loyalty to us will grow.
- When that happens, our return and value will also grow – securing loyal shareholders who will invest more in us.
- This, in turn, allows us to do more to support our local communities, generating loyalty to us and strengthening our team's pride in the business.

And then this virtuous circle will begin again.

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair.

We have picked these three words because, together, they reflect what our teams and our customers around the world tell us they want from a bank.

A **simple** bank offers its customers a service that is convenient and products that are easy to understand, however and whenever they choose to bank. It makes its processes better every day, so they are easy and clear for customers and its team.

A **personal** bank treats its customers as valued individuals, providing a professional, personal service they can trust. It supports colleagues to develop their skills and achieve their ambitions.

A **fair** bank treats people as they like to be treated – and it earns investors an adequate and sustainable return, while contributing its share to help communities.

Our strategy going forward

As I said, we have reviewed our strategy from the perspective of our purpose, our aim and our culture. I should stress that I am not in favor of changing processes or platforms that are delivering results. We will stick to the elements that have underpinned our success and will build upon them to take Santander to the next level and achieve our goals.

With Simple, Personal and Fair as our guiding principle, we will focus on the following:

People

A strong internal culture. Above all else, Santander's continued success depends on our employees. We should be able to attract, retain and develop our talent to have the best professionals, so we have a very ambitious goal for 2017: to be the one of the Top 3 banks to work for in the majority of our core geographies (according to the relevant rankings).

Customers

Earn the loyalty of our retail and commercial customers; and improve our franchise. We have more than 100 million customers: 53 million are "active", but only 13 million are classified as "loyal", that is, banking regularly with us. This presents us with a great opportunity – and one we need to grasp.

For instance, if 40% of our total retail active customers were to become "loyal" in UK and Spain, and 25% in Mexico and Brazil, we could generate two to three billion Euro of additional income. Critically, these would be satisfied customers, and that means a better and more sustainable revenue generation.

In the UK, for example, we **increased the number of loyal customers from about 1 million to 3.3 million** by rewarding their loyalty with our innovative, transparent, value-adding products and services, such as the 1|2|3 world, for both existing customers and new customers. By having more loyal customers we were able to reduce the cost of our retail deposits and our Group **profit before taxes in the UK rose from £1,008m in 2012 to £1,612 in 2014 (+c.60%)**.

So we know how to earn and retain loyalty. Our task now is to change how we do things, so that we increase the loyalty of retail and commercial customers across all our core markets in Europe and the Americas.

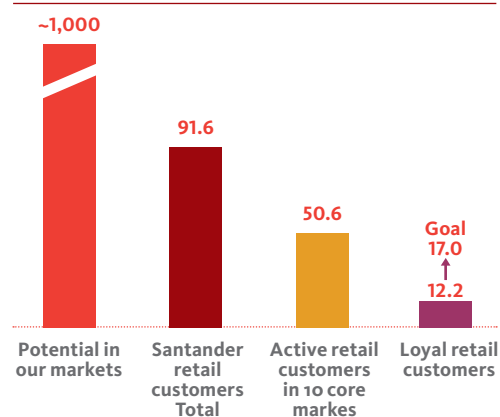
Our goal for 2017 is to have 17 million loyal retail customers —40% more than today— and 1.1 million loyal SME customers.

Operational Excellence: We will continue to build on our operational excellence, starting with customer satisfaction. Our goal is to be within the top 3 group in customer satisfaction across our core markets.

Our digital offering is key to this. Only 28% of customers use our digital channels now: **the objective is to increase this to 45% in 2017**. To achieve this, a number of initiatives have already started including a Multichannel Development Plan, Mobile First, the deployment of Smart ATMs and our unique Innoventures Fintech Fund.

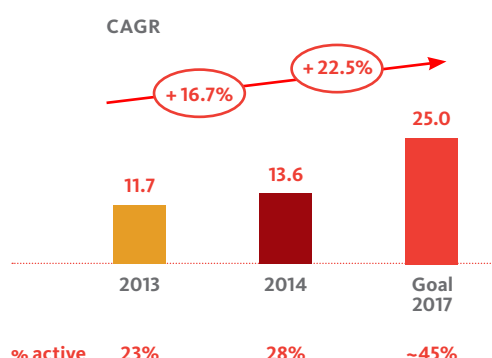
Our opportunity

Retail customers (million)



Digital transformation

Number of digital customers



The results of these initiatives are encouraging. In 2014 alone the number of digital customers across the Group grew by 17%.

We will also continue to simplify internal processes and to improve the role of the Corporate Center in order to achieve our efficiency plan targets of a Cost to Income of less than 45% by 2017.

In 2014 we improved this ratio to 47% from 48% in 2013. We are, for example, simplifying the group structure from 15 to 11 divisions.

Shareholders

Reinforced capital and risk management. Even before our capital increase we were amongst the best in several important capital ratios, as shown by the recent AQR and stress tests where we came out “best-in-class”.

Our €7.5bn capital increase was a huge success: 235 investors participated with a total demand of above €11bn –79% of the demand coming from US and UK investors.

We did this for two reasons. First, we wanted to be able to accelerate organic growth, with the new capital allowing us prudently to gain profitable market share now that most of our core markets are forecast to see economic growth once again.

Second, we wanted to be able to have in place a sustainable dividend policy and increase the cash component of the pay-out to between 30-40% of recurrent earnings. **Our cash dividend will go up from €1bn to €2.5bn.**

Looking ahead, we will be amongst the best in overall capital ratios, reaching a CET1 fully loaded of 10% in 2015 and a target 10-11% for 2017.

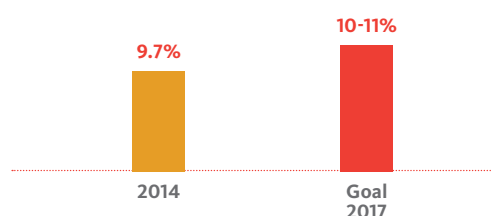
We will focus on organic growth – mainly in Europe and the Americas; be stricter in our capital allocation – allocating capital to businesses with higher potential returns; and although acquisitions are not a priority, were we to consider an acquisition, we would be stricter in our criteria. Our goal is a ROTE of 12-14% by 2017.

To achieve this, excellence in risk management is essential. We are working on a Group Wide Risk Management Program to enhance our holistic and timely control of all types of risks. In our Risk Data Aggregation project alone we are investing €500m. Our goal is to continue to achieve a predictable risk profile, with NPLs below 5%.

The most important aspect of risk management, however, is strong corporate governance. Banco Santander’s board of directors is fully involved in the Group’s risk oversight and management. Our modern, diverse and international board has broad knowledge of different sectors and the right balance between executive and independent directors (60% of the total), and 33% are women.

Reinforced capital

CET1 fully loaded



I would like to thank Fernando de Asúa and Abel Matutes for their invaluable contribution to the Bank over many years.

Enhanced profitability. Our strategy of focusing on loyal customers will enable us to deliver higher growth than our peers and improved profitability to our shareholders.

Our aim is to deliver higher EPS growth than peers.

Communities

Santander Universities lies at the heart of our support for our communities.

Since 1996 Banco Santander has invested more than EUR 1.0 bn in universities projects and has supported more than 160,000 students and professors through its scholarship program in countries where we operate.

Over the next four years we will invest EUR 700 million in universities; and we will continue to support charities and NGOs on a range of other initiatives, including corporate volunteering.

The ultimate measure of success

I joined Santander in 1988, so I know well the Santander team and our businesses around the world. Over the last few months, we have made the necessary changes both at executive and board level so that, together, we will become the **best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.**

Ultimately, the measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers.

I am confident we will achieve this because each of us at Santander is committed to going the extra mile to serve our customers. **I would like to thank every member of our team:** their hard work, commitment and loyalty to Santander are the foundation of our success.

Finally, I would like to thank you, as one of our shareholders, and our board for the support and loyalty shown over the years. We can all be proud of what has been achieved - but our best days lie ahead.

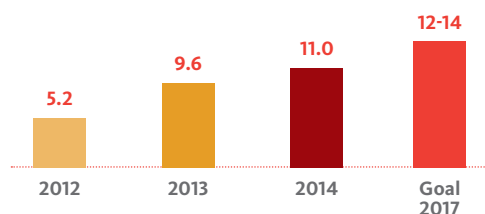
Kind regards and all the best for 2015,

Ana Botín
Group executive chairman



Enhanced profitability

Return on tangible equity (RoTE) %



The measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers

Message from José Antonio Álvarez



José Antonio Álvarez, chief executive officer.

2014 was a year when the global economic situation improved, particularly in the developed economies, the hardest hit by the financial crisis. The financial situation of both consumers and companies improved which, coupled with the measures taken by central banks, is facilitating access to credit.

The year, however, was not free of volatility and uncertainties, with geopolitical risks and falls in commodity prices. Interest rates continued to decline globally, particularly in the euro zone where the ECB's benchmark rate was 0.05%. The regulatory environment also continued to evolve with new capital measures and new stress tests conducted by several of our regulators, which our Bank passed in all cases better than the sector's average.

In this environment, Grupo Santander generated an attributable profit of €5,816 million in 2014, 39.3% more than in 2013. Attributable profit per share was 24.4% higher at €0.479.

We posted a higher quality profit, characterised by:

- **Gross income** rose in nine of the 10 core units, mainly due to the improvement in commercial activities.
- **Costs were controlled;** they rose in the Group at below the average inflation rate, while absorbing investments in order to be able to grow.
- **Loan-loss provisions declined** in seven of the 10 core units, particularly in countries hit by recession or affected by an economic downturn in the last few years.
- **All units increased their pre-tax profits** in local currency for the first time since 2007, reflecting a differentiated management and one tailored to each country's situation.

As regards the **balance sheet**, the downward trend in lending was reversed and growth returned at Group level after several years of falling. Moreover, this growth occurred in both individual customers as well as companies and in all the core countries except for Portugal. This was made possible thanks to the effort made to offer our customers new products and services.

On the liabilities side, we combined an increase in all the units with management focused on reducing the cost of deposits, particularly in countries with interest rates at historically low levels.

In this way, **the Group ended the year with a larger but also more solid balance sheet:**

- **With better credit quality.** The sharp fall in entries of non-performing loans was reflected in lower NPL ratios at Group level and in its main units, while the coverage ratio continued to increase.
- **With a comfortable liquidity situation.** The net loan-to-deposit ratio (LTD) of 113% remained within our comfort zone and we expect to comply ahead of schedule and amply with the short-term regulatory requirements (liquidity coverage ratio or LCR), both at Group level and in the main subsidiaries.
- **With strengthened capital ratios** via organic generation, the issue of additional Tier 1 capital and, in January 2015, a capital increase.

Santander's balance sheet strength, recurrent results and low risk business model were underscored by the European Central Bank's comprehensive assessment of the European Union's largest banks. Two big conclusions can be drawn from the results of these tests:

1. Santander has a **clean and prudently valued balance sheet.** The Bank registered a marginal impact (€200 million in a balance sheet of almost €1,300 billion), as a result of the Asset Quality Review (AQR), the lowest among its European peers.
2. Our business model is **less volatile** than that of the rest of the banking sector and **consumes less capital in unfavourable economic situations.** In the adverse stress test scenario, we were the bank with the least impact among our peers as we showed a €19,500 million capital surplus above the minimum requirement.

In short, **the profit and balance sheet evolution increased Grupo Santander's profitability.** Return on tangible capital (RoTE) was 1.4 p.p. higher than in 2013 at 11.0%, while return on risk weighted assets (RoRWA) improved to 1.3% and reached levels that although comparing well with many of our competitors are still far from our potential.

For the first time since 2007, all units increased their pre-tax profit in local currency terms, reflecting our differentiated management and one tailored to each country's situation

The Group ended the year with a larger but also more solid balance sheet

The profit and balance sheet evolution increased Grupo Santander's profitability



Contribution
to Group profit

19%



Contribution
to Group profit

14%



Contribution
to Group profit

11%



Outlook by business unit

The economic outlook for 2015 is better than in recent years. In particular, we expect the European recovery to firm up and emerging countries to grow more strongly. Banks, however, will continue to operate in a very complex environment of low interest rates and economic growth below that of the previous cycle.

The regulatory environment, meanwhile, will continue to evolve quickly in order to have stronger and more transparent banking systems. We are conscious of the correctness of the objective, but also of the increasing complexity it generates and its impact on the structural profitability of banks in the coming years. Consequently, we believe that the regulator should assess the impact that the reforms and the new environment have on economic growth and banks' capacity to conduct on a sustained basis the function entrusted in them: to finance the economy's growth and contribute to the wealth of households and companies.

The executive chairman explains in detail in her letter the Group's strategic priorities for the next few years. I will review the performance of the main units in 2014 and their management priorities for 2015.

Developed markets

• United Kingdom

The transformation of the commercial franchise and the favourable economic environment had a positive impact in 2014 on Santander UK's business, commercial revenues and provisions. Attributable profit was 30% higher at £1,270 million. Also noteworthy was the growth in lending to companies above that of the market, the increased engagement of individual customers and the change of trend in mortgages (+1%).

These business dynamics, combined with our balance sheet strength, represent an excellent foundation for tackling 2015, a year when we will maintain the main strategic lines: increase the number of engaged customers, demand deposit accounts and lending to companies by more than the market. We will also continue to invest in digital technology, which we will combine with a further improvement in the efficiency ratio.

• Spain

The year 2014 saw a return to profit and business growth. Attributable profit more than doubled to €1,121 million, driven by a lower cost of liabilities, reduced costs and a fall in provisions from the credit risk improvement. Also of note was the growth in lending, for the first time since 2008, due to companies and SMEs, as well as the strong rise in new mortgage lending.

In 2015, with a macroeconomic environment that will further improve, profit and profitability will continue to normalise. With the integration completed, we will focus more on the commercial business, the quality of service and customer engagement. We also aim to increase our market share in the most attractive lending segments, where we believe we can again surpass the sector. And the particular attention paid to improving the cost of credit and operational excellence will positively affect results.

• Santander Consumer Finance

Santander Consumer Finance (SCF) is one of the areas that best performed during the crisis, and better than its peers. Attributable profit in 2014 was €891 million, 12% more than in 2013, fuelled by greater lending and revenues and a very low cost of credit for its type of business.

We also reached agreements that enhanced our position and future growth potential. In 2015, the entry into force of the agreement with Banque PSA Finance and of the business acquired from GE Nordics will consolidate our leadership in auto finance in various European countries, enabling us to enter markets such as France and Switzerland where we have not operated until now.

The priority for the year will be to achieve a model integration of the new operations in order to extract all their potential, without overlooking the growth of the rest of units and with spreads tailored to each market.

• United States

Santander USA posted an attributable profit of \$1,061 million in 2014, similar to 2013. It did not increase because of the higher minority interests of SCUSA after its stock market listing. Before these interests, profit was 4% higher due to the units' varied strategies:

- Santander Bank, our retail and commercial bank in the north east of the US, focused its business growth on companies and auto finance, while repositioning its balance sheet in terms of profitability, by reducing unproductive assets and cancelling long-term debt whose cost was above the market's.
- SCUSA, our consumer finance unit, increased origination and sale of credits, following the agreement with Chrysler, as well as the weight of servicing in total business.

Our two main objectives in 2015 are: on the one hand, continue to improve the commercial franchise in order to be in a position to gain market share in a growing economy; on the other, strengthen governance and control structures by investing more in technology, risk and regulatory compliance, enabling us to fulfil the regulator's requirements as quickly as possible. It will take time, but we will build a better bank.

• Portugal

In a still weak market context, Santander Totta continues to be the country's most profitable bank. Attributable profit increased 65% to €189 million, with revenues, costs and provisions all contributing to this growth.

We will continue to normalise profit in 2015. In an environment where competitors are in a situation of weakness, we have the opportunity to gain profitable market share in the next few years, growing in customers and revenues. We will see further improvements in costs and lower provisions.

Emerging markets

• Brazil

In an environment of adjustment and low growth, we are improving our business model in order to make it more sustainable, through increased commercial activity, greater engagement of customers, more recurrent revenues and lower risk.

The 2014 results began to reflect this strategy. Attributable profit rose 8% in constant currency to €1,558 million. The drivers of this growth were lower provisions and growth in costs well below the inflation rate. Revenues are still growing weakly because of the change of mix to lower risk businesses and lower spreads, already reflected in the cost of credit.



Contribution
to Group profit

10%



Contribution
to Group profit

2%



Contribution
to Group profit

19%





Contribution
to Group profit

8%



Contribution
to Group profit

6%



Contribution
to Group profit

6%



Contribution
to Group profit

4%



This year we are implementing measures to increase the number of engaged customers, keep on growing in the high segment of companies and in those sectors where our presence is low, while continuing to improve efficiency. In addition, the acquisition of minority interests and investments in GetNet and Bonsuceso endorses the Bank's confidence in the country's medium and long term potential, and will have a positive direct impact on results.

• Mexico

Santander Mexico continued in 2014 to expand and strengthen its franchise. As a result, pre-tax profit rose 9% to €1,057 million at constant exchange rates, fuelled by higher gross income from business volumes and an improvement in the cost of credit. Attributable profit fell 3%, due to the higher tax charge.

We will combine in 2015 investments in the multi-channel business and in opening branches with the efficiency plan. The objective is to grow more than the market, particularly in high income clients (*Select*), SMEs (*Advance*) and companies. We are ready to take advantage of the economic recovery and want to be one of the leading banks in financing the government's infrastructure plan.

• Chile

Santander Chile made an attributable profit of €509 million, 35% more than in 2013 at constant exchange rates. This was an excellent result generated by growth in target segments, lower provisions and the favourable impact on revenues of the UF portfolio, indexed to inflation, in a year when inflation was higher than expected.

The Bank focused on improving commercial management and customer engagement, which helped to boost customer satisfaction in all networks and channels. The more expansive tone of monetary and fiscal policy in 2015 heralds an upturn in activity. The Bank's strategy will continue to focus on perfecting the customer experience, transforming commercial and retail banking and deepening the relationship model with companies and large corporations.

• Poland

In a context of a sharp drop in interest rates, BZ WBK posted an attributable profit of €358 million, 7% more than in 2013 at constant exchange rates. Of note was the improvement in commercial revenues, distinguishing us from our peers, following the success of that commercial campaigns that enabled us to increase lending and funds.

We face 2015 in a good market position, with the integration of BZ WBK and Kredyt Bank completed. We draw strength from our leadership in cards, mobile banking and electronic banking, from our capacity to offer innovative solutions to individual customers and companies, and development of the *Next Generation Bank* strategic programme, whose main objective is to make BZ WBK the Bank of first choice.

• Argentina

In a complex environment, Santander Río increased its attributable profit by 33%, to €298 million. We continue to be the leading private sector bank in volume terms, we have a very transaction-based business model and a solid balance sheet of low structural risk.

We will continue to develop in 2015 a strategy focused on improving our commercial position in order to fully exploit the country's more developed banking system, with greater emphasis on high income individuals, SMEs and transaction products.

Global businesses

Santander Global Banking and Markets posted an attributable profit of €1,614 million in 2014, 16% more than in 2013 in constant euros. Growth was fuelled by customer revenues and lower provisions. The Group will continue to develop in 2015 its capacities to expand its presence in the segment of large multinationals that operate in our main geographic areas: Europe and the United Kingdom, North America and Latin America.

Private Banking, Asset Management and Insurance continued to increase their contribution to the Group. This business generated total revenues of €4,528 million including those paid to the commercial network, 7% higher than in 2013 with constant exchange rates and perimeter (10% of the Group's total). A key driver was the good performance of our strategic agreements with product specialists in various countries in order to spur the insurance and asset management businesses in the coming years.

Conclusions

I will conclude with some basic ideas on Santander's outlook for the next few years:

- We began 2015 with good dynamics in results and volumes.
- We have comfortable liquidity and capital positions to be able to grow in an environment of greater activity in our core markets.
- We know what to do in order to be commercially successful: make the customer the focal point of our management.
- We will maintain our focus on operational excellence in order to streamline internal processes, transform the Bank digitally and improve efficiency and customer service.
- We will strengthen risk management, a longstanding priority for Santander.
- We will use capital much more efficiently and exit non-strategic businesses, focusing on growth areas.
- Our ultimate objective is to improve the return on the capital employed.

I expect the Group's profits to normalise and return to pre-crisis levels. As the chairman indicated in her letter, **we aspire to attain a return on tangible equity of between 12% and 14%**, with most of the dividend distribution in cash and in accordance with the growth in profits. This will have a positive impact on the value of our share.

In order to implement our strategy and meet our goals, **we have an experienced team** and the capacities of adequate management, which we will continue to strengthen via the strategic Human Resources plan. Its objective is to make Santander the best bank to work for.

I am confident that, with the support and motivation of our employees and the confidence of our customers and shareholders, we will be able to achieve all the goals set for 2015.

José Antonio Álvarez
Chief executive officer



Our ultimate objective is to improve the return on the capital employed. We aspire to attain a return on tangible equity of between 12% and 14%

Corporate governance



Balanced and committed board

- Of the 15 directors, 10 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, particularly in the remuneration sphere

- This is key for generating shareholder and investor confidence and security.



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, taking into account 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.

There are 15 directors, five of which are executive and 10 non-executive. Of the 10 non-executive directors, nine are independent and one proprietary.

All members are recognised for their professional capacity, integrity and independence. The non-executive directors are noted for their financial expertise, wide knowledge of the markets where the Group operates and different sectors and customer attention models, from top executive positions.

The board held 16 meetings in 2014.

Remuneration policy

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

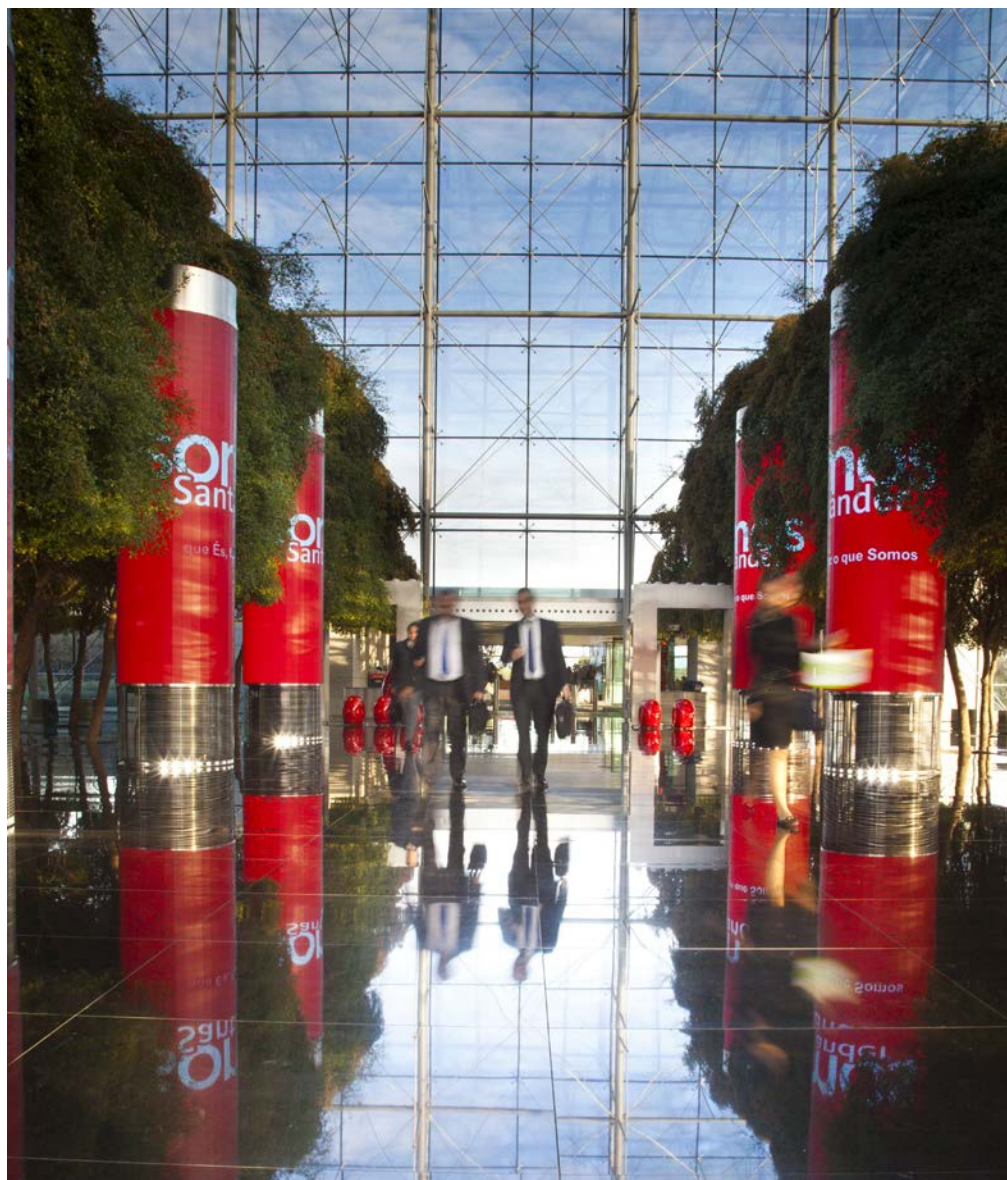
1. Remuneration must be consistent with rigorous and prudent risk management.
2. Anticipating and adapting to regulatory changes in remuneration matters. The executive director's variable remuneration deferred period, as well as that of other directors within the Group's identified category, are consistent with the provisions of the CRD IV.
3. Involvement of the board, as, at the proposal of the remuneration committee, it approves the annual remuneration report for directors and submits it to the general meeting of shareholders on a consultative basis and as a separate item on the agenda.
4. Transparent information.

The board's total remuneration increased 8.9% compared to the Group's profit growth of 39%.

In 2014, the board increased its gender and geographic diversity



For more information on corporate governance, see pages 68 to 99 of the annual report.



El Faro, Santander Group City, Boadilla del Monte, Madrid, Spain.

Changes in the board's composition

On September 10, following the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board agreed to appoint **Ms. Ana Botín-Sanz de Sautuola y O'Shea** executive chairman.

The board, at its meeting on November 25, appointed **Mr. José Antonio Álvarez Álvarez** chief executive officer, in the place of Mr. Javier Marín Romano, and it also agreed the following appointments:

- **Mr. Rodrigo Echenique Gordillo**, as vice chairman. In 2015, he was appointed executive director responsible for compliance, as well as other functions that might be delegated in him by the executive chairman.

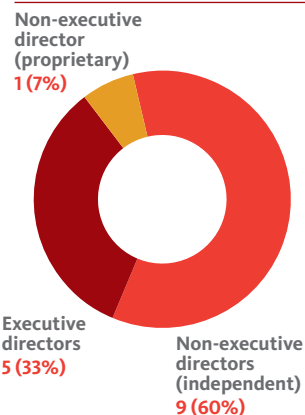
- **Mr. Bruce Carnegie-Brown**, vice chairman, independent director, lead independent director and coordinator of the non-executive directors.

- **Ms. Sol Daurella Comadrán**, as independent director.

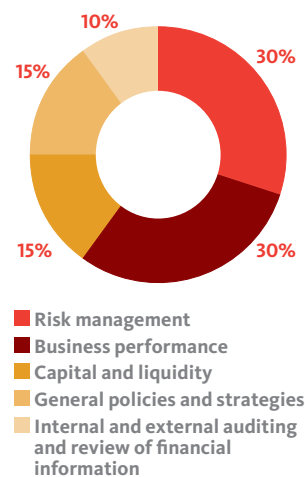
- **Mr. Carlos Fernández González**, as independent director.

The new independent directors filled the vacancies occurred, including those produced by the resignations of Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan.

Composition of the board

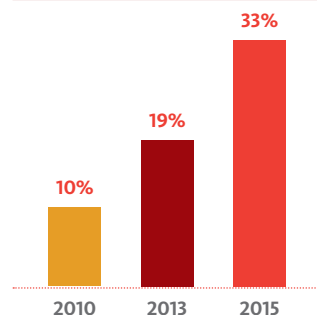


Approximate time spent by the board on each function

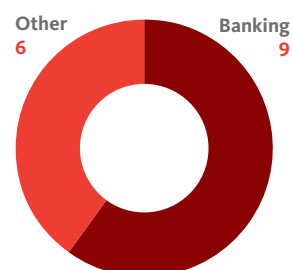


Diversity in the board

% of female directors



Areas of speciality



Board of directors of Banco Santander

1.
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea
Executive chairman. Executive director
● □ △

2.
Mr. José Antonio Álvarez Álvarez
Chief executive officer
and executive director
● ■ □ △

3.
Mr. Bruce Carnegie-Brown
Vice chairman. Non-executive
director (independent), coordinator
of the non-executive directors and
lead independent director
● ● ■ ○ △

4.
**Mr. Rodrigo Echenique
Gordillo**
Vice chairman. Executive
director
● ■ □ △

5.
Mr. Matías Rodríguez Inciarte
Vice chairman. Executive director
● ■ △

6.
Mr. Guillermo de la Dehesa Romero
Vice chairman.
Non-executive
director (independent)
● ▲ ● ■ ○ □ △

7.
**Ms. Esther Giménez-Salinas i
Colomer**
Non-executive director
(independent)
□ △

8.
Mr. Juan Miguel Villar Mir
Non-executive director
(independent)
▲ ○



**QR code**

You can access the interactive photo of the board online by scanning this QR code.

- Executive committee
- Executive risk committee
- ▲ Audit and compliance committee
- Appointments committee
- Remuneration committee
- Supervision of risks, regulation and compliance committee
- International committee
- △ Innovation and technology committee



9.
Ms. Isabel Tocino Biscarolasaga
Non-executive director
(independent)



10.
Mr. Javier Botín-Sanz de Sautuola y O' Shea
Non-executive director
(proprietary)

11.

Mr. Carlos Fernández González
Non-executive director
(independent)



12.
Mr. Ángel Jado Becerro de Bengoa
Non-executive director
(independent)



13.
Ms. Sol Daurella Comadrán
Non-executive director
(independent)



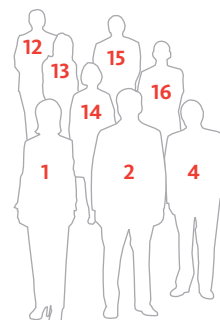
14.
Ms. Sheila C. Bair
Non-executive director
(independent)



15.
Mr. Juan Rodríguez Inciarte
Executive director



16.
Mr. Ignacio Benjumea Cabeza de Vaca
General secretary and secretary
of the board



Structure and internal governance of Grupo Santander

Model of subsidiaries

Grupo Santander is structured via a model of subsidiaries autonomous in terms of capital and liquidity. The Group's parent company is Banco Santander whose registered office is in the city of Santander, Spain, and operating headquarters and corporate centre are in Boadilla del Monte, Madrid.

The Group's model of subsidiaries is characterised by:

- The administration bodies of each subsidiary are responsible for rigorous and prudent management, ensuring economic soundness and overseeing the interests of shareholders and other stakeholders.
- The subsidiaries are managed on the basis of local criteria and by local teams that contribute a lot of expertise of clients in their markets, while benefiting from the synergies and advantages of belonging to Grupo Santander.
- They are subject to the regulation and supervision of their local authorities, without detriment to that exercised by the European Central Bank on the Group.
- Their deposits are guaranteed by the respective deposit guarantee funds of the countries where they are located.

The subsidiaries are funded autonomously in terms of capital and liquidity.

• **Capital:** the local units are endowed with the capital required to conduct their business and meet regulatory requirements.

• **Liquidity:** each subsidiary develops its financial plans and liquidity projections and calculates its funding needs without counting on the parent company's resources and guarantees. The subsidiaries obtain liquidity autonomously in local and international markets on the basis of their needs.

The Group's capital and liquidity needs are coordinated in corporate committees. Intragroup exposures are limited, transparent and at market prices.

The subsidiaries' autonomy limits the contagion risks between the Group's different units, which reduces systemic risk. Each subsidiary has its own resolution plan.

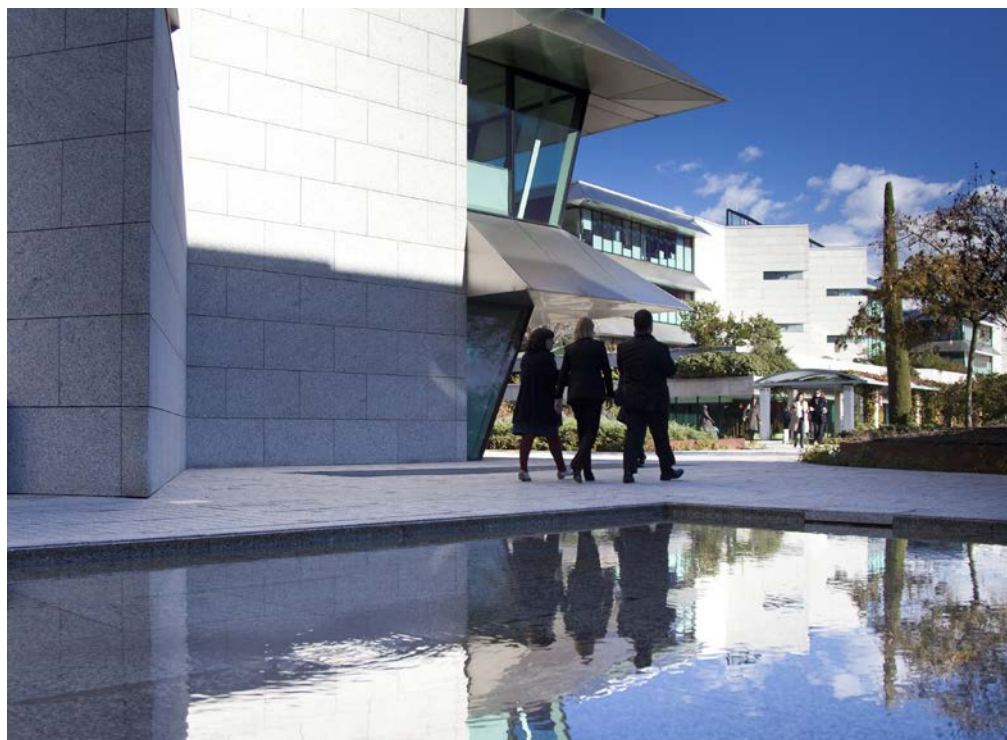
Listed subsidiaries

The Group has subsidiaries listed in their respective markets, always retaining a stake that gives it control.

The listed subsidiaries:

- Provide access to local funding sources. They are submitted to market discipline, which generates incentives for good management.
- They guarantee a high level of transparency and corporate governance, and strengthen the Group brand in its respective countries.

Grupo Santander's subsidiaries are autonomous in terms of capital and liquidity



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

Internal governance in Grupo Santander

Santander has an internal governance framework to which its subsidiaries adhere. This framework establishes the principles that govern relations between the Group and its subsidiaries, and articulates:

- The Group's supervision and control mechanisms, and
- The Group's participation in certain of the subsidiaries' important decisions.

In particular, the subsidiaries formulate their risk appetite in line with the global framework agreed at the corporate level, which includes quantitative metrics and qualitative elements.

Under the internal governance framework, Banco Santander has drawn up common frameworks for certain functions – notable among which are risks, capital, liquidity, corporate governance, auditing, marketing of products and services, prevention of money laundering, and brand and communication – which have been approved by the subsidiaries' administration bodies.

The value of the corporation

Banco Santander's subsidiaries' model is complemented by global support and control units that carry out functions to do with risk, auditing, technology, human resources, legal matters, communication and marketing, among others. This adds value to the Group's different units through:

- **Its international team, corporate culture and brand.** The Group's more than 180,000 professionals throughout the world are at the service of 117 million customers. The Santander culture attaches particular importance to fulfilling a purpose that is the same in all countries and businesses (helping people and businesses prosper) and how to achieve it in a Simple, Personal and Fair way.
- **Prudent risk management and capital strength.** Santander comprehensively manages all risks and has units for global supervision and control.
- **Investment in innovation.** The Group's size gives it a high innovation capacity to carry out the digital transformation. Santander also has mechanisms to transfer the best practices quickly from one market to others.

All these factors enable Santander to post better results and contribute more value than that which would be derived from the mere sum of each of the local banks.

Santander has a value added structure which enables the Bank to obtain better results than that which would come from the sum of each of the local banks



Purpose

Santander's purpose is to help people and businesses prosper.

Aim

Santander's aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

A photograph of a man in a dark blue suit, white shirt, and dark tie, looking forward with his hands clasped. The image is split vertically: the left side shows the man in a natural setting, while the right side is overlaid with a dark red background containing text and a large number '1'.

1

Business model and strategy

- ▶ 26 Purpose and business model
- ▶ 28 Aim and value creation
 - 30 Employees
 - 34 Customers
 - 38 Shareholders
 - 42 Communities
- ▶ 46 Risk management

Purpose and business model

Our purpose is to help people and businesses prosper

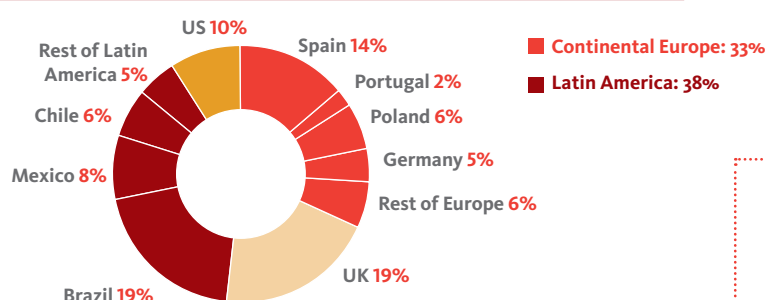
▼ In order to fulfil this purpose, Santander has a customer-focused business model that is unique among the major international banks.

1.- Diversification, focused on Europe and the Americas

Grupo Santander's geographic distribution is balanced between its 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.

Santander also has global business areas that develop products that are distributed through the Group's retail networks and provide services to clients globally.

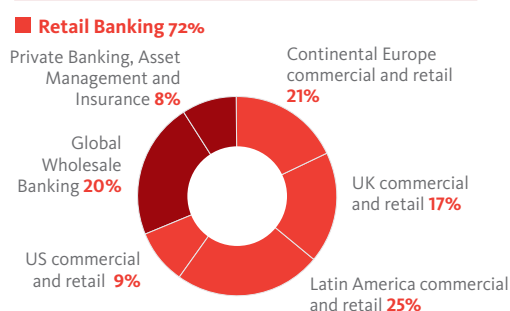
Distribution of attributable profit by geographic operating area



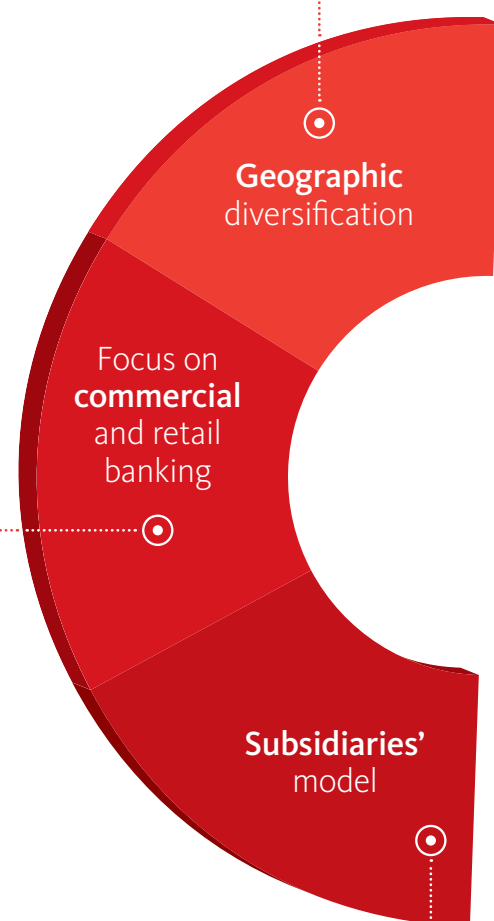
2.- Focus on retail banking and customer loyalty

Banco Santander's commercial model aims to satisfy the needs of all types of customer: individuals with different income levels, companies of any size and different sectors of activity, private companies and public institutions. Developing lasting and sustainable relations with them is the Bank's main objective. The Bank has high market shares in commercial and retail banking in the main countries where it operates.

Distribution of attributable profit by operating business segments



117
million customers



3.- Subsidiaries' model

Grupo Santander is structured via a model of subsidiaries autonomous in capital and liquidity, which are managed according to local criteria and by local teams that contribute substantial knowledge and experience with customers in their markets, while also benefiting from the synergies and advantages of belonging to Grupo Santander.

The subsidiaries' autonomy limits the contagion risk between the Group's units and reduces systemic risk.

See page 22 of this annual review



4.- International talent, with a shared culture and a global brand

The Group has over 180,000 professionals at the service of its 117 million customers. Santander's employees share a culture focused on complying with the Group's purpose (helping people and businesses prosper) and attaining its aim (be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities).

The Santander brand synthesises the Group's identity and expresses a corporate culture and unique international positioning that is consistent with conducting banking in a Simple, Personal and Fair way worldwide.



185,405
employees



#1
World's top retail
banking brand
(Brand Finance)

Simple | Personal | Fair

International talent,
culture and brand

A strong
balance sheet,
prudent risk
management
and global control
frameworks

Innovation,
digital transformation
and best practices

5.- A strong balance sheet, prudent risk management and global control frameworks

Santander has a medium-low risk profile and high asset quality, with solid capital tailored to its business model, balance sheet structure, risk profile and regulatory requirements. It funds most of its lending with customer deposits, maintains wide access to wholesale funding and has a broad array of instruments and markets to obtain liquidity.

Banco Santander has frameworks and corporate policies, common customer attention models and global control systems. This enables the Group to obtain better results and contribute greater value than that which would come from the sum of each of the local banks.



9.7
Capital (CET1
fully loaded)



113%
Loan-to-
deposit ratio
(112% in 2013)



5.2%
NPL ratio
(5.6% in 2013)

6.- Innovation, digital transformation and best practices

Innovation has been one of Grupo Santander's hallmarks since it was founded. On many occasions the Bank has revolutionised the financial sector with new products and services.

Santander is carrying out an intense digital transformation in order to anticipate, with innovative and attractive solutions, customers' new needs. Some examples of this are improvements in online banking, mobile banking, mobile wallet and a new strategy for digital payments.

The Group's size enables it to identify and quickly and efficiently transfer its best practices between the different markets in which it operates, adapting them to local features. In the last few years, moreover, Santander has launched global value proposals for its high-income clients (*Santander Select*), for SMEs (*Santander Advance*) and for companies (*Santander Passport*), all of which underscores the advantages of working with an international and diversified bank such as Santander.

Aim and value creation

▼ Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

1 Best bank for our employees

- Attract, retain and engage the best professionals capable of providing the best service to our customers and guaranteeing the success and sustainability of the business.

2 Best bank for our customers

- Construct long-term relations of loyalty with our customers, offering them simple and tailored solutions, fair and equal treatment, and an excellent service via our branches and digital channels, in order to enhance their satisfaction and engagement with the Bank.

4 Best bank for communities





- Conduct our banking activity by contributing to the economic and social progress of the communities in which we operate, in a responsible and sustainable way, and particularly committed to the sphere of higher education.

3 Best bank for our shareholders

- Generate an attractive and sustainable return for our shareholders on the basis of a business model with a high degree of recurrent revenues, prudence in risks, efficient, disciplined use of capital and financial strength.



Our six strategic priorities

		2014	2017 Targets	
 Employees	1 Be the best bank to work in and transform our culture: Simple, Personal and Fair	Number of core markets where the Bank is among the top three banks to work for (according to the relevant local rankings)	36	
	2 Increase the number of loyal individual customers and companies	Loyal individual customers (million)	12.2	17.1
Loyal corporate banking and SMEs customers (thousand)		767	1,049	
Credit growth to customers		5%	outperforming competitors in terms of growth	
 Customers	3 Operational excellence	Number of countries where the Bank is among the top 3 for customer satisfaction among its peers	59	
		Number of digital customers (million)	13.6	25.0
		Cost-to-income ratio	47%	<45%
	4 Capital strength and risk management	CET1 fully loaded capital ratio	9.7%	10%-11%
Non-performing loan ratio		5.2%	<5%	
RoTE		11%	12-14%	
 Shareholders	5 Enhanced profitability	Growth in earnings per share (EPS)	24%	outperforming competitors in terms of growth
	6 Santander Universities as the main support of communities	€700 million for universities over the next four years		
90,000 scholarships for students between 2015 and 2017				
Among the first 10 in the Dow Jones Sustainability Index				
 Communities				



For more information, see Ana Botín's message (pages 6-11).

Simple

Simple, Personal and Fair

Simple, Personal and Fair transmits how all Santander's professionals think and act and what our customers demand of us as a bank. It defines what guides our actions and decisions and the way in which we must relate to our customers, shareholders and communities.

Simple, Personal and Fair is the way to become the best bank for our customers and the best company for our employees.

- We offer a convenient service to our customers with products that are simple, easy to understand and uncomplicated.

- We use clear, concise and understandable language.
- We improve our processes every day for customers and professionals by simplifying procedures and eliminating unnecessary steps.

Personal

- We treat our customers in an individual and personalised manner by offering them products, services and tools so they can decide which ones best suit their needs.

- We strive to make every customer feel unique and appreciated.
- We are committed to our professionals and support them so they can develop their full potential and achieve their objectives.

Fair

- We treat our customers in a just and fair way, through transparency and resolving their complaints quickly and diligently.

- We establish relations in such a way that both the Bank as well as employees, customers and shareholders obtain a profit, as we understand that what is good for them is also good for the Bank.

- We meet our promises and take responsibility for the commitments made with our customers.

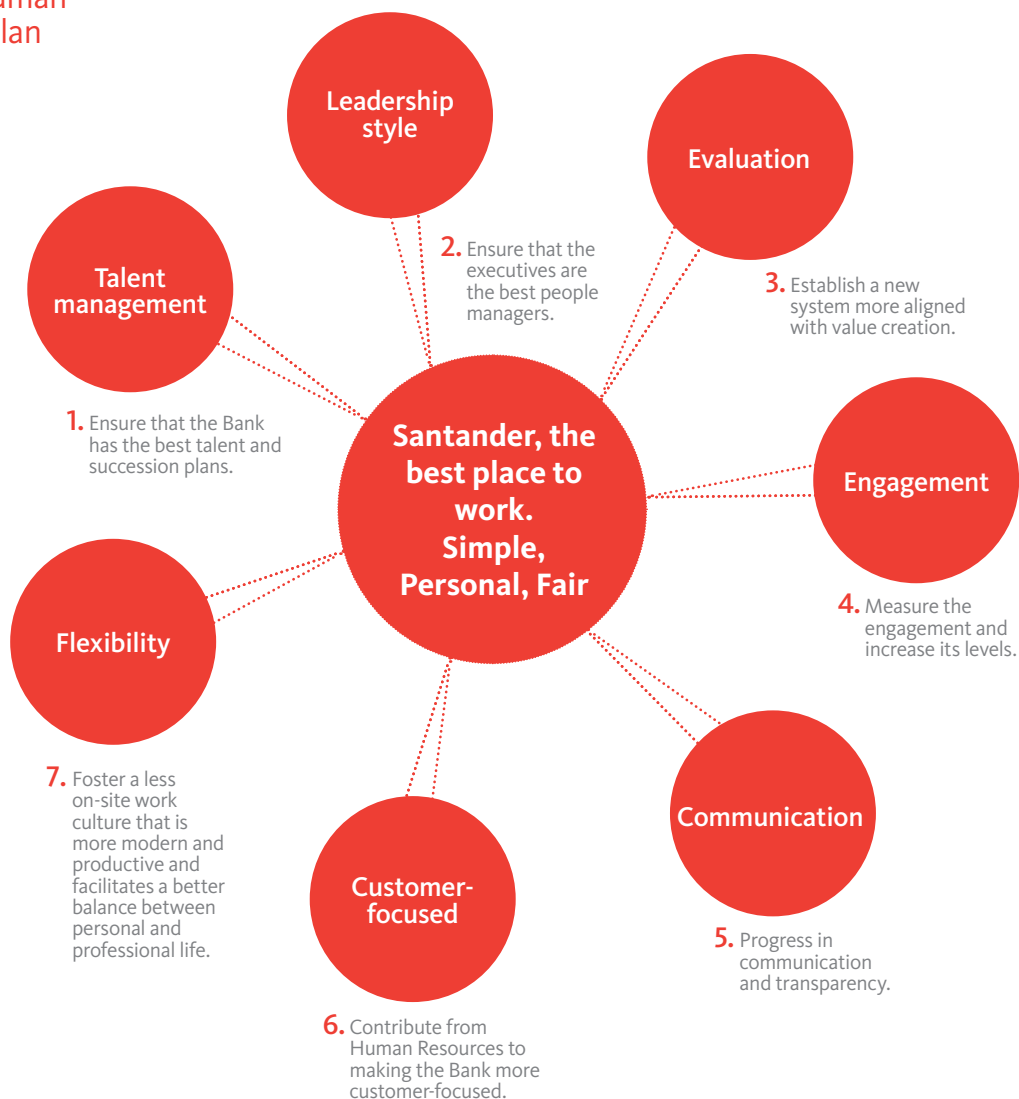
Employees

▼ In order to be the best retail and commercial bank for our customers, we must begin with our employees. If they feel proud of belonging to Santander and more engaged, they will be able to earn the lasting loyalty of our customers.

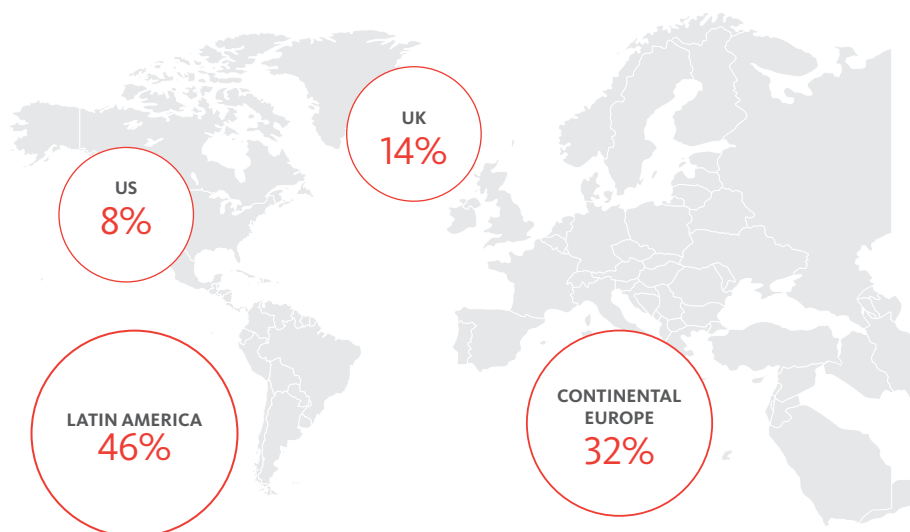
Santander launched in 2014 a strategic Human Resources plan whose main objective is to **make Santander the best place to work**.

This plan revolves around **seven elements** and has a system of governance and monitoring for overseeing the execution and impact of the initiatives included in each one of them.

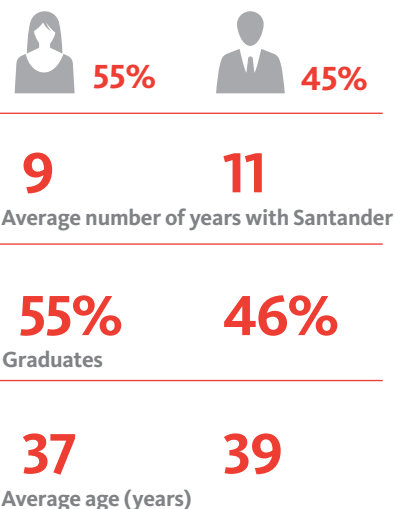
Strategic Human Resources plan



Geographic distribution of professionals



Other key figures



Total number of professionals

185,405



Among the main projects launched during 2014 under this plan were:

Talent management

Santander drew up a harmonised and homogeneous plan to identify and develop the Group's talent, as well as a succession plan that guarantees the viability of the business.

The following steps were taken:

- **Committees to assess talent**, bodies that meet regularly and involve senior management: division executives, country heads and members of management committees. These committees analyse professionals, their career path and future potential. In some cases, individual development plans are established to accelerate professional development. There were 143 of these committees in 2014.
- **Global job posting**: a corporate platform that offers all the Group's professionals the possibility of knowing and opting for vacant positions in other countries. The objective is to facilitate employee mobility, foster their

development and make internal selection processes more transparent. More than 500 positions in various countries have been publicised since its launch in July 2014 and 60 offers of incorporation made.

Santander continued to be **committed to gender diversity** through various initiatives:

- Programmes such as *Sumando Talento* or *Take the Lead* for women in executive or pre-executive positions in all countries in order to foster the development of talent and female leadership.
- In Spain, Banco Santander signed a voluntary agreement with the Ministry of Health, Social Services and Equality to increase the presence of women in executive and pre-executive positions in four years.
- The III Santander Woman and Company Meeting was held at the Bank's headquarters in Boadilla del Monte with the title *Other leadership perspectives*. Close to 1,000 people attended.



El Solaruco training centre, Santander Group City, Boadilla del Monte, Madrid, Spain.

Assessment

The new management performance model, launched in 2014 for corporate executives, includes the following developments:

- Independent measurement of objectives and powers including a 180° process of assessment involving direct reports as well as the person's immediate superior.
- Incorporation of an objective of "people management" with a minimum weight of 15% which the 180° assessment will take into account.
- Strengthening crossed or functional evaluation.
- Elimination of the curve of differentiation of evaluations.

Commitment

The Group launched for the first time a **global survey** of professionals in all countries in order to gauge their level of engagement, as well as the organisational aspects they most value and those where there is room for improvement.

The global participation rate in the survey was 78% and the results indicate that 70% of the Bank's professionals have a high level of engagement (6 p.p. above the financial sector's average). Furthermore, 78% of professionals are proud to work for Santander and want to continue doing so for a long time. Of note among the aspects most valued by employees are professional development opportunities, the Bank's innovative spirit in developing products and services and the social benefits they can access. There are also areas of improvement regarding flexibility, cooperation and recognition.

Communication

In order to foster the active listening of professionals and a more transparent and participative style of communication, two key projects were launched in 2014:

- **Santander Ideas**, the Group's first internal social network that enables professionals from all countries to share their ideas on strategic issues for the Bank, vote on them and comment on them. This channel energises internal communication and fosters a culture of work focused on innovation, cooperation and participation, taking advantage of the diversity and collective intelligence of Santander's more than 180,000 professionals throughout the world.

More than 10,000 ideas were obtained from almost 25,000 participants in all the Group's countries, via the three global challenges launched in 2014 related to customers, employees and branches. Of them, 213 were selected for implementation and 50 have already been put into effect in various countries.

- **Somos Santander (We are Santander)**, a communications campaign that fosters the idea of a united and cohesive team, where the talent and commitment of all the Group's professionals is vital for achieving sustainable growth that benefits our customers, shareholders and communities.

The *Semana Somos Santander (We are Santander week)* is one of the main events and enables professionals from all the Group's countries to become protagonists and celebrate the pride of working for Santander. Furthermore, during this week Santander volunteers expressed their solidarity and in just one day collected 59 tonnes of food that was delivered to various NGOs throughout the world.



Social networks to foster communication and team work

SANTANDER ideas:)

25,000
participants

10,000
ideas



233,489
followers in the global profile of Santander in LinkedIn



Santander Select branch in Sao Paulo, Brazil.

This was one of the corporate volunteer activities organised in all countries during 2014, involving 60,000 volunteers.

Customer-focused

Santander continued in 2014 to be committed to training its professionals, paying particular attention to developing training programmes and exchange of best practices that support the commercial transformation into a more customer-focused Bank. Of note were:

- **Santander Retail and Commercial Banking College**, whose purpose is to enhance the development and knowledge of its commercial and retail banking professionals via specialised training programmes by segment and/or business in each country.
- **Santander Business Insights**, conferences to disseminate good practices related to customers, both the Group's and those of external organisations.
- **Knowledge without limits**, a new training platform for all the Group's professionals that provides access, in an open and participative way, to a wide variety of training resources and best internal and external practices in order to give a better customer service.

Recognitions

Among the recognitions obtained by Banco Santander in various countries during 2014 were the following:

- Santander UK obtained the *Top Employer* certification granted to those banks that attain the highest standards of excellence in the conditions they offer to their employees. The Bank was also recognised in the *Top 50*

Employers for Women for supporting gender diversity and in the *Top 100 Graduate Employers* for being one of the preferred companies among university graduates.

- Santander Consumer Germany was recognised as *Top Employer* in the country and received the *Total E-Quality Award* for its initiatives in favour of diversity and equality of opportunity among its employees.
- In Argentina, Banco Santander was ranked first for the third year running in the *Great Place to Work* classification.
- In Spain, the Bank obtained the following recognitions:
 - The *MercoPersonas* 2014 ranking put Santander as the best bank to work for and the fourth best company in Spain.
 - The annual survey *Empleadores Ideales*, conducted by the Swedish consultancy Universum and which gathers the opinions of more than 16,000 Spanish students, put Banco Santander among the five favourite companies to work for among business school students who also regard it as their preferred bank.
 - The survey by the consultancy Randstad among more than 8,000 potential candidates between the ages of 18 and 65 recognised Santander as one of the preferred places to work in Spain in the banking category.



103.2

million euros invested in training for Santander employees



97%

employees received training in 2014



44.6

hours of training per employee

Customers

▼ We want to help our customers prosper and meet their goals. In order to achieve this, the Bank's more than 180,000 professionals strive every day to build long-term relationships that increase the satisfaction and loyalty of our customers.

In order to continue to increase the loyalty of customers with the Bank and provide them with excellent service, we continued to work in 2014 on a commercial model that aims to offer value with simple and tailored solutions, via the most appropriate and efficient channels and with just and fair treatment.

Customer loyalty

Progress was made during 2014 in improving knowledge of customers and adapting the attention model and solutions that the Bank offers to satisfy their demands.

Knowing our customers

In order to facilitate a personalised dialogue with customers that enables us to better understand their behaviour, expectations and needs, new management tools and other initiatives were launched, such as events and group dynamics.

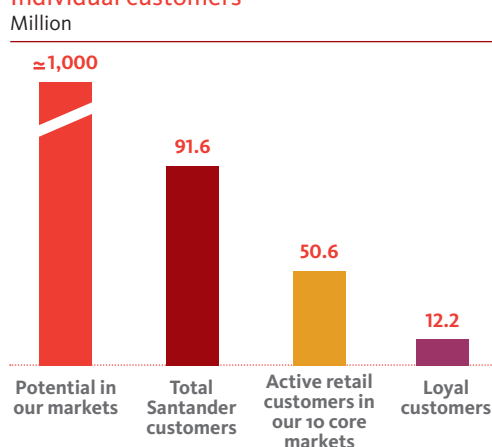
After the launch in 2012 of NEO CRM in Chile, it was introduced in 2014 in Brazil, Spain and the US. It will be implemented throughout 2015 in Argentina, Mexico, Portugal, Poland and the UK.

The **NEO CRM** project is a novel tool for organising commercial activity that enables us to gather and analyse the information of each customer and have a 360° vision of their performance and relationship with the Bank. This information enables customer needs to be anticipated and tailored solutions to be offered.

Group customers

Million	
Spain	12.6
Portugal	3.6
UK	25.7
Poland	4.3
Germany	6.3
Rest of Europe	10.3
Total Europe	62.8
Brazil	31.1
Mexico	11.7
Chile	3.6
Argentina	2.5
Rest of Latin America	0.5
Total Latin America	49.4
United States	4.7
Total customers	117.0

Individual customers



New customer behaviours

- ▶ Customer behaviour is changing due to greater access to new technologies
- ▶ Mobile phones have changed the way customers interact to the Bank
- ▶ Customers demand a more comprehensive and simple service and greater accessibility, seeking comfort and convenience when operating with the Bank



Santander branch in Boadilla del Monte, Madrid, Spain.

Specialised solutions

Banco Santander's commercial model aims to satisfy the needs of all types of customer: individuals with different income levels, companies of all sizes and sectors, private corporations and public institutions.

Santander continued to innovate and develop solutions during 2014 for each customer type:

Individuals:

- The Bank remained committed to **Santander Select** as the Group's differentiated value proposal for high income customers. This specialised attention model, with products and services tailored to suit these customers' needs, is already operating in all our markets.

Moreover, by taking advantage of its international franchise, Santander is able to make global value offers to these customers, such as the *Débito Global Select* card, which can be used to make cash withdrawals in the Bank's more than 30,000 ATMs throughout the world without paying a fee.

- In the UK, the range of products of the 1|2|3 account continued to function successfully. There are more than 3.6 million customers with a high degree of engagement with the Bank. The 1|2|3 current account reimburses in cash part of household bills and pays a better interest on large balances.

In Spain, Poland and the US, similar products were launched in 2013 and in 2014 in Germany.

Companies:

In order to turn the Bank into a **strategic partner for growth in business with SMEs**, various initiatives were developed including *Santander Advance*, a programme that offers a powerful financial offer and other non-financial solutions to spur internationalisation, foster job creation, talent and training.

Santander Advance was launched in Spain, Mexico and Portugal in 2014, with the participation of more than 28,000 SMEs, and during 2015 will be extended to the rest of the countries where the Group operates.

Also in the UK, the Breakthrough programme, launched in 2012, offers value added services and alternative financing for SMEs to grow in this country. The results have been very notable and pushed up the Bank's market share in SMEs from 3.5% in 2012 to 6.5% in 2014.

Santander is also promoting other initiatives that take advantage of its international scope and network:

- **Santander Passport** is a specialised attention programme for companies with an international scope. These companies are recognised and served homogeneously as the Bank's preference clients in all the Group's subsidiaries.

Santander Passport was launched during 2014 in eight countries (Argentina, Brazil, Chile, Spain, Mexico, Portugal, the UK and Uruguay) and is expected to be operational in the rest of the Group's markets by the end of 2015.



Santander Select branch in Mexico.

• **Santander Trade** is a unique platform in the financial sector that helps to internationalise the activity of companies, thanks to bringing business opportunities to the business community. It has been launched in 12 countries: Argentina, Brazil, Chile, Spain, the US, Mexico, Poland, Portugal, Peru, Puerto Rico, the UK and Uruguay.

The Bank strengthened this service in 2014 with *Santander Trade Club*, an online community that enables clients from various countries to get in contact with one another in order to step up their international activity. More than 9,000 companies are currently involved, more than one million visits were registered and more than 50,000 data bases downloaded.

• The new cooperation project between retail and commercial banking and wholesale banking (collaboration revenues) aims to put at the disposal of all the Bank's customers the products and services that best suit their needs and which, until now, were only available to large companies.

Operational excellence

Santander wants to provide its customers with excellent service and so in 2014 the Bank launched new initiatives that aim to improve processes from the customers' standpoint, incorporating the benefits brought by the digital transformation.

Multichannel and digital strategy

The digital transformation is a strategic priority for Banco Santander. During 2014, the Bank progressed in developing a multichannel distribution model that facilitates customers' relations with the Bank where they want, how they want and when they want.

The Bank also continued to work during 2014 on a new model based on the concept of the multichannel branch.

In the case of branches, which are the main channel for forging and maintaining long-term relations with customers, the objective is to have more modern and simpler spaces that combine the advantages of the use of technology with the proximity and professionalism provided by the Bank's employees to customers.

Santander also strengthened its range of services via mobile phones, electronic banking and the contact centre.

• *Mobile First* was promoted in the mobile phone sphere, which aims to improve the client's experience with initiatives such as the simple mobile banking in the UK (*Smartbank*), the mobile wallet in Spain to manage payments from the smartphone, and the new mobile apps in Brazil, Germany, Poland, Uruguay, Puerto Rico and Portugal.

Benefits of Santander Passport

- A global interlocutor that will tend to a company in any country with the support of local account managers
- Personalised attention with the support of local specialists in new markets
- Facilities to open an account or contract products
- Quick response to credit requests, as the Bank will have at its fingertips the risk analysis of the company's activity in different markets
- App *Passport* to access via mobile devices to all the advantages of *Santander Passport*



12,951
branches.

The largest network
among international
banks

Customer satisfaction

% of active customers satisfied

Bank	End 2014	End 2013
Argentina	86.8%	85.2%
Brazil	70.6%	78.4%
Chile	88.4%	85.4%
Spain	85.0%	87.2%
Mexico	95.0%	92.0%
Poland	93.5%	96.7%
Portugal	94.1%	93.8%
UK	94.5%	92.3%
US	80.8%	80.8%
Total	85.3%	86.9%

- Of note in the online sphere was the launch of new commercial websites in the United Kingdom, Portugal, Spain and Argentina, the new online banking project in Brazil, the virtual advisor in Poland, which facilitates advice at a distance to customers, and the digital manager in Spain.
- As regards the contact centres, of note is the success of the voiceprint in Mexico (customer identified by their voice).
- An extra push is being given to social networks in order to reach customers with offers of products and services in the appropriate place and moment.

Customer satisfaction

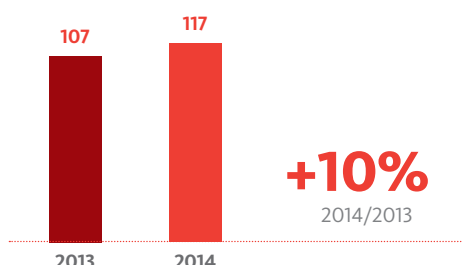
One of Banco Santander's strategic objectives is to have more satisfied customers. We believe that such customers use the Bank's products more assiduously, their average savings balances are higher and the probability of them leaving is significantly lower than in the case of an unsatisfied customer.

In 2014, 85.3% of Grupo Santander's active individual customers were satisfied. Of particular note was the increased satisfaction of customers in Mexico, Chile, the UK and Argentina.

As for complaints, their number was 14% lower in 2014 than in 2013, reflecting Santander's commitment to continuously improve customer attention and the quality of service. Among the main markets, those that most reduced the volume of complaints were Portugal, the UK, Chile, the US and Brazil.

Customers

Million



As well as the programme to continuously improve quality, established in the Group years ago, an initiative was launched in 2014 to transform the customer experience for the main customer journeys.

This project, launched in the Group's 10 core markets, identifies the customer processes that impact the most on their experience and redesigns them from the customer's perspective.

A methodology is used whose basis is the customers' views and expectations and with the work carried out by many of the Bank's areas a new experience is delivered to the customer.

At the moment the two to three main customer journeys in each country are being improved, such as the process of taking on a customer.

Innovation

Santander's commitment to innovation, in response to the challenges that digital transformation represents for the business and our customers, is reflected in the following two initiatives:

- **Corporate unit of innovation**, whose purpose is to plan and develop the Group's digital innovation strategy from a global perspective, taking advantage of the innovation capacities that already exist in the different units and businesses. Of note among its functions is the global observatory, which analyses and consolidates the market's trends and best practices, and the laboratories, which conceptualise and execute projects using innovative methodologies.
- The mutual fund **Santander InnoVentures**, with \$100 million to invest in start-ups and innovative companies in the financial sector.

Simplification in the process of registering customers

An initiative that aims to improve the customer experience during the first 90 days of their relationship with the Bank

Examples of progress in countries:

- **United Kingdom:** simplifying documents delivered to the customer
- **Spain:** digital signing in a tablet

Other Customers Journeys

Improvement in the various processes which are critical in customers' daily interaction with the Bank

For example:

- **Mexico:** paperless process for loans, beginning with the customer's first visit and online pre-evaluation
- **Argentina:** incidents resolved immediately and via the same channel the customer uses to communicate it

Shareholders

▼ Banco Santander pays particular attention to its shareholders and strives to reward them with an attractive and sustainable dividend per share and return, and with a personalised service and attention model and regular and transparent information.

The base of Banco Santander's value proposal for its shareholders is a business model with a high degree of recurring revenues, prudence in risks, efficient and with disciplined use of capital and financial strength.

Capital strength and risk management

Banco Santander's strategy focuses on organic growth and an efficient capital allocation among its businesses. The Bank is implementing an enterprise wide risk management (*Santander Advanced Risk Management*) model, which will enable it to strengthen and improve its medium-low risk profile and reduce its NPL ratio below 5% by 2017.

The results of the stress test and the Asset Quality Review (AQR) conducted by the European Central Bank in 2014 showed that Santander has one of Europe's best-capitalised balance sheets.

- The adjustment to Grupo Santander's levels of provisions resulting from the AQR was the lowest among its international peers (impact of 0.04 p.p. on its capital ratio).
- In the adverse scenario of the stress test, Santander was the bank whose capital was reduced the least among its international peers, representing a €20,000 million surplus above the minimum capital required at that time.

In 2015, Banco Santander has increased its capital by €7,500 million, through the issue of 1,214 million new shares. The issue consisted of an accelerated book building process aimed at institutional investors. The new shares began to be listed on January 13, 2015 on the Spanish stock exchange.

This capital strengthening will enable the Bank to benefit from the strong growth envisaged in its core markets in 2016, taking advantage of the organic growth opportunities and increasing lending and its market share. It will also make it possible to comply

ahead of schedule with the Basel III capital requirements, assuming then fully as of 2015 although they will only be required as of January 2019.

As a result of this capital increase, the Bank will attain in 2015 a fully loaded capital ratio of around 10%, making Santander one of the best capitalised banks at an international level, bearing in mind its geographic diversification and retail and commercial banking model that enable it to generate results with a low level of volatility.

International investors received the capital increase warmly, as shown by the speed with which it was carried out, the number of participating investors and the high demand for the new shares. This operation is positive for shareholders, as earnings per share are estimated to improve as of 2016.

The capital increase will enable the Bank to benefit from the growth envisaged in its core markets and be one of the international banks with the strongest capital position

Main figures of the January 2015 capital increase

- €7,500 million capital increase, representing 8.8% of the Bank's capital after the transaction
- 1,214 million new shares issued
- €6.18 per share: placement price
- 235 investors took part in the transaction
- €11,000 million total demand for the new shares
- Operation closed after four hours
- 79% of the demand for the new shares came from the US and the UK



Banco Santander's extraordinary general meeting of shareholders, September 2014, Santander, Spain.

Enhanced profitability

The growth expectations in the main markets in which Santander operates enable us to anticipate a substantial improvement in the Bank's profitability, as shown by the sharp rise in profits in 2014 (+39.3%). The Group's objective is to increase its return on tangible equity from 11% in 2014 to 12-14% in 2017.

The amount assigned by Banco Santander to its shareholders charged to 2014's earnings will be €0.60 per share, if the proposal that the board submits to the 2015 general meeting of shareholders is approved.

The *Santander Scrip Dividend Scheme* has enabled shareholders to opt to receive their dividend in shares or in cash and allowed the Bank, during the years of the crisis, to recapitalise at the pace of the regulatory requirements.

Following the capital increase, Banco Santander decided to reformulate its dividend policy. In the context of the improvement in the economic growth scenario and the change in tax regulations, which worsens the treatment of receiving a dividend in the scrip format, the board decided to set the remuneration per share charged to 2015's earnings at €0.20 per share, which will be paid, as always, in four payments, three of them in cash and the other in shares or cash, at the shareholder's choice.

In the coming years, the evolution of the dividend will be in accordance with the growth in earnings, with the objective that the cash pay-out represents between 30% and 40% of the recurring profit, instead of the current 20%.

Shareholder remuneration in 2014 and 2015

2014
remuneration
per share
€0.60

- February** » €0.15 : *Santander Scrip Dividend* charged to 2013's earnings
- May** » €0.15 : *Santander Scrip Dividend* charged to 2013's earnings
- August** » €0.15 : *Santander Scrip Dividend* charged to 2014's earnings
- November** » €0.15 : *Santander Scrip Dividend* charged to 2014's earnings

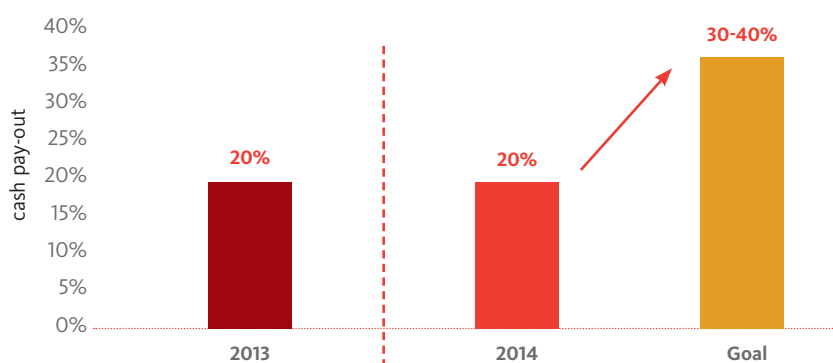
2015
estimated
remuneration
per share
€0.40

- February** » €0.15 : *Santander Scrip Dividend* charged to 2014's earnings
- May** » €0.15 : *Santander Scrip Dividend* charged to 2014's earnings
- August** » €0.05 : Cash dividend charged to 2015's earnings
- November** » €0.05 : *Santander Scrip Dividend* charged to 2015's earnings

... In the coming years, the evolution of the dividend will be in accordance with the growth in earnings

Cash pay-out policy until now and Santander's new policy

Dividend in cash (%)



Evolution of the Santander share

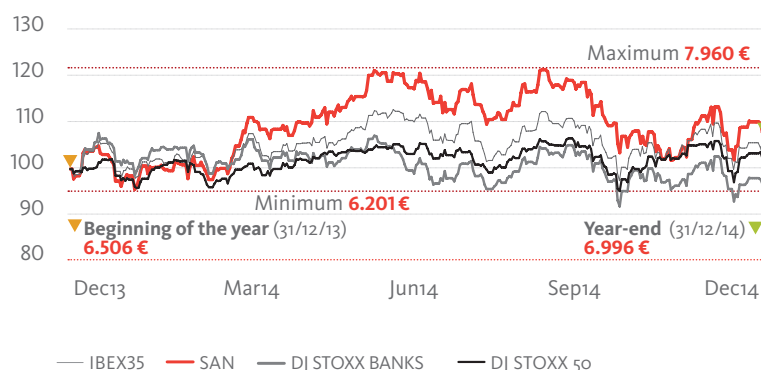
Santander continued to be the largest bank in the euro zone in 2014 by market capitalisation for the 12th year running, and the 11th in the world, with a value of €88,041 million.

The Santander share ended 2014 at €6.996 per share, 7.5% higher than a year earlier. This evolution outperforms that of the Ibex 35 (+3.7%), the Spanish blue chip index, and of the main international indices, such as the DJ Stoxx Banks (-2.8%) and the DJ Stoxx 50 (+2.9%).

At the beginning of 2015, the Santander share was affected by the announcement of the Bank's capital increase and by the turbulence in the market due to political risks in Greece, the oil prices and the correction in the US monetary policy.

Comparative performance of the Santander share

December 2013 VS December 2014



Shareholder base and capital

Number of shareholders

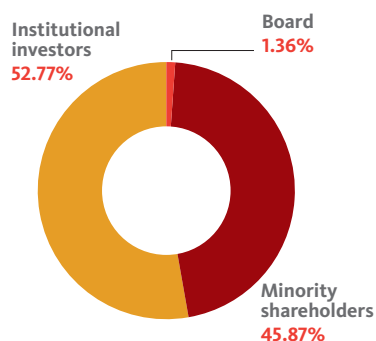
At the end of 2014, Banco Santander had 3.2 million shareholders in more than 100 different countries.

Number of shares

The number of Banco Santander shares was 12,584,414,659 at the end of 2014, after four capital increases to tend to the demand of the four scrip dividend programmes during the year. These entailed issuing a total of 880,057,105 new shares (7.8% of the capital at the beginning of the year). In addition, and in order to tend to the exchange of the offer for acquiring 13.65% of Santander Brazil, 370,937,066 shares were issued.

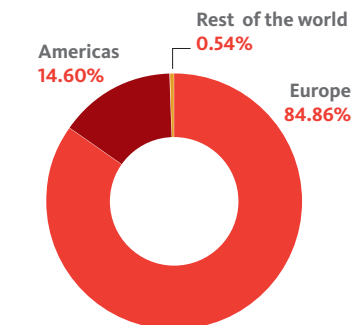
Distribution of capital stock by type of shareholder

31/12/14



Geographic distribution of capital stock

31/12/14



3.2
million
shareholders



Earnings per
share
24.4%
growth in 2014



Market
capitalisation
88,041
million euros

Milestones in 2014

January 30:
presentation of
2013's results

March 28: general
shareholders'
meeting

May: final dividend,
2013

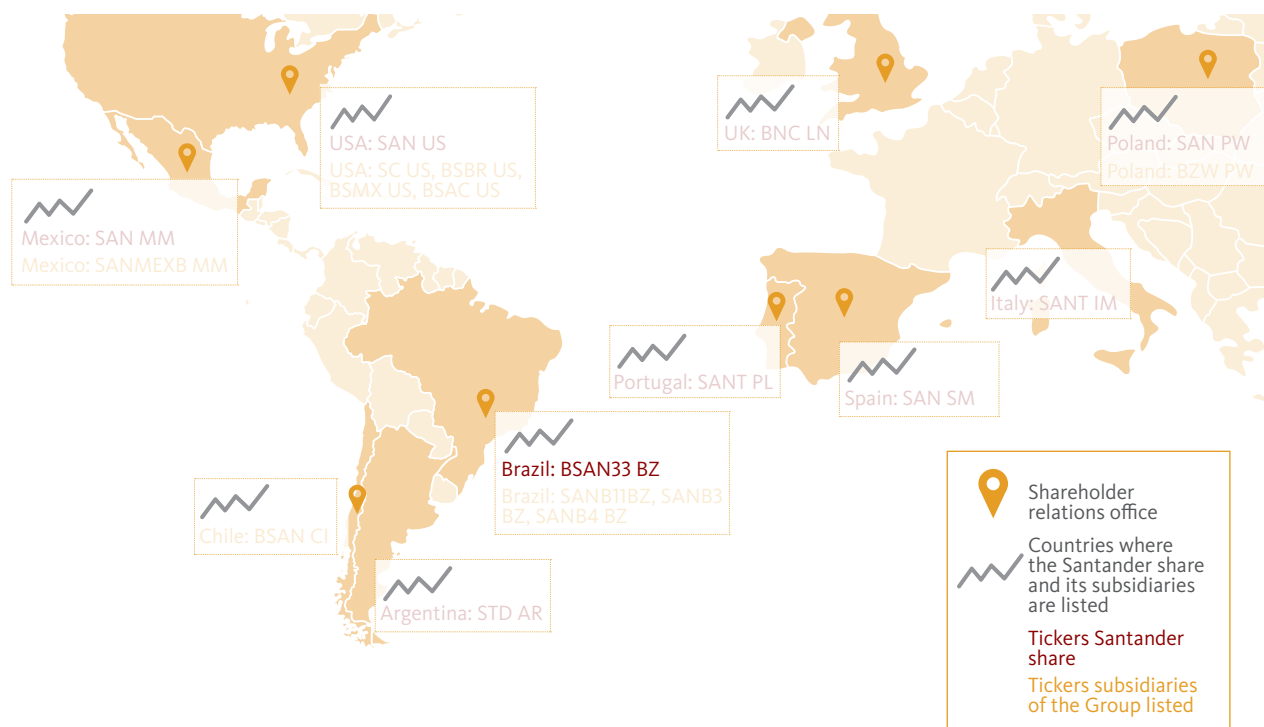
August: first interim
dividend, 2014

February: third
interim dividend, 2013

April 29: presentation
of first quarter 2014
results

July 31:
presentation of
second quarter
2014 results

The Santander share in the world



Listing in two new stock markets

The Santander share began to be listed on the Sao Paulo stock exchange on November 17 after the offer to acquire 13.65% of Santander Brazil's capital. This meant issuing new Banco Santander shares. The Santander share was also listed on the Warsaw stock exchange on December 3, bringing the number of markets where the share is traded to nine: the four Spanish markets, New York, Milan, Lisbon, London, Buenos Aires, Mexico, Sao Paulo and Warsaw.

Shareholder relations offices

Banco Santander wants to listen to all its shareholders and, in order to do so, puts at their disposal, via shareholder relations offices, varied channels to facilitate their communication with the Bank, including: shareholder mail box, telephone line, corporate website, the *I am a shareholder* website and the Santander Shareholders app.

Shareholders can send their comments and suggestions via these channels, while also receiving all the information on the evolution of the share and of the Group. Also, 329 events were held with shareholders to inform them of the Group's results and offer them a personalised attention.

QR code

You can access the shareholders' area on the corporate website by scanning this QR code.



In 2014 :

32,034
e-mails tended to

227,968
telephone
consultations
received

339,049
letters

3,826,979
alerts sent via SMS

September 15:
extraordinary meeting of
shareholders

November 4:
presentation of third
quarter 2014 results

November 17: SAN share
publicly quoted in Brazil

January 2015:
€7,500 million
capital increase

October 26: stress
test on European
banks

November: second
interim dividend,
2014

December 3: SAN
share publicly quoted
in Poland

February 3 :
presentation of 2014's
results

Communities

▼ Banco Santander develops its business in a responsible way in order to contribute greater value to its employees, customers and shareholders. We take into account the impact of our activity on the environment and we contribute to the economic and social progress of the communities in which we operate.

Banco Santander's commitment to society and the environment is manifested in two fundamental spheres:

1. Responsibility in developing its activity

Banco Santander is aware of the enormous impact its regular activity has on the environment and is committed to acting responsibly.

- It has a sustainability committee chaired by the chief executive officer, which is responsible for integrating sustainability within the Group's business model.
- It has developed corporate policies and rigorous processes of marketing products and services that aim to guarantee they are sold appropriately.
- It fosters compliance with the codes of conduct that govern the behaviour of its professionals.
- It measures the social and environmental risks in large credit operations.
- It has internal policies that govern the Bank's activities in sensitive sectors, such as defence, energy and forestry.
- It complies with the highest standards of corporate governance as regards transparency, effectiveness and defence of shareholders' interests.
- It promotes compliance with the *United Nations Global Compact* among its suppliers and manages purchase processes in a coordinated, efficient and sustainable way.
- It has implemented energy efficiency measures in all the Group's facilities and offers funding lines for the development of clean energy projects.

2. Commitment with the community

Santander shows its commitment to the society in which it conducts its business by investing in its development and social progress, with initiatives in different spheres:

- **Education.** A quality education for everyone is a guarantee of social and economic wellbeing. Banco Santander supports education as the engine of communities' progress, particularly higher education. The Santander Universities programme is the hallmark of the Group's social commitment. Moreover, the Bank promotes access to quality nursery education through various initiatives, some of which directly involve employees.
- **Entrepreneurship and job creation.** Santander promotes entrepreneurship and job creation, paying particular attention to the spheres of higher education and universities. The Bank has various business incubation initiatives and promotion of young talent with entrepreneurial spirit, as well as programmes that contribute to strengthening the business fabric and sustainable development.
- **Financial inclusion.** Banco Santander pursues financial inclusion and the socio occupational integration of vulnerable collectives, in order to improve their quality of life and that of their environment. Santander has microcredit programmes in Brazil, Chile and El Salvador. Furthermore, the Bank is firmly committed to financial education, conscious of the need to promote better knowledge of basic aspects of finance.
- **Culture.** Santander carries out intense activity to protect, preserve and disseminate art and culture. The Banco Santander Foundation in Spain and Santander Cultural in Brazil are the best examples of the Group's cultural investment.

Santander forms part of the main stock market indices that analyse and assess the companies' activity in the sphere of corporate social responsibility: the Dow Jones Sustainability Index (DJSI) in the bronze category, and the FTSE4Good



“Banco Santander is the leading company in the world in education investment,” according to the Varkey Foundation report in conjunction with Unesco



Santander Universities

Investment in higher education is a hallmark of the Bank's social commitment and this support is articulated and managed via Santander Universities.

For 18 years Santander has maintained a long-term strategic alliance with universities, unique in the world. Santander cooperates in launching projects to improve education, internationalisation and modernisation of universities, student and teacher mobility, the entry of students into the labour market and fostering an entrepreneurial culture in universities.

This cooperation is articulated via comprehensive cooperation agreements, support for international cooperation agreements between universities, encouraging and cooperating with international academic networks, and backing global projects.

Of note among the main activities in 2014 were:

- The **4th edition of the internship aid programme for professionals in SMEs in Spain**, which made 5,000 grants. The success of this programme led to its launch, for the second time, in Argentina, the UK and Puerto Rico. The programme facilitates the insertion of students in the labour market. Almost 50% of students who were interns under this programme had a work relation with the company at the end of the programme.

- The **Universia network** also helps young people to enter the labour market. There were 2.8 million job offers in 2014 and 16 million job requests registered in the platforms of the work community.
- **Innovation and entrepreneurship** is a key priority in the support that Santander Universities gives to the university community. Of note was the holding of the 10th edition of the Santander Universities prizes for Innovation and Entrepreneurship in Brazil (20,100 projects presented) and the editions in Mexico, Argentina, Chile and Puerto Rico. Of note also is the organisation of Spin 2014, an international event held in Mexico City, in cooperation with Red Emprendia, the Latin American university network of business incubation that promotes the transfer of knowledge, technological development, innovation and responsible entrepreneurship.
- Launch of the latest edition of the **Santander Iberoamérica scholarship** programmes, fulfilling the commitment made at the II Meeting of University vice-chancellors in Guadalajara, Mexico, in 2010.



€146

million contribution to universities



1,175

agreements with universities in 21 countries on four continents



28,443

scholarships and grants made in 2014

uni>ersia

1,345

universities form part of Universia

2.8

million job offers for university students



Latin American summit of heads of state, Veracruz, Mexico.

The **III International Meeting of Vice-chancellors** was held by Universia in 2014 in Rio de Janeiro, attended by 1,109 vice-chancellors from universities in 32 countries who, during two days, debated the projection of universities and their capacity to respond to society's demands.

The conclusions of the different working sessions are set out in the 2014 Universia Rio Declaration, which details the main challenges and priorities facing Latin American universities in the 21st century and along which is fostering entrepreneurship. This declaration was delivered by Ana Botín, executive chairman of Banco Santander, to Enrique Peña Nieto, the president of Mexico, King Felipe VI of Spain and the Ibero-American General Secretariat in the

framework of the summit of heads of state held in December 2014 in Veracruz, Mexico.

At the Rio meeting, the Bank announced its commitment to invest €700 million in university support programmes over the next four years. Of it, 40% will go on university entry scholarships and national and international student and teacher mobility; 30% on fostering research, innovation and university entrepreneurship; and the remaining 30% on supporting academic projects and initiatives to modernise and incorporate new technologies to universities.



The 2014 Universia Rio Declaration Key strategic areas and proposals for Latin American universities

1. Consolidation of the Ibero-American Knowledge Space.
2. Universities' social and environmental responsibility.
3. Improvement of information on Ibero-American universities.
4. Attention to students' expectations.
5. Continuous training of professors and strengthening of teaching resources.
6. Guarantee for teaching quality and adaptation to social needs.
7. Improvement of research, transfer of its results and innovation.
8. Extending internationalisation and mobility initiatives.
9. Full use of digital technologies.
10. Adaptation to new outlines of organisation, governance and funding.



See more information on the
2014 Universia Rio Declaration
at: www.universiario2014.com

Recognitions

Prestigious international organisations recognised during 2014 Banco Santander's commitment to society:

- **The world's greenest bank** for the third time, according to the magazine Bloomberg Markets, which for the last four years has drawn up a ranking of the world's greenest banks which assesses the financing of renewable energy projects and the reduction of the environmental impact with energy efficiency measures.
- **World's most transparent bank**, according to the NGO Transparency International, which drew up the second edition of its Transparency in Corporate Reporting index. Santander was classified in fifth place in the ranking of the world's most transparent multinationals and the first among international banks, thanks to the information provided on its anti-corruption programmes and organisational transparency.
- **Santander Brazil won the BeyondBanking award**, in the Banking Planet category –adapting and responding to climate change effects– granted by the Inter-American Development Bank (IDB), for its Reduce and Compensate CO2 programme. This award recognises the best financial institutions in the sustainability sphere in all of Latin America.
- **Santander Chile was recognised as the leading company in corporate governance** by ALAS20 on its report on sustainability and responsible investments. It also obtained an award in the leading company in sustainability and investor relations categories.
- **Santander UK attained a national award for the Community Plus programme** of the Santander UK Foundation for being considered the best corporate foundation programme in the 2014 Corporate Engagement Awards, which are granted to corporate social responsibility initiatives.
- **Santander Totta was recognised for its energy efficiency management plans** at its headquarters, in the ninth edition of the EDP Electric Energy and Environment awards.

Other recognitions obtained during the year in countries where Santander operates include:

QR code
You can access the sustainability area on the corporate website by scanning this QR code.



Santander experiences



Santander Chile: financial education

In order to promote financial education in an inclusive way, foster conducts such as responsible consumption, savings and good use of banking products and services, various initiatives were developed for individuals and SMEs such as sanodelucas.cl, a digital and interactive platform with contents and tools, and the recently launched Financial Education Centre.



Santander Mexico: nursery education

The Bécalos project, in which the Bank has participated for many years in cooperation with the Mexican Banking Association and the Televisa Foundation, promotes education in Mexico through granting scholarships to students and teachers in public schools.

Under Bécalos, 90 out of every 100 students can attend the following school course. The Bank collected more than €53,000 in 2014 for this initiative via ATMs. The Bank, on its part, contributed €200,000. Over 200,000 students have benefited from this programme.



Santander Brazil: microcredit programme

- ▶ Santander Brazil is the leading private bank and the second in microcredits in Brazil. It is present in more than 600 municipalities throughout the country.
- ▶ The programme grants credits of €700-€800, with maturities of around eight months, to charity groups formed by five to six people.
- ▶ More than 300,000 people, 70% of them women, have benefited from this programme since 2002.

Risk management

▼ Quality in risk management is one of our hallmarks and a priority area for action and value creation.

During its more than 150 years of activity, Santander has developed a combination of prudence in risk management together with the use of advanced techniques that have proven to be decisive in generating recurring economic results.

Grupo Santander's risk policy is focused on maintaining a medium-low and predictable profile for all of its risks. Its risk management model is a key factor for achieving the Group's strategic objectives.

Grupo Santander's corporate risk management principles



Integration of the risk culture and involvement of senior management in managing and taking decisions on risks



An independent risk function



Comprehensive approach to all risks



Formulating the risk appetite of the Group and its units



Clear definition of attributions and decision-making via collegiate bodies



Use of common management instruments among countries

The board is responsible for annually establishing and updating the risk appetite

Corporate governance of the risk function

The board is responsible for annually establishing and updating the risk appetite, monitoring the risk profile, and ensuring consistency between both. The risk appetite is set for the whole Group, as well as for each of its main business units, in accordance with the corporate methodology adapted to each market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once these have been validated by the Group.

The executive risk committee (ERC) is the Group's maximum executive body on risks and adopts decisions in the sphere of the powers delegated by the board to ensure that the Group's risk profile derived from the business strategy is aligned with the risk appetite limits and global policies approved by the board. Under these powers, the DRC approves risk operations, sets the risk policies and monitors the profile of global risks, ensuring that the Group has the structure, resources and necessary systems for adequately managing and controlling risks.

The DRC delegates some of its powers in corporate risk committees, structured by risk type and activity, which facilitate an adequate scaling process for taking final decisions and continuous monitoring of the risk profile. Moreover, both the executive committee as well as the Bank's board devote particular attention to managing the Group's risks.

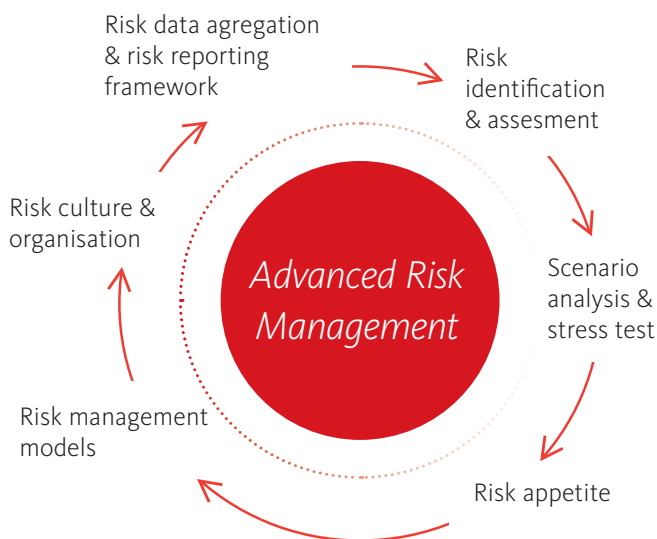


See pages 179-181 of the annual report

A new board committee was created in 2014 to supervise risks, regulation and compliance. Its functions are to support and advise the board on defining and assessing the risk strategy and policies and in the Bank's relation with supervisors and regulators in the various countries where it operates, supervise compliance with the general code of conduct and, in general, the Bank's rules of governance and compliance programme.



Advanced Risk Management (ARM)

The Group launched the Santander Advanced Risk Management programme to accelerate the implementation of its strategic projects to improve risk management and control capacity. The aim is to have comprehensive and integrated risk management at all levels of the organisation, efficiently aligning the strategic objectives with a medium-low and stable risk profile.



Grupo Santander's risk profile

The risks that Santander faces as a result of its activity are: credit, market, liquidity, structural and capital, operational, conduct, compliance and legal, model, reputational and strategic. We set out below a brief description of the main risks and their evolution in 2014.

	Definition	Risk profile	Evolution in 2014
Credit risk  See pages 194-222 of the annual report	<p>This risk comes from the possibility of losses derived from total or partial failure to perform the financial obligations contracted with the Group by its customers or counterparties.</p> <p>Other credit risk optics:</p> <ul style="list-style-type: none"> • Credit risk from activity in the financial markets. • Concentration risk. • Country risk. • Sovereign risk and that with the rest of public administrations. • Environmental risk. 	<ul style="list-style-type: none"> • More than 80% of Grupo Santander's credit risk comes from commercial and retail banking activities. • 64% of the Group's loan portfolio has real guarantees. • High degree of geographic diversification of risks. • Limited concentrations in clients, business groups, sectors, products and countries. <ul style="list-style-type: none"> • The largest concentration in a loan portfolio in a particularly sector and country represents 16% of the Group's total risk and corresponds to residential loans in the UK. • The exposure to Spain's sovereign risk represents only 3% of the Group's total assets. • Very limited cross-border risk exposure, in line with the model of subsidiaries autonomous in terms of capital and liquidity. • High credit rating of the Group's assets. 	<ul style="list-style-type: none"> • The credit risk with customers increased in 2014, to €804,084 million, following two years of decreases. • The trend toward reducing loan-loss provisions and the cost of credit, which stood at 1.43%, was maintained. • The NPL ratio was reduced to 5.19% and the coverage ratio increased to 67%. • The net exposure to run-off real estate risk in Spain was reduced by €2,015 million, to €7,320 million. • The adjustment in Grupo Santander's level of provisions as a result of the ECB's Asset Quality Review (AQR) was marginal (€200 million in a balance sheet of €1.3 trillion).
Liquidity and funding risk  See pages 245-258 of the annual report	<p>Liquidity risk is that incurred from potential losses that could arise as a result of a bank's incapacity to obtain funding in the market and/or from the higher financial cost of accessing new ways of funding.</p> <p>Management of this risk aims to ensure the availability of the funds needed in adequate time and cost to tend to obligations and develop operations.</p>	<ul style="list-style-type: none"> • Liquidity management and funding is a basic element of the business strategy. • The funding and liquidity model is decentralised and based on autonomous subsidiaries that are responsible for covering their own liquidity needs. • The needs derived from medium and long-term activity must be funded by medium and long-term instruments. • High participation of customer deposits, as a result of an essentially retail and commercial banking balance sheet. • Diversification of wholesale funding sources by: instruments/investors, markets/currencies, and maturities. • Limited recourse to short-term wholesale funding. • Availability of a sufficient liquidity reserve, which includes the discounting capacity in central banks to be used in adverse situations. 	<ul style="list-style-type: none"> • Net loan-to-deposit ratio in the Group at very comfortable levels (113%). • High capturing of medium and long-term wholesale funds (issues and securitisations): €52,000 million via 18 issues in 15 countries and 13 different currencies. • Compliance ahead of schedule of regulatory ratios: at the end of the year, the liquidity coverage ratio exceeded 100% in the Group and the main subsidiaries compared to 60% required as of October 2015. • The liquidity reserve stood at €230,000 million, after rising in the quantity (+€30,000 million) and quality of its assets.

Definition

Market risk



See pages 223-244 of the annual report

Market risk covers those financial activities where equity risk is assumed as a result of a change in market factors. This risk emanates from changes in interest rates, the inflation rate, exchange rates, equities, credit spreads, commodity prices and volatility in each one of these factors, as well as the liquidity risk of the various products and markets in which the Group operates.

Risk profile

- Santander maintains a moderate exposure to market risk.
- Diversification both in terms of risk factors as well as geographic distribution.
- Trading activity centred on customer business.
- The average VaR in trading activity remained in a low range, in line with previous years.
- Limited exposure to complex, structured assets.

Evolution in 2014

- The VaR of trading activity in markets fluctuated in 2014 between €8 million and €24 million.
- The most significant fluctuations were due to changes in the exposure to Brazil's exchange rate and to interest rates and credit spreads in Spain's treasury.

Operational risk



See pages 259-267 of the annual report

The risk of losses resulting from defects or failures in internal processes, human resources or systems, or from external circumstances. In general, and unlike other types of risk, it is not a risk associated with products or businesses. It is found in processes and/or assets and is internally generated (people, systems, processes) or as a result of external risks, such as natural disasters.

- In the sphere of operational risk control and management, the Group focuses on identifying, measuring/assessing, controlling/mitigating and communicating.
- Organisational model of control and management based on three lines of defence.
- The Group has over 500 mitigation measures in place in response to the main risk sources.
- The business continuity management system ensures the operation of processes in the event of disaster or serious incident.

- Progress was made on the evolution towards an advanced model (AMA) to calculate regulatory capital by operational risk.

Compliance and reputational risk



See pages 268-273 of the annual report

Compliance risk

This is the risk of receiving sanctions, economic or otherwise, or being the object of another type of disciplinary measure by supervisory bodies, as a result of not complying with laws, regulations, rules, standards of self-regulation or codes of conduct applicable to the activity developed.

Reputational risk

This is the risk linked to the perception that the various stakeholders have of the Group, both internal and external, in the development of its activity, and which can have an adverse impact on results or expectations of business development including, among others, legal, economic and financial, ethical, social and environmental aspects.

- Explicit declaration of zero tolerance in matters of compliance and reputational risk.
- The Group's compliance programme focuses on:
 - Prevention of money laundering and financing of terrorism.
 - Marketing of products and services.
 - Conduct in the securities markets.
 - Prevention of penal risks.
 - Relations with regulators and supervisors.
 - Drawing up and disseminating the Group's institutional information.
- In the sphere of money laundering 22.9 million transactions were analysed and training courses given to 129,233 employees.
- The corporate committee of marketing analysed a total of 103 new products/services.
- 12,000 Group employees are subject to the Code of Conduct in the Securities Markets.
- Banco Santander made public 90 material facts.



In 2014 Santander generated an attributable profit of

€ 5,816 million.

Profit was up 39.3%, backed by solid revenues, cost control and lower provisions.

2

2014 Results

- ▶ 52 Economic, banking and regulatory environment
- ▶ 56 Highlights
- ▶ 58 Markets
- ▶ 66 Global businesses



QR code
You can access
the 2014 results
on the corporate
website by
scanning this
QR code.

Economic, banking and regulatory environment

International economic environment

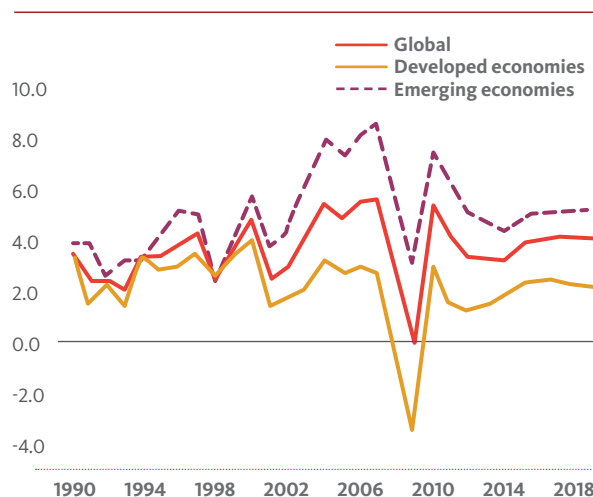
The global economy grew by around 3.3% in 2014, in line with 2013 but with important differences. On the one hand, the developed economies grew more strongly which was offset by more moderate growth among the emerging economies. On the other, the differences in cyclical positions between the developed countries and among the emerging ones were more accentuated.

- The **United States** is in a solid expansion stage. The economy grew at above its potential rate, as a result of which unemployment and the excess of installed capacity were reduced substantially. Inflation remained low. In these conditions, the Federal Reserve concluded its bond-buying programme, without abandoning the expansive tone of its monetary policy.
- The **United Kingdom** performed very positively in 2014. Inflation consolidated at below 2%, enabling the Bank of England to hold its discount rate at 0.5%.
- The **euro zone** registered a slow recovery. Inflation was close to 0%, which led the ECB to cut its benchmark rates and launch new quantitative easing measures in the form of injecting long-term liquidity (TLTROs) and purchases of securities issued by the private sector.
- **Spain** grew clearly above the euro zone average in 2014. Job creation, which began in the fourth quarter of 2013, was consolidated and produced a gradual decline in the unemployment rate. The recovery is the result of the adjustments and reforms made in the public and private sectors in the last few years, notably among which has been the improvement in competitiveness, via internal

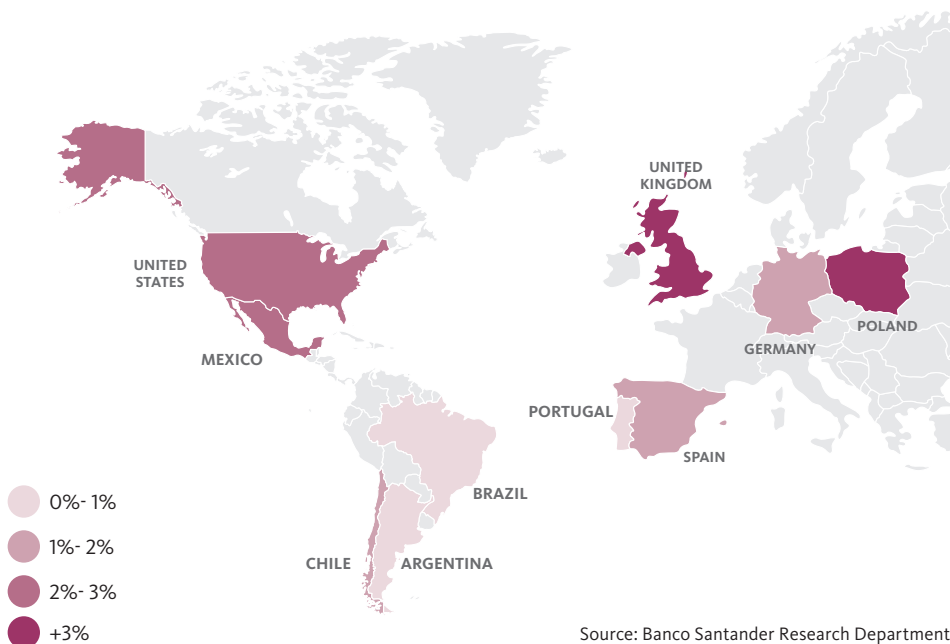
devaluation, labour market reforms and restructuring of the financial system.

- **Germany's** growth eased as the year progressed, while maintaining the strength of its labour market and the high level of competitiveness of its exports.
- **Poland** grew strongly in 2014, although the economy lost steam in the last part of the year due to the conflict in the Ukraine (which hit Poland's trade with East Europe) and the euro zone's modest growth.

The developed economies grew more strongly, while the emerging ones moderated their growth



Source: FMI, World Economic Outlook

GDP 2014
% change

» In the United States and the United Kingdom, consolidation of the recovery was particularly noticeable

» In the euro zone, the pace of growth was moderate, with Spain growing faster than the European average

» In Latin America, growth slowed but by varying degrees

- In **Latin America**, growth slowed in 2014 (1.3% vs. 2.7% in 2013) in an international environment characterised by the normalisation of monetary policy in the US, lower growth in China and less favourable terms of foreign trade than in the past. Despite this lower growth, inflation rose, as a result of several supply shocks and the impact of the depreciation of Latin American currencies.
- **Brazil** recorded moderate growth, despite which the jobless rate remained very low. The first measures announced by the new government were positively valued by the markets.
- The **Chilean** economy slowed down, which allowed for more expansive monetary (benchmark interest rate at 3%) and fiscal policies.
- **Mexico** was on an upward growth trend during 2014, thanks to the strong trade links with the US and the expectations raised by the major structural reforms.

The main international institutions foresee an upturn in the global economy in 2015 which would gain steam in 2016.

Financial markets and exchange rates

In general, financial conditions improved substantially. The advances mainly occurred in the first half of the year when the global perception of risk declined substantially, stock market indices registered widespread gains, public and private debt risk premiums fell sharply, access to capital markets was more fluid and the conditions of bank credit – in developed economies – eased.

This performance was linked to central banks' monetary policies, which resulted in abundant liquidity and in the consequent search for profitability. Another important factor was the progress in the European Banking Union and the idea that the most extreme risks were a thing of the past.

In the second half of 2014 there was a correction and a greater differentiation in the performance depending on the nature of the asset and the prospects of each economy in the face of the downgrading of global growth forecasts, the end of the US bond buying programme and the notable fall in commodity prices, particularly in the case of oil.

Exchange rates registered important changes during 2014. The dollar, in particular, appreciated sharply against the euro and against the main Latin American currencies.

Financial conditions improved substantially and exchange rates registered important changes during 2014



Headquarters of the European Central Bank in Frankfurt, Germany.

Banking sector environment

The most important development for the banking systems in which Santander operates was the progress toward the Banking Union in the euro zone. The ECB assumed the function of supervisor of all euro zone banks and directly for the 120 most important (82% of the system's total assets).

Before beginning this task, it conducted an exhaustive health check of the banks' assets and liabilities. The assessment included two key elements: an Asset Quality Review and a simulation of the impact of different macroeconomic scenarios on the solvency of banks (stress test). Of the 123 banks analysed, only 13 recorded a net deficit of capital (€9,475 million total) when the results were announced.

2014 represented a turning point for European banks, thanks to the assessment of their balance sheets and the preparatory work by the banks, which strengthened their solvency decisively.

This was reflected in a clear improvement during the year in the confidence in the European financial system. Economic weakness, meanwhile, continued to weigh on business and the low interest rates continued to exert downward pressure on results. Even so, the trend of improvement during the year in the evolution of credit and the cost of credit is expected to support a gradual improvement in spreads in 2015.

2014 represented a turning point toward a clear improvement in the confidence in the European financial system, thanks to the ECB's assessment of their balance sheets

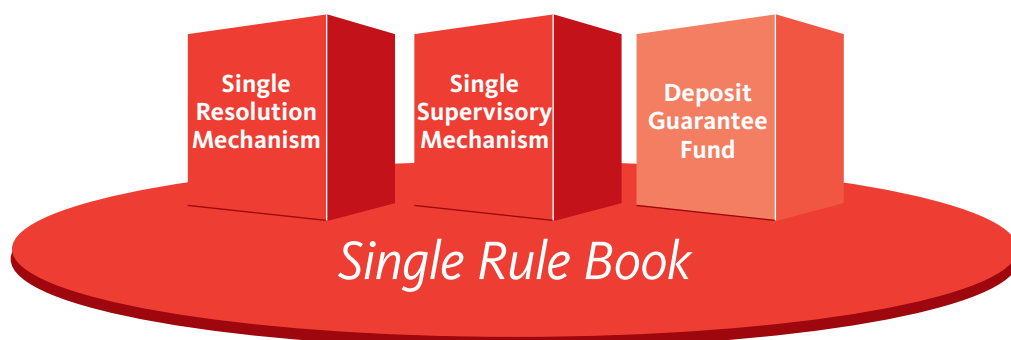
Analysis of European banks

- 123 banks with €28 trillion in assets (70% of the European banking system)
- Stress test: European banking impact on CET1 of -260 b.p. in the adverse scenario (Santander -139 b.p.).
- Asset Quality Review: average European banking impact on CET1 of -40 b.p. but only -4 b.p. for Santander.
- 13 banks with capital needs of €9,475 million did not pass the test.



See pages 174-176 of the annual report

Pillars of European Banking Union



Regulatory context

At the international level, the Financial Stability Board progressed in drawing up the **crisis management framework** to be applied to globally systemic banks (G-SIBs). The most novel element of these frameworks is the requirement of a minimum total loss-absorbing capacity (TLAC) to recapitalise an institution in the event of resolution. During 2015, an impact and market study will be developed to close the TLAC definition and calibration by the end of the year.

In Europe the crisis management directive was approved. This directive constituted a significant advance in the ordered resolution of banks in Europe and helped to break the feedback loop between banking and sovereign risk, by making bank creditors the first to absorb losses and reduce to the maximum the possibility of using public funds in the case of a banking crisis.

Another sphere of intense regulatory activity was the review of the **capital requirement frameworks for credit, market and operational risk**, both of standard as well as advanced models, which the Basel Committee is developing. This work is expected to be completed before the end of 2015. On its success will depend the role of risk sensitive requirements is maintained in the prudential framework or, on the contrary, a greater weight is given to non-risk sensitive measures such as the leverage ratio. Meanwhile, in Europe, the European Banking Authority (EBA) continued to issue standards and guidelines to guarantee a harmonised implementation in the European Union of the minimum capital requirements. All this work will be key for

reducing the changes in capital requirements. All this work will be key for reducing the variability in capital requirements across banks not justified by their different risk profile. This will also help to guarantee a level playing field and meaningful comparisons.

The year in Europe was marked by progress in the **Banking Union**. The ECB assumed its supervision responsibilities in the euro zone on November 4. Furthermore, the regulations of the Single Resolution Mechanism (SRM) and of the Single Resolution Fund were approved.

The European Commission published in January 2014 its proposed regulations for **structural reform** that ban proprietary trading and the possibility of requiring separation of market making in some cases. The European Parliament and Council will continue to advance in these negotiations during 2015. As well as the UK, France, Germany and Belgium have also approved laws separating banking activity (fundamentally the separation and/or prohibition of proprietary trading) that will enter into force during 2015.

As regards **investor protection**, of note was the publication of MiFID II, which will come into force in January 2017. The European Securities Market Authority (ESMA) and the European Commission are developing it.

The year in Europe was marked by the launch of the single supervisor

Highlights

Balance sheet (Million euros)	2014	2013	% 2014/2013	2012
Total assets	1,266,296	1,134,128	11.7	1,282,880
Net customer loans	734,711	684,690	7.3	731,572
Customer deposits	647,628	607,836	6.5	626,639
Managed customer funds	1,023,437	946,210	8.2	990,096
Stockholders' funds	80,806	70,326	14.9	71,797
Total managed and commercialised funds	1,428,083	1,270,042	12.4	1,412,617

Income statement ¹ (Million euros)	2014	2013	% 2014/2013	2012
Net interest income	29,548	28,419	4.0	31,914
Gross income	42,612	41,920	1.7	44,989
Pre-provision profit (net operating income)	22,574	21,762	3.7	24,753
Profit before tax	9,720	7,362	32.0	8,942
Attributable profit to the Group	5,816	4,175	39.3	2,283

EPS, profitability and efficiency (%)	2014	2013		2012
Attributable earnings per share (euros)	0.479	0.385	24.4	0.234
RoE ²	7.0	5.8		3.1
RoTE ²	11.0	9.6		5.2
RoA	0.6	0.4		0.3
RoRWA ³	1.3	—		—
Efficiency ratio (with amortisations)	47.0	48.1		45.0

Solvency and non-performing loans (%)				
CET 1 fully loaded ^{3,4}	9.7	—		—
CET 1 phase-in ^{3,4}	12.2	—		—
Non-performing loan (NPL) ratio	5.2	5.6		4.6
Coverage ratio	67.2	64.9		75.4

The share and capitalisation	2014	2013	% 2014/2013	2012
Number of shares (million)	12,584	11,333	11.0	10,321
Share price (euros)	6.996	6.506	7.5	6.100
Market capitalisation (million euros)	88,041	73,735	19.4	62,959
Shareholders' funds per share (euros)	6.42	6.21		6.99
Share price/shareholders' funds per share (times)	1.09	1.05		0.87
PER (share price/attributable earnings per share) (times)	14.59	16.89		26.10

Other figures	2014	2013	% 2014/2013	2012
Number of shareholders	3,240,395	3,299,026	(1.8)	3,296,270
Number of employees	185,405	186,540	(0.6)	189,460
Number of branches	12,951	13,781	(6.0)	14,238

1. Changes excluding the impact of exchange rates: net interest income: +8.8%; gross income: +6.2%; pre-provision profit: +9.1%; attributable profit: +49.3%.

2. RoE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments). In 2014, proforma data including the January 2015 capital increase of €7,500 million.

RoTE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments-goodwill-intangible assets). In 2014, proforma data including the January 2015 capital increase.

3. The previous years' figures are excluded because they are not compatible due to the new CRD IV directive.

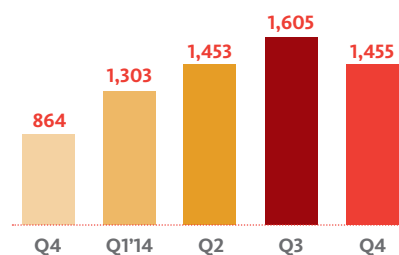
4. In 2014, proforma data including the January 2015 capital increase.

Income statement

- 1** Sharp rise in the Group's attributable profit, fuelled by the improvement in commercial activity. Profit before tax rose in the 10 core markets.



See more information
on pages 104-109 of the annual report

Quarterly attributable profit
Million euros

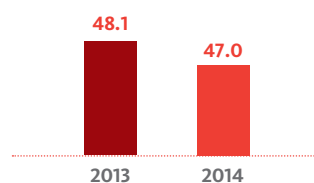
2014 attributable profit

€5,816
million

+39.3%

- 2** Gross income (€42,612 million) evolved favourably in quarterly terms and costs (€20,038 million) increased at below the inflation rate, which improved the efficiency ratio.

Efficiency ratio (%)

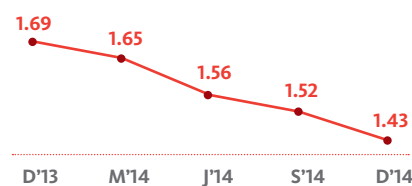


2014-2016 efficiency and
productivity plan revised
upward

€2,000
million

- 3** Sustained trend of improvement in the cost of credit due to lower provisions than in 2013.

Cost of credit (%)



-14.4%
Loan-loss provisions

Balance sheet

- 1** Recovery in lending and faster pace of growth in deposits and mutual funds, enabling the Bank to maintain a comfortable liquidity position.

+5%*
Loans

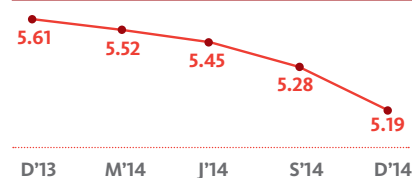
+6%*
Customer funds

113%
Net loan-to-deposit ratio

* Excluding exchange rates

- 2** Fall in the NPL ratio due to the sharp reduction in NPL entries. Rise in the coverage ratio.

Non performing loan (NPL) ratio (%)



67%
Coverage ratio

- 3** High solvency and leverage ratios. The results of the ECB's comprehensive assessment reflect the Group's good management and balance sheet quality. Santander stands out among its peers for the small adjustment as a result of the Asset Quality Review and less impact on capital in the stress test.

9.7%*
CET1 fully loaded

12.2%*
CET1 phase-in

* Proforma data that includes the January 2015 capital increase.



See more information
on pages 174-176 of the annual report

Results by countries and businesses

Spain

Santander Spain has retail, commercial, wholesale, private banking and online banking (OpenBank) business. Its market share in loans is 13.5% and 14.8% in savings.



Santander Private Banking branch in Madrid, Spain.

2014 highlights

➤ Santander Spain granted some 400,000 credits and loans for a total amount of €34,000 million (+84 b.p. in market share).

➤ In a challenging economic and financial environment, but with a small and gradual upturn during the year, the strategy focused on:

- Launching the *Santander Advance* project for SMEs with a financial and non-financial offer that has brought considerable recognition to the Bank, thanks to the activities organised with customers.
- Attract new customers and greater engagement with current ones. In order to improve the customer experience, the *We want to be your Bank* programme was transformed so that it is better adapted to each customer profile.
- Manage customer funds (+5%), which has largely shifted from deposits to mutual funds, consolidating leadership in investment funds.

➤ Net interest income increased 9.4% in the year, mainly due to the reduction in the cost of funds. Operating costs were down 6.7% and the synergies envisaged and communicated to the market at the time of the merger were surpassed. Provisions fell sharply.

Integration of Santander, Banesto and Banif
The integration ended in July, ahead of schedule. All private banking clients were incorporated to the attention model that Banif had.

We took advantage of the integration to optimise segmentation and specialisation of branches, with a particular emphasis on private banking, *Select* and company banking, and increasing coverage in specialised portfolios to almost 100%.

Aim:

Be the best bank for our customers and the best place to work.

We want to maintain our current position in the segment of high income individuals (*Select* and Private Banking) and grow our position in SMEs. Increase the loyalty and satisfaction of our individual customers. Drive innovation and digitalisation in order to be the best bank in the market. And strengthen excellence in service quality by streamlining critical processes.

Employees

24,979

Customers (Million)

12.6

Branches

3,511

Loans^{1,2}

157,047 (+2%)

Attributable profit¹

1,121 (+141%)

1. Million euros

2. Change without repos

Contribution to Group profit

14%

Poland

Bank Zachodni WBK is the country's third largest bank by market share in loans (7.5%) and deposits (8.3%).

Aim: To increase our market share and to maintain our leadership in terms of profitability.



Bank Zachodni WBK branch in Poland.

2014 highlights

- > The Group's business model in Poland focuses on commercial and retail banking, with a noteworthy presence in asset management, stockbroking, factoring and leasing. The Bank provides services to corporate clients and has the Global Banking & Markets unit that provides services to international clients.
- > The Bank continues to offer innovative and tailored solutions, not only to attract new customers, but also to deepen already

existing relations. The objective is to improve transaction banking and increase in this way the Bank's market share. The strategic programme *Next Generation Bank* continued to develop the Bank at all levels, with the focus on customers and their satisfaction, so that it becomes the bank of first choice.

- > The integration of BZ WBK with Kredyt Bank was completed, with an effective management of costs and gains in productivity and commercial activity.
- > Lending (+7%) and funds (+10%) grew in 2014, following the success of commercial campaigns. The funding structure was improved, with a net loan-to-deposit ratio of 84%. The efficiency ratio was 42.2%.
- > Bank Zachodni generated the largest amount of returns for its shareholders between 2004 and 2013 of all the banks listed on the Warsaw stock market, and was first in the Złota Akacja ranking (Golden Share) of the WIG banks index.

Employees

11,971

Customers (Million)

4.3

Branches

788

Loans^{1,2}

16,976 (+7%)

Attributable profit¹

358 (+7%)

1. Million euros, change in local currency

2. Change without repos

Contribution to Group profit

6%

Portugal

Santander Totta is the third largest private sector bank by assets in Portugal and the leader in terms of attributable profit.

Aim: To be a reference in customer service quality, to grow in market share and to be the most profitable local bank.



Santander Select branch in Portugal.

2014 highlights

- > Santander Totta's market share in loans is 10.7% (+46 b.p. in 2014) and 10.4% in mutual funds plus deposits (+73 b.p.).
- > Its strategy is to remain focused on increasing profitability and market shares in the company segment. Priority objectives are to manage net interest income, both assets and liabilities, and control non-performing

loans. The Bank is the leader in customer satisfaction.

- > The Bank has been active in the international markets through two covered bond issues: the first, in March, of €1,000 million with maturity at three years; and the second, in June, of €750 million at five years. The Bank reduced its exposure to the European Central Bank.
- > Deposits rose 4% and mutual funds 21%. Lending fell 5% in a deleveraging environment.
- > Gross income increased 4.3% and operating costs remained very controlled (-0.9%). Loan-loss provisions evolved well (-35.7%).
- > In 2014, Santander Totta was named Best Bank in Portugal by *Euromoney* and *Global Finance* and Bank of the Year by *The Banker*.

Employees

5,410

Customers (Million)

3.6

Branches

594

Loans^{1,2}

23,180 (-5%)

Attributable profit¹

189 (+65%)

1. Million euros

2. Change without repos

Contribution to Group profit

2%

Santander Consumer Finance

With a position of leadership in Europe's consumer finance market, SCF specialises in auto finance and offers personal credits, loans to buy durable goods and credit cards.



Headquarters of Santander Consumer Bank in Poland.

SCF provides financing solutions so that clients can buy goods through more than 120,000 associated points-of-sale. It also has 65 finance agreements with car and motorbike manufacturers, as well as various cooperation agreements with large retail distribution groups.

In an environment of the beginning of a recovery in consumption and car sales, SCF continued to gain market share, backed by a business model whose pillars are geographic diversification and critical mass in key products, higher efficiency than its competitors and a risk control and loan loss recovery management system common to all the markets in which it operates, which translates into a high credit quality.

- Solid results supported by growth in commercial revenues (+6.4%) and lower loan-loss provisions (-3.7%).
- The main units evolved well in profits. Of note was the growth in Poland and in the Nordics and the recovery in the euro zone periphery countries, led by Spain.
- Lending increased 9%, supported by growth in the markets of central and northern Europe, and with Spain showing signs of improvement. The cost of credit was below 1%, the NPL ratio 4.82% and the coverage ratio 100%.

The agreements materialised in 2014 strengthen SCF's position in its markets:

- The agreement with **Banque PSA Finance** (PSA Peugeot Citroën Group) will enable it to bolster leadership in auto finance in various European countries and enter the French and Swiss markets.
- SCF is the leader in auto finance and consumer credit in Spain, and strengthened its position in the latter segment after acquiring 51% of *Financiera El Corte Inglés*.
- In the Nordics, SCF's leadership in auto finance was joined by that in direct lending and cards after buying GE Money's business in Norway, Sweden and Denmark.

Germany

SCF is the consumer finance leader in Germany (market share of 14% in term credit). By business lines, it is the leader in financing consumer durables and second in auto finance and direct lending. It also has commercial banking businesses.

Aim:

Maintain the consumer finance industry leadership at a European and local level, increasing profitability and creating value.

We aim to extend and maximise captive car finance, resume growth in consumer loans, continue with efficiency leadership, and maintain diversified funding and solid capital ratios.

Employees

13,046

Customers (Million)

16.6

Branches

579

Loans^{1,2}

60,448 (+9%)

Attributable profit¹

891 (+12%)

1. Million euros

2. Change without repos

Contribution to Group profit

11%

Germany 5%

United Kingdom

Against a backdrop of economic recovery, Santander UK is well placed to accelerate its growth, strengthen relations with customers and push its business with corporates in 2015.



Santander UK headquarters in London.

Santander UK has a growing presence in current accounts, thanks to its innovative 1|2|3 World accounts, and is increasing its lending in both corporate banking and with SMEs, which currently represents 6.6% of loans to customers.

Its objective is to become a more diversified bank, capable of providing all types of service to cover the financial needs of individuals, households and companies.

2014 highlights

- > Gross income grew 7.7% in local currency, largely due to the improvement in margins on mortgage interest rates and growth in loans to SMEs and mid corporates, with underlying cost efficiency well managed. Provisions fell 45.7%.
- > Santander UK successfully increased the number of customers who have their main current account and hold more than one product. There was a large rise in 2014 with 1.2 million new 1|2|3 World customers, bringing the total balances in current accounts to £41,100 million (+47% versus 2013). The 1|2|3 World now has 3.6 million current account and credit card customers.

- > Gross mortgages increased by 43%, to £26,260 million.
- > Loans to companies increased 8%, bringing total lending to £23,900 million. This business is developed through an extensive network of corporate business centres, whose number rose from 50 to 66 in the last 12 months.
- > Improving customer satisfaction is a priority for Santander UK and in 2014 significant progress was made in this sphere. Retail customer satisfaction, as calculated by the Financial Reporting Survey (FRS), improved to 59.7% from 57.3% in 2013. Improvements in corporate customer satisfaction also continued to be delivered, rising to 58% from 50% as reported in the Charterhouse UK business survey.

- > Santander UK continues to be one of the banks with the most solid capital ratios in the United Kingdom (CET1 11.9%).

Aim:

To be the best bank for our employees, customers, shareholders and communities.

Santander UK's strategy centres on increasing the number of loyal and satisfied customers; becoming the bank of choice for UK companies and growing in the wholesale banking business; and maintaining a solid base of profitability, while continuing to invest in technology, advance in digital transformation, improve efficiency and foster the risk culture across the organisation.

Employees

25,599

Customers (Million)¹

25.7

Branches

929

Loans^{2,3}

251,191 (+3%)

Attributable profit²

1,576 (+30%)

1. 14 million active customers

2. Million euros, change in local currency

3. Change without repos

Contribution to Group profit

19%

Brazil

Santander Brazil is the country's third largest private sector bank by assets and the leading foreign bank.



Santander headquarters in São Paulo.

2014 highlights

- In Brazil, the Bank has a market share of 12.4% in unrestricted loans and 7.9% in deposits.
- Results were on a positive trend during 2014, with higher profits, costs rising at below the inflation rate and a fall in non-performing loans.
- The Bank made progress in 2014 in its strategic priorities. Of note from a commercial standpoint were:
 - The acquisition of GetNet, one of the largest networks in Brazil for processing electronic transactions, in order to advance in the customer attention model and improve customer satisfaction.
 - In order to promote the payroll business, a joint venture was created with Banco Bonsucesso to increase the range of products and improve the distribution and marketing capacity.
 - The acquisition of 50% of *Super Pagamentos*, a digital platform that sells financial products and services via pre-payment cards, was announced. This operation will help the process of increasing the penetration of banking services in Brazil.
- Channels were reformulated (attention centre, Internet, mobile banking) with a simpler, more accessible and commercial proposal.
- The Santander *Conta Conecta*, a current account for individual customers and SMEs, which offers a device that enables payments to be received with cards in smartphones and tablets, has attracted some 50,000 customers.
- A total of around 400 ideas suggested by employees via *A bank for your ideas* in the corporate intranet were implemented in 2014, and since then the number of complaints dropped by 26% and customers' perception of the quality of service improved.
- The Bank will continue to streamline its processes and make the customer experience easier. The objective is to be a benchmark in customer satisfaction, with greater engagement and profitability.
- The offer to acquire the shares of Banco Santander Brazil not owned by Grupo Santander was concluded on October 30, 2014. This offer was accepted by shareholders representing 13.65% of the Bank's share capital. As a result, Grupo Santander's stake in Banco Santander Brazil increased to 88.3%.

Aim:

Be the bank of first choice for an increasingly large number of satisfied customers, providing high value-added and innovative services to individual customers and companies.

We want to develop a sustainable commercial banking business, with recurring results and centred on increasing the number of customers, as well as their confidence and satisfaction. Grow wholesale banking, corporate and financial businesses, with an efficient capital allocation among the various businesses. Gain market share, increase net recurring profit and boost Brazil's contribution to the Group's total profit.

Employees

46,464

Customers (Million)

31.1

Branches

3,411

Loans^{1,2}

74,373 (+10%)

Attributable profit¹

1,558 (+8%)

1. Million euros, change in local currency

2. Change without repos

Contribution to Group profit

19%

Mexico

Santander is the country's third largest bank by business volume, with market shares of 13.8% in loans and 13.7% in deposits.



Santander Select branch in Mexico.

Aim:

Be the leading bank in profitability, competitiveness, technological innovation, quality of service and pride in belonging to Santander.

We want to consolidate our leadership in strategic markets, double our customer base, be the preferred bank for our customers, convert the Santander brand into the most recognised in the market, increase our participation in the key sectors of energy and infrastructure, and be the bank of technological innovation in Mexico.

2014 highlights

➤ Santander Mexico continues to focus on developing the high income and SME segments. In 2014, against a backdrop of lower growth in Mexico, lending rose 18% and deposits 14%, outperforming the market in its strategic businesses:

- **Mortgages.** The strong growth of 17% consolidated the Bank as the second largest player in the country's mortgage market.

- **SMEs.** The Bank secured its leadership in this sector with growth of 26% in lending, surpassing the market and further strengthening its position as the partner for SMEs. *Santander Advance*, the largest programme of financing and integral services for SMEs in Mexico, was launched, which will double this loan portfolio over the next three years. This plan includes a MXN 1,000 million fund for SMEs' growth projects in sectors such as telecoms, energy and renewables.

➤ Gross income continued to grow notably (+6.0%), with a positive evolution in the main lines of the income statement. Of note was the growth in net interest income (+7.3%) and fee income (+2.6%).

➤ Operating costs rose 7.2%, mainly due to the continuous investment in strategic businesses and the opening of 95 new branches. With an efficiency ratio of 41%, Santander Mexico is one of the most efficient franchises in the country.

➤ Loan-loss provisions remained at a similar level to 2013 despite the growth in lending in 2014. The slight fall in attributable profit was due to the higher tax charge.

➤ In order to increase transaction banking engagement, campaigns were carried out to improve the interest rate on loans for engaged customers. Innovative products continued to be launched such as the first credit card shared with American Express and the first agri-business credit card in Mexico.

➤ In order to finance investment projects in infrastructure related to the structural reforms underway in Mexico, Santander launched a \$10,000 million fund that will strengthen the Bank's leadership in this sector.

➤ In 2014, *LatinFinance* recognised Santander Mexico as the Best Bank in infrastructure in Mexico and *EuroMoney* named it the Best Bank in Mexico for the third year running.

Employees

16,933

Customers (Million)

11.7

Branches

1,347

Loans^{1,2}

25,873 (+18%)

Attributable profit¹

660 (-3%)

1. Million euros, change in local currency

2. Change without repos

Contribution to Group profit

8%

Chile

Santander Chile is the country's largest bank in terms of assets and customers.

Aim: To be the leading and most valued bank in Chile, setting the client at the centre of our *raison d'être*.



Santander branch in Chile.

2014 highlights

- > Santander Chile has market shares of 19.2% in lending and 17.6% in deposits.
- > The Bank continued with its strategic plan to position the customer at the centre of its activity and looks to consolidate the franchise and leadership positions.
- > The four main pillars are: enhance the quality of customer attention and experience; focus

on commercial and retail banking; proactive and conservative management of risks; and continuously streamlining processes.

- > Work continued in 2014 on the project to transform the Bank in order to grow prudently and with higher profitability; improve the relationship with customers and the quality of service; and manage risk and capital conservatively.
- > Lending grew 8%, with growth in high-income clients (+16%) and companies (+8%). Deposits increased 13%. The efficiency ratio was 38.9%. There was a strong rise in profits, fuelled by growth in gross income, cost control and stable provisions.
- > Santander Chile was ranked first in corporate transparency by Chile Transparente, the University for Development (UDD) and KPMG; and was named Bank of the Year by *LatinFinance*.

Employees

12,081

Customers (Million)

3.6

Branches

475

Loans^{1,2}

30,550 (+8%)

Attributable profit¹

509 (+35%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit

6%

Argentina

Santander Río is the country's leading private sector bank by assets and liabilities.

Aim: Be the leading private sector bank in terms of profitability and market capitalisation.



Santander Río branch in Argentina.

2014 highlights

- > Santander Río has a market share of 9.2% in lending and 9.5% in deposits.
- > The business strategy centres on capturing and linking customers, particularly high income ones and SMEs. The Bank has a multi-channel network which focuses on quality of service and customer satisfaction. The number of branches increased by 5% in 2014 and 9 new spaces as well as 28 *Select* corners and 135 *Select* boxes were

inaugurated for high income clients. A project was also launched to transform the branch network in order to improve service and efficiency. Work was carried out too on new mobile banking functionalities and on renewing the website.

- > In an environment of lower growth and greater regulation, the Bank showed a strong momentum. Lending rose 23% and savings 37%. Gross income was 34.3% higher in pesos.
- > Santander Río was named the Best Bank in Argentina by *Euromoney* and the Best Online Bank by *Global Finance*.
- > In the medium and long term, Santander Río will centre on enhancing its efficiency and quality of attention with new investments in technology, buildings and cost management. It will also progress in the launch of *Advance*, the Group's value offer for SMEs.

Employees

7,275

Customers (Million)

2.5

Branches

396

Loans^{1,2}

5,470 (+23%)

Attributable profit¹

298 (+33%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit

4%

United States

Grupo Santander does retail banking in the northeast of the country, provides consumer finance and wholesale banking services throughout the country as well as a wide range of financial services in Puerto Rico and private banking services in Miami.



Santander branch in New York City.

2014 highlights

➤ Santander Bank closed the year with 206,000 new *extra2o checking* accounts, representing 11% of its customer base. This account is the first in the US which pays customers \$20 every month if they deposit directly at least \$1,500 a month and pay online two bills every month.

➤ In order to improve customer satisfaction, Santander Bank installed more than 600 new ATMs and added 537 cash points without printed receipt to its branch network.

➤ Santander Bank launched *Santander Bravo MasterCard®* in February 2014. Cardholders benefit from promotions for each dollar they spend at service stations, supermarkets and restaurants.

➤ Wholesale banking continued to increase its number of clients (+14% in large corporate clients, to 387), and attract various high profile multinational clients.

➤ The Bank launched its *Real Change* advertising campaign in September 2014, which highlights the commitment of the Santander brand in the US to create real change that promotes progress for its clients and the communities it serves.

➤ The successful listing of Santander Consumer USA in January 2014 generated capital gains of €730 million for the Group. SCUSA's growth during the year (new lending +25%) was spurred above all by the agreement to provide auto finance services to Chrysler Corp.'s clients, now in its second year.

➤ According to the main credit rating agencies, Santander BanCorp is the only Investment Grade-rated financial institution in Puerto Rico, and it has a better credit rating than the country's sovereign debt.

➤ In the framework of new regulatory trends and in order to apply the best management standards, the Group began a process of transformation in the US, consolidating all its businesses under a holding (Santander Holdings USA) and strengthening governance and control structures.

➤ Through the Santander Universities website, Universia, Santander sponsored President Barack Obama's multinational initiative, *100,000 strong in the Americas*, created to foster the bi-directional exchange of 100,000 students between Latin America and the Caribbean, on the one hand, and the United States, on the other.

Aim:

To become the regional bank of choice in the northeast and enhance our position as a national leader in auto finance.

To achieve this, Santander will strive to increase the number of loyal and satisfied customers, digitalise the Bank, and generate profitable growth while re-balancing the business mix.

Employees

15,919

Customers (Million)

4.7

Branches

811

Loans^{1,2}

67,175 (+4%)

Attributable profit¹

800 (0%)

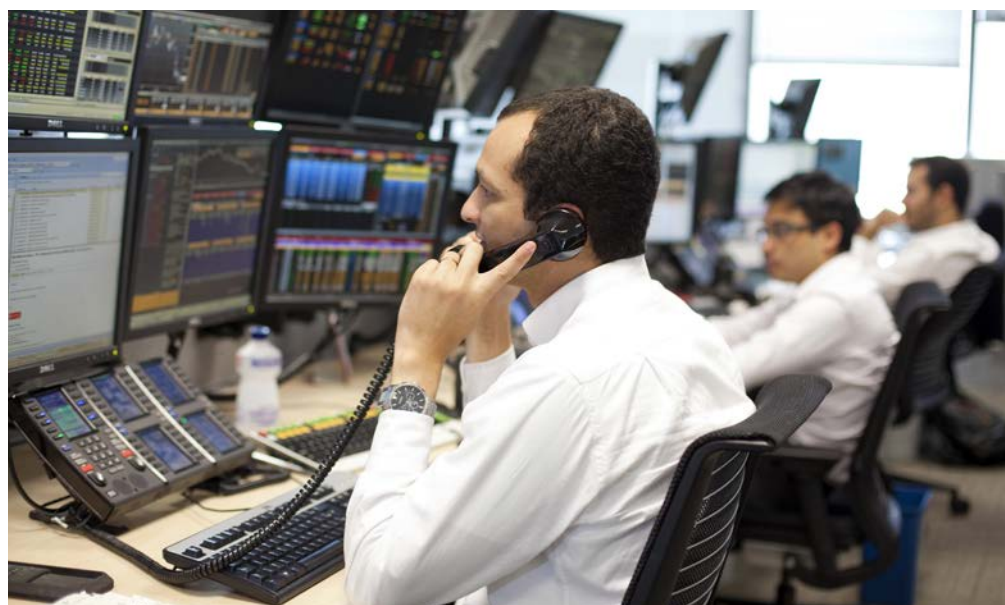
1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit

10%

Global Wholesale Banking

Santander Global Banking & Markets (SGBM) posted an attributable profit of €1,614 million.



Treasury room, Torre Santander, Sao Paulo, Brazil.

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

2014 highlights

- SGBM continued to reinforce the pillars of its business model, focused on the customer, global product capacities and interconnection with its local units, together with an optimum management of risk, capital and liquidity.
- Its results were backed by the strength and diversification of client revenues, which represent 89% of total revenues. The efficiency ratio remained at levels that are a reference for the sector (36.4%).
- Of note among SGBM's activities in 2014 was the push given to the transaction business in the UK, the US and Poland, which complements the reinforcement of the franchise of clients in all markets; the creation of the Financing Solutions & Advisory unit to provide a comprehensive solution to clients' advisory and structural funding needs; the development, together with Commercial Banking, of the offer and advisory in high value products for various client segments in all the Group's units; and the drive in custody business in Spain and Latin America through a strategic agreement with an investment group.

Main transactions

- In cash management, SGBM continued consolidating its local strength and development of regional solutions to accompany clients in their internationalisation process. Of note was the mandate for the treasury and payroll management of General Electric and its subsidiaries in Brazil.
- Strong drive in trade finance, helping clients to import and export, such as the financing for the Sao Paulo Government. Notable growth in the area of working capital solutions, with programmes such as that of the Danone Group to make annual payments to its suppliers.
- SGBM strengthened its capacities in the global capital markets sphere, leading rankings such as that of Brazilian issues in euros or that of the Housing Associations in the UK. An example of this were the euro issues of the Brazilian and Chilean Treasuries.
- SGBM is one of the leading banks in placing project bonds for Europe, Mexico and Brazil, with issues such as that of Odebrecht Offshore Drilling Finance Limited.
- In the sphere of corporate finance, it led the main operations in its core markets, such as advisory services for American Tower in its acquisition of the Brazilian BR Towers or Orange's takeover bid for Jazztel.
- Regarding corporate syndicated loans, SGBM remains the reference in Europe and Latin America.

Employees

3,152

Customers (Thousand)

57

Loans¹

86,589 (+0%)

Attributable profit¹

1,614 (+16%)

1. Million euros, change in constant currency

Contribution to Group profit²

20%

2. This figure is included in the profit contribution of each of the local units

Private Banking

Private banking includes the units that focus on providing a comprehensive and specialised service to the Group's high net worth clients.

Santander Private Banking operates in Spain, Italy, Portugal, Brazil, Mexico and Chile, through a domestic private banking model, and in the US and other countries with a specialised offer for international clients.

2014 highlights

- Assets under management rose 7% on a like-for-like basis, due to the generation of new business opportunities and the new clients attracted.
- Once the integration of Santander, Banesto and Banif in Spain was completed, Santander

was consolidated as the reference bank for high net worth clients in the country.

- Cooperation with the Group's different areas such as Wholesale Banking, Corporate Banking and Commercial Banking was reinforced through projects that facilitate common work for the benefit of the client.
- *The Banker* named Santander Private Banking as the Best Private Bank in Latin America and *Euromoney* recognised the units in Chile, Portugal and Spain as the Best Private Banks.

Assets under management¹
153,471 (+7%)

Gross income¹
889 (+2%)

Attributable profit¹
319 (+17%)

1. Million euros, change in constant currency, and assets under management on a like-for-like basis.

Asset Management

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

This activity revolves around three business areas: Santander Asset Management (SAM), for mutual and pension funds, companies and discretionary portfolios; Santander Real Estate, specialised in managing property investments; and Santander Private Equity for venture capital.

Santander Asset Management continued to develop in 2014 a global business model, supported by the local fund managers' market strength and knowledge, and by the strategic agreement with the partners Warburg Pincus and General Atlantic to drive the global business of asset management.

2014 highlights

- In 2014, new ranges of profiled *Select* funds were launched in Poland, Portugal and Brazil and the range of funds for the retail segment was completed with the Tandem profiled funds.
- The offer of investment solutions in the form of profiled funds in Spain, Portugal, Chile, Brazil, Mexico, Poland, Germany and the UK was consolidated. Uruguay is expected to be included in 2015.
- Training was stepped up in the commercial networks to strengthen knowledge of the profiled product offering and their sale tailored to the needs of each client.

Assets managed and commercialised¹
161,788 (+17%)

Total revenues¹
1,039 (+22%)

Attributable profit¹
114 (+100%)

1. Million euros, change in constant currency and on a like-for-like basis

Insurance

The insurance business offers protection and savings solutions to close to 20 million clients in 20 countries, with a segmented offer and multi-channel distribution.

2014 highlights

- Insurance continued to progress in transforming business, centred on clients and their protection needs. It focused on improving the customer experience, offering protection solutions adapted to the different segments and developing an innovative multi-channel marketing model. All of this strengthens customer loyalty and engagement, and builds long-term relations of confidence.
- The insurance activity in 2014 centred on:
 - Continued development of a sustainable business model focused on excellence and quality of service.

- Continued innovation and expansion of the range of insurance products, with a special emphasis on *Select* and *Advance*.
- Strengthen the bancassurance business through the strategic alliances with Zurich in Brazil, Mexico, Chile, Argentina and Uruguay; with Aegon in Spain; and Aviva in Poland. An agreement was signed in 2014 with insurance company CNP to develop the insurance business of Santander Consumer Finance in Europe and cooperation with Aegon was increased and extended to Portugal.

Total revenues¹
2,599 (+3%)

Gross income¹
455 (+12%)

Attributable profit¹
270 (+24%)

1. Million euros, change in constant currency

Annex

Historical data. 2004 - 2014

		2014	2013	2012	2011	2010
Balance sheet	US\$ Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.
Total assets	1,537,410	1,266,296	1,134,128	1,282,880	1,251,008	1,217,501
Net customer loans	892,012	734,711	684,690	731,572	748,541	724,154
Customer deposits	786,285	647,628	607,836	626,639	632,533	616,376
Customer funds under management	1,242,555	1,023,437	946,210	990,096	984,353	985,269
Stockholders' equity	98,106	80,806	70,327	71,797	74,459	75,018
Total managed funds	1,733,836	1,428,083	1,270,042	1,412,617	1,382,464	1,362,289

Income statement						
Net interest income	39,185	29,548	28,419	31,914	28,883	27,728
Gross income	56,510	42,612	41,920	44,989	42,466	40,586
Net operating income	29,937	22,574	21,762	24,753	23,055	22,682
Profit before taxes	14,162	10,679	7,378	3,565	7,858	12,052
Attributable profit to the Group	7,713	5,816	4,175	2,283	5,330	8,181

Per share data⁽¹⁾	US\$	2014	2013	2012	2011	2010
		Euros	Euros	Euros	Euros	Euros
Attributable profit to the Group	0.64	0.48	0.39	0.23	0.60	0.94
Dividend	0.73	0.60	0.60	0.60	0.60	0.60
Share price	8.494	6.996	6.506	6.100	5.870	7.928
Market capitalisation (million)	106,890	88,041	73,735	62,959	50,290	66,033

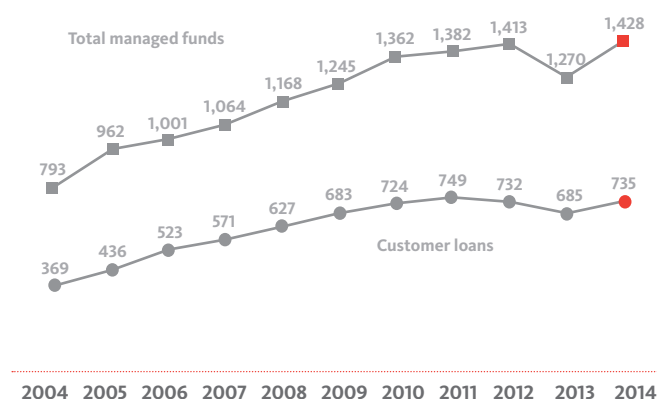
Euro / US\$ = 1.214 (balance sheet) and 1.326 (income statement)

(1) Figures adjusted to capital increase in 2008

(2) Compound Annual Growth Rate

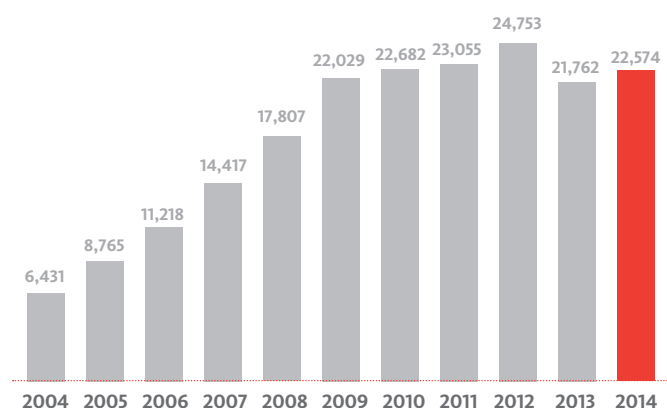
Customer loans and total managed funds

EUR Billion



Pre-provision profit (net operating income)

EUR Million



Historical data. 2004 - 2014

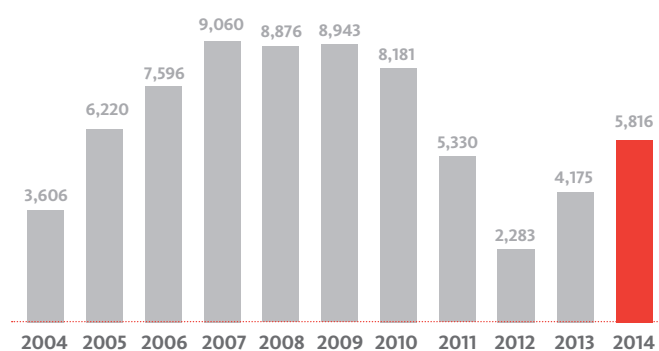
2009	2008	2007	2006	2005	2004	CAGR ⁽²⁾
EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	(%)
1,110,529	1,049,632	912,915	833,873	809,107	664,486	6.7
682,551	626,888	571,099	523,346	435,829	369,350	7.1
506,976	420,229	355,407	331,223	305,765	283,212	8.6
900,057	826,567	784,872	739,223	651,360	595,380	5.6
69,678	57,587	55,200	44,852	39,778	34,415	8.9
1,245,420	1,168,355	1,063,892	1,000,996	961,953	793,001	6.1

25,140	20,019	14,443	12,480	10,659	7,562	14.6
38,238	32,624	26,441	22,333	19,076	13,999	11.8
22,029	17,807	14,417	11,218	8,765	6,431	13.4
10,588	10,849	10,970	8,995	7,661	4,387	9.3
8,943	8,876	9,060	7,596	6,220	3,606	4.9

2009	2008	2007	2006	2005	2004	CAGR ⁽²⁾
Euros	Euros	Euros	Euros	Euros	Euros	(%)
1.05	1.22	1.33	1.13	0.93	0.68	(3.4)
0.60	0.63	0.61	0.49	0.39	0.31	6.9
11.550	6.750	13.790	13.183	10.396	8.512	(1.9)
95,043	53,960	92,501	88,436	69,735	57,102	4.4

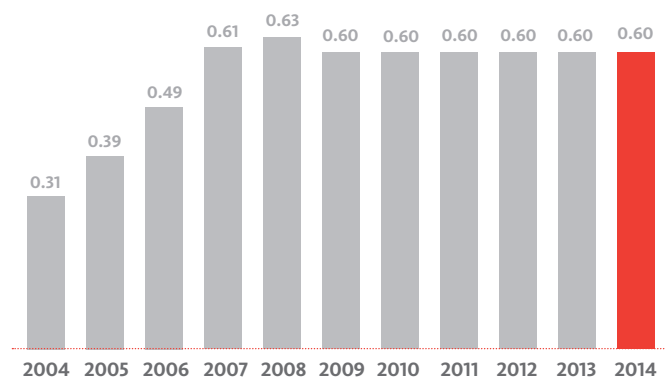
Attributable profit to the Group

EUR Million



Remuneration per share*

Euros



(*) Figures adjusted to capital increase in 2008

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

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

Miguel Sánchez Moñita, Lucía M. Diz,
Javier Vázquez

Production:

MRM Worldwide

Printing:

Alborada

Legal deposit:

M-8323-2015

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



QR code

You can access our social network area on the corporate website by scanning this QR code.

Access the 2014 Annual report



- Annual report
- Auditors' report and annual consolidated accounts
- Sustainability report
- Report of the committees



www.santanderannualreport.com/2014/en/

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