Santander

Press release

2014 FIRST HALF RESULTS

Santander made a profit of EUR 2.756 billion, 22% more than the first half of 2013

Compared with the previous quarter, commercial revenues increased 5%, costs grew only 1% and provisions were down 2%.

- **BUSINESS. The recovery in lending continued, as loans rose by EUR 22,924 million, to EUR 734,363 million, up 3% compared with December 2013. Deposits and mutual funds stood at EUR 737,500 million, having grown by EUR 25,696 million, or 4%, since the end of 2013. Current accounts grew 6%, what means EUR 18,045 million more.**

- **NPLs. The Group's non-performing loan ratio dropped for a second consecutive quarter, to 5.45%. In Spain, there was a change of direction and the NPL ratio stands at 7.59% with a significant decrease in new NPLs both for corporate and retail customers.**

- **LIQUIDITY. The loan-to-deposit ratio was 87% in Spain, meaning that there were more deposits than loans, and 114% for the Group.**

- **CAPITAL. The capital ratio stands at 12.1%, with core capital at 10.9%, up 0.15 percentage point thanks to organic capital generation during the quarter.**

- **DIVERSIFICATION. Europe accounted for 52% of Group profit (the U.K. 20%, Spain 13%, Poland 6% and Germany 5%), Latin America 39% (Brazil 19%, Mexico 8% and Chile 7%) and the U.S. 9%.**

    - **Spain: Attributable profit was EUR 513 million (up 79% compared with the first half of 2013). Basic revenues grew 3% year-on-year and costs fell 7%. The change of trend in lending was confirmed, with loans up 2% since December at EUR 165,313 million. Customer funds under management (deposits and mutual funds) increased 3% in the first half to EUR 219,893 million, while current accounts grow 6%.**

    - **U.K.: Attributable profit was EUR 775 million (636 million pounds, up 54% from the first half of 2013). Basic revenues increased 15% and there was a significant increase in current accounts (up 65%) and lending to companies (up 10%), which grow for a third year in a row.**

    - **Brazil: Attributable profit was EUR 758 million (BRL 2,385 million, down 3% from the first half of 2013). The second quarter was very similar to the first throughout the P&L. Loans rose 4% and customer funds 14% year-on-year.**

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Santander

Madrid, July 31, 2014. Banco Santander made an attributable profit of EUR 2.756 billion in the first half of 2014, an increase of 22% compared with the same half last year. Banco Santander's chairman, Emilio Botín, said: **"Performance in the first half of 2014 proves that Santander is on track to return to pre-crisis profit levels. The Group's geographic diversification has played a key role."**

Second quarter profit was EUR 1.453 billion, the highest in the last two years, and does not include net capital gains from the sale of 85% of Altamira (EUR 385 million), Santander Consumer USA's IPO (EUR 730 million) or EUR 220 million from excess provisioning of pension funds in the U.K. These capital gains have no impact on profit as they have been set aside to cover restructuring costs, amortisation of intangibles and other write-downs by an equivalent amount.

The improvement in earnings is the result of an increase in revenues, practically flat costs and a fall in NPL provisions. This is in a context of business growth, both in loans and customer funds, a falling non-performing loan rate, after seven years of consistent rises, an increase in the coverage rate and high solvency and liquidity ratios.

Grupo Santander Results

In short, higher profit in the quarter due to higher commercial revenues, costs control and lower cost of credit

EUR million	2Q'14	Var. / 1Q'14 %	Var. / 1Q'14 %*	1H'14	Var. / 1H'13 %	Var. / 1H'13 %*
NII + fee income	9,773	4.8	2.9	19,095	-2.2	6.9
Gross income	10,488	3.6	1.8	20,611	-4.4	4.0
Operating expenses	-4,906	1.2	-0.3	-9,753	-4.0	2.9
Net operating income	**5,582**	**5.8**	**3.7**	**10,858**	**-4.9**	**4.9**
Loan-loss provisions	-2,638	-2.1	-4.1	-5,333	-18.5	-10.9
PBT	**2,435**	**13.3**	**11.1**	**4,584**	**16.0**	**31.8**
Attributable profit	**1,453**	**11.6**	**9.5**	**2,756**	**22.2**	**40.1**

(*) Variations excluding fx impact

Note 1: Net capital gains of Altamira (EUR 385 mill.), SCUSA (EUR 730 mill.) and excess provisioning of pension funds in the U.K. (EUR 220 mill.) had no impact on profit. A fund was established for restructuring costs (EUR 744 mill.), and intangible assets impairment (EUR 512 mill.) and other provisions (EUR 79 mill.) made.

Note 2: 2Q'14 profit does not include the net capital gains expected from the announced transactions of Custody (EUR 410 mill.) and Insurance (EUR 250 mill.). Both transactions are expected to be closed in 2H'14.

Results

This quarter's results are set against a backdrop of incipient recovery and very low interest rates in some of the Group's core currencies, such as the euro, the pound and the dollar. The depreciation of the main Latin American currencies and the dollar eased in the second quarter of this year, but they are still trading far below the exchange rates of the first half of 2013. In fact, if exchange rates had not changed compared with the same period last year, net profit would have risen 40% instead of 22%.

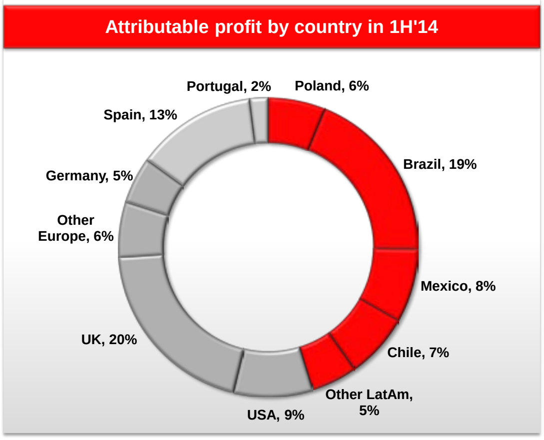
The improvement in profit is noticeable from the top of the P&L. Net interest income was EUR 7,370 million, the highest in the last seven quarters and an increase of 5% compared with the first quarter. Santander's basic revenues (net interest income plus fee income) were EUR 19,095 million, down 2% but up 7% excluding the exchange rate effect.

Costs were EUR 4,906 million in the second quarter, very similar to the first three months. In the first half, costs amounted to EUR 9,753 million, down 4%.

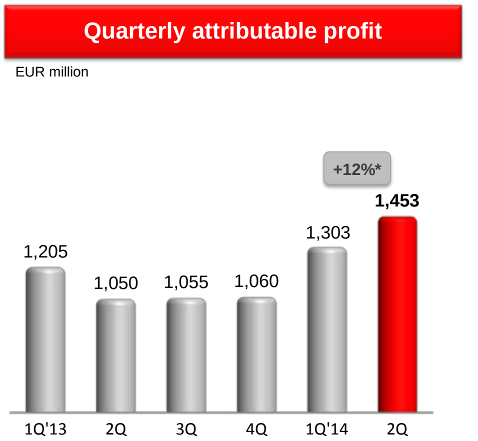
Net operating income (recurring operating profit) was EUR 5,582 million in the second quarter, an increase of 6% compared with the first. In the first half it was EUR 10,858 million, down 5% year-on-year (but up 5% excluding exchange rate differences).

The performance of revenues and costs led to an improvement in the cost-to-income ratio. In 2013, costs accounted for 48.0% of revenues, while in the first half they represented 0.7 point less, or 47.3%.

Loan loss provisions, the other item that weighs most on results, stood at EUR 2,638 million, the lowest in the last ten quarters and down 2% compared with the first quarter. In the first half, provisions fell 18% (-11% excluding the exchange rate effect), to EUR 5,333 million.



Percentage over operating areas attributable profit, excluding Spain's run-off real estate



(*) Excluding fx impact: +9% vs. 1Q'14

Emerging economies (Latin America and Poland) accounted for 45% of Group profit and mature markets contributed the rest. By country, the largest contribution came from the U.K. (20%), followed by Brazil (19%), Spain (13%), the U.S. (9%), Mexico (8%), Chile (7%), Poland (6%) and Germany (5%).

Balance sheet

Banco Santander had total assets of EUR 1.188 trillion at the end of June, an increase of 2% compared with the first quarter and down 4% from a year earlier. The balance sheet is well balanced with a loan portfolio the equivalent of 114% of deposits, which gives the bank a very comfortable liquidity position. Before the crisis, the ratio was 150%.

At the end of the first half, the loan portfolio was EUR 734,363 million, 3% more than in December 2013. This means that Grupo Santander increased lending by EUR 22,924 million in the first half. The recovery in mature economies played a key role as Spain and the U.K., which account for 57% of total Group loans, managed to consolidate the first quarter's change of direction after several years of falling lending. All countries expanded their loan portfolios in the quarter, except Portugal, where lending fell 0.3%.

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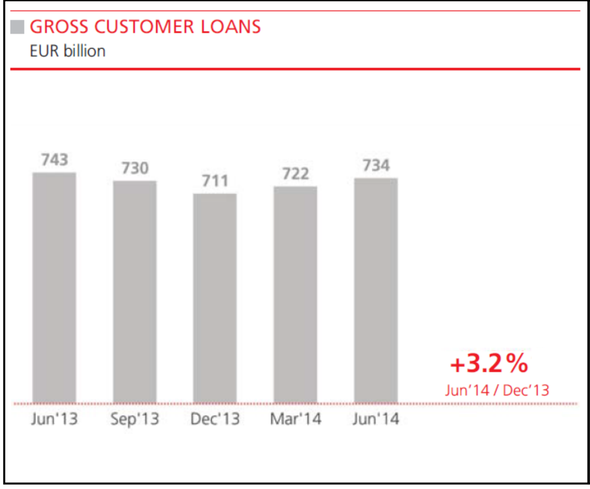
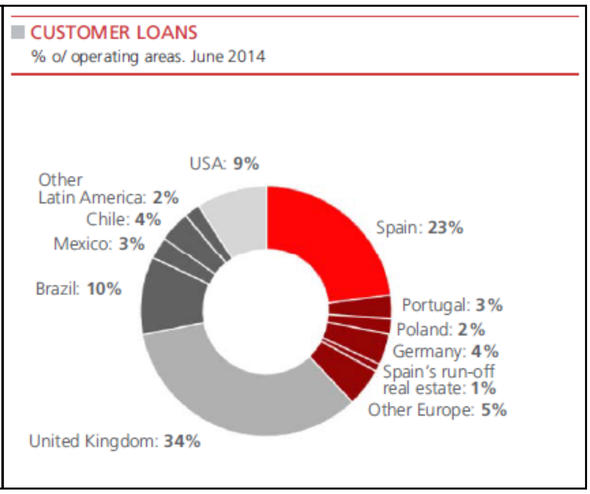
In Spain, total loans stood at EUR 165,313 million, up 2%, or EUR 3,245 million, excluding repos, which are not really loans. This increase was mainly because of the corporate sector, where the bank achieved a 30% increase in new lending. In the first half, the bank has provided lending to companies for an amount of EUR 50,000 million through various instruments, such as loans and bonds, of which EUR 27,000 million correspond to the second quarter.





One of the Group's main priorities is to grow in the SME segment. At the end of March, the bank launched Santander Advance, a global project which has been introduced in Spain first and will be extended to all the Group's core markets before the end of 2015. Santander Advance provides financial products and a support programme to help SMEs grow, which includes advice on training, employment and international expansion.

In the first half, the bank set aside EUR 12,264 million in funding to the Advance segment, a similar amount to last year. There has been an increase in demand in June and July.

In the U.K., the loan portfolio was EUR 241,164 million at the end of June, an increase of 1% compared with the first quarter and with December 2013. Growth in corporate loans is particularly strong, up 10% year-on-year.

This performance has supported business diversification, reducing the weight of mortgages in the portfolio and increasing loans to companies, which already account for 12% of total lending. The bank has continued to open regional business centres focused on lending to SMEs and has also increased the number of managers that specialise in large corporates.

As to customer funds under management, deposits and mutual funds stood at EUR 737,500 million, an increase of 4% or EUR 25,696 million. Deposits came in at EUR 617,761 million and mutual funds at EUR 119,739 million, after posting first half growth of 2% and 15%, respectively.

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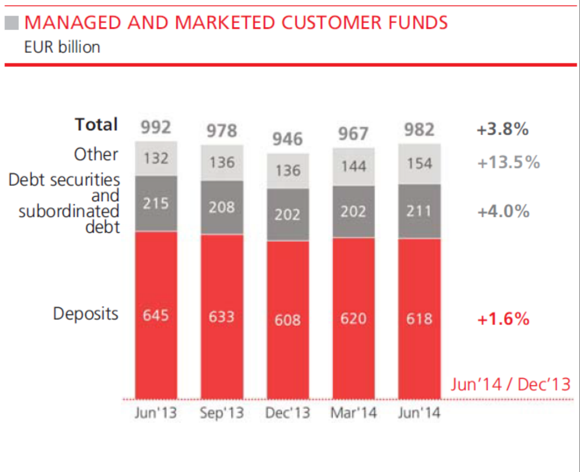
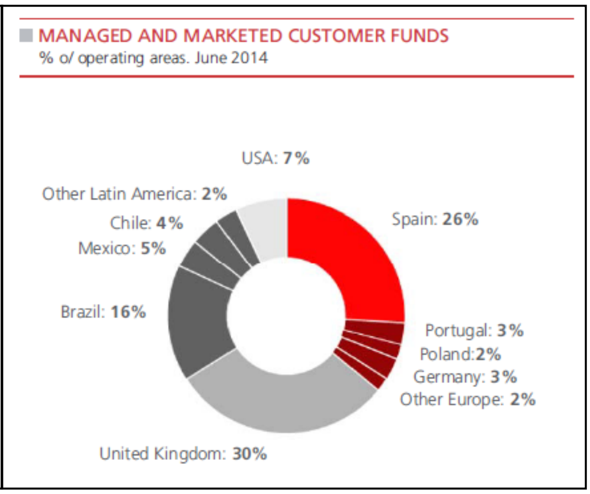
Current accounts, which represent more than half of total deposits, show a positive performance in the Group's ten core markets. The balance of current accounts amounted to EUR 323,728 million at the end of June, an increase of 6% compared to the end of December, meaning that in six months the bank has captured EUR 18,045 million in current accounts. The current account is a core product in the bank's strategy of increasing customer loyalty, as customers use it to do most of their transactions.





In Spain, total customer funds (deposits and mutual funds) totalled EUR 219,893 million at the end of June, up 3% in the last six months. An important part of this improvement is due to the increase of over 6% in current account from the private sector, what means capturing EUR 4,692 million in a single semester.

In the U.K., total customer funds stood at EUR 203,172 million at the end of June, an increase of 1% from December 2013. The improvement is mainly the result of current account growth: balances rose by nearly EUR 9,000 million in the last six months.

The *Santander Select* segment, which is part of the Group's global personal banking strategy, plays a key role in capturing customer funds. In 2013, *Santander Select* was introduced in Spain, U.K., Brazil, Mexico, Chile and Argentina. This year it was extended to Portugal and the United States, and, in the next few months, it will be available in the remaining countries.

The Group's NPL ratio was 5.45%, down 0.07 point from the previous quarter, consolidating the fall seen in the first quarter, which was the first since the start of the international financial crisis in August 2007. At the same time, the coverage ratio improved one percentage point to 67%.

In Spain, the NPL ratio fell for the first time since the crisis began, dropping from 7.61% to 7.59%. It also declined in countries such as Mexico, Chile or Portugal. In Santander Portugal, the NPL ratio was 8.16%, registering a fall for the first time since September 2009. The Group's unit in Portugal has the system's best credit rating and is the only local bank generating a profit during the crisis. In the U.K., Brazil and the U.S. there was a slight increase compared with the previous quarter, but NPL ratios are still down year-on-year.

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Moving on to capital ratios, Banco Santander's computable capital stood at EUR 87,035 million at the end of June, EUR 3,833 million more than a year earlier. The bank's capital ratio stood at 12.1%, with a core capital (CET1) ratio of 10.9%. In the first quarter of 2014, Santander issued its first contingent convertible bonds (cocos) for EUR 1,500 million. Another issue in the second quarter raised a further US$ 1,500 million.

Banco Santander has a market capitalisation of around EUR 90,000 million, which makes it the leading bank in the euro zone and tenth in the world. Santander has 3,279,897 shareholders and 183,648 employees serving 107 million customers in 13,225 branches.

More information in www.santander.com

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Preliminary note:

In order to facilitate the following comparative analysis, the financial information of previous periods has been re-expressed (not audited), as set out on page 22 of this report. The changes were mainly due to taking control of Santander Consumer USA, in 2014, and the loss of control of the fund management companies in 2013, as if they had been effective in the previously presented periods.

Non recurring capital gains and provisions are shown separately as "net capital gains and provisions".

KEY CONSOLIDATED DATA

BALANCE SHEET (EUR million)	Jun'14	Mar'14	(%)	Jun'14	Jun'13	(%)	2013
Total assets	**1,188,043**	1,168,718	1.7	**1,188,043**	1,239,415	(4.1)	1,134,003
Net customer loans	**706,899**	694,595	1.8	**706,899**	715,023	(1.1)	684,690
Customer deposits	**617,761**	620,135	(0.4)	**617,761**	644,934	(4.2)	607,836
Managed and marketed customer funds	**982,494**	966,704	1.6	**982,494**	991,774	(0.9)	946,210
Shareholders' equity	**87,035**	85,631	1.6	**87,035**	83,202	4.6	84,302
Total managed and marketed funds	**1,342,238**	1,313,014	2.2	**1,342,238**	1,371,542	(2.1)	1,269,917

INCOME STATEMENT* (EUR million)	2Q'14	1Q'14	(%)	1H'14	1H'13	(%)	2013
Net interest income	**7,370**	6,992	5.4	**14,362**	14,544	(1.3)	28,419
Gross income	**10,488**	10,124	3.6	**20,611**	21,570	(4.4)	41,931
Pre-provision profit (net operating income)	**5,582**	5,277	5.8	**10,858**	11,414	(4.9)	21,773
Profit before taxes	**2,435**	2,149	13.3	**4,584**	3,953	16.0	7,637
Attributable profit to the Group	**1,453**	1,303	11.6	**2,756**	2,255	22.2	4,370

(*).- Variations w/o exchange rate

Quarterly: Net interest income: +3.3%; Gross income: +1.8%; Pre-provision profit: +3.7%; Attributable profit: +9.5%

Year-on-year: Net interest income: +8.2%; Gross income: +4.0%; Pre-provision profit: +4.9%; Attributable profit: +40.1%

EPS, PROFITABILITY AND EFFICIENCY (%)	2Q'14	1Q'14	(%)	1H'14	1H'13	(%)	2013
EPS (euro)	**0.122**	0.113	7.7	**0.236**	0.214	10.2	0.403
ROE	**6.90**	6.24		**6.58**	5.60		5.42
ROTE	**10.03**	9.00		**9.52**	8.21		7.87
ROA	**0.60**	0.55		**0.57**	0.46		0.45
RoRWA**	**1.28**	1.19		**1.23**			
Efficiency ratio (with amortisations)	**46.78**	47.88		**47.32**	47.08		48.07

SOLVENCY AND NPL RATIOS (%)	Jun'14	Mar'14	(%)	Jun'14	Jun'13	(%)	2013
CET1**	**10.92**	10.77		**10.92**			
NPL ratio	**5.45**	5.52		**5.45**	5.15		5.61
Coverage ratio	**66.7**	66.3		**66.7**	69.7		64.9

MARKET CAPITALISATION AND SHARES (%)	Jun'14	Mar'14	(%)	Jun'14	Jun'13	(%)	2013
Shares (million at period-end)	**11,778**	11,561	1.9	**11,778**	10,810	9.0	11,333
Share price (euros)	**7.630**	6.921	10.2	**7.630**	4.902	55.7	6.506
Market capitalisation (EUR million)	**89,867**	80,014	12.3	**89,867**	52,989	69.6	73,735
Book value (euro)	**7.40**	7.41		**7.40**	7.71		7.44
Price / Book value (X)	**1.03**	0.93		**1.03**	0.64		0.87
P/E ratio (X)	**16.20**	15.26		**16.20**	11.46		16.13

OTHER DATA (%)	Jun'14	Mar'14	(%)	Jun'14	Jun'13	(%)	2013
Number of shareholders	**3,279,897**	3,299,097	(0.6)	**3,279,897**	3,292,650	(0.4)	3,299,026
Number of employees	**183,648**	185,165	(0.8)	**183,648**	189,920	(3.3)	186,540
Number of branches	**13,225**	13,735	(3.7)	**13,225**	14,680	(9.9)	13,927

(**) Considering Spanish regulation homogeneous with European one regarding intangible assets. March 2014 data under the same criteria.

Note: The financial information in this report has not been audited, but it was approved by the Board of Directors at its meeting on July, 24 2014, following a favourable report from the Audit Committee on July, 22 2014.