2014 January - June

FINANCIAL REPORT

Santander
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FINANCIAL REPORT

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

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.

→ Income statement: (more detail on pages 7 - 10)

- **The second quarter attributable profit of EUR 1,453 million** was the highest of the last nine quarters and underscores the new cycle of higher profits and profitability begun by the Group.
  - Profit was 11.6% higher than the first quarter's, fuelled by the improvement in all the main P&L lines: improved customer business, reflected in higher net interest income and fee income, control of costs and reduced provisions.
- **The attributable profit for the first half of 2014 was EUR 2,756 million,** up 22.2% year-on.year, affected by the negative impact of exchange rates. Excluding this, the increase was 40.1%, as follows:
  - Gross income rose 4.0% and its quality improved as 93% of the increase came from net interest income and net fee income (90% in the first half of 2013). This was due to good management of volumes and spreads and boosting transactions and linkage.
  - Operating expenses increased 2.9% due to the net result between higher costs for business development and commercial transformation in some countries such as Mexico, the UK and US, and obtaining synergies in others. Of note among the latter were Spain and Poland.
  - Provisions were 10.9% lower, with falls in all countries and particularly in Brazil and Spain. The Group's cost of credit improved from 2.14% in the first half of 2013 to 1.56% a year later.
- The Group recorded various capital gains and provisions in the first half considered as non-recurring. To facilitate the comparisons of the various P&L lines with previous periods, all these operations have been incorporated into "Net capital gains and provisions". Their net amount is zero and so there is no impact on the first half profit.

→ Strong balance sheet: (more detail on pages 11 - 20)

- The **Common Equity Tier 1 (CET1)** ratio phase-in was 10.9% at the end of June, and total capital ratio 12.1%, well above the minimum requirement of 8%. The leverage ratio (equity/assets according to CRD IV) was 4.5%.
- The Group's **liquidity ratio** (net loan-to-deposit ratio) remained at a very comfortable level of 114% at the end of June. Spain's ratio was 87%.
- **Volumes** reflect the different moment of the countries' macroeconomic environment and the Group's various strategies in each of them. Emerging countries' lending and deposits plus mutual funds were 8% and 12% higher, respectively, than in June 2013. Although mature countries dropped 1% in both cases, as a result of deleveraging in some countries and the strategy of cutting the cost of funds, the trend improved in recent months: +2% in loans and funds since the end of 2013 (excluding the exchange rate impact).
- The Group's **NPL ratio** stood at 5.45% and coverage was 67%. Both were better over March 2014 and the end of 2013.
- Of note in the second quarter was the good performance in entries of NPLs, consolidating the decline shown in the first quarter. They were 52% lower than June 2013.

→ Commercial strategy: (more detail on page 55)

- The ongoing programme to transform Retail Banking was begun in 2013. Some of its main initiatives are:
  - **Launch of *Santander Advance:*** this is an innovative value proposal to support the growth of SMEs. After the launch in Spain, it is being rolled out in Mexico, Brazil, the UK and Portugal this year and in the rest of countries in 2015. New lending and the capturing of clients improved in the first two months, while more than 3,000 SMEs and micro firms took part in non-financial activities.
  - **Launch of *Santander Trade Club,*** enabling exporters and importers to get to know one another, interact and be connected in order to generate new international business opportunities. **The *Pasaporte service*** was also launched.
  - ***Santander Select* established** in all countries. After its implementation in Spain, UK, Mexico, Chile, Argentina and Brazil in 2013 and in Portugal and the US in the first half of 2014, it will be launched in the rest of the Group's countries during the rest of the year.

→ The Santander share: (more detail on page 21)

- The share price at the end of June was EUR 7.630 (+10.2% in the quarter and +55.7% y-o-y). The total shareholders' return, including the dividend remuneration, was 71.3% in the last 12 months.
- In April, and under the Santander Dividendo Elección programme (scrip dividend), shareholders were able to opt to receive in cash or in shares the amount equivalent to the fourth dividend for 2013 (EUR 0.149 per share). The total remuneration for 2013 was EUR 0.604.
- In July, shareholders can opt to receive the amount equivalent to the first dividend for 2014 (EUR 0.15) in cash or shares. The second option was chosen by 87.4% of capital.

→ Business areas: (more detail on pages 22 - 60)

- **Continental Europe:** attributable profit of EUR 499 million in the second quarter, 7.8% more than the first quarter, due to net interest income (+4.5%), control of costs (-1.5%) and lower provisions (-2.6%). The first half profit was EUR 962 million, 74.7% more than the same period of 2013 and with a similar evolution to that in the second quarter.

- **United Kingdom:** attributable profit of £325 million, 4.6% more than in the first quarter. Net interest income grew for the sixth quarter running (+3.1%), costs were virtually unchanged (-0.5%) and provisions 28.8% lower. The first half profit was £636 million (+53.6% y-o-y).

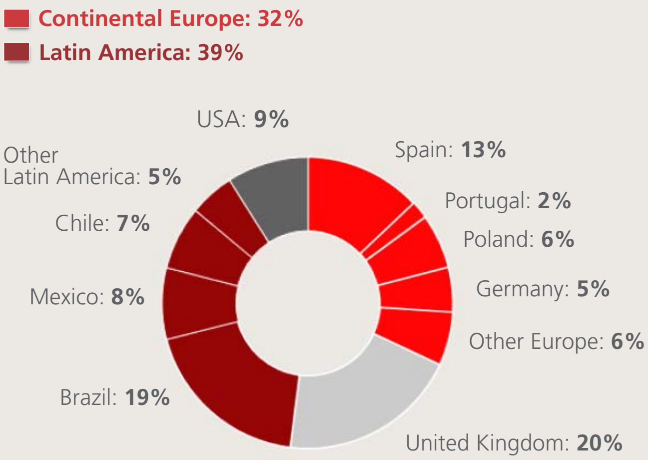
- **Latin America:** second quarter attributable profit of EUR 800 million, 9.6% more than the first quarter (excluding the forex impact). Gross income rose 1.7%, thanks to net interest income and fee income, moderation in costs (+0.6%, partly due to salary agreements) and lower provisions (-0.9%, due to Brazil). First half profit was 0.7% lower at EUR 1,512 million, due to a higher tax charge. Pre-tax profit increased 5.3%.

- **United States:** second quarter attributable profit of $272 million, 25.8% more than the first quarter. Gross income (+4.2%), due to net interest income and fee income, stable costs (-0.5%) and lower provisions (-8.6%) because of reduced needs at SCUSA. The first half profit was $488 million, 21.8% less year-on-year, due to greater provisions at SCUSA linked to more new lending.

→ Other significant events: (more detail on page 62)

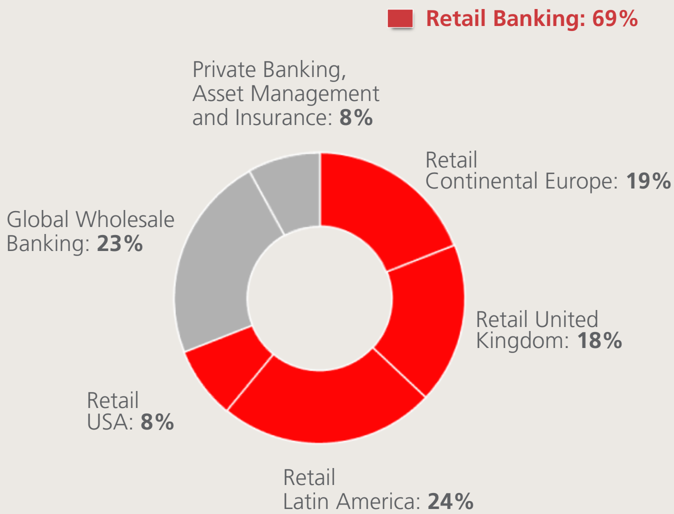
- During the second quarter and the time elapsed until the release of this report, the following events occurred, with a possible impact on the Group's activity and business:
  - Offer to acquire the minority interests of Banco Santander Brazil.
  - Issuance of additional Tier 1 capital.
  - Alliance with Warburg Pincus in custody business.
  - Agreement to acquire GE Capital's consumer finance business in the Nordic countries.
  - Alliance to develop Santander Consumer Finance's insurance business.
  - Agreement signed with Banque PSA Finance to develop auto finance in 11 countries.

DISTRIBUTION OF ORDINARY ATTRIBUTABLE PROFIT BY OPERATING GEOGRAPHIC SEGMENTS*. 1H'14



(*) Excluding Spain's run-off real estate

DISTRIBUTION OF ORDINARY ATTRIBUTABLE PROFIT BY OPERATING BUSINESS SEGMENTS*. 1H'14



General background

Grupo Santander conducted its business during the second quarter in a more favourable economic environment, particularly in developed countries. The recovery is firmly underway in Europe, in the US the impact of the bad weather that affected activity at the start of the year has been overcome and the UK economic upturn continues to strengthen. On the other hand, signs of slowdown continued in emerging economies.

The bad weather in the US caused GDP to decline at an annualized rate of 2.9% in the first quarter, more than expected. The second quarter points to a recovery, backed by the improvement in the jobs market, business and consumer confidence, and the good financial situation of the private sector which is also benefiting from easier access to credit. As a result of lower inflation and a lack of deflationary fears, the Federal Reserve continued the tapering of its signature stimulus programme (buying bonds in markets), although it announced it would hold its interest rates for a prolonged period.

Latin American economies continued to grow moderately, reflecting the Fed's tapering of its quantitative easing policy and the signs of slowdown in China, although this varied from country to country.

Brazil's GDP grew 1.9% year-on-year in the first quarter. The labour market is still firm, with the jobless rate close to an historic low. The rate in April was 4.9%. The central bank's Selic stood at 11% (+25 b.p. in April, +100 b.p. since the beginning of the year and +300 b.p. in the last 12 months). These hikes should help to contain inflation, which was 6.52% in June and in the upper end of the target range (6.5%).

The Mexican economy recovered in the first quarter (+1.8% year-on-year against +0.7% in the fourth quarter), although limited by the one-off shrinkage of the US economy in the first quarter. Expectations, however, of a gradual strengthening during 2014 and 2015 remained, driven by investment and structural reforms. With inflation under control, the Bank of Mexico cut its benchmark rate by 50 b.p. to 3% in June, which will also spur growth. The peso remained basically stable against the dollar and the euro during the first half of 2014.

The Chilean economy, in the process of cyclical adjustment, grew at a faster pace of 2.6% in the first quarter, a rate higher than the average of the region but still distant from its potential rate, which it is expected to reach in 2015. With medium-term inflation anchored at around 3%, the central bank cut its benchmark rate by 25 b.p. to 3.75% since March (-125 b.p. since September 2013), in order to spur growth. The peso recovered part of the depreciation so far this year.

The euro zone continued to recover. GDP growth, however, was still moderate in the first quarter (+0.2% and +0.9% year-on-year), but it is expected to gather pace. Varied performance by country, with strong growth in Germany and Spain, and very low growth in France, Italy and Portugal.

With inflation still low, the European Central Bank cut its benchmark rate by 10 b.p. to 0.15% and took additional monetary policy measures. Of note was the new scheme of longer-term liquidity injections conditioned on new lending (TLTRO), which enabled a further softening of monetary conditions, and brought the euro lower against the dollar.

Germany continued to lead the area's growth (+0.8% in the first quarter over the fourth quarter of 2013), backed by private consumption (+0.7%) and gross capital formation (+3.2%).

Spain continued to grow at a faster pace in the first quarter (+0.4%, up from +0.2% in the fourth quarter), a trend that is expected to continue and one backed by stronger domestic demand and private consumption. The acceleration in net job creation (as shown in the rise in social security contributors) will contribute to this, and also better financial conditions for the private sector (already shown in surveys on access to credit and flows of credit).

Portugal (-0.6% in the first quarter; +1.3% year-on-year) maintained the favourable dynamics of domestic demand, particularly in investing, which was reflected in the lower jobless rate.

The UK economy continued to strengthen in the first half. GDP growth was 0.8% in the first two quarters and business activity continued to be strong. The Bank of England appeared to be indicating a gradual rise in interest rates. The weak performance of prices and salaries is enabling the Bank of England to analyse the evolution of indicators to choose the best moment.

Poland continued on an upswing; the economy grew 3.4% year-on-year in the first quarter, fuelled by fixed investment and consumption more than exports. The second quarter indicators remained strong and the jobs market continued to improve. With low and declining inflation, the central bank held its benchmark rate at 2.5% and the zloty was stable against the euro.

EXCHANGE RATES: PARITY 1 EURO / CURRENCY PARITY

	Average (income statement)		Period-end (balance sheet)		
	1H'14	1H'13	30.06.14	31.12.13	30.06.13
US$	1.370	1.313	1.366	1.379	1.308
Pound sterling	0.821	0.851	0.802	0.834	0.857
Brazilian real	3.146	2.664	3.000	3.258	2.890
Mexican peso	17.972	16.471	17.712	18.073	17.041
Chilean peso	757.663	628.016	754.058	724.579	661.521
Argentine peso	10.688	6.725	11.106	8.990	7.032
Polish zloty	4.175	4.176	4.157	4.154	4.338

GRUPO SANTANDER. INCOME STATEMENT

→ **Second quarter attributable profit of EUR 1,453 million,** the highest in the last nine quarters.

- It is 11.6% more than the first quarter, due to greater revenues and lower provisions.

→ **The first half profit was 22.2% higher year-on-year, at EUR 2,756 million,** hit by exchange rates. Excluding this, rose 40.1%, as follows:

- Gross income increased 4.0% and is of better quality (93% comes from net interest income and fee income, +8.2% and +3.2%, respectively).
- Operating expenses rose 2.9% due to business development and transformation, mainly in Mexico, UK and the US. The impact of synergies is reflected in Spain and Poland (-7% and -1%, respectively).
- Loan-loss provisions were 10.9% lower. Of note were the falls in Brazil, Spain, the UK and Portugal. The cost of credit improved from 2.14% to 1.56% a year later.

The results underscored the new cycle of higher profits and profitability begun by the Group. The **second quarter attributable profit of EUR 1,453 million** was the highest of the last nine quarters (+38.3% more than the same period of 2013 and 11.6% above the first quarter of 2014).

The increase over the first quarter was due to the favourable evolution of the main P&L lines: improved customer business reflected in higher net interest income and fee income, control of costs and reduced provisions.

Exchange rates had a positive impact on the Group of two percentage points: +2 p.p. in the UK; +3 p.p. Latin America (+6 p.p. Brazil; +2 p.p. Mexico; -1 p.p. Chile; -7 p.p. Argentina). There was hardly any impact on the US.

In order to better analyse the Group's evolution in the **second quarter,** the changes set out below do not include the impact of exchange rates:

Gross income increased 1.8%, as follows:

- **Net interest income** increased 3.3% and was the highest of the last eight quarters, with growth in most of the Group's units. **Fee income** rose 1.4%.

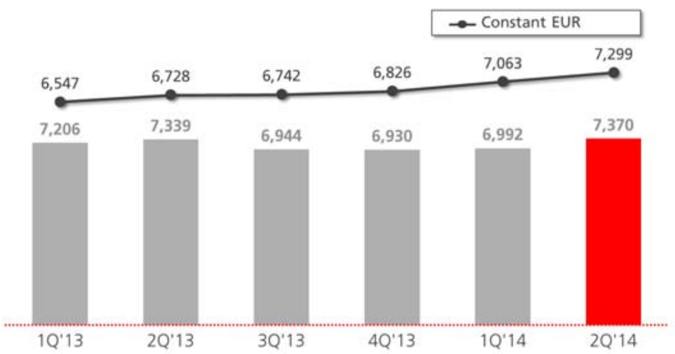
INCOME STATEMENT (EUR million)

	2Q'14	1Q'14	Variation %	Variation % w/o FX	1H'14	1H'13	Variation %	Variation % w/o FX
Net interest income	**7,370**	**6,992**	**5.4**	**3.3**	**14,362**	**14,544**	**(1.3)**	**8.2**
Net fees	2,403	2,331	3.1	1.4	4,733	4,977	(4.9)	3.2
Gains (losses) on financial transactions	511	767	(33.3)	(33.4)	1,278	1,848	(30.9)	(27.7)
Other operating income	204	34	499.0	494.6	238	200	19.0	20.8
Dividends	220	31	597.5	597.0	251	204	22.9	25.9
Income from equity-accounted method	42	65	(35.4)	(38.4)	108	124	(12.9)	2.4
Other operating income/expenses	(58)	(63)	(7.8)	(10.8)	(121)	(128)	(5.6)	12.3
Gross income	**10,488**	**10,124**	**3.6**	**1.8**	**20,611**	**21,570**	**(4.4)**	**4.0**
Operating expenses	(4,906)	(4,847)	1.2	(0.3)	(9,753)	(10,155)	(4.0)	2.9
General administrative expenses	(4,360)	(4,256)	2.4	0.9	(8,616)	(8,982)	(4.1)	2.9
Personnel	*(2,515)*	*(2,455)*	*2.5*	*1.0*	*(4,970)*	*(5,238)*	*(5.1)*	*1.5*
Other general administrative expenses	*(1,844)*	*(1,801)*	*2.4*	*0.8*	*(3,646)*	*(3,744)*	*(2.6)*	*4.9*
Depreciation and amortisation	(546)	(590)	(7.5)	(8.9)	(1,137)	(1,173)	(3.1)	3.0
Net operating income	**5,582**	**5,277**	**5.8**	**3.7**	**10,858**	**11,414**	**(4.9)**	**4.9**
Net loan-loss provisions	(2,638)	(2,695)	(2.1)	(4.1)	(5,333)	(6,541)	(18.5)	(10.9)
Impairment losses on other assets	(71)	(87)	(18.7)	(19.0)	(157)	(237)	(33.5)	(32.5)
Other income	(438)	(347)	26.3	23.6	(784)	(684)	14.6	20.0
Ordinary profit before taxes	**2,435**	**2,149**	**13.3**	**11.1**	**4,584**	**3,953**	**16.0**	**31.8**
Tax on profit	(664)	(569)	16.6	14.3	(1,233)	(1,030)	19.7	34.9
Ordinary profit from continuing operations	**1,771**	**1,579**	**12.1**	**10.0**	**3,351**	**2,922**	**14.7**	**30.7**
Net profit from discontinued operations	(0)	(0)	1.6	1.9	(0)	(14)	(98.2)	(98.3)
Ordinary consolidated profit	**1,771**	**1,579**	**12.1**	**10.0**	**3,350**	**2,908**	**15.2**	**31.4**
Minority interests	318	277	14.9	12.4	594	653	(9.0)	2.1
Ordinary attributable profit to the Group	**1,453**	**1,303**	**11.6**	**9.5**	**2,756**	**2,255**	**22.2**	**40.1**
Net capital gains and provisions	—	—	—	—	—	—	—	—
Attributable profit to the Group	**1,453**	**1,303**	**11.6**	**9.5**	**2,756**	**2,255**	**22.2**	**40.1**
EPS (euros)	**0.122**	**0.113**	**7.7**		**0.236**	**0.214**	**10.2**	
Diluted EPS (euros)	**0.122**	**0.113**	**7.7**		**0.235**	**0.213**	**10.5**	
Pro memoria:								
Average total assets	1,179,715	1,155,326	2.1		1,167,350	1,266,263	(7.8)	
Average shareholders' equity	84,224	83,460	0.9		83,772	80,516	4.0	

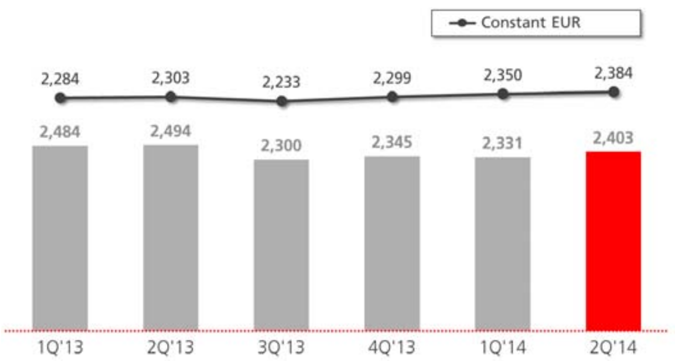
QUARTERLY INCOME STATEMENT (EUR million)

	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14
Net interest income	**7,206**	**7,339**	**6,944**	**6,930**	**6,992**	**7,370**
Net fees	2,484	2,494	2,300	2,345	2,331	2,403
Gains (losses) on financial transactions	967	880	995	653	767	511
Other operating income	66	134	94	100	34	204
Dividends	59	145	72	102	31	220
Income from equity-accounted method	66	58	80	79	65	42
Other operating income/expenses	(59)	(69)	(58)	(81)	(63)	(58)
Gross income	**10,722**	**10,847**	**10,333**	**10,029**	**10,124**	**10,488**
Operating expenses	(5,068)	(5,088)	(4,943)	(5,060)	(4,847)	(4,906)
General administrative expenses	(4,497)	(4,485)	(4,381)	(4,395)	(4,256)	(4,360)
Personnel	*(2,631)*	*(2,606)*	*(2,478)*	*(2,559)*	*(2,455)*	*(2,515)*
Other general administrative expenses	*(1,865)*	*(1,879)*	*(1,902)*	*(1,836)*	*(1,801)*	*(1,844)*
Depreciation and amortisation	(571)	(602)	(562)	(665)	(590)	(546)
Net operating income	**5,655**	**5,760**	**5,390**	**4,968**	**5,277**	**5,582**
Net loan-loss provisions	(3,142)	(3,399)	(3,025)	(2,774)	(2,695)	(2,638)
Impairment losses on other assets	(110)	(126)	(141)	(146)	(87)	(71)
Other income	(262)	(422)	(368)	(220)	(347)	(438)
Ordinary profit before taxes	**2,141**	**1,812**	**1,856**	**1,828**	**2,149**	**2,435**
Tax on profit	(577)	(453)	(518)	(526)	(569)	(664)
Ordinary profit from continuing operations	**1,564**	**1,359**	**1,338**	**1,302**	**1,579**	**1,771**
Net profit from discontinued operations	—	(14)	(0)	(1)	(0)	(0)
Ordinary consolidated profit	**1,564**	**1,345**	**1,337**	**1,301**	**1,579**	**1,771**
Minority interests	359	294	282	242	277	318
Ordinary attributable profit to the Group	**1,205**	**1,050**	**1,055**	**1,060**	**1,303**	**1,453**
Net capital gains and provisions	—	—	— —	—	—	
Attributable profit to the Group	**1,205**	**1,050**	**1,055**	**1,060**	**1,303**	**1,453**
EPS (euros)	**0.116**	**0.098**	**0.096**	**0.094**	**0.113**	**0.122**
Diluted EPS (euros)	**0.115**	**0.098**	**0.095**	**0.094**	**0.113**	**0.122**

NET INTEREST INCOME
EUR million



NET FEES
EUR million



- The aggregate of **net interest income and fee income** was up 2.9%, with almost all units performing well.

- In **other revenues,** dividends were seasonally high, income by the equity accounted method was lower and trading gains dropped 33.4% (the lowest level of the last two years). Trading gains represented just 5% of gross income, reflecting the latter's high quality and sustainability.

Operating expenses fell 0.3% (falls in Spain and Santander Consumer offset the rises in Argentina and Chile). **Net operating income** was up 3.7% in the quarter.

Loan loss provisions declined 4.1% due to the UK, Spain (for the third and fourth consecutive quarters, respectively) and Brazil and the US.

Net operating income after provisions was 11.8% higher and attributable profit 9.5%.

The first half profit was 22.2% higher **year-on-year** at EUR 2,756 million (+40.1% excluding the forex impact).

To facilitate the comparisons of the various P&L lines with previous periods, non-recurring capital gains and provisions have been incorporated into "Net capital gains and provisions".

The capital gains correspond to Altamira (EUR 385 million net), the stock market placement of SCUSA (EUR 730 million net) and the change in pension commitments in the UK (EUR 220 million).

A fund of EUR 744 million was established for restructuring costs, impairment of intangible assets amounted to EUR 512 million and other provisions were EUR 79 million. The impact on profit was zero.

The exchange rate variations of various currencies against the euro had a negative impact on gross income and operating expenses in year-on-year terms of between 7 and 8 p.p. for the whole Group. The impact on the UK was positive (+4 p.p.) and negative for the US (-5 p.p.); Brazil (-15 p.p.); Mexico (-9 p.p.); Chile (-19 p.p.) and Argentina (-52 p.p.).

The performance of the income statement and comparisons with the first half of 2013 excluding the exchange rate impact was as follows.

Gross income was EUR 20,611 million, 4.0% higher year-on-year. By components:

- **Net interest income** amounted to EUR 14,362 million (+8.2%), with a good performance by all units except for Brazil which declined 3.7% because of lower spreads from the change of mix. This fall was offset by the improved cost of credit, enabling net operating income after provisions to rise 11.3%.

  Volumes continued to grow in Latin America, combined with the positive effect of the better evolution of units in mature markets since the beginning of the year. As regards spreads, positive impact of the strategy of reducing the cost of funds, particularly in Europe and the US. Spreads on loans performed better in mature countries, as in Latin America there is a change of mix toward lower risk products.

- **Net fee income** was 3.2% higher at EUR 4,733 million, with a better performance of those from availability of credit lines (+18.9%), securities and custody (+24.3% and mutual funds (+9.0%), while those from claiming past-due debt were 21.3% lower.

- The aggregate of **net interest income and fee income** increased 6.9% and represented 93% of the Group's gross income (90% in the first half of 2013).

- **Other revenues:** trading gains dropped 27.7%; dividend income increased 25.9%, income by the equity accounted method rose 2.4% and other operating income, including the contribution to the deposit guarantee fund, was EUR 121 million negative.

NET FEE INCOME
EUR million

	2Q'14	Var (%) s/1Q'14	1H'14	Var (%) s/1H'13
Fees from services	1,426	2.5	2,818	(6.6)
Mutual & pension funds	216	1.6	429	0.9
Securities and custody	214	15.4	400	18.1
Insurance	546	1.1	1,086	(9.2)
Net fee income	**2,403**	**3.1**	**4,733**	**(4.9)**

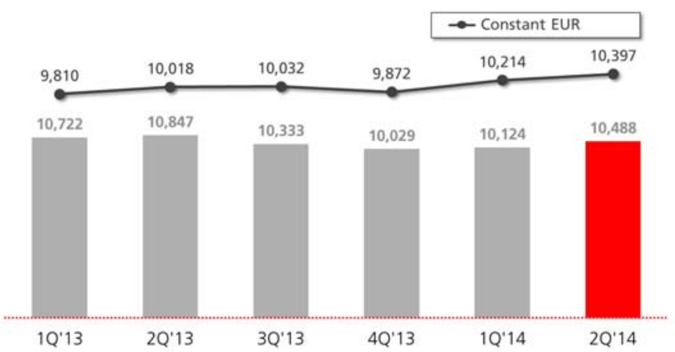
OPERATING EXPENSES
EUR million

	2Q'14	Var (%) s/1Q'14	1H'14	Var (%) s/1H'13
Personnel expenses	2,515	2.5	4,970	(5.1)
General expenses	1,844	2.4	3,646	(2.6)
Information technology	201	(17.2)	444	(6.0)
Communications	137	10.9	260	(16.2)
Advertising	176	41.1	301	3.6
Buildings and premises	442	(1.3)	890	(4.1)
Printed and office material	36	(2.3)	72	(14.3)
Taxes (other than profit tax)	115	5.6	224	(0.1)
Other expenses	737	2.8	1,455	1.4
Personnel and general expenses	**4,360**	**2.4**	**8,616**	**(4.1)**
Depreciation and amortisation	546	(7.5)	1,137	(3.1)
Total operating expenses	**4,906**	**1.2**	**9,753**	**(4.0)**

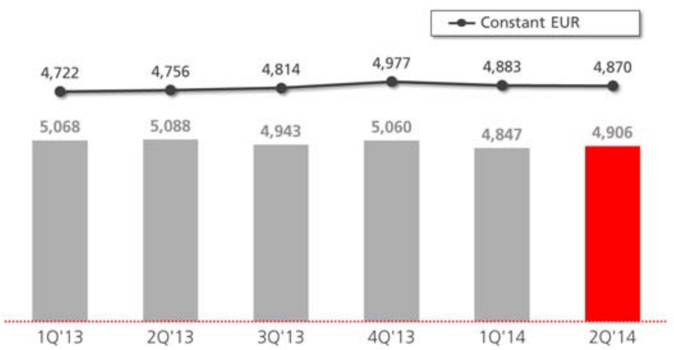
OPERATING MEANS

	Employees		Branches	
	1H'14	1H'13	1H'14	1H'13
Continental Europe	**56,297**	**60,415**	**5,638**	**6,774**
o/w: Spain	25,465	28,859	3,609	4,612
Portugal	5,515	5,609	626	651
Poland	12,058	12,504	817	876
SCF	12,272	12,230	576	624
United Kingdom	**25,902**	**25,647**	**1,071**	**1,190**
Latin America	**83,299**	**86,649**	**5,705**	**5,881**
o/w: Brazil	47,205	51,383	3,449	3,697
Mexico	14,859	14,264	1,293	1,215
Chile	11,971	12,132	481	501
USA	**15,594**	**14,642**	**811**	**835**
Operating areas	**181,092**	**187,353**	**13,225**	**14,680**
Corporate Activities	2,556	2,567		
Total Group	**183,648**	**189,920**	**13,225**	**14,680**

GROSS INCOME
EUR million

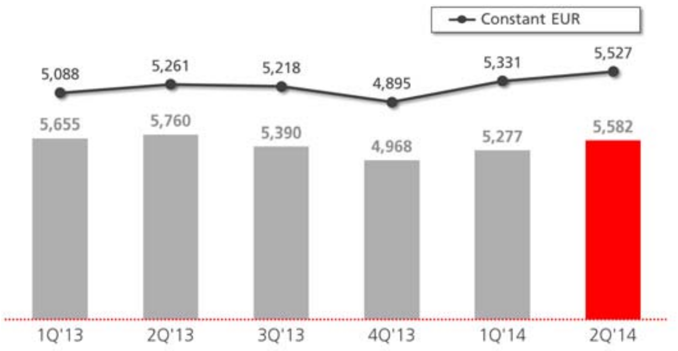


OPERATING EXPENSES
EUR million

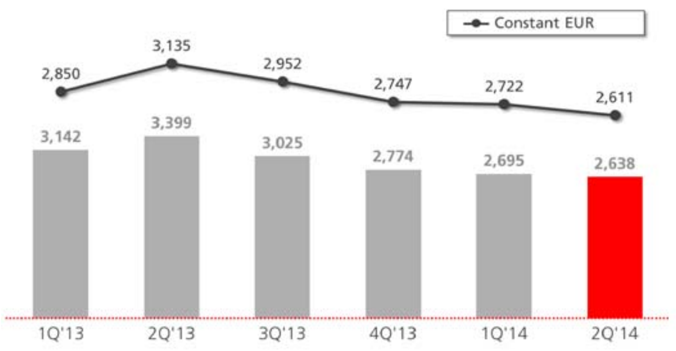


Santander

NET OPERATING INCOME
EUR million



LOAN-LOSS PROVISIONS
EUR million



Operating expenses increased 2.9%, with a varied performance by unit divided into three blocks:

- A first block with units in processes of integration (Spain and Poland) or adjusting structures (Portugal). Their costs declined in nominal terms. Brazil's expenses rose well below the country's inflation rate (-5% in real terms), underscoring the effort to improve efficiency.

- A second block in which the UK is combining investment in its business transformation plan with higher costs in line with inflation. SCF and Chile also rose, in line with inflation.

- Lastly Mexico and Argentina's costs rose because of expansion plans or business capacity improvements. Also the US (+9.2%) where Santander Bank's franchise is being improved, strong growth at SCUSA and adapting to the new regulatory requirements.

NET LOAN-LOSS PROVISIONS (EUR million)

	2Q'14	Var (%) s/1Q'14	1H'14	Var (%) s/1H'13
Non performing loans	2,709	(17.5)	5,993	(20.7)
Country-risk	(4)	—	(4)	—
Recovery of written-off assets	(67)	(88.7)	(656)	(35.7)
Total	**2,638**	**(2.1)**	**5,333**	**(18.5)**

Net operating income (pre-provision profit) was 4.9% higher at EUR 10,858 million.

Loan-loss provisions were EUR 5,333 million, 10.9% lower than the first half of 2013. Reduced provisions in Brazil, UK, Spain, Portugal, SCF and Chile and higher in Mexico, partly due to larger volumes, and in the US due to the greater requirement for provisions linked to SCUSA's growth in lending, after the signing of the agreement with Chrysler.

Net operating income after provisions rose 26.6% year-on-year to EUR 5,525 million (+16.6% y-o-y in the first quarter).

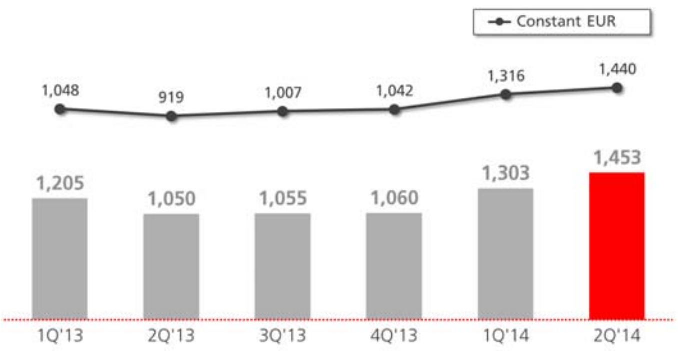
Other asset impairment losses and other results were EUR 941 million negative, similar to the EUR 921 million in the first half of 2013.

Profit before tax was EUR 4,584 million and attributable profit EUR 2,756 million, after taxes and minority interests.

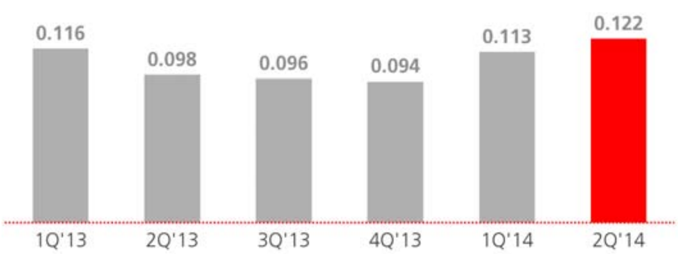
Earnings per share were EUR 0.236 in the first half compared to EUR 0.214 in the same period of 2013. The evolution was related to the rise in the number of shares associated with the scrip dividend, as this option was well received

The Group's **ROE** was 6.6% and return on tangible equity (**ROTE**, attributable profit/shareholders' equity less goodwill) 9.5%. In both cases, the figures were better than for the whole of 2013 (5.4% and 7.9%, respectively).

ATTRIBUTABLE PROFIT TO THE GROUP
EUR million



EARNINGS PER SHARE
EUR



BALANCE SHEET (EUR million)

ASSETS	30.06.14	30.06.13	Variation Amount	(%)	31.12.13
Cash on hand and deposits at central banks	83,877	81,673	2,204	2.7	77,103
Trading portfolio	130,773	169,729	(38,956)	(23.0)	115,309
Debt securities	*54,115*	*51,275*	*2,840*	*5.5*	*40,841*
Customer loans	*1,637*	*13,776*	*(12,139)*	*(88.1)*	*5,079*
Equities	*9,399*	*5,090*	*4,309*	*84.6*	*4,967*
Trading derivatives	*64,335*	*91,437*	*(27,102)*	*(29.6)*	*58,920*
Deposits from credit institutions	*1,287*	*8,151*	*(6,864)*	*(84.2)*	*5,503*
Other financial assets at fair value	30,421	40,118	(9,697)	(24.2)	31,441
Customer loans	*11,031*	*14,389*	*(3,358)*	*(23.3)*	*13,255*
Other (deposits at credit institutions, debt securities and equities)	*19,390*	*25,728*	*(6,338)*	*(24.6)*	*18,185*
Available-for-sale financial assets	90,637	105,661	(15,024)	(14.2)	83,799
Debt securities	*85,773*	*100,855*	*(15,082)*	*(15.0)*	*79,844*
Equities	*4,864*	*4,805*	*59*	*1.2*	*3,955*
Loans	755,264	746,773	8,491	1.1	731,420
Deposits at credit institutions	*53,232*	*52,132*	*1,100*	*2.1*	*57,178*
Customer loans	*694,231*	*686,858*	*7,373*	*1.1*	*666,356*
Debt securities	*7,801*	*7,784*	*17*	*0.2*	*7,886*
Investments	3,603	2,917	686	23.5	3,377
Intangible assets and property and equipment	19,739	17,445	2,294	13.1	18,137
Goodwill	26,663	24,913	1,750	7.0	24,263
Other	47,066	50,186	(3,120)	(6.2)	49,154
Total assets	**1,188,043**	**1,239,415**	**(51,372)**	**(4.1)**	**1,134,003**

LIABILITIES AND SHAREHOLDER'S EQUITY					
Trading portfolio	96,621	139,906	(43,285)	(30.9)	94,695
Customer deposits	*5,250*	*17,569*	*(12,319)*	*(70.1)*	*8,500*
Marketable debt securities	—	*1*	*(1)*	*(100.0)*	*1*
Trading derivatives	*64,255*	*89,937*	*(25,682)*	*(28.6)*	*58,910*
Other	*27,116*	*32,399*	*(5,283)*	*(16.3)*	*27,285*
Other financial liabilities at fair value	50,446	54,779	(4,333)	(7.9)	42,311
Customer deposits	*32,103*	*32,427*	*(324)*	*(1.0)*	*26,484*
Marketable debt securities	*3,864*	*6,154*	*(2,290)*	*(37.2)*	*4,086*
Due to central banks and credit institutions	*14,479*	*16,198*	*(1,719)*	*(10.6)*	*11,741*
Financial liabilities at amortized cost	914,107	925,497	(11,390)	(1.2)	880,115
Due to central banks and credit institutions	*104,111*	*103,360*	*751*	*0.7*	*92,390*
Customer deposits	*580,408*	*594,938*	*(14,530)*	*(2.4)*	*572,853*
Marketable debt securities	*187,631*	*192,441*	*(4,810)*	*(2.5)*	*182,234*
Subordinated debt	*19,043*	*16,118*	*2,925*	*18.1*	*16,139*
Other financial liabilities	*22,914*	*18,640*	*4,274*	*22.9*	*16,499*
Insurance liabilities	1,602	1,091	511	46.9	1,430
Provisions	15,205	15,148	57	0.4	14,485
Other liability accounts	24,346	21,005	3,341	15.9	20,409
Total liabilities	**1,102,327**	**1,157,425**	**(55,098)**	**(4.8)**	**1,053,444**
Shareholders' equity	87,035	83,202	3,833	4.6	84,740
Capital stock	*5,889*	*5,405*	*484*	*9.0*	*5,667*
Reserves	*78,390*	*75,542*	*2,848*	*3.8*	*75,109*
Attributable profit to the Group	*2,756*	*2,255*	*501*	*22.2*	*4,370*
Less: dividends	—	—	—	—	*(406)*
Equity adjustments by valuation	(11,857)	(11,903)	46	(0.4)	(14,152)
Minority interests	10,538	10,691	(153)	(1.4)	9,972
Total equity	**85,716**	**81,990**	**3,726**	**4.5**	**80,559**
Total liabilities and equity	**1,188,043**	**1,239,415**	**(51,372)**	**(4.1)**	**1,134,003**

GRUPO SANTANDER. BALANCE SHEET

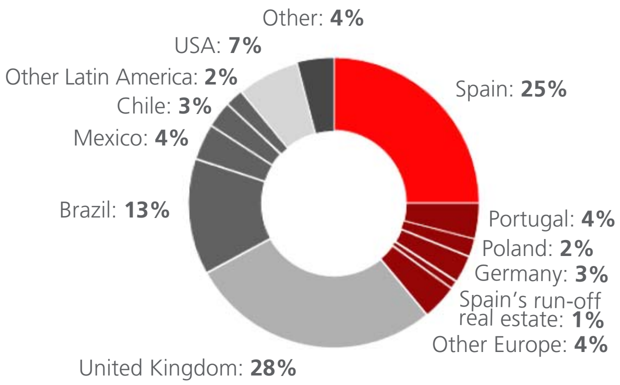
→ The Group's **activity** reflects the strategy and the market context:

- **Lending** in the quarter, underscored the changed of trend in Europe and the UK. Growth of 7% year-on-year in the US and 9% in Latin America at constant exchange rates.
- **Funds** also increased in the second quarter, while maintaining the focus on cutting the cost of deposits and on marketing mutual funds (+20% year-on-year).
- The Group's **net loan-to-deposit ratio** remained at a very comfortable level of 114% in June.

→ **Common equity Tier 1 (CET1)** was 10.9% at the end of June, well above the minimum requirement. Tier 1 was 10.9% and the total capital ratio 12.1%.

→ The leverage ratio was 4.5%.

DISTRIBUTION OF TOTAL ASSETS
June 2014



Total managed and marketed funds at the end of June amounted to **EUR 1,342,240 million,** of which EUR 1,188,045 million (89%) were on-balance sheet and the rest mutual and pension funds and managed portfolios.

At the aggregate level of the whole Group, and regarding the evolution of customer balances, the change in exchange rates of the main currencies in which the Group operates, had a positive impact of two p.p. and less than one p.p. in quarter-on-quarter and year-on-year comparisons, respectively. In some units the impact was very significant.

The appreciations against the euro over March 2014 were as follows: 4% for the Brazilian real, 3% for sterling, 2% for the Mexican peso and 1% for the dollar and the Chilean peso. The Polish zloty remained stable and the Argentine peso depreciated 1%.

Compared to June 2013, sterling and the zloty appreciated 7% and 4%, respectively, and other currencies depreciated (4% the dollar, the Brazilian real and the Mexican peso, 12% the Chilean peso and 37% the Argentine peso).

Customer lending

The Group's gross lending amounted to EUR 734,363 million at the end of June, 1.7% **more than March 2014**, (+0.9% after eliminating repos and the exchange rate impact).

In the latter, the detail by greographic area is as follows: Lending in Continental Europe rose 1.0%, as the decline in real estate activity in run-off was offset by growth at Santander Consumer Finance, Poland and particularly Spain which grew for the second quarter running (+EUR 2,803 million; +1.8%). Growth came mostly from companies, a segment that saw the launching of *Santander Advance* to promote SMEs business.

Increases for the rest: UK: +0.8%, spurred by credit to companies; Latin America: +2.3%, with growth in all units, especially Mexico, and US: +0.7%, with a good performance by Santander Bank and SCUSA.

CUSTOMER LOANS (EUR million)

	30.06.14	30.06.13	Variation Amount	(%)	31.12.13
Spanish Public sector	16,227	17,634	(1,407)	(8.0)	13,374
Other residents	162,352	171,494	(9,142)	(5.3)	160,478
Commercial bills	6,689	7,654	(965)	(12.6)	7,301
Secured loans	98,962	97,997	965	1.0	96,420
Other loans	56,701	65,843	(9,142)	(13.9)	56,757
Non-resident sector	555,784	553,546	2,238	0.4	537,587
Secured loans	339,213	329,471	9,742	3.0	320,629
Other loans	216,571	224,075	(7,504)	(3.3)	216,958
Gross customer loans	**734,363**	**742,675**	**(8,312)**	**(1.1)**	**711,439**
Loan-loss allowances	27,464	27,652	(188)	(0.7)	26,749
Net customer loans	**706,899**	**715,023**	**(8,124)**	**(1.1)**	**684,690**
Pro memoria: Doubtful loans	40,948	39,681	1,267	3.2	41,088
Public sector	126	117	10	8.4	99
Other residents	21,003	19,201	1,802	9.4	21,763
Non-resident sector	19,819	20,363	(544)	(2.7)	19,226

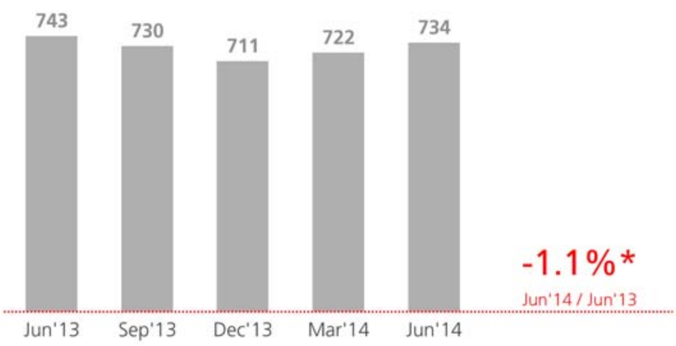
In relation to June 2013, lending was 1% lower. Excluding the exchange rate impact and repos, growth for the whole Group was 1%, as follows:

In **Continental Europe,** the low demand for loans affected balances in Spain and Portugal but less than in previous quarters. On the other hand, lending grew in Santander Consumer Finance and in Poland and there was a sharp fall of 25% in run-off real estate activity in Spain, as a result of maintaining the strategy of reducing this type of risk.

- Gross customer lending in **Spain** (excluding the run-off real estate unit, commented on below) was 4% lower year-on-year. The distribution was as follow:
  - Lending to individuals amounted to EUR 61,727 million, of which EUR 49,518 million are home mortgages (-4% in 12 months). The portfolio is concentrated in financing first homes, with a strong concentration in the lowest tranches of loan-to-value (73% with an LTV of less than 80%).
  - Loans directly to SMEs and companies without real estate purpose amounted to EUR 85,000 million and accounted for the largest share of lending (52%). They dropped 3% year-on-year, mainly in the second half of 2013, as they increased 3% since the end of last year due to the special plan for SMEs, already commented on.
  - Lending to the Spanish public sector stood at EUR 15,439 million compared to EUR 17,501 million in June 2013. The reduction was due to the amortization in the fourth quarter of 2013 of financing for suppliers (around EUR 4,000 million).
- In **Portugal**, lending dropped 4% year-on-year in a deleveraging environment, in which Santander Totta is gaining market share, both in total lending and in individuals and companies. Balances in construction and real estate, which represent less than 3% of lending, declined 26%.
- In **Poland** lending increased 2% in the last 12 months in local currency, backed by that to companies (+3%), while lending to individuals remained stable.
- **Santander Consumer Finance's** balances rose 4%, with a varied performance by countries. Germany's lending, which accounted for 51% of the area's total, rose 1%, the Nordic countries and Poland increased by 15% and 8%, respectively, in local currency, Spain's rose 23% (partially due to perimeter) and Italy's and Portugal's declined by more than 10%.

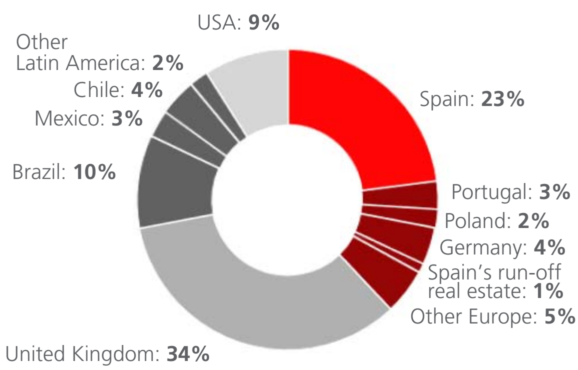
  New lending was 12% higher in the first half than in the same period of 2013, with significant rises in direct credit, cards and auto finance, particularly new cars, where we continued to outperform the sector.
- Net lending included in the unit of **Spain's run-off real estate activity** amounted to EUR 4,876 million. The balance continued to fall in the second quarter and was EUR 1,631 million lower than in June 2013 (-25%).

GROSS CUSTOMER LOANS
EUR billion

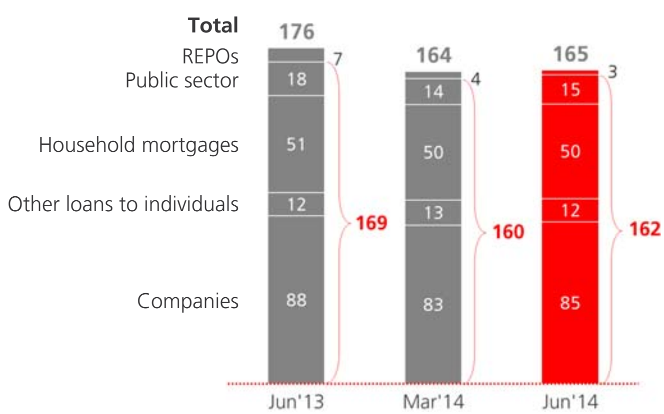


(*) Excluding exchange rate impact: -1.7%

CUSTOMER LOANS
% o/ operating areas. June 2014



LOAN PORTFOLIO IN SPAIN
EUR billion



MANAGED AND MARKETED CUSTOMER FUNDS (EUR million)

	30.06.14	30.06.13	Variation Amount	(%)	31.12.13
Resident public sector	7,357	10,734	(3,377)	(31.5)	7,745
Other residents	163,548	167,266	(3,718)	(2.2)	161,649
Demand deposits	79,661	76,274	3,387	4.4	74,969
Time deposits	77,913	83,227	(5,314)	(6.4)	80,146
Other	5,974	7,764	(1,790)	(23.1)	6,535
Non-resident sector	446,855	466,934	(20,078)	(4.3)	438,442
Demand deposits	244,068	232,969	11,098	4.8	230,715
Time deposits	155,736	168,611	(12,875)	(7.6)	161,300
Other	47,052	65,354	(18,302)	(28.0)	46,427
Customer deposits	**617,761**	**644,934**	**(27,173)**	**(4.2)**	**607,836**
Debt securities*	191,495	198,595	(7,100)	(3.6)	186,321
Subordinated debt	19,043	16,118	2,925	18.1	16,139
On-balance-sheet customer funds	**828,299**	**859,647**	**(31,349)**	**(3.6)**	**810,296**
Mutual funds	119,739	101,598	18,141	17.9	103,967
Pension funds	11,258	10,135	1,123	11.1	10,879
Managed portfolios	23,198	20,393	2,804	13.8	21,068
Other managed and marketed customer funds	**154,195**	**132,127**	**22,069**	**16.7**	**135,914**
Managed and marketed customer funds	**982,494**	**991,774**	**(9,280)**	**(0.9)**	**946,210**

(*).- Including retail commercial paper (EUR million): 1,318 in June 2014, 7,471 in June 2013 and 3,553 in December 2013

In the **United Kingdom,** the balance of customer loans was 1% lower in sterling year-on-year. In local criteria, home mortgages dropped 2%, partly offset by the rise in loans to companies (+10%).

Lending in **Latin America** in constant currency increased 9% year-on-year, with growth in all countries: Brazil (+4%), Mexico (+19%), Chile (+9%), Argentina (+29%), Uruguay (+23%) and Peru (+26%). These growth rates outperformed the market's in most countries.

Lastly, lending in the **US** rose 7% in dollars, with a varied performance by unit. Santander Bank's rose 3%, SCUSA's 21%, benefiting from the strategic alliance with Chrysler, and Puerto Rico's dropped 11%, within the sector's deleveraging process.

At the end of June, Continental Europe accounted for 38% of the Group's total net lending (23% Spain), the UK 34%, Latin America 19% (10% Brazil) and the US 9%.

Customer funds under management and marketed

Total managed funds, including mutual funds, pension funds and managed portfolios, amounted to EUR 982,494 million, 1.6% higher **than March 2014** (-0.1% excluding the exchange rate effect).

Deposits (excluding repos) and mutual funds rose 2.2% (+0.5% excluding the exchange rate impact). Continental Europe's were unchanged, the UK's and Latin America's rose 0.4% and 1.9%, respectively, and the US' dropped 0.4%.

The general strategy being followed, is increase demand deposits, reduce expensive ones and market mutual funds. As a result demand deposits rose 3% in the second quarter in the Group (the 10 main units rose), time deposits declined 4% (all units fell) and mutual funds increased 5%.

Customer funds were 1% lower **than June 2013** excluding the exchange rate effect (-1% on accounting terms), due to the decline in debt securities and repos, as the aggregate of deposits excluding repos and mutual funds increased 2%.

Continental Europe's main units performed as follows:

- **Spain's** deposits excluding repos dropped 5% year-on-year and mutual funds increased 37%, consolidating Grupo Santander's leadership. This big rise was due to the strategy of reducing expensive deposits and more active marketing of mutual funds. Overall, both effects offset each other out, and thus total funds remained stable.

- **Portugal's** deposits dropped 4%, excluding repos, due to the greater focus on their cost, and mutual funds rose 2%.

MANAGED AND MARKETED MUTUAL FUNDS
EUR million

	30.06.14	30.06.13	Var (%)	31.12.13
Spain	38,973	28,497	36.8	33,104
Portugal	1,311	1,281	2.4	1,050
Poland	3,556	3,294	8.0	3,525
United Kingdom	9,740	10,687	(8.9)	9,645
Latin America	65,315	56,411	15.8	55,835
USA	844	1,429	(40.9)	807
Total	**119,739**	**101,598**	**17.9**	**103,967**

MANAGED AND MARKETED PENSION FUNDS
EUR million

	30.06.14	30.06.13	Var (%)	31.12.13
Spain	10,394	9,366	11.0	10,030
Portugal	864	768	12.4	848
Total	**11,258**	**10,135**	**11.1**	**10,879**

- **Poland's** deposits increased 6% in local currency, with demand deposits registering the highest growth. Mutual funds rose 3%.
- **Santander Consumer Finance's** deposits were stable (-1%), as the decline resulting from the policy of reducing higher cost balances in Germany (86% of the total) was almost fully offset by rises in Poland, Austria and, above all, the Nordic countries.

In the **UK,** customer deposits excluding repos (in sterling) dropped 2%, due to the strategy of replacing expensive and less stable deposits with those that offer a better opportunity of linkage. Demand deposits grew 65% in the last 12 months because of the rise in current accounts as a result of the successful marketing of the 1|2|3 range of products, which offset the reduction in time deposits. Mutual funds dropped 15%.

The aggregate of deposits excluding repos and mutual funds in **Latin America** increased 13% in constant currency, with Brazil up 14%, Mexico 9%, Chile 8%, Argentina 34%, Uruguay 15% and Peru down 12%.

The **US** customer deposits continued to improve their mix and cost, similar to that of other units. Demand deposits increased 8%, a rise absorbed by the drop in time deposits, and the aggregate of deposits and mutual funds declined 2%.

Pension plans rose 11% in Spain in the last 12 months and 12% in Portugal, the only countries where Santander markets this product.

Continental Europe accounted for 36% of managed customer funds (26% Spain), the UK 30%, Latin America 27% (Brazil 16%) and the US 7%.

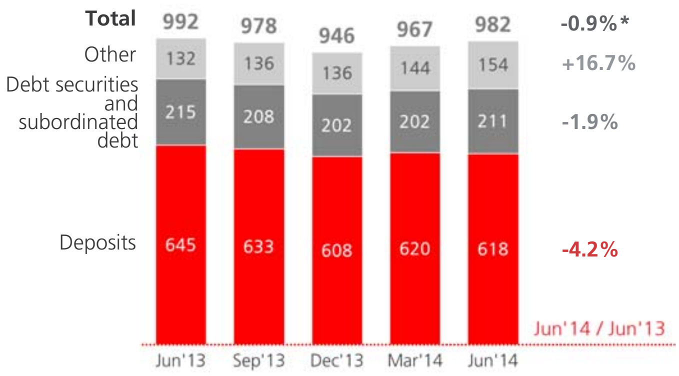
The Group, for strategic reasons, maintained a selective policy of issuing securities in the international fixed income markets and strived to adapt the frequency and volume of operations to the structural liquidity needs of each unit, as well as to the receptiveness of each market.

In the first half of 2014, **medium and long-term issues of senior debt** amounted to EUR 14,275 million and covered bonds EUR 2,843 million.

Of note in the first category was debt issuance of EUR 1,500 million by Banco Santander, S.A. in March 2014 at 1.375%, well below the 4% of the last equivalent issue in January 2013.

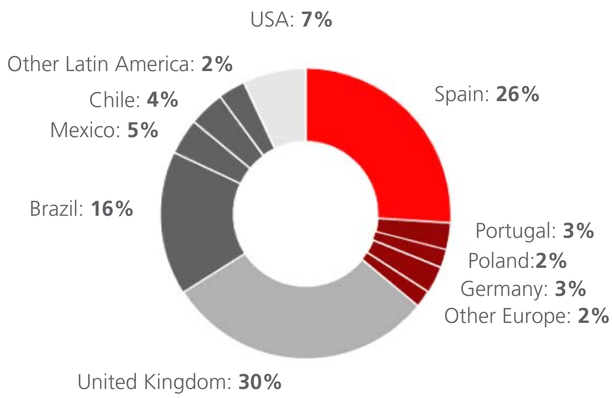
Also noteworthy were two issues of covered bonds by the subsidiary in Portugal, which saw the return to the market of

MANAGED AND MARKETED CUSTOMER FUNDS
EUR billion

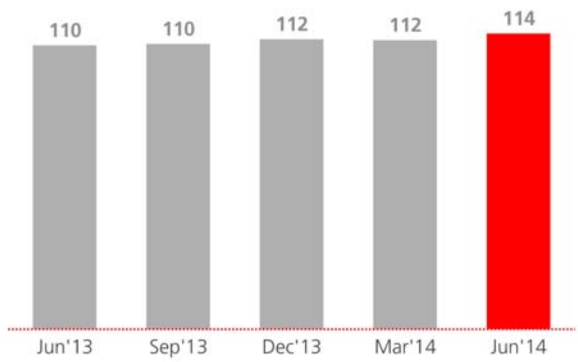


(*) Excluding exchange rate impact: -1.3%

MANAGED AND MARKETED CUSTOMER FUNDS
% o/ operating areas. June 2014



LOANS / DEPOSITS. TOTAL GROUP*
%



(*) Including retail commercial paper

Santander Totta after four years. The first one was for EUR 1,000 million at 1.50% and the second for EUR 750 million at 1.625%.

Both were notably over subscribed, reflecting the high degree of interest in Santander risk by investors.

As regards securitizations, the Group's subsidiaries placed in the first half a total of EUR 8,460 million, mainly via the Group's specialised consumer finance units.

This issuing activity underscores the Group's capacity to access the different segments of institutional investors via more than 10 issuance units, including the parent bank, Banco Santander and the main subsidiaries of the countries where it operates. All this reaffirms the Group's policy of self-sufficiency of liquidity for its subsidiaries so that each one adapts its issuance programme to the evolution of its balance sheet.

Maturities of medium- and long-term debt amounted to EUR 18,653 million in the first half, of which EUR 10,860 million was senior debt and EUR 7,764 million covered bonds.

The evolution of loans and funds improved the net loan-to-deposit ratio to 114%.

The ratio of deposits plus medium- and long-term funding to the Group's loans was 116%, underscoring the comfortable funding structure of the Group's lending.

Other items of the balance sheet

Goodwill amounted to EUR 26,663 million, EUR 1,750 million more than June 2013, because of the higher participation in SCUSA.

The balance of financial assets available for sale amounted to EUR 90,637 million, 14% lower (-EUR 15,724 million) than a year earlier and mainly due to the reduced exposure to public debt in Spain and the US.

Trading derivatives amounted to EUR 64,335 million in assets and EUR 64,255 million in liabilities (EUR 27,102 million and EUR 25,682 million lower year-on-year, respectively), due to interest rate movements and the cancellation of positions.

Shareholders' equity and solvency ratios

Shareholders' funds, after retained profits, amounted to EUR 87,035 million (+EUR 3,833 million and +5% in the last 12 months).

Both minority interests and valuation adjustments hardly changed between June 2013 and June 2014. Total equity at the end of June was EUR 85,716 million.

The Group's eligible equity amounted to EUR 67,462 million at the end of June (EUR 22,750 million above the minimum requirement).

The CET1 (Common Equity Tier 1) is 10.9%, the same as Tier 1 Capital ratio, while total capital ratio is 12.1%. These ratios already consider Spanish regulation homogeneous with European one regarding intangible assets.

On a like-for-like basis (applying the current criteria as of March), the CET1 ratio rose 15 basis points in the second quarter. This increase is mainly due to organic capital generation. In addition, there was an issuance of AT1 and hybrid debt for similar amount was amortised.

TOTAL EQUITY AND CAPITAL WITH THE NATURE OF FINANCIAL LIABILITIES (EUR million)

	30.06.14	30.06.13	Variation Amount	(%)	31.12.13
Capital stock	5,889	5,405	484	9.0	5,667
Additional paid-in surplus	36,537	37,119	(582)	(1.6)	36,804
Reserves	41,990	38,502	3,488	9.1	38,314
Treasury stock	(137)	(79)	(58)	74.4	(9)
Shareholders' equity (before profit and dividends)	**84,279**	**80,947**	**3,332**	**4.1**	**80,776**
Attributable profit	2,756	2,255	501	22.2	4,370
Interim dividend distributed	—	—	—	—	(406)
Interim dividend not distributed	—	—	—	—	(438)
Shareholders' equity (after retained profit)	**87,035**	**83,202**	**3,833**	**4.6**	**84,302**
Valuation adjustments	(11,857)	(11,903)	46	(0.4)	(14,152)
Minority interests	10,538	10,691	(153)	(1.4)	9,972
Total equity (after retained profit)	**85,716**	**81,990**	**3,726**	**4.5**	**80,122**
Preferred shares and securities in subordinated debt	6,822	4,642	2,180	47.0	4,053
Total equity and capital with the nature of financial liabilities	**92,538**	**86,632**	**5,906**	**6.8**	**84,175**

Under the new European regulations on own funds and targeted solely at qualified investors, Banco Santander made two issues in the first half of contingent perpetual preferred securities convertible into newly issued ordinary shares of the Bank, which are computable as additional Tier 1 (AT1) capital. This operation bolstered its solvency (Tier 1).

These operations – EUR 1,500 million in March and $1,500 million in May at annual interest rates of 6.25% and 6.375%, respectively, for the first five years – were oversubscribed by international investors. Demand for the first issue was EUR 15,000 million and $10,000 million for the second, making pro rata necessary in each case.

The Group has solid capital ratios, tailored to its business model, the balance sheet structure and the Group's risk profile.

COMPUTABLE CAPITAL [1]

EUR million

	30.06.14
CET1	61,009
Basic capital	61,009
Computable capital	**67,462**
Risk-weighted assets	558,894
CET1 capital ratio	**10.92**
T1 capital ratio	**10.92**
BIS ratio	**12.07**
Shareholders' equity surplus	22,750

(1).- Considering Spanish regulation homogeneous with European one regarding intangible assets.

Rating agencies

The Group's access to wholesale funding markets, as well as the cost of issues, depends to some extent on the ratings accorded by rating agencies.

Rating agencies regularly review the Group's ratings. Debt classification depends on a series of internal factors (solvency, business model, capacity to generate profits, etc.) and external ones related to the general economic environment, the sector's situation and the sovereign risk of the countries in which the Group operates.

The rating and outlook for the Kingdom of Spain has improved in the last few quarters. In 2013, Fitch, Standard & Poor's and Moody's improved the outlook from negative to stable. In 2014, Moody's upgraded the rating from Baa3 to Baa2 and the outlook from stable to positive, Fitch from BBB to BBB+ and S&P from BBB- to BBB.

The methodology used by the agencies limits the rating of a bank above that of the sovereign of the country in which it is based. This means that despite the Group's good fundamentals, Santander's rating can be limited by the sovereign debt rating.

At the end of June, Banco Santander was the only bank in the world with a rating higher than that of the sovereign of the country in which it is based by the four agencies, following further upgradings in 2014 by Moody's from Baa2 to Baa1 with stable outlook, Fitch from BBB+ to A- with stable outlook and S&P from BBB to BBB+, also with stable outlook. The rating by DRBS remained at A. These higher ratings than the sovereign recognize Santander's financial strength and diversification.

During the first quarter of 2014, the Group obtained A+ and A from GBB Rating and Scope, respectively.

The agencies' good assessment of Santander's credit profile is reflected in the rating of the Bank's individual fundamentals, which in the case of S&P is "a-", a level equivalent to its peers including those based on countries with a better macroeconomic situation.

RATING AGENCIES. GRUPO SANTANDER

	Long term	Short term	Outlook
DBRS	A	R1(low)	Negativa
Fitch Ratings	A-	F2	Stable
GBB Rating	A+		Stable
Moody's	Baa1	P-2	Stable
Standard & Poor´s	BBB+	A-2	Stable
Scope	A		Stable

RISK MANAGEMENT

→ **The Group's NPL ratio** was seven basis points lower in the second quarter than the first at 5.45%:

- Of note was the drop in Spain (-2 b.p.), Portugal (-10 b.p.), Mexico (-10 b.p,) and Chile (-5 b.p.).
- Stable in the UK, the US and Brazil. All their NPL ratios were lower than in 2013.

→ **Net NPL entries** (excluding the perimeter and forex effects) in the second quarter consolidated the reduction in the first quarter.

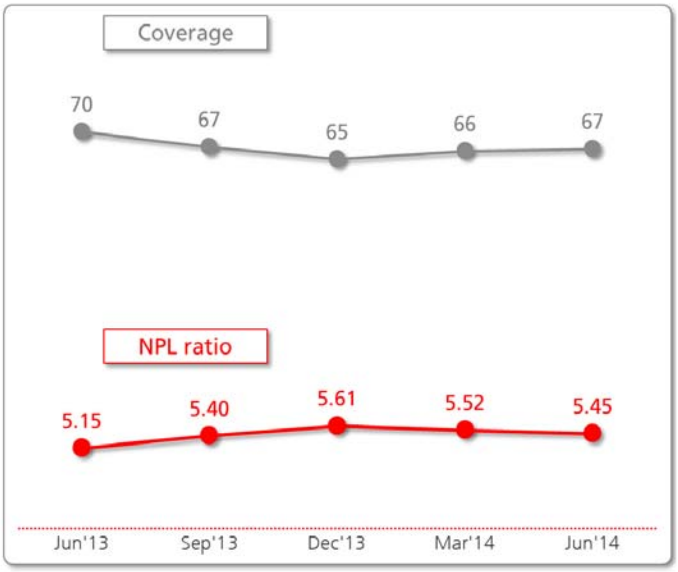
- The year-on-year reduction was 52%, with the largest falls in Spain, Portugal, Poland and Chile.

→ The **Group's coverage** at the end of June was 67% (+1 p.p. in the quarter).

→ **Loan-loss provisions** in the first half amounted to EUR 5,333 million, (-18.5% y-o-y) .

→ The **cost of credit** was 1.56% (2.14% in June 2013).

GRUPO SANTANDER. NPL AND COVERAGE RATIOS
%



Credit risk management

Net NPL entries in the second quarter, excluding the perimeter and forex effects, amounted to EUR 2,535 million, the lowest figure since the start of 2008. Net entries in the first half were EUR 5,070 million (-52% y-o-y), with reductions in all the main business units and particularly in Spain, Portugal, Poland and Chile.

Non-performing and doubtful loans remained stable for the second quarter running at EUR 42,334 million at the end of June. This balance, together with the current lending levels, put the Group's NPL ratio at 5.45%, seven basis points lower than in the first quarter and 16 b.p. below the end of 2013.

Loan-loss provisions stood at EUR 28,256 million, of which EUR 5,596 million were collective provisions. Total funds rose slightly in the quarter and coverage increased by one percentage point to 67%.

CREDIT RISK MANAGEMENT* (EUR million)

	30.06.14	30.06.13	Var. (%)	31.12.13
Non-performing loans	42,334	40,712	4.0	42,420
NPL ratio (%)	5.45	5.15		5.61
Loan-loss allowances	28,256	28,373	(0.4)	27,526
Specific	*22,660*	*22,988*	*(1.4)*	*22,433*
Collective	*5,596*	*5,385*	*3.9*	*5,093*
Coverage ratio (%)	66.7	69.7		64.9
Cost of credit (%) **	1.56	2.14		1.69

(*) Excluding country-risk
(**) 12 months net loan-loss provisions / average lending
Note: NPL ratio: Non-performing loans / computable assets

It should be borne in mind that the NPL ratio, particularly in the UK but also in Spain, is affected by the weight of mortgage balances that require lower provisions, as they have collateral not reflected here. The average LTV of residential mortgage balances in Spain and the UK is 55% and 49%, respectively.

The Group's net loan loss provisions, deducting write-offs recovered, were EUR 5,333 million at the end of June, compared to EUR 6,541 million a year earlier.

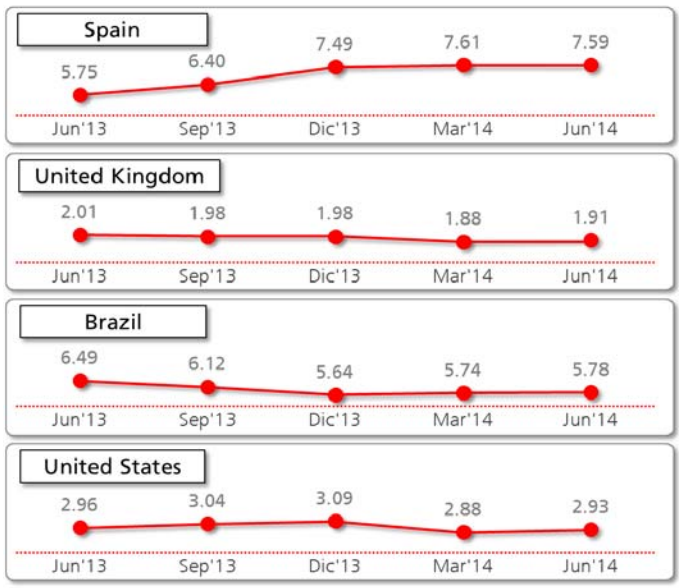
The cost of credit (loan-loss provisions in the last 12 months as a percentage of average lending during this period) was 1.56% (2.14% in June 2013).

The NPL ratios and coverage by countries are set out below:

- **Spain's** NPL ratio fell for the first time in the last eight quarters to 7.59% (-2 b.p.), due to the sharp reduction in NPLs, mainly in companies. Coverage remained at 45%.
- In addition, there is a separate unit for **Spain's run-off real estate**, which includes customer loans mainly for real estate development, and which has a specialised management model, equity stakes related to the property sector (Metrovacesa and SAREB) and foreclosed assets.

  The Group's strategy in the last few years has been to sharply reduce these loans. At the end of June, they stood at EUR 9,818 million net and represented around 3% of loans in Spain and less than 1% of the Group's total loans. Their evolution was as follows:

MAIN UNITS. NPL RATIO
%



– Net loans of EUR 4,876 million, EUR 332 million lower than at the end of March and EUR 1,631 million below June 2013 (-25%). The NPL ratio was 69.95% with coverage of 68%. Total coverage of these loans, including performing loans, was 52%.

– Net foreclosed assets ended June at EUR 3,527 million. These assets are covered by EUR 4,392 million of provisions (55% of gross assets).

– The stakes in Metrovacesa and SAREB were valued at EUR 1,415 million, virtually unchanged from the first quarter.

- **Portugal's** NPL ratio was 8.16% at the end of June (the first quarterly drop since September 2009 (-10 b.p. in the quarter) and coverage was 53% (+2 p.p.).

- **Poland** ended June with a NPL ratio of 7.42% (+7 b.p. in the quarter), but 42 b.p. below the end of 2013 as the downward trend started in the middle of last year, when highs were reached after the integration of Kredyt Bank, continued. Coverage was 65%, the same as in the first quarter and 3 p.p. above December 2013.

- **Santander Consumer Finance's** NPL ratio was 4.07% at the end of June, 7 b.p. lower than March thanks to the good general performance in all countries. Coverage remained stable at 105%.

- In the **UK,** the NPL ratio was 1.91%, in line with March and 7 b.p. below the end of 2013. This positive evolution was due to the good performance of all segments, particularly mortgages for individual clients. Lending rose 1% over 2013 due mainly to growth to companies, which was partly offset by reduced exposure to non-core segments such as shipping and aviation

(-14% and -44%, respectively). Coverage remained at more than 40%.

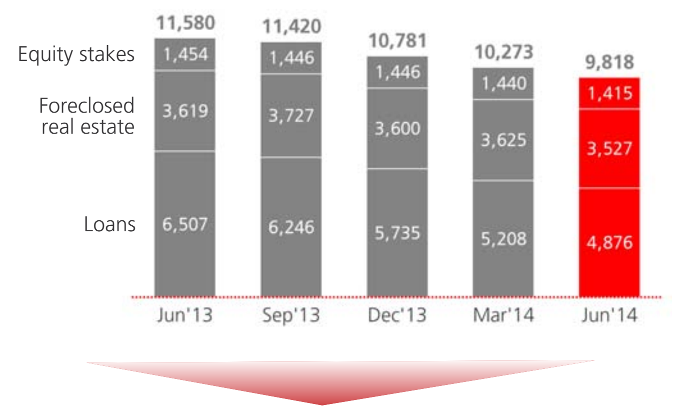
- **Brazil's** NPL ratio was 5.78% at the end of June (+4 b.p.). Coverage was unchanged at 95%. In both cases, the ratios were much better than at the beginning of 2013 (6.90% and 90%, respectively).

- **Mexico's** NPL ratio was 3.52%, 10 b.p. lower than in the first quarter and against a backdrop of a year that began with a less favourable macroeconomic environment. Coverage was 97% (-2 p.p.).

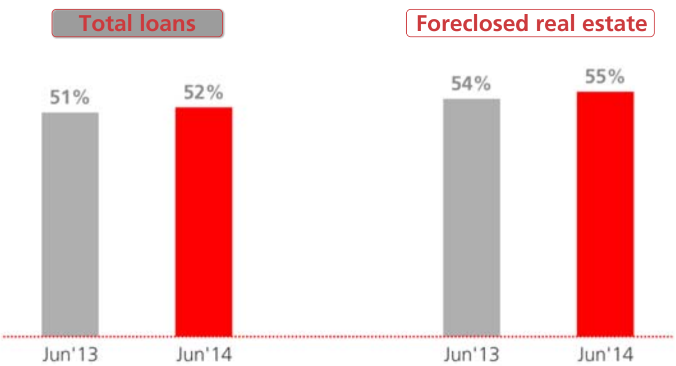
- The NPL ratio of **Chile** was 5.94%, 5 b.p. lower than the first quarter. The risk premium remained stable, and coverage increased by one point to 52%.

- The NPL ratio for the **US** was 2.93% at the end of June (+5 b.p. in the quarter). Coverage was 165%. The ratio for Santander Bank was 2.05%, in line with the first quarter. This was due to the good performance of retail portfolios because of the rise in

SPAIN'S RUN-OFF REAL ESTATE
EUR million net balances



SPAIN'S RUN-OFF REAL ESTATE. COVERAGE RATIO
%



household disposable income and the favourable evolution of individualised management companies. There were continued outflows of NPLs in the latter in a context of a greater appetite for risk by the market when acquiring problematic loans, also motivated by the increase in the valuations of their guarantees due to the positive evolution of real estate prices. Coverage was 89%. Puerto Rico's NPL ratio was 6.86% (+37 b.p.) and coverage 60%, unchanged from the first quarter.

The NPL ratio of SCUSA rose from 3.95% in March to 4.08% in June. Coverage reached 282% following the significant increase in provisions in recent quarters.

NON-PERFORMING LOANS BY QUARTER (EUR million)

	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14
Balance at beginning of period	36,761	38,693	40,712	41,899	42,420	42,300
Net additions	4,167	6,294	4,722	4,517	2,536	2,535
Increase in scope of consolidation	743	—	—	—	148	—
Exchange differences	300	(1,283)	(447)	(781)	96	293
Write-offs	(3,278)	(2,991)	(3,088)	(3,215)	(2,900)	(2,793)
Balance at period-end	**38,693**	**40,712**	**41,899**	**42,420**	**42,300**	**42,334**

Market risk

The risk of trading activity in the second quarter, measured in daily VaR terms at 99%, averaged around EUR 18.9 million. It fluctuated between EUR 13.0 and EUR 23.8 million. Of note was the increase in VaR in the first two weeks of June to a high for the quarter, due to the increased risk in Brazil (higher exposure in interest rates).

TRADING PORTFOLIOS*. VaR PERFORMANCE
EUR million

(*) Trading activity

TRADING PORTFOLIOS*. VaR BY REGION

Second quarter	2014		2013
EUR million	Average	Latest	Average
Total	**18.9**	**20.9**	**20.0**
Europe	14.4	15.7	16.9
USA and Asia	0.7	0.7	0.8
Latin America	14.9	20.9	12.7
Global activities	1.8	1.8	1.5

(*) Trading activity

TRADING PORTFOLIOS*. VaR BY MARKET FACTOR

Second quarter EUR million	Min.	Avg.	Max.	Latest
VaR total	**13.0**	**18.9**	**23.8**	**20.9**
Diversification efect	*(11.7)*	*(15.5)*	*(23.6)*	*(18.4)*
Interest rate VaR	11.9	15.3	22.2	18.9
Equity VaR	1.4	2.6	4.9	2.4
FX VaR	1.3	3.6	8.4	4.5
Credit spreads VaR	7.1	12.7	15.9	13.3
Commodities VaR	0.2	0.3	0.5	0.2

(*) Trading activity

The Santander share

Shareholder remuneration

Under the Santander Dividendo Elección programme (scrip dividend), shareholders could opt in April to receive in cash or in shares the amount equivalent to the final dividend (EUR 0.149 per share). This brought the total dividend charged to 2013's earnings to EUR 0.604 per share.

The programme will be applied to the first interim dividend for 2014 to be paid in August, and it is scheduled to be also applied at the customary dates for payment of the second and third dividends (November 2014 and February 2015). The AGM in March agreed the corresponding capital increases. As for the fourth dividend to be paid in May 2015, the Board intends to apply the programme, subject to the AGM's approval.

The remuneration for each of the four dividends will be approximately EUR 0.15, making the total for 2014 around EUR 0.60 per share.

Regarding the application of the programme at the dates when the first dividend is normally paid (August 1), each shareholder has received a free allotment of new shares for each share they own. Shareholders can sell the rights to the bank at a set price (EUR 0.152 per right), to the stock market between July 15 and 29 at the market price, or receive new shares in the proportion of one new share for every 49 rights (in the last two cases without withholding tax*).

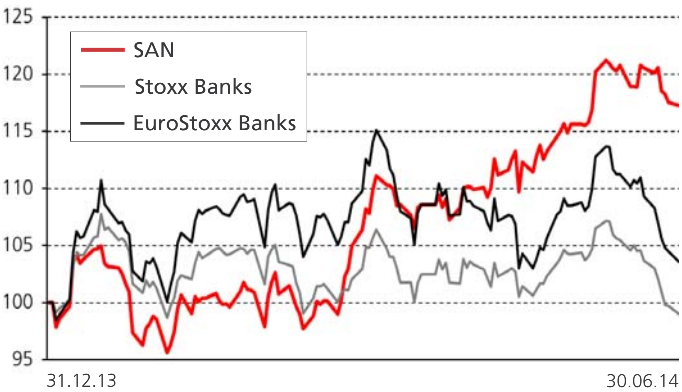
In order to meet the 87.37% request for new shares, a capital increase of EUR 105,005,253 has been carried out (210,010,506 shares).

Performance of the Santander share

Stock markets ended June on highs, following measures introduced that month by the European Central Bank to stimulate the economy, which reduced the risk premiums of the debt of peripheral countries, and the Fed's tapering and subsequent turbulence in the foreign currency markets of emerging economies.

The Santander share ended June at EUR 7.630, 10.2% higher than at the end of March and 55.7% year-on-year. Including the dividend payments, the total shareholder return was 12.6% and 71.3%, respectively. The share's quarterly and year-on-year performance was better than that of the Ibex-35, the DJ Stoxx 50 and DJ Stoxx Banks.

COMPARATIVE PERFORMANCE OF SHARE PRICES
December 31, 2013 to June 30, 2014



Capitalisation

At the end of June, Santander was the largest bank in the Eurozone by market capitalisation (EUR 89,867) and the 10th in the world. The share's weighting in the DJ Stoxx 50 was 2.8%, 9.7% in the DJ Stoxx Banks and 18.3% in the Ibex 35.

Trading

Shares traded in the first half amounted to 8,414 million, for an effective value of EUR 58,404 million (liquidity ratio of 73%) and one of the highest in EuroStoxx. A daily average of 67.3 million shares were traded for an effective amount of EUR 467 million.

Shareholder base

The total number of shareholders at the end of June was 3,279,897, of which 3,028,201 are European (86.60% of the capital stock) and 235,262 from the Americas (13.02%).

(*) The options, maturities and procedures indicated can present special features for shareholders holding Santander shares in the various foreign stock markets where the Bank is listed. Also, the taxation of the various options can have specific features depending on the shareholder's personal circumstances.

THE SANTANDER SHARE

Shareholders and trading data	
Shareholders (number)	3,279,897
Shares (number)	11,778,080,624
Average daily turnover (no. of shares)	67,311,457
Share liquidity (%) (Number of shares traded during the year / number of shares)	73

Remuneration per share	euros
Santander Dividendo Elección (Aug.13)	0.15
Santander Dividendo Elección (Nov.13)	0.15
Santander Dividendo Elección (Feb.14)	0.15
Santander Dividendo Elección (May.14)	0.15
Santander Dividendo Elección (Aug.14)	0.15

Price movements during the year	
Beginning (31.12.13)	6.506
Highest	7.926
Lowest	6.201
Last (30.06.14)	7.630
Market capitalisation (millions) (30.06.14)	89,867

Stock market indicators	
Price / Book value (X)	1.03
P/E ratio (X)	16.20
Yield* (%)	8.70

(*).- Last three remunerations paid + one announced / 1H'14 average share price

CAPITAL STOCK OWNERSHIP

June 2014	Shares	%
The Board of Directors	181,925,747	1.54
Institutional investors	6,127,508,232	52.02
Individuals	5,468,646,645	46.44
Total	**11,778,080,624**	**100.00**

Description of the segments

Grupo Santander is maintaining in 2014 the general criteria applied in 2013, as well as the business segments with the following exceptions:

1) In the Group's financial statements:

- Some corporate operations recently carried out by the Group involve changes in the consolidation method. On the one hand, taking control of Santander Consumer USA (SCUSA) in 2014 meant changing to consolidation by global integration instead of by the equity accounted method, and, on the other, the loss of control of asset management companies sold at the end of 2013 meant consolidating by the equity accounted method instead of by global integration. Pro-forma information is provided with the Group's financial statements for previous periods, modified in order to facilitate comparisons as if these changes had been effective in the compared periods presented.

2) In geographic businesses by restructuring:

- The area for the United States includes Santander Bank, Santander Consumer USA, which as indicated, now consolidates by global integration, and Puerto Rico, which was previously included in Latin America.
- The sold units of Santander Asset Management consolidate by the equity accounted method, as commented, in the various countries.

3) Other adjustments:

- Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Global Banking and Markets. This change has no impact on the principal segments (or geographic).
- The Asset Management and Insurance area is now called Private Banking, Asset Management and Insurance. As regards the figures published in 2013, the domestic private banking units of Spain, Portugal, Italy, Brazil, Mexico and Chile are incorporated (management shared with local banks). Santander Private Banking in Latin America is also included.

For comparison purposes, the figures of previous periods of the principal and secondary segments have been re-expressed to include the changes in the affected areas.

The financial statements of each business segment have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the units in each segment as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

The operating business areas are structured into two levels:

Principal level (or geographic). Geographical areas segment the activity of the Group's operating units. This coincides with the Group's first level of management and reflects Santander positioning in the world's three main currency areas (euro, sterling and dollar). The segments reported on are:

- **Continental Europe.** This covers all retail banking business, wholesale banking, and private banking and asset management and insurance conducted in this region, as well as the unit of run-off real estate activity in Spain. Detailed financial information is provided on Spain, Portugal, Poland and Santander Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith).
- **United Kingdom.** This includes retail and wholesale banking, and private banking asset management and insurance conducted by the Group's various units and branches in the country.
- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries. It also includes the specialised units of Santander Private Banking, as an independent and globally managed unit, and New York's business. The financial statements of Brazil, Mexico and Chile are also provided.
- **United States.** Includes the businesses of Santander Bank, Santander Consumer USA and Puerto Rico.

Secondary level (or business). This segments the activity of the operating units by type of business. The segments are: retail banking, wholesale banking, private banking, asset management and insurance and the unit of run-off real estate activity in Spain.

- **Retail Banking.** This covers all customer banking businesses, (except those of private banking and corporate banking, managed through the Global Customer Relationship Model). Because of their relative importance, details are also provided by the main geographic areas (Continental Europe, United Kingdom, Latin America and the United States). The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.
- **Global Wholesale Banking** (GBM). This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally, both trading and distribution to customers (always after the appropriate distribution with Retail Banking customers), as well as equities business.
- **Private Banking, Asset Management and Insurance.** This includes the contribution to the Group for the design and management of mutual and pension funds and insurance, conducted in some cases via wholly-owned units and in other via units in which the Group participates through joint ventures with specialists. In both cases, the units remunerate the distribution networks used to place these products (basically the Group's, though not exclusively) via agreements. This means that the result recorded in this segment is net for each of the units included, in accordance with their participation and consolidation method, (i.e. deducting the distribution cost of sharing agreements from gross income). It also includes private banking business as defined above.

As well as these operating units, which cover everything by geographic area and by businesses, the Group continues to maintain the area of **Corporate Activities**. This area incorporates the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position and of the parent bank's structural interest rate risk, as well as management of liquidity and of shareholders' equity through issues and securitisations.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity. It also incorporates amortisation of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

The figures of the Group's units have been drawn up in accordance with these criteria, and so might not coincide with those published individually by each unit.

NET OPERATING INCOME (EUR million)

		o/ 1Q'14			o/ 1H'13	
	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Continental Europe	**1,673**	**5.3**	**5.2**	**3,263**	**6.5**	**6.8**
o/w: Spain	909	1.2	1.2	1,807	7.4	7.4
Portugal	116	9.5	9.5	222	1.7	1.7
Poland	205	9.3	8.9	393	11.0	11.0
Santander Consumer Finance	470	8.3	8.3	904	5.3	5.3
United Kingdom	**654**	**3.0**	**1.4**	**1,290**	**22.7**	**18.4**
Latin America	**2,802**	**6.2**	**2.5**	**5,440**	**(18.2)**	**(3.2)**
o/w: Brazil	1,791	4.2	(1.7)	3,509	(24.0)	(10.2)
Mexico	463	13.9	12.1	870	(9.6)	(1.3)
Chile	341	2.7	3.3	672	6.2	28.1
USA	**886**	**6.7**	**6.9**	**1,716**	**17.4**	**22.5**
Operating areas	**6,016**	**5.7**	**3.7**	**11,708**	**(4.2)**	**4.9**
Corporate Activities	(434)	4.3	3.1	(850)	4.6	4.6
Total Group	**5,582**	**5.8**	**3.7**	**10,858**	**(4.9)**	**4.9**

ATTRIBUTABLE PROFIT (EUR million)

Continental Europe	**499**	**7.8**	**7.6**	**962**	**74.7**	**76.2**
o/w: Spain	261	3.8	3.8	513	78.8	78.8
Portugal	39	9.6	9.6	74	62.6	62.6
Poland	88	3.5	3.1	173	7.0	7.0
Santander Consumer Finance	237	8.6	8.6	456	21.0	21.0
United Kingdom	**399**	**6.3**	**4.6**	**775**	**59.1**	**53.6**
Latin America	**800**	**12.4**	**9.6**	**1,512**	**(16.2)**	**(0.7)**
o/w: Brazil	395	8.5	2.6	758	(17.5)	(2.5)
Mexico	169	22.2	20.3	307	(30.4)	(24.0)
Chile	132	7.6	8.2	255	27.1	53.3
USA	**199**	**25.7**	**25.8**	**356**	**(25.1)**	**(21.8)**
Operating areas	**1,897**	**11.1**	**9.5**	**3,605**	**8.7**	**19.0**
Corporate Activities	(444)	9.4	—	(849)	(20.1)	(20.1)
Total Group	**1,453**	**11.6**	**9.5**	**2,756**	**22.2**	**40.1**

CUSTOMER LOANS (EUR million)

Continental Europe	**267,071**	**0.7**	**0.7**	**267,071**	**(4.1)**	**(4.2)**
o/w: Spain	159,264	1.1	1.1	159,264	(7.0)	(7.0)
Portugal	24,111	(0.5)	(0.5)	24,111	(4.4)	(4.4)
Poland	17,064	2.0	1.6	17,064	6.8	2.3
Santander Consumer Finance	58,058	1.1	1.1	58,058	3.7	3.7
United Kingdom	**239,237**	**2.3**	**(1.0)**	**239,237**	**0.4**	**(6.1)**
Latin America	**136,325**	**5.1**	**2.2**	**136,325**	**0.3**	**8.0**
o/w: Brazil	71,475	4.3	0.1	71,475	0.3	4.1
Mexico	24,516	9.5	7.7	24,516	9.3	13.6
Chile	28,701	2.5	1.4	28,701	(4.6)	8.7
USA	**60,006**	**1.6**	**0.6**	**60,006**	**2.2**	**6.7**
Operating areas	**702,640**	**2.1**	**0.4**	**702,640**	**(1.2)**	**(1.9)**
Total Group	**706,899**	**1.8**	**0.1**	**706,899**	**(1.1)**	**(1.8)**

CUSTOMER DEPOSITS (EUR million)

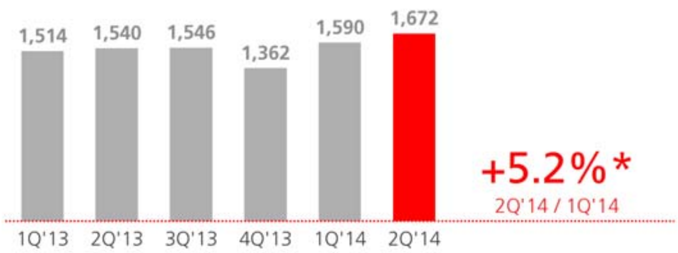
Continental Europe	**254,985**	**(1.2)**	**(1.2)**	**254,985**	**(4.7)**	**(4.9)**
o/w: Spain	181,065	(1.2)	(1.2)	181,065	(6.8)	(6.8)
Portugal	23,253	(1.4)	(1.4)	23,253	(1.4)	(1.4)
Poland	18,325	(2.5)	(2.9)	18,325	10.4	5.8
Santander Consumer Finance	30,736	0.4	0.4	30,736	(0.8)	(0.8)
United Kingdom	**193,431**	**(0.8)**	**(4.0)**	**193,431**	**(1.3)**	**(7.7)**
Latin America	**127,903**	**1.3**	**(1.4)**	**127,903**	**(3.3)**	**4.0**
o/w: Brazil	68,450	3.8	(0.4)	68,450	(1.1)	2.7
Mexico	24,803	(3.1)	(4.7)	24,803	(6.4)	(2.7)
Chile	19,929	(2.5)	(3.6)	19,929	(9.3)	3.4
USA	**39,878**	**0.8**	**(0.1)**	**39,878**	**(4.2)**	**0.0**
Operating areas	**616,197**	**(0.4)**	**(2.1)**	**616,197**	**(3.3)**	**(3.8)**
Total Group	**617,761**	**(0.4)**	**(2.0)**	**617,761**	**(4.2)**	**(4.7)**

CONTINENTAL EUROPE (EUR million)

		o/ 1Q'14			o/ 1H'13	
INCOME STATEMENT	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Net interest income	**2,188**	**4.5**	**4.4**	**4,282**	**5.4**	**5.8**
Net fees	889	1.0	0.9	1,769	0.2	0.2
Gains (losses) on financial transactions	63	(73.0)	(73.0)	296	(25.2)	(25.2)
Other operating income*	116	—	—	106	(4.3)	(4.2)
Gross income	**3,256**	**1.9**	**1.8**	**6,452**	**1.9**	**2.1**
Operating expenses	(1,582)	(1.5)	(1.6)	(3,189)	(2.5)	(2.3)
General administrative expenses	(1,413)	(0.3)	(0.4)	(2,830)	(2.7)	(2.5)
Personnel	*(829)*	*(1.4)*	*(1.5)*	*(1,669)*	*(5.3)*	*(5.1)*
Other general administrative expenses	*(584)*	*1.3*	*1.2*	*(1,161)*	*1.3*	*1.5*
Depreciation and amortisation	(170)	(10.3)	(10.4)	(359)	(0.9)	(0.7)
Net operating income	**1,673**	**5.3**	**5.2**	**3,263**	**6.5**	**6.8**
Net loan-loss provisions	(770)	(2.6)	(2.7)	(1,561)	(17.6)	(17.5)
Other income	(196)	29.4	29.3	(348)	(10.1)	(10.1)
Profit before taxes	**707**	**9.3**	**9.1**	**1,354**	**73.1**	**74.5**
Tax on profit	(171)	15.8	15.6	(318)	97.5	99.5
Profit from continuing operations	**536**	**7.4**	**7.2**	**1,036**	**66.8**	**68.0**
Net profit from discontinued operations	(0)	2.5	1.9	(0)	108.1	115.8
Consolidated profit	**536**	**7.4**	**7.2**	**1,036**	**66.8**	**68.0**
Minority interests	37	2.3	1.9	74	4.7	4.7
Attributable profit to the Group	**499**	**7.8**	**7.6**	**962**	**74.7**	**76.2**
BALANCE SHEET						
Customer loans**	267,071	0.7	0.7	267,071	(4.1)	(4.2)
Trading portfolio (w/o loans)	59,106	6.1	6.0	59,106	(24.3)	(24.3)
Available-for-sale financial assets	40,818	2.1	2.1	40,818	(7.6)	(8.1)
Due from credit institutions**	53,500	(3.0)	(3.0)	53,500	(3.9)	(3.9)
Intangible assets and property and equipment	5,500	(5.2)	(5.2)	5,500	(9.8)	(9.9)
Other assets	27,596	(10.9)	(11.0)	27,596	17.3	17.1
Total assets/liabilities & shareholders' equity	**453,591**	**0.2**	**0.2**	**453,591**	**(6.7)**	**(6.8)**
Customer deposits**	254,985	(1.2)	(1.2)	254,985	(4.7)	(4.9)
Marketable debt securities**	18,761	18.9	19.2	18,761	10.9	11.4
Subordinated debt**	409	0.6	0.3	409	17.1	12.5
Insurance liabilities	1,602	3.5	3.5	1,602	46.9	46.9
Due to credit institutions**	70,234	5.3	5.4	70,234	3.3	3.6
Other liabilities	82,307	(2.6)	(2.7)	82,307	(22.8)	(22.9)
Shareholders' equity***	25,292	(2.1)	(2.1)	25,292	(1.2)	(1.4)
Other managed and marketed customer funds	**62,125**	**6.3**	**6.3**	**62,125**	**25.1**	**24.8**
Mutual and pension funds	55,098	6.2	6.2	55,098	27.5	27.1
Managed portfolios	7,027	6.9	6.9	7,027	9.2	9.1
Managed and marketed customer funds	**336,280**	**1.1**	**1.1**	**336,280**	**0.6**	**0.3**
RATIOS (%) Y OPERATING MEANS						
ROE	7.84	0.58 p.		7.57	3.37 p.	
Efficiency ratio (with amortisations)	48.6	(1.7 p.)		49.4	(2.2 p.)	
NPL ratio	9.04	(0.08 p.)		9.04	1.21 p.	
NPL coverage	58.3	0.3 p.		58.3	(5.0 p.)	
Number of employees	56,297	(1.6)		56,297	(6.8)	
Number of branches	5,638	(6.8)		5,638	(16.8)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million



(*) In euros: +5.3%

ATTRIBUTABLE PROFIT
Constant EUR million

(*) In euros: +7.8%

CONTINENTAL EUROPE

→ **Attributable profit of EUR 499 million,** 7.8% more than the first quarter, due to higher net interest income and control of costs.

→ **Profit was 74.7% higher than in the first half of 2013** thanks to the good performance of all the main lines of the income statement:

- Gross income rose 1.9%, mainly due to net interest income (+5.4%).
- Operating expenses were 2.5% lower, with falls in Spain, Portugal and Poland.
- Loan-loss provisions declined 17.6%, and in all units.

→ **Growth strategy** focused on more lending in an environment of still low demand and on reducing the cost of funds.

Continental Europe includes all activities carried out in this zone: retail banking, global wholesale banking, private banking, asset management and insurance, as well as Spain's run-off real estate activity.

Strategy

The development of the mergers of retail networks in Spain and of the banks in Poland continued in the second quarter. In addition, in a more favourable but still weak environment with low interest rates, the general strategic lines of the last few years were maintained:

- Defending spreads on loans and on deposits.
- Given the comfortable liquidity position, the policy of reducing the cost of deposits in all the area's units continued.
- Control of costs and exploiting synergies.
- Active risk management

Measures to spur lending in those segments regarded as strategic, especially SMEs, were also continued

Activity

Customer lending excluding repos was 1% higher in the second quarter, due to Spain, Poland, and Santander Consumer Finance (SCF). Over June 2013 it declined 3%, reflecting the ongoing deleveraging in Spain and Portugal. Poland and Santander Consumer Finance registered growth.

The evolution of deposits excluding repos (-4% year-on-year) reflected the policy of reducing their cost and the greater marketing of mutual funds (+33%). Pension funds increased 11%. Mutual funds continued to grow strongly (+7% over March 2014), while deposits excluding repos were 1% lower.

Results

Attributable profit was EUR 499 million in the **second quarter**, 7.8% more than in the first quarter.

The increase was mainly due to the most commercial components (net interest income and fee income rose 4.5% and 1.0%, respectively). Of the rest of revenues, lower trading gains were offset partly by higher dividend income, in both cases in Spain.

This growth fed through to profits to a large extent, as costs and provisions remained basically flat.

As regards the first half of 2013, the comparison was favourable for the main items of the income statement.

Gross income increased 1.9%, spurred by net interest income (+5.4%), which already benefited from the lower cost of deposits in all units. Fee income, on the other hand, remained virtually unchanged (+0.2%), as the comparison was affected by the incorporation of clients from Banesto to the *Queremos ser tu Banco* programme.

Operating expenses declined 2.5%, due to Spain, Portugal and Poland.

Net operating income was 6.5% higher and the efficiency ratio improved by 2.2 p.p.

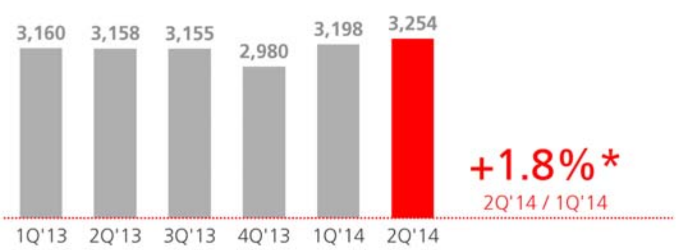
Loan-loss provisions were 17.6% lower, with falls in all units.

Net operating income after provisions increased 45.6% to EUR 1,702 million and attributable profit was 74.7% higher.

ACTIVITY PERFORMANCE (% w/o FX)

(*) Customer deposits + mutual funds

GROSS INCOME
Constant EUR million



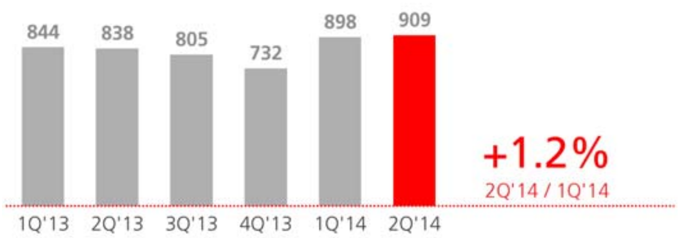
(*) In euros: +1.9%

SPAIN (EUR million)

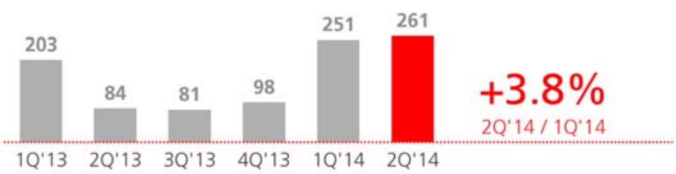
INCOME STATEMENT	2Q'14	% o/ 1Q'14	1H'14	%o/ 1H'13
Net interest income	**1,193**	**4.1**	**2,339**	**6.7**
Net fees	469	3.0	925	(4.3)
Gains (losses) on financial transactions	29	(85.8)	234	(22.4)
Other operating income*	91	—	76	(35.6)
Gross income	**1,782**	**(0.5)**	**3,574**	**(0.1)**
Operating expenses	(873)	(2.3)	(1,767)	(6.7)
General administrative expenses	(787)	(1.7)	(1,588)	(7.3)
Personnel	*(488)*	*(2.2)*	*(986)*	*(8.7)*
Other general administrative expenses	*(300)*	*(0.7)*	*(602)*	*(4.8)*
Depreciation and amortisation	(86)	(7.8)	(179)	(1.8)
Net operating income	**909**	**1.2**	**1,807**	**7.4**
Net loan-loss provisions	(488)	(3.8)	(995)	(17.4)
Other income	(51)	52.6	(84)	28.9
Profit before taxes	**370**	**3.5**	**728**	**76.6**
Tax on profit	(110)	5.0	(214)	72.4
Profit from continuing operations	**261**	**2.9**	**514**	**78.4**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**261**	**2.9**	**514**	**78.4**
Minority interests	(0)	—	2	4.2
Attributable profit to the Group	**261**	**3.8**	**513**	**78.8**
BALANCE SHEET				
Customer loans**	159,264	1.1	159,264	(7.0)
Trading portfolio (w/o loans)	56,119	8.7	56,119	(20.5)
Available-for-sale financial assets	28,230	4.8	28,230	(14.2)
Due from credit institutions**	35,178	(5.7)	35,178	(4.8)
Intangible assets and property and equipment	3,600	(6.6)	3,600	(9.9)
Other assets	9,936	(28.9)	9,936	21.6
Total assets/liabilities & shareholders' equity	**292,328**	**0.4**	**292,328**	**(9.7)**
Customer deposits**	181,065	(1.2)	181,065	(6.8)
Marketable debt securities**	1,327	(39.6)	1,327	(82.2)
Subordinated debt**	8	2.0	8	6.5
Insurance liabilities	526	(4.4)	526	10.7
Due to credit institutions**	31,736	22.8	31,736	38.4
Other liabilities	66,570	(2.2)	66,570	(23.5)
Shareholders' equity***	11,095	(1.4)	11,095	(4.0)
Other managed and marketed customer funds	**55,383**	**6.6**	**55,383**	**31.5**
Mutual and pension funds	49,216	6.5	49,216	30.6
Managed portfolios	6,167	7.2	6,167	39.7
Managed and marketed customer funds	**237,783**	**0.2**	**237,783**	**(2.5)**
RATIOS (%) Y OPERATING MEANS				
ROE	9.41	0.41 p.	9.22	4.42 p.
Efficiency ratio (with amortisations)	49.0	(0.9 p.)	49.4	(3.5 p.)
NPL ratio	7.59	(0.02 p.)	7.59	1.84 p.
NPL coverage	44.9	0.3 p.	44.9	1.8 p.
Number of employees	25,465	(3.3)	25,465	(11.8)
Number of branches	3,609	(9.8)	3,609	(21.7)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
EUR million



ATTRIBUTABLE PROFIT
EUR million



■ SPAIN

- **Attributable profit of EUR 261 million** in the second quarter, 3.8% more than the first quarter due to higher commercial revenues and lower costs and provisions.

- With regard to the **first half of 2013,** profit was 78.8% higher:
  - Growth in net interest income (+6.7%), reflecting the lower cost of deposits.
  - Drop of 6.7% in costs, due to synergies from the merger.
- Loan-loss provisions declined 17.4%, due to improved credit quality.

- **Activity**:
  - Higher **new lending** year-on-year and further rise in the second quarter (+EUR 2,803 million).
  - **Deposits plus mutual funds** reflected the strategy of reducing the cost of funds. They were flat quarter-on-quarter and year-on-year

Economic and financial environment

The units in Spain conducted their business in a more positive environment thanks to the consolidation of the recovery and more "normal" financial conditions.

The faster pace of GDP growth at the beginning of the year seemed to continue in the second quarter, the fourth consecutive quarterly growth, and was increasingly driven by domestic demand (consumption and investment). Net job creation, according to Social Security affiliation, and household and company confidence at pre-crisis levels were behind the better outlook.

Stable inflation at around 0% and falling labour costs spurred exports, tourism is enjoying another bumper year and the service sector is growing. The spurt in imports from stronger domestic demand reduced the current account surplus.

Financial conditions continued to improve, underscored by the lower sovereign risk premium, inflows of foreign direct investment and the results of bank loan surveys. The stimulus measures adopted in June by the European Central Bank in the form of lower interest rates and, above all, injections of long-term liquidity conditional on increased lending to the private sector also helped. This, in turn, will impact spreads.

All this is reflected in growth in new loans to the sector (+18% year-on-year in May to households; +26% in consumer credit; +5% in loans of less than EUR 1 million to SMEs), although still not in the stock.

The balance of doubtful loans has been steadily declining since January, which will lead to lower NPL ratios once the balance of lending stabilizes.

Strategy

Grupo Santander has a solid presence (3,609 branches, 4,980 ATMs and more than 13 million customers), which is reinforced with global businesses in key products and segments (wholesale banking, private banking, asset management, insurance and cards).

The integration of the networks of Santander and Banesto was completed in the second quarter, progress was made in the streamlining of branches and in the integration of the Banif network. This optimization of branches and head count is bringing forward cost synergies, improving efficiency and profitability.

Of note was the business drive of the *Santander Advance* strategy. The Bank aims to become the reference in growth of SMEs through financial support and commitment to their development.

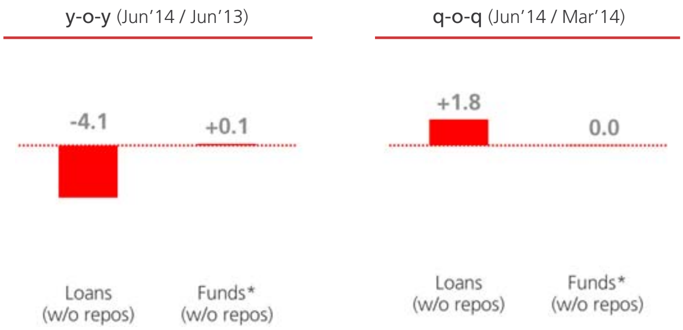
New lending in its first two months amounted to EUR 4,000 million and 9,000 SMEs and micro companies were captured as clients. More than 3,000 SMEs participated in non-financial activities including on the spot training, workshops, remote, etc. as well as international business promotion (virtual connection of more than 200 companies with potential clients in Mexico and Poland).

In the segment for individual customers, a new push was given to the *Queremos ser tu Banco* plan in order to keep on increasing linkage. Greater benefits have been introduced for those clients with the highest levels of linkage.

In funds, the Bank maintained its strategy of optimizing their cost begun in the middle of 2013, once high levels of liquidity were achieved. The net loan-to-deposit ratio in June was 87%.

This is making it possible to sharply reduce the cost of funds, particularly of time deposits, and increase fee income from the marketing of mutual funds. In this segment, the Bank is positioned in high value funds for clients, which is enabling it to be the leader in net capturing and keep on increasing its market share (+2 p.p. in the last 12 months).

■ ACTIVITY PERFORMANCE (%)



(*) Customer deposits + mutual funds

Santander

Activity

Stronger lending in the second quarter, which is beginning to be reflected in balances. Gross customer loans excluding repos increased for the second consecutive quarter (+EUR 2,803 million more than March; +2%), but still lower year-on-year (-4%).

New lending was stronger to individuals (mortgages: +62% more than in the first half of 2013; consumer credit: +40%) as well as to companies (+30% excluding commercial bills). Of note was the 34% increase to SMEs.

Customer deposits (excluding repos) declined 5% year-on-year (-2% over March 2014). Demand deposits were up 4% and time deposits down 15%.

This evolution reflected the strategy of reducing the cost, which is enabling net interest income to recover on a sustained basis. There was a further improvement of 16 b.p. in the cost of new time deposits (-79 b.p. in the last 12 months), which reduced the cost of the stock of deposits by 70 b.p. year-on-year.

Deposits shifted into mutual funds. Mutual funds managed and marketed by Santander Spain increased 37% year-on-year and by 8% quarter-on-quarter. This was due to the greater demand for these products and the better evolution of markets.

The aggregate of deposits (excluding repos) and mutual funds remained stable in the second quarter and over June 2013. The balance of pension funds was 11% higher than June 2013 and 2% over March 2014.

Repurchase agreements fell by more than EUR 3,000 million in the last 12 months, due to the reduction in clearing house activity. Retail commercial paper also declined (balance of less than EUR 1,500 million).

Results

Net interest income in the **second quarter** was 4.1% higher than in the first at EUR 1,193 million. This was the third consecutive quarter of improvement and was due to the good performance of the cost of funds, the improvement in the return on mortgages due to the end of their repricing and the beginning of a recovery in lending.

Fee income increased 3.0% to EUR 469 million.

Trading gains fell to EUR 29 million in the second quarter, due to the seasonal nature of wholesale activity (greater business in the first quarter and higher collection of dividends in the second).

Operating expenses continued to decline (-2.3% over March 2014).

Loan-loss provisions continued to normalize and amounted to EUR 488 million, 3.8% lower than in the first quarter.

Attributable profit was EUR 261 million, up from EUR 251 million in the first quarter (+3.8%).

Profit was much higher **than in the first half of 2013**, due to improved commercial revenues, costs and provisions.

Gross income was flat over the first quarter (-0.1%). Net interest income rose 6.7%, mainly due to the lower costs of funds.

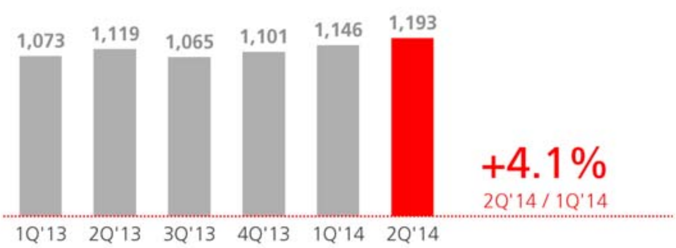
The 4.3% fall in net fee income was partly due to the incorporation of Banesto clients to the *Queremos ser tu Banco* programme, while trading gains fell 22.4% because of reduced revenues from wholesale activity.

Operating expenses declined 6.7%, reflecting the synergies of the integration, and provisions were down 17.4%, within the process of returning to normal levels.

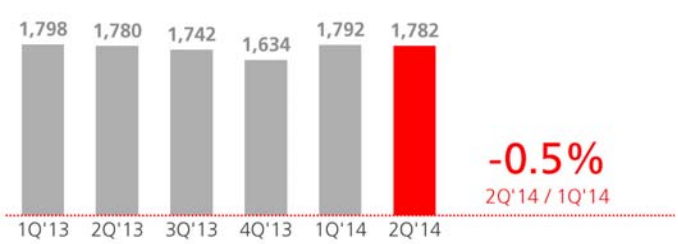
The NPL ratio stood at 7.59%, and remained stable in the last two quarters (2 b.p. below the first quarter). Coverage was 45%.

Net operating income after provisions was 70.1% higher and fully fed through to profits (+78.8% y-o-y).

NET INTEREST INCOME
EUR million



GROSS INCOME
EUR million



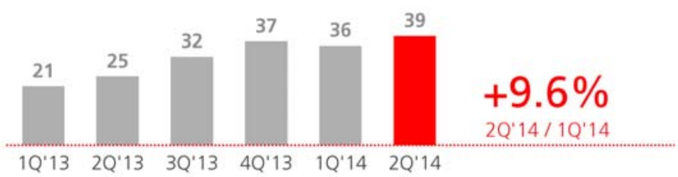
PORTUGAL (EUR million)

INCOME STATEMENT	2Q'14	% o/ 1Q'14	1H'14	%o/ 1H'13
Net interest income	**138**	**7.1**	**267**	**6.3**
Net fees	66	(8.8)	139	(19.0)
Gains (losses) on financial transactions	22	20.2	40	33.9
Other operating income*	11	32.4	20	63.9
Gross income	**237**	**4.0**	**465**	**0.2**
Operating expenses	(121)	(0.7)	(243)	(1.1)
General administrative expenses	(104)	1.3	(207)	0.2
Personnel	*(73)*	*0.3*	*(146)*	*(1.9)*
Other general administrative expenses	*(31)*	*3.8*	*(60)*	*5.7*
Depreciation and amortisation	(17)	(11.6)	(37)	(8.0)
Net operating income	**116**	**9.5**	**222**	**1.7**
Net loan-loss provisions	(40)	18.7	(75)	(40.8)
Other income	(29)	(3.2)	(59)	97.7
Profit before taxes	**47**	**11.1**	**89**	**41.3**
Tax on profit	(9)	5.3	(18)	8.7
Profit from continuing operations	**37**	**12.7**	**70**	**53.3**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**37**	**12.7**	**70**	**53.3**
Minority interests	(2)	(32.2)	(4)	—
Attributable profit to the Group	**39**	**9.6**	**74**	**62.6**
BALANCE SHEET				
Customer loans**	24,111	(0.5)	24,111	(4.4)
Trading portfolio (w/o loans)	1,880	(0.2)	1,880	4.8
Available-for-sale financial assets	7,119	6.1	7,119	44.3
Due from credit institutions**	2,491	(1.9)	2,491	(30.1)
Intangible assets and property and equipment	763	(4.7)	763	(15.8)
Other assets	6,276	8.0	6,276	7.7
Total assets/liabilities & shareholders' equity	**42,640**	**1.6**	**42,640**	**0.9**
Customer deposits**	23,253	(1.4)	23,253	(1.4)
Marketable debt securities**	3,811	69.6	3,811	59.1
Subordinated debt**	0	79.1	0	57.2
Insurance liabilities	80	0.9	80	(8.0)
Due to credit institutions**	12,271	(5.0)	12,271	(8.0)
Other liabilities	641	27.9	641	116.6
Shareholders' equity***	2,583	(2.8)	2,583	1.4
Other managed and marketed customer funds	**2,396**	**7.6**	**2,396**	**11.0**
Mutual and pension funds	2,174	6.2	2,174	6.1
Managed portfolios	222	23.7	222	103.3
Managed and marketed customer funds	**29,460**	**5.0**	**29,460**	**4.7**
RATIOS (%) Y OPERATING MEANS				
ROE	5.95	0.56 p.	5.67	2.07 p.
Efficiency ratio (with amortisations)	51.0	(2.5 p.)	52.2	(0.7 p.)
NPL ratio	8.16	(0.10 p.)	8.16	0.75 p.
NPL coverage	53.1	2.5 p.	53.1	0.7 p.
Number of employees	5,515	0.1	5,515	(1.7)
Number of branches	626	(1.1)	626	(3.8)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
EUR million

ATTRIBUTABLE PROFIT
EUR million



Santander

PORTUGAL

- **Attributable profit of EUR 39 million,** 9.6% more than the first quarter due to higher net operating income (+9.5%) backed by higher gross income and control of costs.

- **Profit was 62.6% higher than in the first half of 2013,** backed by:
  - Increase of 6.3% in net interest income thanks to the improvement in the cost of funding.
  - Fall in costs (-1.1%) and in provisions (-40.8%), continuing the trends of previous quarters.

- The net loan-to-deposit ratio improved to 104%.

Santander Totta is the country's third largest bank by assets and focuses on retail banking, It has 626 branches, two million customers and a 10% market share.

Economic environment

The economy continued to improve moderately in terms of domestic demand, especially investment. The labour market reflects the upturn: the jobless rate of 15.1% is 2.4 points less than in March 2013.

The stronger domestic demand is having a positive impact on public accounts thanks to the rise in tax receipts, particularly income tax and VAT. There are risks, however, associated with the impact of the decisions of the Constitutional Court as it struck down wage reductions and still has to decide on cuts to pensions. If the government does not take measures to compensate the impact on the budget deficit, it will be 0.5 percentage points of GDP, which is not a very significant risk.

The economic and financial adjustment programme is over. The government has been able to finance itself long term in the last few months in the markets at lower interest rates. The 10-year euro government bond yield at the last auction was 3.25%.

Strategy

Santander Totta's strategy remained very focused on increasing profitability. Managing net interest income and non-performing loans continue to be the critical objectives, as well as increasing market share.

Activity

At the end of June the CRD IV/CRR CET1 ratio was 14.7%, well above the minimum requirement (8%). The Bank returned to the international markets in the first half, with two issues of covered bonds. The first one in April was EUR 1,000 million at three years and the second, in June, EUR 750 million at five years. Demand for the issues was strong, and the Bank reduced its exposure to the European Central Bank.

Deposits excluding repos declined 4% year-on-year, due to the strategy of improving the cost. Lending fell 4% in a deleveraging environment, producing a market share gain of 25 b.p. in 12 months, both in companies and individual customers. The net loan-to-deposit ratio was 104% in June 2014.

Net entries of NPLs have been on a downward trend since the second quarter of 2013. The NPL ratio was 8.16% at the end of June, after stabilising in recent months, while coverage was 53%. In local criteria, the NPL and coverage ratios remained significantly better than Portugal's average.

Results

Net interest income in the **second quarter** was the highest of the last seven quarters, which coupled with a good quarter in trading gains produced a 4.0% rise in gross income over the first quarter. Combined with control of costs (-0.7%), net operating income was 9.5% higher than in the first quarter.

Profit was 62.6% higher than in the **first half of 2013** at EUR 74 million, due to higher gross income and lower costs and provisions.

Net interest income rose 6.3% thanks to management of volumes and spreads, fee income dropped 19.0% (partly due to the impact of regulatory measures) and trading gains rose 33.9%.

Operating expenses were 1.1% lower and together with higher gross income improved the efficiency ratio by 0.7 points to 52.2%.

Loan-loss provisions declined 40.8%, due to lower net entries on NPLs over the last 12 months.

ACTIVITY PERFORMANCE (%)

y-o-y (Jun'14 / Jun'13) | q-o-q (Jun'14 / Mar'14)

(*) Customer deposits + mutual funds

GROSS INCOME

EUR million

POLAND (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**217**	**4.7**	**4.3**	**425**	**14.7**	**14.7**
Net fees	111	1.2	0.7	220	11.4	11.4
Gains (losses) on financial transactions	7	(39.8)	(40.1)	18	(71.7)	(71.7)
Other operating income*	18	204.9	204.1	24	25.3	25.3
Gross income	**353**	**5.6**	**5.1**	**687**	**5.5**	**5.5**
Operating expenses	(148)	0.8	0.4	(294)	(1.1)	(1.1)
General administrative expenses	(136)	0.8	0.4	(270)	0.3	0.3
Personnel	*(76)*	*(0.5)*	*(0.9)*	*(153)*	*(3.7)*	*(3.7)*
Other general administrative expenses	*(59)*	*2.5*	*2.1*	*(117)*	*6.1*	*6.1*
Depreciation and amortisation	(12)	0.9	0.5	(24)	(14.4)	(14.4)
Net operating income	**205**	**9.3**	**8.9**	**393**	**11.0**	**11.0**
Net loan-loss provisions	(42)	(2.4)	(2.9)	(85)	(9.1)	(9.1)
Other income	(16)	459.5	458.1	(19)	—	—
Profit before taxes	**147**	**3.9**	**3.4**	**289**	**10.7**	**10.7**
Tax on profit	(28)	3.6	3.1	(54)	12.3	12.3
Profit from continuing operations	**120**	**3.9**	**3.5**	**235**	**10.3**	**10.3**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**120**	**3.9**	**3.5**	**235**	**10.3**	**10.3**
Minority interests	32	5.2	4.7	63	20.6	20.6
Attributable profit to the Group	**88**	**3.5**	**3.1**	**173**	**7.0**	**7.0**
BALANCE SHEET						
Customer loans**	17,064	2.0	1.6	17,064	6.8	2.3
Trading portfolio (w/o loans)	799	(1.3)	(1.6)	799	21.4	16.3
Available-for-sale financial assets	4,214	(17.8)	(18.1)	4,214	(8.3)	(12.1)
Due from credit institutions**	607	(51.7)	(51.8)	607	44.1	38.0
Intangible assets and property and equipment	214	(4.2)	(4.5)	214	(4.0)	(8.0)
Other assets	2,570	12.4	12.0	2,570	105.3	96.7
Total assets/liabilities & shareholders' equity	**25,467**	**(3.6)**	**(4.0)**	**25,467**	**10.1**	**5.5**
Customer deposits**	18,325	(2.5)	(2.9)	18,325	10.4	5.8
Marketable debt securities**	120	(0.6)	(1.0)	120	—	—
Subordinated debt**	336	0.4	0.0	336	1.6	(2.7)
Insurance liabilities	79	(2.3)	(2.7)	79	—	—
Due to credit institutions**	1,562	(29.6)	(29.8)	1,562	(8.8)	(12.6)
Other liabilities	3,111	12.2	11.8	3,111	14.9	10.1
Shareholders' equity***	1,933	(7.9)	(8.2)	1,933	8.0	3.5
Other managed and marketed customer funds	**3,647**	**2.6**	**2.2**	**3,647**	**7.4**	**2.9**
Mutual and pension funds	3,556	2.9	2.6	3,556	8.0	3.5
Managed portfolios	91	(9.7)	(10.0)	91	(11.3)	(15.0)
Managed and marketed customer funds	**22,429**	**(1.7)**	**(2.0)**	**22,429**	**10.4**	**5.8**
RATIOS (%) Y OPERATING MEANS						
ROE	17.79	1.15 p.		17.32	0.54 p.	
Efficiency ratio (with amortisations)	41.8	(2.0 p.)		42.8	(2.8 p.)	
NPL ratio	7.42	0.07 p.		7.42	(0.66 p.)	
NPL coverage	65.3	0.7 p.		65.3	6.0 p.	
Number of employees	12,058	(0.9)		12,058	(3.6)	
Number of branches	817	(1.6)		817	(6.7)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million

(*) In euros: +9.3%

ATTRIBUTABLE PROFIT
Constant EUR million

(*) In euros: +3.5%

Santander

■ POLAND (all changes in local currency)

- **Attributable profit in the second quarter of EUR 88 million,** 3.1% more than the first quarter of 2014.
- **Attributable profit in the first half of EUR 173 million,** 7.0% more year-on-year, due to the good performance of revenues and expenses.
- Solid **funding structure:** net loan-to-deposit ratio of 93%.
- Continuation of *Next Generation Bank,* a strategic programme to become the bank of first choice for customers.

In two years, BZ WBK has become the third largest bank in Poland in terms of loans and deposits (market shares of 7.4% and 8.0% at the end of May, respectively). It has 817 branches and 113 agencies.

The Group's business model in Poland continues to focus on retail banking, coupled with a leading presence in asset management, brokerage of securities, factoring and leasing.

Economic environment

The Polish economy accelerated more than expected at the start of 2014. GDP growth reached 3.4% year-on-year in the first quarter of 2014, fuelled mainly by strong domestic demand. The unemployment rate continue to improve substantially (12.5% in May).

The inflation fell to nearly zero in the second quarter so the central bank kept official interest rates at a record low of 2.5%. The Polish zloty fluctuated over the situation of the markets between 4.09 and 4.21PLN/EUR.

Strategy

The completion of the merger of BZ WBK and Kredyt Bank is one of the main focuses of management. The process is proceeding faster than envisaged, with an effective cost management and a productivity improvement of the former Kredyt Bank branches. The merger is expected to be completed in the third quarter of 2014.

BZ WBK is the market leader in cards, mobile and electronic banking, and continued to offer innovative products and solutions for retail customers as well as for companies. In the second quarter of 2014, *Two Factor System* was launched, rolling-out the financing business for export companies, and also the mobile account *Worth Recommending Account* was launched.

In addition, the bank is continuing the *Next Generation Bank* programme, a model in the development of the bank at all levels, involving the Bank's Management Board, all businesses and products to focus on customers and their satisfaction. The key objective is to become the Bank of first choice for a segmented customer base while operating an optimum operational model taking advantage of synergies.

Activity

At the end of June 2014, a very solid funding structure was maintained with a net loan-to-deposit ratio of 93%. In year-on-year terms, lending (excluding repos) rose 2% and deposits (excluding repos) 6%, in local currency. Over the first quarter, lending grew 3% and deposits dropped 3%, because of time deposits. Volumes will recover parallel to the economy. There are already positive signs in leasing, factoring, current accounts of affluent clients, consumer business and companies (the latter rose 5% year-on-year).

Results

Attributable profit of EUR 88 million in the **second quarter of 2014,** 3.1% more than in the first quarter, backed by a rise in net operating income (+8.9%).

In the second quarter of 2014 gross income rose 5.1%, mainly due to net interest income (+4.3%) and the receipt of dividends that usually occurs in the second quarter of each year. Operating expenses were virtually unchanged (+0.4%), reflecting some increases in administrative expenses related to higher marketing costs.

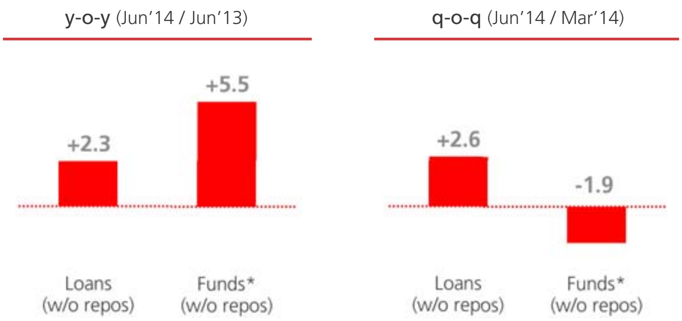
Compared to the first half of 2013, attributable profit was 7.0% higher, impacted by the sharp drop in trading gains, due to the high results obtained in 2013 from interest rates cuts. Excluding this impact, attributable profit rose over 20%.

Of note was the growth in total commercial revenues which were 13.5% higher year-on-year, backed by net interest income (+14.7%), underscored by good management of spreads, mainly on funding. Net fee income rose 11.4%, with notable growth in that from higher credit fees (commercial credit), higher insurance fees and higher transaction volumes.

The higher commercial revenues were partially offset by the lower trading gains (-71.7%).

Operating expenses were 1.1% lower due to the synergies obtained. Loan-loss provisions decreased 9.1% in a better economic environment which allowed a further reduction in the NPL ratio to 7.42% in June (8.08% in June 2013). Coverage was 65%.

■ ACTIVITY PERFORMANCE (% w/o FX)



(*) Customer deposits + mutual funds

■ GROSS INCOME

Constant EUR million

(*) In euros: +5.6%

SANTANDER CONSUMER FINANCE (EUR million)

INCOME STATEMENT	2Q'14	% o/ 1Q'14	1H'14	%o/ 1H'13
Net interest income	**612**	**5.4**	**1,192**	**2.0**
Net fees	211	(4.0)	430	10.5
Gains (losses) on financial transactions	1	242.0	1	—
Other operating income*	4	—	3	—
Gross income	**827**	**3.4**	**1,626**	**4.9**
Operating expenses	(357)	(2.4)	(722)	4.3
General administrative expenses	(307)	0.5	(612)	4.0
Personnel	*(163)*	*(0.7)*	*(327)*	*1.9*
Other general administrative expenses	*(144)*	*1.9*	*(285)*	*6.5*
Depreciation and amortisation	(50)	(17.3)	(110)	6.2
Net operating income	**470**	**8.3**	**904**	**5.3**
Net loan-loss provisions	(123)	(5.2)	(252)	(16.5)
Other income	(17)	26.2	(31)	(38.3)
Profit before taxes	**330**	**13.5**	**621**	**22.6**
Tax on profit	(85)	30.0	(151)	34.1
Profit from continuing operations	**245**	**8.7**	**470**	**19.3**
Net profit from discontinued operations	(0)	2.5	(0)	108.1
Consolidated profit	**245**	**8.7**	**470**	**19.3**
Minority interests	7	10.8	14	(19.4)
Attributable profit to the Group	**237**	**8.6**	**456**	**21.0**

BALANCE SHEET				
Customer loans**	58,058	1.1	58,058	3.7
Trading portfolio (w/o loans)	270	(69.3)	270	(70.8)
Available-for-sale financial assets	591	23.7	591	(2.5)
Due from credit institutions**	6,528	(9.9)	6,528	(5.8)
Intangible assets and property and equipment	795	(12.9)	795	(17.6)
Other assets	3,073	(2.9)	3,073	18.4
Total assets/liabilities & shareholders' equity	**69,315**	**(1.1)**	**69,315**	**1.9**
Customer deposits**	30,736	0.4	30,736	(0.8)
Marketable debt securities**	13,503	20.4	13,503	91.7
Subordinated debt**	65	1.2	65	505.4
Insurance liabilities	—	—	—	—
Due to credit institutions**	13,772	(17.0)	13,772	(26.2)
Other liabilities	3,378	(9.0)	3,378	(8.6)
Shareholders' equity***	7,861	(0.6)	7,861	3.2
Other managed and marketed customer funds	**7**	**3.0**	**7**	**9.8**
Mutual and pension funds	7	3.0	7	9.8
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**44,310**	**5.8**	**44,310**	**16.5**

RATIOS (%) Y OPERATING MEANS				
ROE	12.05	0.73 p.	11.71	1.98 p.
Efficiency ratio (with amortisations)	43.1	(2.6 p.)	44.4	(0.2 p.)
NPL ratio	4.07	(0.07 p.)	4.07	0.03 p.
NPL coverage	105.2	0.1 p.	105.2	(1.7 p.)
Number of employees	12,272	0.4	12,272	0.3
Number of branches	576	(0.2)	576	(7.7)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
EUR million

ATTRIBUTABLE PROFIT
EUR million

SANTANDER CONSUMER FINANCE

→ **Second quarter attributable profit of EUR 237 million,** 8.6% more than the first quarter due to higher net operating income and lower provisions.

→ **Attributable profit for the first half rose 21.0% year-on-year,** spurred by:

- Gross income (+4.9%) mainly driven by fee income (+10.5%).
- Lower loan-loss provisions (-16.5%) as a result of maintaining the high credit quality.

→ **Solid business model** that produced further rises in profitable market share.

- Agreement in the second quarter to acquire GE Capital's consumer finance business in Sweden, Norway and Denmark.

Economic environment

The units of Santander Consumer Finance (SCF) in Continental Europe conducted their business in an environment of incipient recovery in consumption and car sales (+5% y-o-y in our footprint), and also growing competition.

Strategy

In this environment SCF continued to gain market share, backed by a business model that has strengthened during the crisis. Its main planks are a high degree of geographic diversification and with critical mass in key products, greater efficiency than our peers and a common system of risk control and recoveries, giving SCF high credit quality. The focus in 2014 is on:

- Boosting new lending and crossed-selling, tailored to each market and backed by brand agreements and penetration in the used car market.
- Exploiting its competitive advantages in the European consumer finance market.

The fruit of these advantages was the agreement in the second quarter to acquire GE Capital's consumer finance business in Sweden, Norway and Denmark. This business, basically direct credit and cards, will complement SCF's leadership in the region in auto finance. The transaction is expected to be completed during the second half of 2014.

Activity

SCF's gross lending was around EUR 61,000 million in June (+4% y-o-y). Growth in all the main units in central and northern Europe and declines in countries on the periphery, on a like-for-like basis, although there are signs of slight improvement in Spain.

New loans rose 12% in the last 12 months, driven by direct credit and cards (+29%) and new auto finance (+10%), which rose at double the rate of car sales. All units increased their business in local currency (Poland: +36% and Nordic countries: +12%). Peripheral countries grew faster than the area's average but on low volumes, while the growth of Germany (+4%) was double that of the sector in new auto finance.

On the funding side, stable customer deposits (around EUR 31,000 million), differentiating us from our competitors. Greater recourse to wholesale funds (EUR 4,600 million captured in the first half via senior issues and securitisations). At the end of June, customer deposits and medium- and long-term issuances and securitisations financed 74% of the area's net lending.

Results

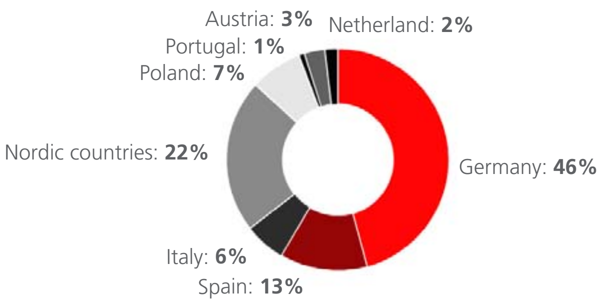
Attributable profit of EUR 237 million in the **second quarter** was 8.6% higher than in the first quarter. Faster pace in gross income (+3.4%), due to net interest income, and lower costs (-2.4%) pushed up net operating income by 8.3%. Provisions remained stable at low levels (cost of credit below 1%), reflecting the high credit quality for the standards of the business (NPL ratio of 4.07% and coverage of 105%).

Solid year-on-year growth in the **first half,** partly due to the perimeter effect. Of note was higher gross income (+4.9%), spurred by fee income (+10.5%), and lower provisions (-16.5%) which more than offset the rise in costs (+4.3%). Attributable profit increased 21.0% to EUR 456 million.

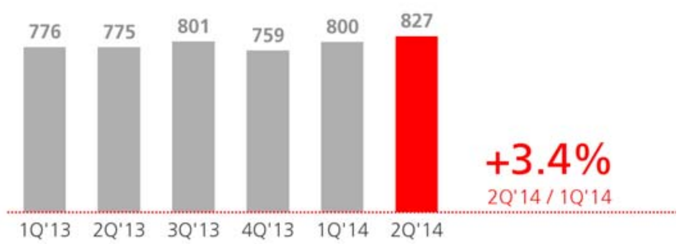
The profit before tax of all the large countries increased in year-on-year terms. Of note was strong growth in Poland, the Nordic countries, Spain and Portugal (around 20% or more), Italy's return to profit and more moderate rises in Germany.

The UK (included in Santander UK for accounting purposes) posted an attributable profit for the first half of EUR 61 million (+5.7% in sterling year-on-year).

NEW LENDING BY COUNTRIES
% o/total 1H'14



GROSS INCOME
EUR million

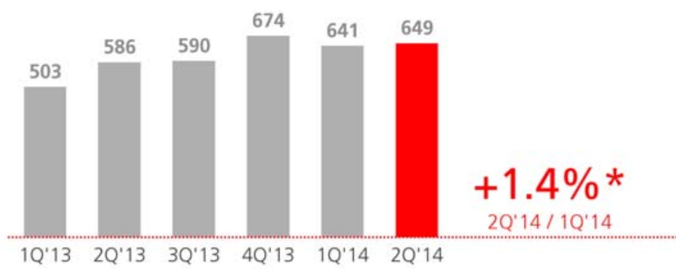


UNITED KINGDOM (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**1,035**	**4.7**	**3.1**	**2,024**	**25.5**	**21.2**
Net fees	247	(0.0)	(1.6)	494	(2.2)	(5.6)
Gains (losses) on financial transactions	69	(11.4)	(13.0)	147	(40.2)	(42.3)
Other operating income*	4	(71.2)	(72.2)	19	54.7	49.4
Gross income	**1,356**	**2.0**	**0.4**	**2,685**	**12.9**	**9.1**
Operating expenses	(701)	1.1	(0.5)	(1,395)	5.2	1.6
General administrative expenses	(596)	2.9	1.2	(1,175)	3.8	0.3
Personnel	*(387)*	*1.9*	*0.3*	*(767)*	*8.5*	*4.7*
Other general administrative expenses	*(209)*	*4.6*	*3.0*	*(408)*	*(3.9)*	*(7.2)*
Depreciation and amortisation	(106)	(7.5)	(9.1)	(220)	13.4	9.5
Net operating income	**654**	**3.0**	**1.4**	**1,290**	**22.7**	**18.4**
Net loan-loss provisions	(87)	(27.4)	(28.8)	(207)	(26.3)	(28.8)
Other income	(63)	35.5	33.6	(109)	(24.3)	(26.9)
Profit before taxes	**504**	**7.6**	**5.9**	**973**	**55.5**	**50.1**
Tax on profit	(105)	12.8	11.2	(198)	58.8	53.3
Profit from continuing operations	**399**	**6.3**	**4.6**	**775**	**54.7**	**49.3**
Net profit from discontinued operations	—	—	—	—	(100.0)	(100.0)
Consolidated profit	**399**	**6.3**	**4.6**	**775**	**59.1**	**53.6**
Minority interests	—	—	—	—	(100.0)	(100.0)
Attributable profit to the Group	**399**	**6.3**	**4.6**	**775**	**59.1**	**53.6**
BALANCE SHEET						
Customer loans**	239,237	2.3	(1.0)	239,237	0.4	(6.1)
Trading portfolio (w/o loans)	31,814	1.0	(2.2)	31,814	(7.8)	(13.8)
Available-for-sale financial assets	9,675	15.8	12.0	9,675	60.2	49.8
Due from credit institutions**	14,391	(19.0)	(21.6)	14,391	(10.5)	(16.3)
Intangible assets and property and equipment	2,347	(6.5)	(9.5)	2,347	(1.3)	(7.7)
Other assets	39,704	(10.4)	(13.3)	39,704	(20.1)	(25.3)
Total assets/liabilities & shareholders' equity	**337,169**	**(0.4)**	**(3.6)**	**337,169**	**(2.8)**	**(9.1)**
Customer deposits**	193,431	(0.8)	(4.0)	193,431	(1.3)	(7.7)
Marketable debt securities**	65,816	(0.8)	(4.0)	65,816	(1.7)	(8.1)
Subordinated debt**	5,931	2.0	(1.3)	5,931	14.1	6.7
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions**	27,320	(5.8)	(8.9)	27,320	(3.1)	(9.4)
Other liabilities	30,517	8.4	4.9	30,517	(18.5)	(23.8)
Shareholders' equity***	14,153	0.3	(3.0)	14,153	8.1	1.0
Other managed and marketed customer funds	**9,885**	**2.6**	**(0.7)**	**9,885**	**(7.5)**	**(13.5)**
Mutual and pension funds	9,740	2.6	(0.7)	9,740	(8.9)	(14.8)
Managed portfolios	145	3.1	(0.2)	145	—	—
Managed and marketed customer funds	**275,063**	**(0.6)**	**(3.8)**	**275,063**	**(1.3)**	**(7.8)**
RATIOS (%) Y OPERATING MEANS						
ROE	11.30	0.36 p.		11.14	3.72 p.	
Efficiency ratio (with amortisations)	51.7	(0.5 p.)		52.0	(3.8 p.)	
NPL ratio	1.91	0.03 p.		1.91	(0.10 p.)	
NPL coverage	41.1	(1.8 p.)		41.1	(1.0 p.)	
Number of employees	25,902	1.0		25,902	1.0	
Number of branches	1,071	(6.4)		1,071	(10.0)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million



(*) In euros: +3.0%

ATTRIBUTABLE PROFIT
Constant EUR million

(*) In euros: +6.3%

■ UNITED KINGDOM (changes in sterling)

→ **Attributable profit in the second quarter of £325 million,** 4.6% more than in the first quarter of 2014 due to:

- Net interest income rose 3.1%, increasing for the sixth consecutive quarter.
- Costs remained broadly stable (-0.5%).
- Loan-loss provisions fell 28.8%, in a benign credit environment.

→ **Marked increase in profit, up 53.6% versus the first half of 2013,** underpinned by:

- Net interest income rose 21.2%, with improving spreads and lower funding costs.
- Management of costs, up 1.6%, with tight control of business spend to accommodate investment.
- Loan-loss provisions fell 28.8%, reflecting good credit quality in retail and corporate banking.

→ **1|2|3 World** continued to grow, reaching 3 million customers.

→ 10% growth in **commercial loans**, to SMEs and larger corporates.

Economic environment

The pick-up in the pace of economic growth has continued in the first half of 2014. GDP grew by 0.8% in each of the first and second quarters and momentum remains strong.

Monetary policy has continued to be supportive for activity, with the quantitative easing programme maintained at £375 billion whilst Bank Rate has been steady at a record low of 0.5% since March 2009. Unemployment has fallen below the 7% threshold, but the Monetary Policy Committee is now monitoring a wider range of spare capacity indicators in the economy. The squeeze on real average earnings has continued in the first half of 2014.

Households' borrowing, although improving, remains subdued, growing by 1.9%. Borrowing by non-financial corporates is now broadly steady having been consistently negative in recent years.

Strategy

Santander UK's strategy remains focused on three priorities: loyal and satisfied retail customers; 'Bank of Choice' for UK companies; and consistent profitability and a strong balance sheet.

In line with this strategy, Santander UK continues to develop innovative products. In Retail Banking this is led by *1|2|3 World* (current account, credit card, savings, etc.), which is deepening customer relationships and realising greater transactionality and increased loyalty. This offering remains one of the most successful in the UK market and has contributed to a 65% increase in current account balances over the past twelve months. The Select proposition, for affluent customers, will be promoted more to build customer relationships and offer differentiated products and services for this segment.

Santander UK is becoming more diversified, with the growth of its Commercial Banking capability expanding its presence in this market. Support for UK businesses continued with increased commercial lending, rising 10% in the last twelve months, with underlying double-digit growth in liabilities and increased account activity.

Balance sheet strength underpins this strategy; capital, funding and liquidity are all robust. Santander UK maintains a leading capital position among the main UK banks. At the end of June 2014 the CRD IV end point Common Equity Tier 1 Capital ratio stood at 11.8% whilst the leverage ratio was 3.6%.

PRA eligible liquid assets have been managed down given regulatory guidance and greater stability in the capital markets. The Liquidity Coverage Ratio (LCR) was 107%.

Activity

Santander UK is focused on the United Kingdom. Around 79% of customer loans are prime mortgages for homes in the UK. The portfolio of mortgages is of high quality, with an average stock LTV of 49%. There is no exposure to self-certified or subprime mortgages, whilst buy to let loans are around 2% of customer loans. In local criteria, customer loans amounted to £188,400 million, 1% lower than in June 2013. This was largely due to a 2% reduction in mortgage loans, where over the last 2-years we had had a policy of deleveraging. This was partially offset by the growth in commercial lending.

Gross mortgage lending amounted to £12,847 million, 62% more than in the first half of 2013, including £2.6bn to first time buyers and £500 million of *Help to Buy*. A positive trend in balance growth was evident in the first half of 2014, and is expected to grow for the remainder the year, in line with the market.

Commercial Banking loans increased 10% to £23,100 million, with loan growth in both SMEs and large corporates. SME loans totalled £11,900 million.

Customer deposits of £150,700 million have remained broadly flat since June 2013. In Retail Banking the managed reduction of more rate sensitive and less stable deposits continued, with their replacement by those deposits that offer better relationship opportunities. Commercial Banking deposits have grown by 6%.

At the end of June 2014, there were 3 million customers in *1|2|3 World,* an increase of 1.1 million customers in a year. The *1|2|3 Current Account* attracts more loyal customers, with most of these customers having their primary bank account with Santander UK, maintaining higher balances and greater transaction volumes. Current account balances grew to £35,100 million, up 65% since June 2013 and rising 26% since December 2013.

Santander UK is strengthening its position as a leading retail customer relationship bank in the United Kingdom. Volumes of

RETAIL CURRENT ACCOUNT BALANCES
Sterling billion

retail loans and deposits are now both improving, up 1% and 2% respectively in the second quarter of 2014.

Santander UK remains the leading choice for retail customers switching their current account provider, with a net gain of 12% of accounts transferred since the launch of the current account switching service in September 2013, according to independent research. Since September, almost one-in-four of all customers who have moved banks have come to Santander UK.

All this is being recognised with various awards. At the *MoneySuperMarket Awards,* Santander UK won the *Best Current Account Provider* as well as taking the top award of *Best Overall Provider*. Santander UK received the *Your Money Award* for the best branch network. *Santander for Intermediaries* was named *Best Lender* by Coreco. Santander UK was named *Best Business Current Account Provider* - and *Business Start-up Bank of the Year* - at the *Business Moneyfacts Awards*.

Results

Attributable profit of £325 million, 4.6% more than in **the first quarter of 2014.**

Net interest income increased 3.1%. It rose for the sixth quarter running and was at its highest of the last ten quarters. There was growth in commercial lending, whilst improving mortgage volumes offset some of the pressure on mortgage stock margins. Net fee income and trading gains declined, mainly reflecting weaker performances in Retail Banking.

Operating expenses decreased by 0.5%. Management is focused on efficiencies, for costs to grow at a slower pace than revenues and for expenses to absorb increased investment in the business.

Provisions for loan losses amounted to £71 million, the lowest in the last five years, with a broad improvement in credit quality in Retail and Commercial Banking.

Compared to the first six months of 2013, attributable profit was 53.6% higher.

This growth was largely due to net interest income, which increased 21.2%. The improved Banking NIM particularly reflected the lower cost of retail liabilities. In addition, commercial lending increased.

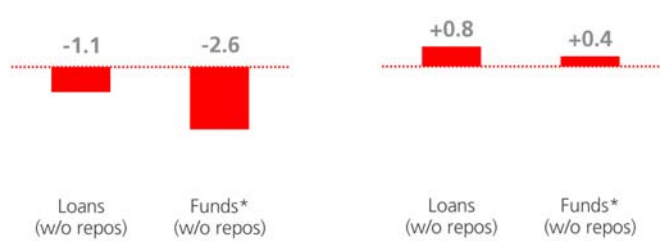
Total commercial revenues were 14.8% higher, with growth in net interest income more than offsetting lower fee income in Retail Banking.

Operating expenses were £1,145 million (+1.6%), reflecting continued investment in the growth of the businesses serving SME and corporate customers as we expanded into new financial centres across the UK and increase the technology and digital capabilities. The investment programmes continued to support the transformation of the business and provide the underpinning for future efficiency improvements. The efficiency ratio of 52.0% improved by 3.8 p.p. compared to the first half of 2013.

Loan-loss provisions fell 28.8%, with improved credit quality. The NPL ratio of 1.91% was lower than 1.98% in December 2013. The stock of residential properties in possession remained very low at 0.05% of the total mortgage portfolio.

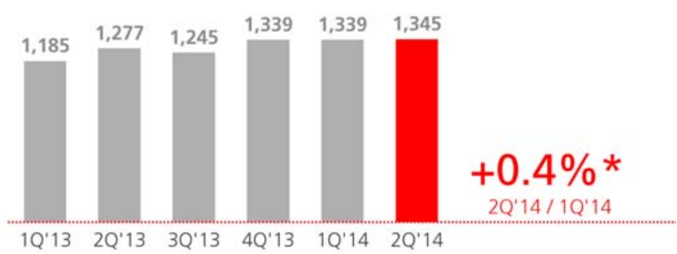
In short, the results demonstrate a further improvement in performance and continued the progress evident through the year, particularly in net interest income. Net interest income/average customer assets improved to 1.80% in the first half of 2014, from 1.46% in the first half of 2013.

ACTIVITY PERFORMANCE (% w/o FX)
y-o-y (Jun'14 / Jun'13) q-o-q (Jun'14 / Mar'14)



(*) Customer deposits + mutual funds

GROSS INCOME
Constant EUR million



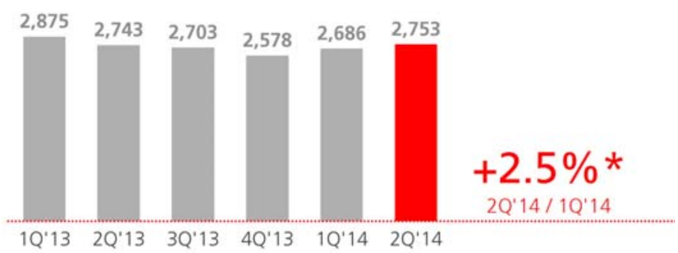
(*) In euros: +2.0%

LATIN AMERICA (EUR million)

		o/ 1Q'14			o/ 1H'13	
INCOME STATEMENT	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Net interest income	**3,496**	**4.5**	**0.7**	**6,842**	**(13.6)**	**2.3**
Net fees	1,100	5.0	1.8	2,148	(12.4)	4.5
Gains (losses) on financial transactions	115	(8.3)	(7.8)	241	(56.1)	(48.0)
Other operating income*	42	—	—	39	29.3	49.1
Gross income	**4,753**	**5.2**	**1.7**	**9,270**	**(15.3)**	**0.4**
Operating expenses	(1,952)	3.9	0.6	(3,831)	(10.9)	5.9
General administrative expenses	(1,768)	5.3	2.1	(3,446)	(10.1)	6.8
Personnel	*(991)*	*6.2*	*3.1*	*(1,924)*	*(10.9)*	*5.9*
Other general administrative expenses	*(777)*	*4.1*	*0.8*	*(1,522)*	*(9.2)*	*8.0*
Depreciation and amortisation	(184)	(8.0)	(11.4)	(384)	(17.3)	(2.0)
Net operating income	**2,802**	**6.2**	**2.5**	**5,440**	**(18.2)**	**(3.2)**
Net loan-loss provisions	(1,281)	3.4	(0.9)	(2,520)	(28.8)	(16.0)
Other income	(179)	11.4	6.4	(340)	65.4	102.6
Profit before taxes	**1,341**	**8.3**	**5.3**	**2,580**	**(11.2)**	**5.3**
Tax on profit	(326)	(0.6)	(3.7)	(654)	5.2	27.5
Profit from continuing operations	**1,015**	**11.5**	**8.6**	**1,926**	**(15.7)**	**(0.5)**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**1,015**	**11.5**	**8.6**	**1,926**	**(15.7)**	**(0.5)**
Minority interests	215	8.3	4.9	414	(13.6)	0.3
Attributable profit to the Group	**800**	**12.4**	**9.6**	**1,512**	**(16.2)**	**(0.7)**
BALANCE SHEET						
Customer loans**	136,325	5.1	2.2	136,325	0.3	8.0
Trading portfolio (w/o loans)	33,960	24.4	21.2	33,960	11.5	16.6
Available-for-sale financial assets	25,052	(6.2)	(9.3)	25,052	16.3	23.3
Due from credit institutions**	22,442	(0.9)	(3.4)	22,442	(4.9)	0.6
Intangible assets and property and equipment	3,852	0.1	(3.1)	3,852	(4.2)	2.6
Other assets	44,619	2.9	(0.3)	44,619	1.1	7.3
Total assets/liabilities & shareholders' equity	**266,251**	**5.0**	**2.0**	**266,251**	**2.5**	**9.4**
Customer deposits**	127,903	1.3	(1.4)	127,903	(3.3)	4.0
Marketable debt securities**	31,792	14.2	10.4	31,792	3.5	9.4
Subordinated debt**	6,760	1.5	(1.8)	6,760	61.4	71.3
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions**	30,227	18.6	15.2	30,227	14.7	21.6
Other liabilities	48,071	4.6	1.6	48,071	11.7	18.0
Shareholders' equity***	21,497	0.4	(2.4)	21,497	(7.3)	(1.4)
Other managed and marketed customer funds	**76,454**	**7.9**	**4.5**	**76,454**	**16.7**	**22.5**
Mutual and pension funds	65,315	8.4	4.8	65,315	15.8	21.5
Managed portfolios	11,140	5.0	3.0	11,140	22.2	28.9
Managed and marketed customer funds	**242,910**	**4.9**	**1.8**	**242,910**	**4.4**	**11.3**
RATIOS (%) Y OPERATING MEANS						
ROE	14.96	1.17 p.		14.42	(0.70 p.)	
Efficiency ratio (with amortisations)	41.1	(0.5 p.)		41.3	2.1 p.	
NPL ratio	5.03	(0.03 p.)		5.03	(0.20 p.)	
NPL coverage	86.3	0.2 p.		86.3	0.2 p.	
Number of employees	83,299	(1.2)		83,299	(3.9)	
Number of branches	5,705	(0.4)		5,705	(3.0)	

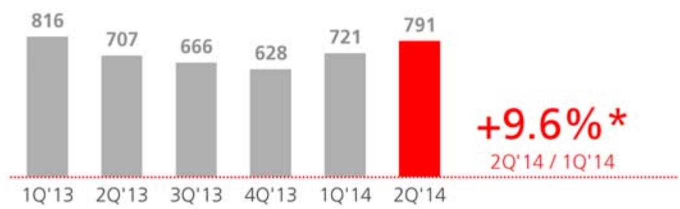
(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million



(*) In euros: +6.2%

ATTRIBUTABLE PROFIT
Constant EUR million



(*) In euros: +12.4%

■ LATIN AMERICA (all changes in constant currency)

→ **Attributable profit of EUR 800 million,** 9.6% more than the first quarter.

- Gross income rose 1.7% due to higher net interest income and fee income.
- Costs increased a little (+0.6%), partly due to salary agreements.
- Loan-loss provisions were lower (-0.9%) mainly due to Brazil.

→ **Profit was 0.7% lower year-on-year in the first half at EUR 1,512 million.**

- Gross income was unchanged. Net interest income and fee income, the most recurring revenues, rose 2.8%, offsetting the lower trading gains.
- Higher costs (+5.9%) from investment in business development (Mexico, Chile and Argentina). Brazil's rose well below inflation.
- Loan-loss provisions fell 16.0% due to Brazil and Chile.

→ **Lending** increased 9% year-on-year and **customer funds** 13%, with growth in all units.

Grupo Santander has the region's largest international franchise. It has 5,705 traditional branches and points of attention, over 48 million customers and market shares of 9.9% in loans and 9.5% in deposits.

Economic environment

Following the slowdown in 2013, Latin America showed some stabilisation at the start of the year, maintaining the first quarter year-on-year growth at 2.1%, without changes over the fourth quarter and faster growth in Colombia and Mexico.

Average inflation (excluding Argentina) continued to rise in the second quarter to 5% (May) from 4.9% in the first quarter and 4.7% in 2013. The rise was general except in Mexico whose inflation dropped from 3.8% in March to 3.5%.

The monetary policies of the main countries continued to vary, depending on inflationary pressures. In Mexico, where inflation was in line with medium-term targets, the central bank cut the benchmark interest rate in June by 50 b.p. to 3%, while in Chile, the central bank cut the reference rate by 25 b.p. to 3.75%. Brazil's central bank has held its Selic rate at 11% since April, as private consumption has slowed and the rate has risen by 300 b.p. over the last 12 months. Inflationary pressures are expected to ease in the coming months.

In the second quarter, currencies appreciated against the dollar, leaving behind the period of volatility that affected them in the first quarter. The evolution was still varied, with the Brazilian and Colombian currencies strengthening in particular. The region continued to be well prepared for any possible bouts of volatility: high level of reserves (more than $750,000 million), moderate budget deficits and low ratios of public and private external debt.

In the main countries where Santander operates (Brazil, Mexico, Chile, Argentina and Uruguay), the financial systems' banking business (loans + deposits) grew 12% year-on-year.

Lending rose 13% and deposits grew 10%.

Strategy

The strategy continued to focus on expanding, consolidating and improving the business of the commercial franchise. The range of products and services was strengthened in the second quarter and tailored to suit customers' needs. This will spur long-term growth in business.

Improving customer transactions is a key factor to ensure growth, particularly recurring revenues, while remaining vigilant of the quality of risks. The measures being put in place to improve efficiency should be reflected in profitability.

The Group's main developments and results are set out below. All percentage changes exclude the exchange rate impact.

Activity

Lending (excluding repos) increased 9% year-on-year. By products: cards increased 14%, commercial credit (companies in all their range and institutions) 10%, consumer credit was flat and mortgages rose 17%. Total lending in the second quarter rose 2%, with that in Argentina, Uruguay and Mexico increasing by between 2% and 7% while Brazil's and Chile's was flat.

Deposits excluding repos increased 8% year-on-year, with demand deposits up 14% and time deposits 3%, while mutual funds increased 21%. Over the first quarter, deposits without repos and mutual funds increased 5%.

Results

In the **second quarter** gross income was EUR 4,753 million, 1.7% higher than the first quarter (excluding the exchange rate impact).

Net interest income rose 0.7%, due to stable volumes and spreads. Net fee income rose 1.8% and trading gains dropped 7.8% due to lower revenues.

Operating expenses increased 0.6%, mainly due to the annual salary adjustment stipulated in the collective bargaining agreement in Chile, as well as new developments and investments in technology. Net operating income increased 2.5% to EUR 2,802 million.

Loan-loss provisions declined 0.9%, due to Brazil, which continued the trends shown in the first quarter.

The NPL ratio was 5.03% and coverage 86%, both virtually the same as in December 2013.

LATIN AMERICA. INCOME STATEMENT (EUR million)

	Net operating income						Attibutable profit to the Group					
		o/ 1Q'14			o/ 1H'13			o/ 1Q'14			o/ 1H'13	
	2Q'14	%	% w/o FX	1H'14	%	% w/o FX	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Brazil	1,791	4.2	(1.7)	3,509	(24.0)	(10.2)	395	8.5	2.6	758	(17.5)	(2.5)
Mexico	463	13.9	12.1	870	(9.6)	(1.3)	169	22.2	20.3	307	(30.4)	(24.0)
Chile	341	2.7	3.3	672	6.2	28.1	132	7.6	8.2	255	27.1	53.3
Argentina	163	27.7	35.1	291	(11.9)	40.0	79	42.3	50.2	135	(18.4)	29.6
Uruguay	22	(5.4)	(1.1)	45	(6.8)	13.2	12	(11.8)	(7.6)	25	(10.3)	9.0
Peru	8	11.7	11.1	15	21.5	35.7	6	24.9	24.2	10	13.5	26.8
Rest	(18)	47.5	47.4	(30)	(17.9)	(15.0)	(15)	48.0	47.7	(25)	9.8	15.3
Subtotal	**2,770**	**6.4**	**2.6**	**5,373**	**(18.2)**	**(3.0)**	**777**	**13.0**	**10.1**	**1,465**	**(15.8)**	**0.3**
Santander Private Banking	32	(8.6)	(8.5)	66	(18.6)	(15.0)	23	(3.1)	(3.0)	47	(27.7)	(24.5)
Total	**2,802**	**6.2**	**2.5**	**5,440**	**(18.2)**	**(3.2)**	**800**	**12.4**	**9.6**	**1,512**	**(16.2)**	**(0.7)**

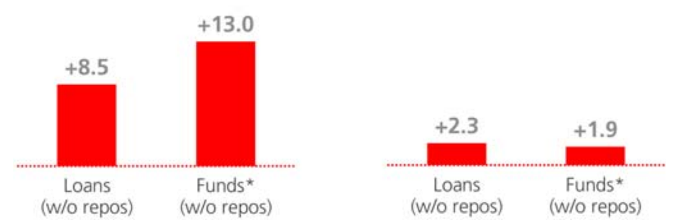
After incorporating loan-loss provisions and other provisions, profit before tax was EUR 1,341 million (+5.3%). Including taxes and minority interests, attributable profit was 9.6% higher than in the first quarter at EUR 800 million.

Between the first half of 2013 and the same period of 2014, gross income was almost unchanged, with the following aspects:

- Net interest income rose 2.3% due to higher volumes, which offset the pressure of spreads and the change of mix to lower cost of credit products, but also with lower spreads, mainly in Brazil and also in Mexico in recent quarters.
- Fee income increased 4.5%, and was up in all countries, except Chile.
- Trading gains were down 48.0%, mainly due to lower volatility in 2014 and to portfolio disposals and exchange rates variations in 2013.
- Operating expenses increased 5.9% year-on-year, partly due to investment in networks (some traditional and others focused on priority customer segments) and business projects, and partly because of inflationary pressures in salary agreements and services contracted.
- Loan-loss provisions were down 16.0% year-on-year, largely due to Brazil and to a lesser extent Chile.
- Net operating income after provisions was EUR 2,920 million, 11.6% more than the first half of 2013.
- Profit before tax was 5.3% higher at EUR 2,580 million.
- As a result of higher taxes (Brazil, Mexico and Chile) and minority interests attributable profit was down 0.7% at EUR 1,512 million.
- Retail Banking's net profit was 10.9% lower and Global Wholesale Banking's rose 35.1%.

ACTIVITY PERFORMANCE (% w/o FX)

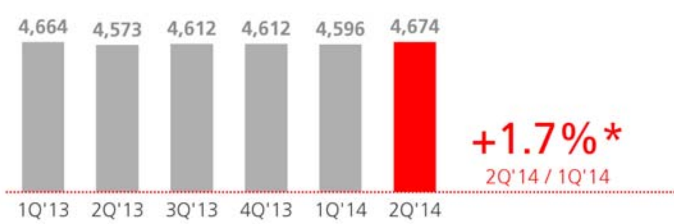
y-o-y (Jun'14 / Jun'13) | q-o-q (Jun'14 / Mar'14)



(*) Customer deposits + mutual funds

GROSS INCOME

Constant EUR million



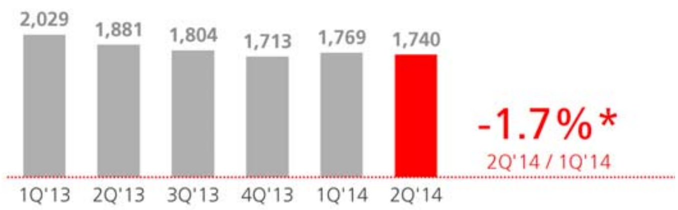
(*) In euros: +5.2%

BRAZIL (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**2,295**	**4.3**	**(1.5)**	**4,494**	**(18.5)**	**(3.7)**
Net fees	685	8.9	2.9	1,314	(14.3)	1.2
Gains (losses) on financial transactions	(37)	—	—	(20)	—	—
Other operating income*	44	563.4	541.5	50	447.2	546.3
Gross income	**2,986**	**4.7**	**(1.1)**	**5,838**	**(20.4)**	**(6.0)**
Operating expenses	(1,196)	5.6	(0.3)	(2,328)	(14.2)	1.3
General administrative expenses	(1,074)	6.8	0.8	(2,079)	(13.7)	1.9
Personnel	*(591)*	*7.5*	*1.6*	*(1,140)*	*(13.7)*	*2.0*
Other general administrative expenses	*(483)*	*5.9*	*(0.1)*	*(939)*	*(13.7)*	*1.9*
Depreciation and amortisation	(122)	(4.0)	(9.6)	(249)	(18.7)	(3.9)
Net operating income	**1,791**	**4.2**	**(1.7)**	**3,509**	**(24.0)**	**(10.2)**
Net loan-loss provisions	(933)	3.1	(2.7)	(1,837)	(35.4)	(23.7)
Other income	(166)	16.2	10.0	(308)	46.4	72.9
Profit before taxes	**693**	**3.2**	**(2.7)**	**1,364**	**(12.8)**	**3.0**
Tax on profit	(188)	(7.0)	(12.5)	(391)	1.2	19.5
Profit from continuing operations	**504**	**7.5**	**1.6**	**974**	**(17.4)**	**(2.4)**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**504**	**7.5**	**1.6**	**974**	**(17.4)**	**(2.4)**
Minority interests	110	4.1	(1.8)	215	(16.9)	(1.9)
Attributable profit to the Group	**395**	**8.5**	**2.6**	**758**	**(17.5)**	**(2.5)**
BALANCE SHEET						
Customer loans**	71,475	4.3	0.1	71,475	0.3	4.1
Trading portfolio (w/o loans)	16,954	49.9	43.7	16,954	38.1	43.4
Available-for-sale financial assets	18,352	(7.3)	(11.0)	18,352	23.6	28.3
Due from credit institutions**	10,129	12.0	7.4	10,129	(9.3)	(5.9)
Intangible assets and property and equipment	2,796	(0.0)	(4.1)	2,796	(5.7)	(2.1)
Other assets	31,608	6.7	2.3	31,608	(2.0)	1.7
Total assets/liabilities & shareholders' equity	**151,315**	**7.2**	**2.9**	**151,315**	**4.5**	**8.5**
Customer deposits**	68,450	3.8	(0.4)	68,450	(1.1)	2.7
Marketable debt securities**	21,772	9.4	5.0	21,772	1.5	5.4
Subordinated debt**	4,821	5.1	0.9	4,821	54.0	59.9
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions**	16,122	16.6	11.9	16,122	10.6	14.9
Other liabilities	27,974	11.6	7.1	27,974	21.2	25.9
Shareholders' equity***	12,176	3.3	(0.9)	12,176	(9.0)	(5.6)
Other managed and marketed customer funds	**49,593**	**8.4**	**4.0**	**49,593**	**19.3**	**23.8**
Mutual and pension funds	46,394	8.9	4.5	46,394	20.6	25.2
Managed portfolios	3,199	1.7	(2.5)	3,199	2.7	6.6
Managed and marketed customer funds	**144,636**	**6.2**	**1.9**	**144,636**	**6.8**	**10.9**
RATIOS (%) Y OPERATING MEANS						
ROE	13.18	0.60 p.		12.89	(0.24 p.)	
Efficiency ratio (with amortisations)	40.0	0.3 p.		39.9	2.9 p.	
NPL ratio	5.78	0.04 p.		5.78	(0.71 p.)	
NPL coverage	94.8	(0.4 p.)		94.8	3.5 p.	
Number of employees	47,205	(2.3)		47,205	(8.1)	
Number of branches	3,449	(1.1)		3,449	(6.7)	

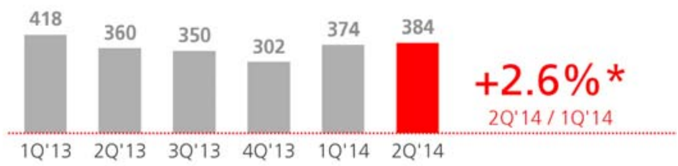
(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million



(*) In euros: +4.2%

ATTRIBUTABLE PROFIT
Constant EUR million



(*) In euros: +8.5%

Santander

BRAZIL (all changes in local currency)

→ **Attributable profit in the second quarter of EUR 395 million,** 2.6% higher than the first quarter due to:

- Flat costs and lower provisions (-2.7%) again in the second quarter.
- Gross income declined 1.1%, mainly due to net interest income (-1.5%) and lower trading gains.

→ **Attributable profit in the first half** was 2.5% lower year-on-year **at EUR 758 million**.

- Pre-tax profit rose 3.0% due to control of costs (+1.3%) and lower provisions (-23.7%).
- Gross income declined 6.0% because of the 3.7% fall in net interest income and reduced trading gains. The change of portfolio mix continued and the squeezing of spreads on loans, which was not offset by the growth in volumes.

→ **Lending** grew 4% year-on-year and **deposits** 5% (in the quarter they remained unchanged).

Santander Brazil is the country's third largest private sector bank by assets and the largest foreign bank in the country. It operates in the main regions, with 3,449 branches and points of banking attention, 15,858 own-brand ATMs and around 30 million customers.

Economic environment

Brazil is the world's seventh largest economy (in nominal GDP terms), according to the World Bank. GDP grew 1.9% year-on-year in the first quarter.

The labour market is still firm, with the jobless rate close to an historic low. The rate in April was 4.9%.

The central bank's Selic stood at 11% (+25 b.p. in April, +100 b.p. since the beginning of the year and +300 b.p. in the last 12 months). These hikes should help to contain inflation, which was 6.52% in June and in the upper end of the target range (6.5%).

The system's lending rose 1% in May (+13% year-on-year), mainly due to earmarked credit (+1% in the month and +22% year-on-year). State banks' lending grew 19% in the last 12 months and that of private sector banks 5%.

Strategy

Santander Brazil is a universal bank focusing on retail banking. It is expanding its businesses via:

- Increase preferred banking customers and linkage: simple and efficient segmented products and services, which via a multichannel platform seek to maximize customer satisfaction.
- Recurrence and sustainability: growth of businesses with greater revenue diversification and rigorous risk management.
- Productivity: intense agenda of transformation in line with that of the financial industry.
- Disciplined use of capital and liquidity: to remain financially sound, manage regulatory changes and exploit growth opportunities.

The objectives for 2014 are:

- Grow the customer base and improve linkage.
- Focus on products and lower risk profile segments and ones with a high linkage capacity, such as mortgage loans, payroll, agro business and SMEs.
- Growth in funds aligned with assets.
- All associated with an increase in business productivity and enhanced efficiency.

Progress was made in the second quarter in the strategic guidelines. Of note from a commercial standpoint were:

1. Under the strategy to strengthen acquiring business, an agreement was reached to acquire via *Santander GetNet Serviços para Meios de Pagamento, S.A*. 100% of *GetNet Tecnologia em Captura e Processamento de Transações H.U.A.H. S.A*. (GetNet). The acquisition will give Banco Santander Brazil an indirect stake of 88.5% in GetNet. The transaction, subject to regulatory authorization, is expected to be completed during the second half of the year.
2. New means of payment product, known as *Santander Pague Direto,* in co-operation with Ambev, Brazil's leading drinks producer, which offers solutions for SMEs and enables shops to pay for their orders with the Santander terminal more practically, quickly and safely.
3. Greater focus on core deposits (demand and savings) in order to increase linkage and customer transactions.
4. Launch of *Santander Conta Conecta,* a current account for the high-income segments and companies enabling payments to be received with cards in smartphones and tablets.

Activity

Lending rose 4% year-on-year, with a focus on products with the greatest linkage. Of note was the 32% rise in mortgages, a market where Santander has a low penetration, and agro business (+12%), where the focus was intensified. Loans to large companies increased 11% and that to SMEs declined 8% in the last 12 months, affected by the review of the model in some sub-segments.

Deposits excluding repos increased 5% year-on-year. Demand and savings deposits rose 19% and mutual funds 25%.

In a lower growth environment in the second quarter, the balance of loans and funds remained stable. Mutual funds increased 4%.

The market shares of Santander Brazil in May were 8.0% in loans (11.8% in non-earmarked lending) and 7.5% in deposits.

Results

Attributable profit in the **second quarter** was EUR 395 million, 2.6% higher than in the first quarter.

Gross income declined 1.1%, mainly due to lower trading gains, resulting from the sharp fall in revenue from markets, and reduced net interest income (-1.5%), which was affected by the portfolio mix and reduced growth in lending. Fee income increased 2.9%, with that from securities up 39.3%, foreign trade 9.2% and cash management 6.2%.

Operating expenses were flat (-0.3%) and the efficiency ratio 40%.

Loan-loss provisions continued to perform well (-2.7%).

The NPL ratio was 5.78% (-71 b.p. in 12 months) and coverage 95%.

In the first half of 2014, gross income declined 6.0% year-on-year to EUR 5,838. Trading gains were negative (high in the first half of 2013 due to sales of portfolios). Net interest income was down 3.7%, due to the change of portfolio mix (reduced participation of higher risk/spread products), and squeezing of spreads on loans.

Fee income rose 1.2% to EUR 1,314 million, driven by cards (+11.6%).

Growth in operating expenses continued to slow down: they rose 1.3% in the first half, well below the inflation rate and reflecting the effort made to control them.

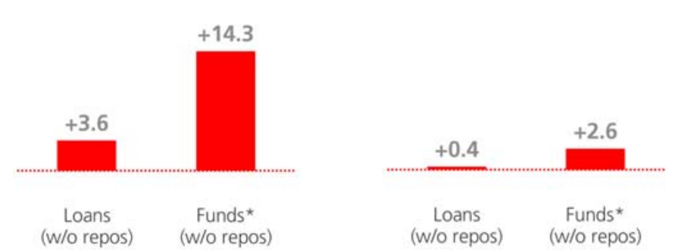
Loan-loss provisions were 23.7% lower year-on-year, continuing the downward trend of recent quarters.

Pre-tax profit rose 3.0% year-on-year to EUR 1,364 million and signaled a change of trend over the falls of previous quarters (-5.5% in the first quarter).

This growth was not reflected in attributable profit (EUR 758 million) because of the higher tax charge.

ACTIVITY PERFORMANCE (% w/o FX)

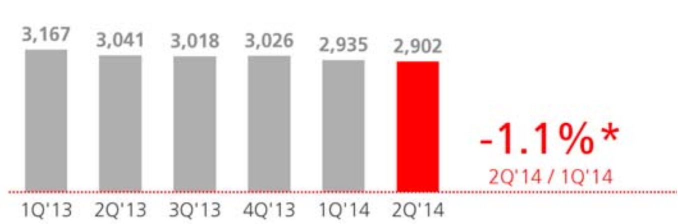
y-o-y (Jun’14 / Jun’13) | q-o-q (Jun’14 / Mar’14)



(*) Customer deposits + mutual funds

GROSS INCOME

Constant EUR million



(*) In euros: +4.7%

MEXICO (EUR million)

		o/ 1Q'14			o/ 1H'13	
INCOME STATEMENT	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Net interest income	**529**	**3.9**	**2.1**	**1,038**	**(1.8)**	**7.2**
Net fees	191	0.8	(1.0)	381	(4.3)	4.4
Gains (losses) on financial transactions	62	132.8	129.9	89	(21.3)	(14.1)
Other operating income*	(7)	(42.8)	(44.1)	(19)	627.7	694.1
Gross income	**775**	**8.7**	**6.9**	**1,488**	**(4.9)**	**3.8**
Operating expenses	**(312)**	**1.8**	**0.1**	**(619)**	**2.6**	**11.9**
General administrative expenses	(281)	2.8	1.0	(554)	2.7	12.0
Personnel	(148)	4.0	2.2	(290)	(2.6)	6.2
Other general administrative expenses	(133)	1.5	(0.3)	(265)	9.2	19.2
Depreciation and amortisation	(31)	(6.3)	(8.0)	(64)	1.5	10.8
Net operating income	**463**	**13.9**	**12.1**	**870**	**(9.6)**	**(1.3)**
Net loan-loss provisions	(191)	6.8	5.0	(369)	13.4	23.7
Other income	(2)	21.4	19.5	(3)	—	—
Profit before taxes	**271**	**19.4**	**17.6**	**497**	**(24.7)**	**(17.9)**
Tax on profit	(56)	16.0	14.1	(105)	26.7	38.2
Profit from continuing operations	**214**	**20.4**	**18.5**	**392**	**(32.1)**	**(25.9)**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**214**	**20.4**	**18.5**	**392**	**(32.1)**	**(25.9)**
Minority interests	46	14.1	12.2	86	(37.6)	(31.9)
Attributable profit to the Group	**169**	**22.2**	**20.3**	**307**	**(30.4)**	**(24.0)**
BALANCE SHEET						
Customer loans**	24,516	9.5	7.7	24,516	9.3	13.6
Trading portfolio (w/o loans)	11,603	2.7	1.0	11,603	(8.2)	(4.6)
Available-for-sale financial assets	3,944	13.5	11.6	3,944	23.6	28.4
Due from credit institutions**	6,975	(16.4)	(17.8)	6,975	19.1	23.8
Intangible assets and property and equipment	397	0.3	(1.4)	397	4.3	8.4
Other assets	5,494	(2.5)	(4.2)	5,494	15.1	19.6
Total assets/liabilities & shareholders' equity	**52,928**	**2.7**	**1.0**	**52,928**	**7.4**	**11.6**
Customer deposits**	24,803	(3.1)	(4.7)	24,803	(6.4)	(2.7)
Marketable debt securities**	3,818	53.0	50.4	3,818	18.8	23.5
Subordinated debt**	971	2.6	0.9	971	—	—
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions**	7,840	32.4	30.2	7,840	62.4	68.8
Other liabilities	11,684	(8.8)	(10.3)	11,684	9.4	13.7
Shareholders' equity***	3,812	1.3	(0.4)	3,812	(6.4)	(2.7)
Other managed and marketed customer funds	**11,724**	**6.4**	**4.6**	**11,724**	**8.7**	**12.9**
Mutual and pension funds	11,724	6.4	4.6	11,724	8.7	12.9
Managed portfolios	—	—	—	—	—	—
Managed and marketed customer funds	**41,316**	**3.2**	**1.4**	**41,316**	**2.0**	**6.0**
RATIOS (%) Y OPERATING MEANS						
ROE	17.78	2.01 p.		16.90	(4.62 p.)	
Efficiency ratio (with amortisations)	40.2	(2.7 p.)		41.6	3.0 p.	
NPL ratio	3.52	(0.10 p.)		3.52	1.32 p.	
NPL coverage	96.6	(2.0 p.)		96.6	(46.1 p.)	
Number of employees	14,859	0.1		14,859	4.2	
Number of branches	1,293	1.1		1,293	6.4	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million

(*) In euros: +13.9%

ATTRIBUTABLE PROFIT
Constant EUR million

(*) In euros: +22.2%

■ MEXICO (all changes in local currency)

→ **Attributable profit of EUR 169 million,** 20.3% more than in the first quarter:

- Gross income increased 6.9% , driven by net interest income and trading gains.
- Costs were flat.
- Higher loan-loss provisions (+5.0%).

→ **Attributable profit** was 24.0% lower **in the first half at EUR 307 million**).

- This was due to higher provisions (larger volumes and change to expected loss in the commercial portfolio) and a higher tax charge.
- Gross income increased 3.8% (net interest income and fee income: +6.4%).
- Operating expenses rose 11.9%, due to the expansion policy.

→ **Lending** and **deposits** excluding repos grew 19% and 7% year-on-year, respectively.

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 14.1% and 13.4% in deposits. It has 1,293 branches and 10 million customers.

Economic environment

Activity was still weak, due to low domestic demand. GDP grew at an annualized rate of 1.8% in real terms in the first quarter of 2014. In the context of low economic growth and low inflation (3.5%), the Bank of Mexico cut its benchmark rate by 50 b.p. in June to 3.0%. In May, the banking system's loans rose 9% year-on-year and deposits 11%.

The government presented its secondary energy legislation. Already approved by the Senate, it is under analysis by the lower house of Congress. The reform of the telecoms sector has already been approved by the Congress. Both reforms are expected to be executed in the second half of the year.

Strategy

The focus on high income and SME segments continued, maintaining leadership in the latter in lending through packets of products and services, as well as attention models tailored to their needs.

The development of models and processes to attract new clients was reinforced for products such as funds capturing, insurance, credit cards, mortgages and personal loans.

The customer vision was strengthened with CRM tools and the development of various channels for individuals and companies, with a push for campaigns that foster linkage.

The branch expansion plan begun in 2012 continued: 9 new branches were opened in the second quarter for a total of 112 since the project started. As regards the attention model for high-income clients, the number of specialized Select offices rose from 66 in 2012 to 113 in June 2014.

Activity

Lending grew 19% year-on-year, double that of the banking system. Mortgages rose 32%, SMEs 27% and companies 20%. Deposits excluding repos rose 7%, backed by demand ones (demand: +18%; time: -10%). Lending was up 7% over the first quarter and deposits were unchanged due to the strategy of reducing time deposits.

Results

Gross income rose 6.9% **over the first quarter,** with a mixed performance of the main lines. Net interest income increased 2.1% due to higher volumes and management of spreads. Fee income was down 1.0% and trading gains increased because of the valuation of treasury positions following the fall in interest rates.

Operating expenses were flat and provisions rose 5.0%. The NPL ratio was 3.52% and coverage 97%. Credit quality was similar to the system's average.

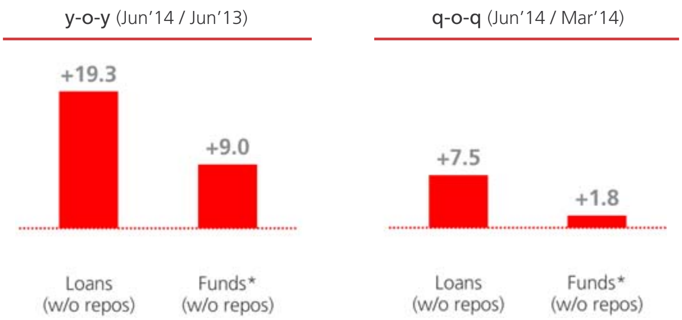
Attributable profit was EUR 169 million, 20.3% more than the first quarter.

Net interest income **in the first half** was 7.2% higher than in the same period of 2013 (due to the net effect of larger volumes, the drop in interest rates and the change of mix) and fee income 4.4%. Trading gains fell 14.1% (wholesale banking operations in the first half of 2013 were not repeated).

Operating expenses were 11.9% higher year-on-year due to greater installed capacity and provisions rose 23.7%, mostly because of the growth in volumes. The tax rate rose from 13% to 21% between June 2013 and June 2014.

The efficiency ratio was 41.6% and the recurrence ratio 68.7%. ROE was 16.9%.

■ ACTIVITY PERFORMANCE (% w/o FX)



(*) Customer deposits + mutual funds

■ GROSS INCOME

Constant EUR million

(*) In euros: +8.7%

CHILE (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**447**	**9.6**	**10.3**	**856**	**4.9**	**26.6**
Net fees	78	(3.4)	(2.8)	160	(19.3)	(2.6)
Gains (losses) on financial transactions	20	(49.3)	(48.9)	59	(30.1)	(15.7)
Other operating income*	5	15.0	15.7	10	(24.4)	(8.8)
Gross income	**551**	**3.4**	**4.0**	**1,084**	**(2.4)**	**17.8**
Operating expenses	(210)	4.5	5.2	(411)	(13.8)	4.0
General administrative expenses	(197)	9.3	10.0	(377)	(10.6)	7.9
Personnel	*(123)*	*14.2*	*14.8*	*(231)*	*(11.3)*	*7.0*
Other general administrative expenses	*(74)*	*2.1*	*2.7*	*(146)*	*(9.4)*	*9.2*
Depreciation and amortisation	(13)	(36.5)	(36.0)	(34)	(38.2)	(25.4)
Net operating income	**341**	**2.7**	**3.3**	**672**	**6.2**	**28.1**
Net loan-loss provisions	(118)	1.6	2.2	(234)	(22.5)	(6.6)
Other income	(3)	(61.9)	(61.4)	(9)	—	—
Profit before taxes	**220**	**5.4**	**6.0**	**429**	**28.8**	**55.3**
Tax on profit	(29)	(13.6)	(13.1)	(62)	35.5	63.4
Profit from continuing operations	**192**	**8.9**	**9.6**	**367**	**27.7**	**54.1**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**192**	**8.9**	**9.6**	**367**	**27.7**	**54.1**
Minority interests	59	12.1	12.7	113	29.1	55.7
Attributable profit to the Group	**132**	**7.6**	**8.2**	**255**	**27.1**	**53.3**

BALANCE SHEET	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Customer loans**	28,701	2.5	1.4	28,701	(4.6)	8.7
Trading portfolio (w/o loans)	2,106	19.3	18.0	2,106	43.2	63.3
Available-for-sale financial assets	1,796	(26.8)	(27.6)	1,796	(24.1)	(13.5)
Due from credit institutions**	2,851	(2.4)	(3.5)	2,851	(8.7)	4.1
Intangible assets and property and equipment	281	(10.0)	(11.0)	281	(17.4)	(5.8)
Other assets	2,091	(18.4)	(19.3)	2,091	(21.4)	(10.4)
Total assets/liabilities & shareholders' equity	**37,826**	**(0.5)**	**(1.6)**	**37,826**	**(5.5)**	**7.7**
Customer deposits**	19,929	(2.5)	(3.6)	19,929	(9.3)	3.4
Marketable debt securities**	6,146	13.8	12.5	6,146	2.0	16.2
Subordinated debt**	948	(14.6)	(15.6)	948	(8.8)	4.0
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions**	4,643	2.1	0.9	4,643	(1.0)	12.8
Other liabilities	3,941	(2.5)	(3.6)	3,941	(1.8)	11.9
Shareholders' equity***	2,219	(10.4)	(11.4)	2,219	(4.1)	9.4
Other managed and marketed customer funds	**6,346**	**8.2**	**7.0**	**6,346**	**11.6**	**27.2**
Mutual and pension funds	4,850	9.5	8.3	4,850	11.5	27.1
Managed portfolios	1,496	4.1	2.9	1,496	11.9	27.6
Managed and marketed customer funds	**33,368**	**1.7**	**0.5**	**33,368**	**(3.9)**	**9.6**

RATIOS (%) Y OPERATING MEANS	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
ROE	23.26	2.71 p.		22.07	6.09 p.	
Efficiency ratio (with amortisations)	38.2	0.4 p.		37.9	(5.0 p.)	
NPL ratio	5.94	(0.05 p.)		5.94	0.13 p.	
NPL coverage	51.7	1.0 p.		51.7	1.8 p.	
Number of employees	11,971	(1.1)		11,971	(1.3)	
Number of branches	481	(0.8)		481	(4.0)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million

(*) In euros: +2.7%

ATTRIBUTABLE PROFIT
Constant EUR million

(*) In euros: +7.6%

■ CHILE (all changes in local currency)

→ **Attributable profit of EUR 132 million,** 8.2% more than the first quarter:

- Gross income increased 4.0% and operating expenses 5.2% because of salary agreement, new developments and investment in technology.
- Loan-loss provisions rose 2.2%.

→ **Attributable profit in the first half** was 53.3% higher year-on-year **at EUR 255 million.**

- Gross income grew 17.8%, driven by net interest income (+26.6%) from the rise in inflation and the growth of volumes in target segments.
- Operating expenses were up 4.0%, in line with inflation.
- Loan-loss provisions were 6.6% lower due to the reduction in the irregular portfolio in consumer credit and corporate loans, and higher recoveries.

→ **Lending** grew 9% year-on-year and **funds** 8% (+1% and -1% respectively, quarter-on-quarter).

Santander is the leading bank in Chile in terms of assets and customers, with a marked focus on retail activity (individuals and SMEs). Its market share in loans is 19.2% and 16.5% in deposits. Of note is its share of loans to individuals; it is the leader in consumer finance (market share of 24.7%) and mortgages (20.7%). It has 481 branches, 1,753 ATMs and 3.5 million customers.

Economic environment

The economy grew 2.6% year-on-year in the first quarter, a slower pace of growth because of lower private investment and reduced growth in private consumption. The labour market remained strong, with the unemployment rate at 6.1% in April. Inflation was 4.7% and the central bank's key rate remained at 3.75%.

The system's total lending grew 10% year-on-year and deposits 6% (excluding Corpbanca's lending in Colombia).

Strategy

The Group continued to focus on ensuring long-term profitability in a scenario of lower spreads and greater regulation. The strategic plan recognises the importance of putting the customer at the centre and seeks to consolidate the franchise and leadership positions. The objective is to be the best valued bank through four pillars: improve the quality of customer attention; focus on retail banking (especially medium and high income customers) and companies (particularly transaction banking); manage risks conservatively and continuously improve operational processes.

Activity

Lending rose 9% year-on-year, with credit to the medium and high income segment up 16%, 7% to SMEs and 10% to companies. In deposits the Bank continued its funding strategy, giving importance to demand deposits. Deposits and mutual funds increased 8% in 12 months (deposits: +5%; mutual funds: +27%). In the second quarter loans rose 1% and deposits plus mutual funds declined 1%, because of term deposits balances.

Results

Gross income rose 4.0% in the **second quarter,** spurred by net interest income (+10.3%). Operating expenses increased 5.2%, due to the annual salary adjustment stipulated in the collective bargaining agreement, as well as further developments and investments in technology. Loan-loss provisions grew 2.2%, although they were below the 2013 quarterly average.

In the first half of 2014, gross income increased 17.8% year-on-year:

- Net interest income was 26.6% higher, mainly due to the growth of volumes in target segments (medium and high income, SMEs and companies), the positive impact of the UF inflation-indexed portfolio (+3.1% in the first half compared to +0.1% in the same period of 2013) and the improved deposit mix.

- Fee income was 2.6% lower, because of that from insurance and cash management. Those from transaction banking and international business increased.

- Trading gains declined 15.7%, because of the results obtained in the sale of portfolios in 2013, which were not repeated in 2014.

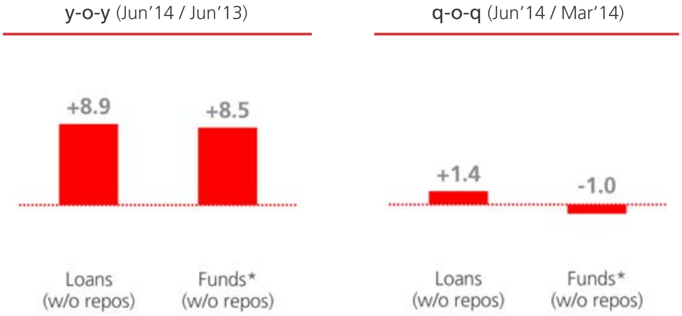
Operating expenses were up 4.0%, due to the effects pointed out for the quarter-on-quarter performance.

Loan-loss provisions declined 6.6%, benefiting from the higher recoveries and the reduction in the irregular portfolio in consumer credit and corporate loans. The risk premium remained stable, with a NPL ratio of 5.94% and coverage of 52%.

After tax and minority interests, attributable profit increased 53.3% year-on-year.

The efficiency ratio was 37.9%, the recurrence ratio 42.4% and ROE 22.1%.

■ ACTIVITY PERFORMANCE (% w/o FX)



(*) Customer deposits + mutual funds

■ GROSS INCOME

Constant EUR million

(*) In euros: +3.4%

Argentina (all changes in local currency)

Attributable profit of EUR 79 million, 50.2% more than the first quarter in local currency, partly due to high trading gains from exchange rate volatility.

Profit in the first half was EUR 135 million, up 29.6% year-on-year. Gross income rose 40.3% (higher net interest income from greater volumes, fee income and trading gains); costs increased 40.6% (largely due to inflation, salary increases agreed with trade unions and more branches) and provisions were 77.9% higher from a small base. Net operating income after provisions rose 32.5%.

The NPL ratio was 1.76% and coverage 133%.

The GDP continued to slow down (-0.2% year-on-year in the first quarter). Inflation is high and interest rates on the liabilities side were cut down to 21.7% in July, after reaching 27% in the first quarter, following the adjustment in the exchange rates in January. The NPL ratio of the whole financial system was 1.9%, coverage 143%, levels of liquidity are high and the capital ratio 13.8%. Lending grew 24% year-on-year and deposits 32%.

Santander Rio's business growth was in line with that of the banking system. Lending and deposits increased 30%. Santander Río is one of the country's leading banks, with a market share of 9.1% in loans and 9.2% in deposits. It has 386 branches and 2.5 million customers.

The Bank continued to focus on transactional services, collections and means of payment through an offer tailored to the needs of each customer segment. The objective is to continue to increase recurring revenues, with low cost demand deposits and higher income from services.

The commercial strategy continued to focus on strengthening penetration and linkage in the high-income and SMEs segments, developing improvements in the functionalities of key products and measures to enhance the quality of service. This is increasing the linkage and profitability of these clients.

The Bank is continuing to expand and transform its branch network. It opened nine new branches in the second quarter, implemented new mobile banking functionalities and continued to upgrade its website, a process that will continue during 2014, adding new functionalities and designs to enhance users' experience

Uruguay (all changes in local currency)

Attributable profit of EUR 12 million in the second quarter, 7.6% lower than in the first quarter in local currency. **The first half profit** was 9.0% higher year-on-year **at EUR 25 million.** Gross income up 15.4% and operating expenses 16.8%. The higher costs were due to the efficiency improvement plan. Excluding it, costs rose 13.4%.

The Group maintained its leadership in Uruguay. Santander is the largest private sector bank in the country, with a market share in lending of 18.7% and 15.3% in deposits. The consumer finance company Creditel is the best positioned and with the highest brand recognition. Overall, the Group has 85 branches and 450,000 customers.

Inflation remained high at close to 9% in June, above the target range of 3%-7%. The government implemented a series of measures which lowered inflation in the second quarter to just 0.6%. The currency market was more stable and the level of liquidity led to a cut in the 30-day treasury bill rate from 15.5% to 11.3% at the end of June. Sharp depreciation of the peso against the dollar (-11% in year-on-year terms).

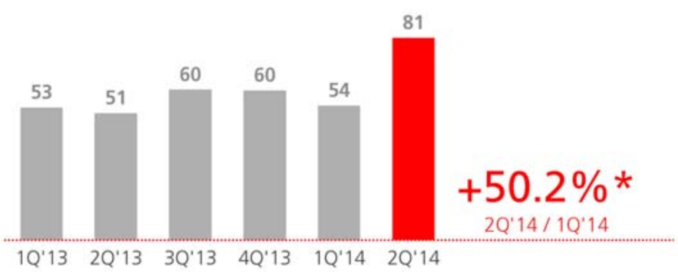
The system's lending grew 20% and deposits 19%. The Bank's growth in lending was 23% and 15% in deposits. Credit quality continues to be excellent: the NPL ratio was 0.79% and coverage 316%.

The Group continued to progress in developing retail banking: consumer credit grew 25% in pesos, loans to SMEs 32% and retail deposits represented 77% of total funding. The focus in 2014 is on quality customer service and a value offer adjusted to clients' needs and through the most adequate channel.

The Bank's priority for companies and corporates is to be the transactional bank, increasing linkage and developing innovative products.

In short, the Bank continued to advance in its goals of generating more recurring results, customer business, optimisation of costs and efficiency improvement.

ATTRIBUTABLE PROFIT. ARGENTINA
Constant EUR million



(*) In euros: +42.3%

ATTRIBUTABLE PROFIT. URUGUAY
Constant EUR million

(*) In euros: -11.8%

Peru (all changes in local currency)

Attributable profit was EUR 6 million in the second quarter, 24.2% more than the first quarter in local currency, and **EUR 10 million in the first half** (+26.8% y-o-y).

Business expanded. Gross income was 34.8% higher than in the first half of 2013, fuelled by higher lending, improved spreads and better treasury results. Costs rose 33.0% after the start-up of a new financing company specialised in auto finance. Excluding this new business, gross income grew 30%, costs 20% and profit 27%.

The economy grew 4.8% year-on-year in the first quarter but with a slightly slower pace in the second quarter, due to the fall in metal prices, reduced external demand and lower private sector growth than expected. The economy is expected to expand a little more in the in the second half of the year, driven by domestic demand, public works and new mining projects underway.

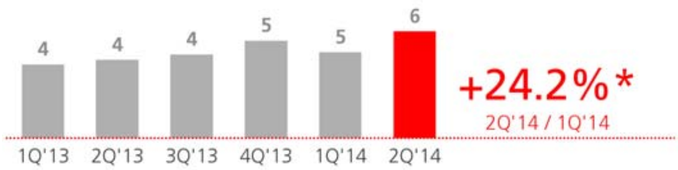
Year-on-year inflation was 3.5% in June. In this environment, the central bank cut its benchmark rate by 25 b.p. to 3.75% and adopted measures to reduce and make more flexible cash reserve requirements in order to boost liquidity. The sol depreciated 6.4% against the euro during the second quarter (6% in the first half). The budget surplus was 6.0% of GDP in the first quarter and public debt stood at 18% of GDP, one of the lowest in the region. The country has currency reserves that exceed 30% of GDP.

Santander is focusing on retail banking and investment banking with the Group's global clients, companies and institutions. Lending rose 26% year-on-year and deposits declined 12%, due to the decline in other assets of the balance sheet.

The efficiency rate was 33.9%, the NPL ratio 0.16% and coverage extraordinarily high.

A new auto finance company began to operate in 2013, together with a well-known international partner with a great deal of experience in Latin America. The company has a specialised business model, focused on service and accessible payments that facilitate the purchase of new cars. Santander operates with all brands and dealers in Peru.

ATTRIBUTABLE PROFIT. PERU
Constant EUR million



(*) In euros: +24.9%

Colombia

Banco Santander de Negocios Colombia, the Group's new subsidiary in the country, began to operate in January 2014.

Colombia is a strategically important market for Grupo Santander in order to bolster the value of its franchise in Latin America. It is the third most populated country and has a high growth potential due to the country's plans for economic and social development. Foreign investment in the country underscores this potential; there is growing interest among companies to set up in Colombia.

The new bank has capital of $100 million. Its target market is the corporate one, with a special emphasis on global clients, clients of the Group's International Desk and those local clients becoming more international.

Santander Negocios Colombia has a banking licence that allows it to operate as a local bank for all purposes. It will focus on offering investment banking products, treasury and risk hedging products, foreign trade financing and working capital products in local currency, such as confirming. It also has a robust online banking channel for clients' transactions in local payments.

UNITED STATES (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**1,139**	**3.8**	**3.9**	**2,237**	**9.9**	**14.8**
Net fees	173	5.3	5.4	336	17.8	22.9
Gains (losses) on financial transactions	15	(45.1)	(45.0)	44	(34.5)	(31.6)
Other operating income*	32	97.2	97.4	49	—	—
Gross income	**1,359**	**4.1**	**4.2**	**2,666**	**12.5**	**17.4**
Operating expenses	(473)	(0.6)	(0.5)	(949)	4.6	9.2
General administrative expenses	(428)	2.7	2.8	(844)	2.5	7.0
Personnel	*(247)*	*5.2*	*5.3*	*(481)*	*0.3*	*4.7*
Other general administrative expenses	*(181)*	*(0.5)*	*(0.4)*	*(363)*	*5.5*	*10.2*
Depreciation and amortisation	(45)	(23.9)	(23.8)	(105)	25.1	30.6
Net operating income	**886**	**6.7**	**6.9**	**1,716**	**17.4**	**22.5**
Net loan-loss provisions	(499)	(8.8)	(8.6)	(1,046)	71.7	79.2
Other income	(3)	33.5	33.7	(5)	(81.2)	(80.4)
Profit before taxes	**384**	**36.7**	**36.8**	**665**	**(19.3)**	**(15.7)**
Tax on profit	(120)	51.8	51.9	(199)	(18.1)	(14.5)
Profit from continuing operations	**264**	**30.8**	**30.9**	**466**	**(19.8)**	**(16.3)**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**264**	**30.8**	**30.9**	**466**	**(19.8)**	**(16.3)**
Minority interests	65	49.0	49.1	109	4.1	8.7
Attributable profit to the Group	**199**	**25.7**	**25.8**	**356**	**(25.1)**	**(21.8)**

BALANCE SHEET	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Customer loans**	60,006	1.6	0.6	60,006	2.2	6.7
Trading portfolio (w/o loans)	248	96.1	94.2	248	(0.5)	3.9
Available-for-sale financial assets	8,228	(8.3)	(9.1)	8,228	(27.8)	(24.6)
Due from credit institutions**	2,228	7.9	6.9	2,228	32.7	38.6
Intangible assets and property and equipment	4,594	41.5	40.2	4,594	370.1	390.9
Other assets	6,559	27.5	26.3	6,559	3.0	7.6
Total assets/liabilities & shareholders' equity	**81,864**	**4.1**	**3.1**	**81,864**	**3.1**	**7.7**
Customer deposits**	39,878	0.8	(0.1)	39,878	(4.2)	0.0
Marketable debt securities**	14,373	15.6	14.5	14,373	32.9	38.8
Subordinated debt**	680	(0.5)	(1.4)	680	(65.5)	(64.0)
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions**	12,580	4.4	3.4	12,580	(6.0)	(1.9)
Other liabilities	5,067	7.2	6.2	5,067	50.5	57.2
Shareholders' equity***	9,287	1.0	0.1	9,287	13.1	18.1
Other managed and marketed customer funds	**5,731**	**7.0**	**6.0**	**5,731**	**(8.6)**	**(4.6)**
Mutual and pension funds	844	0.2	(0.8)	844	(40.9)	(38.3)
Managed portfolios	4,887	8.3	7.2	4,887	0.9	5.4
Managed and marketed customer funds	**60,661**	**4.5**	**3.6**	**60,661**	**(0.0)**	**4.4**

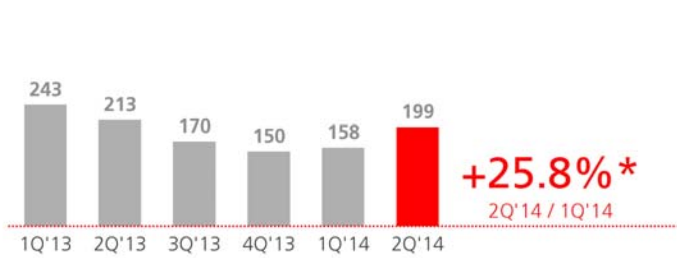
RATIOS (%) Y OPERATING MEANS	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
ROE	8.54	1.00 p.		8.11	(3.60 p.)	
Efficiency ratio (with amortisations)	34.8	(1.6 p.)		35.6	(2.7 p.)	
NPL ratio	2.93	0.05 p.		2.93	(0.03 p.)	
NPL coverage	165.0	1.7 p.		165.0	8.5 p.	
Number of employees	15,594	1.0		15,594	6.5	
Number of branches	811	(0.5)		811	(2.9)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

NET OPERATING INCOME
Constant EUR million

(*) In euros: +6.7%

ATTRIBUTABLE PROFIT
Constant EUR million



(*) In euros: +25.7%

■ UNITED STATES (all changes in dollars)

→ **Attributable profit in the second quarter of $272 million,** 25.8% more than the first quarter.

- Gross income rose 4.2% spurred by net interest income and fee income.
- Operating expenses were flat (-0.5%).
- Loan-loss provisions fell 8.6%, due to SCUSA's lower needs.

→ **Profit was 21.8% lower in the first half year-on-year.**

- Net operating income rose 22.5%, spurred by gross income (+17.4%).
- Loan-loss provisions were 79.2% higher because of the greater initial requirement of provisions for SCUSA linked to its large volume of new lending and retaining loans.

→ **Lending** increased 7% year-on-year mainly due to SCUSA. **Deposits** were flat because of the strategy pursued by Santander Bank.

Santander US includes retail banking activity via Santander Bank and Banco Santander Puerto Rico and consumer financing via its stake in Santander Consumer USA (SCUSA).

Santander Bank, with 703 branches and 1.9 million customers, is developing a business model focused on retail clients and companies. It operates in the northeast of the country, one of the most prosperous (22% of GDP).

Santander Puerto Rico has 54 branches, 414,000 customers and market shares of 10.7% in loans and 12.6% in deposits, in addition to 54 shops to tend to consumer clients. It focuses on individuals and companies.

SCUSA, based in Dallas, specialises in consumer finance, particularly loans and leasing of new and used vehicles. It is mainly focused on retail clients but also on dealers, consumer credits without guarantees and servicing of portfolios for third parties.

Economic environment

Business was conducted in an environment of moderate growth in which the Federal Reserve kept interest rates at lows. Other unconventional stimulus measures such as quantitative easing are less expansive as the Fed continued to reduce the monthly volume of purchasing bonds, a tapering policy begun at the end of 2013.

At its meeting in June, the Fed maintained its moderately optimistic tone as regards the medium-term outlook and remained committed to economic stimulus. The market, however, continues to anticipate the effects of an interest rate rise in the middle of 2015.

The system's total lending grew 4% year-on-year and deposits rose 5%.

The sale and financing of new and used vehicles continued to rise since the crisis of 2008. After growing 8% year-on-year in 2013, sales spurted in the second quarter of 2014, following a slowdown at the beginning of the year due to bad weather. The expectations for the whole year remain good, backed by the age of the stock of cars, the favourable macroeconomic conditions and the easy access to financing.

Retail banking

Banco Santander's strategy in retail banking in the US is developed through Santander Bank and Banco Santander Puerto Rico.

Santander Bank continued to advance in developing new businesses and products. These include the consolidation of operations in auto finance, which is expected to be one of the main sources of growth in the coming years, obtaining synergies from the Group's global experience and from SCUSA's local one.

Loans to companies (commercial and industrial) continued to grow, led by Global Banking and Markets (GBM), after having concluded successfully the transfer of large corporates, which enabled the team to be strengthened and reorganised.

Of note in the retail segment is the good functioning of the innovative *Extra20* product launched at the end of 2013. Its main objective is to capture new clients, increase linkage and grow demand deposits (core).

Noteworthy in cards was the launch of *Bravo*, a product aimed at the high-income segment. Its features make it very competitive.

Lending rose 1% in the second quarter and 3% since the end of 2013. Year-on-year growth was 3% compared to declines in previous quarters.

In deposits, the strategy continued to concentrate on boosting core demand deposits and reducing time deposits. There was also significant increased penetration of deposits with public institutions (government banking). Total deposits, excluding repos, were almost unchanged from the first quarter (+0.2%) and increased 1% year-on-year.

As for results, attributable profit was $111 million in the second quarter, 3.1% more than the first.

Growth was backed by the most recurring revenues (+4.9%), due to higher net interest income (+6.4%) which reflected greater lending. Fee income remained stable (-0.4%), despite the negative impact of new regulations on overdrafts introduced in May 2014.

Operating expenses were flat in the second quarter and provisions were more "normal". They rose $35 million in the second quarter, compared to releases in the first.

Attributable profit was $219 million in the first half of 2014, 28.5% lower than in the same period of 2013.

This was due to lower gross income (-10.4%), affected by the reduction in lending and higher costs (+11.9%), reflecting the effort made in technology (ATMs, mobile banking and cards), and particularly in regulatory compliance, as provisions were lower year-on-year.

Credit quality remained good, with a NPL ratio of 2.05% (-17 b.p. since June 2013) and coverage of 89%, reflecting the improvement in the composition of the portfolio together with strict risk management.

Santander Puerto Rico is recognized among its competitors for its good credit quality, capital ratios, liquidity and quality of service.

Lending dropped 7% quarter-on-quarter and 11% year-on-year, due to deleveraging in the public sector which was partly offset by growth in consumer credit and SMEs. Deposits declined 6% in the quarter and 11% over June 2013, mainly due to the strategy of reducing confirming which requires collateral in cash.

Attributable profit was $20 million in the quarter, 8.5% more than the first quarter thanks to the favourable evolution of revenues, costs and provisions, and $39 million in the first half (-44.1% year-on-year). Net operating income grew 10.8%, offset by larger provisions, and there was a one-off positive impact on tax in 2013 from the sale of a portfolio.

Consumer finance

SCUSA completed in the first quarter its IPO and listing on the New York Stock Exchange.

During the second quarter SCUSA continued its auto finance expansion plan on several fronts, such as organic growth based on agreements with brands and groups of dealers, strategic alliances (the one with Chrysler and another in the second quarter) and growth in the platform of direct loans via the Internet. More diversification measures were developed through agreements enabling consumer credit without guarantees to keep on growing.

SCUSA also continued to seek expansion opportunities in servicing portfolios for third parties. It signed an agreement in the second quarter with Citizens Bank of Pennsylvania to sell, while maintaining servicing portfolios, the prime portfolio of auto finance. This agreement joined the one already existing with Bank of America.

Regarding activity and results, the growth trend in volumes continued in the second quarter (+3% over the first and +21% y-o-y), which was reflected in the rise in gross income (+1.6% and +41.0%, respectively) which in the year-on-year comparison has not yet fully fed through to profit because of the greater initial requirement of provisions linked to strong lending and retaining loans of recent quarters.

SCUSA's attributable profit was $141 million in the second quarter, 56.8% more than the first. However, larger provisions from the growth in new lending reduced profit growth in the first half ($231 milion) to 7.3% year-on-year. The trend, however, was clearly better than in the first quarter when profit was 39% lower year-on-year.

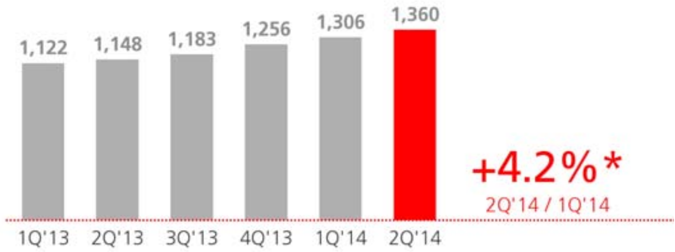
ACTIVITY PERFORMANCE (% w/o FX)

y-o-y (Jun'14 / Jun'13) q-o-q (Jun'14 / Mar'14)

(*) Customer deposits + mutual funds

GROSS INCOME

Constant EUR million



(*) In euros: +4.1%

CORPORATE ACTIVITIES (EUR million)

INCOME STATEMENT	2Q'14	1Q'14	%	1H'14	1H'13	%
Net interest income	**(489)**	**(534)**	**(8.4)**	**(1,023)**	**(1,083)**	**(5.6)**
Net fees	(6)	(8)	(28.4)	(14)	(31)	(54.5)
Gains (losses) on financial transactions	248	302	(17.7)	550	590	(6.8)
Other operating income	10	16	(37.5)	25	64	(60.2)
Dividends	10	5	94.4	15	8	77.3
Income from equity-accounted method	(15)	0	—	(15)	(6)	167.1
Other operating income/expenses	15	10	47.7	26	61	(57.8)
Gross income	**(237)**	**(224)**	**5.5**	**(461)**	**(460)**	**0.3**
Operating expenses	(197)	(191)	3.0	(389)	(353)	10.2
General administrative expenses	(156)	(164)	(5.1)	(320)	(284)	12.7
Personnel	*(62)*	*(67)*	*(7.7)*	*(129)*	*(131)*	*(1.5)*
Other general administrative expenses	*(94)*	*(97)*	*(3.4)*	*(192)*	*(153)*	*24.9*
Depreciation and amortisation	(41)	(27)	52.4	(69)	(69)	(0.2)
Net operating income	**(434)**	**(416)**	**4.3**	**(850)**	**(812)**	**4.6**
Net loan-loss provisions	(1)	1	—	0	(218)	—
Other income	(67)	(72)	(7.2)	(139)	(155)	(10.2)
Ordinary profit before taxes	**(502)**	**(487)**	**3.2**	**(989)**	**(1,185)**	**(16.5)**
Tax on profit	59	79	(25.7)	137	121	13.3
Ordinary profit from continuing operations	**(444)**	**(408)**	**8.8**	**(852)**	**(1,064)**	**(19.9)**
Net profit from discontinued operations	—	—	—	—	—	—
Ordinary consolidated profit	**(444)**	**(408)**	**8.8**	**(852)**	**(1,064)**	**(19.9)**
Minority interests	(0)	(3)	(91.6)	(3)	(2)	43.8
Ordinary attributable profit to the Group	**(444)**	**(405)**	**9.4**	**(849)**	**(1,062)**	**(20.1)**
Net capital gains and provisions	—	—	—	—	—	—
Attributable profit to the Group	**(444)**	**(405)**	**9.4**	**(849)**	**(1,062)**	**(20.1)**
BALANCE SHEET						
Trading portfolio (w/o loans)	3,297	2,947	11.9	3,297	5,291	(37.7)
Available-for-sale financial assets	6,863	6,892	(0.4)	6,863	22,492	(69.5)
Investments	542	276	96.3	542	206	163.2
Goodwill	26,663	26,056	2.3	26,663	24,910	7.0
Liquidity lent to the Group	24,882	28,985	(14.2)	24,882	30,605	(18.7)
Capital assigned to Group areas	70,229	70,542	(0.4)	70,229	70,103	0.2
Other assets	53,467	49,007	9.1	53,467	57,661	(7.3)
Total assets/liabilities & shareholders' equity	**185,943**	**184,706**	**0.7**	**185,943**	**211,269**	**(12.0)**
Customer deposits*	1,563	1,379	13.4	1,563	7,658	(79.6)
Marketable debt securities*	60,754	62,102	(2.2)	60,754	73,211	(17.0)
Subordinated debt*	5,263	4,173	26.1	5,263	4,412	19.3
Other liabilities	34,084	32,724	4.2	34,084	45,040	(24.3)
Group capital and reserves**	84,279	84,328	(0.1)	84,279	80,947	4.1
Other managed and marketed customer funds	**—**	**—**	**—**	**—**	**—**	**—**
Mutual and pension funds	—	—	—	—	—	—
Managed portfolios	—	—	—	—	—	—
Managed and marketed customer funds	**67,580**	**67,654**	**(0.1)**	**67,580**	**85,282**	**(20.8)**
OPERATING MEANS						
Number of employees	2,556	2,527	1.1	2,556	2,567	(0.4)

(*) Including all on-balance sheet balances for this item
(**) Not including profit of the year

CORPORATE ACTIVITIES

→ Corporate Activities registered a loss of EUR 444 million in the second quarter, in line with the EUR 405 million loss in the first quarter.

→ The loss in the first half was EUR 849 million, 20% better than the EUR 1,062 million in the same period of 2013 due to the better evolution of net interest income and lower provisions.

Within Corporate Activities, the Financial Management area conducts the global functions of balance sheet management, both structural interest rate and liquidity risk (the latter via issues and securitizations), as well as the structural position of exchange rates:

- Interest rate risk is actively managed by taking market positions. This management seeks to soften the impact of interest rate changes on net interest income, and is done via bonds and derivatives of high credit quality and liquidity and low consumption of capital.

- The objective of structural liquidity management is to finance the Group's recurring activity in optimum conditions of maturity and cost, maintaining an appropriate profile (in volumes and maturities) by diversifying the funding sources.

- Management of the exposure to exchange rate movements in equity and in the units results in euros, is also carried out on a centralized basis. This management (dynamic) is conducted through exchange-rate derivatives, optimizing at all times the financial cost of hedging.

Hedging of net investments in the capital of businesses abroad aims to neutralize the impact on capital of converting into euros the balances of the main institutions that are consolidated whose currency is not the euro.

The Group's policy immunizes the impact, which, in situations of high volatility in the markets, sudden changes in interest rates would have on these exposures of a permanent nature. The investments that are currently hedged are those in Brazil, UK, Mexico, Chile, USA and Poland and the instruments used are spot, FX forwards or tunnel options. EUR 17,778 million are currently hedged.

Exposures of a temporary nature – those regarding results that the Group's units will contribute in the next 12 months in non-euro currencies – are also managed on a centralized basis in order to limit their volatility in euros.

Meanwhile and separately from the financial management described here, Corporate Activities manages all capital and reserves and allocations of capital to each of the units, as well as providing the liquidity that some of the business units might need. The price at which these operations are carried out is the market rate (euribor or swap) plus the risk premium, which in concept of liquidity, the Group supports for immobilizing the funds during the life of the operation.

Lastly, and marginally, the equity stakes of a financial nature that the Group takes within its policy of optimizing investments are reflected in Corporate Activities.

The main developments were:

- Net interest income was EUR 489 million negative compared to EUR 534 million negative in the first quarter. The loss in the first half was EUR 1,023 million, 5.6% lower than the same period of 2013. This improvement was partly due to the lower cost of issuances as a result of lower recourse to the market (directly related to reduced funding needs from the gap between loans and deposits).

- Trading gains, which incorporate those derived from the centralized management of the interest rate and exchange rate risk of the parent bank as well as that from equities, were EUR 550 million positive in the first half, lower than in the same period of 2013.

- Operating expenses were virtually unchanged from the first quarter of 2014, but higher over the first half of 2013, due to the combined effect of slightly better personnel costs (where the efficiency plans started to bear the first fruits), and the higher costs related to ongoing corporate transactions, which are recorded in the Corporate Centre until their effective entry into force. Costs related to the implementation of the various regulations are also recorded here.

- Loan-loss provisions had no impact in 2014, compared to EUR 218 million in the first half of 2013, a period that recorded a charge stemming from the integration process in Spain.

- Other income includes the net between provisions and writedowns and positive results. This figure was EUR 139 million negative in the first half compared to EUR 155 million negative in the same period of 2013.

- Lastly, the tax line recorded a recovery of EUR 137 million for the first half.

RETAIL BANKING

- **Second quarter attributable profit of EUR 1,450 million,** 16.7% more than the first quarter (+15.2% excluding the exchange rate impact), due to:
  - Gross income up 2.0%.
  - Flat costs (-0.6%).
  - Lower provisions (-6.7%).
- **Profit was 8.8% higher than in the first quarter of 2013** due to exchange rates:
  - Excluding this impact, profit was 18.6% higher due to a 7.3% rise in net interest income and lower provisions.
- **Loans** were up 1% and **deposits** down 3%, both quarter-on-quarter and year-on-year, at constant exchange rates.

Retail banking generated 84% of the Group's operating areas gross income and 69% of attributable profit in the first half of 2014.

Strategy

The Bank continued to make progress in the programme of transforming Retail Banking begun in 2013. Its central planks are to improve the experience of customers with the Bank, specialize the management of each segment and develop a multi-channel distribution model that is more efficient and tailored to changing clients' needs. At the same time, innovation in the way of working is being fostered, and opportunities linked to the Group's international positioning fully exploited. The overriding goal of this programme is to strengthen customer relations and loyalty.

Several measures taken in the last few months underscore the progress made in various countries, including:

1. *Santander Advance*: the *Advance Programme* was launched in Spain in April and in its first months is meeting the high expectations.

The aim is to not only support SMEs financially, but also assume an integral commitment to their development and growth. The programme has a strong financial offer (which is adjusted in each market on the basis of its features and the positioning of the bank with a mixed focus of traditional and non-traditional financing), as well as non-financial support measures (talent and training, support for internationalization, fostering employment, and recruitment and placement, a dedicated jobs portal and a programme of Santander scholarships).

New lending under this programme in Spain in the two months since the launch amounted to EUR 4,000 million, notably improving the trend of previous months. Moreover, more than 9,000 new clients were captured in the first nine weeks, a faster pace of weekly capturing than before the launch of the programme.

Meanwhile, more than 3,000 SMEs participated in non-financial *Advance* initiatives. Of note was the holding of more than 80 workshops on SME issues in Santander branches in 17 regions, which were attended by more than 1,000 SMEs. Training sessions were given directly to more than 450 SMEs and online ones to more than 800. Master classes were given in various regions in five companies, which opened their doors to other Santander SME clients, and for several hours executives explained their successful business models. *Santander Advance* connected more than 200 Spanish companies with Mexico and Poland via videoconferences in which interested SMEs gained first hand knowledge of international business opportunities in new markets.

The *Advance Programme* is an innovative ,differential and integral value offer, for supporting the growth of SMEs. After Spain, it will be launched in Mexico, Brazil, the UK and Portugal this year and in the rest of the Group's countries in 2015.

RETAIL BANKING (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**7,099**	**4.0**	**2.1**	**13,925**	**(1.6)**	**7.3**
Net fees	1,889	1.8	0.1	3,744	(7.0)	1.4
Gains (losses) on financial transactions	80	(25.9)	(24.7)	187	(73.5)	(71.6)
Other operating income*	(26)	(67.6)	(68.8)	(108)	(40.9)	(36.6)
Gross income	**9,041**	**3.8**	**2.0**	**17,749**	**(5.1)**	**3.4**
Operating expenses	(4,065)	1.1	(0.6)	(8,087)	(5.2)	2.1
Net operating income	**4,976**	**6.2**	**4.2**	**9,661**	**(4.9)**	**4.5**
Net loan-loss provisions	(2,372)	(4.6)	(6.7)	(4,858)	(16.5)	(7.9)
Other income	(338)	26.3	22.8	(605)	23.2	32.3
Profit before taxes	**2,266**	**17.3**	**15.6**	**4,198**	**9.1**	**19.5**
Tax on profit	(561)	19.0	16.9	(1,033)	25.1	38.2
Profit from continuing operations	**1,704**	**16.7**	**15.1**	**3,164**	**4.7**	**14.4**
Net profit from discontinued operations	(0)	2.5	1.9	(0)	(98.2)	(98.3)
Consolidated profit	**1,704**	**16.7**	**15.1**	**3,164**	**5.2**	**15.0**
Minority interests	254	17.0	14.9	472	(11.9)	(1.9)
Attributable profit to the Group	**1,450**	**16.7**	**15.2**	**2,692**	**8.8**	**18.6**
BUSINESS VOLUMES						
Customer loans	609,679	2.5	0.7	609,679	1.7	0.8
Customer deposits	508,459	(1.4)	(3.2)	508,459	(2.4)	(3.4)

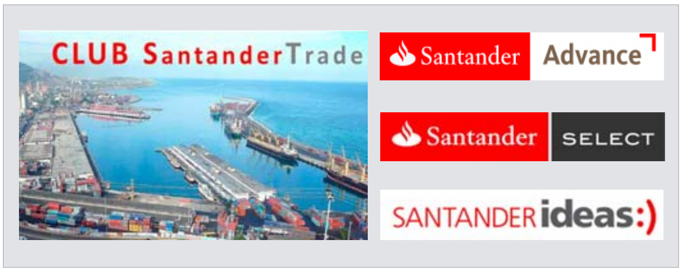
(*) Including dividends, income from the equity-accounted method and other operating income/expenses

RETAIL BANKING. INCOME STATEMENT (EUR million)

	Net operating income						Attibutable profit to the Group					
		o/ 1Q'14			o/ 1H'13			o/ 1Q'14			o/ 1H'13	
	2Q'14	%	% w/o FX	1H'14	%	% w/o FX	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Continental Europe	1,248	9.2	9.1	2,391	11.2	11.7	381	9.2	9.0	730	92.7	95.1
United Kingdom	599	3.6	2.0	1,178	22.2	18.0	354	6.1	4.5	687	64.2	58.5
Latin America	2,263	4.6	0.7	4,427	(21.7)	(7.4)	513	19.4	16.5	943	(24.8)	(10.9)
USA	865	8.1	8.2	1,666	20.0	25.3	202	54.8	55.0	332	(21.2)	(17.7)
Total Retail Banking	**4,976**	**6.2**	**4.2**	**9,661**	**(4.9)**	**4.5**	**1,450**	**16.7**	**15.2**	**2,692**	**8.8**	**18.6**

2. Launch of the *Santander Trade Club and Passport:* the recently launched Santander Trade Club enables exporters and importers to get to know one another, interact and be connected in order to generate new international business opportunities. It also gives users access to the network of more than 5 million corporate clients of Banco Santander. The Passport is a service that helps companies and SMEs to internationalise and ensures that those in countries where the bank operates receive the best offer of products and the best attention, regardless of the country in which they want to operate.

3. Establishing *Santander Select* in all countries where we operate: Select will be launched in all countries during 2014, following its establishment in Spain, Mexico, Chile, Argentina and Brazil in 2013 and Portugal and the US in the first part of this year. Select is the Bank's global brand for the mass affluent segment, with a specialised attention model and an attractive and exclusive value offer for these clients. As part of the benefits for these clients, we recently launched the *Global Select* debit card that enables clients to withdraw cash free of charge from any of our more than 30,000 Santander ATMs around the world. We have already issued close to 80,000 of these cards, which have been well received. The card received a prize from the magazine *Actualidad Económica* as one of the *Best Ideas in 2014*.



It is also worth pointing out other measures that reflect the Group's vocation to keep on being in the vanguard of the changes taking place in various markets in order to exploit the new trends, processes and possibilities that are continuously arising.

- The SANTANDER ideas:) project was launched at the beginning of the year in the whole Group. It is a corporate social network that seeks to foster a work culture focused on innovation and cooperation and enables better use to be made of the diversity, talent and collective intelligence of all the Group's employees. The first challenge – *to make Santander a closer, simpler and more direct bank for our clients* – succeeded in involving close to 13,000 employees. They generated 4,000 ideas, which were assessed by a team of experts and resulted in the shaping of around 250 projects in all countries where we operate.

- Santander UK reached a co-operation agreement with the peer-to-peer lending platform *Funding Circle,* in order to make crossed references between clients. This is a pioneering co-operation agreement between established and new entities.

The emphasis in the coming months is to continue the process of transforming the Group's retail banks and evolve toward a more customer-focused and efficient model.

Results

Attributable profit was 16.7% higher **than in the first quarter** at EUR 1,450 million (+15.2% excluding the exchange rate impact).

This was due to gross income, which increased 2.0% (eliminating the forex impact), flat costs (-0.6%) and the effort made to manage credit quality, reflected in a 6.7% drop in provisions.

Profit was 8.8% higher **than in the first half of 2013** and 18.6% higher excluding the exchange rate impact. It was due to gross income, mainly net interest income (+7.3%) and, to a lesser extent, lower provisions.

GLOBAL WHOLESALE BANKING

→ **Attributable profit of EUR 428 million in the second quarter,** 9.7% less than the first quarter and EUR 902 million in the first half (+6.4% year-on-year; +14.9% in constant euros). Of note:

- Gross income rose at a faster pace (+10.1% year-on-year excluding the exchange rate impact) and stable provisions.
- Higher costs from strengthening the franchise and maintain efficiency levels that are a reference for the sector (33.6%).

→ Focus on clients continued (89% of revenues) and on active management of risks, liquidity and capital.

→ In the quarter, a strategic alliance (subject to regulatory approvals) was announced to spur custody business in Spain and Latin America.

Santander Global Banking & Markets (SGB&M) generated 12% of the Group's operating areas gross income and 23% of attributable profit in the first half.

Strategy

SGB&M maintained in 2014 the key pillars of its business model, focused on the client, its global reach and its interconnection with local units, within active management of risk, capital and liquidity. Notable developments this year are:

- The development together with Retail Banking of offers and advice in high value products for various client segments in all the Group's units.
- The push given to transaction business in the UK, US and Poland, which complements the strengthening of the franchise of clients in all countries.
- The creation of the Financing Solutions and Advisory unit to provide an integral solution for the advisory and structural financing needs of clients.

The Group reached agreement in the second quarter with an investor group to strengthen its leadership in custody business in Spain and Latin America. This group will acquire 50% of the current business in Spain, Brazil and Mexico, with Santander keeping the remaining 50%. It is expected that products and services will be boosted and more investments made in technology platforms and equipment.

Results and activity

Attributable profit was EUR 428 million in the **second quarter,** 9.7% lower than the first quarter due to the rise in provisions. Of note was the increase in gross income (+2.9%) backed by net interest income and fee income.

Profit in the **first half was** 6.4% higher year-on-year at EUR 902 million, absorbing the depreciation of Latin American currencies. At constant exchange rates, the increase was 14.9%, backed by gross income (+10.1%; +2.6% in current euros) and stable provisions.

The efficiency ratio remained a reference (33.6%) for the sector, after absorbing the increase in costs in constant euros from business development in core markets.

These results emanated from the strength and diversification of customer revenues, which accounted for 89% of total gross income. Its year-on-year performance is similar to that of total revenues (+1.3%; +6.5% in constant euros), although varied **by business sub areas:**

GLOBAL WHOLESALE BANKING (EUR million)

		o/ 1Q'14			o/ 1H'13	
INCOME STATEMENT	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Net interest income	**656**	**13.3**	**11.5**	**1,235**	**3.5**	**12.8**
Net fees	370	8.4	6.7	712	2.8	9.9
Gains (losses) on financial transactions	172	(50.8)	(51.2)	520	(0.5)	5.8
Other operating income*	138	379.3	377.0	166	5.3	5.8
Gross income	**1,335**	**2.9**	**1.5**	**2,633**	**2.6**	**10.1**
Operating expenses	(445)	1.2	(0.1)	(886)	(0.5)	5.5
Net operating income	**890**	**3.8**	**2.3**	**1,748**	**4.2**	**12.6**
Net loan-loss provisions	(200)	86.2	85.9	(308)	(3.3)	0.9
Other income	(19)	1.0	0.6	(38)	27.2	27.0
Profit before taxes	**670**	**(8.3)**	**(9.8)**	**1,402**	**5.5**	**15.2**
Tax on profit	(183)	(8.8)	(10.3)	(383)	2.8	13.2
Profit from continuing operations	**488**	**(8.1)**	**(9.7)**	**1,019**	**6.6**	**15.9**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**488**	**(8.1)**	**(9.7)**	**1,019**	**6.6**	**15.9**
Minority interests	60	5.7	1.6	116	7.7	24.9
Attributable profit to the Group	**428**	**(9.7)**	**(11.0)**	**902**	**6.4**	**14.9**
BUSINESS VOLUMES						
Customer loans	79,191	(0.6)	(1.9)	79,191	(18.3)	(17.8)
Customer deposits	73,272	8.0	6.5	73,272	(10.4)	(9.2)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

Transaction Banking

Global Transaction Banking[1] registered lower customer revenues (-7.5% year-on-year; -1.7% in constant euros), due to the lower contribution of basic financing which the rest of activities did not offset, excluding the exchange rate impact.

By businesses, stronger growth from trade finance, spurred by the two largest markets (Spain and Brazil) and in units being developed. There were significant operations in the second quarter to strengthen the Group's position in export finance (Royal Caribbean) and in supply chain solutions (Danone Group).

Revenues from cash management also rose, due to the combination of a local offer and regional solutions for treasury management, as well as in custody-settlement, strongly backed by the recovery in Spain and growth in Brazil.

On the other hand, lower contribution of basic financing due to the general containment of spreads, particularly in Spain and Portugal.

Financing Solutions & Advisory

Financing Solutions & Advisory[2] increased its customer revenues 8.5% year-on-year (+12.7% without the exchange rate impact).

In syndicated corporate loans, Santander maintained its reference positions in Europe and Latin America with major participations in significant transactions. Also in Project Finance, where the Group continued to foster the transformation of the market in order to adjust it to the new regulatory and funding reality with operations that are less capital intensive.

In the capital markets, Santander continued to consolidate its business. In Europe, differentiated evolution by segments, with a sharp year-on-year rise in financial issuers and falls in corporate bonds. Also, lower issuance of sovereign bonds, although of note was Santander's participation as joint bookrunner in the syndicated issue of a new Kingdom of Spain EUR 9 billion 10-year bond. In Latin America, the Group took advantage of its leading presence in the region to attract various issuers to the cross-border market. Santander participated in the big operations of Odebrecht Oil & Gas Finance, Brasil Foods and Votorantim.

In Corporate Finance, small fall in gross income with more activity, particularly in the telecoms sector. Of note was the Group's participation: in advisory services for the acquisition by American Tower (US leader in managing telecom towers) of the Brazilian BR Towers; in the capital increase of Fibra Uno in Mexico as the global coordinator (second largest placement in the country's history); and in the first real estate transaction of a consortium of Brazilian investors in Spain (purchase of the assets of a joint venture between ADIF and Riofisa).

Lastly, Asset & Capital Structuring continued to increase its portfolio of clients in Europe, Latin America and the US. Of note was the rise in gross income in the UK.

Global Markets

Global Markets'[3] customer revenues rose by 6.3% year-on-year (+11.4% excluding the exchange rate effect), due to the higher contribution from all countries.

Positive evolution of revenues from the sales business, fuelled by double-digit growth in Spain, Brazil and Chile, which offset the weaker business particularly in the UK and Mexico. Of note by type of client was the growth of sales of the corporate and commercial banking segments in all units, compared to a more unequal contribution from the rest of segments (institutional, corporate, etc.).

Lower contribution from the management of books in Spain, due to the reduced volatility and the lower volumes, compared with the better results in emerging countries. The most affected books in Europe were those of cash products, while the contribution of derivatives declined to a smaller extent.

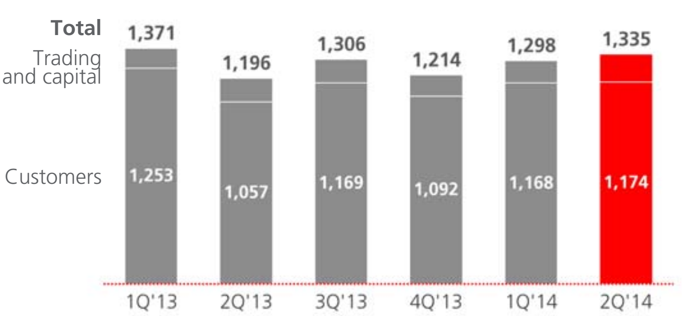
The contribution of equities was higher in customer revenues in constant euros because of Europe (better in the primary market than in the secondary) which offset the declines in Latin America. In organized markets derivatives, the Group's positions in Spain (MEFF – Spanish financial futures market) and Mexico were maintained, with a share of more than 19% in settlements.

(1) **Global Transaction Banking:** includes the business of cash management, trade finance, basic financing and custody.

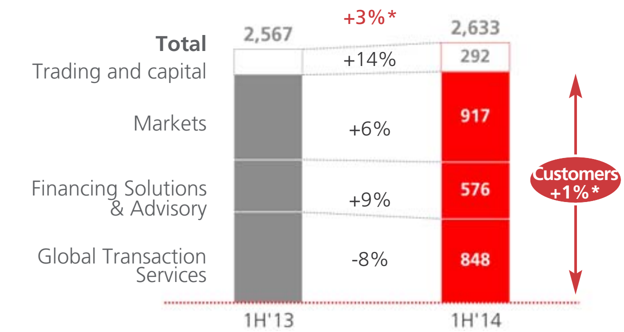
(2) **Financing Solutions & Advisory:** includes the units of origination and distribution of corporate loans and structured financings, bond and securitisation origination teams, corporate finance units (mergers and acquisitions, primary markets of equities, investment solutions for corporate clients via derivatives), and asset & capital structuring.

(3) **Global Markets:** includes the sale and distribution of fixed income and equity derivatives, interest rates and inflation; the trading and hedging of exchange rates, and short-term money markets for the Group's wholesale and retail clients; management of books associated with distribution; and brokerage of equities, and derivatives for investment and hedging solutions.

GROSS INCOME PERFORMANCE
EUR million



GROSS INCOME BREAKDOWN
EUR million



(*) Excluding exchange rate impact: total revenues: +10%; customers +7%

PRIVATE BANKING, ASSET MANAGEMENT AND INSURANCE

- **Attributable profit of EUR 180 million** in the second quarter (+31.4% quarter-on-quarter) and EUR 317 million in the first half (-4.8% year-on-year).
  - Fall in the profit due to the smaller perimeter (sale of 50% of fund management entities in 2013) and the impact of exchange rates. Rise of 9.2% excluding them.
- Total **gross income** (including that paid to the networks) accounted for 10% of the operating areas' total in the first half (+1.7% year-on-year and at constant exchange rates and perimeter).
- **Private Banking:** more stable gross income in recent quarters, though lower year-on-year (-3.8% in constant euros).
- **Asset Management:** higher revenues on a like-for-like basis and constant exchange rates (+12.0%).
- **Insurance:** solid contribution of gross income and higher attributable profit (+19.8% year-on-year in constant euros).

Attributable profit in the first half for the whole area was EUR 317 million (8% of the Group operating areas' total).

Strategy

Private Banking continues to advance in installing a homogeneous model that provides integral solutions for the financial needs of the Group's high-income clients, with specialised units by country. The model is based on three pillars:

- Segmentation, as a tool to define a tailored and efficient value offer that also tends to the needs of the next generations.
- Linkage and satisfaction of all customer needs.
- Commitment to multi-channel banking in an increasingly digitalized environment.

Asset Management, after the global alliance with Warburg Pincus and General Atlantic to foster business in funds, continued to strengthen its marketing model via:

- Reviewing and adjusting the offer, with a greater focus on clients and their investment needs.
- A model that covers clients' savings needs for retirement, with a special focus in some markets.
- A segmented offer of investment products for clients in specific markets such as Portugal and Poland.

Insurance, backed by alliances in core European and Latin American countries with specialists, continued to develop a sustainable business model that ensures protection of its clients. There are two basic pillars:

- Amore complete open market insurance range, better segmented and multi-channel, with a particular focus on *Select* clients and on SMEs.
- The *Programme for Excellence and Customer Satisfaction in Insurance (Progress)* was put into effect to strengthen long-term relations with clients and make possible optimum management of portfolios.

A further step in this strategy is the joint venture with CNP. Announced in July, it seeks to distribute insurance products by some of Santander Consumer Finance units. It includes the acquisition of a 51% stake of the three product-generating insurance companies.

Results and activity

Attributable profit was 31.4% higher **than in the first quarter** backed by higher gross income and lower provisions.

Compared to the first half of 2013, gross income was 5.5% lower due to the smaller perimeter (sale of 50% of the fund management entities in the fourth quarter of 2013) and the depreciation of Latin American currencies. The lower operating expenses and provisions did not prevent the decline in attributable profit (-4.8%). Excluding these effects, gross income and profit rose 2.8% and 9.2%, respectively.

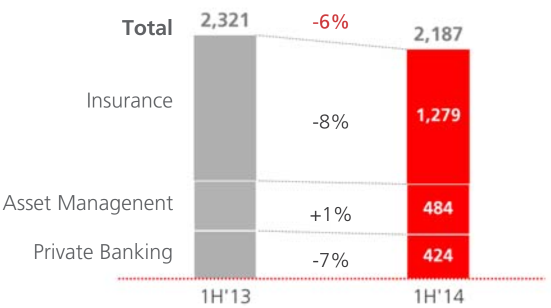
PRIVATE BANKING, ASSET MANAGEMENT AND INSURANCE (EUR million)

INCOME STATEMENT	2Q'14	o/ 1Q'14 %	o/ 1Q'14 % w/o FX	1H'14	o/ 1H'13 %	o/ 1H'13 % w/o FX
Net interest income	**109**	**(7.8)**	**(8.7)**	**227**	**(9.1)**	**(5.4)**
Net fees	148	5.6	5.1	287	2.8	8.0
Gains (losses) on financial transactions	11	34.9	34.4	20	(27.2)	(23.3)
Other operating income*	96	13.9	11.7	180	(9.6)	(2.5)
Gross income	**364**	**3.8**	**2.7**	**714**	**(5.5)**	**(0.3)**
Operating expenses	(144)	1.7	0.9	(285)	(1.0)	2.9
Net operating income	**220**	**5.2**	**4.0**	**429**	**(8.2)**	**(2.4)**
Net loan-loss provisions	12	—	—	(14)	(41.3)	(41.2)
Other income	(1)	(72.4)	(75.0)	(3)	102.1	167.6
Profit before taxes	**231**	**28.1**	**26.7**	**412**	**(6.8)**	**(0.7)**
Tax on profit	(47)	23.7	23.2	(85)	(12.4)	(8.6)
Profit from continuing operations	**184**	**29.3**	**27.6**	**326**	**(5.3)**	**1.7**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**184**	**29.3**	**27.6**	**326**	**(5.3)**	**1.7**
Minority interests	4	(23.9)	(26.0)	9	(19.4)	(7.1)
Attributable profit to the Group	**180**	**31.4**	**29.7**	**317**	**(4.8)**	**1.9**

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

TOTAL GROUP REVENUES*

EUR million



(*) Year-on-year change at constant perimeter and exchange rates:
Total +2%; Insurance 0%; Asset Management +12%; Private Banking: -4%.

The area's total revenues including those recorded by the distribution networks amounted to EUR 2,187 million (-5.8% year-on-year; +1.7% on a like-for-like basis and constant exchange rates). These revenues accounted for 10% of the operating areas' total.

Private Banking generated an attributable profit of EUR 140 million in the first half, 10.1% lower than in the same period of 2013 (-7.0% in constant euros). This was largely due to the 3.8% fall, excluding exchange rate impact, in gross income.

Compared to the first quarter, attributable profit was 37.1% higher. Of note was the greater stability in revenues, lower provisions and cost management that resulted in an efficiency ratio of around 47%, a reference for the sector.

Asset Management posted an attributable profit of EUR 51 million (-12.9% year-on-year), with higher contribution of the second quarter (EUR 33 million). On a like-for-like basis and at constant exchange rates, attributable profit was 33.2% higher.

Including the fees recorded by the networks, total gross income for the Group was EUR 484 million, 0.9% higher than in the first half of 2013 (+12.0% higher on a like-for-like basis and constant exchange rates).

Business volumes were higher. Managed and marketed funds amounted to EUR 154,195 million, 10% more than at the end of 2013 at constant exchange rates. Of this, EUR 130,997 million were mutual and pension funds and the rest clients' portfolios other than funds. Three countries concentrate over three-quarters of these funds:

- In Spain (EUR 55,540 million, +15% over the end of 2013), Santander led the net capturing of mutual funds (four mixed funds and/or profiled out of the top 10), lifting its market share by 194 b.p. in 12 months to 17.2% in June, according to Inverco.

- In Latin America, Brazil increased its assets to EUR 49,593 million (+7% in local currency in the first half), driven by the high income and corporate segments.

- Mexico increased its assets in pesos by 11% over December to EUR 11,724 million, thanks to the *Select* and *Elite* funds.

Insurance posted an attributable profit of EUR 126 million in the first half, 6.3% more year-on-year, thanks to a second quarter result that was 10.0% higher than the first. Isolating the exchange rate impact, attributable profit was 19.8% higher year-on-year due to higher gross income and flat costs.

Total gross income generated by this business including fee income recorded in the commercial networks was EUR 1,279 million, unchanged year-on-year at constant exchange rates and 7.5% less in euros.

The total result for the Group (profit before taxes plus fee income paid to the networks) was 7.7% lower year-on-year due to the depreciation of Latin American currencies, and 0.1% higher in constant euros. The performance excluding the exchange rate impact was as follows:

- Europe contributed less year-on-year (-2.4%). Growth in consumer business (Santander Consumer Finance: +7.8%) and Poland (+38.1% in constant euros), offset the falls in Spain, Portugal and the UK.

- Latin America's profit was up 5.1% at constant exchange rates, with growth in all countries except for Brazil which remained unchanged due to lower lending. Of note was Mexico (+18.8%) in local currency.

- The US profit grew 10.1%, backed by fee income from the distribution of Santander Bank's third party insurance.

PRIVATE BANKING, ASSET MANAGEMENT AND INSURANCE. INCOME STATEMENT (EUR million)

	Net operating income						Attibutable profit to the Group					
		o/ 1Q'14			o/ 1H'13			o/ 1Q'14			o/ 1H'13	
	2Q'14	%	% w/o FX	1H'14	%	% w/o FX	2Q'14	%	% w/o FX	1H'14	%	% w/o FX
Private Banking	108	(7.0)	(7.4)	224	(11.1)	(8.0)	81	37.1	36.6	140	(10.1)	(7.0)
Asset Management	32	70.8	66.9	51	(11.8)	(6.5)	33	84.2	80.0	51	(12.9)	(7.7)
Insurance	79	7.6	5.6	153	(2.3)	9.0	66	10.0	7.8	126	6.3	19.8
Total	**220**	**5.2**	**4.0**	**429**	**(8.2)**	**(2.4)**	**180**	**31.4**	**29.7**	**317**	**(4.8)**	**1.9**

Corporate Governance

Changes to the Bylaws and creation of a new board committee

On June 5, 2014, after obtaining the Bank of Spain's authorization, the changes to the Bank's Bylaws, which had been approved by the ordinary general meeting of shareholders on March 28, 2014 (95.5% of votes in favour), were inscribed in the Mercantile Registry of Cantabria.

These changes bring the Bylaws into line with the recent legislative changes in corporate governance, mainly related to the CRD IV directive and applicable in the European Union as of January 1, 2014.

This directive requires credit institutions to constitute a risk committee that advises the board on "the global propensity to risk, current and future, of the entity and its strategy in this sphere" and which assists it "in overseeing the implementation of the strategy by senior management", preserving the board's global risks responsibility.

One of the changes consisted of introducing an article that gives a new board committee, denominated supervision of risks, regulation and compliance, general powers of support and advice to the board for the function of supervision and control of risks, setting the Group's risk policies, relations with the supervisory authorities and in matters of regulation and compliance.

The board, at its meeting on June 23, 2014, agreed to modify the board's regulations and adapt them to the changes in the Bylaws and develop them as required including, among other changes, an article that regulates the aforementioned committee's functions. The following directors were appointed members of this committee: Mr. Fernando de Asúa Álvarez as chairman, Ms. Sheila Bair, Mr. Rodrigo Echenique Gordillo and Mr. Ángel Jado Becerro de Bengoa.

The board, when designating these directors, three of whom are non-executive independent and the other non-executive in the board's view, is neither a proprietary nor an independent director, took into account their knowledge, skills and experience in the field of the committee's tasks.

Changes in the board

Mr. Vittorio Corbo Lioi presented his resignation as a director of Banco Santander, with effect from July 24th, 2014.

Significant events in the quarter and subsequent ones

Offer to acquire the minority interests of Banco Santander Brazil

On April 29, we announced our intention to make an offer to acquire all the shares of Banco Santander Brazil not owned by Grupo Santander and which represent approximately 25% of Banco Santander Brazil's share capital. Banco Santander will offer a premium of 20% on the latest closing price. The amount of the transaction, expected to be completed in October, will be paid in Banco Santander shares (a maximum number of around 665 million).

The offer is voluntary, so minority shareholders of Banco Santander Brazil can take it up or not, and is not subject to a minimum level of acceptance. Santander will acquire all the shares that accept the offer and does not intend to delist Santander Brazil from the Sao Paulo or New York stock markets. Banco Santander shares will be listed on the Sao Paulo market in the form of Brazilian Depository Receipts (BDRs).

Issue of additional Tier 1 capital instruments

In May, Banco Santander, S.A. made the second issue of contingent perpetual preferred securities (PCCS) convertible into newly issued ordinary shares, eligible as additional Tier 1 capital (AT1) under the new European regulation on equity.

Targeted solely at qualified investors, the final amount of the issue was $1,500 million, following demand of around $10,000 million. The PCCS were issued at par and the remuneration, whose payment is subject to certain conditions and to the discretion of the Bank, has been set at 6.375% on an annual basis for the first five years. After that, it will be reviewed by applying a margin of 478.8 basis points on the five-year Mid-Swap Rate.

Alliance in custody business

Banco Santander announced on June 19 it had entered into an agreement with FINESP Holdings II B.V., an affiliate of Warburg Pincus, a global private equity firm focused on growth investing, to strengthen Santander's leadership in the custody business. Under the terms of the agreement, which is conditional upon legal and regulatory approvals, the group which will also include Temasek, a Singapore based investment company, will acquire a 50% stake in Santander's current custody operations in Spain, Mexico and Brazil. The remaining 50% will be owned by Santander. The transaction is expected to close in the fourth quarter of 2014.

The transaction values Santander's custody business in these countries at EUR 975 million and will generate a net capital gain for the Santander Group of approximately EUR 410 million.

Acquisition of GE Capital's consumer finance business in Nordic countries

On June 23 an agreement was reached with GE Money Nordic Holding AB, under which Santander Consumer Finance, Banco Santander's consumer finance subsidiary, will acquire the consumer finance business of GE Capital in Sweden, Denmark and Norway.

The purchase price of the operation, expected to be completed during the second half of 2014, is around EUR 700 million.

The business of GE Capital in Nordic countries, mainly direct credit and cards, will complement Santander's presence in these markets (auto finance leader) and enable Santander Consumer Finance to become the region's consumer finance leader.

Alliance to develop the insurance business of Santander Consumer Finance

Banco Santander and CNP announced on July 10 they had reached an agreement by which the French insurance company will acquire a 51% stake in the companies that service Santander Consumer Finance (SCF). The partnership will enable SCF to boost its future insurance business and will deliver better products and quality of service for customers, particularly in credit insurance and payment protection.

The agreement, which is subject to relevant regulatory authorisations, is expected to be completed by the end of the year and will generate a net capital gain for Grupo Santander of EUR 250 million.

Agreement with Banque PSA Finance

Grupo Santander through its subsidiary Santander Consumer Finance, S.A. and Banque PSA Finance, the auto finance unit of Group PSA Peugeot Citroën, have reached agreement to provide car finance in 11 European countries. Under the terms of the agreement, Santander's consumer finance unit would provide funding, under certain conditions, for the business originated from the moment the transaction is closed, which is expected during 2015 or at the start of 2016. In some countries, Santander would buy part of the loan book owned by Banque PSA Finance. It also includes a colaboration agreement in business insurance in all these countries. The transaction is subject to the relevant regulatory and anti-trust authorisations.

Corporate Social Responsibility

Grupo Santander continued to develop new initiatives under its commitment to Corporate Social Responsibility. The highlights of the second quarter were:

Social investment

- Santander Universities
  Banco Santander has more than 1,100 co-operation agreements with universities throughout the world, under which it makes available to students, teachers and researchers various scholarship programmes and grants for study in order to foster international mobility.

  Under the framework of the business alliance that Banco Santander has with Bank of Shanghai, the chairmen of the banks, showed their support for higher education by signing a joint co-operation agreement involving seven of China's most prestigious universities. It includes a international travel scholarship programme for students, a training programme to improve the quality of teaching and other measures to improve services to university communities.

  As part of the Santander Formula Scholarships, Emilio Botín and Fernando Alonso, the Spanish Formula One racing driver, delivered 100 new international travel scholarships to students, selected from 6,191 people from 58 Spanish universities, so that they can strengthen and expand their studies in universities and training centres with which the Bank has agreements.

  Banco Santander and the University of Salamanca delivered 167 international scholarships to European and Latin American students under the Banco Santander-University of Salamanca International Scholarships programme which has been running 13 years. Since its creation, this programme has given scholarships to more than 1,000 students.

- Investment in the community
  Banco Santander runs many local programmes to support the communities in which it operates in order to contribute to their economic and social development, Many of these programmes involve the Group's employees.

  Among the many activities held during the *Semana Somos Santander* (a corporate event to promote team work and pride in belonging to the Group, which takes place in all countries ath the same time), employees had the opportunity to show their solidarity spirit and help improve the life of the most needy by participating in the *Gran Recogida de Alimentos Santander*. Under this, they donated 59,000 Kg. of basic food products which were collected by NGOs.

  For the 10th year running, Banco Santander and the *Fundación Deporte y Desafio* sponsored Alpine skiing courses for the handicapped children of the Group's employees in Spain. The objective of these courses is to promote leisure activities for those with some kind of handicap as a way of helping their social integration via sports. Forty two children and young people took part in this year's courses.

  In Chile, the Bank and the Techo organization (*Un techo para Chile*) launched a campaign to collect funds from clients and employees to build 1,000 basic homes for those affected by the fire in Valparaiso. A special account was opened to receive donations which were matched by the Bank.

The environment and climate change

Banco Santander helps to improve the environment through initiatives and strategic plans to reduce energy consumption and emissions of greenhouse gases in all its buildings and offices.

The second Banco Santander Climate Change Committee was held in May. Its purpose is to identify the Bank's risks and opportunities in this sphere. Since its creation in 2012, Santander has made significant advances in co-operation with various of the Bank's risk, business and real estate units. It makes available financial solutions that are committed to preserving the environment, such as financing renewable energy and energy efficiency projects.

As regards the financing of projects to supply and treat water in Spain, the Bank and the autonomous region government of the Balearic Islands, signed two loans of EUR 61.6 million and EUR 15 million to improve the facilities for waste water treatment. This agreement will benefit the tourism industry as it will improve the quality of coastal area waters, one of the country's main tourist attractions.

Prizes and recognitions

Santander was named Best Bank in Western Europe by Euromoney magazine. The magazine believes Santander is "unique" in having a credit rating higher than its domestic sovereign. It also highlighted the bank's geographic diversification and its model of subsidiaries. Santander was also named Best Bank in Spain, Portugal, Mexico, Argentina and Puerto Rico.

The Euromoney magazine awarded Bank Zachodni WBK and Santander Totta prizes in the Best Sales category in Poland and Portugal, respectively in the 2014 Structured Products Awards. Bank Zachodni is the main distributor of structured products in Poland, while Santander Totta, for the third year running, received the prize as the bank with the greatest sales success in structured products in Portugal.

BEST BANK IN WESTERN EUROPE
EUROMONEY
Awards for excellence
2014

The magazine Global Finance awarded *The World's Best Developed Markets Banks* prizes which recognized Santander in Spain and Portugal as the most profitable banks. The Bank was also recognized for its capacity of responding to clients' needs through an innovative and tailored offer of financial products and services.

APPENDIX

Consolidated income statement

- Consolidated balance sheet

NOTE: The financial information for the first half of 2014 and 2013 corresponds to that included in the consolidated summarised financial statements at these dates, drawn up in accordance with the International Accounting Standards (IAS) 34, Interim Financial Information. The accounting policies and methods used are those established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU), Circular 4/2004 of the Bank of Spain and the International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS-IASB).

CONSOLIDATED INCOME STATEMENT (EUR million)

	1H'14	1H'13
Interest and similar income	26,580	26,373
Interest expense and similar charges	(12,218)	(13,000)
INTEREST INCOME	**14,362**	**13,374**
Income from equity instruments	251	204
Share of results of entities accounted for using the equity method	108	268
Fee and commission income	6,034	6,350
Fee and commission expense	(1,300)	(1,302)
Gains/ Losses on financial assets and liabilities (net)	1,328	1,419
Exchange differences (net)	(50)	429
Other operating income	2,944	3,261
Other operating expenses	(3,066)	(3,392)
GROSS OPERATING INCOME	**20,611**	**20,610**
Administrative expenses	(8,721)	(8,827)
Personnel expenses	(4,999)	(5,129)
Other general expenses	(3,722)	(3,698)
Depreciation and amortisation	(1,165)	(1,169)
Provisions (net)	(1,506)	(1,178)
Impairment losses on financial assets (net)	(5,369)	(6,013)
PROFIT FROM OPERATIONS	**3,850**	**3,422**
Impairment losses on other assets (net)	(831)	(206)
Gains / (Losses) on disposal of assets not classified as non-current assets held for sale	2,302	708
Negative consolidation difference	—	—
Gains / (Losses) on non-current assets held for sale		
not classified as discontinued operations	(85)	(213)
PROFIT/ (LOSS) BEFORE TAX	**5,236**	**3,712**
Income tax	(1,948)	(891)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**3,288**	**2,821**
Profit from discontinued operations (net)	—	(14)
CONSOLIDATED PROFIT FOR THE PERIOD	**3,288**	**2,807**
Profit for the period attributable to the parent	2,756	2,255
Profit attributable to minority interests	532	552
EARNING PER SHARE		
Basic earning per share (euros)	0.24	0.21
Diluted earning per share (euros)	0.24	0.21

NOTE: The financial information in this report was approved by the Bank's Board of Directors at its meeting on July 24, 2014, following a favourable report from the Audit Committee on July 22, 2014. In its review, the Audit Committee ensured that the first half information has been drawn up in accordance with the same principles and practices as the annual financial statements.

CONSOLIDATED BALANCE SHEET (EUR million)

ASSETS	30.06.14	31.12.13	30.06.13
Cash and balances with central banks	83,877	77,103	81,673
Financial assets held for trading	130,773	115,289	169,729
Other financial assets at fair value through profit or loss	30,421	31,381	40,118
Available-for-sale financial assets	90,637	83,799	105,616
Loans and receivables	755,264	714,484	730,764
Held-to-maturity investments	—	—	—
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	1,384	1,627	1,859
Hedging derivatives	6,333	8,301	8,420
Non-current asets held for sale	5,208	4,892	4,546
Investments	3,603	5,536	5,012
Associates	*1,927*	*2,042*	*2,175*
Jointly controlled entities	*1,676*	*3,494*	*2,837*
Insurance contracts linked to pensions	344	342	429
Reinsurance assets	359	356	357
Tangible assets	17,028	13,654	13,949
Property, plant and equipment	*13,730*	*9,974*	*9,979*
Investment property	*3,298*	*3,680*	*3,970*
Intangible assets	29,374	26,241	26,989
Goodwill	*26,663*	*23,281*	*23,878*
Other intangible assets	*2,711*	*2,960*	*3,111*
Tax assets	26,576	26,819	25,265
Current	*4,794*	*5,751*	*5,692*
Deferred	*21,782*	*21,068*	*19,573*
Other assets	6,862	5,814	8,392
TOTAL ASSETS	**1,188,043**	**1,115,638**	**1,223,118**

LIALIBITIES AND EQUITY			
Financial liabilities held for trading	96,621	94,673	139,904
Other financial liabilities at fair value through profit or loss	50,446	42,311	54,779
Financial liabilities at amortised cost	914,107	863,114	910,139
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	70	87	117
Hedging derivatives	6,497	5,283	5,424
Liabilities associated with non-current assets held for sale	1	1	1
Liabilities under insurance contracts	1,602	1,430	1,091
Provisions	15,205	14,475	15,116
Tax liabilities	8,190	6,079	6,855
Current	*4,846*	*4,254*	*4,903*
Deferred	*3,344*	*1,825*	*1,952*
Other liabilities	9,588	8,283	8,298
TOTAL LIABILITIES	**1,102,327**	**1,035,736**	**1,141,724**
Shareholders' equity	87,035	84,740	83,202
Capital or endowment fund	*5,889*	*5,667*	*5,405*
Share premium	*36,537*	*36,804*	*37,119*
Reserves	*41,652*	*38,121*	*38,205*
Other equity instruments	*338*	*193*	*297*
Less: Treasury shares	*(137)*	*(9)*	*(79)*
Profit for the year attributable to the Parent	*2,756*	*4,370*	*2,255*
Less: Dividends and remuneration	—	*(406)*	—
Valuation adjustments	(11,857)	(14,151)	(11,903)
Available-for-sale financial assets	*911*	*35*	*(262)*
Cash flow hedges	*(76)*	*(233)*	*(265)*
Hedges of net investments in foreign operations	*(2,940)*	*(1,874)*	*(2,614)*
Exchange differences	*(6,580)*	*(8,768)*	*(5,914)*
Non-current assets held for sale	—	—	—
Entities accounted for using the equity method	*(221)*	*(446)*	*(216)*
Rest valuation adjustments	*(2,951)*	*(2,866)*	*(2,632)*
Total equity attributable to the parent	75,178	70,589	71,299
Minority interests	10,538	9,313	10,095
Valuation adjustments	*(1,008)*	*(1,541)*	*(811)*
Other equity instruments	*11,546*	*10,854*	*10,906*
TOTAL EQUITY	**85,716**	**79,902**	**81,394**
TOTAL LIABILITIES AND EQUITY	**1,188,043**	**1,115,638**	**1,223,118**

Pro-memoria			
Contingent liabilities	44,695	41,049	43,347
Contingent commitments	199,599	172,797	186,257

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