Message from José Antonio Álvarez
We are living in a time of significant change. Technology is generating a new way of relating to one another and is increasing the information and decision-making capacity of all economic agents. In the financial sector, other challenges add to these changes, such as new regulations, the entry of new competitors, an environment of low interest rates and uneven growth between mature and emerging economies.

Developed economies continued in 2015 to show signs of recovery but emerging countries, as a whole, grew at a slower pace, because of their internal dynamics as well as the fall in commodity prices and China’s slowdown.

The markets were volatile. Emerging currencies depreciated against the dollar and interest rates remained low in mature markets. The Federal Reserve waited until December to announce the first increase in interest rates of only 25 b.p.

This environment continued to put pressure on banks’ profitability, added to which were regulatory requirements in two directions. Firstly, greater capital requirements, which have doubled in the last few years. Secondly, regulatory requirements hit income statements as they limited the capacity to generate revenues, required higher costs and investments in technology and personnel, while producing a higher tax charge.

Competition from banks and non-banks was also stronger in various countries and business areas.

Santander is facing these challenges with a business model that has proved its strength in recent years and which we are adapting to the new environment, in order to maximise our profitability goals.

**2015 Group results**

*2015 was a year of transition in which we posted good results and the Bank advanced in its commercial transformation.*

We want to have more loyal customers and make transaction banking the key element. We are analysing which products have opportunities for improvement in each market and we are working on them. We are launching the 123 strategy, as well as other global Group proposals such as Santander Advance, International Desk, Santander Passport and Santander Trade for the corporate world.

The number of digital customers reflect the boost provided by the multichannel strategy. Of note were Mexico, Spain, UK and Portugal, which grew at rates of around 20% or more.

**Digitalisation is key for adapting to the new form of customer relationships.** Handling big data will provide us with better knowledge on our customers and enable us to respond to their needs. Moreover, it is an effective way to cut costs, enhance efficiency of processes.
and simplify our structure. We are making significant progress in this direction and have been recognised in the sector as pioneers in the launch of various apps and services.

This strategy is reflected in increased customer satisfaction and in balanced growth in business volumes.

Lending increased 6%, with gains in market share, mainly in SMEs and companies. Customer funds rose 7%.

These dynamics spurred revenues and enhanced their quality, as the most commercial and recurring income (+8%) increased its percentage of the total:

- In an environment of very low interest rates in some countries where we operate, net interest income increased 9% thanks to commercial and spread management.
- Fee and commission income rose 4%, absorbing the negative impact of regulatory requirements. We have improvement plans for the coming years.

In contrast, trading gains fell 16% as they were hit by market volatility. Other income was affected by higher allocations to deposit guarantee and resolution funds, to which the Group assigned close to €800 million in 2015.

The efficiency plans and discipline in costs enabled growth in costs to be almost flat in real terms and on a like-for-like basis. We met the efficiency plan goals (€2,000 million) one year ahead of schedule, thereby making austerity in operating costs compatible with investment in regulatory requirements and in digitalisation and the multichannel strategy.

We are one of the international financial system’s most efficient banks, and in order to continue being so, we announced at the Investor Day that we had increased the efficiency plan by €1,000 million to €3,000 million of cost savings for 2018. These will enable us to make investments and improvements while continuing to achieve excellent cost-to-income ratios.

Revenue growth and cost control were accompanied by a 4% decline in loan-loss provisions. This was made possible by the improvement in credit quality in almost all countries, thanks to an adequate risk management policy. With the launch of the advanced risk management programme (ARM) and strengthening of the risk culture throughout the Group under a common identity (risk pro), we are continuing to advance toward prudent and sustainable risk management.

These measures also pushed down the NPL ratio to 4.36% at the end of 2015, 83 basis points lower than in 2014, while coverage was six percentage points higher at 73%.

Underlying attributable profit increased 13% to €6,566 million.

In addition, in 2015 we recorded the impact of the net of non-recurring positive and negative results of €600 million. Even after absorbing this impact, profit was 3% higher.

The year’s results contributed significantly to the generation of capital, where we have a comfortable position consistent with the stability and recurrence of our business model. In fully loaded terms, the ratio was above the 10% target we set at the start of the year, as optimisation of capital is one of our strategic objectives.

And we combined an increase of 3% in the tangible book value per share with a cash dividend distribution of more than €2,200 million compared to €1,143 million in 2014.
In underlying terms, the RoTE remained at 11% and the RoRWA rose to 1.30%.

**In short, we progressed in 2015 toward our main goals, demonstrating our strength and the efforts to earn the lasting loyalty of our employees, customers, shareholders and communities.**

I will now devote the rest of my message to the performance by the main units in 2015 and the management priorities for 2016.

### Performance by business areas in 2015¹

In **Spain**, we focused on forging long-term relations with our customers. For example, launching the 1|2|3 strategy with which we attained 860,000 accounts. We want to be the bank of choice for companies and so we launched the 1|2|3 account for SMEs, and other programmes with differentiated offers. This increased our market share in the segment, and we are leaders in wholesale banking. We also achieved a significant improvement in customer satisfaction surveys. Lastly, we strengthened the corporate governance model, aligning it with the rest of the Group's subsidiaries.

In an environment of tough competition, attributable profit was 18% higher than in 2014 at €977 million, thanks to lower provisions and control of costs.

In the **United Kingdom**, the positive trend continued in individual customers with the 1|2|3 strategy, as well as in companies where we continued to gain market share. We focused on mobile and online channels, launching a range of solutions that was well received by the market. The number of digital customers rose 22%. We also continued to increase the number of loyal customers. In companies, we gained more market share with sustained growth in a market that as a whole is not growing.

Underlying attributable profit was 14% higher at £1,430 million thanks to good commercial dynamics, reflected in revenues and in an improvement in credit quality that led to lower provisions.

In **Brazil**, we continued to improve the bank and carry on the commercial transformation, based on a multichannel approach and growth in digital customers, improving and simplifying processes and in operations such as Getnet and Bonsucesso, with which we increased our fee and commission income. All of this is reflected in a more sustainable business model.

Attributable profit was €1,631 million, up 33%, and driven by commercial revenues, enhanced efficiency and provisions growing at a slower pace than lending.

Although it is not possible to isolate oneself completely from the country’s current recession, the improvement in the franchise over the last few years, the better quality of the balance sheet and gains in productivity and efficiency enable us to face the current environment with guarantees.

In the **United States**, we continued to strengthen the governance structure. We bolstered the risk management and control models in order to meet the regulator’s expectations. We are creating the holding company that will integrate businesses in the country, which impacted costs. We are investing in improving the banking franchise, in order to enhance the customer relationship and increase profitability.

The priority at Santander Consumer USA is auto finance, as we are discontinuing the business of personal loans.

All these measures are temporarily impacting results and largely explain the drop in profit to €2,200 million.

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¹ All changes in this section are calculated in local currency terms.
Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander’s strategy.

**Santander Consumer Finance** is Europe’s consumer credit leader, with a unique business model and excellent credit quality. Geographic and product diversification was strengthened by the latest operations, such as the integration of GE Nordics and development of the agreement with Banque PSA Finance, which is meeting the timetable set. Attributable profit rose 18% to €938 million.

In **Mexico**, we completed the expansion plan begun in 2012, which was reflected in a faster pace of business growth and gains in market share. Pre-tax profit grew 8% thanks to the positive trend in revenues, mainly net interest income.

In **Chile**, the focus was on business growth in companies and in target segments of individual customers, as well as in improving the quality of customer attention. The result was better than expected despite the 13% fall in profit, which was due to lower UF inflation than in 2014 and a higher tax charge.

In **Argentina**, profit grew by more than 20%, thanks to progress in the new commercial strategy and the expansion plan, which produced higher net interest income, and fee and commission income.

In **Poland**, we are the best bank in terms of profitability and continued to be the leader in cards, and mobile and online banking. Profit fell 15% because of the drop in interest rates and the introduction of maximum rates for consumer credit and cards.

In **Portugal**, we gained market share, mainly in companies. We are in a process of normalising profits, which rose 63%. In December, Santander Totta was awarded most of assets and liabilities of Banco Internacional do Funchal (Banif), making us the country’s second largest private sector bank.

### Business areas priorities for 2016

Looking to 2016, the outlook for the global economy points to a slight and uneven recovery. This improvement will come from advanced economies, which will consolidate their moderate recovery, while emerging economies will struggle to stabilise their growth.

Beyond the current point in the cycle, emerging economies are a fundamental asset in Banco Santander’s strategy. Firstly, because of their higher growth potential, in view of their demographic dynamics, and their more vigorous productive capacity; secondly, the considerable gap they still have to fill in terms of banking penetration, based on the improvement of their levels of development, and the substantial growth in their middle classes; and thirdly, the diversification and stability that these countries provide to our balance sheet and income statement from businesses in economies with different cycles, as shown once again in the extreme conditions of the last few years.

In this context, we will continue to focus on improving customer satisfaction in all the Group’s units, on advancing in the digital transformation process and on increasing the number of loyal customers. We will also continue to centre selectively on key businesses in order to gain market share in them. At the same time, setting priorities on the basis of the features and the circumstances of each market:

- In **Spain**, we want to have 2 million 1|2|3 accounts, continue to improve customer satisfaction, reduce the cost of credit and gain market share in SMEs.

- The **UK** will continue to focus on customer satisfaction, the digitization process, increase the range of services and grow again at a faster pace than the market in SMEs.

- In **Brazil**, the improvement in our franchise in the last few years, the enhanced quality of the balance sheet and further gains in productivity and efficiency should enable us to face the year with guarantees. We have management tools to take advantage of the high interest rate environment and we will concentrate on selective business growth, operational efficiency and control of risk.
- **Santander Consumer Finance** will complete the agreement with Banque PSA Finance, strengthen consumer business through Pan-European agreements and step up its presence in digital channels.

- In the **United States**, we will continue to bolster the franchise with differentiated strategies for each entity, while integrating the main units in the country into Santander Holding USA.

- In the rest of units, the priorities are the following. In **Mexico**, we will strengthen our position by consolidating key segments. In **Chile**, we will focus on improving customer attention and on transforming our commercial and retail banking, while renewing our branches. We have a very similar strategy in **Argentina**, where we are also expanding the network and advancing in digitization. Lastly, in **Portugal** we will continue to be the reference point bank in innovation and leaders in digital channels, with a clear objective of gaining more market share in companies.

## Conclusions

We made progress in 2015 in the main strategic objectives and our financial variables performed well.

We will continue in 2016 to advance in the Group’s commercial transformation. We have clear goals for the year, as announced at the Investor Day, both for the whole Group and for countries:

- Raise the number of loyal customers, both individuals and companies, and digital customers.
- Increase market share in SMEs and companies.
- Reduce the cost of credit.
- Grow fee and commission income at a faster pace.
- Maintain the year-end cost-to-income ratio stable.
- Boost dividend and earnings per share.

These objectives are part of **our medium-term priorities**: grow in business volumes, increase revenues and improve profitability, with capital levels in line with business needs and regulatory requirements.

None of this would be possible without the help, work and motivation of Santander Group’s highly professional and experienced team. We want to continue to strengthen it through our talent management model that enables us to identify employees’ potential and develop a career plan that is individually tailored. In addition, we are implementing new ways of working, with more flexible models that are adapted to current life, in order to consolidate our bank as one of the best companies to work for.

I firmly believe that, with the commitment of our employees and the trust of our customers and shareholders, we can attain our goals and continue to help people and businesses prosper in a Simple, Personal and Fair way.

José Antonio Álvarez
Chief executive officer