Banco Santander’s Annual General Meeting

Emilio Botín: “We are prepared to make the most of all the opportunities for growth within our reach”

- “Last year’s results once more demonstrate Banco Santander’s great resilience in the most difficult of contexts. It was a year of transition towards a more normal level of profit, which we will see in 2014, 2015 and 2016.”

- “Banco Santander will emerge strengthened from the stress test exercise. I am convinced that our exceptional diversification will be very well assessed.”

- “Spain is going to be one of the most positive stories in Santander’s results in the next three yearad years. We maintain our forecast that we will make a profit of EUR 3 billion in Spain in 2016.”

- Spain’s economic recovery is now a fact. I am convinced that 2014 will be a much better year because lending will return, growth will return and, though slower, employment will return.”

- “At Banco Santander, we are doing everything possible to ensure that not one viable project is left without financing in Spain. The bank is selling twice the number of mortgages than last year, while car finance and loans to SMEs are growing.”

- “The improvement in investors’ and analysts’ perception of the bank and less uncertainty about Europe and Spain have helped the share price. Since March 2013, total return has amounted to 30%.”

- The Board of Directors proposes to the meeting maintaining the remuneration of EUR 0.60 per share in 2014 for the sixth year running. Since the start of the crisis, in 2008, total shareholder return was 43.5%, compared to 17.4% of the European banks’ index.
to the share price gain, represents a yield of 16.7% in 2013.

“The improvement in investors’ and analysts’ perception of the bank and less uncertainty about Europe and Spain have helped the share price. If we use the share price at the time of last year’s general meeting as our reference, as of today total shareholder return stands at 30%.” Over the last five years, since the start of the crisis, total shareholder return has amounted to 43.5%, compared to 17.4% for the European banks’ index. In this period, remuneration for Santander’s over three million shareholders amounts to EUR 28.1 billion. In 2014, the Group will apply its Santander Dividendo Elección programme, which allows shareholders to choose between receiving the dividend in cash or shares, in its four quarterly payments and total remuneration will be maintained at 0.60 euros per share for a sixth consecutive year.

Santander’s chairman reviewed the key aspects of the group’s banking model, which have enabled it to emerge from the crisis stronger and have made it one of the few international banks that have not suffered a single quarter of losses during this period.

- **Geographical diversification.** Banco Santander has a significant presence in ten key countries and a good balance between mature and emerging markets, which contribute 47% and 53%, respectively, to group profits. “Santander’s diversification is a strategic decision that is carefully thought out and approved annually by the Board. This model provides greater income stability, moderates risks and facilitates the use of best practices in management. The process of diversification began nearly 30 years ago and is, therefore, unique and difficult to replicate in international banking.”

- **Subsidiaries that are autonomous** in capital and liquidity. “This offers greater management flexibility, allows a double layer of global and local supervision and isolates risks within the Group. It is our policy for all the Group’s main subsidiaries to be listed and the process will be completed as soon as market conditions allow. Today, our stakes in our listed banks in Brazil, Mexico, Chile, Poland, and Santander Consumer USA (which was floated in January), have a market value of EUR 35 billion.”

- **Focus on retail and commercial banking,** which accounts for 87% of the group’s income. “Customers are at the heart of Banco Santander’s business model. We want to strengthen customer linkage and offer the products and services that best fit their needs, while constantly improving the quality of our service.”

- **Solid solvency position.** “The Group has substantial capacity to generate capital organically and through active management of its business portfolio. At the start of 2014, our core capital under Basel III rules stood at 11% – well above the 8% regulatory requirement.”

- **Ample liquidity position.** “The loan-to-deposit ratio is 109% for the group and 87% in Spain and we also have ample access to wholesale markets through multiple instruments in all the markets in which we are present.”

- **Prudent risk management.** “The Board of Directors places special emphasis on risk management, setting the risk appetite at a medium to low level every year. Individual and sector exposures remain moderate and our cross-border country risk is minimal, representing less than 1% of total Group assets. Furthermore, Santander Group’s credit risk is highly geographically diversified.”
Efficiency and technology. “The fact that Santander uses the same technology and operational systems in all its geographical markets, provide cost savings and productivity gains that make Santander one of the most technologically advanced and efficient banks in the world.”

During his speech to the AGM, Botín said that Spain has undergone “a substantial restructuring of the financial sector, which has emerged visibly strengthened after the crisis, as recognised by international authorities”. He said Banco Santander had focused on strengthening its competitive position by gaining market share in deposits and improving its competitiveness through brand integration and cost control. “Furthermore, since the start of the crisis, the Santander Group has made provisions and write-downs of EUR 65 billion, generated EUR 18.4 billion of capital and remunerated its shareholders with the equivalent of EUR 28.1 billion.”

“We have done all this without receiving any state aid in any of the countries in which we operate. On the contrary, Banco Santander has made a significant contribution to cleaning up Spain’s savings banks by putting EUR 4 billion into the deposit guarantee fund and its share of the capital of SAREB.”

Regarding banking union he said that “major steps have been taken in that direction and, from November, the European Central Bank will assume ultimate responsibility for supervision of the whole European financial system and, in particular, take on direct supervision of the Eurozone’s main financial institutions. I am sure that direct supervision by the European Central Bank from November this year will lead to the application of the same rules for everyone, providing a level playing field, which will contribute to making the strength of Banco Santander’s business model more evident.”

He also recalled that before the ECB takes charge of supervision, the banking system will undergo a stress test to check banks’ capital strength in adverse economic scenarios. “Banco Santander will easily exceed the requirements and will emerge strengthened from this exercise. I am convinced that Banco Santander’s exceptional diversification at a global level will be very well assessed in that stress test,” he added.

Outlook for 2014

Banco Santander’s chairman focused the last part of his speech on the outlook for 2014. “Banco Santander has started the year in an excellent position, supported by the strength of its balance sheet, its liquidity position and the geographical diversification of its activities. We are prepared to make the most of all the opportunities for growth within our reach.”

In his opinion: “The economic context is also more favourable. Growth prospects for the world economy are going to improve in 2014 and 2015, according to the International Monetary Fund. But this time, growth will be better balanced between emerging and mature economies, with the latter taking the lead after a long period of inertia. For the first time in recent years, all the countries in which the Group operates will experience economic growth in 2014.”

He said that no one now doubts that the Spanish economy is recovering. It is now generating employment and is headed for growth of over 1% in 2014. This improvement is also a result of major structural reforms that are bearing fruit. Spain has emerged from the financial
assistance programme with a very favourable assessment from the ‘troika’.

Botín emphasised the “great work the Spanish government is doing in the reforms it is carrying out, its effort to correct the deficit and its political commitment to continuing to make progress in balancing the public sector accounts. It is true that there is still a long way to go. The priority must continue to be job creation and neither the government nor the private sector should become complacent.”

“Spain’s economic recovery is now a fact. Banco Santander is selling twice the number of mortgages than last year, while car finance and loans to SMEs are also growing. I am convinced that 2014 will be a much better year: lending will return, growth will return and, though slower, employment will return.”

“For all these reasons,” he added, “we expect Banco Santander in Spain this year to achieve an increase in lending and financial income, lower costs as a result of the merger with Banesto and Banif and a more normal level of provisions, with the cost of risk approaching that of before the crisis. This very week we have announced an ambitious plan to turn Banco Santander into the leading bank for SMEs and that we are going to undertake first in Spain and then in all the Group’s countries. At Banco Santander, we are doing everything possible to ensure that not one viable project is left without financing in Spain.”

The bank chairman said he was convinced that “this set of initiatives will support economic growth and job creation. As I have said on more than one occasion and will repeat now, Spain is going to be one of the most positive stories in Santander's results in the coming years. Specifically, we maintain our forecast that we will make a profit of EUR 3 billion in Spain in 2016.”

Finally, Botín said he was “very optimistic” about the group’s future. “We have a business model and a degree of diversification that is unique in international banking. After a number of years in which the priority has been to strengthen our balance sheet and liquidity position, we are now perfectly ready to enter a new phase of sustained profit growth, focusing on:

- Strengthening our business relationship with our more than 100 million customers in our ten biggest markets. To achieve this, we will better segment our products and services with a particular focus on service quality.

- Controlling costs and efficiency in a very competitive context, so that we can continue to be leaders among the major international retail and commercial banks.

- And making the most of all the competitive opportunities provided by European banking union, in what we hope will be a more level and uniform playing field than in the past.”

“Very few international banks are in such a good competitive position at a time when new banking regulations are calling some business models into question and placing restrictions on some investment banking activities. We have made a very good start to 2014 and an improvement in our results will be evident in the coming quarters. I am convinced that this will be reflected in our share price,” he concluded.
Javier Marín: “Our business transformation aims to win more customers and ensure they are more closely linked and more satisfied”

Banco Santander’s chief executive officer, Javier Marín, highlighted in his speech the management levers that will drive the group’s growth:

1. Efficient capital management. “We are analysing all our markets and segments to ensure capital is correctly assigned to the businesses that are the most profitable and have the best growth prospects. Segmenting and differentiating is the key.”

2. Commercial development focused on the customer. “The principle behind our business transformation is to win more customers and ensure they are more closely linked and more satisfied. We want to take better advantage of our 107 million-strong customer base.” Marín said the bank was working on three fronts: improving its business processes to make contracts more agile and effective and to simplify procedures; extending multi-channel services to all customer segments and reducing costs; and perfecting its risk management to make it more agile and tailor it to each customer, while maintaining the bank’s traditional prudence. “The whole organisation is involved in the strategy of transforming the bank’s business,” he said.

3. Take advantage of the group’s global reach. “We want to reinforce the advantage that sets Santander apart: the combination of the strong local presence with the global business units for support that make the commercial local units more competitive.” He gave three examples of global projects now underway, aimed at different customer segments: Santander Select, for high income customers; the Santander Advance range for small and medium-sized companies; and the closer cooperation between the wholesale bank and the retail units that will improve their value offer.

4. Improving efficiency and productivity to better serve customers. “In recent years, we have drawn up a global plan to achieve synergies, which is now being implemented and runs to 2016. This will result in cost savings of EUR 1.5 billion.”

5. Management of human resources. “We are developing our human resources management model to bring it into line with the bank’s aim of reinforcing its vocation of customer service.”

Marín gave an overview of the situation and outlook in the different countries in which the group is present. He emphasized “the very positive view of the potential in the medium and long term of the Brazilian economy. It is a country with intact background strengths. Santander Brasil has a solid position, it is the best-capitalised bank. Revenues are stabilising and costs are growing by less than inflation. The cost of risk is clearly diminishing. We see clear growth opportunities in the most profitable segments,” he said. He also mentioned the United Kingdom: “Our performance there has improved quarter by quarter, resulting in a good year. Santander UK has consolidated its position as a benchmark in the UK. Since September, when new regulations made account switching easier, Santander UK has led the field in attracting customers from competitors and has a net market share of 11%.”

Finally, the CEO said the bank’s growth prospects for the next few years were “very positive”. “We have a solid base in terms of capital and liquidity and a unique strategic position. After a cycle of balance sheet strengthening, the bank is now fully prepared for a new phase of profit growth. We have a well-defined strategy, now being implemented, to achieve this. I am sure that all this will consolidate the group as one of the leading banks in the international financial sector.”