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

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.
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%.